

HON ANDREW LITTLE, MINISTER OF DEFENCE

New Zealand Defence Force Retention: Funding Request

February 2023

This paper seeks approval of a retention funding package of \$10.64 million in 2022/23 to address growing attrition in strategically significant trades within NZDF.

The pack comprises the following documents:

- December 2022 Cabinet External Relations and Security Committee Minute of Decision *New Zealand Defence Force Retention: Funding Request* [ERS-22-MIN-0065]; and
- The associated Cabinet Paper *New Zealand Defence Force Retention Funding Request*.

This pack has been released on the New Zealand Defence Force website, available at: www.nzdf.mil.nz/nzdf/search-our-libraries/documents/?document-type=Official+information&sort=relevance.

Sensitive operational information is withheld in accordance with section 6(a) of the Official Information Act 1982.



Cabinet External Relations and Security Committee

Minute of Decision

This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.

New Zealand Defence Force Retention: Funding Request

Portfolio Defence

On 13 December 2022, the Cabinet External Relations and Security Committee:

- 1 **noted** that the New Zealand Defence Force (NZDF) is experiencing historically high attrition rates driven by unprecedented demand from the external labour market and cost-of-living trends;
- 2 **noted** that some NZDF capabilities are already operating at reduced levels due to personnel shortages;
- 3 **noted** that the continued loss of personnel from key trades risks the loss of further NZDF capabilities, with an immediate loss of outputs and contingency options to government;
- 4 **noted** that the NZDF is managing a range of cost pressures driven by the COVID-19 pandemic, supply chain disruption, global inflation, and the war in Ukraine, such that retention funding cannot currently be found within baseline;
- 5 **agreed** to a \$10,000 payment in Financial Year 2022-23 for individuals in strategically significant ranks and trades, that would be split into two \$5,000 tranches, paid in the first half of 2023;
- 6 **noted** that attrition remains dynamic, and the NZDF will continue to monitor attrition of multiple other trades, and continue to look for ways to stem attrition across the wider force;
- 7 **noted** that an overarching workforce strategy to inform medium to longer term workforce requirements will be delivered alongside the Defence Policy Review;
- 8 **noted** that the NZDF is working on an interim workforce plan that will be delivered to the Minister of Defence by April 2023, and is expected to submit a specific and earlier plan to Ministers as soon as possible for ensuring that vessels are available for deployment;

Financial implications

- 9 **approved** the following changes to appropriations to give effect to the policy decision in paragraph 5 above, with a corresponding impact on the operating balance and/or net debt:

Vote Defence Force Minister of Defence	\$m – increase/(decrease)				
	2022/23	2023/24	2024/25	2025/26	2026/27 & outyears
Departmental Output Expenses: Air Force Capabilities Prepared for Joint Operations and Other Tasks (M22) (A27)	2.813	-	-	-	-
Army Capabilities Prepared for Joint Operations and Other Tasks (M22) (A27)	5.494	-	-	-	-
Navy Capabilities Prepared for Joint Operations and Other Tasks (M22) (A27) (funded by Revenue Crown)	2.333	-	-	-	-
Total Operating	10.640	-	-	-	-

- 10 **agreed** that the changes to appropriations for 2022/23 above be included in the 2022/23 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply;
- 11 **agreed** that the expenses incurred under paragraph 9 above be a charge against the between-Budget contingency established as part of Budget 2022.

Janine Harvey
Committee Secretary

Present:

Rt Hon Jacinda Ardern (Chair)
Hon Grant Robertson
Hon Kelvin Davis
Hon Chris Hipkins
Hon Andrew Little
Hon David Parker
Hon Nanaia Mahuta
Hon Damien O'Connor
Hon Peeni Henare
Hon Michael Wood
Hon Dr David Clark
Hon Kieran McAnulty

Officials present from:

Office of the Prime Minister
Officials Committee for ERS

Office of the Minister of Defence

Cabinet External Relations and Security Committee

NEW ZEALAND DEFENCE FORCE RETENTION FUNDING REQUEST

Proposal

- 1 This paper seeks Cabinet approval of a retention funding package of \$10.64 million in Financial Year 2022-23 (FY22-23) in order to address growing attrition in strategically significant trades within the New Zealand Defence Force (NZDF). Continued loss of personnel from these strategically significant trades risks the loss of further NZDF capabilities, with an immediate loss of outputs to Government.

Relation to Government Priorities

- 2 The New Zealand Government is responsible for the protecting of New Zealand's people, prosperity, territory, sovereignty, and resources. It upholds New Zealand's constitutional obligations to the Cook Islands, Niue, and Tokelau and maintains New Zealand's claim to territorial sovereignty in the Ross Dependency of Antarctica.
- 3 The NZDF maintains military forces and capabilities to give Government options for detecting, deterring, and countering threats to New Zealand. It promotes a safe, secure and resilient New Zealand, including on its borders and approaches. The NZDF contributes to maintaining New Zealand's prosperity via secure air, sea and electronic lines of communication and secure access to space based services.
- 4 The programme will help support key objectives of the Government's priorities [CAB-20-Min-0525 refers]:
 - 4.1 Objective 1: Keeping New Zealanders Safe from COVID 19: the NZDF has played a substantial role in the Government's response to COVID-19, ranging from staffing Managed Isolation and Quarantine (MIQ) facilities, to delivery of medical supplies to New Zealand dependencies such as Tokelau. This paper aims to preserve NZDF capabilities so that a wide range of options remains available to the Government for any future response.
 - 4.2 Objective 2: Accelerating the recovery: the NZDF is in the midst of a generational replacement of capabilities (such as the P-8A Poseidon maritime patrol aircraft, the C-130J-30 Super Hercules transport aircraft, and a range of infrastructure projects). It is vital for the introduction of these capabilities, the realisation of the investment made, and the associated benefits for the NZDF and the wider Government, that key personnel are available to deliver these outcomes.
 - 4.3 Objective 3: Laying the Foundations for the Future: people are the NZDF's greatest and most critical asset. The specialised nature of military training and equipment is such that the vast majority of NZDF personnel are trained within the organisation and cannot be hired from the external market. With personnel typically needing training and

experience of 5-10 years to gain competencies, this paper supports retaining those personnel essential to maintaining current capabilities, but also those needed as a platform to generate the future NZDF workforce.

- 5 This paper aligns with my Defence priority of 'People' and ensuring that 'our people are safe, well-trained and effective'.¹ It also aligns with my 'Pacific' priority that 'Defence supports a secure, stable and resilient Pacific'. Addressing the current high rates of attrition within the NZDF is essential if we are to avoid a loss in capabilities available to support the Pacific - such as Navy ships able to respond to a Humanitarian Assistance and Disaster Relief (HADR) operation.

Executive Summary

- 6 The NZDF is experiencing historically high attrition rates driven by unprecedented demand from the external labour market and cost-of-living trends. This paper requests the approval of a retention funding package of \$10.64m in FY22-23.
- 7 The funding would be used to make one-off payments of \$10,000 to personnel in strategically significant trades (set out in **Annex A**). Growing attrition in these trades has resulted in some NZDF capabilities already operating at reduced levels due to personnel shortages, including three ships of the Navy's Patrol Force that are currently not operating. Continued loss of personnel risks the loss of further NZDF capabilities, impacting on the NZDF's ability to deliver the range of activities it undertakes in support of the Government's objectives.
- 8 The retention funding sought in this paper cannot be found within baseline. The NZDF is reprioritising and managing approximately \$150 million of operating cost pressures within its existing baseline. The operating costs are predominantly driven by non-discretionary price increases which are beyond NZDF control such as fuel, platform maintenance, military supplies, information technology, and estate maintenance costs that have been affected by global inflation, supply chain disruptions, and the war in Ukraine.
- 9 The NZDF is currently only able to balance this position due to the use of savings from the loss of personnel of approximately \$100 million, along with short term depreciation and capital charge savings due to revised timings of the completion of capital projects and the technical accounting adjustments required. Savings are re-prioritised in a balanced way across all cost pressures (eg, fuel, maintenance) in order to optimise the outputs and options available to government.
- 10 If the personnel savings made to-date were not applied to keeping platforms operating, in balance with personnel numbers, the NZDF would not be able to deliver outputs, and this would exacerbate dissatisfaction amongst personnel, increasing attrition further.
- 11 The NZDF continue to look for ways to stem attrition across the wider Force. Defence is completing a workforce strategy which will help determine future capability and remuneration requirements in the medium term.

Background

¹ Ministerial Priorities for Defence 2021.

- 12 The NZDF is experiencing historically high attrition rates driven by unprecedented demand from the external labour market and cost-of-living trends that see NZDF personnel seeking and receiving higher remuneration in civilian employment. As the economy has recovered, an unprecedented nationwide demand for staff, coupled with constrained NZDF pay, and cost-of-living trends are driving NZDF personnel to seek higher remuneration through civilian employment, which has led to unsustainable levels of attrition. Attrition rates saw the NZDF shrink by 960 personnel in FY21-22, and, if current attrition rates continue, the NZDF has modelled a further loss of up to 1000 personnel by mid-2023.
- 13 In the current economic and labour market environment, exit surveys are showing that 62% of military staff cite insufficient remuneration year to year as a critical factor in their decision to leave the NZDF, and 79% cite employment opportunities in the civilian sector. 'Pulse' survey² data of still-serving personnel from 2022 shows that 64% of military personnel do not believe they are fairly remunerated for the work they do. Among Junior Non-Commissioned Officer (JNCO) ranks, approximately 75% think they are unfairly paid for the work they do. Retaining these junior leaders is a fundamental component of developing current and future capability and readiness to deliver the NZDF's outputs.
- 14 NZDF policy settings aim to have NZDF remuneration within 5% of the public sector and comparative civilian market medians. The combination of general labour market wage inflation and zero-to-low remuneration increases within the NZDF workforce from 2018 and through the three years of the COVID-19 pandemic, has meant that the NZDF's relative remuneration has fallen well behind policy settings.

Output Impacts

- 15 Attrition rates across all Services – Army, Navy and Air Force – are affecting the ability to generate outputs and provide the Government with contingency response options.
- 16 Of the total number of personnel required to crew a naval ship, there are particular specialists, with particular levels of experience that are critical to the safe operation of the ship. These are some of the strategically significant trades experiencing high levels of attrition that this package aims to help address. For example, the Navy currently require s. 6(a) to staff the fleet. Due to attrition, there are s. 6(a) of these personnel currently in the Navy. Based on anticipated resignations, it is forecast that there will be s. 6(a) these personnel by April 2023.
- 17 Low numbers of personnel in strategically significant trades across the Navy has had a compounding effect on the availability of NZDF capabilities. The Offshore Patrol Vessel (OPV) HMNZS WELLINGTON was placed into 'care and custody'³ in September 2022, in order to utilise key personnel on other vessels such as the logistics support ship HMNZS CANTERBURY, a valuable

² The 'Pulse' survey is an annual internal survey of NZDF personnel.

³ Care and custody means that the vessel is tied up alongside and preserved under a commercial arrangement to maintain its sea going capability but without an assigned crew, hence the ship is unable to go to sea.

asset in any HADR task in the Pacific. HMNZS WELLINGTON joins the OPV HMNZS OTAGO, and the Inshore Patrol Vessel (IPV) HMNZS HAWEA also in 'care and custody'. Currently, the IPV HMNZS TAUPO is the only operational ship from the Naval Patrol Force permanently available for domestic resource and border protection operations.

- 18 Similar shortfalls exist in the Army and Air Force, and in 'Joint' trades through the NZDF that support the integration of capabilities to deliver outputs. Due to personnel shortages in some strategically significant trades, the Army will not be able to concurrently support Operation ANTARCTICA and an HADR response in the Pacific during the forthcoming high risk weather season (November 2022 to April 2023) due to a shortage of military engineer trade personnel.⁴ In the event of an HADR response requiring those skills, personnel would need to be taken from the Antarctic, to support a response in the Pacific – with the associated logistics challenges and inevitable time-delays.
- 19 In the Air Force, it is now becoming routine that the time to respond to national contingencies (for example the Search and Rescue response time for a P-3K2 Orion, or an NH-90 helicopter) s. 6(a) due to a shortage of personnel. High attrition rates amongst aircraft and avionics technicians, for example, have resulted in delays in repairing essential aircraft systems, impacting on the Air Force's ability to carry out operations.

Action Taken to Date

- 20 The NZDF received \$90 million over four years (\$22.5m a year) in Budget 2022 for remuneration taking its total annual remuneration budget to \$1.157 billion. The additional funding saw the wages of 12% of NZDF staff lift to be within current policy settings. Prior to the increase, approximately 89.4% of NZDF staff were earning wages below policy targets. After the increase, 77% of NZDF staff remain below policy targets – that is, more than 5% below public sector and market medians.
- 21 The NZDF has multiple streams of work underway aimed at stemming high attrition, including non-financial incentives around work-life flexibility, leave, and other conditions of service.
- 22 Where funding has allowed, the NZDF has used underspends over the past year (due to personnel savings from loss of staff) to make retention payments to a small number of specialist trades where their low numbers have posed a direct threat to the continued ability to deliver major capabilities.
- 23 However, this has been balanced with the need to also apply savings to other costs pressures such as increasing fuel and maintenance costs which directly affect outputs. As such, NZDF is unable to meet the cost of the additional retention payments required to stem the growing attrition in strategically significant trades within its existing baselines.
- 24 The NZDF has been, and will continue to, reassess where baseline funding can be reprioritised to mitigate attrition rates in other trades, and also consider where other non-financial actions can be taken to stem attrition.

⁴ Operation ANTARCTICA is the NZDF's annual support to the New Zealand Antarctic Program.

One-off In-Year Payments to Strategically Significant Trades

- 25 I am therefore seeking to address the current situation with decisive action that has a practical impact on attrition. It is important to take this action now as, historically, NZDF attrition rises after the summer break when personnel take stock of their family and financial situations.
- 26 Funding of \$10.64 million will allow retention payments of \$10,000 per individual to personnel in key retention risk areas. The individual retention payment figure selected is aligned to retention payments already being applied over a three year period for seven of the 24 identified strategically significant trades in the NZDF.
- 27 The trades selected for payments are listed at **Annex A**. They have been selected based upon attrition rates and the criticality of particular trades (and rank levels within each trade) to the delivery of capabilities that meet short notice or non-discretionary output requirements. ^{s. 6(a)}
- 28 If approved, the NZDF intends to split the \$10,000 retention payment into two \$5,000 tranches paid out in February and May 2023. Further work is being conducted by officials to develop conditions for the payments for example associated return of service obligations.

Alignment with future workstreams

- 29 These retention payments are intended as a short term, one off retention measure to stem the flow of key staff leaving the NZDF while ongoing work is undertaken to improve remuneration and address other dissatisfiers.
- 30 As part of the Baseline Review outcomes of 2020, just prior to the COVID-19 pandemic, the NZDF was tasked to review its overarching workforce strategy to help determine future budget requirements. The workforce strategy was completed in October 2021, but further refinement to the strategy was put on hold due to the NZDF's involvement in the Government's response to COVID-19.
- 31 Work on the revised overarching workforce strategy of October 2021 has recommenced to help inform medium to longer term workforce requirements. At my direction, this will be delivered alongside the Defence Policy Review (DPR), specifically to identify the type and make-up of the NZDF force that will be required to meet future output requirements. However, in light of the challenges attrition is having on its ability to deliver the activities it undertakes in support of the Government's objectives, NZDF will review its current workforce and look to provide me with an interim workforce plan that will be delivered by April 2023.

Financial Implications

- 32 The NZDF is unable to meet the cost of the additional retention payments within its existing baselines due to the substantial cost pressures that have arisen over the past three years.

- 33 The impact of the COVID-19 pandemic and economic climate has generated unprecedented supply chain, investment challenges and cost pressures over and above the operating funding provided in the NZDF Baseline Review 2019.
- 34 The NZDF is reprioritising and managing approximately \$150 million of operating cost pressures within its existing baseline. These costs are predominantly driven by price increases in fuel, platform maintenance, military supplies, information technology, and estate maintenance costs. Any further reduction or prioritisation within its baseline funding would disproportionately impact NZDF's core capabilities and generation of outputs.
- 35 The NZDF is monitoring its financial and workforce position and is currently able to mitigate risks of delivery failure by keeping remuneration levels as per the Budget 2022 outcomes, reallocating savings from staff attrition and utilising short term depreciation and capital charge savings.

Legislative Implications

- 36 There are no legislative implications resulting from this proposal.

Impact Analysis

Regulatory Impact Statement

- 37 There are no legislative implications for this proposal so no Regulatory Impact Statement is required.

Population Implications

- 38 There are no population implications stemming from this proposal.

Human Rights Implications

- 39 There are no implications for the New Zealand Bill of Rights Act 1990 or the Human Rights Act 1993.

Consultation

- 40 Te Tai Ōhanga The Treasury are aware that this proposal is being developed, however due to the timeframes involved full consultation has not been completed.

Communications

- 41 If approved, I intend to announce the decision via a Press Release at the appropriate time.

Proactive Release

- 42 I intend to proactively release this paper (subject to redactions in line with the Official Information Act 1982) within 30 working days as required by CO 18(4).

Recommendations

It is recommended that Cabinet:

- 1 **Note** that the NZDF is experiencing historically high attrition rates driven by unprecedented demand from the external labour market and cost-of-living trends.
- 2 **Note** that some NZDF capabilities are already operating at reduced levels due to personnel shortages

- 3 **Note** that the continued loss of personnel from key trades risks the loss of further NZDF capabilities, with an immediate loss of outputs and contingency options to Government.
- 4 **Note** that the NZDF is managing a range of cost pressures driven by the COVID-19 pandemic, supply chain disruption, global inflation, and the war in Ukraine such that retention funding cannot currently be found within baseline.
- 5 **Agree** to a \$10,000 payment in Financial Year 2022-23 for individuals in strategically significant ranks and trades that would be split into two \$5,000 tranches, paid in the first half of 2023.
- 6 **Note** that attrition remains dynamic, and the NZDF will continue to monitor attrition of multiple other trades, and continue to look for ways to stem attrition across the wider force.
- 7 **Note** that an overarching workforce strategy to inform medium to longer term workforce requirements will be delivered alongside the Defence Policy Review.
- 8 **Note** the NZDF is working on an interim workforce plan that will be delivered to my office by April 2023.
- 9 **Approve** the following changes to appropriations to give effect to the policy decision in recommendation 5 above, with a corresponding impact on the operating balance and/or net debt:

Vote Defence Force Minister of Defence	\$m – increase/(decrease)				
	2022/23	2023/24	2024/25	2025/26	2026/27 & outyears
Departmental Output Expenses:					
Air Force Capabilities Prepared for Joint Operations and Other Tasks (M22) (A27)	2.813	-	-	-	-
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Navy Capabilities Prepared for Joint Operations and Other Tasks (M22) (A27) (funded by Revenue Crown)	2.333	-	-	-	-
Total Operating	10.640	-	-	-	-

- 10 **Agree** that the proposed change to appropriations for 2022/23 above be included in the 2022/23 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply.
- 11 **Agree** that the expenses incurred under recommendation 7 above be a charge against the between-Budget contingency established as part of Budget 2022.

Authorised for lodgement

Hon Peeni Henare
Minister of Defence

Annex:

- A. Strategically Significant Trades **Withheld in accordance with section 6(a)**