Benefits from the Defence Transformation Programme

Report No. 2/2012

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Executive summary

Purpose

1 We conducted this review to assess how successfully the Defence Transformation Programme (DTP) achieved its savings and benefits targets.

Introduction

2 CDF established the DTP in July 2007 to make savings through transformational change. It was recognised the NZDF would be unlikely to manage within its funding constraints from 2009/10. The DTP began with five work streams, but made little progress in the first year. The Programme was reviewed and, from 1 August 2008, it was refocused and restructured into three work streams:

a Logistics Change Programme

b Human Resource Management Change Programme

c HQ NZDF Change Programme.

3 The three work streams were tasked with developing investment cases for transformational change. These investment cases, which included forecast savings and other benefits, were presented to the Executive Leadership Team (the precursor to the Defence Force Leadership Board) in mid-2009.

4 A previous evaluation[1] reviewed the first phase of the DTP. This present review looked at the DTP from August 2008. It considered how successfully the DTP is achieving its benefits and savings targets.

5 Field work for this review was completed in September 2011.

The Defence White Paper and the Value for Money Review

6 As part of the input to the 2010 Defence White Paper, a value for money review[2] of the NZDF was conducted to establish where savings could be made beyond those identified in established efficiency programmes. It

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1 Evaluation Report 2/2009–*Management of the DTP*, 15 May 2009.

2 Pacific Road Group (2010) *Value for Money: Review of the New Zealand Defence Force.*

was clear that the action already being taken by the NZDF to generate savings and improve business efficiency would not be sufficient to meet future funding challenges.

7 The Value for Money review identified potential savings of up to $350 million per year. The Cabinet approved the Value for Money savings target in September 2010. These savings were included in the Defence White Paper, which said that the Government expected that by 2014/15 the NZDF will have freed up $100 million from the DTP, and $250 million to $300 million from other Value for Money initiatives.

8 In May 2011, the NZDF established a single Efficiency Programme to deliver all savings initiatives, including the DTP and the Value for Money targets.

DTP change programmes

Logistics Change Programme

9 The Logistics Change Programme recommended formation of a Defence Logistics Command, which the NZDF set up in mid-2010. The Defence Logistic Command is responsible for NZDF logistics policy and strategy, delivery of logistics support to the Services and deployed Force Elements as well as consolidating parts of the logistics functions of the Services. It comprises approximately 1,100 personnel.

10 Once the Defence Logistics Command was established it gradually took over responsibility for the Logistics Change Programme, which ceased to be a formal part of the DTP.

11 The current benefits forecast for the Logistics Change Programme is $38.2 million per year by the end of 2014/15. This includes $10.2 million of extended savings targets that were not originally part of the programme.

Human Resource Management Change Programme

12 The Human Resource Management Change Programme remained a structured work stream under the DTP.

13 The focus of the Human Resource Management Change Programme was to centralise most human resource functions and create savings by reducing the number of personnel performing those functions. The centralisation led to the HQ NZDF Personnel Branch becoming the Defence Personnel Executive. Centralised functions have included human resource support services, human resource advisory services, recruitment, training and education, chaplaincy, psychology, and workforce planning.

New business units have been created within the Defence Personnel Executive including the Human Resource Service Centre and the Training and Education Directorate. Transition to the new arrangements is not complete in all areas.

14 The current benefits forecast for the Human Resource Management Change Programme is $25 million per year by 2013/14. Most of the benefits come from personnel reductions.

Headquarters Change Programme

15 The Executive Leadership Team rejected the Headquarters Change Programme investment case in August 2009. However, the Executive Leadership Team agreed that change was still required and the Headquarters Change Programme continued as a series of individual projects.

16 The most significant headquarters change projects were the formation of an expanded Capability Branch and an Office of Strategy Management. The NZDF finance structure has also been changed. Headquarters change activity has focussed more on improving organisational efficiency and effectiveness than on achieving savings targets.

Findings

17 The purpose of this review was to assess how successfully the Defence Transformation Programme had achieved its savings and benefits targets. We had expected to provide a relatively straightforward report setting out original targets and realised savings to date. This task proved challenging, because several factors altered how the NZDF defined, tracked, and reported on the Defence Transformation Programme since it began in its restructured form in late 2008. These factors include the progressively changing structure of the NZDF; and the Value for Money review, which placed additional savings targets on the NZDF.

Achievements

18 The Defence Transformation Programme can claim some significant achievements. The most obvious of these are the new and restructured organisations, principally the Defence Logistics Command, the Office of Strategy Management, Capability Branch and the Defence Personnel Executive.

19 The following table shows the approved annual savings targets (from the revised investment cases) for the Logistics and Human Resource Management work streams; and the savings the work streams are currently saying they will achieve by the end of 2014/15. Current savings targets for both work streams exceed the targets in the revised business cases. In addition the HQ Change Programme is expecting to save $2.5 million from the Finance Branch restructure, and the Human Resource Management Information System Project a further $11.7 million.

DTP Savings Targets for Financial Year 2014/15 onwards ($million per year)

	LOGISTICS	HUMAN RESOURCE MANAGEMENT	TOTAL
Revised Investment Case	32.4	23.1	55.5
Current	38.2	24.9	63.1

20 On this basis the Defence Transformation Programme can say it will enable more savings than originally thought. However, several factors—many outside of the DTP's control—mean it is not possible to say, with any certainty, what actual savings the DTP has achieved.

Realising savings from reduced headcount

21 A significant proportion of the savings identified by the DTP resulted from improved processes and consolidated shared services, and the associated reduced headcount. As the Defence Transformation Programme progressed the NZDF found that many of the financial benefits delivered did not translate into actual cash savings. Most of the military personnel filling posts that were disestablished were absorbed back into their parent Service. So although the NZDF reduced headcount in one area, it made no overall saving.

22 Realising military personnel savings is not straightforward. It is complicated by the distinction between posts and personnel. When an organisation is discontinued or changed, positions (posts) no longer required are disestablished. Disestablishment of a post does not necessarily mean that the individual Service member currently filling it is no longer required. Establishments are complex. Not all positions within a unit or organisation's establishment may be funded, and at any time some funded posts will usually be vacant. The person filling a disestablished position may be moved to fill a vacant position elsewhere in the NZDF. There will be continual changes as people are posted in and out. This makes it difficult to substantiate a base from which to calculate any personnel savings.

23 We think the NZDF could have identified and resolved difficulties in calculating and realising personnel savings earlier than it did.

24 It is evident the Defence Transformation Programme only began to realise that specific processes would be required for realising personnel savings, and reported this to the Executive Leadership Team, around March 2010. The Defence Transformation Programme could not determine these processes, because it was not responsible for employment issues.

25 In 2011 the NZDF began rebalancing its personnel composition by changing some military positions to civil staff ones. It is also reassessing the rank and trade requirements for each military position and the number of personnel it needs to have in uniform to deliver its outputs. Personnel savings are being achieved as military people leave the NZDF, either because of civilianisation or general attrition, or through reduced recruitment. Linking these reductions back to the Defence Transformation Programme is difficult and is largely a manual process.

Inconsistent reporting of savings

26 In early 2010 it became apparent that benefits and savings were being reported inconsistently. In particular benefits reported by the work streams did not match benefits reported by Finance Branch. This has often been referred to (including in the Value for Money report) as there being no 'one source of the truth'.

27 A cash saving can be said to have been realised only when the amount paid for something is removed or reduced and not replicated elsewhere. This is best determined by HQ NZDF Finance Branch. The Corporate Finance Officer took over the responsibility for accurately reporting cash savings being delivered by all the NZDF's savings and efficiency initiatives.

28 Despite efforts to put clear processes in place, in early 2011 the problems had not been rectified. In March 2011 the Corporate Finance Officer acknowledged 'there has been some uncertainty and varying interpretations on realising savings from the organisational improvements that have been taking place. This is particularly so for managing changing personnel requirements'.[3]

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3 CFO Minute 03/2100, *Realising Personnel Savings*, 21 March 2011.

29 The Corporate Finance Officer also stated that 'implementing a system to manage the realisation of personnel savings is both urgent and essential to the delivery of the Defence White Paper'.[4]

30 HQ NZDF Finance Branch now maintains a Benefits Register and reports savings from initiatives contributing to the target of $350 million–$400 million annual savings by 2014/15. The NZDF has combined all its savings initiatives for meeting the White Paper target into its Efficiency Programme. Finance Branch is producing quarterly 'Efficiency Reports', which show progress towards the White Paper target, and which have replaced the various NZDF and Defence Transformation Programme benefits and savings reports.

31 Overall we found information about savings and benefits to be unclear and inconsistent. This made it difficult to track progress and changes over time and for us to present any specific figures with confidence.

32 Changing organisational demands, as well as the requirement to report against a large number of savings programmes, meant the format of reporting changed over time. For example, the three quarterly efficiency reports[5] produced to date all differ in format.

33 As we concluded our field work we found Finance Branch had recognised the need to undertake an education process to get project managers to report and understand project savings consistently. Guidelines were being prepared on the financial data input and validation required for the NZDF Savings and Benefits database to support financial benefit reporting.[6]

Costs

34 Defence Transformation Programme cost information was not widely reported. We understand that the Programme was subject to a budget and that this was managed at some level. However, cost information formed little part of the reports to the Monthly Management Groups or the Executive Leadership Team. Although we sometimes found references to costs in reports it was not detailed or transparent. Reporting routinely included benefits without alluding to costs.

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4 Ibid.

5 These are the reports produced by HQ NZDF Finance Branch that show progress of the Efficiency Programme.

6 These guidelines were promulgated by the Corporate Finance Officer in September 2011. Subsequently changes have also been made to a number of reporting and monitoring processes. The effectiveness of these actions is outside the period of our review.

Non-financial benefits

35 The Defence Transformation Programme reported delivery of many non-financial benefits. These include simplifying processes and structures, and mapping and documenting processes. The Defence Transformation Programme has led to new organisations and structures that put the NZDF in a better starting position for future change. It has also introduced practices and procedures for programme management and reporting. The Defence Transformation Programme has identified many lessons the NZDF can learn from to improve the conduct and outcomes of future change initiatives.

Ownership, commitment and change management

36 Throughout this evaluation, and our earlier evaluation,[7] we found wide acknowledgement that a programme such as the Defence Transformation Programme was needed in the face of static or reducing appropriations and increasing costs. However, there was still resistance to the extent and nature of change required. We encountered an often-voiced perception that senior leaders were not really committed to the Defence Transformation Programme and did not appear to take ownership of collective decisions.

37 Many adverse comments were made about the numbers of consultants engaged to work on the Defence Transformation Programme. People expressing this view seldom had a full understanding of the contribution being made by consultants. Those who worked with the consultants clearly valued their contribution and acknowledged that external assistance was necessary as the NZDF does not have the resources or expertise to undertake such major organisational developments unaided.

Conclusions

38 The Defence Transformation Programme has resulted in significant structural change in the NZDF. As the Programme intended, these structural changes provide the basis for the NZDF to improve its efficiency and effectiveness. The NZDF reports the new organisational structures created through the efforts of the Defence Transformation Programme comprise over 2,500 staff and have freed up over 250 full-time equivalent personnel for redeployment or release.[8]

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7 Evaluation Report 2/2009 – *Management of the DTP*, 15 May 2009.

8 *DTP Closure Report*, June 2011.

39 However, the Defence Transformation Programme (and other efficiency initiatives) have not yet fully realised envisaged cost savings.

40 The Defence Transformation Programme has been only the start of the major changes the NZDF is facing. If the NZDF is to succeed in these changes it needs to demonstrate real ownership and commitment from the top down and be prepared for further significant change.

41 We make no comment on the validity of the savings targets (or the numbers reported as savings). That is beyond the scope of our review. We can observe, however, that the NZDF is only now beginning to implement the original intent of the Defence Transformation Programme through the civilianisation process. We think the NZDF can achieve full advantage from its investment in the Defence Transformation Programme only if it embraces the cultural change implicit in the new structures. It must also commit to the investment required in systems and infrastructure that will enable the savings to be realised.

Recommendations

42 It is recommend that the NZDF:

a takes ownership of its initiatives and demonstrates this from the top down;

b identifies and prioritises the information systems and other infrastructure investment required to successfully implement its savings initiatives;

c ensures that for current and future savings initiatives it is fully understood from the beginning how actual cash savings will be realised from benefits and that processes are put in place to achieve this in a timely manner;

d establishes processes to ensure that there is a link between approved business cases and provision of funding required to implement those business cases;

e always takes costs into account when assessing project outcomes;

f acknowledges the lessons learned from the Defence Transformation Programme and identifies how these lessons can be applied to other savings initiatives; and

g recognises the success of the Defence Transformation Programme as well as its weaknesses/lessons.

Chief of Defence Force response

Chief of Defence Force response

1 The contents of this report and its recommendations are noted. I am satisfied that the report reflects an accurate representation of how the Defence Transformation Programme achieved its savings and benefits targets. I endorse and support the findings and accept the recommendations.

2 In respect of Executive Summary paragraph 42(c) much greater emphasis is now placed on the establishment of a sound baseline against which to assess both the anticipated benefits and how they will translate into actual cash savings.

3 Lessons identified from the Defence Transformation Programme implementation have been incorporated into the current Defence Savings Programme.

Section 1
Introduction

Purpose

1.1 We conducted this review to assess how successfully the Defence Transformation Programme (DTP) achieved its savings and benefits targets.

Overview

1.2 CDF established the DTP in July 2007 to make savings through transformational change. It was recognised the NZDF would be unlikely to manage within its appropriations from 2009/10. The DTP began with five work streams, but made little progress in the first year. The Programme was reviewed and from 1 August 2008 it was refocused and restructured into three work streams:

a Logistics Change Programme

b Human Resource Management (HRM) Change Programme

c HQ NZDF Change Programme.

1.3 The three work streams were tasked with developing investment cases for transformational change. These investment cases, which included forecast savings and other benefits, were presented to the Executive Leadership Team (the precursor to the Defence Force Leadership Team) in mid-2009. After this the three work streams progressed differently. Sections 2 to 4 of this report describe each of them in more detail.

Scope

1.4 We previously reviewed the first phase of the DTP in 2009.[9] This present review looked at the DTP from August 2008. It considered how successfully the DTP is achieving its benefits and savings targets.

1.5 Field work was completed in September 2011.

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9 Evaluation Report 2/2009 - *Management of the DTP*, 15 May 2009.

Background

The Baseline Funding Review

1.6 The 2005 Defence Capability and Resourcing Review identified significant shortfalls in NZDF funding and capability. The Government agreed to a Defence Sustainability Initiative that included a Defence Funding Package. The funding package provided for a 5% per year compounding increase in Vote Defence Force operating expenditure over the 10-year period to 2014/15.

1.7 The Defence Funding Package was predicated in part on the NZDF achieving efficiencies to manage funding pressures. However, by late 2006 it was apparent the NZDF would be unlikely to manage within the funding package constraints beyond 2009/10.

1.8 CDF initiated a Baseline Funding Review in January 2007 to identify where sustained savings could be achieved to meet funding requirements in 2007/08 and beyond. The Baseline Funding Review team was also instructed to identify areas where significant business change and rationalisation might be possible.

1.9 The Baseline Funding Review, completed in May 2007, concluded that operating savings in the order of $459 million were potentially available over the five years to 2011/12. The Review identified five key business areas that had the greatest impact on organisational effectiveness and the greatest potential to realise sustainable efficiency gains. These were:

a human resource management;

b education and training;

c defence estate;

d information technology; and

e logistics.

1.10 An opportunity was also identified for savings through reduction in, or better control of, several cost elements such as travel.

The DTP 2007 to 2008

1.11 The NZDF established the DTP in July 2007. Its purpose was to investigate further the potential Baseline Funding Review savings, and to change NZDF business processes to achieve those savings.

1.12 Five work streams were established to consider each of the five key areas identified by the Baseline Funding Review. Each work stream consisted of several projects. The Executive Leadership Team also established a Programme Change Management Office to support and coordinate the work streams.

Savings targets

1.13 In November 2007, the work streams reported to the Executive Leadership Team on planned projects and initiatives and associated savings. The work streams had been able to identify savings of only $213 million over the five years to 2011/12—considerably less than the Baseline Funding Review thought achievable. The Executive Leadership Team confirmed the results of these investigations as the DTP savings targets.

Review and modification of the Programme

1.14 Between November 2007 and August 2008 little progress was achieved. In June 2008 the Executive Leadership Team noted:

a the slow progress that individual projects had made within their programmes; and

b the DTP had not yet identified or delivered savings within individual projects.

1.15 CDF held a seminar in June 2008 to improve understanding of the Programme. There was consensus that not as much progress had been made as had been expected.

1.16 Following the seminar, an external consultant reviewed the Programme. The consultant identified several issues to be resolved if the Programme were to succeed. The consultant also noted that saving money was a key driver for change, with the fiscal pressures in 2011/12 likely to affect the NZDF's ability to deliver outputs. However, behaviour within the organisation did not represent the fiscal realities.

1.17 In August 2008 the Executive Leadership Team held a workshop to consider the progress of the Programme in light of the external review. The workshop challenged the management of all DTP projects. The workshop also assessed the environment for change within the NZDF and its likelihood of success. Following this workshop, the direction and structure of the Programme was significantly altered.

Ministry of Defence evaluation

1.18 Our previous review[10] looked at how the Programme was structured, its governance and management arrangements at the programme level, and progress to December 2008.

1.19 That review found only minimal savings had resulted from DTP projects. It concluded that the Programme had not achieved the results expected for the following reasons.

a The Programme did not have a clearly defined vision, set of objectives, or intended end state. This was a key factor in the lack of progress.

b The original governance structure was complicated, with differing views of its effectiveness.

c The NZDF under-estimated the skills, experience, and number of people needed to manage a programme such as this.

d Project reporting was poor and needed greater focus on risks. The DTP and Finance Branch attributed to the Programme different amounts for savings, which we were unable to reconcile.

The Defence Transformation Programme 2009-2011

1.20 On 1 August 2008, the Executive Leadership Team approved a change to the structure and intent of the DTP. The Programme's vision was amended to:

> A single organisation delivering simpler and better support to the three Services and Joint Force.

1.21 The NZDF expected the revised programme to result in organisational and structural changes. The end goal was to help preserve military capability and ensure the NZDF is an effective organisation. The programme was described by the NZDF as:

> … the formal programme of work designed to deliver those significant differences. Its goal is to step back from day to day business as usual and take a strategic look at whether we're delivering key support functions in the best possible way, and how we need to structure ourselves to do that into the future.[11]

10 Evaluation Report 2/2009, op cit.

11 DTP newsletter 'The DTP story'.

1.22 One of the key messages of the revised programme was:

> This is not just about cutting costs (although that is important) but about being the best we can be. We need to understand our current ways of doing things, open our minds to new ideas and come up with changes that are fit for purpose to maintain and enhance our capability.[12]

1.23 The Programme was funded to June 2011.

Changes to the Programme

1.24 Changes were made to simplify the governance and management structure. Changes were also made to the work streams. The Information Technology and Defence Estate streams were transferred to business as usual activities.[13] The Logistics work stream was retained but its focus was changed to concentrate on transformational projects incorporating business improvement. The Education and Training work stream was amalgamated into an enlarged Human Resource Management work stream.

Main stages of the DTP

1.25 Table 1.1 summarises the high-level activities that followed the 2009 changes to the Programme. The first year was spent developing options and investment cases. In the second year change started to happen. HQ NZDF Personnel Branch became the Defence Personnel Executive; a new consolidated logistics organisation, the Defence Logistics Command, was established; HQ NZDF Development Branch and the Service capability branches were amalgamated into the new HQ NZDF Capability Branch; and several smaller changes occurred.

Table 1.1 Stages of the DTP 2009-2011 and beyond

DATE	ACTIVITIES
November 2008–May 2009	Current state findings, which provided the basis for the 'case for change' and the resulting investment cases
Mar 2009–July 2009	Implementation options and investment case scenarios developed, which would resolve the current state issues and achieve the DTP goals
August 2009	DTP Transformation Summit with Executive Leadership Team and senior leaders
September 2009–June 2010	Early gains: quick wins and design of organisational and operating models for more aligned and centralised functions in the three work stream areas
July 2010–June 2011	Set-up for success: establish Defence Logistics Command, Defence Personnel Executive, Office of Strategic Management, and Capability Branch
January 2011–June 2011	Benefits realisation (financial and non-financial)
July 2011–December 2012	Embedded change: leverage of preceding work to maximise benefit realisation and embed change; complete the transition to business as usual

Source: Adapted from *DTP Closure Report*, June 2011.

12 Ibid—DTP key messages.

13 "Business as usual" refers to a project or activity that is considered to be part of an organisation or business unit's routine tasks or functions rather than a project that does not fit within those normal day to day activities.

Context for NZDF savings programmes

The Value for Money Review

1.26 The Value for Money review[14] examined the NZDF's business model and cost structures. The review's objectives were to help identify efficiencies, to identify ways to shift resources to front line activities and to provide assurances and options around the cost effectiveness and sustainability of the NZDF. The review identified additional savings and extended some of the targets set by the DTP. The review identified potential savings of up to $350 million per year by 2014/15, of which $100 million came from the DTP.

1.27 The Value for Money report noted that many of the identified savings require substantial changes to current processes and practices. Such changes take time, and involve additional capital and operating expenditure particularly in the information technology (IT) area. The savings targets must have realistic timetables. The report also stated that the timetables identified for some of the savings programmes within the NZDF (particularly logistics and human resource) were optimistic.

1.28 Findings in relation to the DTP were.

a Annual costs had been as high as $20 million and, although reduced in 2010/11 to about $13 million, they were still too high. The process was unnecessarily time consuming and complex.

b The Programme failed to identify and budget for all the IT and other costs that need to be incurred to deliver the savings.

c The Programme lacked the mandate to optimise savings.

d The savings targets were, as a consequence, too modest.

1.29 The Value for Money review recommended:

a reducing DTP costs, particularly the use of external contractors;

b making functional managers responsible for the change programmes within their areas, and transferring DTP resources to the function to assist with the Programme's projects; and

c reducing the DTP budget by 50%.

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14 Pacific Road Group (2010) *Value for Money: Review of the New Zealand Defence Force.*

The Defence White Paper

1.30 In November 2010, the Government published a Defence White Paper. The White Paper set out the future strategic direction for the NZDF, provided a framework for reform, and outlined how to get the best value for money from the defence budget.

1.31 The White Paper noted the NZDF's internal efficiency programmes, including the DTP. It stated the DTP had already redistributed $84 million through 'quick win' projects;[15] and that organisational changes from the Programme were expected to free up resources worth about $100 million per year by 2014/15.

1.32 The White Paper went on to say that these measures would not in themselves meet the costs of maintaining and enhancing current capabilities. Therefore, to identify opportunities to redistribute existing resources to front line activities while maintaining or enhancing operational outputs, a comprehensive and independent Value for Money review had been conducted. The Value for Money review had examined all major areas of NZDF organisational activity, with a particular focus on support functions. Savings identified by the review formed the basis of the White Paper's recommendations.

1.33 These savings were included in the Defence White Paper, which stated that the

> Government expects that by 2014/15 the NZDF will free up $100 million from the DTP and $250 million to $300 million from other Value for Money initiatives, on an annual recurring basis, for front line capabilities.[16]

1.34 The Cabinet approved these savings targets in September 2010.[17] The 2011-12 Terms of Reference between the Minister and CDF incorporate the savings target, although CDF has discretion over how the savings are achieved.

15 The 'quick win' projects involved savings that were 'one-off', rather than enduring amounts that could be removed from budgets each year. These projects formed part of the first phase of the DTP and are covered by our earlier evaluation.

16 Defence White Paper 2010, paragraph 8.16.

17 CAB Min(10) 33/2A, 13 September 2010.

Other savings initiatives

1.35 As well as the DTP, the NZDF was running other internal savings initiatives such as NIKE and PERSEX. Both these initiatives originated from within the NZDF in 2009/10 and were acknowledged in the Value for Money review.

1.36 NIKE ('just do it') included projects that were seen as straightforward to deliver and covered mostly back end functions. NIKE included enduring and one-off savings. One of the NIKE projects was to reduce expenditure on DTP consultants.

1.37 PERSEX focused on making enduring personnel savings by:

a revising the workforce to work at lower ranks;

b civilianising and reducing the number of Warrant Officer posts; and

c offering reduced working hours to staff.

Efficiency programme

1.38 In response to the White Paper, CDF established a Strategic Reform Programme which consists of four work streams: the Efficiency Programme, the Reform Programme, the Capability Plan and the Output Plan.

1.39 CDF Directive 17/2011 *Strategic Reform Programme: Implementation of the NZDF Efficiency Programme* (9 May 2011) set out the arrangements for delivering all the NZDF savings initiatives, including the DTP, into a single NZDF Efficiency Programme. The Directive charged the Strategic Reform Office with oversight, coordination, and reporting on the Efficiency Programme.

1.40 The Directive states the outcome of the Efficiency Programme is to:

> …deliver sustainable savings by FY 14/15 to enable capability renewal. Project plans for delivery of savings are to be in sufficient detail to ensure benefits are realised as savings (dollar reductions to cost centres) into the CDF Reprioritisation Account.[18]

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18 CDF's reprioritisation account is where any surplus funds (eg from savings) are posted so that they can be reallocated to other areas according to CDF's priorities.

Current savings targets

1.41 Progress in achieving DTP savings is therefore a significant indicator of the NZDF's progress toward implementation of the Defence White Paper. As stated in the White Paper, the Government expects that by 2014/15 the NZDF will have freed up $100 million from the DTP, and $250 million to $300 million from other Value for Money initiatives. These would be annual, enduring amounts to be redistributed to front line capabilities. The Cabinet approved these targets in September 2010.[19] The Terms of Reference between the Minister of Defence and CDF set the Defence Force the goal of redistributing some $350 million to $400 million annually.[20] The Terms of Reference gave CDF flexibility over how this goal is achieved.

19 CAB Min (10) 33/2A.

20 Terms of Reference Between the Minister of Defence and CDF, 1 July 2011 – 30 June 2012, paragraph 11.

Section 2
Logistics Change Programme

Overview

2.1 The Logistics Change Programme began as a DTP work stream. Its purpose was to identify opportunities for improvement in structure, process, and culture; to develop options for transforming logistics; and to implement any recommendations approved by the Executive Leadership Team. The work stream recommended a new Defence Logistics Command, which the NZDF set up in mid-2010, led by the new position of Commander Logistics. The Defence Logistics Command is responsible for NZDF logistics policy and strategy, delivery of logistics support to the Services and deployed Force Elements, as well as consolidating parts of the logistics functions of the Services. It comprises approximately 1,100 personnel.

2.2 Once the Defence Logistics Command was established it gradually took over responsibility for the Logistics Change Programme, which ceased to be a formal part of the DTP.

2.3 The current benefits forecast for the Logistics Change Programme is $38.2 million per year by the end of 2015/15. This includes $10.2 million of extended savings targets that were not originally part of the programme.

Investment case

Investment case options

2.4 The Executive Leadership Team approved the investigation phase charter in November 2008. The main deliverable from the investigation phase was an investment case that presented different options.

2.5 The Logistics Change Programme identified eight options. Two of these (Options 1b and 2b) were developed further and were presented for consideration in the investment case against a baseline option (Option 0). Under Option 0, the annual cost of logistics was forecast to increase from

$569 million in 2009/10 to $602 million by 2013/14, excluding inflation.[21] Although not stated explicitly, the investment case implies Option 0 is the reference point for calculating benefits.

2.6 Under Option 1b, forward logistics and maintenance were to remain in the Services (forward logistics are attached to force elements). Policy, support, shared service, and depth logistics (which enable and support forward logistics) were fully consolidated under a single point of accountability, Commander Logistics. The aim was to favour efficiency while preserving operational capability. Of the 4,100 full-time equivalent logistics personnel in the NZDF, 1,800 were to transfer to a centralised Defence Logistics Command with effect from 1 July 2010.

2.7 Under Option 2b, the Services would retain control and management of their logistics but with common processes and close alignment.

2.8 The Logistics Change Programme Sub-steering Committee was divided over which of the two options presented in the investment case was preferred. Committee members expressed concerns about the quality of the logistics and financial data used in the analysis, and therefore the reliability of the quantification of benefits. Another concern was that the level of benefits was too low to outweigh dismantling existing processes that the Services had developed over many years, and which effectively met their needs. Some committee members also thought the benefits were too low to outweigh the risk associated with substantial organisational change.

2.9 The Sub-steering Committee favoured option 1b, with a majority of 4:3. In June 2009, the Executive Leadership Team agreed with the recommendation, but considered Option 1b needed further development. The Logistics Change Programme was stood up in September 2009, headed by the officer selected to become Commander Logistics.

Benefits and costs

2.10 The most likely case under Option 1b was forecast to deliver benefits of $412.9 million over the 10 years from 2009/10. Most of the benefits were to come from reduced headcount (a decrease of 268 FTE by 2013[22]), reducing third party expenditure by applying strategic sourcing principles,[23] and better inventory control.

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21 *LCP Investment Case*, 30 June 2009, paragraph 73.

22 *LCP Investment Case*, 30 June 2009, paragraph 130.

23 Strategic sourcing is when products and services are sourced from a strategic perspective to get the best deal for an organisation or group as a whole. For example, the NZDF is likely to get a better price by negotiating one, high volume contract, rather than each service or business area negotiating their own, separate but lower volume price.

2.11 Table 2.1 shows the benefits for Option 1b.

Table 2.1 Benefits for the most likely case, Option 1b, Logistics Change Programme ($ million)

	2009/10	2010/11	2011/12	2012/13	2013/14	10YR TOTAL
Strategic sourcing	5.1	14.2	17.3	20.3	20.3	**178.7**
Consolidation of logistics functions	1.5	2.9	12.6	16.3	21.3	**172.2**
Total operating cost benefit	**6.6**	**17.1**	**29.9**	**36.6**	**41.6**	**350.9**
Inventory reduction	6.0	14.8	14.8	8.8	8.8	**62.0**
Total working capital benefit	**6.0**	**14.8**	**14.8**	**8.8**	**8.8**	**62.0**
Total benefits	**12.6**	**31.9**	**44.7**[1]	**45.4**	**50.4**	**412.9**

Source: *Logistics Change Programme Investment Case 30 June 2009*, second table, p.2.

Notes: 1. This figure is shown in the source table as $42.4 million.

2.12 Making the changes needed to achieve these benefits required an investment of $52.8 million (table 2.2). The main investment ($34.5 million) was capital expenditure for a pan-NZDF upgrade and application of the SAP logistics functionality and processes. The SAP changes were designed to introduce new modules that would cover the whole logistics process, increase automation of processes, provide for automatic inventory tracking technology, and improve data quality.

Table 2.2 Costs for the most likely case, Option 1b, Logistics Change Programme ($ million)

TOTAL COSTS	2009/10	2010/11	2011/12	2012/13	2013/14	10YR TOTAL
Opex	6.5	4.5	3.9	1.6	1.2	**17.7**
Capex	0.1	16.3	18.7	0	0	**35.1**

Source: *Logistics Change Programme Investment Case Light*, 30 June 2009, first table, p.2.

Revised investment case

Revised scope of the Logistics Change Programme

2.13 In December 2009, the Executive Leadership Team directed the DTP to meet at least 80% of the logistics benefits from the investment case for 75% of the costs. Following this direction as well as further detailed design work, the Logistics Change Programme produced a revised investment case in April 2010.

2.14 As a result of the revision, a net 714 FTEs would no longer form part of the Defence Logistics Command when it stood up in July 2010. Initially, 1,849 logistics personnel had been considered in the scope of the Logistics Change Programme. The revised baseline was 1,135.

2.15 The 714 FTE were to have come from the following areas, which were now considered outside the scope of the change programme.

a Joint Logistics and Support Organisation (JLSO, renamed Defence Shared Services from July 2010). In the initial investment case, consolidation of logistics was considered to include approximately two thirds of JLSO; so the relevant JLSO personnel and budget were included in the baseline data. However, a review of shared services meant only 11 JLSO personnel were to transition to the Defence Logistic Command rather than the original 200. In the event, no JLSO personnel moved to the Defence Logistics Command when it stood up in July 2010.

b Logistics training and education. The Logistics Change Programme had initially identified a potential saving (over 10 years) of $33.9 million in logistics training and education, mainly from a reduction in FTEs of 59. This benefit was later transferred to the Human Resource Change Programme (under Training and Education). The identified benefit also decreased to a reduction of only 34 FTEs. The Logistics Change Programme undertook to meet the 25 FTE variance in training benefits by other means.

c Trentham Regional Support Battalion and health services. These areas were removed from consideration.

Revised benefits

2.16 The benefits for the 10 years from 2009/10 reduced to $339.9 million (from $412.9 million). Table 2.3 shows the revised benefits for Option 1b.

Table 2.3 Revised benefits for the most likely case, Option 1b, Logistics Change Programme ($ million)

	2009/10	2010/11	2011/12	2012/13	2013/14	10YR TOTAL
Strategic sourcing	2.6	11.4	17.3	20.3	20.3	**173.4**
Consolidation of logistics functions	0.9	1.8	4.1	8.8	12.1	**98.4**
Total operating cost benefit	**3.5**	**13.2**	**21.4**	**29.1**	**32.4**	**271.8**
Inventory reduction	4.0	16.8	14.8	8.8	8.8	**62.0**
Total working capital benefit	**4.0**	**16.8**	**14.8**	**8.8**	**8.8**	**62.0**
Total benefits	**7.4**	**30.0**	**36.3**	**37.9**[1]	**41.2**	**333.9**

Source: *Revision to Logistics Change Programme Investment Case of 30 June 2009*, 6 April 2010, second table, p.3.

Notes: 1. This figure is shown in the source table as $41.2 million.

Costs

2.17 The revisions resulted in investment reducing from $52.8 million to $39.9 million over the 10 years from 2009/10 (table 2.4). The main reduction in cost came from lower investment in systems (SAP).

Table 2.4 Revised costs for the most likely case, option 1b, Logistics Change Programme ($ million)

TOTAL COSTS	2009/10	2010/11	2011/12	2012/13	2013/14	10YR TOTAL
opex	**5.6**	**13.5**	**5.0**	**0.6**	**0.6**	**25.3**
capex	**0**	**3.5**	**11.1**	**0**	**0**	**14.6**

Source: *Revision to Logistics Change Programme Investment Case of 30 June 2009*, 6 April 2010, first table, p.3.

2.18 The Executive Leadership Team endorsed the revised investment case in April 2010.

Defence Logistics Command

2.19 The Defence Logistics Command was established on 1 May 2010 when the Office of Commander Logistics was formed. The logistics functions comprising the new organisation came under Commander Logistics on 1 July 2010.

2.20 The Logistics Change Programme merged into the Defence Logistics Command and gradually its tasks were taken over by a change programme within the Defence Logistics Command. Funding for the Logistics Change Programme ended on 30 June 2011.

2.21 The strategic outcomes for the Defence Logistics Command are to:

a improve logistics delivery, development, and management across the NZDF;

b influence areas of significant logistics expenditure and investment by the NZDF; and

c ensure alignment of logistics accountabilities, organisation structure, authorities, resources, and budgets.

2.22 Objectives are to rationalise and improve logistics within the NZDF. The focus for achieving savings is on 'rationalise', which includes further objectives to optimise logistics expenditure and consolidate functions.

Structure of the Defence Logistics Command

2.23 The Defence Logistics Command's establishment is approximately 1,100 personnel. The Defence Logistics Command comprises:

a Office of the Chief of Staff, responsible for relationship management, financial management, information management, and executive support.

b Directorate of Logistics Policy and Strategy, responsible for business management and policy, strategy, reporting and Integrated Logistics Support.

c Logistics Command (Common Lines), responsible for delivery of common services such as freight, fuel, munitions management, strategic procurement, and inventory management.

d Logistics Command (Maritime), Logistics Command (Land), and Logistics Command (Air), accountable for the delivery of environment-specific logistics support.

2.24 Only depth logistics functions have moved into the Defence Logistics Command. Forward logistics has stayed under the direct command of the respective service chiefs, providing direct support to force elements. In the case of the Navy and the Air Force, it was possible to transfer discrete work areas to the new structure without needing to restructure them internally or change their location. For example, the Navy's fleet support group remains unchanged, but now reports to Commander Logistics rather than the Chief of Navy. The Army has more forward logistics personnel who are embedded with the force elements that they support. This meant that significantly fewer Army logisticians have transferred to the new structure.

Reported savings targets 2009-2011

2.25 We found that savings targets for logistics are unclear, especially with respect to savings from strategic sourcing. In some documents these savings appear to be included in the overall logistics savings target but in others they appear to be an additional saving. Table 2.5 summarises how the logistics targets have been presented in different documents over the period 2009-2011. We discuss these targets in more detail below.

Value for Money review

2.26 The Value for Money review[24] had a savings target for logistics of $55 million per year from 2014/15. The review compared this to the target from the Logistics Change Programme revised investment case of $41.2 million. The $41.2 million included $20.3 million from strategic sourcing as well as $8.8 million from inventory reduction which was a saving to working capital. The Value for Money review also had a

24 The Value for Money review findings on Logistics are discussed further in paragraphs 2.45 to 2.47.

separate savings category of non-military procurement with a target of $17 million per year from 2014/15. The review noted that the NZDF had already identified savings of $6.6 million towards this.

Table 2.5 Summary of 2014/15 Savings Targets from Key Source Documents

SOURCE		LOGISTICS CONSOLIDATION ($ MILLION)	STRATEGIC SOURCING ($ MILLION)	COMMENT
Logistics Change Programme, Revised Investment Case, June 2009	Identified by NZDF	12.1	20.3	Additional $8.8 million from inventory reduction, total $41.2 million.
Value for Money Review, August 2010	VfM Target	55.0	17.0	
	Identified by NZDF	41.2	6.6	
DLC Paper 24 May 2011	VfM Target	55.0		It is not clear from this document whether the $18 million of savings identified is for 2011/12 (which would be consistent with other sources) or for 2014/15 (which would be consistent with the VfM target of $55 million).
	Identified by NZDF	18.0		
DLC Schedule, 29 July 2011	Identified by NZDF	16.2	22.0	Total $38.2 million
Cabinet Paper, 8 August 2011	VfM Target	55.0	17.0	The $28.6 million includes $6.6 million from NIKE initiatives.
	Identified by NZDF	14.8	28.6	

Defence Logistics Command paper to Organisational Support Committee

2.27 In May 2011 the Defence Logistics Command submitted a paper[25] to the Organisational Support Committee (a sub committee of the Defence Force Leadership Board) that outlined the current savings gap and the Value for Money targets, and the initiatives the Defence Logistics Command had identified to address the gap. This paper stated that the Defence Logistics Command had identified savings to date of $18 million which left a gap of $37 million against the Value for Money target of $55 million.

2.28 The paper stated that this gap was largely attributable to the difference between the level of investment and infrastructure needed to support significant transformation, as identified in the original investment case, and what was finally approved and put in place.

25 *NZDF Logistics Savings Opportunities*, 24 May 2011, 7020/DLC/5, paragraph 18.

Reports to central agencies

2.29 In July 2011 the Defence Logistics Command prepared a schedule[26] of current savings targets compared with the revised investment case. This schedule showed a target of $38.2 million per year from 2014/15 of which $22 million was from strategic sourcing/non-military procurement (see Table 2.5).

2.30 In August 2011 the Cabinet Paper on the NZDF Savings Redistribution Programme[27] showed the 'NZDF Savings Profile' from the Logistics Change Programme to be $14.8 million per year from 2014/15 against the Value for Money target of $55 million. The paper also showed potential savings through strategic sourcing and consolidation of procurement functions of $28.6 million against the Value for Money target of $17 million.

2.31 The paper also noted the total savings to be achieved through "*pan-NZDF logistics functions will be in the region of $38.2 million by 2014/15*". This is consistent with the Defence Logistics Command schedule of July 2011.

2.32 The cabinet paper contended that the Value for Money review double counted some logistics benefits and noted that in 2010 the Executive Leadership Team reduced the logistics target to $18 million. We have found no other reference to this amount.

Current benefit position

2.33 Table 2.6 shows the benefits targets for the Defence Logistics Command. Some of these benefits come from projects that were not part of the investment case.

Table 2.6 Benefits targets for Defence Logistics Command ($ million)

	2010/11	2011/12	2012/13	2013/14	2014/15
Strategic Sourcing	4.4	13.0	18.0	22.0	22.0
Consolidation of logistics functions (*projects from investment case*)	0.7	4.6	5.5	5.7	6.0
Consolidation of logistics functions (*new extended targets*)	0.6	0.9	3.1	5.8	10.2
Total operating cost benefit	**5.6**	**18.5**	**26.5**	**33.5**	**38.2**

Source: *DLC Change Programme: Savings-Target Histories and Benefit Mapping*, supplied by Defence Logistics Command 29 July 2011

2.34 Of the $18 million annual savings identified for 2011/12:

26 *DLC Change Programme: Savings – Target Histories and Benefits Mapping*, 29 July 2011.

27 ECC (11) 33, *Vote Defence Force: NZDF Savings Redistribution Programme*, 8 August 2011.

a third party expenditure/strategic sourcing is expected to deliver $13 million in savings; and

b efficiency initiatives (including formation of the Defence Munitions Management Group, and rationalisation of Air Force aviation fuel and motor transport services) are expected to deliver $4 million.[28]

2.35 The NZDF Savings Redistribution Programme includes annual savings in 2014/15 of $22 million for strategic sourcing (a further $6.6 million is attributable to the NIKE savings initiative) and $14.8 million for consolidation of logistics functions.[29]

Realised dollar savings

2.36 The NZDF Efficiency Report for 30 June 2011[30] advised that Defence Logistics Change Programme projects totalling $3.6 million in 2010/11 plus a further $10.8 million in 2011/12 were sufficiently developed to have had their savings removed from opening baselines and returned to the CDF Reprioritisation Account. An additional $3.6 million in forecast savings for 2011/12 had yet to be removed from specific baselines. However, the savings for 2011/12 were indicated as being at extreme risk and had therefore not been declared as 'achieved'.

Closing the savings gap

2.37 The 8 August 2011 Cabinet paper on the NZDF Savings Redistribution programme identified a savings shortfall from logistics of $40.2 million per year from 2014/15. The Defence Logistics Command is required to make up this shortfall elsewhere. A range of initiatives has been identified, divided into shorter-term projects requiring only modest resources and investment; and longer-term projects that depend on investment and are higher risk.

2.38 The shorter-term projects include:

a various projects to enhance strategic sourcing savings to $20 - $25 million by 2014/15;

b consolidating Specialised Military Equipment and capital project procurement; and

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28 *NZDF Logistics Savings Opportunities*, 24 May 2011, 7020/DLC/5, paragraph 25.

29 ECC (11) 33, *Vote Defence Force: NZDF Savings Redistribution Programme*, 8 August 2011.

30 *NZDF Efficiency Report for Quarter Ended 30 June 2011*, 7020/RP/9/2011, 15 July 2011.

c changes to Air Force maintenance, repair and overhaul by bringing intermediate level maintenance into the Defence Logistics Command so that there is a single point of accountability for overall platform maintenance.

2.39 The longer-term projects include:

a developing a logistics hub at Ohakea for all lower North Island NZDF logistics functions (this project is aligned to, but separate from, the NZDF's long term plan for a Manawatu Hub);

b improving Army managed fleet utilisation;

c consolidating supply chain functions; and

d encouraging strategic partners to generate savings.

Barriers and risks to achieving savings

Investment

2.40 The revised investment case (approved by the Executive Leadership Team) included capital and operating expenditure in 2010/11 of $17 million; but Defence Logistics Command advised us that on stand up on 1 July 2010, it only received $3 million in operating expenditure. The reduced investment constrains the ability of the Defence Logistics Command to achieve the targeted savings. Given most of the originally approved investment was for a SAP upgrade, we note the Value for Money Review's comments on IT expenditure:[31]

> Put simply, without a major investment in corporate IT systems, many of the VfM savings we have identified will not happen.
>
> The most obvious areas are Logistics, HR and Finance but there are a myriad of other areas where outdated systems and infrastructure require upgrading.

Scope

2.41 We were told that some of the activities undertaken by Defence Shared Services can make it harder for the Defence Logistics Command to achieve savings. For example, Defence Shared Services may enter into a facilities management contract at a camp or base. That contract may adversely affect the opportunity for the Defence Logistics Command to enter into a national facilities management contract. The Defence Logistics Command can, in many cases, only influence, rather than directly control, much logistics expenditure.

31 Pacific Road Group (2010) *Value for Money: Review of the New Zealand Defence Force*, paragraphs 1.122-3.

Commitment to change

2.42 Achieving the savings targets will require 'fundamental and dramatic business transformation', including significant reductions of 300 to 400 personnel.[32] This will be difficult to achieve unless the traditional Service led logistics management and delivery changes, and the NZDF commits the (financial and human) resources required to implement the longer-term saving projects. Consolidation also requires commitment across the whole organisation.

2.43 Commander Logistics reports[33] the extent of his authority is a (moderate) risk in realising benefits, because responsibility for benefit realisation lies across the NZDF. He also notes requests for investment funding and implementation action for identified, but unrealised, savings have been delayed as processes are refined in HQ NZDF.

Turnover of personnel

2.44 In its first year of operation, the Defence Logistics Command experienced a 60% turnover in senior personnel often at short notice. This has posed a challenge. The recent personnel-related savings activities in the NZDF had affected 10% of positions in the Defence Logistics Command. Commander Logistics reports[34] business as usual remains unaffected as a result, but productivity and the momentum for change is significantly slowed.

Value for Money review

2.45 The Value for Money report noted that the initial investment case identified savings of $413 million over ten years from 2009/10 and that this target had been revised downwards to $334 million. The report further noted that the initial target of $413 million was a conservative figure and that the corresponding high end target was $530 million.

2.46 The Value for Money reviewers considered the higher target of $530 million per year was achievable. This equated to $55 million per year from 2014/15. It was also in line with targets and achievements in other defence forces and commercial organisations. However, the reviewers also noted that to achieve this higher level of saving, the NZDF would need to commit to investing the necessary amount of operating

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32 *NZDF Logistics Savings Opportunities*, 24 May 2011, 7020/DLC/5, paragraph 23.

33 *Quarterly Report, 1 April–30 June 2011*, Defence Logistics Command, Annex C.

34 *Quarterly Report, 1 April–30 June 2011*, Defence Logistics Command, Annex C.

and capital funds. Improvements would be needed in procurement processes across the NZDF and the Ministry of Defence would need to be consolidated within the Defence Logistics Command. The proposed Manawatu and Auckland logistics hubs would need to be implemented.

2.47 The Value for Money review considered even higher levels of savings were possible, potentially up to 15% of current expenditure. These savings ($650 million over 10 years) could come from integrating most of forward logistics and maintenance under the Defence Logistics Command; and more contracting out to the private sector.

Recommendations

2.48 It is recommended that the NZDF:

a identifies and prioritises the information systems and other infrastructure investment required to successfully implement its savings initiatives; and

b establishes processes to ensure that there is a link between approved business cases and provision of funding required to implement those business cases.

Section 3
Human Resource Management Change Programme

Overview

3.1 The Human Resource Management (HRM) Change Programme remained a structured work stream under the DTP. This was in contrast to the Logistics Change Programme, which was incorporated into the Defence Logistics Command, with responsibility for savings targets transferred to Commander Logistics.

3.2 The focus of the HRM Change Programme was to centralise most HR functions and create savings by reducing the number of personnel performing those functions. The centralisation led to the HQ NZDF Personnel Branch becoming the Defence Personnel Executive. Centralised functions have included HR support services, HR advisory services, recruitment, training and education, chaplaincy, psychology and workforce planning. New business units have been created within the Defence Personnel Executive including the HR Service Centre and the Training and Education Directorate. Transition to the new arrangements is not complete in all areas.

3.3 The current benefits forecast for the HRM Change Programme is $25 million per year by 2013/14. Most of the benefits come from personnel reductions.

Purpose of the HRM Change Programme

3.4 The November 2008 Charter for the HRM Change Programme stated the objective of the programme was to identify and deliver changes to human resource management that:

a reduced the annual operating cost of the human resource management services and support; and

b enhanced the personnel component of the NZDF's military capability by:

(i) increasing the quantity of personnel delivering operational outputs, and

(ii) improving the quality (readiness and sustainability) of personnel delivering operational outputs.

3.5 The Charter stated the HRM Change Programme would identify and quantify the benefits in the subsequent investment case.

Investment case (light)

Investment case options

3.6 The HRM Change Programme identified five options for change. Options 3 and 4 were developed into a "light" investment case in June 2009. The baseline against which benefits were calculated (Option 0) was the current state as at 31 March 2009.[35]

3.7 Under Option 4 a central agency or shared services organisation would undertake HR functions including workforce planning, recruitment, HR advice, HR administration, welfare and chaplaincy, and psychology. The centre would continue to provide HR strategy and policy activities, and the Services would continue to provide health and safety. The Personnel Branch HQ NZDF would be restructured to accommodate the proposed changes.

3.8 A central agency would also be wholly or partially responsible for education and training in the areas of induction, leadership and staff training, and training for common professions or trades. The Services would be responsible for environment-specific professional/trade training.

3.9 In contrast, under Option 3, the Service Chiefs would remain fully accountable for design, delivery and audit of platform and/or environment-specific training; and induction and leadership training albeit to harmonised objectives set and audited by a central directorate. Career management, recruitment, and HR administration and advice, would also be more regionally based or delivered by the Services.

Approval of the Investment Case (Light)

3.10 The HRM Change Programme Sub-steering Committee was divided over which of the two options presented in the Investment Case (Light) was preferred. The majority supported Option 4 for training and education, but the proposal for the HR functions split the committee along two lines: Service representatives endorsed Option 3, and HQ NZDF personnel

35 *HRM Structures and Delivery Investment Case Light*, 28 July 2009, paragraph 93.

Option 4. The debate concerned mainly whether HQ NZDF or the Services should be responsible for career management. The committee decided the question would be best answered in the detailed design phase. As with the logistics work stream, the lack of good quality data was a concern.

3.11 At its meeting of 28 July 2009, the Executive Leadership Team selected Option 4 and directed the project team to begin detailed design. The more detailed work would determine what remained a Service function and validate the benefits identified.

Benefits

3.12 The 'most likely' case under Option 4 was forecast to deliver benefits of $227.5 million over the 10 years from 2009/10. The investment case shows a significantly reduced headcount of 340 FTE by 2013/14,[36] which accounted for $24.0 million of the annual savings of $25.8 million.[37] This was to be achieved through a single organisational approach, delivering a large number of human resource management services through a shared delivery model.

3.13 Table 3.1 shows the benefits for Option 4.

Table 3.1 Benefits for the most likely case, Option 4, HRM Change Programme ($ million)

	2009/10	2010/11	2011/12	2012/13 ONWARDS	10YR TOTAL
Total benefits	0.0	21.0	25.8	25.8	227.5

Sources: *HRM Structures and Delivery Investment Case (Light)*, July 2009, table 33(2), paragraph 85 for totals; *DTP HRM Change programme—Revised Benefits Proposition*, NZDF DTPHRM 0767IC, 18 July 2010, Annex A for work area figures.

Detailed investment case

3.14 The Executive Leadership Team's decision at its 28 July 2009 meeting included that:

a for Education and Training, detailed design should commence leading to a fully costed investment case; and

b for HR functions, detailed design should commence leading to a detailed investment case based on a cost benefit analysis.

3.15 We understand that these, more detailed, investment cases together with the analysis they should have contained, were never produced. Despite

36 *HRM Structures and Delivery Investment Case Light*, 28 July 2009, table 42, paragraph 100.

37 *HRM Structures and Delivery Investment Case Light*, 28 July 2009, table 33(2), paragraph 85.

this, the Human Resource Management Change Programme progressed and has resulted in major changes to structures and processes.

Revised investment case

Revised timing and size of benefits

3.16 The working group further developed the Investment Case (Light) into a 'revised benefits proposition'. The more detailed work indicated that the original investment case had underestimated the complexity of the analysis required in some areas, and overestimated the benefits in others, as below.

a Service centre: More than expected administrative processes fell within scope, which significantly increased the analysis and detailed design requirements needed to implement a standardised approach.

b Training and development: the Investment Case (Light) timing did not account for the complexity of this area and the design and implementation challenge/logistics.

c Recruitment: the model for recruitment was changed, and anticipated information systems were not available within the timeframe expected.

d Human resource advisers: the benefits from this stream are linked to the Service Centre implementation, which had shifted.

e Psychology: analysis indicated that there were few benefits to be realised.

f Workforce planning: workloads and anticipated further volumes changed the timing of benefits.

g Wellbeing: Analysis indicated that there were few benefits from this stream (particularly in regard to social work).

3.17 In December 2009, the Executive Leadership Team directed the DTP to meet all the HR benefits for 75% of the costs. We note that this is different to the Logistics Change Programme which the ELT directed to achieve 80% of benefits for 75% of the costs. However, the HRM Change Programme Revised Benefits Proposition was also prepared on the basis of 80% of benefits for 75% of the costs and was approved by the ELT. There is no evidence that this discrepancy was recognised.

3.18 The Executive Leadership Team approved the revised benefits proposition in July 2010.

Revised benefits

3.19 Table 3.2 shows the revised benefits, which reduced in 2013/14 from $25.8 million to $23.1 million. For the ten-year period from 2009/10 benefits reduced from $227.5 million to $185.2 million (see the note to table 3.2 for the calculation of this last number).

Table 3.2 Revised benefits for the most likely case, Option 4, Human Resource Change Programme ($ million)

	2009/10	2010/11	2011/12	2012/13 ONWARDS	10YR TOTAL
Total benefits	0.0	6.5	17.0	23.1	185.2

Sources: *DTP HRM Change programme—Revised Benefits Proposition*, NZDF DTPHRM 0767IC, 18 July 2010, Annex A.

Notes: 1. The source tables do not show 10-year totals. We have calculated this figure as 6.5+17.0+23.1*7=185.2.

3.20 The targets from the revised benefits proposition were further revised downwards (from $23 million by 2013/14 to $21 million) because of approved changes to:

a non-public funds (the DTP originally removed NZDF-funded posts that administered non-public funds such as mess funds; but the Executive Leadership Team later reversed this);

b career and performance management; and

c project management training.

Defence Personnel Executive

3.21 To accommodate the new operating model approved by the Executive Leadership Team, Personnel Branch HQ NZDF became the Defence Personnel Executive on 31 May 2010. From this date, NZDF HR processes, structures, policies, and delivery were centralised under a single point of accountability. The Defence Personnel Executive took full responsibility for the delivery of the HRM Change Programme from 1 July 2011.

3.22 The initial structure of the Defence Personnel Executive was transitional. The DTP working group remained in place to provide skills and advice. The Defence Personnel Executive now comprises:

a Chief of Staff;

b Directorate of Personnel Capability Development (made up of Conditions of Service/Employment, Organisation Research and Development, Workforce Planning);

c Directorate of Personnel Capability Management (HR Advisory Services, Defence Recruitment Organisation, Wellbeing, Chaplaincy, Psychology, Career Performance Management Centre of Excellence, Medals);

d HR Service Centre (which is based in new premises in Upper Hutt);

e Training and Education Directorate (made up of Training and Education Services, Defence Training Institute, Defence College. Some parts of the Training and Education Directorate, including its headquarters, will be based in new premises at Massey University's Hokowhitu Campus in Palmerston North); and

f Directorate of Reserve Forces and Youth Development.

Current benefit position

3.23 As at September 2011, the HRM Change Programme benefit forecast is $25 million per year by 2013/14.[38] However, there are some unresolved issues affecting whether that higher target can be achieved (see paragraph 3.28).

3.24 The NZDF Efficiency Programme includes annual savings in 2014/15 of $24.9 million for the HR work stream.[39]

Dollar savings

3.25 The June 2011 Efficiency Report[40] stated some DTP human resource projects had developed enough for their savings to have been removed from opening baselines and returned to the CDF Reprioritisation Account. Savings from these projects total $2 million in 2010/11 plus a further $19.8 million in 2011/12. However, the savings are indicated to be at high risk and have therefore not been declared as 'achieved'.

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38 HQ NZDF Defence Personnel Executive, *Human Resource Change Programme Benefits*, 1150/PB/17,Draft as at 13 September 2011.

39 ECC (11) 33, *Vote Defence Force: NZDF Savings Redistribution Programme*, 8 August 2011, shows savings of $6.6M+$4.6M for HR, $2.4M for Recruiting and $11.7M for Education and Training.

40 *NZDF Efficiency Report for Quarter Ended 30 June 2011*, 7020/RP/9/2011, 15 July 2011.

FTE reductions

3.26 The Personnel Cost Plan[41] indicated that a reduction of 256 FTE from the DTP HR Change Programme had contributed to the personnel budget savings that were achieved for the 2011/12 financial year.

3.27 The link between FTE reductions and tangible savings is discussed further in section 5.

Barriers and risks to achieving benefits

3.28 There are various risks to achieving the forecast benefits of $25 million per year by 2013/14.

a The Services have not agreed an approach to dealing with Training and Education partial roles. Partial roles are relevant where personnel spend only a portion of their time on a function that is centralised. In these cases, it may not be possible to reduce FTE. If DTP cannot claim partial roles as a benefit then forecast benefits would reduce by $4.7 million to 2013/14.

b The outcome of the Strategic Real Estate Review will determine whether benefits for common driver and communication and information systems training can be realised. The decision to transfer this training to Linton has been deferred until the outcome of the real estate review is known. Associated benefits are $1 million to 2013/14.

c How to deal with the associated costs of training centralisation (for example, travel and accommodation for trainees) has yet to be decided.

d The Services may have to pick up some of the residual (non-training) functions of trainers who have been transferred until the Defence Shared Services picks up those functions. Associated benefits are $0.5 million to 2013/14.

e The NZDF has yet to agree some aspects of its tertiary study schemes, which are to be standardised across the Services, including remuneration for students on the scheme. Depending on what is finally agreed, benefits may reduce by $2.5 million to 2013/14.

41 The Personnel Cost Plan models the NZDF's personnel costs based on the known number and cost of personnel for each rank, trade etc.

Costs

3.29 The July 2009 Investment Case (Light) included information about costs as well as benefits. Making the proposed changes would require capital investment in the first three years (2009/10 to 2011/12) of $25 million in IT and $17 million in operating costs (personnel and contractors).

3.30 However the investment case did not present a complete picture of either costs or benefits. The $25 million capital investment related to the Human Resource Management Information System project (see paragraph 3.34 below) but potential benefits from this project were not included (see below). Benefits from the HR Service Centre and Training and Education projects were included but not all the related costs such as the fit out and ongoing costs of new premises. These omissions were due to a lack of certainty because the projects were not far enough advanced or because key decisions were yet to be made.

3.31 The omissions are significant. The Human Resource Management Information System project now is expected to return annual benefits of $12.8 million from 2015/16.[42] The HR Service Centre is forecast to cost $3.2 million[43] to fit out, with ongoing premises costs of $0.6 million per year. Costs for the new Training and Education premises were still not available when the implementation plan for that project was finalised in December 2010. At the time of preparing this report we had not been able to find these costs.

3.32 The July 2010 Revised Benefits Proposition notes that Investment Case (Light) costs had been revised to reflect the Executive Leadership Team's direction to meet all the benefits for 75% of the costs; however, the Revised Benefits Proposition did not include detailed costs and showed only revised gross benefits. The Revised Benefits Proposition did note that there may be additional programme costs that would depend on future design decisions. Subsequent programme reporting has similarly focused on gross benefits.

3.33 Section 5 includes further discussion on DTP costs.

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42 ECC (11) 34, *New Zealand Defence Force: Human Resource Information Management System Project: Detailed Business Case*, 5 August 2011.

43 DTP HR Service Centre Phase 1, *Project Implementation Plan*, July 2011.

Human Resource Management Information System

3.34 The July 2009 Investment Case (Light) identified a requirement to replace existing HR systems (principally ATLAS and KEA) noting that the Executive Leadership Team had approved a planning assumption that "*a technology platform will be required to enable and support transformation*".[44]

3.35 The Investment Case (Light) included the cost of implementing a new Human Resource Management Information System at $20 million to $30 million. It noted that although these costs were included in the investment case the potential benefits were not yet quantified. The Investment Case also noted that the Human Resource Management Information System project would be treated as a separate work stream within the HRM Change Programme and would produce its own business case where benefits would be quantified.

3.36 By June 2010 the Logistics Change Programme had also identified a requirement for an IT solution and the Human Resource Management Information System project was expanded to the Enterprise Resource Planning project and sat alongside the HRM and Logistics change programmes. In November 2010, after developing a business case, the project identified that the requirement for an IT solution was wider still and the project became the Executive Information System Project. However by this stage financial pressures were having more impact on the NZDF, which recognised that an Executive Information System was currently unaffordable.

3.37 In April 2011 the project was scoped back down to the Human Resource Management Information System project and transferred to HQ NZDF Capability Branch. A detailed business case was prepared, which evaluated three options, all based on SAP. The preferred option would incur $30.6 million of capital cost and $13.8 million of operating costs spread over financial years 2011/12 – 2014/15. The preferred option is expected to realise annual benefits of $11.7 million by 2014/15, increasing to $12.8 million from 2015/16.

3.38 On 9 August 2011 the Cabinet Expenditure Control Committee agreed with the selection of the preferred option and that the project should move to the procurement phase.[45]

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44 *HRM Structures and Delivery Investment Case Light*, 28 July 2009, paragraph 38 (e).

45 ECC Min (11) 10/9, *New Zealand Defence Force: Human Resource Management Information System Project: Detailed Business Case*, 9 August 2011.

Value for Money Review

3.39 In August 2010 the Value for Money review noted that, as part of the DTP, the NZDF was already making changes to HR functions and had identified savings of $26 million[46] (from a baseline of $61 million) by improving the ratio of HR FTE to total FTE from 1:22 to 1:49.

3.40 The Value for Money reviewers analysed the numbers of HR FTE providing HR services as a proportion of total NZDF FTE. They concluded that HR personnel numbers were most of the cost of the human resource function (74%), noting large numbers of people were mainly the result of manual processes and outdated IT systems. They considered the NZDF's target ratio of 1:22 to be high relative to all benchmarks.

3.41 The reviewers recommended implementing a best practice HR FTE to total FTE ratio of 1:200, but considered a more demanding (but appropriate) ratio would be 1:100 They estimated this would deliver peak annual savings of $36 million. This estimate was based on an average HR salary of $81,000. Actual average HR salaries are likely to be significantly lower than this (the average NZDF salary is $64,000). Therefore to achieve savings of $36 million would require an even lower ratio.

3.42 The reviewers also recommended simplifying processes and consolidating allowances, and replacing ATLAS with a SAP HR module.

3.43 With respect to recruitment, the reviewers noted the NZDF had already identified a 15% reduction in recruitment costs (from $20 million to $17 million), but suggested that outsourcing recruitment could save a further 10% to 15% annually. (They had not verified this amount, so did not include it in Value for Money savings.)

3.44 For education and training, the review noted a single, integrated NZDF Training Directorate had been established in early 2010 and the DTP had estimated annual savings at $6.4 million from 2010/11. (Total annual expenditure on education and training at the time of the Value for Money review was estimated at between $150 million and $180 million.) The reviewers considered an additional $10 million per year could be saved

46 The Value for Money Review took the figure of $25.8M from the Investment Case (Light) as the revised business case was not available when data was provided for the Value for Money Review.

Section 4
Headquarters Change Programme

Overview

4.1 The Headquarters Change Programme aimed to improve the HQ NZDF structures and processes to enable the NZDF to be more 'effective, agile and resource-efficient' in supporting the CDF.[47]

4.2 The Executive Leadership Team rejected the Headquarters Change Programme investment case at the August 2009 Summit. However, the Executive Leadership Team agreed that change was still required and the Headquarters Change Programme continued as a series of individual projects. The programme began on 1 November 2008.

Light investment case—rejected

Investment case options

4.3 The project team initially identified four options; but in July 2009, the Headquarters Change Programme Sub-steering Committee decided none of these options met all their expectations. The Headquarters Change Programme investment case (5 August 2009) therefore contained a single option (Option 1) which was a hybrid of the original four and which was compared with the current state of the HQ NZDF (Option 0). The changes proposed under Option 1 affected mainly the following areas.

a Service Chiefs' staff. Under the proposed option the Service Chiefs had only a small supporting headquarters. Service branch functions were rationalised into a single HQ NZDF or shared service delivery organisation.

b Capability. The option proposed structural, process, and cultural change to capability development and introduction-into-service, and to capability management within the Services.

c Plans. The option proposed changes to strategic planning with the creation of a consolidated NZDF Policy and Planning Branch.

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47 Programme Charter, HQ Change Programme, Initiation Phase, 7 November 2008, paragraph 3.

d Finance. A single finance branch would be created under the proposed option; and a single NZDF CFO would be accountable for financial planning, policy, and budgeting.

4.4 Other areas of significant change were logistics and personnel, which the other two DTP streams were considering.

Benefits and costs

4.5 Table 4.1 shows the benefits forecast for the most likely case of the hybrid option. Most of the benefits would come from FTE reductions. The costs under the most likely case were $3.7 million in 2009/10 and $1.8 million in 2010/11. Over half these costs (57%) were for consultants.[48]

Table 4.1 Benefits for the most likely case, option 1, Headquarters Change Programme ($ million)

	2009/10	2010/11	2011/12	2012/13	2013/14	5YR TOTAL	10YR TOTAL
Benefits	0.6	5.3	5.3	5.3	5.3	21.7	48.1

Source: Headquarters Change Programme Investment Case Light v1.0, 5 August 2009, Table 15 (2), p.40.

4.6 The DTP benefits register contains no targets for this work stream.

Headquarters Change Programme

4.7 Although the Executive Leadership Team rejected the investment case, work continued on examining HQ NZDF structures. Several projects were part of the Headquarters Change Programme, the most significant of which were the Office of Strategy Management, Capability Branch, and Finance Branch.

Office of Strategy Management

4.8 CDF has made further changes to HQ NZDF in response to the White Paper's direction to change organisational arrangements in Defence. He has established a Strategic Reform Office to coordinate structural and process change across the NZDF; and appointed a Chief Operating Officer to act as his deputy in managing the NZDF as an organisation.

Capability Branch

4.9 Another significant HQ project was the Capability Project. The Capability Project was run by Assistant Chief Development as a business as usual activity but with some support and oversight from the DTP. The focus of this project was to:

48 Headquarters Investment Case Light v1.0, 5 August 2009, Table 15 (1), p.40.

a create a single point of accountability for all aspects of capability delivery;

b take a single organisational approach to capability delivery; and

c ensure the NZDF works in a more aligned and agile way.[49]

4.10 The review resulted in the creation of a new Capability Branch within HQ NZDF by integrating HQ NZDF Development Branch with the Service capability branches. The Assistant Chief Development was renamed Assistant Chief Capability. Capability Branch stood up on 1 October 2010.

4.11 The Capability Project did not have any specific savings targets but the CDF Directive establishing the new Capability Branch directed that it should have a cost neutral effect on the NZDF's Personnel Cost Plan.[50]

Finance Function Review

4.12 The Finance Function Review took place under the auspices of the DTP HQ Change Programme but was managed by Finance Branch as a business as usual activity. The objectives of the review were to deliver a NZDF Finance structure that is:

a better—more flexible and adaptable to NZDF structures and practices;

b simpler—aligning functions and if feasible, centralising functions;

c smarter—developing an NZDF finance structure that enhances efficient use of time and resources, for example reducing duplication between services, as well as amplifying the financial skills and abilities across NZDF; and

d cheaper—at least no more expensive.[51]

4.13 The review had three phases. The first phase looked at management and senior-level personnel, and the second phase personnel at lower levels. In July 2011, Finance Branch was moving to a final phase of restructuring. The objectives of this phase were to reduce the cost of the finance function and to reallocate finance resources to meet the needs of recent changes in the NZDF such as the stand up of the Defence Personnel Executive, the Defence Logistics Command and the Training and Education Directorate.

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49 Project Charter, Capability BAU Project, 17 October 2009.

50 CDF Directive 33/2010, Establishment of NZDF Capability Branch, 27 September 2010.

51 CDF Directive 20/2010, Implementation HQ DTP Finance Review, 20 July 2010.

The final structure was expected to be embedded by the end of October 2011 and was expected to reduce current annual expenditure of $12.5 million per year to $10 million by 2012/13. Most of the savings were to come from reductions in personnel numbers.[52]

4.14 In September 2011 this third phase of the Finance review was put on hold and CDF directed an external review of the Finance function. The outcomes of this review are not yet known.

Other projects

4.15 The DTP HQ Change Programme also included several smaller projects covering areas such as information management, project management training, and support services.

52 Benefits targets were originally included in the DTP benefits register when business-as-usual activities identified savings; however, they were later removed because the Executive Leadership Team had not formally approved them and they were considered to have no firm basis.

Section 5
Discussion

Introduction

5.1 The purpose of this review was to assess how successfully the DTP is achieving its targets for benefits and savings. We had expected to provide a relatively straightforward report setting out original targets and realised savings to date. This task proved challenging, because several factors altered how the NZDF defined, tracked, and reported on the DTP since it began in its restructured form in late 2008. These factors include a changed emphasis in the aims for the early stages of the Programme; the progressively changing structure of the NZDF; and the Value for Money review, which placed additional savings targets on the NZDF.

5.2 In this section we look at these influences on the Programme and how they affected our ability to report on the achievement of benefits targets. We also note aspects of reporting that hindered interpretation of reported numbers in some cases.

DTP achievements

5.3 The DTP can claim some significant achievements. The most obvious of these are the new and restructured organisations; in particular the Defence Logistics Command, the Defence Personnel Executive (including the Training and Education Directorate) and other reorganisations that have taken place within HQ NZDF.

Financial benefits

5.4 The DTP was set up to make cash savings through transformational change. The DTP has delivered much of its promised change but the financial benefits have been slower to materialise.

Table 5.1 DTP Savings Targets for Financial Year 2014/15 onwards ($ million per year)

	LOGISTICS	HUMAN RESOURCE MANAGEMENT	TOTAL
Revised Investment Case	32.4	23.1	55.5
Current	38.2	24.9	63.1

5.5 Table 5.1 shows the approved annual savings targets (from the revised investment cases) for the Logistics and Human Resource Management work streams; and the savings the work streams are currently saying they will achieve by 2014/15. Both work streams expect to exceed their initial target. In addition the HQ Change programme is expecting to save $2.5 million from the Finance Function Review, and the Human Resource Management Information System Project a further $11.7 million.

5.6 On this basis the DTP can say it will enable more savings than originally thought. However there are a number of other factors to consider, many of which were outside of the DTP's control. These factors mean that it is not possible to say, with any certainty, what actual savings the DTP has achieved.

Forecast benefits

5.7 The savings figures in Table 5.1 are for financial year 2014/15 onwards. There are also actual and forecast savings for earlier years. Forecast savings include amounts that are expected to be saved based on changes that are planned or in progress but can not yet be confirmed.

5.8 The NZDF Efficiency Report for the quarter ended 30 June 2011 reports that for financial year 2010/11 $2 million of savings were realised for the HRM Programme and $3.6 million for the Logistics Change Programme.[53] These amounts can be considered as actual, ongoing cash savings for the NZDF.

5.9 The same report indicates that further savings of $19.8 million for the HRM Programme and $10.8 million for the Logistics Change Programme[54] should be achieved in 2011/12. These amounts have been removed from the relevant baselines and transferred to CDF's Reprioritisation Account but delivery of the savings is still considered to be at a high level of risk.

5.10 This means that although the DTP expects to exceed its savings targets, based on the work it has done and the structures and processes it has put in place, these results are forecasts and are far from certain.

53 CFO Minute 15/2011, 7020/RP/9/2011, 15 July 2011, Annex A, Table 1.

54 CFO Minute 15/2011, 7020/RP/9/2011, 15 July 2011, Annex A, Table 4.

Realising savings

5.11 The DTP's premise was that by improving processes and consolidating shared services, the NZDF would be able to realise cash savings. These savings would be redistributed to meet the operating costs of previously approved capability projects (including significant sums of depreciation) and allow investment in innovation and spend-to-save initiatives while also meeting fiscal pressures from inflation until 2014/15.[55] As the DTP progressed the NZDF found that many of the financial benefits delivered did not translate into actual cash savings.

5.12 A significant proportion of the savings identified in the investment cases produced by the DTP work streams were the result of reduced headcount. (Reduced headcount accounted for about 30% of the total savings target in the case of logistics and 90% for human resource management). In these cases the DTP created new organisations and structures that needed fewer personnel than before. This represents a saving in the cost of those functions.

5.13 In practice, however, the few surplus civilians were made redundant or offered employment in other vacant positions; but most of the personnel from surplus military posts were absorbed back into vacant positions in their parent Service. There was no overall saving for the NZDF because there was no actual reduction in overall military personnel numbers.

Realising savings from surplus military personnel

5.14 Realising savings from surplus military posts is not straightforward. Unlike civilians, military personnel are not tied to a specific job. Instead most military personnel move to a new role every two to three years to cater for career development, operational respite, natural attrition, and promotion. If a military position is disestablished or civilianised the military person filling that post cannot be automatically made redundant or civilianised themselves.

5.15 Personnel establishments are complex. Not all positions within an establishment will be funded, and at any time some funded posts will usually be vacant. There will be continual changes as people are posted in and out. This makes it difficult to substantiate a before and after position from which to calculate any personnel savings.

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55 The Defence White Paper 2010 states that the NZDF must live within existing appropriations until at least 2014/15.

5.16 Further we were told that although personnel costs had decreased during 2010/11 it was not possible to say how much of this decrease was due to the DTP and how much was due to other factors such as reduced recruitment and natural attrition.

Confusion over terminology and processes

5.17 We found that there was widespread confusion over the terminology and processes related to savings and benefits. The processes for re-allocating budgets and personnel that had been released from functions disestablished under the DTP have been described as 'convoluted and subject to interpretation'.[56]

5.18 The DTP's lessons learned register also noted (in December 2010) the lack of a clearly documented NZDF civilianisation process for setting out what happens to freed up military personnel and the funds associated with them; and for transferring budgets from the Services to consolidated units (February 2011).

5.19 We think the NZDF could have identified and resolved difficulties in calculating and realising personnel savings earlier than it did. There was also resistance to making people redundant, especially military personnel, which may have contributed to some decisions being put off. The evidence we have seen suggests that the DTP began to recognise that specific processes would be required for realising personnel savings, and reported this to the Executive Leadership Team, only in about March 2010. The DTP could not determine these processes, because it was not responsible for employment issues.

5.20 At about the same time a second issue was starting to become apparent—information about benefits and savings was being reported inconsistently. In particular benefits reported by the work streams did not match benefits reported by Finance Branch. This has often been referred to (including in the Value for Money report) as there being no 'one source of the truth'.

5.21 A cash saving can be said to have been realised only when the amount paid for something is removed or reduced and not replicated elsewhere. This is best determined by HQ NZDF Finance Branch and indeed the Chief Financial Officer took over the responsibility for realising and accurately reporting cash savings.

56 *HRM Change Management Programme: Induction Brief for Col P. Wood*, June 2011.

Attempts to improve processes for capturing and reporting benefits and savings

5.22 A series of CFO Minutes and CDF Directives has attempted to improve the processes.

5.23 In August 2010, the CFO established a Benefits Management Group.[57] The purpose was to ensure the results of the large number of cost savings and efficiency improvement initiatives in the NZDF (including the DTP) were captured for internal management and external reporting purposes. One way of doing this was that benefits from all initiatives would be logged into the DTP Benefits Register which would become the 'one source of the truth'.

5.24 In November 2010, CDF directed the establishment of processes for allocating realised personnel savings.[58] The intention was to ensure 'any and all' DTP savings were made available for redistribution by the Executive Leadership Team through the Benefits Governance Group. This included transferring primary control of the NZDF establishment to VCDF. Although it does not say so explicitly, we understand that this directive was issued to prevent the practice of Services absorbing personnel whose posts were disestablished as DTP changes were implemented.

5.25 Despite these steps to put clear processes in place, in early 2011 the problems had not been rectified. In March 2011 the Chief Financial Officer acknowledged that 'there has been some uncertainty and varying interpretations on realising savings from the organisational improvements that have been taking place. This is particularly so for managing changing personnel requirements'.[59]

5.26 He went on to state that 'implementing a system to manage the realisation of personnel savings is both urgent and essential to the delivery of the Defence White Paper'.[60]

White Paper savings targets

5.27 When it started, the DTP was the only pan-NZDF savings initiative and was expected to deliver the savings required to address the NZDF's forecasted funding shortfalls. But with increasing fiscal pressures the DTP was no longer sufficient by itself. The Defence White Paper 2010, supported by the

57 *Management of Savings and Benefits*, CFO Minute 20/2010, 19 August 2010.

58 CDF Directive 28/2010: *Realising the Savings and Managing the Establishment*, November 2010.

59 CFO Minute 03/2100, *Realising Personnel Savings*, 21 March 2011.

60 Ibid.

Value for Money report, increased the NZDF's annual savings target to $350 million–$400 million by 2014/15. The new target is made up from increased targets in areas already covered by the DTP (and other existing initiatives) together with newly identified savings opportunities.

5.28 We note that the White Paper target includes $100 million of savings from the DTP, as identified in the Value for Money report. The DTP savings in that report appear to have come from the NZDF Savings Report for Quarter Ended 31 March 2010.[61] This report shows DTP 'tactical' savings of $31.4 million per year by 2013/14 which forms part of the total of $100 million. Later reports, including the recent quarterly reports on the efficiency programme (which show progress towards the $350–$400 million target) exclude these savings. We think the $100 million of DTP savings included in the White Paper was overstated.

5.29 We also think there is the potential for double counting across the various savings initiatives. Given the number of initiatives, the level of detail available about each initiative and the time frame under which the initiatives are being progressed there is a high risk that some savings have been claimed in more than one area.

5.30 Nevertheless, however robust the data that led to the $350–$400 million target is, that is now the annual savings target that the NZDF is committed to achieving. It could be argued that the DTP targets are now largely irrelevant as the new target of $350–$400 million has to be met whether or not the NZDF achieves its specific DTP savings targets.

Current situation

5.31 HQ NZDF Finance Branch is now responsible for managing the Benefits Register and reporting savings from all initiatives contributing towards the NZDF target of $350–$400 million annual savings by 2014/15. Where a saving is confirmed, Finance Branch removes the amount from the relevant cost centres and transfers the same amount to CDF's Reprioritisation Account so the funding becomes available for redistribution. This ensures reported savings are matched by actual changes to the NZDF's baseline.

5.32 The NZDF has combined all its savings initiatives for meeting the White Paper target into its Efficiency Programme. Finance Branch is producing quarterly 'Efficiency Reports' that show progress towards the White Paper target and which have replaced the various NZDF and DTP benefits and savings reports.

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61 Finance Plans Minute 181/2010, *NZDF Savings Report for Quarter Ended 31 Mar 2010*, 7020/RP/9/2010, 20 April 2010.

Civilianisation

5.33 In 2011 the NZDF started implementing its civilianisation project. One of the aims of civilianisation, and as identified by the Value for Money review, is to save money by changing some military positions to civilian ones. Military employees cost more than civilians due to factors such as allowances and training requirements. The civilianisation project is identifying military posts that can be civilianised.

5.34 The NZDF has also been working on projects that identify how many military personnel, of each rank and trade, are required for the NZDF to fulfil its military requirements. The combined impact of the DTP, civilianisation and these other projects has resulted in a large number of military personnel who have become surplus to requirements. As part of the civilianisation project these personnel will be released from service or not have their contracts renewed.[62]

5.35 Personnel savings are now being realised as surplus people leave the NZDF, either because of civilianisation or general attrition, or through reduced recruitment. It is difficult to link these savings back to changes made by the DTP, so that the realised cash savings can be attributed to the right project. This is being done as a manual process where the rank of released personnel is linked back to establishment changes made by the DTP.

Costs

5.36 The DTP cost a lot of money. These costs included the costs of running the DTP and the costs of implementing the investment cases, for example the costs of setting up new premises. A lot of the costs were for consultants and contractors.

5.37 DTP cost information was not widely reported. The Value for Money report shows the actual plus forecast operating costs for the DTP over the five year period from 2009/10 to 2013/14 to be $60 million. Capital costs are not shown. The report also notes that not all costs have been included. The DTP Closure Report claims that the DTP cost $34 million.

5.38 We understand that the DTP was subject to a budget and that this was managed at some level. However it is not clear if, or how, costs were reported. Cost information formed little part of the reports to the Monthly Management Groups or the Executive Leadership Team.

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62 We reported on the progress of these projects in Evaluation Report 14/2011 – *Progress on determination of NZDF personnel requirements*, dated 20 October 2011.

Although we sometimes found references to costs in reports it was not detailed or transparent. Reporting routinely included benefits without alluding to costs.

5.39 The DTP was about saving money. Any savings made have to be considered against the costs incurred in achieving those savings. Without complete information the success of the DTP can not be established and the NZDF's savings targets may be insufficient when full costs are taken into account.

Benefits reporting

5.40 We have commented above about there being no 'one source of the truth'. We found this was the case with reporting and other information on DTP benefits. Overall we found information about savings and benefits to be unclear and inconsistent. This makes it difficult to track progress and changes over time and for us to present any specific figures with confidence.

5.41 Baseline assumptions are not always clear. The logistics investment case suggests the baseline was the situation that would have occurred under a 'do nothing' scenario. The human resource investment case suggests the baseline was the organisational state at a particular date. It was not obvious whether the numbers included or excluded inflation.

5.42 Changing organisational demands, as well as the requirement to report against a large number of savings programmes, means the format of reporting changed over time. For example, the three quarterly efficiency reports[63] produced to date all differ in format.

Non-financial benefits

5.43 The DTP reports it has also delivered many non-financial benefits. These include simplifying processes and structures, and mapping and documenting processes. The DTP has created new organisations and structures that put the NZDF in a better starting position for future change. It has also introduced practices and procedures for programme management and reporting. The DTP has identified many lessons the NZDF can learn from to improve the conduct and outcomes of future change initiatives. Given the NZDF is likely to be undergoing major change for some time these benefits should be noted.

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63 These are the reports produced by HQ NZDF Finance Branch that show progress of the Efficiency Programme.

Ownership, commitment and change management

5.44 The DTP came about because the NZDF identified a significant, upcoming funding deficit and realised that it needed to make major transformational change to address this. The NZDF should be given credit for this.

5.45 However, throughout this evaluation, and our earlier evaluation[64] on the DTP, we found that although the need for a programme such as the DTP was widely acknowledged, there was still resistance to the extent and nature of change required. There was a widespread perception that some senior leaders were not really committed to the DTP and did not take ownership of collective decisions.

5.46 The DTP was led, and largely resourced, with external consultants and contractors. At times there were dozens involved. This contributed to the perception that the NZDF did not really own the DTP but was being inflicted by outsiders. It also led to criticisms about the costs required to employ the consultants and contractors.

5.47 In fact the consultants and contractors were only responding to a course of action that the NZDF had identified itself, providing expert advice in areas the NZDF was lacking and acting on decisions made by the NZDF. We also found that despite criticisms from some areas, for the most part, the contribution of consultants and contractors was highly valued by those who worked with them.

5.48 Several people involved with the DTP, both internal and external, commented to us that the NZDF has limited internal change management expertise and is not an organisation prepared for major transformational change or the cultural change required for this to succeed.

5.49 The DTP has been only the start of major changes that the NZDF will have to face. If the NZDF is to succeed in these changes it needs to demonstrate real ownership and commitment from the top down and be prepared for further significant change.

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64 Evaluation Report 2/2009 - *Management of the DTP*, 15 May 2009.

Conclusions

5.50 The DTP has resulted in significant structural change in the NZDF. As the Programme intended, these structural changes should enable the NZDF to improve its efficiency and effectiveness. The NZDF reports these new organisational structures comprise over 2,500 staff and have freed up over 250 full-time equivalent personnel for redeployment or release.[65]

5.51 However, the DTP (and other efficiency initiatives) have envisaged significant savings in costs, which have not yet been fully realised.

5.52 We make no comment on the validity of the savings targets (or the numbers reported as savings). That is beyond the scope of our review. However we think the NZDF can achieve full advantage from its investment in the DTP only if it embraces the cultural change implicit in the new structures. It must also commit to the investment required in systems and infrastructure that will enable the savings to be realised.

Recommendations

5.53 It is recommended that the NZDF:

- a acknowledges the lessons learned from the DTP and identifies how these lessons can be applied to other savings initiatives;
- b ensures that for current and future savings initiatives it is fully understood from the beginning how actual cash savings will be realised from benefits and that processes are put in place to achieve this in a timely manner;
- c recognises the success of the DTP as well as its weaknesses/lessons;
- d always takes costs into account when assessing project outcomes; and
- e takes ownership of its initiatives and demonstrates this from the top down.

65 *DTP Closure Report*, June 2011.