

# Review of Defence Procurement Policies and Practices 2021

Prepared for the Ministry of Defence and New Zealand  
Defence Force

FINAL REPORT

January 2022





Andrew Bridgman  
Secretary of Defence  
Defence House  
Wellington

Cc: Kevin Short  
Chief of Defence Force

31 January 2022

Dear Andrew and Kevin,

## Review of Defence Procurement Policies and Practices 2021

We are pleased to present below the findings and observations from the Review of Defence Procurement Policies and Practices 2021, in accordance with our Consultancy Services Order dated 6 May 2021. The observations contained in this report should be read in conjunction with the two previous reviews and the restrictions set out in Appendix A of this report.

### Approach

As discussed and agreed, the review has been conducted on the basis of an assessment of a range of documentation supported by a series of interviews. I have been supported in the completion of this review by PwC Consulting, particularly Kelly Stirrat and Ben Wakely.

### Context

This is the third review we have completed of Defence's procurement policies and practices. The prior reviews in 2018 and 2019 focused on the Defence Capability Change Action Programme (DCCAP), which was established in response to several reviews that highlighted the challenges and risks associated with Defence procurement. The DCCAP introduced a series of improvements to the capability management system (CMS) intended to address these challenges, minimise risks and ultimately improve the success of major capability acquisition projects while at the same time building the confidence and trust of key decision makers.

Defence has put considerable effort and investment into the CMS, which is now an embedded part of business as usual following its transition from a formal programme of work under DCCAP. Throughout this review, we have assessed the extent to which Defence has made progress against the observations of previous reviews and how well the CMS still achieves what it was set up to do – providing decision makers with confidence and trust in the way the acquisition of major capability is managed.

### Summary of findings

On the basis of what we have observed through discussions and review of documentation, we are of the view that the CMS is an increasingly mature and resilient system that has so far achieved what it was set up to do. The quality of the people working within the system and the level of integration of processes, practices and systematic ways of working across the Ministry of Defence and the New Zealand Defence Force has led us to the conclusion that the system is now successfully embedded.



The CMS provides decision makers with a high level of confidence and trust that major capability acquisition projects can be delivered successfully, mitigating risks while achieving project outcomes.

This review is timely in the sense that several changes in the operating environment for Defence have recently tested the resilience of the CMS. In addition to the transition to business as usual, the system has accommodated changes in leadership within both the Ministry of Defence and the New Zealand Defence Force, as well as a change in government and new Ministers. The way these changes were managed demonstrate that the CMS has matured into a system that is no longer dependent on specific individuals for success and operates within a culture that is committed to its ongoing success.

Arguably, one of the biggest tests for the CMS to date has been COVID-19, a challenge we believe the CMS has so far managed extremely well. COVID-19 had the potential to have significant cost, timing and quality implications for several capability projects, however the frameworks and policies introduced through the CMS enabled personnel working within the system to manage risks, making use of contingencies and adapting plans to support delivery.

In our view the core of the system is very strong and operating effectively. Given that, our recommendations focus on the areas of continuous improvement effort and adapting to a new, potentially constrained funding environment. Our key recommendations include:

- **Planning for and adapting to a new funding environment**
  - Ensure the CMS is not compromised through a desire to cut costs.
  - Review frameworks to guide the flexibility and scalability of the CMS to suit different project requirements in a fiscally constrained environment.
  - Ensure that communication with decision makers is open and clearly articulates the risks, benefits and accurate counterfactual implications of capability investment decisions.
- **Continue to review governance arrangements**
  - Ensure governance forums allow for free and frank discussions about risk and for accountable leaders to be enabled to make informed decisions.
  - Clearly define the roles and responsibilities of line management versus governance to ensure lines are not blurred.
- **Focus on continuous improvement**
  - Use the lessons learned to date to ensure the CMS operates well through the next stage of the capability lifecycle.
  - Continue to mature whole of life costing and accurate consideration of whole of life cost as part of investment case analysis and presentation.
  - Maintain an informed balance between following process and achieving innovation.
  - Develop a formalised mechanism to support and facilitate ongoing improvement processes.

In our view, the CMS remains the leading example for long term capital planning within the public sector. The strength of the system is demonstrated through its resilience and ability to successfully navigate the challenges it has faced. We fully support an ongoing focus on continuous improvement for the CMS to ensure it continues to provide the same level of confidence and trust to decision makers and others who rely upon its outcomes/product.

I am available to discuss and/or elaborate on any aspect of this report if required.

Yours faithfully

A handwritten signature in blue ink that reads 'Brian Roche'.

Sir Brian Roche KNZM

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# Executive summary

We, Sir Brian Roche and PwC, have been asked to provide a third review of Defence's procurement policies and practices for major capability projects, with a particular focus on progress over the past two years given significant changes to the context in which Defence operates. This review follows on from two previous reviews conducted in 2018 and 2019 and should be read in conjunction with those reports.

## Summary of our findings

### **The environment in which Defence operates, and in which this review has taken place, has changed significantly since the previous reviews**

This review is largely defined by the changing context in which Defence is now operating. Since the last review in 2019 there have been several environmental shifts that are impacting and will continue to impact major Defence capability projects. Some of the more significant shifts include:

- There is a new Government in place along with a new Minister of Defence with a different set of priorities to the previous one
- The impact of COVID-19, coupled with other political priorities, has led to a constrained funding environment for Defence procurement
- The unprecedented pandemic has also impacted procurement in other ways such as limitations on contractor travel due to border closures and shutting of overseas job sites due to vector concerns
- Leadership has changed during the period since our last review, there is now a new Secretary of Defence and Chief of Defence Force as well as new faces in several other senior roles within the Ministry of Defence (MoD) and New Zealand Defence Force (NZDF)
- More specific to the Capability Management System (CMS) is the shift from the Defence Capability Change Action Programme (DCCAP), led by Tregaskis Brown, to the programme being formalised and embedded as business-as-usual across both MoD and NZDF
- There is a new, refreshed International Exemplar.

### **Overall, the Capability Management System is still successfully achieving what it set out to do**

The CMS has now become embedded within the way the MoD and NZDF manage major procurement programmes and projects. On the basis of all information we have reviewed, the CMS is still doing what it was set up to do – providing confidence and trust in Defence's ability to improve the success and reduce the risk of major defence capability procurement projects and programmes.

In many ways it has been quite timely to carry out a review of this nature during the continued fallout of what is an unprecedented pandemic with a truly global impact. Despite the challenges associated with the pandemic and a changing operating environment, there have been no significant issues relating to time, cost or quality that haven't been able to be managed using the system. This record in and of itself is testament to the strength of the CMS and evidence of how far the maturity of New Zealand's Defence capability procurement has come. The CMS is now applied as a core part of the way both the MoD and NZDF operate and it means that risks are being proactively and systematically identified, mitigated, and managed before they materialise.

While the CMS has shown resilience in the face of the changes and unexpected events it has encountered to date, the biggest test is likely still to come. Off the back of both COVID-19 and a change in Government, different priorities have resulted in a significant reduction in the level of funding for Defence capability projects. This constrained funding environment presents a test for the CMS – the key question being its ability to adapt to remain fit-for-purpose, flexible and scalable whilst continuing to manage risks to enable successful delivery of project and programme outcomes.

A critical success factor for the CMS will be its ability to scale and be flexible as the nature of the capability projects going through the system changes, though this comes with a number of risks. There is a question

around how this might be undertaken in practice, in a way that ensures risks are mitigated, project outcomes are delivered and leaders remain confident in the system.

### **We have seen progress since our previous review**

The MoD and the NZDF have continued to make progress and enhance the maturity of the CMS since our last review. The way in which projects and programmes have successfully managed risks through a challenging period is testament to the ongoing commitment of leadership and maturity of the CMS. Both the MoD and NZDF leadership spoke about the CMS with a sense of recognition of the maturity of the system and having developed the right people with the right level of skills to bring the system to life.

The CMS continues to be seen as an exemplar for long-term capital planning within the New Zealand public sector. Since the last review, further progress has been made in early planning for whole-of-life costs, portfolio-level reporting and prioritisation and strengthening the relationships and conversations Defence has with the Treasury. This progress has been achieved despite turnover in key roles – a sign that the CMS has been embedded into a culture of continuous improvement in an organisation committed to its ongoing success.

### **We recommend areas of focus for continuous improvement into the future**

In our view, the CMS, its component parts, and the people that make up the system have worked well to withstand the challenges presented to date. However, the risk that core parts of the system may be unpicked in the pursuit of efficiencies or cost savings is as present as ever. We would issue a degree of caution in exercising any temptation to materially change core parts of the system (i.e. the governance and integrated project team constructs). Significant changes at this point may jeopardise the effectiveness of the investment made over many years. Instead, we would advocate for an ongoing programme of continuous improvement. The CMS is at a point of natural evolution wherein some of the projects that have gone through it are soon to be transitioning from procurement stage to introduction to service. This presents the opportunity for the MoD and NZDF to apply the learnings and practices of CMS to a new stage of the capability lifecycle.

As with any other system, the CMS should remain dynamic and requires ongoing effort to ensure it can adapt to any future changes to the operating environment. There is a need to continually assess governance arrangements and roles to ensure they remain fit-for-purpose, develop guidance to allow scaling and flexing of procurement management processes, and to ensure the CMS works in alignment with the whole of life of major capabilities. Moreover, establishing a formal mechanism for facilitating the ongoing improvement process will enable Defence to ensure the CMS continues to receive the effort and investment needed to improve success and reduce risks of major capability projects.

# Introduction

## Purpose of this review

In 2015, the Ministry of Defence established a capability management programme to help mitigate the well documented risks and challenges of acquiring military capabilities. The Defence Capability Change Action Programme (DCCAP) was set up to address these challenges, improve Defence's capability management practices and, ultimately, improve the success and minimise the risks of major capability acquisition projects.

In 2018, Sir Brian Roche and PwC undertook a Review of Defence Procurement Policies and Practices for Major Capability Projects. This was followed up by a second review in 2019 to assess the progress that has been achieved and make recommendations on future actions.

Sir Brian Roche and PwC have now been asked to provide a third review, assessing the progress made to 2021. The purpose of this review is to assess the maturity of the CMS in light of several shifts in the operating environment and, given the passage of time, to provide an assessment of progress against the recommendations from the previous reviews.

## Purpose of the CMS

Following several internal and external reviews that highlighted the risks and challenges associated with acquiring military capability, Defence established DCCAP in 2015 as a capability management improvement programme. The purpose of the DCCAP was to address shortcomings in Defence's capability management practices and to deliver core principles for procurement projects. The formal DCCAP programme structure was set up to improve the level of confidence and trust that decision-makers have in Defence to successfully deliver major capability acquisition projects.

## Activities

In order to inform this review, we have undertaken the following activities:

1. Interviews with a selection of individuals involved in various capacities in the CMS, including executive and senior management, capability sponsors and owners and members of various governance boards, conducted between May and July 2021.
2. Review of key documents including the refreshed International Exemplar, governance reports, and core elements of the CMS.

## Structure of this Report

This review is split into the following sections:

1. **Looking back: Progress since the previous review** – key areas of progress made since the last review in 2019
2. **Observations** – themes and observations based on the interviews and documentation provided during this review
3. **Looking forward: Ensuring the continued success of the CMS** – recommendations of key focus areas for ongoing effort.

# Looking back:

## Progress since the previous review

This section describes the key areas of progress since our previous review in 2019. It outlines progress against the observations made in the previous reviews, as well as a general overview of any other development in the past two years.

It is clear that the effort and progress of the DCCAP has continued since our last review. The CMS is now regarded as a mature and well-embedded system, and it has proven resilient in the face of substantial challenges, particularly the disruptions caused by COVID-19.

### Key areas of progress

#### Key people risk

Our previous reviews identified an over-reliance on specific individuals as a significant risk. Since the last review, both MoD and NZDF have seen turnover in key positions. People noted in the interviews that the turnover had not resulted in issues for the CMS as the system has now matured to a point that it is no longer reliant on specific individuals.

In saying that, interviewees noted that there is still a tendency to rely heavily on key people. There remain some individuals with a set of skills and experience that is difficult to replace. Leadership on both sides identified this as a risk and have put considerable thought into succession planning. Identifying and investing in capable people coming through is now a priority, with a range of staff being given opportunities for training and experience to support their development and to support the overall strength of the system as well as the readiness of a wider group of people.

#### Relationship with the Treasury

In the previous review, we highlighted the need to improve the relationship with the Treasury. Based on interviews, it seems progress in this area has been made but there are still challenges when it comes to the short-term planning and budgeting cycle. For any long-term capital planning this is problematic, and it has been a particular challenge for Defence's major capability procurement projects.

A significant area of progress since the last review has been in the management of foreign exchange risk. In the previous report, we noted that Defence carries a significant amount of risk from exposure to fluctuations in foreign exchange rates, given the reliance on overseas suppliers over long time periods. Since then, MoD has worked closely with the Treasury's Debt Management Office to manage these risks appropriately and there is now much greater confidence in the way the Treasury and MoD are working together to manage and mitigate these risks.

#### Portfolio maturity and dependency management

Throughout both our previous reviews, we highlighted the need to improve portfolio maturity to support dependency management. Portfolio reporting has changed significantly since the early stages of DCCAP, and there is a greater understanding of dependencies and how to manage them. However, there is still room for further progress in both these areas.

#### Governance through whole of life

Our previous review identified ongoing governance through whole of life as a key area of focus. It was clear through this review that Defence is thinking about this and that work has been done to consider whole of life earlier on in the project lifecycle. Most notably, there has been a focus on clearer articulation and estimates of whole of life costs as part of the business case process, so that the true costs of both procuring and operating capabilities can be considered as early as possible.



While good progress has been made in this area, this will continue to be of importance into the future. Defence is now at a point where the first of the capabilities procured through DCCAP are about to be transitioned into service. This will be the first test of the CMS and its governance arrangements through a new phase of the capability lifecycle. The extent to which the CMS has matured in recent years, and the improved alignment between the MoD and NZDF means that Defence is well prepared for the next phase.

## Refreshed International Exemplar

At the time of our previous review in 2019, Defence was looking to renew the International Exemplar 2020. Our review recommended a refresh, rather than a reset, of the International Exemplar for the next iteration. In particular, it recommended an ongoing need to emphasise the 'why' behind the rigour of capability management practices. We also recommended refreshing the language to reflect an ambition to:

- be best in class
- embed a culture of risk management
- continue to optimise risk management in a flexible or dynamic way.

Since the last review, the Ministry has released a refreshed International Exemplar out to 2025. The refreshed International Exemplar provides a vision for what the CMS should look like in 2025. It provides seven areas of focus over this period and outlines measures of success for each, as well as for the CMS overall.

In our view, the refreshed International Exemplar provides an achievable vision for Defence. Many of the focus areas it describes are either natural next steps for the CMS, such as improvement of forecasting of through-life support costs for capabilities or relate to sustaining or uplifting the current practices and achievements of the CMS, such as maintaining the trust and confidence of Ministers.

At the time the refreshed International Exemplar was written, we may have recommended a more ambitious vision. However, given the changes in the operating context for Defence the refreshed International Exemplar provides a realistic, if challenging, objective for the CMS.

# Observations

Through the interviews and documentation review, we have developed a set of observations that give a sense of the maturity of the CMS. These fit into three broad themes:

- Resilience within a changing operating environment
- Fit-for-purpose governance and committed leadership
- Flexibility and continuous improvement.

This section explores specific observations under these themes.

## Resilience within a changing operating environment

### The environment in which Defence operates has seen several significant shifts in recent years

Since our previous review, there have been several environmental shifts that are impacting, and will continue to impact, major Defence capability procurement projects.

Shortly after our review in 2019, MoD underwent a change in leadership with a new Secretary of Defence. The previous Secretary of Defence had been instrumental in establishing DCCAP and was deeply committed to the success of the CMS. In the period since then, there has been a raft of other changes in senior roles on both the MoD and NZDF sides.

Alongside that, the CMS has shifted from operating under the DCCAP as a formal programme of work led by Tregaskis Brown, to being embedded into business-as-usual.

A global pandemic, in the form of COVID-19, impacted several in-flight capability projects through border closures that halted contractor travel and saw the shutdown of overseas job sites. From a longer-term perspective, COVID-19 will likely have lasting impacts in the form of constrained funding for Defence. In addition, there is now a new Government and new Minister with a different set of priorities than the previous one.

The timing of this review meant that we were able to get a sense of the resilience of the CMS in relation to the above changes in the operating environment, and how it may stand up to the impacts yet to be felt from COVID-19 and a constrained funding environment.

Overall, it seems the CMS is well embedded and is still doing what it was set up to do, even in the face of significant disruptions. The rigour of the policies and practices in place, and the extent to which they are embedded in the way Defence operates, meant that there have been no significant overruns in cost or timing of projects in recent years.

### COVID-19 provided a test of the resilience of the Capability Management System

COVID-19 provided a test to a number of major procurement projects that were already underway. Defence capability procurement relies heavily on overseas-based contractors and sites to build and test platforms. With border closures, travel restrictions, and workplace shutdowns occurring throughout the world at various times, COVID-19 presented significant risks to timeframes and the ability to progress with projects.

These risks did materialise for Defence, with projects being affected by delays to delivery timeframes caused by site shutdowns, unavailability of relevant contractors and the need to use contingency funding to avert issues. However, the training and quality of people involved in the CMS, the processes and logical management approach and the strategic governance instilled through the system, meant that overall project outcomes held up well given the magnitude of the event.

Project teams came up with solutions to problems that arose to avoid timing or budget overruns. By way of example, the simulator for the NH90 helicopter was due to be delivered during COVID-19, while the borders were closed. It was successfully delivered from Canada to Ohakea, but Canadian contractors were unable to enter the country to assemble it as planned. To avoid major delays, a team of locally based CAE employees and Air Force technicians assembled and installed the purpose-built facility with specialist support from Weta Workshops. This exemplifies the way the CMS enabled Defence to manage risks and develop solutions to unforeseen problems.

The CMS enabled risks such as the above to be managed in a timely and flexible manner. Interviewees stated that had the CMS not been in place or not so well-embedded, the impacts of COVID-19 would have been much more significant and there very likely would have been major cost or timing issues. Pre-planning during business case stages provided both contingency and flexibility to support risk management options and a degree of insulation where unexpected events outside Defence's control threatened to materially impact project progress.

### **The impacts of the constrained funding environment are just beginning to be felt**

While the CMS has been embedded and shown resilience in the face of unexpected events, potentially the biggest test is still to come as both the MoD and NZDF deal with a constrained funding environment. This test is less a question of the integrity of CMS itself, and more a question of how the system is maintained and how it adapts or evolves to remain fit for purpose. This is particularly poignant at a time when the availability of funding and decisions around the number of major projects being progressed may put pressure on the commitment of resources.

There is a real risk that the CMS may be unravelled or undermined in an environment where cost savings may be sought or projects unfunded. We would highlight the need to consider carefully the implications of any cost saving measures that may be implemented, particularly where they require changes to the CMS. There needs to be an ongoing focus on continuous improvement and ensuring outcomes are still being achieved, as any material changes to a system that has proven to work may jeopardise the effectiveness of the investments made to date.

Reduced investment in capability projects means fewer or smaller projects going through the CMS, which will require it to be flexible. It is very important that this is done in a way that keeps the rigour of the system and does not unpick the work.

### **A leaner funding landscape may require a leaner Capability Management System**

The natural evolution of the CMS that has occurred in recent years has led to a system that is relatively complex and resource intensive. Given the volume and nature of the projects currently going through the CMS, this has made sense so far, however there is a question around the sustainability of this approach into the future.

Many people interviewed noted that the CMS has become increasingly complex and that it tends to create its own bureaucracy. Over time, as issues have arisen, the response has been to add additional steps or processes to provide greater assurance. There is a risk that, if this approach continues, the additional complexity and burden added to the CMS may outweigh the benefits of using it.

In addition, some of the leaders observed that the CMS is fairly resource intensive, requiring relatively large project teams to complete the processes. In a leaner funding environment, Defence may need to adapt the current model used to resource projects by applying balanced judgement and exploring alternative resourcing models. There are early examples of where this is already occurring, such as the establishment of resource pools in the Information Domain and specialist contracting arrangements.

Most people interviewed believed strongly that the CMS must remain lean and continue to adapt and stay fit-for-purpose. This is particularly important as Defence enters a prolonged period of constrained funding. The appetite and ability to continue adding to the system has worked to date. However, as funding drops off over the next few years and the existing projects transition into service, there is a real need for the CMS to adapt, while ensuring it does not get unpicked or lose its effectiveness and rigour.

There are questions around what lean looks like in this context, and the most appropriate adjustments to make. Some people suggested a lighter touch set of processes could be used according to the size and risk of a project, while others believed that all the processes are necessary for every project and that the project teams could be smaller. Defence currently uses the scale and risk tool as a guide to right-size projects and this works well when followed. Continued use of the tool for this purpose would be a good guide, accompanied by following robust project management practices and applying sound judgement to decisions.

## Governance and leadership

### **Leadership remains committed to the success of the Capability Management System, despite personnel changes in key roles**

Since the previous review in 2019, there have been several changes to key leadership roles in both the MoD and NZDF that are closely linked to the CMS. There is a new Secretary of Defence, new Chief of Defence Force and several other key roles have seen turnover of personnel.

Like any major system, especially one that is integrated to the degree of the CMS, it does rely on the strong backing of future leadership. In this regard, the CMS will likely always be vulnerable in the event of future changes in senior roles or significant external pressures. Having the right people in leadership roles is critical to the continued success of the CMS.

There is still buy-in and commitment to the CMS at all levels and from both MoD and NZDF. Succession planning, relevant training and the integrated, collaborative approach to procurement across both organisations has meant that no issues have arisen as a result of the turnover of key personnel.

The extent to which the system is embedded, and the evidence of succession planning and the experiences of personnel coming through the system has meant that it is now not wholly dependent on specific individuals. We were informed through the interviews that while there is still some perception of key person dependency, particularly on the MoD side, that leadership has been active in making sure that other individuals are receiving the training and experience required to step up. Continued awareness of this key person risk is critical, and effort should be put into ensuring people, and therefore the system, do not rely too heavily on specific individuals.

### **Governance arrangements should continue to be reviewed to ensure they remain fit for purpose and encourage free and frank discussion about risk**

Almost everyone we spoke to had a positive view on the role of governance in the CMS including the Capability Governance Board (CGB) and the involvement of independent members. Governance in this context supports risk management but does not replace accountability. In a technical sense, accountability is mapped out by organisation across the CMS lifecycle, governance layers are intended to provide formal forums to effectively support and inform decision-making.

The CGB was identified as having a large group of attendees (including both core members and those attending for different items), with very full, structured agendas. Interviewees noted that expressing free and frank opinion and independent views at CGB can be a challenge, with subject matter experts driving discussions and there being a large number of people in the room. In addition, the CGB agenda typically being pre-determined, structured and very full may restrict diversity of thought and provide little room for members to think outside the box.

While interviewees noted that the CGB can, at times, be relatively transactional and lack the discussion needed to support longer-term, strategic thinking, there is work underway to uplift this. Ongoing CGB uplift activities include general discussion, providing broader perspectives for items and a refinement of roles and responsibilities.

There was a suggestion that the CGB could be supplemented by a smaller governance group made up of the accountable leaders to do deep dives on risks and ensure they are given the time and space to consider and discuss the information they deem to be most important. It would be critical, if this were to happen, that this group does not undermine the rigour of the current governance arrangements. Either way, a forum or mechanism for deeper discussions about risks through a more strategic lens would add value to the governance of the CMS.

## **External members play an important role in governance**

The value that external board members provide to the governance groups and process should not be understated. However, the external members we interviewed highlighted the degree of complexity in understanding the defence environment, interface between the MoD and NZDF and the range of interdependencies between projects and organisations.

We noted that it can take external board members a significant amount of time to come up to speed. Even at a project level, there is a large amount of information that can take time to understand, particularly for members for whom this is not their day-to-day work. This becomes all the more complex when looking across the entire portfolio and system.

External members add diversity of thought to governance groups, however there is a challenge in ensuring they are kept adequately informed across the range of in-flight programmes. While internal personnel stressed the importance of external board members and the value they add, some may not fully recognise the time and effort required for external members to fulfil their roles. It is important that external board members can be confident that they have all the right information to ask questions and make appropriate determinations.

## **Governance and line management can be blurred**

An observation that was touched on in both previous reports, and that was mentioned in several interviews under this review, is the blurring of governance and line management roles and responsibilities. The nature of CMS means that people often play multiple roles within a project team or on governance groups. For example, a person may sit on a governance board while also playing a line management role on a project. There is a suggestion that the combination of these roles can lead to challenges around separating the two perspectives and making decisions.

The weight of line management responsibilities can make it difficult to bring a balanced perspective to important decisions. Some interviewees also suggested that, at times, a decision regarding a project would be made at a governance meeting that would then be undermined by line managers, leading to a lack of certainty over decision-making powers and difficulty following through on decisions made.

There is also a question of whether accountability is defined and articulated as clearly as it could be. Ultimate accountability for major capability procurement projects sits with the Secretary of Defence until the platform's introduction to service, upon which accountability transfers to the Chief of the Defence Force. While this is relatively clear and is well understood by both the Secretary of Defence and the Chief of the Defence Force, the nature of the governance arrangements does not always make this clear to others. Through some of the interviews, people suggested that the cooperative and collaborative nature of forums such as the CGB can blur the feeling of accountability.

Defence is currently planning initiatives to clarify and improve the distinction between governance and line management. A continued focus on this will reinforce the strength and rigour of the current governance arrangements.

## Flexibility and continuous improvement

### The Capability Management System needs to remain flexible to changes in the environment

The degree in which the CMS has systematised major procurement projects across both organisations and the drive for continuous improvement and professionalisation has led to a system that is looked on as an exemplar for procurement management and capital planning in the public sector.

In assessing the system, however, we were wary of the risks that come with the weight of strict embedded processes and layers of governance. There is a real need for the CMS to retain flexibility and the ability to respond in ways that may not necessarily fully conform with all of the processes and policies within it.

When raised during interviews, most leaders agreed with the need for balance and were aware of the risks of remaining rigid and systematised. In saying that, we were also readily provided with examples where people acted proactively and intuitively, using their judgement to solve problems, while remaining true to the core principles of the CMS.

In speaking with people, there was general agreement that the processes and policies of the CMS should be a guide, rather than strictly prescribed and adhered to rules. Achieving successful project outcomes is the ultimate goal of the CMS and defaulting to a reliance on rules and templates can, at times, hinder this. There is a need to use judgement and experience alongside the processes of the CMS. This should be balanced by frameworks and assurance processes to ensure people do not just take the path of least resistance when given the flexibility to do so.

Nevertheless, we remain firmly of the view that a consistent focus on the empowerment and investment in people and their experience is just as important to a successful outcome as embedding the process within which they are operating.

### Adapting to better account for whole-of-life costs and the next stages of the capability management lifecycle

Building on previous reviews and observations made during the interviews, there are two related areas that should be the focus of the next evolution of improvements to the CMS.

The first area for improvement is whole-of-life costing of capability projects. This has been raised during our previous reviews, but remains an area where improvement is needed. A key area identified for improvement is a better understanding and articulation of the training required to bring personnel up to the skill-level required to operate new capabilities.

The need for improved whole-of-life costing has become more important. In particular, developing a better understanding of the cost of ongoing sustainment of military capability, which must be factored into the initial business case, and ongoing funding requirements.

While there is still work to do, whole-of-life costing has improved, and is a major focus in the revised International Exemplar. However, examples from the Maritime domain demonstrate that whole-of-life costs can still be difficult to accurately assess upfront.

This relates to the other main area for improvement – the expansion of the CMS beyond procurement and into the through-life stages of the capability lifecycle. To date, capability projects that have gone through the CMS have not yet been introduced into service. The HMNZS Manawanui is due for Full Operational Release in 2022, having been progressively introduced into service. This will provide a test for the CMS as it is the first time a project will progress further through the capability lifecycle.

## Effective management and resourcing of teams

A strong theme throughout this review was the effectiveness of Integrated Project Teams (IPTs) and their contribution to the successful management of capability procurement projects. The integrated and collaborative nature of these teams have been credited with the success of the projects to date. The IPTs are also resourced well in terms of the skills required to successfully manage these projects. The majority of people from both the MoD and NZDF that are involved in capability management are deemed to have a sufficient degree of professional skills required by the system.

However, as with any organisation, performance issues have arisen at times. Logically, this means that the best people are often reserved for the projects where they are most needed. This can lead to variable performance across projects, though this is currently being actively and effectively managed by leaders across both organisations.

Several interviewees identified parts of the Defence Enterprise that could benefit from the use of CMS and some of its practices. Interviewees noted that there has been a concerted effort to adapt CMS practices within other parts of Defence.

## Continuous improvement

The CMS, as with any other system, should not remain static and a conscious effort should be made to ensure it is the subject of continuous improvement. Some interviewees noted there is a need to continue conducting regular reviews to assess how well the CMS is still performing in terms of remaining fit-for-purpose and achieving what it set out to achieve.

There is also a need to ensure the CMS and capability investment remain aligned to Defence's policy objectives and long-term capability planning. This is especially important entering a period of reduced funding as the existing plans and strategies may need to be revised and capability projects need to be reprioritised.

There may need to be a rethink as to the way policy, capability and funding align for major Defence projects. If the political appetite for the level of defence funding seen recently is now reduced, policy documents such as Defence Assessments, Capability Plans and White Papers may need to take a more pragmatic approach. In addition, any policy and capability documents should make use of a counterfactual to support the government to understand the implications of not investing in required capabilities.

Throughout the interviews, it was suggested that the government has a greater appetite for Defence spending when capabilities have greater utility beyond just military uses. While Defence would typically prefer to procure platforms focused primarily on military-related capabilities, it may have more success in obtaining funding for those that have more broader utility for other civil defence, natural disaster or emergency responses.

Overall, the ongoing focus for the CMS should be on continuous improvement. The system is at a point of maturity and resilience that should allow for the improvements identified through this review to be made without jeopardising the rigour and integrity of the current processes. Defence should consider formal mechanisms that enable and facilitate this improvement process to happen. Regular reviews, whether of the CMS as a whole, specific elements of the system, or of project outcomes and risks, should continue. Defence could also conduct ongoing workshops and targeted working sessions on key topics to identify the most significant risks and areas for improvement. Regardless of the mechanism, the focus on continuous improvement should be formalised to ensure it gets the attention it needs and deserves.



# Looking forward:

## Ensuring the continued success of the CMS

This section summarises the recommendations and focus areas for both the Ministry and NZDF to ensure the continued success of the CMS.

We are of the view that the CMS is as important as ever and is coming into a period where it may require renewed effort and focus to ensure it doesn't become unpicked. Previous challenges, such as turnover of key personnel and those brought on by COVID-19, provided tests of the resilience of the system. Overwhelmingly, the maturity and embeddedness of the CMS were credited with getting through those challenges. However, the extent to which the CMS is systematised and embedded may well be the biggest challenge as it navigates a new, more constrained funding and political environment.

Throughout this review, we have made several observations relating to areas of focus to ensure the CMS continues to achieve what it set out to do.

### Key recommendations

- **Planning for and adapting to a new funding environment**
  - Remain aware of the risks that a constrained funding environment and desire to cut costs poses in terms of unpicking the CMS.
  - Use some of the lessons learned from COVID-19 to support adapting processes and getting ahead of risks that emerge.
  - Develop a framework that guides how to flex and scale the CMS to fit the size and risk profile of projects.
  - Ensure that communication with Government, the Treasury and Ministers is open and clearly articulates risks and benefits of capability investment decisions.
- **Continue to review governance arrangements**
  - Consider how well current governance forums allow for free and frank discussions about risk and for accountable leaders to be enabled to make informed decisions.
  - Continue to clearly define the roles and responsibilities of line management versus governance to ensure lines are not blurred.
- **Focus on continuous improvement**
  - The next stage of the capability lifecycle is a natural next step for the CMS as platforms come into service – use the lessons learned to date to ensure the CMS operates well through the whole of life of capabilities.
  - Continue to improve on whole of life cost estimates.
  - Maintain an informed balance between following process and achieving innovation.
  - Develop a formalised mechanism to support and facilitate the improvement process.

# Appendix A: Restrictions

This report has been prepared solely for the purposes stated herein and should not be relied upon for any other purpose.

This report was put together based on detailed interviews and a desktop review undertaken in the period May to July 2021.

To the fullest extent permitted by law, we do not accept a duty of care to any third party in connection with the provision of this report and/or any related information or explanation (together, the "Information"). Accordingly, regardless of the form of action, whether in contract, tort (including without limitation, negligence) or otherwise, and to the extent permitted by applicable law, we do not accept liability of any kind to any third party and disclaim all responsibility for the consequences of any third party acting or refraining to act in reliance on the Information.

We have not independently verified the accuracy of all information provided to us, and have not conducted any form of audit in respect of the organisations. Accordingly, we express no opinion on the reliability, accuracy, or completeness of the information provided to us and upon which we have relied.

The statements and opinions expressed herein have been made in good faith, and on the basis that all information relied upon is true and accurate in all material respects, and not misleading by reason of omission or otherwise.

The statements and opinions expressed in this report are based on information available as at the date of the report.

We reserve the right, but will be under no obligation, to review or amend our report, if any additional information, which was in existence on the date of this report was not brought to our attention, or subsequently comes to light.

This report is issued pursuant to the terms and conditions set out in the AoG Consultancy Services Order dated 6 May 2021.