
PERFORMANCE IMPROVEMENT FRAMEWORK

Follow-up Review of the Ministry of Defence

AUGUST 2014

State Services Commission, the Treasury and the Department of the
Prime Minister and Cabinet

**Performance Improvement Framework
Follow-up Review: Ministry of Defence**

**State Services Commission, the Treasury, and the Department of the Prime Minister and Cabinet
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CONTENTS

Agency Response.....	2
Executive Summary	3
Background	4
The New Operating Environment	5
The Story to Date.....	6
Establishing clarity of purpose and a new Operating Model.....	6
Moving from sprints to a marathon	7
Focusing on people	7
Delivering results.....	8
Effective partnership with NZDF.....	8
Getting to Great.....	9
The Challenges Ahead	10
Implementing the Operating Model	10
Leadership	10
Organisational design	11
Organisation success	11
Manage risk and performance	12
People development	12
Final Observations.....	13
Normalising great performance within constrained resources	13
Understanding the big picture and leveraging analysis off empirical research	13
Workforce recruitment and people development	13
Strengthening and deepening capability expertise	14
Conclusion	15

AGENCY RESPONSE

We want to thank the Performance Improvement Framework (PIF) Lead Reviewers for their work across both the Ministry of Defence's initial PIF Review in 2012 and this Follow-up Review. This Review has been undertaken concurrently with the 2014 Defence Assessment that, once completed, will again detail New Zealand's complex and uncertain international strategic environment. The challenge for the Ministry of Defence (the Ministry) is the same as it was in 2012. We must be able to keep pace with rapidly changing demands. This means positioning the Ministry to deliver ongoing change and in turn support the Government to meet New Zealand's defence roles and responsibilities.

This Follow-up Review describes a number of changes in the Ministry since the 2012 Review. The Lead Reviewers' assessment reflects their analysis of information and meetings with our senior leaders, staff and stakeholders. We are grateful to everyone who contributed to the Follow-up Review process.

The Ministry's change programme has been closely based on the 2012 PIF Review. The Review informed our work on a plan for the organisation; focusing first on purpose and strategy, our operating model, support for our people, clear priorities enabling trade-offs, and working closely with our staff and stakeholders to get these right. The Ministry's Four-year Plan was consequently able to present the organisation's own account of how it would achieve the Four-year Excellence Horizon. It reflects the Ministry's clear purpose, that we give civilian advice on defence matters to enhance New Zealand's security. We are very encouraged by the level of confidence expressed in this work by the Follow-up Review. We also recognise the clear message that this progress is early, and that continued progress will require constant vigilance, effective feedback loops, and that we are willing to iterate and change things ourselves and with our sector partners.

For us, the great achievement of the last 18 months has been the efforts of staff, working with the support and good will of our partners, to balance work on improvements with a very demanding delivery programme. The Ministry has delivered the Defence Midpoint Rebalancing Review with the New Zealand Defence Force (NZDF) and the Treasury, a demanding programme of Acquisitions projects and improvements to the capability management system, and some significant new Evaluation reports including a landmark Review of opportunities for military women. These show improvement in what we produce at the same time as our efforts to improve how things are done.

This Follow-up Review reiterates the 2012 PIF Review's finding that the Ministry must make choices about what to deliver with the capacity it has. We will be working with central agencies to ensure the choices we are making are the right ones, and that the opportunities to do more and to do better are understood. We will be working closely with our sector partners to contribute to shared, more effective ways to make the most of our talent and to collaborate well.

Now that we have a programme in place, our focus is on continuing delivery against the areas highlighted in our Four-year Plan and this Review. We know that our people are lined up with us in meeting these challenges.

The Ministry of Defence Leadership Team:

Helene Quilter
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EXECUTIVE SUMMARY

In the period since we completed our PIF Review in 2012, the focus of the Ministry's leadership team has been on the formation of strategy and its translation into a new operating model to position the Ministry for performance improvement in all areas of its business. This has happened during a sustained, demanding period of delivery for the organisation. The significant gains that have been secured to date have been due to a combination of:

- establishing clarity and unity of purpose
- strong and effective leadership, including sector leadership
- implementing clear frameworks and plans of action that have utilised proven organisational development methodologies
- effective and comprehensive staff and stakeholder engagement

While the approach taken has been exemplary as the most successful early stage transformation we have seen in the New Zealand public service the Ministry still faces a number of challenges to make organisational reform sustainable. Some of these challenges (such as implementing an effective defence and security sector workforce strategy and addressing baseline pressures) lie beyond the direct control of the Ministry and will require stakeholder and central agency assistance to resolve.

The Four-year Excellence Horizon from the 2012 PIF Review remains broadly correct, while the operating environment, including the pace and scale of change within NZDF, is creating an increasing pitch of expectation for the Ministry and increased operational tempo. We consider that the Ministry is on the right trajectory and has the capability to successfully execute the Four-year Excellence Horizon, but note that it remains delicately poised and under considerable capacity constraints. The Ministry's gains are fragile; it will need intensive ongoing management effort, support from partners and additional investment if the gains made are to endure and to operate.

BACKGROUND

The Ministry acts as the Government's lead civilian advisor on defence and its activities¹ include:

- Assessing New Zealand's defence environment
- Defining capability requirements for NZDF and acquiring these
- Leading advice on defence policy issues
- Advising the Government on defence partnerships and overseas deployments
- Providing evaluation of the New Zealand defence system.

The PIF Review in 2012 set expectations for an ambitious programme of organisational reform in order that the Ministry could deliver these roles more effectively, including recommendations that it:

- provide advice on defence policy regularly and contemporaneously, rather than episodically, and in a way that can inform discussions at the Officials Domestic and External Security Committee (ODESC) and other forums on wider security issues
- strengthen its engagement with and evaluation of NZDF's change programme
- develop its ability to test and challenge advice on capability projects, and ensure that the real risks, costs and benefits of projects are understood early
- deliver more strategic evaluations that improve understanding of the defence system
- make changes to its back office to better support delivery
- implement the findings of a number of reports since 2008 which recommend changes to its acquisitions function so that it delivers across the capability process with a strong whole-of-life and end-user focus.

The Ministry has 60-70 staff and a baseline of \$11.2 million to deliver on an extremely ambitious work programme. We noted in 2012 that the Ministry was thinly resourced in some critical areas, and that its baseline would need to be reviewed as expectations and tempo in the above areas increased. It was our view that the Ministry would need to prove itself 'investment ready' by making credible gains in each of these areas.

Since the 2012 PIF Review, the Ministry has maintained regular engagement with us as Lead Reviewers, with the result that we have had the opportunity to see organisational reform planned and executed over the last two years. In this Follow-up Review we are focused on two key questions:

- Was the challenge set in the Four-year Excellence Horizon appropriate and how does it need to be reset for the next four years?
- Is the Ministry on the right trajectory to deliver on the Four-year Excellence Horizon and what support will it need to get there?

We respond to the first question by reviewing recent changes in the Ministry's operating environment. The latter question we address by outlining the Ministry's extensive organisational transformation thus far, the challenge yet to come over the next four years and the factors critical to success, which include both internal and system changes and support.

The Ministry's acquisitions function was out of scope for this Review, as it is currently subject to other review activity, although we comment below on capability planning and analysis within the Ministry.

¹ These roles were agreed by the Government following the 2010 Defence White Paper.

THE NEW OPERATING ENVIRONMENT

The Ministry is currently confronting some key issues in the defence security environment which have significant implications for all three aspects of its operations: defence policy and engagement with the Government's security and defence sector, capability and acquisition, and independent evaluation of defence activities.

In geopolitical terms, the Ministry, along with other NZ Inc. agencies, operates in an evolving and uncertain strategic context. Longer-term trends include a shift in the distribution of power to the Asia-Pacific region, alongside fragility of states in the Pacific, increasing challenges to rules-based international order and the need for a more sophisticated approach to balancing New Zealand's trade and security interests. These trends imply a strongly multilateral defence environment, an active role in the region and increasing investment in defence and security architecture. They also suggest a need for more dynamic and normalised approaches to ongoing defence assessment.

With regard to technology, the Ministry faces a world in which increasing specialisation and sophistication of military hardware and new types of conflict, such as cyber, imply increasingly complex acquisitions, much shorter military capability refresh cycles, more in-life investment and potentially greater co-investment with partners. This places a premium on dynamic and sophisticated portfolio management of defence capability in support of a versatile and interoperable defence force.

These trends must be addressed in the context of ongoing fiscal constraints on defence spending and the need to successfully implement the Government's 2013 Defence Midpoint Rebalancing Review (DMRR). The Ministry has a lead role in ensuring over the next four years that the Crown gets high quality policy advice on proposed capital expenditure projects worth \$11 billion. In addition, it must ensure that the risks and costs of 16 in-flight capability projects currently worth \$3.7 billion, are actively managed.

Since the 2012 PIF Review, the Ministry has distilled the challenges we set, and those within its operating environment, into five strategic objectives, as follows:

- Defence decisions keep pace with the dynamic security environment and New Zealand contributes to and benefits from successful defence relationships.
- Capability advice achieves a balance between defence policy and defence funding, and establishes the true cost and risk of projects early.
- Major military equipment is acquired on time and delivers against Government's intentions.
- The defence agencies successfully manage a period of change and reform.
- The Ministry becomes sustainable and resilient.

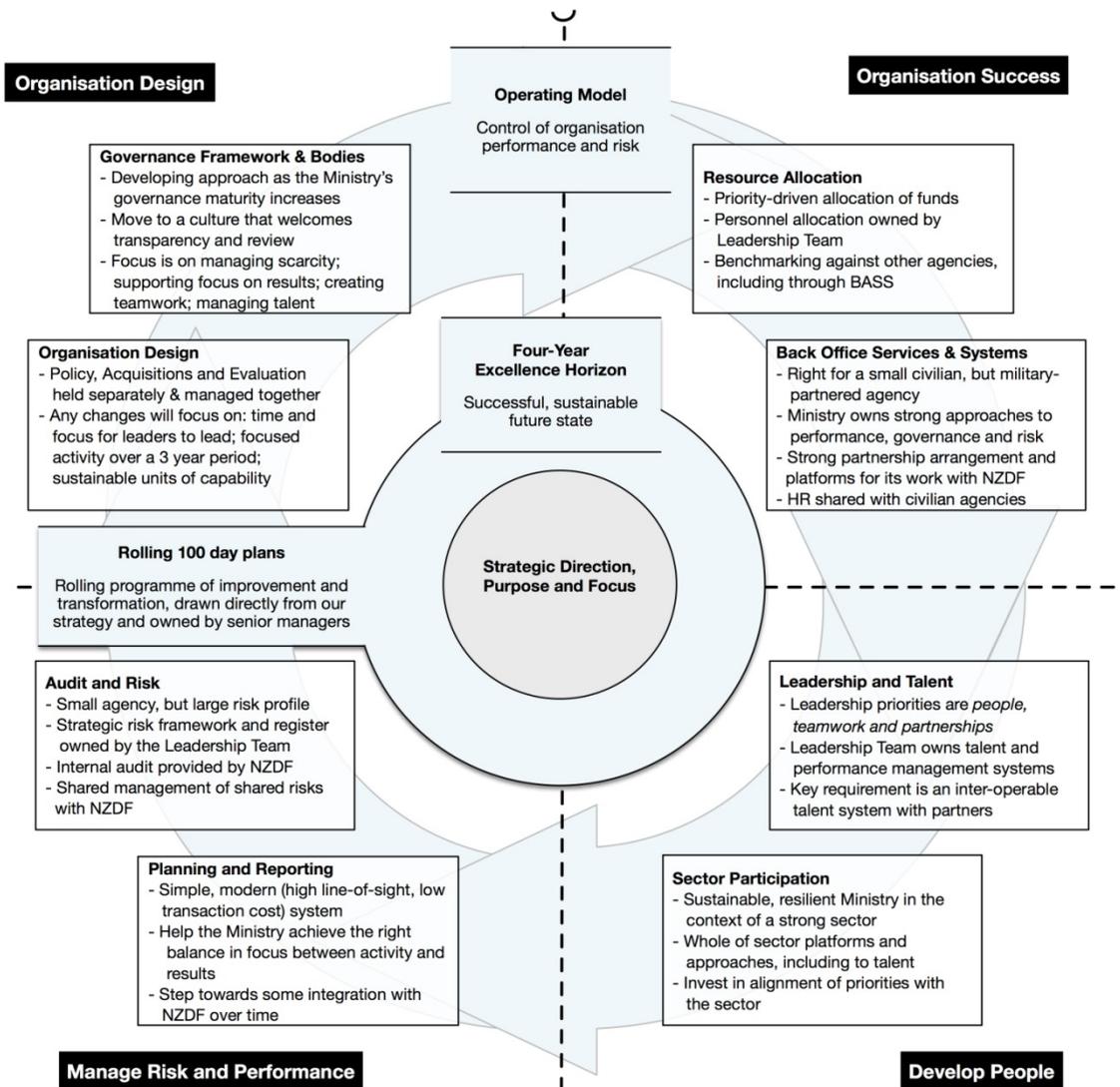
Two years on, we believe that while our prescription for change, as expressed in the Four-year Excellence Horizon was broadly correct, the operating environment, including the pace and scale of change within the NZDF, is creating an increasing pitch of expectation for the Ministry and increased operational tempo. In 2012, we described an agency with unclear strategy in which efforts were episodic and sequential (such as focus on a Defence Assessment for a period, then a break to focus on other things). The Ministry now understands that it must produce results consistently across all of its output areas. The Ministry has also identified that doing so will require a very explicit approach to prioritisation and, under current funding settings, trading down depth in some areas to perform across the portfolio.

THE STORY TO DATE

Establishing clarity of purpose and a new Operating Model

A critical problem for the 2012 Ministry was lack of an explicit vision, purpose and strategy. In 2013, the Ministry developed a compelling and unifying vision and strategy through an inclusive process with staff and stakeholders. The process and the output were regarded positively by staff, who participated in an exercise to refine strategy in late 2013. The strategy is kept alive through regular 'Town Meetings' and provides a clear reference point for all activities. Most importantly, it is regularly used to help select alternatives, prioritise and trade-off between options.

The development of an organisational strategy was followed by a process involving all staff in the development of a Ministry Operating Model and this in turn was linked to the development of the Four-year Plan. The Operating Model, shown below, represents an explicit, comprehensive and distinctive view of all aspects of the Ministry as an organisation and is what we expect to see in all agencies to support the effective and efficient execution of strategy. The 2012 PIF Four-year Excellence Horizon was refined and reshaped by staff as a part of the Four-year Plan process.



Recent work with staff has focused on the spirit and character of the Ministry and how these translate into the day-to-day behaviours of its people. This included engagement with staff to further refine these in early 2014. The next step is to reflect these characteristics and behaviours in the performance management system and the Ministry's approach to recruitment. This is currently underway.

Moving from sprints to a marathon

We commented in 2012 on a personalised and heroic leadership style in the Ministry which, while it often caused it to box above its weight on critical projects such as the Defence Assessment, also meant that the agency tended to run on force of personality rather than through systematic and sustainable management principles and approaches. It has been pleasing to see a very disciplined and framework-driven approach to organisational change at the Ministry, in part due to the creation of a strategy role at the top table, with a purview across the whole business and an eye on the medium term.

We also suggested that the senior leadership team needed to lift itself out of operational matters and focus on the right things. This team is now focused on strategy, risks, prioritisation and trading off. It feels and behaves like a team, rather than a collection of individuals. Operational business as usual has been appropriately tasked to tier three managers.

A new office of the Chief Executive is also under construction, which will include strategy and performance, further development of the Ministry's operating model, communications and oversight of the shared services functions. This will assist with a more sustainable leadership model for the Ministry.

Explicit work on culture has also been undertaken and staff report that they feel encouraged and empowered to take a stronger, more proactive stance on issues that require civilian advice, which is clearer and more principles-based than the previous notion of a policy/operational divide with NZDF.

Our 2012 PIF Review underestimated the size of the implementation challenge to bring the corporate areas of the Ministry up to best practice standards. Our expectations may also have been too low, in that we made allowances for a small agency. After some initial struggles, the Ministry has moved to shared services arrangements with NZDF and the Intelligence Community Shared Services (ICSS) and is bedding these in. Early runs on the board have been secured, such as Wi-Fi in the office, upgrades to work tools, new talent management systems and improved transactional human resources (HR). Ambitious improvement activities are now underway, with shared service partners, in all areas of the back office. These are projected to secure savings of \$0.5 million per year on the current baseline, which will be reinvested in policy and other frontline activity. The new arrangements will also enable the removal of some of the barriers that the 2012 PIF Review identified to the Ministry and NZDF working more effectively together. While these shared services arrangements are far from mature as yet, they should inspire other small agencies as to the possibilities.

Focusing on people

Management of people performance has benefited from significantly increased investment in learning and development, (from less than 0.5% of personnel spend in 2012 to commitments totalling 2.5% in 2014) and the introduction of a new coaching system.

Challenges highlighted in our previous Review were the lack of a perceived career path for staff, succession management problems and recruitment challenges due to lags in security clearance processes. All of these are being worked on. Career pathing is being viewed on a sector and system basis, with the Ministry supporting the development of a workforce plan across the defence and security system. Talent mapping and assessment is supporting individual development plans. A plan for succession management is now in place, including mitigation strategies for key person risks. Processes have been put in place for interim security clearances.

Gender balance within the Ministry has been partially addressed with 2/3 of new hires being female in the last 18 months. Women now make up 37% of all Ministry staff and 30% of management roles.

Staff engagement was slightly improved at the last survey in mid-2013, with another due later this year. In our focus groups, staff reported feeling energised and motivated by the strategy and operating model development. The Acquisitions area is probably the least engaged and has the greatest diversity recruitment challenges.

Delivering results

While these very extensive improvements to the Ministry's business model have been under development, service delivery has been busy and characterised by some significant achievements. The Ministry's Evaluation division has implemented a new business model of strategic data-led evaluation, had a complete change of staff, redesigned its work programme from first principles and delivered reports with much more strategic heft, such as the well regarded Maximising Opportunities for Military Women in the New Zealand Defence Force report. New governance arrangements with NZDF are in place for shared business interests, including refreshment and fine-tuning of the Capability Management Framework.

International achievements have included policy support to the defence relationship with the United States, strengthening New Zealand's role in the Asia-Pacific region through its influence in forums such as the ASEAN Defence Ministers Plus and policy advice on deployment issues in Afghanistan.

Capability business cases have been successfully completed, and the Ministry has continued to deliver on the very challenging upgrade project for the Royal New Zealand Air Force's C130 aircraft.

Probably the single biggest achievement, however, has been the Ministry's leadership contribution to the DMRR, which was well received by stakeholders and sets the Ministry up to play a lead role in ensuring the Plan is delivered as intended.

While these are the operational highlights, the tempo of day-to-day business as usual for the Ministry should not be underestimated. In the last year, the Ministry put up 33 Cabinet papers, including the suite of DMRR papers. This is a high-paced, busy agency, with palpably higher energy levels than we saw in 2012.

Effective partnership with NZDF

In amongst all this, and critically important under our constitutional arrangements for the defence sector, the Ministry has made a critical shift in its management of the designed tension with NZDF, including power and information asymmetries. From a sometimes marginalised 'policy' voice of 70, speaking to an operational giant of 14,000 in NZDF, the Ministry has begun to reposition itself as a respected system player, across the security and defence sectors, which in turn are increasingly coherent, through changes led by DPMC. Its advice as lead civilian advisor on defence and security

matters is sought and respected. It has neither negotiated differences of view out to the point of blandness nor been strident or adversarial in pressing its perspectives. The relationship at senior levels between the Ministry and NZDF is strong, as it is with the wider defence and security system. This has required a sophisticated combination of courage and relationship skill, while balancing both directive (for pace and results) and facilitative (for bringing staff and stakeholders along) leadership styles. A challenge facing the senior leadership of both the Ministry and NZDF is to ensure that this strong and effective working relationship is replicated throughout all levels of both organisations.

Getting to Great

To date, the transformation journey within the Ministry has been an extraordinarily courageous, focused and systematic effort. The critical success factors for transformative organisational change are well known, both in management literature generally and in the local distillation of the PIF Review insights. The 2012 PIF Review and the analysis of critical success factors in the Getting to Great reports have been very deliberately used by the Ministry's leadership to plan, execute and monitor an ambitious work programme. As they put it themselves, they 'read the instructions on the tin' and followed them. The result is a respected agency in good heart, with a clear direction and much more systematic management processes and frameworks.

The challenge now, and it is a considerable one, is to make all this sustainable and use the enabling platform created by organisational reform to drive the delivery of consistently excellent results.

THE CHALLENGES AHEAD

This part of the Review addresses two questions. First, how can the Ministry embed its operating model for sustainability? Second, what does the model need to deliver to New Zealand’s security and defence system over the next few years?

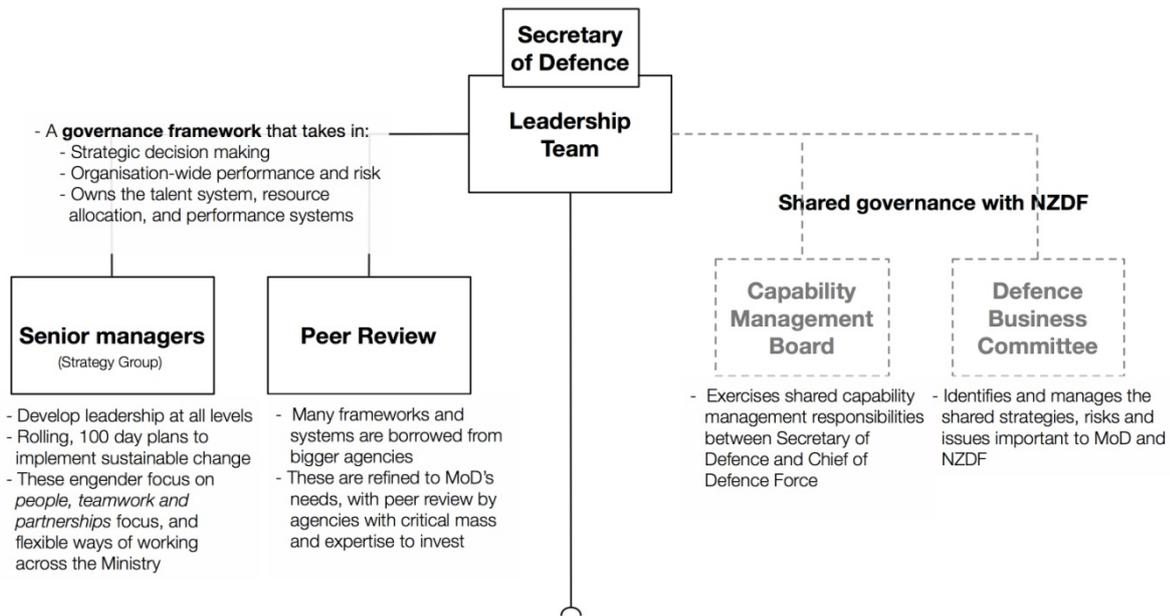
Implementing the Operating Model

To ensure that the progress made is enduring, the Ministry is mindful of the need to pay careful attention to bedding in all aspects of the operating model to deliver strong and consistent results over the next four years. It has the platform in place but continues to operate within considerable capacity constraints. The Ministry is clear that managing within these will require continued high energy, clear focus and ongoing agility in resource allocation.

Below, we look at each element in the operating model and describe the challenge for the next planning horizon.

Leadership

The **leadership layer** of the operating model is shown in the schematic below:



These arrangements were implemented in 2013 and are on a journey towards maturity. They are intended to ensure that the Ministry can:

- keep its leadership collectively focused on business performance from an outside-in (system, customer, partner etc) perspective
- manage change as an on-going process
- maximise the fungibility of people and resources to support major work programmes
- deepen the trust based relationships with NZDF through normalised joint working on capability management and other strategic business issues.

Keeping these leadership and governance bodies operating at the right levels will require constant vigilance and focus on a small number of key priorities. The Ministry is also aware of the need to align this model to changes presently under development in the NZDF governance and management model.

The Ministry is putting arrangements in place for continuous improvement and lessons learned feedback loops so that the model is being regularly recalibrated and does not ossify. It understands it will be vital that capability management and governance is managed on a portfolio basis rather than through a project lens. The 100-day plans currently in place will help with this, but more attention to investment portfolio-style rigours, such as to applying horizoning to the work programme, and calibrating risk appetite and management to benefits, is likely to be required.

Organisational design

With regard to **the organisation design quadrant** of the operating model, the Ministry must continue to be adroit at moving people and resources on and off projects which have very clearly defined problem definitions and success criteria.

The Ministry is committed to ensuring that policy, evaluation and acquisitions, while separate functional areas that reflect the different statutory roles of the agency, work in practice like overlapping loops in a Venn diagram. Seamless interface between policy and capability/acquisitions will enable enhanced focus on whole-of-life asset management and end users. Proximity between policy and evaluation will help keep the latter focused on the big picture and keep policy accountable for real world results. It should also ensure continuous learning loops, which will depend on close work, and mutual involvement at an early stage, between policy and evaluation.

Making this element of the operating model work is also likely to require ongoing investment in leadership development. Structurally, this is one of the most complex models in town. As with a corporate board, leadership and governance bodies should be regularly subjecting themselves to self and external review.

Organisation success

In the **organisation success quadrant**, there are two quite discrete challenges over the planning horizon. The first relates to resource allocation in the context of a reduction in staff over the next four years to manage within the current baseline. As the Ministry outlines in its Four-year Plan, it will need to prioritise and reprioritise resources on a near constant basis to meet the requirements of the DMRR and its other outputs. This will place a premium on leaders' ability to surface trade-offs explicitly and continue to develop meaningful options for Ministers. The Ministry has already made it clear that some of the improvements signalled in the 2010 White Paper and 2012 PIF Review are out of reach within its current baseline.

The other challenge here is to settle the shared services arrangements and become a sophisticated customer of the new shared service entity, dealing with the normalisation of new HR systems and policies, at the same time as moving ahead with what is needed to deliver the Ministry's workforce strategy. Key tests for the shared services arrangements will be the migration of IT and data onto shared platforms with NZDF and continued access to fit-for-purpose strategic HR services from the ICSS. Early success in these areas should build confidence that the Ministry and NZDF can move to integrated financial support and reporting on capability projects later in the planning period.

Manage risk and performance

The changes in the **risk and performance** part of the model relate to embedding the recent work on a more strategic approach to risk and, through the Capability Management Board and the Defence Business Committee, managing with NZDF the risks that are best mitigated by working jointly. The assessment and reporting frameworks for this are in place, but they will be successful when they have demonstrably reduced or averted a major risk, including risk in the Ministry's procurement functions. It will be hard work, within available resources, to keep risk management dynamic, focused on the strategic (including the assessment of emerging threats) and encompassing some blue skies or wildcard scenarios.

Given limited resources and a heavy work programme, the challenge for the senior leadership team will be to ensure that it is able to balance both the tight implementation focus on the rolling 100-day plans, with proactive management of risk and performance.

People development

With regard to **people development**, the planned investment in leadership and management development should continue. The people of the Ministry almost always need to work through others and manage highly asymmetrical relationships with larger organisations. There is a subtlety and skill required that needs to be incentivised and rewarded through the Ministry's new performance management system.

Sector partnerships have strengthened greatly over the last two years, and the Secretary's work across the NZ Inc. agencies and the ODESC security group has been appreciated by other participants. Over the next few years these can be leveraged to co-create a whole-of-sector talent management and workforce plan and assist the Ministry to identify and deploy system resources in addition to its own.

FINAL OBSERVATIONS

Now that the Ministry has got the platform in place and has helped set the conditions for the defence and security system to perform, it faces high expectations for results in all its functional areas. These will continue to stretch staff who are already running hard to deliver a high tempo organisational work programme.

Normalising great performance within constrained resources

The policy team has worked with partners to produce a first class product in the DMRR reports which has set the gold standard against which future work will be judged. The trick now is to continue and embed the move from producing great work in peaks, to producing it on a regularised basis from week to week. This will require considerable creativity and additional resources given that the Ministry still suffers from the 'one man deep' problem we alluded to in the 2012 PIF Review. Stakeholders see a particular opportunity in international defence relations, where a more consistently proactive stream of advice is required.

There are also many dependencies on other players in the defence and security space. While the Ministry is doing a good job in managing these, results are to some degree dependent on the ability of partners to match the Ministry's pace.

Understanding the big picture and leveraging analysis off empirical research

The recent successes in the evaluation area have also led to increased expectations. The specific projects undertaken have been a considerable step up from the earlier, audit-style reports viewed as part of the 2012 PIF Review. It will be important for evaluation not to lose sight of the big picture and, in addition to delivering high-quality deep dive projects, to be able to take a viewpoint on the performance of NZDF and the defence system in the round.

In the near term, evaluation also has some operational platform settings to get right, such as the codification of defence knowledge into a single authoritative body to support empirical research. Importantly, the team has recently developed a draft, but fairly comprehensive, data strategy and knowledge strategy that will allow the Ministry to work effectively in the data space.

More strategically, the evaluation function needs to keep its eyes focused on the horizon, and not neglect its stewardship role to proactively scan for and suggest medium-term analysis to the Minister.

Workforce recruitment and people development

As with all areas of the Ministry, continued recruitment of staff with the right skills and attitudes, their retention and development remains crucial to the continued success of the evaluation team. The ability to recruit and retain skilled staff will depend on both the action taken by the Ministry to develop its people, as well as the implementation of an effective 'top secret sector' workforce strategy that establishes a viable and rewarding career path across the sector. The Security and Intelligence Sector Career Board has an important role to play, as does the talent mapping work undertaken by the Ministry.

While progress is underway it will be important that tangible progress is made towards implementing a cohesive sector workforce strategy within twelve months. In some key areas, such as the vetting process for clearances, the Ministry can only travel at the speed its partner agencies can manage.

Workforce fragility, while recognised, needs urgent attention. A recent post implementation review of the evaluation business model found that the team is currently working at more than its capacity to deliver the 2014 work programme. This capacity is forecast to shrink if the baseline is held.

Strengthening and deepening capability expertise

The area of greatest challenge is, not surprisingly, also the area of greatest risk for the Government: capability and acquisition. While this Review is not commenting on the acquisition function of the Ministry, we can make some comments on capability definition, capability selection and introduction to service. These aspects of the capability value chain, which the Ministry shares with NZDF, relate in practice to good quality business case development reflecting a whole-of-life approach to the acquisition of assets, first-class procurement practices, sound project, programme and portfolio management and a tight focus on risks and benefits to the end user.

The Better Business Case process is properly demanding and requires multiple phases of work, often over a considerable time period. Through its stages and into implementation, the Ministry must, with NZDF, define capability requirements well and deliver them on time, on budget and in a fit-for-purpose manner.

In spite of the significant improvements in capability governance and management noted above, at an operational level the Ministry is extremely thinly resourced to deliver on these entirely reasonable expectations. This is true both 'at the front' in terms of depth in strategic policy to inform the development of initial strategic cases and to support analytical elements in indicative and detailed business cases and throughout the process in the wider acquisitions team. In the former area some six staff will deliver the policy analytics in support of a projected \$11 billion of business cases in the next four years. In the acquisitions area, it is cause for concern that around 10 Project Directors have responsibility for delivery of about one third of the Government's capital spend.

Although the Ministry uses specialist technical resource from NZDF or the market as appropriate to help inform cases and action procurements, the resource base remains very stretched. This is especially evident when compared to the size of investment and scale of effort other public agencies bring to bear on large capital investments such as new prisons, hospitals and transport infrastructure.

This is also the area on which the trust of shareholding ministers and the service personnel who will use the asset or materiel in the field, most depends. After serious problems with some acquisition projects, the Ministry has worked hard to increase the confidence of the Cabinet and New Zealand's military personnel in this area. Such trust is inevitably brittle. The Ministry is perceived to be only as good as its last business case or its newest piece of kit in the field. While acquisition is the subject of a separate review we strongly suggest that the following areas for improvement are further explored:

- gaining greater clarity about 'what good looks like', when a whole-of-life and end-user focused approach to capability definition, selection and introduction to service is in place
- continuing to strengthen the link between strategic policy and capability planning within the Ministry
- further bolstering the internal business case team in the Ministry to support consistently good quality business cases and enhancing its ability to secure specialist external support as required
- exploring ways to strengthen the portfolio management approach to capability projects at the operational level (that is below the CMB).

Over the next four years the Ministry will manage some \$14 billion of projects under acquisition and new capability and materiel projects. This seems to be an area in which demands can only be met with additional resourcing. Additional investment would allow resourcing to better target, and identify risks early in the process so they can be more effectively mitigated. While this is not within the purview of the PIF process, we note that the Ministry is working with the central agencies on this issue.

Conclusion

In summary, the Ministry has come a very long way in two years and its progress makes for an impressive story of effective leadership in action. It is probably one of the best structured and most comprehensive transformations within a short time frame that the PIF has reviewed. The Ministry appears credible as an investment prospect and this leadership team is one we would back to continue to successfully execute its strategy.

At present the Ministry remains delicately poised. Gains, though hard won, remain fragile, and, in spite of all the careful work on the operating model, a single key person failure, or a single security crisis could divert the Ministry from delivering on the DMRR portfolio and other outputs. The Ministry will require intensive ongoing management effort, support from partners and almost certainly, additional investment if the gains made are to be enduring.

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