



Headquarters
New Zealand Defence Force
Defence House
Private Bag 39997
Wellington Mail Centre
Lower Hutt 5045
New Zealand

OIA-2022-4503

27 September 2022

[REDACTED]
[REDACTED]@thomsonreuters.com

Dear [REDACTED]

I refer to your email of 30 August 2022 requesting the following, under the Official Information Act 1982 (OIA):

Report provided to the ministers on July 4 entitled: NZDF Capability and Readiness Update as at June 2022

Briefing to the minister ahead of meeting with the US Dep secretary of state on July 27.

Briefing for the meeting with the US Commander of IndoPacom on July 27

You were notified on 31 August 2022 that your request for the two briefings was transferred to the Ministry of Defence in accordance with section 14(b)(ii) of the OIA.

The requested Capability and Readiness Update is enclosed. However, the contact details of a New Zealand Defence Force (NZDF) official are withheld in accordance with section 9(2)(a) of the OIA; advice regarding future Ministerial decisions is withheld in accordance with section 9(2)(f)(iv) of the OIA; the name of a NZDF official and some specific advice within the document are withheld in accordance with section 9(2)(g)(i) of the OIA; information regarding specific NZDF capability is withheld in accordance with section 6(a) of the OIA.

You have the right, under section 28(3) of the OIA, to ask an Ombudsman to review this response to your request. Information about how to make a complaint is available at www.ombudsman.parliament.nz or freephone 0800 802 602.

Yours sincerely

AJ WOODS
Air Commodore
Chief of Staff HQNZDF

Enclosure:

1. New Zealand Defence Force Capability and Readiness Update as at June 2022



NEW ZEALAND DEFENCE FORCE

SUBMISSION TO MINISTER COVER SHEET

Title	NEW ZEALAND DEFENCE FORCE CAPABILITY AND READINESS UPDATE AS AT JUNE 2022				
Tracking No	NZDF Tracking # 2022-168		Minister's Tracking #		
Importance of the Issue	High	v	Moderate		Routine
Urgency for Attention/Sign-off	URGENT		Request ministerial response by: Not required.		
Contacts	LTCOLs. 9(2)(g)(i)		s. 9(2)(a)		
Purpose	The purpose of this Note is to report on the near term capability and readiness status of the New Zealand Defence Force (NZDF) and workforce sustainability concerns likely to adversely affect the NZDF's ongoing ability to deliver outputs and regenerate capability.				
Recommendations	<p>It is recommended that you:</p> <ol style="list-style-type: none"> a. Note that the NZDF is unable to retain sufficient trade, specialist and management staff s. 6(a) b. Note that existing gaps in the workforce, contributed to by the commitment to Operation PROTECT, have created significant fragility in the NZDF's output delivery system. c. Note that uncompetitive remuneration is a key factor driving staff attrition. d. Note that since 2018, 89% of all military ranks and civilian grades are between 5 – 16% behind equivalent labour market medians in remuneration settings. e. Note that it takes 5 – 15 years of education, training and experience to develop staff and that military personnel cannot be replaced from external sources; this puts the NZDF's ability to generate outputs for the next 10 years or more at considerable risk. f. Note that the NZDF is implementing some immediate retention focused initiatives, but it is not expected that this will address the high cost dissatisfier of remuneration. g. s. 9(2)(f)(iv) h. Note that workforce gaps are now placing limitations on how the NZDF can respond to domestic needs, sustain operational activity, and generate outputs. 				
MoD Consultation	Not required: NZDF matter only.				
Minister's Comments					
Minister's Action	Signed/Noted/Agreed/Approved/Declined/Discussion required				
	Referred to:				
Minister's Signature				Date:	

KR SHORT
Air Marshal
Chief of Defence Force

30 June 2022



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New Zealand Defence Force
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Private Bag 39997
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NEW ZEALAND

NTM 2022-168

30 June 2022

Minister of Defence

NEW ZEALAND DEFENCE FORCE CAPABILITY AND READINESS UPDATE AS AT JUNE 2022

Purpose

1. The purpose of this Note is to report on the near term capability and readiness status of the New Zealand Defence Force (NZDF) and workforce sustainability issues impacting the delivery of outputs and regeneration of capability.

Bottom line: Workforce risk to outputs

2. The NZDF is currently unable to retain the qualified and experienced trade, specialist and management members of its workforce necessary to guarantee the generation and delivery of outputs. Significant, and ultimately unsustainable, pressure is mounting on the Services' ability to generate outputs and regenerate core capabilities, due to workforce attrition compounding existing staffing gaps within both the military and civilian branches.

3. Since the NZDF is unable to replace uniformed staff from external sources, high attrition due to a fiercely competitive labour market puts the NZDF's ability to generate outputs for the next 10 years or more at considerable risk.

4. Although able, for the time being, to deliver domestic emergency responses and assistance to other Government agencies s. 6(a)

. At risk, therefore, is our ability to deliver timely regional assistance in the form of Humanitarian Assistance and Disaster Relief (HADR).

5. Previous reporting highlighted the risks to delivering outputs was due to supporting Operation PROTECT, supply chain issues, and maintaining and operating aged platforms. These risks have now been overtaken by significant workforce losses, with current data indicating that the NZDF has 650 less personnel than planned.

The Workforce Challenge

6. **Operation PROTECT**¹. More than 6,200 military personnel served on Operation PROTECT between 1 February 2020 and 28 February 2022. This represented over 50% of the total military headcount (12,413). Almost all trades from across all three Services were involved, with the majority of staff completing multiple rotations. The downsizing of Managed Isolation and Quarantine on 10 March 2022 marked the end of the single largest NZDF commitment of personnel to a response in more than 50 years. This protracted

¹ The operation for NZDF support to the All-of-Government COVID-19 response.

commitment affected NZDF capability and readiness states, including detrimental workforce impacts.²

7. **Attrition.** Despite the cessation of Operation PROTECT, the NZDF is facing *increasing* attrition of military and civilian personnel. Attrition is highest in functions where staff have the most in-demand skills, specialties and trades, with pressure on areas such as construction, information technology, intelligence, medical, electrical and mechanical engineering, accountancy and avionic technicians. Increased attrition is also occurring in middle management ranks where experienced managers, leaders and planners are finding many opportunities in the market place.

8. Attrition within the military workforce can be segmented by both Service and trade groups. All three Services' attrition has risen over the last year. The Army is currently experiencing attrition at an average of 16%, whilst Navy are at 12% and the Air Force at 10%. The average attrition rate for civilian staff is creeping up over 16%³ which is approximately 5% higher than forecast across the board. This is a level not seen since 2013.

9. The reasons for increasing attrition include an abundance of opportunities in the New Zealand employment market for rewarding work at remuneration rates greater than what the NZDF currently provides.⁴ There is little to suggest a decrease in labour market competition in the near term, and increased risk comes from the relaxing of international borders and the likely labour demand from Australia, particularly as the Australian Defence Force seeks to grow considerably.

10. Uncompetitive remuneration is the key factor driving staff attrition⁵. While it is NZDF policy to benchmark salaries within 5% of relevant market medians, this has not been achievable since 2018 due to insufficient funding. The lack of competitiveness in pay, in addition to inflation, in the face of a fiercely competitive labour market, is drawing talented staff towards higher-salaried options external to the NZDF.

11. There are medium to long term consequences of the sustained loss of senior trade, specialist and management staff. It takes 5 – 15 years of investment (education, training, professional and operational experience) to develop staff before they provide a return on that investment. The NZDF is unable to replace uniformed staff from external sources; a high attrition rate and a competitive labour market, therefore, jeopardises the NZDF's ability to generate outputs over the coming decade.

Hollowness

12. Operation PROTECT caused a fragility in the output delivery system. Hollowness of skilled and experienced personnel currently exists within critical specialist trades. An

² As briefed in Notes to Minister NZDF 2021-112, 2021-403, 2022-045 and Quarterly Reports to Minister FY 2021/22.

³ Attrition figures are from the May 2022 "twelve month rolling average"

⁴ The NZDF benchmarks base salaries against the public sector median, with some specialists indexed to a combination of public and private sector medians, or just the private sector market median. Fair relativity is considered to be having base salary midpoints no more than five per cent behind the median of the applicable market. This policy position has not been achievable for all ranks and grades since 2018 due to insufficient funding and the impact of COVID-19. Currently 89.4% of all military ranks and civilian grades are between 5 – 16.3% behind the applicable market median. The NZDF has not received an uplift to baseline to adjust remuneration since 2019 and significant wage inflation has occurred since then.

⁵ As indicated in NZDF exit surveys.

illustrative example is the Marine Technician (Propulsion) trade. When shortages exist, Marine Technicians are known as 'ship stoppers' since Navy cannot send ships to sea without them. s. 6(a)

. Hollowness in the military ranks is extremely difficult to mitigate as the NZDF can only grow staff from within.

13. Increasing attrition is exacerbating staff gaps and worsening hollowness as the smaller workforce effectively becomes overworked, less experienced and unqualified which leads to higher risks, poor training outcomes and ultimately, the reprioritisation if not cessation, of output delivery.

Outputs (July – September 2022)

14. **Navy Capabilities.** The Navy is managing significant workforce vulnerabilities with a number of critical trades being understaffed (as described above for Marine Technician trades) by suitably qualified and experienced personnel across the organisation. The Navy is unable to manage any further attrition within key shipborne positions without significantly compromising fleet availability. s. 9(2)(g)(i)

15. s. 6(a)

16. For the period July – September 2022, the Navy is:

- a. **able** to meet all immediate domestic emergency responses;
- b. **unable** to deliver concurrent resource and border protection, civil defence and regional HADR responses; and
- c. **unable** to meet full naval combat force outputs as HMNZS TE KAHA undertakes deep maintenance, while efforts continue towards introduction into service of HMNZS TE MANA.

17. **Army Capabilities.** Due to extensive Operation PROTECT commitments, with the exception of the Special Operations Forces (which remain fully deployable), the Army's collective trained state has atrophied. At present, it is only able to provide s. 6(a) in response to a humanitarian disaster or a security event within the South West Pacific.

18. From December 2022 onwards, the Army will be progressively regenerating other military response options. In accordance with Government priorities, this will initially focus upon the regeneration of regionally focused groupings but will expand to those other

⁶ s. 9(2)(g)(i)

⁷ s. 6(a)

capabilities required for combat operations within a mid-intensity global setting. It is anticipated that the Army will have, with some limitations on sustainability, regenerated all of its military response options by mid-2025; however, for this to successfully occur, the Army will require a degree of stability and growth in its workforce.

19. Like the Navy, Army attrition and hollowness has had a significant impact. This is particularly with regard to the loss of: junior leadership and middle management; and suitably qualified and experienced personnel within certain specialist trades. For example, technician, engineering and building trades, and nurses s. 6(a). Shortages of personnel in these areas will continue to impact upon regeneration and the delivery of Army outputs, and are also likely to impact upon the introduction into service of new capabilities.

20. For the period July – September 2022, the Army is:

- a. **able** to meet all special operations tasks for domestic, regional and global responses;
- b. **able**, with some risk, to provide full responses in support of domestic and civil defence tasks;⁸
- c. **able**, with some limitations on scale and sustainability, to provide high readiness forces for regional humanitarian assistance and disaster relief responses;⁹
- d. s. 6(a)
- e.

21. **Air Force Capabilities.** The Air Force is managing a number of workforce vulnerabilities due to ongoing attrition and recruitment challenges, particularly within technical trades. While operational capabilities have been retained, they are often 'one-shot' in nature with limited or no capacity to sustain over an extended period of time. The Air Force's reduced capacity to sustain concurrent activities such as managing obsolescence, preparing for the imminent introduction of new capabilities into service, regeneration training following Operation PROTECT commitments, and delivering outputs, is taking a toll on the workforce. Stress, burnout and concerns over personal and family welfare are mentioned more frequently in unit reporting. s. 9(2)(g)(i)

22. For the period July – September 2022, the Air Force is:

- a. **able** to meet domestic outputs;
- b. **able** to maintain regional Search and Rescue, HADR and surveillance capabilities;

⁸ Able to provide short duration, smaller force options depending on circumstances.

⁹ Able to provide short duration, reduced capability, non-sustainable force options depending on circumstances.

- c. **able** to maintain some global air mobility capability, albeit with risk due to aircraft availability pressures within the fixed wing transport force (C-130 and B757 fleets);
- d. s. 6(a) [REDACTED]; and
- e. **able** to support Navy aviation commitments with some risk.

Workforce Mitigation Initiatives

23. The NZDF is implementing some immediate retention focused initiatives and considering several more. Examples include targeted retention payments, a review of posting durations, extending offers of employment and promotion. Other options under consideration include re-enlistment incentives, posting policy adjustments and increased payments that recognise extra skills or high performance. These focussed initiatives, from within existing baseline funding, will not address the high cost dissatisfier of remuneration but they are necessary to demonstrate action by senior leadership as a response to attrition, wage inflation and cost of living pressures.

24. s. 9(2)(f)(iv) [REDACTED]

Conclusion

25. The effect of Operation PROTECT on the workforce, and a fiercely competitive labour market, has created a situation where the NZDF is unable to compete for the retention of its in-demand staff. The loss of very experienced and well trained staff represents a critical issue for the NZDF and its ongoing ability to deliver agreed outputs and effectively introduce new capabilities into service.

26. Hollowness across the force at key leadership levels and within delivery-critical trades presents significant vulnerabilities to the regeneration; this is compounded by the high attrition rates. These workforce gaps are now placing limitations on how the NZDF can respond to domestic needs, maintain credible military capability and sustain operational activity for any length of time. The gaps also create pressure on the remaining workforce, creating issues around wellness, training and retention. The response initiatives available to senior leadership are limited, and will not address the overwhelming dissatisfier of remuneration.

27. With over 89% of all military ranks and civilian grades between 5 – 16.3% behind market medians, remuneration is a key driver of attrition. Unless the NZDF becomes a realistic labour market competitor that can retain, attract and engage its workforce talent, it faces a decade or more of considerable risk in meeting output response options.

28. Regeneration of the Services, their ability to continue safe and successful delivery of outputs, and continued introduction into service programmes are wholly dependent on our people, which are recognised as the critical capability for success.

Recommendations

29. It is recommended that you:

- a. **Note** that the NZDF is unable to retain sufficient trade, specialist and management staff necessary s. 6(a) [REDACTED].
- b. **Note** that existing gaps in the workforce has created significant fragility in the NZDF's output delivery system.
- c. **Note** that uncompetitive remuneration is a key factor driving staff attrition.
- d. **Note** that since 2018, 89% of all military ranks and civilian grades are between 5 – 16% behind equivalent labour market medians in remuneration settings.
- e. **Note** that it takes 5 – 15 years of education, training and experience to develop staff and that military personnel cannot be replaced from external sources; this puts the NZDF's ability to generate outputs for the next 10 years or more at considerable risk.
- f. **Note** that the NZDF is implementing some immediate retention focused initiatives, but it is not expected that this will address the high cost dissatisfier of remuneration.
- g. s. 9(2)(f)(iv) [REDACTED]
- h. **Note** that workforce gaps are now placing limitations on how the NZDF can respond to domestic needs, sustain operational activity, and generate outputs.



KR SHORT
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