

Speech to the New Zealand Defence Industry Association Annual Forum: 1 November 2019

Andrew Ford, Chair of the New Zealand Defence Industry Association.

Greg Lowe, Chair of the New Zealand Defence Industry Advisory Council. Distinguished guests. Ladies and Gentlemen.

It is a pleasure to be here today.

This is my sixth and last opening address to the Defence Industry Association Forum as Secretary of Defence. For this privilege, I thank you.

Today, I will update you on key developments since I last spoke to you and I will outline the steps we have taken to further strengthen the partnership between Defence and Industry.

I also want to take this opportunity to reflect on some of the changes introduced during my term as Secretary of Defence which I believe have enduring implications for both Defence and Industry.

Strategic Policy

Since I last spoke to you, the Coalition Government has released the Strategic Defence Policy Statement 2018.

Having a clear policy framework based on an assessment of our current and future security environment is critical to determining a capability mix and force structure that meets our strategic interests.

Having a clear policy framework is also good for Industry. It provides a greater level of certainty, while also signalling the direction of future investment in Defence.

The Defence Policy Statement does this.

It points to a world that:

- Is confronting growing tensions in the Asia Pacific,
- Has an international-rules based order that is under threat;
- And sees a collection of complex disruptors, including climate change, that are testing State resilience, including in the region nearest to us, the South Pacific.

Against this backdrop, the Defence Policy Statement situates Defence as having responsibilities for the Community, the Nation, and the World.

It affirms the priority the Government places on the Defence Force's ability to operate in New Zealand and its neighbourhood.

The Defence Policy Statement is aligned to the Government's Pacific Reset. The Reset will see the Defence Force playing an even greater role in the South Pacific to counter threats from climate change, other transnational challenges, and to bolster resilience.

Government's commitment to invest in capability

Delivering this Defence Force requires investment.

Priorities signalled in the Defence Policy Statement include:

- the replacement of major capabilities; and the need for,
- maritime domain awareness;
- secure access to space-based systems; and
- enhanced cyber capabilities.

And we have made good progress.

I will come to the Coalition Government's decision to acquire the P-8 capability shortly, but there have been other decisions in the 12 months since the Government took office, including:

- the reallocation of \$148 million to complete the installation of the Frigate Systems Upgrade project;
- the procurement of a new dive and hydro ship to replace the *Manawanui*;
- the acquisition of an NH90 flight simulator;
- the lease of four King-Air aircraft for Pilot conversion and Aircrew training; and
- the release of a Request for Proposals to refresh the High Frequency Radio network.

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Reviewing procurement

Given the forecast investment in Defence, it is not surprising that the Coalition Government wanted independent assurance that Defence had a robust Capability Management System.

Completed in March this year, the review by Sir Brian Roche of Defence's Procurement Practice provided this assurance.

Sir Brian reviewed the Defence Capability Change Action programme.

He found that the programme had delivered a robust capability management system, and that Ministers should have confidence in the information presented to them to support decision-making.

Sir Brian's observations were reinforced by the Government's recent Investor Confidence Rating, which marks capital management and procurement performance across Government.

Speaking to this Forum in 2016, I noted that Defence had scored an Investor Confidence Rating of 'B', but that we had ambitions for an 'A'.

I am pleased to report that for Defence capability projects we have achieved that target.

According to the Treasury, Defence has strong asset management and procurement capabilities.

Our Long-term Investment Plan scored the maximum rating, going from "very good" in 2016 to "excellent" in 2018.

These reviews provided the Government with assurance and enabled a number of investment decisions to be made.

P8 Air surveillance capability

The implications of the decision to acquire four P-8 aircraft, training simulation, and supporting infrastructure are profound.

The acquisition will shape the future Defence Force, ensuring New Zealand retains a high-end maritime patrol capability that is the equal of our partners.

It will also ensure that we can continue to safe-guard our maritime approaches, as well as operate alongside our partners in protecting sea lines of communication.

Review of the Defence Capability Plan

The decision to acquire the P-8s and the reviews of Defence policy and procurement have also provided the baseline for a Review of the Defence Capability Plan.

The Review is using the 2016 Defence Capability Plan indicative funding track of \$20 billion out to 2030 as its start-point.

A mid-point Review of the Capability Plan is with the Minister.

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The Plan's publication will introduce new levels of transparency for Industry.

We are focusing on achievability and better alignment of indicative project schedules with Cabinet decision-making cycles. This will give Industry greater certainty on when we will be going to market to acquire capabilities.

Changes in the relationship with Industry

My optimism doesn't just reflect the Government's ongoing commitment to invest in Defence. It also reflects the relationship Defence now has with Industry.

That relationship has gone from being transactional to focusing on partnership and delivering value over the life of a capability.

Since I last spoke to you, a number of steps have been taken to embed this direction.

We have responded to your request for better tender documentation and processes. No longer will Industry will be required to submit paper-based Tenders and Proposals.

We have changed our systems to store responses to the High Frequency Radio Refresh electronically, ensuring a more efficient and timely evaluation process.

Industry will also be able to submit electronic tenders for the Protected Mobility and Future Air Mobility projects.

Industry Engagement

We have strengthened the requirement for prime suppliers to engage New Zealand sub-contractors in preparing Industry Engagement Plans.

As you are aware, government rules relating to procurement do not allow preference to be given to any particular nation. However, the Government's expectation that the Defence Force is flexible and ready, means there is value in sourcing sub-components locally.

It also means that responsibility for through-life support and ensuring the day-to-day delivery of outputs is best sourced locally.

This means, in turn, that where Industry Engagement Plans have through-life support being provided outside New Zealand, prime suppliers must demonstrate value for money in doing so.

The outcome we want is best value, good thinking and smart suppliers who can leverage New Zealand industry, and support the Government's growth agenda.

We have also changed the way we define projects and manage risk. To date, capability projects have been defined as 'Majors' or 'Minors'. 'Majors' were managed by the Ministry of Defence and 'Minors' by the Defence Force.

What determined whether a project was a 'Major' or 'Minor' was a cost threshold of \$15 million through-life.

This failed to capture those projects that fall under the \$15 million threshold, but which were critical dependencies for other, often larger projects.

For capabilities such as the P-8, delivering benefits is often contingent on having those enabling dependencies in place.

Describing the dependencies as 'Minors', and resourcing them to that level, is not good project or portfolio management.

Going forward, projects will be Defence-led or Defence Force led.

Defence-led projects will be jointly overseen, governed and managed by the Ministry of Defence and the Defence Force. All high risk, high scale, high impact projects will be Defence-led.

But we haven't stopped there.

Mitigating risk for complex projects also requires investing early. This is so we can leverage expertise in the market place to de-risk projects and give decision-makers robust information on which to base their decisions.

Projects which would benefit most from such early investment are those with large design, integration, or infrastructure elements.

Currently, few departments have the money to fund that de-risking within their operating baseline. Supported by Ministers and the Treasury, we are working to change this.

New initiatives aimed at Industry

The review by Sir Brian Roche of Defence procurement identified an 'area of opportunity' for greater engagement with industry.

That area is between project initiation and Cabinet approval to go to market with a Request for Tenders. It is in this area that commercial risks should be identified and mitigated.

So how will we take advantage of this opportunity?

Under the old operating model, acquisition specialists from the Ministry of Defence were assigned to projects only after Cabinet approval of the Detailed Business Case and the decision to go to market with a Request for Tenders. This was too late.

New operating funding has allowed us to grow the pool of acquisition professionals in the Ministry of Defence, and assign those professionals much earlier in the project life-cycle.

We have also invested in new tools and processes to get our Project Teams thinking early about risks and opportunities.

At approval to initiate, new Scale and Risk and High Level Impact Assessment Tools help Project Teams identify commercial, engineering, and capability integration risks.

We have also developed processes for the development of Procurement Strategies. These will consider the level of market knowledge, the available options for procuring a capability, and assess the risks associated with each option.

We now require projects to have two structured engagements with the market before releasing a Request for Tenders. We are also investing in training to support this.

Feedback from Industry to Sir Brian Roche likened Defence Industry Days to formal lectures, rather than a forum for collaboration and workshopping ideas.

We are working with the Ministry of Business, Innovation and Employment to deliver a series of workshops designed to give our Project Teams the skills to make the most of this area of opportunity.

Ultimately, our aim is to be a smart customer and for industry to be a smart supplier.

Putting in place an enduring system

A priority for me has been to leave a durable framework to guide investment decisions.

A major step forward was the Defence Mid-point Rebalancing Review in 2013.

Building from the bottom up, the DMRR used a multi-criteria decision approach to establish a coherent Defence Force, matched to funding tracks reflecting a range of capital and operating options out to 2030.

In doing so, the Review balanced policy, capability and funding, and provided a clear picture of exactly what defence outputs could be delivered for a given level of funding. The process was robust, analytically sound, and data driven.

The same process was developed and applied to the Defence White Paper 2016. It also underpins the Review of the Defence Capability Plan currently underway.

Since 2013, the confidence engendered by the DMRR and subsequent reviews has seen the Government make investment decisions on military capability worth over \$4 billion.

This equates to Cabinet consideration of over thirty capability business cases – a significant achievement.

The Government's commitment to indicative capital spending of first, \$16 billion out to 2030 in 2013, raising to \$20 billion in 2016, has given Defence planning certainty.

It should also give confidence to Industry.

As the Minister of Defence noted when speaking to Industry leaders in August, for every dollar spent on new military capability, four is spent on supporting it through life.

Seen through a whole-of-life lens, the opportunities for Industry in the supply, maintenance, and support of military capability are huge.

Closing

In closing, this is a very exciting time for all of us involved in delivering military capability.

New Zealand is navigating an increasingly complex and dynamic security environment. Against this background, the Government has established the Community, Nation, World as Defence's policy and operational framework.

Through its actions, the Government has also signalled its willingness to invest in Defence to support this framework.

My optimism for the future is a reflection of the confidence I have that Defence has in place the people, processes and systems to manage this investment. I am also confident that Industry stands ready as a partner to support us.

Since first addressing this Forum in 2013, I have appreciated the time given to me to talk about the practical, real changes we have made to improve Defence's engagement with Industry.

I think you will agree that we have come a long way.

I hope you have enjoyed the Forum and I wish you well for the Awards dinner tonight.

Thank you