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## PERFORMANCE IMPROVEMENT FRAMEWORK

# **Formal Review of the Ministry of Defence (MOD)**

**SEPTEMBER 2012**

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

## **Lead Reviewers' Acknowledgement**

As Lead reviewers for this Performance Improvement Framework Review for the Ministry of Defence we would like to acknowledge the thoughtful and generous input made by Ministry staff, the Senior Management Group and the Secretary of Defence (the Secretary). In addition, we had considerable input from a cross section of the Ministry's external partners and stakeholders, including many from the New Zealand Defence Force, who were equally committed to continuing strong and positive relationships in the future.

We were, in particular, grateful for the contribution made by Simon Murdoch who was engaged as expert advisor. His vast experience of the interplay between foreign policy, domestic and international security policy and defence policy was invaluable.

We also had the benefit of input from officials from the Department of Prime Minister and Cabinet, the State Services Commission and The Treasury, which proved to be insightful.

The Ministry of Defence recognised this as an opportunity to identify and make performance improvements. There was open and robust engagement in the process and we note that, even as we undertook the assessment, the Secretary began responding to issues under active discussion. This augurs well for the future of national security outcomes.

**Performance Improvement Framework  
Formal Review: Ministry of Defence**

**State Services Commission, the Treasury, and the Department of the Prime Minister and Cabinet  
Wellington, New Zealand**

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## AGENCY'S RESPONSE

The Performance Improvement Framework Review (Review) of Ministry of Defence (MOD) has been a valuable and challenging experience – valuable because it has required MOD, especially its senior managers, to step back and consider what we do, why we do it and how we do it. Challenging because an outsider's view will never entirely align with one's own – and the gap will not always be comfortable.

The Review puts the spotlight on what we do well and on where we need to improve. We appreciate the recognition of what MOD has achieved in recent years and of the narrowness of the resource base from which that has been accomplished. It is important that every person who works in MOD now, and in recent times, knows that their contribution has been valued and has made a difference.

But naturally the focus ahead is on what we need to do differently to improve. That change target is set against a future state, which envisages expectations of MOD being pitched higher than at present, and suggests that MOD's current resource base may need to be reviewed to achieve that. With a new appointment to head MOD being made shortly, the Review provides an excellent platform for the incoming chief executive to reposition MOD to meet those expectations.

In this response we focus on those observations in the Review that chart a new direction for MOD, while acknowledging the explicit link the Review draws between achieving an enhanced future state on the one hand and the sustainability of MOD's small resource base on the other. The extent to which MOD would need an enlarged resource base to accomplish this is a matter for Ministers.

Given the timing of this Review, this response sets out the overall direction for MOD, thus allowing the detailed implementation to be crafted by the incoming Chief Executive. We divide our comments between what MOD does (our results) and how it does it (organisational management).

### The work of MOD

The Review challenges MOD to operate more visibly, at higher volume and at increased frequency. This step up, if it is to succeed, needs support from stakeholders and consensus and clarity as to the role anticipated of MOD. The changes that this will entail for MOD and how they could be measured are set out below.

#### Defence policy

MOD's core output is policy advice on defence matters from a civilian perspective. 'Mainstreaming' the Defence White Paper (DWP) as recommended in the Review means that strategic assessment and advice should be provided regularly (and not just episodically) to the Secretary of Defence (the Secretary) (and the Chief of Defence Force [CDF]) and can inform discussions at ODESC and other inter-agency forums on wider security issues.

MOD, primarily through the Policy branch of DPPU, is engaging with New Zealand Defence Force's change programmes. This work will be strengthened and will be complemented by relevant evaluations (see below).

The measure of success will be if MOD's strategic products are welcomed by other agencies even if they have not been demanded or required; and if medium-term decisions on defence are better grounded and future proofed as much as possible. The changes sought will require new mindsets and processes, as MOD builds on its considerable achievement in this area to meet increased expectations and to respond to a dynamic security environment.

## **Capability Management**

MOD was assigned new responsibilities for capability management in the DWP. That was done so there should be a strong policy, civilian and commercial voice in the shaping of defence requirements and capabilities and in their procurement.

This is a central task. It is where the policy and reputational risks are greatest and the consequences of failure most severe. As the Review observes, doing this well entails a deepening and broadening of skills, especially in those areas of work that are new to MOD or which flow out of new external requirements, such as the formulation and evaluation of business cases. It also entails an ability to test and challenge. This will only be effective if it derives from good technical knowledge and wide experience. This is a priority for MOD staffing requirements and staff development.

This is also the area in which the interface between MOD and the New Zealand Defence Force (NZDF) is most critical to the delivery of Government priorities. The new Capability Management Board (CMB), and its supporting structures, will need to be effective through the whole capability lifecycle if this is to be achieved. The measure of success here will be if MOD's input is not just required by law, policy and practice but used by NZDF and by central agencies alike because it produces better advice, decisions and execution.

## **Acquisition**

The acquisition work of MOD has also been affected by the changes in capability management. As new projects come on stream they will necessarily be situated within the portfolio, programme and project frameworks being applied across government. This is already happening.

Staffing requirements are being addressed in conjunction with NZDF.

The measure of success will be a smooth interface between MOD, as contractor, and NZDF as end-user; an appropriate balance between cost, schedule and capability in contract management; and a realistic appraisal of whole-of-life costs.

## **Evaluation**

The new Deputy Secretary Evaluation has been charged with responding to the challenge set out in the Review. Evaluations will need to be systematic, strategic and prioritised to risk identification, assessment and management. They will align to the priorities and concerns of the capability management work described above.

The measure of success will be a track record of MOD evaluations engendering constructive change, practice and performance improvement in NZDF and MOD. Assessments will be eagerly anticipated and known for their rigour, thoughtfulness and insight.

## **The organisation of MOD**

MOD's organisational gearing needs to flow from our operating model. That means being able to support the future expectations of MOD set out above. In particular, we will make explicit to staff and stakeholders what has been implicit in our model. And we will focus on building resilience in the organisation, noting the connection between that quality and our ability to achieve the goals set out above.

In this respect the quality and sustainability of MOD's staffing is critical. The Review points to the risks MOD carries in a number of areas and suggests that external advice would be of value.

Specifically, MOD will:

- validate an organisational strategy in consultation with staff and stakeholders
- introduce a strategic approach to workforce planning, including succession, staff development, rotation and leadership development
- investigate options for shared back office services, taking account of whole-of-government initiatives and the effectiveness and efficiency of current arrangements
- finalise efficiency indicators and metrics
- resolve outstanding information management interface issues with NZDF, especially in relation to the capability lifecycle.

The new Chief Executive will have the opportunity to review the functioning and composition of the current senior management group to ensure these are fit-for- purpose.

## **Holding ourselves to account**

We will institute appropriate review mechanisms for Ministry activities.

We will survey staff engagement at regular intervals.

In respect of this Review itself, we will:

- report quarterly to the Minister, in conjunction with our normal reporting, on our own assessment of progress towards the goals
- between 12 to 18 months schedule a Follow Up review on our progress.

**John McKinnon**  
Secretary of Defence

# LEAD REVIEWERS' VIEW

*In undertaking this review the Lead reviewers considered: "What is the contribution that New Zealand needs from the Ministry of Defence and, therefore, what is the performance challenge?"*

## Preface

The MOD plays an important, and often not well understood, constitutional role and operates within a unique and highly sensitive accountability regime. It is a small agency that, despite having limited resources, has had many notable recent successes. MOD operates in a complex and changing environment and, as we describe in the report, expectations of it have risen and will continue to rise. At present its stakeholders believe there is a considerable opportunity for it to take a more regular and active role in leading debate on national security, defence policy and capability matters outside the periodic formal mechanism of National Defence Assessment exercises. As a consequence, future performance needs to be lifted.

Given the dynamic operating environment in which MOD will operate over the next four years, the 'traffic light' ratings in this report need to be viewed with some caution. Many of the 'needing development' ratings in this review reflect the organisation's need to respond to this changing external and internal environment. They should not distract the reader from the fact that MOD has in recent years boxed well above its weight in view of its tiny resource base.

Indeed, if our premise above, that MOD should take a stronger leadership role in matters of defence and national security is accepted, then we believe that this creates a valuable opportunity for:

- agreement and understanding across the security sector about the role of MOD
- all participants within the security sector to take a more systemic perspective in terms of managing issues and the allocation and career development of staff.

## Key Insights

### The Role of MOD

MOD's statutory functions are to:

- provide timely, high quality advice to help Government make well-informed decisions about the defence of New Zealand and its interests
- conduct audits and assessments of NZDF and the acquisition activities of MOD
- arrange for the acquisition of significant items of military equipment needed to meet NZDF capability requirements.

MOD is the mechanism that enables civilian control of the military. In practical terms, giving effect to these functions entails providing government with an objective, civilian-voice in respect of strategic planning, deployments and costly military investment decisions and auditing and assessing the performance of NZDF. MOD exercises this independent voice with a staffing establishment of around 70 FTEs and an annual departmental spend of some \$14 million (operating) in the overall context of annual Vote: Defence Force expenditure of \$2,310 million (operating) and establishment of 14,000 FTEs.

As described in the DWP, MOD (in a lead role or acting in support of agencies) contributes to the following national security interests:

- a safe and secure New Zealand, including its border and approaches
- a rules-based international order, which respects national sovereignty
- a network of strong international linkages
- a sound global economy underpinned by open trade routes.

In undertaking this national security role MOD works with a number of agencies (but in particular the Ministry of Foreign Affairs and Trade (MFAT) and NZDF. Most importantly it works within and through the Officials Domestic and External Security Committee (ODESC) system and mechanisms to play its part in informing Ministerial decision-making.

### **The recent context**

In 2009 (following a 13-year gap) MOD was directed to undertake a Defence Assessment, in consultation with NZDF. In 2010 MOD led the development of the subsequent DWP that outlined the Government's strategic direction for NZDF, a framework for reform and how to achieve the best value for money from the defence budget. In 2011 the Defence Amendment Bill (necessary for the implementation of the DWP) was introduced into the House. As a consequence, there are further changes to the structure and division of responsibility between the CDF and the Secretary.

There have been many attempts to get the right structure and division of responsibility between the CDF and the Secretary. The division of responsibilities has and continues to create a tension point between the two organisations and productivity and outcomes are critically dependent on the relationships between the two interests. Both parties need to be equally strong to get the balance right, which is a major challenge in view of the size and information asymmetries fundamental to the New Zealand model.

The evolving nature of the current structural arrangements was raised in a number of interviews. The possibility that the structural arrangements for the defence establishment may once again need to be reviewed was raised a number of times (in the context of the next DWP exercise) once MOD has clarified its role and purpose, NZDF has implemented its current value-for-money programme, the Chief Operating Officer model is mature, and the new CMB is embedded.

While the current arrangement carries a designed tension between NZDF and MOD, this makes it difficult to forge a constructive relationship. The model has been regularly reviewed over the years and has generally been found to be the 'least worst' option for New Zealand conditions. (We wonder however, if the new model never fully 'takes', and requires extraordinary efforts to maintain, then this may indicate there is something structurally wrong with it). Designed tensions notwithstanding, there are also many shared points of accountability that will require ongoing intensive management by individuals investing huge effort in relationships and workarounds.

## The Performance Challenge

In the past the design tension in the system has resulted in difficult and strained relationships between MOD and NZDF. During the current Secretary's term a stronger and very effective working relationship between MOD and NZDF has been developed. The maintenance of an effective and professional working relationship between MOD and NZDF is critical to the performance of both organisations.

The maintenance of an effective working relationship with NZDF as well as the willingness of all participants in the security sector to take more of a system perspective will underpin MOD's ability to respond effectively to the performance challenge it faces including:

- **Leading debate, from a civilian perspective, on the defence aspects of national security and its implications for military capability.** MOD has traditionally stepped up to the plate in this leadership role through the mechanism of periodic DWP exercises. We have formed the view that this role needs to be normalised and made less episodic, if New Zealand is to maintain optimal policy and capability settings under medium-term conditions of extreme fiscal constraint and an increasingly unstable security environment. As noted above, this belief underpins many of our suggestions in the next section and throughout this report.
- **Affordability of Defence Capability.** MOD needs to ensure it has organised its resources so it is able to proactively lead discussions about the ongoing affordability of the current Defence Capability Plan, and ensure that there is alignment between strategy, capability and funding. However, the organisation of resources and alignment of strategy (that is within the control of the Secretary) by itself will not ensure there is a robust and effective discussion. There is also a need for agreement and understanding across the wider security sector about the role of MOD in proactively leading the discussion.
- **Joint accountability for whole-of-life management of military capability.** The DWP introduced joint accountability between the CDF and the Secretary for the effective and efficient whole-of-life management of military capability. MOD needs to ensure that the internal processes and systems (together with those of NZDF) are established. The success of the joint accountability for whole-of-life management of military capability will largely be dependent on behavioural changes by participants that need to be proactively led by the Secretary and the CDF.
- **Audit and assessment.** MOD needs to develop a more modern and systematic approach to risk identification, assessment and benefit realisation.
- **Corporate Services.** MOD needs stronger corporate services capability that can develop and implement an effective strategic Human Resources (HR) recruitment and retention strategy as well as the information management system that is aligned with joint accountability for whole-of-life management of military capability.

## Future State – Four-year ‘Excellence’ Horizon

### Environment

MOD operates in a dynamic environment and the quality of its future performance will depend on how well it continues to respond to both the external and internal challenges it will face over the next four years.

#### *Key external changes*

Specific changes in the external operating environment to which it must respond over the next few years include:

#### *Security environment*

- New Zealand will operate within a national and international security environment that is becoming ever more complex and uncertain.

#### *Changes for key stakeholders*

- Far reaching and complex organisational change is being made within NZDF, including:
  - moving to a joint amphibious taskforce, as the core of its force structure by 2015
  - implementing the recent Value-for-Money review
  - increasing civilianisation, including the establishment of the position of Chief Operating Officer.
- Changes to the MFAT’s operating model.

#### *Fiscal stringency*

- Fiscal limitations will impact heavily on the policy agenda. New Zealand’s fiscal position has deteriorated since the DWP and the international economic and financial environment is still extremely fragile and is likely to remain weak for much of the next decade.

#### *Key internal changes*

Changes in the internal environment within which MOD will operate include:

- the implementation of the DWP, including the joint accountability between the Secretary and the CDF for the whole-of-life management of military capability
- new appointments being made to a number of key leadership positions, including that of the Secretary
- a period of high staff turnover at MOD, as a result of older, long-serving staff departures and churn in mid-level staff who might ordinarily be expected to fill these roles, with consequential risks to MOD’s corporate memory.

In responding to these challenges, we believe MOD will need to move from its current operating style of managing discrete and episodic projects, such as the DWP and major acquisitions, to a more dynamic and influencing style that earns the right to exercise thought leadership with respect to national security policy and advice.

More specifically, we think that in the future MOD needs to move to a much stronger leadership role in the capability definition space. To do so, it needs greater presence and impact in the policy and evaluation areas, a strong lever in the new CMB and more strategic back-office enablement.

## **Business Strategy**

MOD does not have an organisational strategy. We see some form of explicit strategy, which could be as simple as a one page plan and balanced scorecard, as an essential matter of organisational hygiene for any organisation and especially critical for an agency such as MOD, whose role and functions are not widely understood, which operates within the extremely dynamic national security environment described above.

The process of developing the vision and plan will be more important than the actual product and, in such a small organisation, can easily be undertaken on a highly inclusive basis to strengthen a shared sense of direction and purpose.

This is an area in which we believe the incoming Secretary should act with urgency. The development of an organisational strategy could create a real opportunity to build a more explicit and energising sense of purpose.

## **Operating Model**

At present, MOD is a somewhat 'boutique' Ministry; thinly resourced, with very small teams of staff in each critical area. Thought leadership on strategic national security and defence policy issues tends in reality to reside in two or three respected individual 'brains', including that of the Secretary.

The result is that MOD struggles to sustain major exercises, such as the DWP, except on an exceptional 'war-footing'. It can secure excellent results but to do so requires a major redirection of resources.

Given its small size, it also struggles to sustain a back-office function that can support its more strategic corporate needs. Core processes need modernisation. Some functional areas need to move from a transactional to a strategic focus. Human Resources requirements, for example, require major investment in succession planning and recruitment, talent development and retention and a more sophisticated approach to performance management. These cannot be supported from such a small base. While the need for independence from NZDF is real, we cannot see that this needs to be reflected in completely separate back-office systems, given MOD's size and relative lack of organisational complexity.

We also have concerns that the management of MOD has, given the size of the agency and the leadership styles of recent secretaries, been undertaken largely on a personalised basis, in which intellectual capability and force of personality, rather than systematic organisational management practices and processes, have driven organisational performance.

While this has been largely effective to date, as MOD steps up to a position of greater leadership, we suggest a more systematic approach to management based on organisational best practice will be required.

At present, given the small number of staff covering a large number of projects, Acquisitions has tended to operate with a strong focus on the individual deal negotiation and less on developing skills in the more strategic whole-of-life asset management area. We believe there is a need for an enhanced strategic procurement capability, as well as better portfolio, programme and project management systems and processes.

We are of the view that MOD's evaluation function is underweight for the challenges ahead. Its work

programme appears relatively untargeted and not aligned to an intensive risk-based analysis or to NZDF's increasingly mature risk management and internal audit priorities. There is a huge opportunity to improve the relevance, robustness and thus credibility of its investigations and reports.

Internal culture is stable, happy and constructive and the passion and commitment of staff is evident. Culture is also deeply conservative. There are dangers in lack of diversity leading to a club-like culture. Again, this will need more systematic management in future.

## **Change Capability**

The DWP and the subsequent Defence Amendment Bill will require MOD to implement a wide range of organisational change. We are concerned that there is insufficient planning and tangible action to give effect to the required change.

To ensure continued relevance and performance in a changing environment and to take the opportunity available to it to lead in the capability definition space, MOD will need to make changes to its operating model and its culture. In particular it will need to:

- develop and implement a refreshed organisational strategy
- complete a recruitment programme to deepen the skills and thought leadership capability of the policy function
- strengthen and modernise the evaluation function by moving to a more targeted, risk-based approach.

We have every confidence that, given the talent and commitment of MOD staff and managers, these suggestions can be successfully actioned.

## **What will success look like in four years?**

If sufficient urgency is given to addressing the issues of affordability of defence capability, joint accountability for whole-of-life management of military capability, evaluation and strengthening corporate services we would expect the following picture of performance in four- to five-years from now.

MOD will be an active and valued lead agency within a defence, national security and foreign policy system that has adjusted appropriately to the changing nature of national security threats.

MOD's Policy unit will be seen as one of the best in the public service and will engage effectively and systematically with other NZ Inc and national security agencies. It will be strongly focused on long-range strategic thinking about national security outcomes and the capability/materiel, infrastructure and people required to support these.

NZDF, supported by MOD's advice, will have achieved its target of sustainable efficiencies without a material loss of military capability or operational resiliency and without an unacceptable increase in organisational fragility.

MOD will have led debate on long-range national security issues, reflecting this in a robust defence assessment, and will be implementing the outcomes. Government decisions taken pursuant to that assessment will reflect a new and more sustainable balance between policy, capability and funding.

International defence relations will have been maintained and strengthened, especially key

partnerships. In particular, New Zealand's role in co-chairing the Peacekeeping Working Group of the ASEAN Defence Ministers Meeting Plus will have been very successful.

Current acquisition projects will have been completed and new projects required under the Government's Capability Plan will be progressing smoothly, supported by improved whole-of-life procurement expertise, and by more rigorous portfolio and programme management tools. In particular, the CMB will be well established and operating as the key vehicle for long-range strategic discourse on defence capability.

The Defence Amendment Bill will have been enacted and its provisions will have been implemented and bedded in.

MOD will continue to inform the Minister of Defence on the performance of NZDF and MOD through a systematic programme of targeted, risk-based analysis and assessments, which are known for their thoughtfulness, insightful approach, which do not pull their punches and add value to both organisations' ongoing learning.

MOD will have achieved efficiencies in resource use and greatly strengthened the corporate enabling functions to which it has access. The agency will have become an employer of choice, with a high reputation for professionalism and an excellent reputation in staff management and staff development. It will be successfully managing its workforce by implementing a detailed forward-looking strategic Human Resources and organisational development plan, using a suite of measures that include knowledge management, skills recruitment and careful succession planning.

**Debbie Francis**  
Lead Reviewer

**Ian Fitzgerald**  
Lead Reviewer

## CENTRAL AGENCIES' OVERVIEW

We, as central agency chief executives, also benefit from Lead reviewers' insights about the State Sector and the opportunities that exist to improve its operation. Ministers, the public and agency stakeholders are entitled to information about agency and sector performance and to know what is being done to lift that performance.

Our Lead reviewers for MOD's review posed the question: "What is the contribution that New Zealand needs from the Ministry of Defence and, therefore, what is the performance challenge?" They then set out in the 'Four-year Excellence Horizon' what the Ministry would look like if it was performing as an excellent organisation four years from now.

The Ministry is a small but critically important agency. It is the principal civilian advisor to the Government on matters of defence strategy, military deployment and military capability. It must work constructively with, but maintain its independence from, the much larger NZDF. It must work with a number of other agencies, in particular MFAT, and internationally, exercising a leadership role when appropriate.

MOD has had notable successes over the past few years. It has lifted its game significantly in the acquisition of defence capability and there is a good working relationship between MOD and NZDF. The work it has done, culminating in the 2010 Defence White Paper, has resulted in significant change – the future performance challenge is to implement that change. Doing so will require a significant lift in its capability. In his response the current Chief Executive has confirmed the performance challenge and identified the key areas where he believes his successor should focus.

From our engagement with this review we have identified areas where we, as central agencies, need to support MOD. These include supporting MOD and the security sector to take a more systemic approach to creating greater depth and resilience within their organisations and to embed in MOD more sophisticated systems and processes to support whole-of-life capability management.

**Iain Rennie**  
State Services Commissioner

**Gabriel Makhoul**  
Secretary to the Treasury

**Andrew Kibblewhite**  
Chief Executive, Department of the  
Prime Minister and Cabinet

# SUMMARY OF RATINGS

## Results

GOVERNMENT PRIORITIES	RATING
1. Deployments and International Relations	
2. Savings & Reform Programme and Future Capability	

CORE BUSINESS	RATING (EFFECTIVENESS)	RATING (EFFICIENCY)
1. Policy advice		
2. Management of Equipment Procurement		
3. Audit and Assessment of Performance		
4. Regulatory Review	NA	NA

## Rating System

 Strong	 Well placed	 Needing development	 Weak	 Unable to rate/not rated
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## Organisational Management

LEADERSHIP, DIRECTION AND DELIVERY	RATING
Vision, Strategy & Purpose	
Leadership & Governance	
Culture & Values	
Structure, Roles and Responsibilities	
Review	

EXTERNAL RELATIONSHIPS	RATING
Engagement with the Minister(s)	
Sector Contribution	
Collaboration & Partnerships with Stakeholders	
Experiences of the Public	NA

PEOPLE DEVELOPMENT	RATING
Leadership & Workforce Development	
Management of People Performance	
Engagement with Staff	

FINANCIAL AND RESOURCE MANAGEMENT	RATING
Asset Management	
Information Management	
Efficiency	
Financial Management	
Risk Management	

## Rating System

 Strong	 Well placed	 Needing development	 Weak	 Unable to rate/not rated
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## AGENCY CONTEXT

The outcomes that MOD supports involve keeping New Zealand secure and enhancing the security of other nations. This requires MOD to focus on ensuring:

- short-, medium- and long-term threats to the security environment are identified
- military capabilities are aligned to security requirements
- defence relationships are aligned with security interests and foreign policy goals
- military deployments support regional and wider international objectives.

MOD employs approximately 70 FTEs and has an operating budget of \$14 million. MOD manages very significant Crown capital expenditure (ranging between \$140 million to \$440 million over the last few years). NZDF manages the recruitment, training, maintenance, enhancement and deployment of military personnel and capability and provides professional military advice to the government.

The respective accountabilities of the Secretary and the CDF are set out below.



In 2010 MOD undertook a defence assessment resulting in the 2010 DWP and the subsequent development of a Defence Capability Plan. At the same time a Value-for-money review of NZDF indicated the opportunity for significant cost savings in NZDF budget which could be used to fund future capability needs.

A key change resulting from the DWP exercise was a move to whole-of-life management of defence capability in a context of shared and transferring accountabilities, supported by a CMB and a detailed capability management framework.

## RESULTS SECTION

### Part One: Delivery of Government Priorities

This section reviews the agency’s current ability to deliver on its strategic priorities agreed with the Government. It is based on the completeness of the agency’s plans, the stage at which the priority is at, and the capability and capacity of MOD to deliver on the priority. The report is also informed by consideration of identified risks.

<b>Government priority 1: Deployments and International Relations</b>	
<p><b>PERFORMANCE RATING</b></p> 	<p>Performance Rating: <b>Strong</b></p> <p>General feedback is that MOD is well regarded for the role it plays in this area. The expectation is that this will continue.</p> <p><b>Context</b></p> <p>New Zealand follows the Westminster model with civilian control of the military exercised through the Government and the Minister of Defence. The Government determines the capabilities and funding of the armed forces that are raised and decides when and how to use them. These decisions are taken in accordance with the purposes set out in the Defence Act 1990 and within policy frameworks promulgated by governments from time to time, most recently the 2010 DWP. The Secretary and the CDF, of equal status, are respectively the principal civilian advisor and principal military advisor to ministers on these matters.</p> <p>NZDF is a combat force, able to be deployed into conflict situations when other options, political and diplomatic, fail. But it may also be used to influence outcomes in situations short of conflict, and as a concrete demonstration of New Zealand’s commitment to regional and international security. In terms of determining, short of a direct attack, whether to use New Zealand’s armed forces, MFAT assesses if it is in New Zealand’s broad external interests to provide a military contribution in response to requests for security assistance from other countries or international organisations. It is MOD’s role to provide policy advice on the strategic context – the benefit such a deployment might provide to national/regional/international security and, informed by NZDF’s operational risk perspective, on NZDF’s capability to do what is being asked of it. For some deployments, especially those aimed at post-conflict stabilisation, other agencies, notably Police, may be part of the deployment and similarly consulted. Each agency must speak with its distinct professional voice.</p> <p>Before, during and at the conclusion of military deployments governments need to be confident they are receiving advice inside a framework spanning political, diplomatic and military considerations, at both strategic and tactical</p> <p style="text-align: right;">contd...</p>

levels. Were MOD unable to play its full role in this, for whatever reason, the integrity of national security decision-making by governments would be compromised.

**Advice on draw down from current operations and further assistance to Afghanistan**

MFAT, MOD and NZDF all play separate but, interrelated roles in providing advice to Government on the deployment, and draw down, of military capability and on other non-military initiatives associated with or consequent on such deployments, e.g., the provincial reconstruction role in Bamyán. MFAT is generally the ‘recipient’ of such requests and takes the lead given its foreign policy responsibilities. MOD is responsible for advice on international defence relationships, defence policy, including the latest DWP context, and civilian advice as to military capability implications. NZDF is responsible for technical military capability and implications advice. All must work together and leadership will shift depending on the nature of decisions that need to be made.

The policy leadership for Afghanistan and other overseas deployments lies with MFAT and that agency manages the interagency process for New Zealand’s engagement. MOD has made a strong contribution and it will always be important that it has a strong voice, and the capability to sustain it.

Currently, after extended engagements in three theatres, there is a draw down in prospect for Afghanistan, Timor-Leste and Solomon Islands operations. MOD is required to contribute advice to Ministers on these.

MOD appears to be providing sound direct inputs, and also contributes well when working alongside NZDF, which has an operational template to follow, and some logistical realities that cannot be minimised or overlooked whenever deployment or drawdown options are being scoped.

MOD appears to be synthesising well, from a variety of relevant inputs. Thus, in respect of Afghanistan, it must reconcile high strategic issues (NATO as leader of the coalition; the United States as the key enabler) with tactical matters, including the analysis of risk and the threat level forecasting from intelligence, and national (NZDF) constraints.

In terms of further assistance policy advice with respect to Afghanistan, MOD contributes on two levels – what New Zealand does in Bamyán by way of post-withdrawal support via ongoing civil aid or military training and what the Coalition does for Afghanistan as a whole. MOD is engaged in the relevant diplomatic conversations and in managing partner expectations.

Provided it maintains a strong policy function, MOD is well placed to continue to contribute at both these levels.

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	<p><b>Retain and build strategic international relationships</b></p> <p>The DWP outlines the Government’s aims, intentions and aspirations with respect to national security. These sit as one part of overall foreign policy strategic goals. For example, building our national value proposition in East and Southeast Asia has a defence and security component. New Zealand also has strategic interests and obligations in the South Pacific.</p> <p>There is also a longstanding intelligence, security and defence relationship with Australia, the United States (US), Canada and the United Kingdom (UK) in which MOD, along with NZDF and other branches of government, plays a leading or contributing role depending on the context of discussions.</p> <p>Underneath this sits a web of institutionalised defence diplomacy, which is supported by MOD. This is a well established output, and appears to be conducted effectively with the right resources and staff capabilities. It is a time and effort consuming matter for the Secretary, much of which cannot be delegated, but, in light of past relationship challenges, cannot be neglected.</p> <p><b>Review Australia and New Zealand (ANZ) Defence Relationship</b></p> <p>The defence relationship with Australia is New Zealand’s most important and most comprehensive. The recent review of that relationship, initiated by the Secretary and his Australian counterpart, aims to rebuild strategic content and depth which is always at risk of being pushed aside by day-to-day issues and dragged down by bureaucratic processes. The new dialogue is to encompass both the capabilities and the use of the respective armed forces. There will be a need for both the Secretary and the CDF to develop a plan that ensures effect is given to the new direction set out in the Review.</p> <p><b>Support ASEAN Defence Ministers Plus</b></p> <p>The establishment of the ASEAN Defence Ministers Meeting Plus (ADMM Plus) group and New Zealand’s membership of it is one of MOD’s recent and significant defence diplomatic accomplishments. It is ongoing business, especially through the co-chairmanship of the Expert Working Group on Peacekeeping Operations and appears to be well managed.</p>
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**Government priority 2: Savings and Reform Programme and Future Capability**

<p><b>PERFORMANCE RATING</b></p> 	<p>Performance Rating: <b>Needing development</b></p> <p><b>Affordability of Defence Capability</b></p> <p>MOD needs to ensure that it has organised its resources so it is able to proactively lead discussions about the ongoing affordability of the current Defence Capability Plan and ensure there is alignment between strategy, capability and funding.</p> <p style="text-align: right;">contd...</p>
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	<p>The Secretary is responsible for undertaking a Defence Assessment (normally in the form of a DWP) ‘from time to time’. The ultimate objective is to achieve and maintain a constructive balance between policy objectives, the military capabilities needed to achieve those objectives and the funding needed to acquire and maintain those capabilities.</p> <p>It is MOD’s role to ensure the Government’s policy objectives for NZDF are clear, that they have the right capability, are funded for that capability and the risks are clear.</p> <p>The DWP sets out a pathway to retain and enhance existing NZDF capabilities. However, the DWP did not specifically set out how the Government would afford these capabilities. It is clear that New Zealand will be under considerable fiscal restraint for the next few years and funding of capital expenses beyond 2020 will be challenging.</p> <p><b>Defence White Paper implementation</b></p> <p>Momentum needs to be created in delivering to the Government’s expectations that MOD will reposition its policy and evaluation functions with a focus on depth rather than breadth.</p> <p>The DWP introduced joint accountability between the CDF and the Secretary for the effective and efficient whole-of-life management of military capability. It also clarified the individual responsibilities of MOD and NZDF, in particular, making it clear that MOD is responsible for the policy/business case/specification phases of the process.</p> <p>Over the past twelve months MOD has worked closely with NZDF to establish the CMB, the systems and processes that underpin it and has established a Secretariat within its Policy and Planning Group to ensure the CMB’s smooth running. Joint accountability will be challenging, as signalled by the time delays in appointing external advisors to the CMB. The success of the CMB will largely be dependent on behavioural changes by participants that need to be proactively led by the Secretary and the CDF.</p> <p><b>NZDF transformational programme</b></p> <p>We do not see sufficient evidence that MOD is actively involved in considering the medium-term consequences and implications (both intended and unintended) of NZDF’s value-for-money (VFM) driven initiatives.</p> <p>MOD’s role is to support NZDF as it undertakes its change programme. The challenge for the Secretary and MOD will be to maintain momentum on business-as-usual, to provide support but not at the expense of its role to provide independent advice about the effect of the reforms on the strength and resilience of NZDF – that is whether it is fit-for-purpose and aligned with policy intentions.</p>
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## RESULTS SECTION

### Part Two: Delivery of Core Business

This section reviews the agency’s effectiveness and efficiency in delivering its core business. The report is based on a judgement about the current performance of the agency and the trend that they have demonstrated over the last 3 – 4 years.

<p><b>Core business 1: Policy Advice</b></p> <p>MOD is required to provide timely, high quality advice to help the Government make well-informed decisions about the defence of New Zealand and its interests.</p>	
<p><b>PERFORMANCE RATING</b></p> <p><b>Effectiveness</b></p>  <p><b>Efficiency</b></p> 	<p>Performance Rating (Effectiveness): <b>Needing development</b></p> <p>Performance Rating (Efficiency): <b>Needing development</b></p> <p>The policy area needs to develop much greater heft as government’s key civilian advisor on the defence aspects of national security and should, in future, operate as the collective ‘brain’ of the defence establishment. While its current strengths give it a strong platform on which to build, investment in additional policy capacity and capability is urgent and essential.</p> <p>The internal culture of the policy shop also needs to move from the present somewhat self-effacing culture to one characterised by an edgier and more proactive energy. The team should also explore mechanisms for widening its engagement with policy advisors across the national security system, in order that advice is contextualised within a systems framework and in order to extend the career development opportunities for staff across a wider base.</p> <p>The Government priorities and polices outlined in the DWP require MOD to:</p> <ul style="list-style-type: none"> <li>• continue providing advice to the Government about New Zealand’s strategic environment, security tasks, military capabilities and funding issues</li> <li>• undertake development work to be ready for the next defence assessment</li> <li>• lead a defence assessment in 2015 or earlier, which may well involve positioning conventional defence capabilities in a wider security environment</li> <li>• continue contributing to the work of maintaining and enhancing international defence relations, especially with Australia and other security partners – including a review of the Australia-New Zealand Defence Relationship, supporting the Five Power Defence Arrangements and the ASEAN Defence Ministers Meeting Plus and continuing to build New Zealand’s defence relationship with the United States</li> </ul> <p style="text-align: right;">contd...</p>

- contribute advice to the development of whole-of-government strategies to ensure the smooth transition of responsibility from New Zealand to the governments of Afghanistan, Timor-Leste and the Solomon Islands.

MOD's policy groups secured a good result from the recent DWP process but only by placing themselves onto something resembling a war-footing, securing additional external resources and making extraordinary efforts. Since the conclusion of the DWP exercise, the function has resumed a more reactive mode.

As described in the DWP, MOD (in a lead role or acting in support of other agencies) contributes to the following national security interests:

- a safe and secure New Zealand, including its border and approaches
- a rules-based international order, which respects national sovereignty
- a network of strong international linkages
- a sound global economy underpinned by open trade routes.

Given the role described above, a strong thought leadership contribution in the national security policy space now needs to be embedded and normalised. Stakeholders believe that MOD can and should take more of an ongoing leadership and coordination role in this area. Given the affordability and capability challenges ahead, and the transformational change underway at NZDF, MOD policy needs to be more visible and its advice needs to encompass a bigger futures story than merely defence policy in the narrow sense. It should play an active role at the foreign policy/security/intelligence interface, including the provision of more dynamic commentary on the capability and thus foreign policy implications of NZDF's VFM decisions.

Rather than the single policy business unit one would expect as a consequence of small overall size, MOD has a number of very small teams in its policy division. This is the result of a recent restructure, intended in part to create improved career progression opportunities for staff. We would also like to see career progression in policy viewed in a wider sense, with greater use of secondments, exchanges and rotations across the NZ Inc agencies to deepen talent and ensure a variety of disciplines and perspectives.

The co-existence of NZDF's Strategic Commitments and Intelligence Branch (SCI) and of MOD's International Defence Relations Branch (IDR, itself staffed by both MOD and NZDF personnel) seems to generate higher transaction costs than we would expect, especially given that the previous fusion of NZDF and MOD IDR branches was intended to eliminate this. We recommend that the Secretary and the CDF review this relationship with a view to either merging overlapping and necessarily co-owned functions or clarifying the division of labour.

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	<p>We also have concerns at the workload required from MOD’s four FTE Development team, which has responsibility for the multi-stage Better Business Cases required to support large procurement projects. To date two projects have been progressed to detailed business case stage under these Treasury requirements, several more are under way and a large number are waiting. This area needs additional investment, whether externally or by redirecting some resource from NZDF, to ensure that the strategic, financial and economic benefits of investments are robustly articulated and tracked over time post acquisition. Capability definition is, in future, a shared responsibility but with MOD in a lead role. The current information and technical asymmetries vis-a-vis NZDF need to be addressed.</p> <p>MOD has recently appointed a new Deputy Secretary Policy and we suggest that a number of other new appointments need to be made with some urgency to manage key person risks, lift strategic capacity and define a clear value proposition and work programme for the team.</p> <p>To move to a rating of ‘well placed’ MOD will need to:</p> <ul style="list-style-type: none"> <li>• urgently procure additional mid-level and senior staff and plan for succession</li> <li>• normalise defence assessment work, including long-range scenario analysis</li> <li>• develop greater depth and fungibility in its staff</li> <li>• improve its capability definition skills</li> <li>• deepen its business case capability and capacity, including ongoing benefits tracking.</li> </ul> <p><b>Efficiency</b></p> <p>MOD was subject to the 2010-11 policy review; its per FTE cost of policy advice was \$190,000, in the mid-range of all departments. We understand MOD intends to work on the development of both effectiveness and efficiency metrics over the next few months (see Efficiency section below).</p>
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<b>Core business 2: Management of Acquisitions</b>	
<p><b>PERFORMANCE RATING</b></p> <p><b>Effectiveness</b></p>  <p><b>Efficiency</b></p> 	<p>Performance Rating (Effectiveness): <b>Needing development</b></p> <p>Performance Rating (Efficiency): <b>Needing development</b></p> <hr/> <p>The management of acquisitions is undergoing major change, with the introduction of a new regime of joint and single accountability across the whole defence supply chain. As a consequence, a number of structural, operational management and complex behavioural changes need to be implemented.</p> <p><b>Joint Accountability for Capability</b></p> <p>The DWP highlighted what was seen as disjointed and fragmented management across the capability lifecycle with lack of clarity particularly acute at the transition point between the policy and acquisition phases (led by MOD) and the in-service use and disposal phases (led by NZDF).</p> <p>To address concerns about whole-of-life capability management, new accountability and governance arrangements are being introduced. The success of the new arrangements will depend on behavioural changes by all participants to ensure effective cooperation between the two organisations. It will therefore be essential that the Secretary and the CDF work together proactively to identify what explicit steps they need to take to ensure the required behavioural changes occur.</p> <p>The structural split in the defence supply chain, with MOD procuring assets on behalf of NZDF, is also very unusual in comparison with other major asset procurement processes in the public sector. A notional equivalent would be the Department of Corrections defining the results it needs from a new prison, handing the project management of the design and build and contract negotiation to the Ministry of Justice, and then receiving the finished prison to operate. There are, however, important constitutional reasons why the Ministers have explicitly chosen to retain the current structural arrangements and these are well canvassed in Michael Wintringham’s <i>Review of Structural Arrangements</i> report 2009.</p> <p><b>Acquisitions</b></p> <p>The Acquisition Unit is currently managing a heavy workload with the team of five project directors currently managing a workload of 24 major projects. These projects include upgrading the C130 Hercules tactical air transport aircraft, upgrading the P3 Orion surveillance aircraft, bringing into service the NH90 medium utility and A109 training/light utility helicopters, and more minor projects including, inter-alia, replacement of maritime sustainability capability and army truck fleet.</p> <p style="text-align: right;">contd...</p>

	<p>Despite the unusual structural arrangements MOD’s acquisition team has performed well and, for the most part, procure useable equipment at a good price. Structurally, this area comprises a Deputy Secretary with a commercial acquisitions background, and a series of project teams comprising joint MOD and NZDF staff. The relationship between MOD and the NZDF has improved considerably because of the commercial credibility and inclusive operating style of the current Deputy Secretary Acquisitions.</p> <p>Under the new accountability regime Capability Definition Steering Groups (co-chaired by the Deputy Secretary (Policy and Planning) and the Vice Chief of Defence Force (VCDF)) will undertake operational management up to the point when a detailed business case is approved.</p> <p>Acquisition and Introduction Into Service Steering Groups (IISGs) (co-chaired by the Deputy Secretary Acquisitions and the VCDF) will then be initiated once approval is granted. The CSG Acquisition and IIS responsibility includes acting as a project board to provide assurance of the continued business justification and ongoing quality and executive, user and supplier assurance. CSG Acquisition and IIS do not replace the management responsibilities of the Deputy Secretary Acquisition and VCDF and its success will be equally dependent on behavioural changes by participants to ensure effective cooperation between the two organisations as well as the structural changes. It will therefore also be essential that the Deputy Secretary Acquisition and the VCDF work together proactively to identify what explicit steps they need to undertake to ensure the required behavioural changes occur.</p> <p>The creation of CSG Acquisition and IIS will also place a greater requirement on the Deputy Secretary Acquisition to strengthen MOD’s Portfolio, Programme and Project Management systems and processes (including PRINCE2 and Managing Successful Programmes methodologies). The use of standardised methodologies across MOD and NZDF is necessary to enable the CMB to undertake system-level monitoring of acquisitions and the capability lifecycle. Action is now required by MOD to develop and implement explicit plans and introduce a standardised suite of Portfolio, Programme and Project Management systems and processes.</p> <p>Successful procurement requires that both NZDF and MOD contribute expertly in the critical capability definition and requirements phase, now to be a joint responsibility with MOD. It requires the MOD acquisition team to have a very clear and realistic opinion of the military effects NZDF aspires to and expects from the acquisition ie, a broader view of capability definition than simply materiel (people, support systems and infrastructure) and a whole-of-life view of the ongoing management of the asset being procured. Given the long lead time for military acquisitions and the fast pace of change in military technologies, the processes for changes in requirements must be transparent and rigorous.</p> <p style="text-align: right;">contd...</p>
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	<p>To move to a ‘well placed’ rating, this area will need clear evidence that the CMB, and the supporting Capability Steering groups, are operating effectively and there have been tangible steps taken to introduce enhanced strategic procurement capability, better portfolio, programme management infrastructure at MOD (NZDF has greater maturity in this area) and consistent use of Prince II project management approaches at project team level.</p> <p><b>Efficiency</b></p> <p>As noted in the section on Efficiency below, MOD has acknowledged the need to develop measures of efficiency.</p>
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**Core business 3: Audit and Assessment of Performance**  
 The MOD is required to continue to inform the Minister of Defence on the performance of NZDF and MOD through a programme of audits and assessments.

<p><b>PERFORMANCE RATING</b></p> <p><b>Effectiveness</b></p> <p></p> <p><b>Efficiency</b></p> <p></p>	<p>Performance Rating (Effectiveness): <b>Weak</b>                  Performance Rating (Efficiency): <b>Weak</b></p> <p>MOD’s evaluation team is led by a Deputy Secretary (Evaluation), a new appointee at the time of writing, with a team of seven full-time equivalents and an annual operating expenditure of \$1.2 million.</p> <p>Despite its small size, the Evaluation team delivers on a work programme across a diverse range of areas, agreed every six months between the CDF and the Secretary under delegated authority from the Minister. It efficiently delivers on projects that range from reviews of major acquisitions to process or single-issue reviews. This area is also required to provide assurance across the defence establishment with respect to compliance with the Hazardous Substances and New Organisms Act.</p> <p style="text-align: right;">contd...</p>
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	<p>This function can be critical to providing Ministerial assurance and adding value to both MOD and NZDF. While this team comprises dedicated and able staff, we formed a view that MOD’s evaluation function must change to be fit-for-the-future. Its work programme is not derived from any overarching strategic framework. It appears relatively untargeted and is not aligned to an intensive risk-based analysis or to NZDF’s increasingly mature risk management and internal audit regime. Although it is within the scope of this function to review MOD’s performance of its acquisition functions, there is no evidence of consideration of a systemic approach to the conduct of such reviews.</p> <p>Views were expressed that Evaluation staff appear to be ‘marking NZDF’s homework’ rather than auditing and evaluating to improve performance. Most reviews are backward looking, audit-style examinations rather than being focused on active steps required to support improvements in future performance. Review recommendations are sometimes high level and bland.</p> <p>There is a huge opportunity to improve the relevance, robustness and thus credibility of the Evaluation function’s investigations and reports. We would like to see a strategic risk framework and a risk and assurance committee put in place, with careful choice of fewer, more carefully targeted review topics.</p> <p>At present, there is no formal mechanism for seeing patterns and trend data across multiple years to feed analysis of establishment wide issues into the policy advice or more formal defence assessment processes. The link into NZDF’s well established ‘lessons learnt’ processes is also undeveloped.</p> <p>While noting the statutory basis for this function, we suggest MOD considers recasting the in-house elements into a more strategic evaluation unit supported by sound risk analysis and assurance capability, with consideration given to outsourcing the delivery of some or all audits to the Office of the Auditor General or external suppliers.</p> <p>To move to a ‘well placed’ rating, MOD will need to:</p> <ul style="list-style-type: none"> <li>• develop a more modern and systematic approach to risk identification, assessment and management as the basis for its evaluation and audit programme</li> <li>• strengthen the links between evaluation and ongoing practice and performance improvement</li> <li>• ensure that the annual work programme is more selective, strategic and value adding</li> <li>• ensure that the work programme is aligned to the priorities and concerns of the new look CMB and that lessons learned are reported to that board to meaningfully inform future decision-making.</li> </ul> <p><b>Efficiency</b></p> <p>As noted in the section on Efficiency below MOD has acknowledged the need to develop measures of efficiency.</p>
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## ORGANISATIONAL MANAGEMENT SECTION

### Part One: Leadership, Direction and Delivery

<p><b>Vision, Strategy &amp; Purpose</b></p> <p>How well has the agency articulated its purpose, vision and strategy to its staff and stakeholders? How well does the agency consider and plan for possible changes in its purpose or role in the foreseeable future?</p>	
<p><b>PERFORMANCE RATING</b></p> <p></p>	<p>Performance Rating: <b>Weak</b></p> <p>MOD currently does not have an organisational Strategic Plan. The MOD management team regards the Statement of Intent (SOI) as the relevant strategy document. Management also believes that, taken together, the statutory functions, the DWP, the Capability Plan, the Government's priority letter and the SOI provide a comprehensive set of policy intentions and higher-level expectations of organisation performance.</p> <p>We disagree with these views. Staff and stakeholders should not have to interpret agency vision and strategy from a mass of materials. We see an organisational strategy, which could be as simple as a one-page plan and balanced scorecard, as an essential matter for any organisation, and especially critical for an agency such as MOD, whose role and functions are not widely understood, even within the public service and policy/military circles.</p> <p>We are also concerned that in the 2011 Employee Survey, only 57% of staff believed the organisation had a clear vision of where it is going and how it will get there. Staff told us that while they had a passion for the defence sector and strong loyalty to the organisation, they felt that the future direction and priorities of MOD were often overly implicit.</p> <p>As always, the process of developing the vision and plan will be important and, in such a small organisation, could easily be undertaken on a highly inclusive basis to strengthen a shared sense of direction and purpose.</p> <p>The development of a Strategic Plan would provide a mechanism to:</p> <ul style="list-style-type: none"> <li>• complete the visioning exercise started in November last year and re-energise the internal culture by providing greater clarity to staff about the role and purpose of MOD</li> <li>• generate internal and external debate about MOD's mandate and role in thought leadership in national security matters outside the formal DWP exercises</li> <li>• provide an opportunity for fellow security sector agencies to engage in strategy development and align resources, settings and objectives on a system wide basis</li> </ul> <p style="text-align: right;">contd...</p>

	<ul style="list-style-type: none"> <li>• reconcile how the organisation allocates its scarce resources to competing short- and long-term priorities</li> <li>• ensure the organisation’s focus and resources are aligned with Government’s intention to:             <ul style="list-style-type: none"> <li>– strengthen MOD’s policy and evaluation functions, with a focus on depth rather than breadth</li> <li>– introduce shared accountability for the effective and efficient whole-of-life management of military capability</li> </ul> </li> <li>• consider how MOD organises itself to support NZDF to successfully achieve its target of sustainable efficiencies without a material loss of military capability or operational resiliency.</li> </ul> <p>This is an area in which we believe the incoming Secretary should act with urgency to ensure the organisation is well placed to respond to the changing environment. There is a real opportunity to build a more explicit and energising sense of purpose and direction.</p>
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<p><b>Leadership &amp; Governance</b></p> <p>How well does the senior team provide collective leadership and direction to the agency?</p>
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<p><b>PERFORMANCE RATING</b></p> 	<p>Performance Rating: <b>Well placed</b></p> <p>The Secretary is currently supported by five deputy secretaries and the Head of the International Defence Relations Branch who collectively constitute the Senior Management Group (SMG).</p> <p>While this is always challenging in a small agency, we believe the SMG should create space and time to focus on long-range strategic issues, particularly if the MOD is to take a less episodic role in thought leadership and normalise some of the activities currently undertaken only at the time of a formal defence assessment.</p> <p>The view held by MOD staff of leadership is generally positive. In the 2011 Employee Survey, 64% expressed confidence in the leadership, which is 6% above the State Sector benchmark. Staff felt that the Secretary and the SMG members were approachable, open and lead with high levels of integrity. The incoming Secretary may wish to consider a smaller span of control and an SMG composition that more closely reflects the three core functions of policy, acquisitions and evaluation.</p> <p>He/she will also need to determine whether the role and responsibilities of the Deputy Secretary Acquisition position are sufficiently aligned with the greater strategic assessment capability requirements that arise from the joint accountability with NZDF for the whole-of-life management of assets.</p> <p style="text-align: right;">contd...</p>
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	<p>Given the size of the agency and the leadership styles of recent secretaries, management in MOD has been undertaken on a largely personalised basis, in which intellectual capability and force of personality rather than systematic organisational management practices and processes have driven organisational performance.</p> <p>While this has been largely effective to date, as MOD steps-up to a position of greater leadership, we suggest a more systematic approach to management based on organisational best practice will be required.</p> <p>To move to a 'strong' rating, MOD should:</p> <ul style="list-style-type: none"> <li>• examine the implications of normalising focus on longer range strategic issues for the composition and governance protocols of the SMG and effect any changes required</li> <li>• adopt more systematic approaches to organisational performance, including management reporting, regular monitoring of strategy implementation, people performance management and communications.</li> </ul>
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<b>Culture &amp; Values</b>	How well does the agency develop and promote the organisational culture, behaviours and values it needs to support its strategic direction?
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<p><b>PERFORMANCE RATING</b></p> 	<p>Performance Rating: <b>Needing development</b></p> <p>We were greatly struck by MOD's happy and collegial ambience. Staff expressed enthusiasm for the diversity of MOD's work and a very strong sense of camaraderie. They consistently described the best part of their jobs as the people with whom they worked. Junior staff felt that senior staff were approachable and long-serving staff pointed to effective leadership and a caring culture as the main reasons for their length of tenure.</p> <p>Other, slightly less positive, traits in the MOD culture, include excessive modesty, deep conservatism and possibly a short-sighted approach to resource management. On the former, we suggest that if MOD is to play the more directional role in the wider national security and foreign policy discourse discussed above, it needs to be less self-effacing in its internal and external interactions.</p> <p>On the latter, while fiscal prudence is a virtue in these times, returning unspent funds to the Crown each year while being very thinly resourced in critical areas is not sustainable over the medium term and will adversely affect both the morale and energy levels of staff and the quality of outputs. MOD must be willing to invest in or reallocate investment to the key areas that will help give effect to its vision, strategy and purpose.</p> <p style="text-align: right;">contd...</p>
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	<p>We had many fascinating discussions with staff and stakeholders on the most appropriate analogy for MOD’s role, and to some extent these discussions relate to culture and values. Some within MOD likened its role to a tug boat, nudging the ocean liner of NZDF onto its right course. Others described MOD as a sheepdog that must sometimes bark and occasionally bite. Another compared the MOD/NZDF relationship to a marriage, in which the partners are jointly building a house and constantly having to adjust and agree over specifications.</p> <p>Internal debate on the future role of MOD is required, as discussed in the vision and strategy section above, and should then drive a more deliberate organisational development programme in which culture and values are not left to chance but consciously managed.</p> <p>We suggest that to move to a ‘well placed’ rating, internal culture needs to keep the best aspects of current behaviours, while energising the organisation to take a more proactive position on issues. We worry that modesty, reticence and politeness dampens the cultural energy and edge that may be required in a future world where both security threats and affordability are more complex and challenging.</p>
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**Structure, Roles and Responsibilities**  
 How well does the agency ensure that its organisational planning, systems, structures and practices support delivery of government priorities and core business?  
 How well does the agency ensure that it has clear roles, responsibilities and accountabilities throughout the agency and sector?

<p><b>PERFORMANCE RATING</b></p> 	<p>Performance Rating: <b>Needing development</b></p> <p><b>Roles and responsibilities</b></p> <p>The three core activity areas (Policy Advice, Acquisitions and Evaluations) are distinct and there is clarity of roles and responsibility.</p> <p>The governance procedures of the CMB are still being developed. MOD has recently created a new Executive Branch, which will service the Secretary and the CMB and administer the supporting governance arrangements. The Capability Management Framework, as the core document, is in place but work still needs to be done to complete a variety of supporting materials.</p> <p><b>Planning</b></p> <p>Given the distinct nature of the work, Policy Advice, Acquisition and Evaluation tend to operate day-to-day in technical silos. However, from a system perspective the three units provide important information feedback loops requiring an integrated approach, both vertically and horizontally. MOD would benefit from the development of an integrated approach, particularly the development and implementation of an integrated organisational plan.</p> <p style="text-align: right;">contd...</p>
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	<p><b>Corporate and Executive Services</b></p> <p>Like many small agencies MOD struggles to sustain a back-office function that can support its more strategic corporate needs. Some functional areas need to move from a transactional to a strategic focus. Human Resources requirements, for example, require major investment in succession planning and recruitment, talent development and retention and a more sophisticated approach to performance management. These cannot be supported from such a small base. For example, while the need for independence from NZDF is real, we cannot see that this needs to be reflected in completely separate back-office systems. The Ministry should consider a range of options to ensure greater depth and resiliency in its corporate functions.</p> <p>Cost reduction is not the key driver for integration of corporate and executive services with another agency. MOD needs to create sufficient scale and capability to provide better services that are more aligned with providing the critical support senior managers need to effectively respond to the complexity of issues and challenges the organisation faces.</p>
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<p><b>Review</b></p> <p>How well does the agency monitor, measure, and review its policies, programmes and services to make sure that it is delivering its intended results?</p>	
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<p><b>PERFORMANCE RATING</b></p> <p></p>	<p>Performance Rating: <b>Weak</b></p> <p>There does not appear to be a culture of ongoing review and reflection that results in the continuous improvement of the organisation.</p> <p>MOD’s role, relationships, structure and capability were reviewed in the processes that resulted in the DWP 2010. As a result of the DWP process, MOD’s role has changed (capability), the Policy Unit was restructured and enhanced (Executive Group, which supports the CMB) and the need for additional capability was identified and implemented (policy and evaluation).</p> <p>The Evaluation function while primarily aimed at NZDF includes the review of the acquisition functions of MOD (see commentary on Core business 3). There is, however, no evidence of any systematic review of original acquisition business cases to assess actual versus expected benefit.</p> <p>To achieve an improved rating we would expect to see tangible evidence that an established review framework, linked to an organisational Strategic Plan, is being used to monitor, measure, and review performance.</p>
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## ORGANISATIONAL MANAGEMENT SECTION

### Part Two: External Relationships

<p><b>Engagement with the Minister(s)</b> How well does the agency provide advice and services to its Minister(s).</p>	
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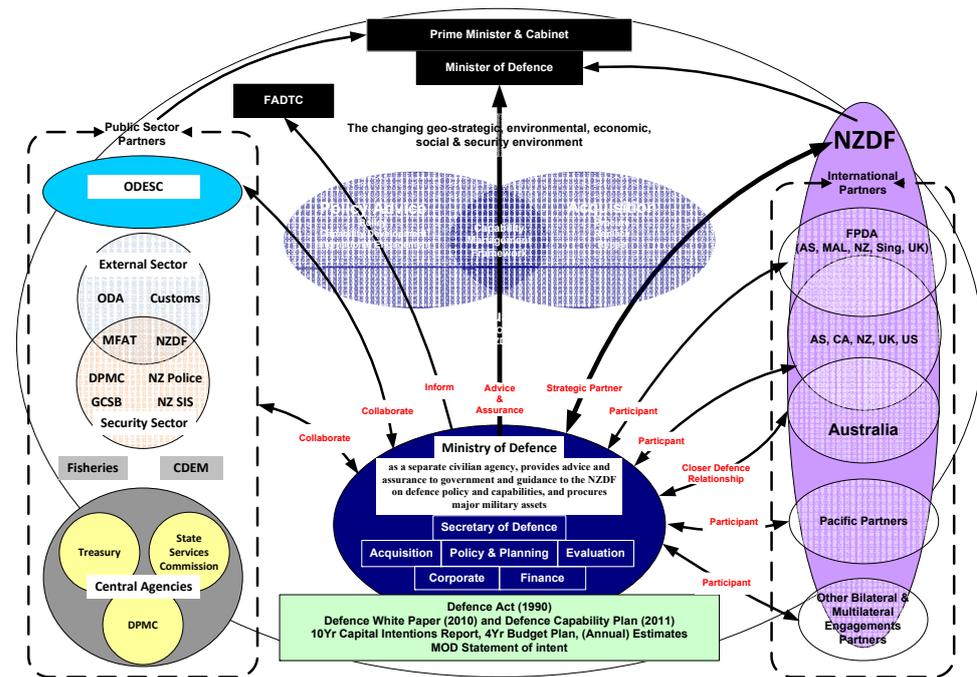
<p><b>PERFORMANCE RATING</b></p> 	<p>Performance Rating: <b>Well placed</b></p>
	<p>Although MOD does not formally review its engagement with Ministers, we found that the level of engagement is good and that Ministers’ confidence in MOD is at least acceptable, if not better.</p> <p>All remarked on both the challenges and the positive outcome of the recent DWP process (the 2010 paper was the first for 11 years) the need to involve the wider Cabinet in national security decisions and the need to reflect early on the long-range capability and affordability decisions ahead.</p> <p>Ministers were aware of the ‘key person’ risk in MOD and that policy capability, while strong, is thin in terms of depth of team. In view of the importance of a strong civilian voice on policy/military issues and to mitigate the inevitable information asymmetries with NZDF, Ministers are committed to a strong ‘policy brain’ role for MOD.</p> <p>The challenges MOD faces with respect to policy advice are addressed in the section on policy above.</p>

<p><b>Sector Contribution</b> How well does the agency provide leadership to, and/or support the leadership of other agencies in the sector?</p>	
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<p><b>PERFORMANCE RATING</b></p> 	<p>Performance Rating: <b>Needing development</b></p>
	<p>As indicated in the diagram below, sector leadership goes to the very heart of the organisation performance of MOD’s core business of Policy, Acquisition and Evaluation. As noted elsewhere in this report MOD operates in a changing environment where the issues are inherently complex with a high degree of uncertainty owing to there being:</p> <ul style="list-style-type: none"> <li>• a large number of diverse, dynamic and interdependent elements</li> <li>• long lead times, for instance many of MOD’s outputs occur over an eight to ten year period, while defence outcomes often occur over a 20-30 year period</li> <li>• multi stakeholders with differing views or conflicts of interest</li> <li>• no single or optimal solution with the trade-offs Ministers are being asked to make often requiring difficult and complex judgements.</li> </ul> <p style="text-align: right;">contd...</p>

It is essential that MOD organises and resources itself so it can proactively provide ongoing sector leadership that includes:

- developing the frame of references that assists both Ministers, and other sector participants), how to think about the issues
- ensuring all the relevant information is made available in a readily understandable form so Ministers, and other sector participants, can make informed independent judgements
- issues dealt with in a timely manner.



As a small agency MOD is highly dependent on relationship levers to influence. MOD’s role is not always clearly understood by all stakeholders and there is a constant and inevitable asymmetry of information, power and resources between MOD and NZDF. The ongoing challenge for MOD is how does it organise to maintain its relevance and position itself to continue to add value. Feedback received indicates that MOD’s visibility and profile within the sector and engagement with other sector agencies could be higher. The central agencies also have a role in supporting MOD to operate more effectively as a part of the wider national security system.

In addition, while Ministers in general expect officials to reach agreement on issues where at all possible, MOD needs to ensure that it is not subordinate to NZDF and should have the confidence (arising from skills, knowledge and expertise) to challenge NZDF and hold a different point of view so where there are points of difference these are visible and respected by all parties.

To move to a ‘well placed’ rating MOD will need to develop an organisational strategy that articulates its purpose, role and how it will organise and resource itself so it can proactively provide ongoing sector leadership.

**Collaboration & Partnerships with Stakeholders**  
 How well does the agency generate common ownership and genuine collaboration on strategy and service delivery with stakeholders and the public?

<p><b>PERFORMANCE RATING</b></p> 	<p>Performance Rating: <b>Well placed</b></p> <p>Comments gathered from interviews indicate that MOD has an effective and collaborative working relationship with other government agencies operating in the security sector such as the Government Communications Security Bureau, Department of the Prime Minister and Cabinet, New Zealand Security Intelligence Service and the New Zealand Police. Feedback was, however, received that MOD’s visibility and profile within the sector and engagement with other agencies could be higher and MOD may be missing opportunities to take a wider, systems-based approach to joint problem-solving. To date limited staff resources has inhibited the ability of MOD to undertake more active engagement with other agencies.</p> <p>MOD’s key external stakeholder within New Zealand is NZDF. A consistent theme from all stakeholder interviews is that the relationship with NZDF has improved considerably in recent years. This improvement, however, has largely been driven by strength of the personal working relationship the Secretary has created with the current and former CDF.</p> <p>While the creation of joint accountability for capability will create more complexity in the relationship between MOD and NZDF it was nevertheless a deliberate choice by Ministers. MOD and NZDF personnel understanding and respecting the different role each agency plays will be critical to the maintenance of a strong professional working relationship.</p> <p>The relationship between NZDF and MOD has to work at all levels of both organisations. This means the systems, processes, information sharing and a pervasive culture that ensures the understanding of the need for good working relationships needs to be embedded. This is a leadership responsibility – to set the tone of the working relationship throughout both organisations.</p> <p>MOD’s relationship with the New Zealand Defence Industry Advisory Council (NZDIAC) and academia appears to be very good.</p>
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**Experiences of the Public**  
 How well does the agency meet the public’s expectations of service quality and trust?

<p><b>PERFORMANCE RATING</b></p>	<p>Performance Rating: <b>Not applicable</b></p> <p>This element has not been assessed as MOD is not a public facing agency.</p>
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## ORGANISATIONAL MANAGEMENT SECTION

### Part Three: People Development

<p><b>Leadership &amp; Workforce Development</b></p> <p>How well does the agency develop its workforce (including its leadership)?</p> <p>How well does the agency anticipate and respond to future capability requirements?</p>	
<p><b>PERFORMANCE RATING</b></p> 	<p>Performance Rating: <b>Weak</b></p> <p>MOD’s workforce (currently 65 staff and eight vacancies) consists typically of older employees, predominantly male and of limited ethnic diversity. Of all employees, 57% are over the age of 50.</p> <p>MOD’s relatively flat structure and the diversity of the specialist knowledge needed to deliver its outputs, creates a number of points where skills coverage is weak, or absence of any back-up creates single points of failure. Key person risk abounds and MOD is always only one resignation or retirement away from a very serious skills shortfall and inability to deliver required outputs. This exacerbates the information and skills asymmetries with NZDF.</p> <p>Further compounding key person risk is the long lag between staff recruitment and commencement of work owing to the need for top secret security clearance for many MOD staff. The ageing work-force also creates a significant management challenge with respect to succession and risk of loss of corporate memory over the next two to four- years. While this is understood internally, the HR function within MOD is largely transactional, and is not resourced to provide the strategic HR advice required to address this issue in a systematic way.</p> <p>In part owing to the innate conservatism in MOD culture described above, it is extraordinarily cautious about being perceived to have breached its staffing cap, which it interprets more literally than most agencies. This, combined with the lag effects of clearance problems means that the agency typically carries a high proportion of vacancies. This issue needs to be addressed given the people and capacity risks MOD faces.</p> <p>Somewhat paradoxically, there are also few opportunities for career progression within MOD, given the relatively few organisational layers and the small size of workgroups. It will be important to take opportunities to develop the professional expertise and management skills of younger staff. In this respect, the recent introduction of the role of deputy director in the policy unit will be helpful. Other development opportunities, such as secondments and exchanges with other agencies, within the wider national security system, need to be further extended.</p> <p>We have discussed the need to reinvest in MOD’s policy and evaluation workforces in the relevant sections above.</p> <p style="text-align: right;">contd...</p>

	<p>The Acquisition Division is reliant, sometimes critically, on the secondment of NZDF personnel to fill project team positions. NZDF’s ability to provide sufficient seconded personnel is, however, lessening as the transformation programme bites. This, in turn, impacts the Division’s business through:</p> <ul style="list-style-type: none"> <li>• a reduced contribution of military subject matter expertise</li> <li>• increased project costs from contracting the necessary project management expertise</li> <li>• reduced capability of project teams to deliver projects</li> <li>• consequentially greater risk to project delivery.</li> </ul> <p>Continuity through the life of a project is also difficult to achieve. Posting cycles and changeover of NZDF personnel without reference to project requirements detract from excellent project delivery. Better management of NZDF-seconded personnel postings is needed to provide continuity through the acquisition phase and between acquisition and introduction into service.</p> <p>To partially resolve this, the full costs of project personnel will now be attributed in business cases and in the approvals that are sought from Cabinet. Such costs will form part of the capital cost of the project, with improved transparency of total costs.</p> <p>These issues are challenging, and MOD is likely to need external advice in the short term to resolve them. We suggest that once organisational strategy and direction are more clearly defined, much more rigorous Human Resources/ workforce strategy and organisational development plans need to be put in place. Again, a more strategic, systematic and mature approach to workforce planning and management is needed.</p> <p>In the meantime, urgent effort needs to go into staff retention initiatives to mitigate key person and succession risks over the medium term, and into the development of tactics to manage immediate issues such as security clearances. These steps should assist MOD to move to a ‘well placed’ rating.</p>
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	<p><b>Management of People Performance</b></p> <p>How well does the agency encourage high performance and continuous improvement among its workforce?</p> <p>How well does the agency deal with poor or inadequate performance?</p>
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<p><b>PERFORMANCE RATING</b></p> 	<p>Performance Rating: <b>Needing development</b></p> <p>MOD has, predominantly because of its small size and the close working relationships between staff, largely informal systems for performance management.</p> <p style="text-align: right;">contd...</p>
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Talent management strategies tend to be implicit rather than explicit and should be further developed and codified during the development of the new Human Resources Strategy and organisational development plan suggested above. With a total of 60-70 staff, it should not be difficult to wrap individual development plans around at least each front office staff member. These would assist with the provision of better targeted professional development and training and better management of secondments, exchanges and overall career pathways. The existing, positive internal culture would lend itself well to an increased investment in more formal coaching approaches.

Given the small size of the organisation, there are not too many places for poor performing staff to hide. However, the internal culture of MOD appears so polite that we cannot be sure that courageous conversations on people performance are an embedded part of ongoing performance development activity. With such a critical role and such thin resourcing, MOD needs to ensure that performance management is systematic, active and meaningful, so that all staff have a strong sense of future direction and are performing optimally.

To fulfill its future role MOD needs to be relevant and credible in the provision of policy advice, evaluation activity and procurement. This means having staff who are knowledgeable, influential and impactful and who are sought after both domestically and internationally for their strategic and authoritative advice on security and defence matters. MOD will need more explicit systems to develop and promote staff who can nest their activity and advice in the context of wider security elements and have the right mix of skills to ensure quality results.

To move to a 'well placed' rating in this area, MOD will need to:

- develop and implement a talent management plan
- review and refresh its formal performance management framework to ensure that it is meaningful
- explore new approaches to, and training in, coaching and feedback.

<p><b>Engagement with Staff</b></p> <p>How well does the agency manage its employee relations?</p> <p>How well does the agency develop and maintain a diverse, highly committed and engaged workforce?</p>	
<p><b>PERFORMANCE RATING</b></p> 	<p>Performance Rating: <b>Well placed</b></p> <p>The 2011 Employee Survey indicated that MOD staff have a level of engagement comparable with the survey’s State Sector benchmark. Notably, MOD has a much lower level of disengaged staff than the benchmark<sup>1</sup>.</p> <p>In relation to specific survey questions, MOD staff were more enthusiastic about their colleagues, had a greater sense of collegiality and felt their work was more interesting than the benchmark. They expressed a higher sense of belonging, believed that their contribution was valued and that organisational communication is open and honest. They expressed a higher sense that MOD cares about the well-being of its people.</p> <p>This seems to be a result of the combination of small-size and effective leadership. It is relatively easy to communicate regularly with staff internally and such communications tend to be open, honest and constructive. Staff at all levels feel they can talk freely to their managers and that managers and other staff are accessible and helpful. All staff we spoke to were strongly committed to the organisation.</p> <p>MOD staff tend to be passionate about their subject matter, the variety in their work and the complexity of the relationships with NZDF. Staff find the defence and national security environment intellectually stimulating and enjoy variety in daily activity owing to both the span of outputs and the stretched nature of internal teams.</p> <p>In terms of fitness-for-the-future, we have some concern about the lack of diversity in MOD’s workforce. If MOD is to play a wider role in the national security context, a mix of educational, experiential, career and personality attributes will be required to ensure different perspectives are brought to bear. We discuss this more fully in the culture section above.</p>

<sup>1</sup> The benchmark was set against other State Sector agencies using the same survey.

## ORGANISATIONAL MANAGEMENT SECTION

### Part Four: Financial and Resource Management

**Asset Management**  
How well does the agency manage agency and Crown assets, and the agency balance sheet, to support delivery?

<p><b>PERFORMANCE RATING</b></p> 	<p>Performance Rating: <b>Needing development</b></p>
	<p>MOD itself has a very modest asset base which consists mainly of information technology (IT) and office equipment. However, given its acquisition function MOD is responsible for managing major Crown assets that form part of an integrated defence supply chain (as discussed in the acquisitions section above).</p> <p>As discussed in the Information Management section below, implementing new arrangements for information sharing with NZDF must become a priority, given the pending change in legislation and the changed governance structure for capability management.</p> <p>A number of the IT Strategy 2011 projects have not been delivered. It appears the non delivery of these projects was a result of a lack of organisational priority and planning rather than a lack of resources.</p> <p>The achievement of a ‘well placed’ rating would require MOD to demonstrate it had shifted the focus of its asset management away from its own relatively small asset base to the system-wide integrated supply chain.</p>

**Information Management**  
How well does the agency utilise information & communications technologies to improve service delivery?

<p><b>PERFORMANCE RATING</b></p> 	<p>Performance Rating: <b>Weak</b></p>
	<p>MOD operates in a conventional ‘Windows’ environment and uses <i>Silent One</i> as its Electronic Document and Records Management System (EDRMS). As experienced in other government agencies, there is internal resistance by some staff to using the EDRMS. A large number of documents are still being created and maintained on the Windows servers, in directories that typically can be accessed only by the document’s creator or members of the creator’s work group or a network administrator. The issue of staff resistance has been identified by senior management but there is no evidence proactive action is being taken to ensure there is a rapid transition to the EDRMS being universally adopted by all staff.</p> <p style="text-align: right;">contd...</p>

	<p>Despite the need for tightly integrated joint ‘whole-of-life’ management of capability by MOD and NZDF there is a lack of an agreed single approach to, or repository for, project information and knowledge (IT system, EPM tool, methodology). Concern has been expressed about risks and inefficiency caused by the inability to seamlessly pass acquisition and project information between MOD and NZDF.</p> <p>As discussed in the Core business section we believe better information management is needed in the form of a standardised suite of Portfolio, Programme and Project Management systems and processes to support the Acquisition team.</p> <p>The lack of formalised programme to ensure the standardised integration of information between NZDF and MOD appears to be a major weakness in the implementation of the Capability Management Framework. The inability to have clear ‘line-of-sight’ of the entire capability supply chain (specification, procurement, acceptance and disposal) from an overall system perspective is likely to hinder the effectiveness of the CMB.</p>
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<b>Efficiency</b>	<p>How robust are the processes in place to test for efficiency and make efficiency improvements? How well does the agency balance cost and quality when considering service delivery options?</p>
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<b>PERFORMANCE RATING</b>	<p>Performance Rating: <b>Needing development</b></p>
	<p>We are unaware of any systems or processes in place to test for efficiency or make efficiency improvements.</p> <p>The Policy and Acquisition Units are managing heavy workloads with a very small staff. From a simple input to output ratio perspective the efficiency of these units is high but as discussed in the Core business section this position is unlikely to be sustainable or effective in the longer term. While the ability to make direct efficiency gains in the Policy and Acquisition Units may be limited, the changes to Capability Management accountabilities have the potential to deliver major efficiency gains within the defence sector.</p> <p>Concerns have been raised, both internally and externally, about the ability of the corporate services teams to provide the support capability required. As discussed in the Structure, Roles and Responsibilities section we share those concerns and believe the use of shared services and/or standardisation to provide back-office support is likely to provide better services and possibly some efficiency gains. The main driver for MOD to move to shared services is potential major benefits through the standardisation and integration of information management across the whole defence supply chain.</p> <p style="text-align: right;">contd...</p>

	<p>To achieve a ‘well placed’ rating MOD will need to demonstrate tangible process towards developing and implementing processes to test for efficiency.</p> <p>Because there is a long causal chain between the delivery of MOD’s advice and the ultimate outcome of national security, providing robust, quantified evidence of cost effectiveness is challenging. Its small size makes Better Administrative and Support Services (BASS) benchmarking, which it has undertaken on a self-review basis, of limited usefulness.</p> <p>In its 2011 Statement of Intent, MOD indicated that it would seek to provide two kinds of evidence to demonstrate efficiency improvements:</p> <ul style="list-style-type: none"> <li>• benchmarking the quality and cost of its work against similar work undertaken in other government departments, or overseas in comparable countries</li> <li>• comparing the quality and cost of current performance with performance in previous years.</li> </ul> <p>The development of such indicators will be undertaken in 2012, but no quantifiable information relating to such metrics is currently available.</p>
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<p><b>Financial Management</b></p> <p>How well does the agency manage its financial information and ensure financial probity across the business?</p>
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<p><b>PERFORMANCE RATING</b></p> 	<p>Performance Rating: <b>Needing development</b></p> <p>MOD currently uses the financial system Finance One; a highly regarded 2 tier financial package that is widely used by government agencies within New Zealand and Australia. Finance One is considered appropriate given the volume of transactions processed though the system annually is relatively small. Importantly however, Finance One is not integrated with the programme management systems necessary to manage complex multimillion dollar acquisition projects but from a financial point of view the processing is relatively simple – ie, a small number of invoices but of high dollar value.</p> <p>While project managers report they receive monthly status reports on their projects some unease was expressed about the user friendliness of the financial management system. It was also reported that the format of Finance One reports are not readily understood or easy to interpret and project managers have generally limited understanding of how currency fluctuations affect their funding.</p> <p>SMG is aware of these concerns but believe that many of the improvements introduced in recent years have addressed the identified shortfalls in project reporting requirements. Senior management believes the concerns are largely a perception issue based on the historical experience of project managers rather than a reflection of the current system.</p> <p style="text-align: right;">contd...</p>
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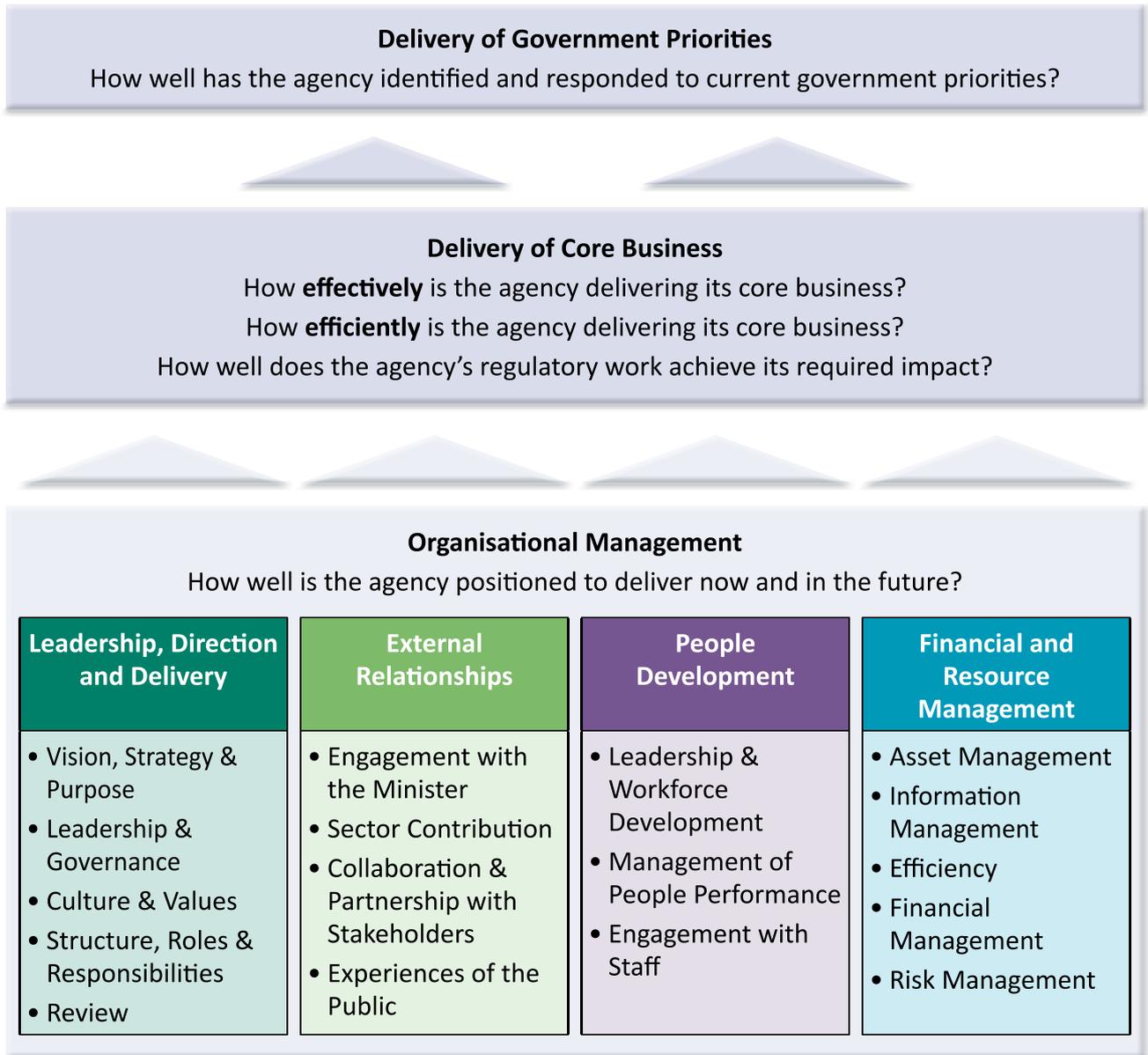
	<p>To improve on this rating, further work is required including:</p> <ul style="list-style-type: none"> <li>• educating the project managers at a high level on the impact of the use of foreign currency within projects</li> <li>• further education of the project managers on the capabilities of the financial system</li> <li>• identifying and agreeing the project managers’ financial information requirements and reaching consensus with them on project financial reporting formats</li> <li>• working with the project managers to further understand their requirements to assist them in developing their forecast costs.</li> </ul>
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<p><b>Risk Management</b> How well does the agency manage agency risks and risks to the Crown?</p>
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<p><b>PERFORMANCE RATING</b></p> 	<p>Performance Rating: <b>Needing development</b></p> <p>The major area of financial, operational and capability risks lie in the delivery of individual acquisition projects to NZDF. As discussed above the establishment of the CMB is designed to strengthen the overall management and governance of acquisition risk.</p> <p>SMG has not operated any formalised risk management processes and has relied on a relatively unstructured approach to risk at an operational level.</p> <p>We also believe that MOD should adopt a more systematic and dynamic approach to strategic risk. Review of the SMG meeting notes indicate that much of its focus is largely on operational issues.</p> <p>The lack of formalised risk management processes reduces the capacity of MOD to assess system-level risk and limits its ability to adapt to a changing context and learn from its own experiences, as well as those of other agencies. Given MOD will continue to operate in a changing external and internal environment it will be important for SMG to develop processes for identifying and proactively managing systematic strategic risk, eg, the urgent need to address the lack of strategic HR advice as discussed in the section above.</p>
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# APPENDIX A

## Overview of the Model



<b>Results</b>		
<b>Critical Area</b>	<b>Lead Questions</b>	
Government Priorities	1. How well has the agency identified and responded to current government priorities?	
Core Business	2. How <b>effectively</b> is the agency delivering this core business area? 3. How <b>efficiently</b> is the agency delivering this core business area? 4. How well does the agency's regulatory work achieve its required impact?	
<b>Organisational Management</b>		
<b>Critical Area</b>	<b>Element</b>	<b>Lead Questions</b>
Leadership, Direction and Delivery	Vision, Strategy & Purpose	5. How well has the agency articulated its purpose, vision and strategy to its staff and stakeholders? 6. How well does the agency consider and plan for possible changes in its purpose or role in the foreseeable future?
	Leadership & Governance	7. How well does the senior team provide collective leadership and direction to the agency? 8. How well does the board lead the Crown Entity? <i>(For Crown Entities only)</i>
	Culture & Values	9. How well does the agency develop and promote the organisational culture, behaviours and values it needs to support its strategic direction?
	Structure, Roles & Responsibilities	10. How well does the agency ensure that its organisational planning, systems, structures and practices support delivery of government priorities and core business? 11. How well does the agency ensure that it has clear roles, responsibilities and accountabilities throughout the agency and sector?
	Review	12. How well does the agency monitor, measure, and review its policies, programmes and services to make sure that it is delivering its intended results?
External Relationships	Engagement with the Minister(s)	13. How well does the agency provide advice and services to its Minister(s)?
	Sector Contribution	14. How well does the agency provide leadership to, and / or support the leadership of other agencies in the sector?
	Collaboration & Partnerships with Stakeholders	15. How well does the agency generate common ownership and genuine collaboration on strategy and service delivery with stakeholders and the public?
	Experiences of the Public	16. How well does the agency meet the public's expectations of service quality and trust?
People Development	Leadership & Workforce Development	17. How well does the agency develop its workforce (including its leadership)? 18. How well does the agency anticipate and respond to future capability requirements?
	Management of People Performance	19. How well does the agency encourage high performance and continuous improvement among its workforce? 20. How well does the agency deal with poor or inadequate performance?
	Engagement with Staff	21. How well does the agency manage its employee relations? 22. How well does the agency develop and maintain a diverse, highly committed and engaged workforce?
Financial and Resource Management	Asset Management	23. How well does the agency manage agency and Crown assets, and the agency balance sheet, to support delivery?
	Information Management	24. How well does the agency utilise information & communications technologies to improve service delivery?
	Efficiency	25. How robust are the processes in place to test for efficiency and make efficiency improvements? 26. How well does the agency balance cost and quality when considering service delivery options?
	Financial Management	27. How well does the agency manage its financial information and ensure financial probity across the business?
	Risk Management	28. How well does the agency manage agency risks and risks to the Crown?

## APPENDIX B

### List of Interviews

This review was informed by input provided by a number of current and former Ministry and New Zealand Defence Force staff, relevant Ministers, and by representatives from the following businesses, organisations and agencies.

Agency/Organisation
Victoria University of Wellington
Ministry of Foreign Affairs and Trade
Department of Prime Minister and Cabinet
The Treasury
Defence Industry Advisory Council
Beca Applied Technologies Ltd
Aurecon