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## The Defence Diarchy: A Case Study on its Abolition in New Zealand

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## Abstract

In an article in the *Weekend Australian* of 31 July–1-August 2004 titled 'Defence derailed', Paul Dibb and Richard Brabin-Smith wrote:

It is apparent that the [Australian] defence organisation has become dysfunctional. It is our view that there should be a fundamental review of what has gone wrong. It is time to consider whether the top management structure, which is built around a diarchy shared by the secretary of the Department of Defence and the chief of the Australian Defence force, should be changed—because it no longer seems to work the way it should.

As a result of this and other criticisms, in August 2006 Defence Minister Brendan Nelson appointed former senior Kennett Government bureaucrat and prominent Melbourne businesswoman Elizabeth Proust to oversee a review of management in the Australian Defence Department.

The Proust Committee's terms of reference are to examine and assess organisational efficiency and effectiveness in the Defence organisation, and to make recommendations with particular regard to:

- Decision-making and business process, having regard to best practice in organisations of comparable size and complexity;
- The appropriateness of and need for military personnel in non-operational or executive positions in the organisation and the efficacy of Defence preparation for senior postings;
- Structure, process and procedures for managing information and providing timely and accurate information to stakeholders;
- The adequacy of the information management systems which support processes and reporting requirements.

The Proust Committee's reporting date is the second quarter of 2007.

The Working Paper which follows is an adaptation of the author's presentation to the Proust Committee on 1 November 2006 on the abolition of the defence diarchy in New Zealand in 1990, and the advantages and disadvantages of that decision.



# **The Defence Diarchy: A Case Study on its Abolition in New Zealand**

*Derek Quigley*

## **Introduction**

In 1990, the Lange Labour Government adopted the recommendation of the Strategos Resource Management of New Zealand Defence<sup>1</sup> (the Strategos Review) chaired by the author, and split the then New Zealand Ministry of Defence into two separate legal entities: a Ministry of Defence (MOD) headed by the Secretary of Defence and the New Zealand Defence Force (NZDF) headed by the Chief of the Defence Force (CDF). This resulted, amongst other things, in the end of the twinning of the civilian and military responsibilities in the former structure, or diarchy as it is more commonly called.

## **Focus of paper**

This paper is divided into six sections.

1. The background to the Strategos Review.
2. The Strategos Review.
3. The reasons for the recommended split of the former Ministry of Defence into two legal entities.
4. What worked, what did not work and why, following the split.
5. The reasons for the 2002 review<sup>2</sup> of the split and some comments on key aspects of the 2002 review.
6. The current working arrangements between the New Zealand MOD and the NZDF.

## **The background to the Strategos Review**

When the Lange Government was elected in mid-1984, New Zealand faced a major economic crisis which required radical action. The result was a series of sweeping reforms

that impacted on most sectors of the economy, including major changes to public sector management and accountability.

One particular aspect of the overall reform process is particularly noteworthy. Although economic theory was crucial, the underlying basis for reform was not driven by ideology or by some simple process or model to resolve management functions or to separate different roles. Rather, it was based on deep thought about institutional settings and how these shape and motivate decisions. The fundamental objective of the reforms was to raise the quality of decisionmakers by subjecting them to competition without undue government interference.<sup>3</sup>

The first wave of public sector reform concentrated on the government's trading entities which, alone at that time, accounted for 12 percent of gross national product and cumulatively produced a nil profit. Key concepts in the approach that was followed were transparency and consistency. This led to the adoption of a set of organisational principles which underpinned the reform process within the state sector as a whole.

These organisational principles were:

- That the State should not be involved in activities which could be performed more efficiently and effectively by the wider community or by private businesses.
- That State trading enterprises were likely to function most efficiently and effectively if they were structured along private sector business lines.
- That Departments would operate most efficiently and effectively if their functions were non-conflicting and clearly specified. This led to the functional separation of policy from operations, and commercial activities from non-commercial activities.
- That the managers of Departments would perform most effectively if they were fully accountable for the efficient running of their organisations with the minimum practicable degree of central control of inputs.
- That, as far as practicable, the cost of State activities should be based on market factors so that the quality, quantity and cost of products should be determined by the requirements of purchasers rather than the preferences of producers.

Three crucial pieces of legislation reflected these principles.

The first was the State Owned Enterprises Act 1986, which provided the basis for converting the old trading departments and corporations into businesses along private sector lines.

The second piece of legislation was the State Sector Act 1988, which established the positions of State Services Commissioner and Deputy State Services Commissioner; created a department known as the State Services Commission (SSC); and changed the department's role from employer and manager of the Public Service to employer of chief executives and advisor to the government on management of the state sector. The State Sector Act 1988 also made chief executives in the core state sector fully accountable to their

responsible Ministers for the efficient and effective management of their organisations, and resulted in them being placed on formal performance-related limited term contracts.

The third piece of legislation was the Public Finance Act 1989, which changed the basis of state sector financial management from a focus on the cost of production (inputs) to a focus on the relevance and effectiveness of outputs, and the overall results of these outputs from the government's perspective.

A series of financial management and accounting reforms followed which were designed to introduce as many of the disciplines of the commercial operating environment as practicable to the state sector. In particular, this was through the formal purchasing by Ministers of the outputs of departments, at specified standards of quality, quantity, timelessness and cost, through both accrual accounting and capital charging. At the apex of these financial and accounting reforms was the production of a rational set of national accounts—a process which, at time of introduction, were thought to be unique internationally.<sup>4</sup>

The State Sector Act and the Public Finance Act apply to the MOD, and in part to the NZDF.

## **The Strategos Review**

The Strategos Review commenced in late 1987, continued for 12 months, involved two Strategos directors near full-time and resulted in the employment of around 30 sub-consultants. Its terms of reference were completely unconstrained, and covered—amongst other items—policy, command and control, force structure and administrative arrangements.

The Defence Act 1971 was in force at the time of the Strategos Review. There was a Defence Council (with policy and command authority); a Chiefs of Staff Committee; three services with no coherent combined direction; a Ministry of Defence covering the total defence organisation; Defence Headquarters, which employed 1450 people (or 900 more than the former Chief of Defence Staff and Secretary deemed necessary); and a diarchy. As a result, who was in charge remained unclear.

In resource management terms, which was the focus of the Strategos Review, two early conclusions emerged: that defence officials were, at the time, acting within a set of constraints and structures that failed to properly define their tasks or give them enough management autonomy; and secondly, that they had this in common with much of the New Zealand state sector.

A central requirement for the Review Team was therefore to isolate those issues which were unique to defence rather than a consequence of common state sector problems; and to continually be aware that traditional business management practices do not necessarily fit with those skills needed to—for instance—command a ship or a battalion in conflict.

The Review Team accepted that defence's special features had to be accommodated and that its structures and spending might need to be adjusted in the event of an emerging threat.

However, it was not convinced that these factors negated the application of the general thrust of the state sector reform principles to defence. This view was fortified by the knowledge that resources available to defence were scarce, that savings could be achieved by adopting a more businesslike approach to defence management, and that any resources that were released could be used to enhance military capabilities.

The issue was how to proceed.

The conclusion was that a marriage of state sector reform principles and defence needs was the most practical way of achieving the desired outcome. This was done by applying five critical assumptions that had impacted on New Zealand Defence over the preceding 20 years.

These assumptions were that:

- a country's defence policy and defence force ought to be appropriate to its place in the world;
- in an environment where resources available to defence are limited, if efficiency and effectiveness are to be optimised, a direct link between defence policy, priorities and funding is required;
- although the operational performance of a defence system does not lend itself easily to measurement by standard accounting or general commercial yardsticks, it is important to be able to relate expenditure decisions to results in some way;
- savings could be achieved from adopting a more business like approach to defence management;
- and finally—based on New Zealand's overall state sector reform experience—efficiency and effectiveness could be achieved by a marriage of state sector reform principles and defence needs.

These assumptions, in turn, generated a series of organising principles which had come to underpin New Zealand's state sector reform during the period of the Strategos Review, and represented a starting point for restructuring the New Zealand defence system. It was their broad application which underpinned the Review's analysis.

The first organising principle was that policy and advisory roles ought to be separate from the administration and operational aspects of each department. The importance of this principle is to ensure that there is no monopoly on policy advice and, more importantly, to ensure that policy is not the exclusive preserve of the operational agency. This did not preclude ongoing feedback to the policy agency, but was an attempt to prevent advice being tailored to meet the needs of the operational agency rather than the needs of the consumer of the service. In the context of defence, it meant that the military view had to be continually tested in the light of wider government objectives and that the policy debate ought to be conducted within a framework that avoided the risk of capture by either military or civilian points of views.



The second principle was that objectives ought to be stated in such a way that all parties involved in the provision of public goods and services are absolutely clear as to their roles. This required a clear definition of roles and division of responsibilities between each functional part of the agency, commercial and non-commercial activities, civilian and military advice and between policy and management.

The third principle was that accountability should be maximised. This derived from the process of clarifying objectives. The essence of accountability is to be able to measure and assess performance against objectives and to attribute accountability clearly. From the viewpoint of effective resource management, this meant having mechanisms in place that were capable of assessing whether the taxpayer was getting value for money. In the context of defence it meant:

- leaving military operations to the military, subject to the control of the Minister to meet the constitutional requirement for the subordination of the nation's military forces to the authority of Parliament, and making them fully accountable for those activities;
- defining military outputs, ie, the provision of operationally capable forces;
- making policy advisors responsible for policy so as to avoid confusion between it and military and/or commercial functions; and
- applying business criteria to the assessment of the performance of those responsible for commercial functions.

The fourth principle was that there should be competitive neutrality in order to minimise costs and to provide the appropriate set of incentives and sanctions in order to enhance efficiency. This was achieved where appropriate by removing any special advantages and disadvantages which previously prevailed within the public sector. From the viewpoint of the defence system, it entailed placing as much of supply as possible on a commercial basis. The clarification of objectives and the improvement of accountability were crucial pre-conditions for this to apply.

The fifth principle was that managers ought to be allowed to manage. Experience had shown that major improvements resulted from: clarifying lines of authority; translating overall organisational objectives into clear objectives for individual personnel; reducing layers of management and paperwork; delegating decisionmaking; pursuing decentralised systems in areas such as personnel, finance, purchasing, and inventory management; and improving management information systems. In the context of defence, this meant that, once clear objectives and accountability mechanisms were in place, military personnel should be given management responsibility.

The application of the thinking behind the State Sector Act 1988 and the Finance Act 1989 was also crucial. It resulted in the creation of a line of agency relationships which were designed to make it easier to assess whether agreed goals had been achieved.<sup>5</sup>

Specific changes that were applied to the whole of the state sector, including defence, were:<sup>6</sup>

- the achievement of accountability for resources and results through a series of contracting arrangements within the government system;
- the setting out of key result areas and the standards and expectations of performance in performance agreements between Ministers and departmental chief executives;
- Ministers and chief executives entering into purchase agreements specifying the outputs to be produced during the year;
- appropriations by Parliament to Ministers in terms of 'output classes' covering operating expenses and providing the accountability of Ministers to Parliament;
- providing managers—within their appropriation limits—with complete discretion as to how and where they purchased their supplies and services;
- structuring appropriations to cover the cost of depreciation so that departments could price their outputs to reflect repairs and replacements without having to request new capital injections;
- levying capital charges on each department's physical and financial assets so that the cost of outputs reflected the cost of capital and managers are aware of other government investments;
- employing heads of departments as non-political 'chief executives' on a limited term contracts with the SSC; and
- moving all departments to an accrual accounting basis with 'generally accepted accounting standards' applying to all public entities and the government issuing a combined financial statement for the Crown as a whole.

The introduction of the changes, and the way they were applied to New Zealand defence provided a sharp divergence from, for example, Paul Dibb's seminal 1986 *Review of Australia's Defence Capabilities*.

The Strategos Review Team's conclusion was that—taking the long list of problems that were uncovered and the special characteristics of defence into account—the resource faults within the defence system could not be overcome without a process of substantial integrated reform, including:

- reorganisation of Defence Headquarters;
- decisionmaking based on Defence-wide rather than single Service thinking;
- rationalisation of locations;
- the introduction of proper financial management information systems; and

- the fostering of an environment that imbued the whole Defence system with an understanding that cost was not just a function of the purchase price of goods, but that labour, existing goods, land, buildings and money also carried a cost.

Changes included: the abolition of the Defence Council; an organisational split of the total defence organisation into the MOD and NZDF as two separate legal entities; and the handing over of the entire NZDF budget to the CDF. This hand-over was contrary to the Strategos recommendation that the Secretary of Defence should be in control of both programs and budgets, with devolution of the NZDF budget from the Secretary to the CDF. The change from the Strategos recommendation arose because of the accountability provisions in the Public Finance Act 1989 which came into force after Strategos had reported. The procedure which was adopted—and is still believed to be unique internationally—has been a resounding success, with no suggestion that it should be changed.

The split of the former Ministry of Defence into the MOD and the NZDF was much more controversial than the devolution of the NZDF's budget to the CDF, and was unusual in two respects. First, it resulted in New Zealand becoming 'the only country on the world with two defence departments—one to reflect and one to fight'.<sup>7</sup> Secondly, the approach taken with Defence differed from that within the rest of the New Zealand public sector. While other departments had also been split along policy and operational lines, these two functions were generally kept within one agency, or else the policy function remained within the government sector and operational activities were set up in some kind of Crown Entity.<sup>8</sup> The issues the Strategos Team faced with Defence were however not as straightforward as they were with other government departments. It was necessary to marry Defence's special characteristics with the output-based management and delivery systems which, by the time the Review was completed, had become a fundamental part of New Zealand's moves to reform its public sector. These systems were ultimately enshrined in the 1989 Public Finance Act and are designed to align resource management authority with the people responsible and accountable for the delivery of goods and services. Although many other countries have now moved to adopt this approach, during the mid to late-1980s New Zealand was unique in this regard.

The rationale for the new structure was that:

- as far as possible within the Defence context, it separated policy (which became the prime responsibility of the MOD) from military and administrative tasks;
- in the policy formulation area there was the ability to clarify Defence objectives and to define capabilities on the basis of an agreed strategic concept;
- the concept of civilian input/control was elevated to one of at least equal influence with the military aspects of defence policy, instead of being a process of administrative duplication;

- the policy formulation process allowed all factors (including political and economic) to be taken into account in accessing major procurement items;
- the clear definition of management responsibilities allowed those tasks that are commercial orientated to be managed according to commercial criteria;
- it allowed for a 'manager' to be identified; and
- it provided channels to establish clear lines of accountability.

### **What worked, didn't work and why, following the split.**

There were a number of problems with the new structure once it became operative. Some arose because key Strategos recommendations were either disregarded or not incorporated in the legislation as the Review Team intended. Others involved personality clashes and a substantial degree of institutional resistance to change, with the latter having been heightened by the introduction of the Lange Government's anti-nuclear policy and the resultant reduction in contact between the NZDF and the US military.

There was also considerable turnover at the top level within the MOD, with three Secretaries of Defence between December 1988 and September 1991, and an extremely strained working relationship between the first two and the military hierarchy. As a subsequent CDF noted:

We perhaps perceived [the first Secretary] as wanting to reform regardless of what the outputs were. He perceived us as a bunch of extremely conservative people who would resist change in any form. We all talked past each other in one way or another.<sup>9</sup>

However, a more accurate description was that the Secretary was disliked intensely because of his desire to put into effect what he saw as the government's intentions from the Strategos Review—intentions that were not 'resting very easily on the Defence Force'.<sup>10</sup>

One serious defect—which seems petty in retrospect, but was a real issue in the confrontational climate within Defence at the time—was the failure of the 1990 Defence Act to provide the MOD with adequate authority to obtain the information from the NZDF that it needed to perform some of its core functions. This was contrary to a specific Strategos recommendation and the decision of the Cabinet Policy Committee in 1989 leading to the drafting of the legislation which resulted in the abolition of the diarchy.

In a legal analysis attached to a 2002 review of the split,<sup>11</sup> the issues involved were described this way:

The Ministry's advice on policy and purchase decisions, as well as its ability to review, can only be as good as the information base it has to work from. In situations where operational incentives exist to skew such decisions, NZDF can be expected to have a natural reluctance to disclose information. Such a relationship can be characterised as a bilateral bargaining game, and cannot

be expected to work unless both organisations have institutionally equivalent powers and need each other to succeed (and it may not work very well even then). This condition does not appear to be satisfied under the current legislation.

One of the issues openly and bitterly contested by the military was the MOD's audit role of aspects of the NZDF's activities. The military saw the evaluation by the MOD of 'any function, task or responsibility of the NZDF' as implying that, unlike any other government agency, the NZDF was not to be trusted to carry out its own audits and assessments. Unfortunately, much of the conflict over the MOD's audit responsibilities was a result of a misunderstanding of what the audit function was designed to achieve. Gerald Hensley, who became Secretary of Defence in September 1991, understood this and is on record that he believed 'output evaluations represented the core of what the Quigley Review originally intended of the audit and assessment function, but the way in which the two organisations were set up made it impossible to achieve for nearly a decade'.<sup>12</sup>

The major mistake made by those who were charged with administering the 1990 Defence Act over the first few years was to assume that because the two entities were set up as separate organisations, senior individuals within them believed they had to act separately. This was contrary to both common sense and the central thrust of the Strategos Report. Hensley rectified this (when he became Secretary of Defence) without any changes to the 1990 Defence Act, although he was critical of the way both the MOD and the NZDF had been established, claiming it was a costly mistake.

What we have done is to informally put the two organisations back together but with one big difference. The accountabilities are spelt out and it is quite clear who is responsible for what. There is no question of any kind of jointness or vagueness.<sup>13</sup>

Hensley added that the issue of transparency which lay behind the decision to split the old Ministry had not suffered in the painstaking rebuilding of the working relationship between the two organisations. Rather, it had been dealt with by a defence planning system set up in 1992 and run jointly by the MOD and the NZDF.<sup>14</sup>

### **The reasons for the 2002 review of the split and some comments on key aspects of the 2002 review**

During the period August 1997 to August 1999, the Foreign Affairs, Defence and Trade Select Committee of the 45<sup>th</sup> New Zealand Parliament conducted an Inquiry into *Defence Beyond 2000* and produced an Interim Report in November 1999 and a final Report in August 1999.<sup>15</sup> Both reports recommended that the 1990 split of the Ministry of Defence into two separate legal entities be reconsidered. The rationale for these recommendations was that the original split had been in place for approximately 10 years by the time the Committee reported and substantial reforms had taken place within defence during that time. As a consequence, it was thought that the original split might no longer be appropriate.

The benefits from the comprehensive reforms to New Zealand defence that had occurred since the 1988 Strategos Report were demonstrated during the East Timor deployment when the NZDF's performance received fulsome praise from Australia in its 2000 Defence White Paper:

The high quality of New Zealand's forces is beyond question. They made an outstanding contribution to INTERFET, and Australia is grateful for the speed and generosity with which they were committed and supported. ... We know that the men and women of the NZDF will continue to constitute a highly professional force. New Zealand will remain a very valued defence partner for Australia.<sup>16</sup>

There are a number of reasons for this level of performance. One was the NZDF's ingrained professionalism. Another was that it had benefited since the early 1990s from the experience gained during extensive international deployments. These were designed to dispel some of the unfavourable odour that had prevailed amongst the New Zealand armed forces from the Vietnam War through to the anti-nuclear stand-off with the United States, and to provide the substantial number of senior officers in the NZDF who had never fired a shot in anger with some real-world military experience. As a result, the army in particular is now completely capable of operating alongside allied forces in the relatively light roles for individuals and small teams for which it primarily trains. Senior officers point to the success of the Special Air Service in Afghanistan, where its emphasis on long-range, long-term operations provides a capability to allied commanders not rendered by other special forces which tend to operate for shorter periods at a time, and also to the success of New Zealand troops operating in the Pacific on operations in Bougainville, East Timor and Solomon Islands, where the combination of individual soldier-skills linked with New Zealand's specific 'Pacific' cultural approach to dealing with people and events gives NZDF troops a degree of effectiveness not achieved by forces from other countries.<sup>17</sup> A third reason is that, by the late 1990s, there was little doubt that the management reforms of the 1990s had produced a Defence Force financially more effective and better able to define and pursue its core business. Also, by using the financial management tools offered by the reforms, the NZDF had been able to absorb probably the largest funding cuts to any New Zealand government department—around 19 percent in real terms between 1990 and 1998—while maintaining its military capabilities. As one independent commentator noted in 1999:

In broad terms, the contemporary NZDF delivers nearly the same quantity and quality of outputs as it did ten years ago but at about two-thirds of the cost in dollar terms to the New Zealand taxpayer and with two-thirds of the staff.<sup>18</sup>

The response of the Clark Government after it won the 1999 election was to adopt the Foreign Affairs, Defence and Trade Select Committee's recommendations to reassess the split, and to appoint Don Hunn to carry out a review of the Accountabilities and Structural Arrangements within New Zealand Defence.

The scope of the Hunn Review, which resulted in a report to the government in 2002, was an investigation of structures, systems, processes, accountabilities, roles and relationships. The Review was concerned with those organisations responsible for the defence of New Zealand;

not with the policies that drove them or with the performance of individual officials. The instructions from the Minister of Defence to Hunn were that his Review was to be forward looking. It consequently did not address the question of accountability for any failures in the system under review that may have been due to system weakness or the actions or inactions of individuals.<sup>19</sup>

The Hunn Review found a broad consensus among those interviewed that some parts of the organisational model on which the 1990 Defence Act was based had indeed worked, such as achieving key benefits in efficient and informed resource management within the NZDF. However, at the same time, the view was that the benefits expected to flow from drawing a clear separation between policy formulation by civilians and the management of operational delivery by the military had not materialised.

The Report noted a number of reasons for this failure:

- Low trust expectations were embedded into the structural arrangements that set one organisation to check on the other.
- Distinctive organisational cultures had grown around and reinforced these structural boundaries.
- Roles and responsibilities were split in inappropriate ways that hamstrung both organisations.
- Little attention was paid to the difficulties of recruiting the required specialist civilian staff.
- Structures and role separation were designed to minimise cooperation when, in reality, both organisations needed to cooperate to achieve effective results.
- The structural differences deepened differences between civilian and military cultures by placing them in permanent opposition to each other and resulted in dysfunctionality and, ultimately, poor advice.

Hunn's principal conclusion was that the key components of the defence arrangements established in 1990 had not worked as originally intended and should therefore be radically redesigned; and that

any changes to the current system should be based on a reconsideration of all the factors impinging on defence policy and implementation and should incorporate much more than a single set of managerial concepts—as tended to be the case in 1989/90.<sup>20</sup>

Hunn's key recommendation was that the 1990 Defence Act should be replaced, although he acknowledged that the problem 'may not be so much with the Defence Act which does not prevent separate responsibilities being exercised jointly, but with the State Sector and Public Finance Acts that might'.<sup>21</sup> Hunn's proposed structure was an integrated Defence Organisation working with a single vision and a common set of values based on a concept of

shared, prime and sole accountability and responsibility for the Secretary of Defence and the CDF based on equal partnership and participation in the strategic policy and management processes of an integrated defence organisation.

This conclusion was arrived at after the Review had considered a number of structural options offered by the New Zealand Police, the New Zealand Fire Service, Crown Agencies, the Ministry of Health/District Health Board relationships, and the defence establishments of Canada, the United States, the United Kingdom and Australia: 'While in the opinion of the reviewer, the last of these [i.e. Australia] comes closest to what is required, the difference in size and resources argues for a tailor-made approach to New Zealand's defence organisation.'<sup>22</sup>

As an alternative to changing the 1990 Defence Act, it was suggested that considerable progress towards the goal of an integrated system which encouraged jointness and cooperation could be made administratively, since the problem was 'cultural and attitudinal as well as organisational and systemic'.<sup>23</sup>

Reactions to the Hunn Report were varied.

The view of Graham Fortune, Secretary of Defence from September 1999 until mid to late 2006, was that any problems with the existing defence structure were because the original Strategos recommendations had not been implemented in full.<sup>24</sup> This had led to an inevitable uneven balance of responsibility and division of labour between the CDF and the Secretary. In Fortune's opinion, the problems with the existing arrangement were neither structural, requiring large-scale reorganization, nor personality based, but rather 'the responsibilities given to CDF and the Secretary are largely appropriate and the two Chief Executives, both in the recent past and now, work collegially'.<sup>25</sup>

The Treasury also had strong reservations. In its report dated 22 August 2002 to the Minister of Finance on the Hunn Review, it expressed concerns that the recommended changes did not address the key issues of the need for a clear and well-understood defence strategy; a defence strategy supported by an effective resource management and budget allocation process; and the acquisition of individual capabilities being objectively assessed and prioritised by skilled defence professionals against defence strategy and resource management and the budget allocation process before advice was given to Ministers.

Two additional points were made by the Treasury. First, that NZDF's resource management had been the most effective of any international armed force examined by the Treasury. And secondly, unless accountabilities were very clear, an organisation with effectively two heads was inconsistent with the key strengths of New Zealand's public management system and put at risk the very real gains in resource management made by the NZDF over the past decade. 'This proposal would need to be very carefully designed to avoid the problems of confused accountabilities that led to the separation of the two organisations in the early 1990s'.



The Treasury also noted that the Clark Government had made a series of announcements since it had been elected, which were designed to modernise the Army, adopt a joint force approach, produce a more practical naval fleet, refocus and update the air force and provide funding certainty for the NZDF; and that many in the NZDF's senior management team had been changed, with high value in making these appointments placed on jointness between the Services and appointing officers committed to working as one team.

In the author's view (his opinion was not sought by Don Hunn), the Report is an informative document, offering good advice. However, the author has two particular issues with the Report.

The first is that although Hunn correctly lists (in paragraph 6.4) the problems that have arisen following the split, he has misunderstood why it was recommended in the first place and how it was contemplated that it would work. As all of this is spelt out in detail in the Strategos Report, it is not repeated here. However, it does need to be recorded that no one—including the members of the Strategos Review Team—ever contemplated that there would be (to quote from paragraph 6.3 of Hunn's report) 'a clear separation between policy formulation *by civilians* and the management of operational delivery by the military', because that simply could not work.

The second problem with the Hunn Report is that it seems to contemplate an enhanced and even more powerful role for the Secretary of Defence within a reconstituted diarchy. This was attempted previously in the 1971 Defence Act and did not work then. It is unlikely to work now either.

## **The current working arrangements between the MOD and the NZDF**

The Clark Government decided against replacing the 1990 Defence Act, and instead directed the Secretary of Defence and the CDF, in collaboration, to develop a 'joint strategic office' to meet the following minimum requirements:

- It must support the provision of joint military and civilian strategic advice.
- It must support integrated working relationships and a culture of information sharing and cooperation between Ministry and NZDF staffs.
- It must ensure a strategic overview that enables government policies to be translated into operational reality.<sup>26</sup>

This had followed Cabinet endorsement of the concept of sole, prime and shared responsibilities set out in the Hunn Report and led, amongst other things, to the establishment of an Office of the Chief Executives consisting of the Secretary of Defence and the CDF. Consistent with this approach, the MOD and the NZDF are still separate organisations with their own statutory functions. They must, however, work closely together. To facilitate this, a notional 'joint strategic office', led by the Vice CDF and Deputy Secretary

Policy and Planning, supports the provision of joint military and civilian strategic advice and the prime and shared responsibilities of the CDF and the Secretary.

The following table from the MOD's 2005/2006 *Annual Report* shows the Secretary of Defence's high-level sole, prime and shared responsibilities.

Sole	Prime	Shared
Formulating advice on defence and international defence relations policy and strategies at the governmental level	Developing security scenarios and planning guidelines from defence policy strategy	Conducting analyses of the strategic environment
Purchase advice on New Zealand Defence Force outputs policy effects	Preparing business cases for acquisition proposals	Analysing and setting military capability requirements
Equipment purchasing	Evaluating defence organisation outputs and contributions to national security outcomes	Defining a joint future capability vision
Ministry of Defence resource management		Drafting long-term development and medium-term output plans for the defence organisation
Evaluation of and accounting for Ministry of Defence outputs		

The requirements of a collaborative approach are supported by the contents of the Secretary's 'Performance Agreement' with, and the CDF's 'Letter of Expectation' from, the Minister. The latter is the New Zealand Government's 'road map' for the CDF and is designed to assist him and his senior leadership team by setting out the Minister's expectations. It contains details of key defence policy documents, and what the CDF should give priority to in terms of capabilities.

It also contains a specific section on Relations with the MOD:

Ministers expect both agencies to consult and to work constructively and collaboratively together in accordance with the decisions arising from the Review of Accountabilities and Structural Arrangements between the MOD and the NZDF. The Secretary of Defence shall have access to all appropriate information on NZDF operational, planning and development issues to assist him in the formulation of policy, and in capability planning. ... While my preference is for you and the Secretary to resolve differences of opinion before tendering advice, I appreciate that this may not always be possible or desirable. Where differences do arise, I expect to be fully apprised both of the issues and any alternative advice in a clear and coherent manner.<sup>27</sup>

The advice received by the author on the extent of consultation is that, although the Secretary and the CDF have for a number of years now work collegially and well on most

issues, there have (understandably) been continual 'cat fights' over the definition of what constitutes 'strategic policy' and what constitutes 'military policy'.

## Conclusion

The current New Zealand system appears to offer two main advantages over the previous diarchical structure. The first is a direct result of the fact that the MOD and the NZDF are legally independent entities. This means that the Secretary has no responsibility, authority or accountability for the management of the NZDF; the CDF does. The Secretary's roles, as set out in section 24 of the Defence Act 1990, are:

to assist the government make well-informed decisions about the defence of New Zealand and its interests through the provision of timely, high quality advice;

to conduct audits and assessments of the NZDF and the acquisition activities of the Ministry; and

to procure, upgrade, or repair significant items of military equipment.

Former Secretary of Defence Graham Fortune put the distinctive features of the current New Zealand Defence structure extremely well in a letter dated 10 December 2001 to Don Hunn, where he records that it is significant that the New Zealand Defence Act envisaged a separate Secretary *of* Defence, not a Secretary *for* Defence; and that the Secretary should not be an additional advocate for the views of the NZDF, but rather an alternate and independent source of distinctive but informed views.

The Secretary, he wrote

must work closely with the CDF in a symbiotic relationship. Coordination and understanding is essential, because respective responsibilities will inevitably overlap and must be two-way. But an all-embracing requirement for consultation (implying agreement) inevitably limits contestability. The Secretary of Defence should be:

- a civilian adviser on defence policy, able to coordinate and interpret political, diplomatic and strategic policy advice with operational military advice;
- an independent observer of the NZDF and the single services (which are led by men who have spent all their working lives in the same monastic command environment);
- an external adviser on service leadership and management practice;
- a provider of an independent external review mechanism for defence resource management, allocation, use or performance;
- a provider of an independent, robust, clear, transparent and efficient acquisition process.<sup>28</sup>

One result—which is difficult where there is a diarchy—is that the New Zealand Secretary of Defence is able to say to the CDF (for example) ‘what you are contemplating is illegal’; or ‘is potentially politically damaging’; or ‘will compromise defence’s forward budget’; and ‘if you persist, I am bound to refer the matter to the Minister’. The reaction has invariably been to give pause for thought.

The second advantage of the New Zealand system stems from the accountability requirements of not just the Defence Act, but also the State Sector and Public Finance Acts, which are all considered crucial.

For this reason, there must be considerable sympathy for any Defence Secretary who is accountable for (say) his or her department’s budget, but has little control over how it is spent by the military side of the establishment.

Finally—and this is particularly important—in any comparative analysis of reforms and the reasons for their successes and failures, there are always differences to be taken into account, such as size, historical experience, resources, and so on. Some are significant. For example, in both Australia and New Zealand there have been substantial changes over the past 20 years in the way most public sector organisations operate, manage resources, and account for their results. Finally however, as far as defence establishments are concerned, in most countries they must perform the same management functions regardless of their differences. For this reason, an assessment of what has and has not worked in New Zealand, and why, ought to provide useful insights for other countries.

## Notes

- 1 *New Zealand Defence Resource Management Review 1988*, Government Printer, Wellington, 1989.
- 2 D. K. Hunn, *Review of Accountabilities and Structural Arrangements between the MOD and the NZDF*, Wellington, 2002.
- 3 For a more detailed analysis of the background to the overall reform process, and what worked, didn’t work and why, see Derek Quigley, *Economic Reform: New Zealand in an International Perspective*, The Round Table (1996), London, 339, pp. 309–21.
- 4 *New Zealand’s Reformed State Sector*, State Services Commission Wellington, New Zealand, 1994, p. 6.
- 5 Boston et al, *Reshaping the State: New Zealand’s Bureaucratic Revolution*, Oxford University Press, Auckland, 1991, referred to in Anna Smith, *Guns and Gold*, (ed.) Anne French, Victoria University of Wellington through Victoria Link Ltd, 1999, p. 5.
- 6 Smith, *Guns and Gold*, pp. 4–5.
- 7 Gerald Hensley, ‘Reflecting on the Fourth Labour Government’, *New Zealand Herald*, 14 December 2004, accessed 14 December 2004, available at <http://www.nzherald.co.nz/index.cfm?ObjectID=3563688>.
- 8 Smith, *Guns and Gold*, p. 9.
- 9 Smith, *Guns and Gold*, p. 10.
- 10 Smith, *Guns and Gold*, p. 10.
- 11 Professor Mathew Palmer (Centre for Public Law, Victoria University of Wellington), *Legal Analysis of New Zealand’s Defence Legislation*, Annex F, in D.K. Hunn’s, *Review of Accountabilities and Structural Arrangements between the Ministry of Defence and the New Zealand Defence Force*, 30 September 2002, p. 59.
- 12 Gerald Hensley interview of 11 December 1998, referred to in Smith, *Guns and Gold*, p.12.
- 13 Gerald Hensley interview, p. 12.
- 14 Gerald Hensley interview, p. 12.

- 15 The author was chair of the Foreign Affairs, Defence and Trade Select Committee during the 45<sup>th</sup> New Zealand Parliament.
- 16 *Defence 2000: Our Future Defence Force*, Commonwealth of Australia, Canberra, 2000, p. 42.
- 17 Jim Rolfe, *New Zealand's Defence: Capabilities, Commitments and Relationships*, Australian Strategic Policy Institute, Canberra, 2007 (forthcoming).
- 18 Smith, *Guns and Gold*, p. 37.
- 19 D.K. Hunn, *Review of Accountabilities and Structural Arrangements between the Ministry of Defence and the New Zealand Defence Force*, 30 September 2002, Executive Summary, paragraphs 6, 7 and 8.
- 20 Hunn, *Review of Accountabilities*, Executive Summary, paragraph 12.
- 21 Hunn, *Review of Accountabilities*, Executive Summary, paragraph 13.
- 22 Hunn, *Review of Accountabilities*, Executive Summary, paragraph 20.
- 23 Hunn, *Review of Accountabilities*, Executive Summary, paragraph 3.
- 24 Telephone discussion with the author on February 2005.
- 25 Letter from Graham Fortune to Don Hunn, Review of Defence Accountabilities, 10 December 2001, p. 3.
- 26 Appointment Directive from the Minister of Defence to the CDF dated 25 August 2003 and a letter of the same date from the Minister to the Secretary of Defence.
- 27 Letter from the Minister of Defence to the Chief of the Defence Force date 27 June 2006, p. 3.
- 28 Letter from Fortune to Hunn, p. 7.