

SPEECH TO THE NEW ZEALAND DEFENCE INDUSTRY ASSOCIATION ANNUAL FORUM: 17 NOVEMBER 2015

Bernie Diver, Chair of the Defence Industry Association. Greg Lowe, Chair of the Defence Industry Advisory Council. Charlie Lott, Chief of Joint Defence Services. Special guests, ladies and Gentlemen. Thank you for the opportunity to speak to the Defence Industry Association Forum today.

Last year, at this Forum, I released the report on *Optimising New Zealand Industry Involvement in the New Zealand Defence Sector*. Today I want to tell you about the progress the Defence organisations have made in implementing the Industry report's recommendations. I also want to talk to you about the additional funding the Ministry of Defence received in the 2015 Budget and the significant change programme it is being used for. And about work we are doing on strengthening the Defence Capability Management System to be an international exemplar.

But first I want to give you an update on the new Defence White Paper. The White Paper will be the Government's statement on how it plans to deal with the security threats, challenges and opportunities facing New Zealand over the next 25 years. It will outline the Government's priorities for Defence. And indicate the capabilities and resources Defence needs to undertake the roles and tasks expected of it. And it will outline how Defence will be funded.

A lot of work has been undertaken to get to this point. The 2014 Defence Assessment considered how New Zealand's strategic circumstances may change over the next 25 years. It found that New Zealand's interests beyond our region are growing, but the rules and values we rely on are increasingly under pressure.

The international strategic environment is continuing to evolve at a fast pace. Some of these changes are positive for New Zealand, while others present challenges to our strategic interests. Dangers such as cyber threats can emanate from anywhere around the globe, and our geographical location does not protect us from these.

Our economic linkages mean that security events occurring far from our shores can impact negatively on our national interests. It is in our interest to help in resolving global security challenges. These themes came out during the Defence White Paper public consultation.

We held public meetings up and down the country and received over 300 submissions from the public and Defence Force personnel. The submissions highlighted the need for our Defence Force to be able to undertake a broad range of tasks locally, regionally and globally. It has been very pleasing to see that so many New Zealanders feel strongly about the role our Defence Force plays.

I would like to take this opportunity to thank the Defence Industry Association Board for the collective response that was submitted on behalf of the Association members. Your submission has helped influence our thinking on these important issues. We are now in the final stages of bringing a draft White Paper together for the Minister of Defence.

Turning now to the Industry report. When I released the Industry report at your Forum last year I highlighted that we wanted to make doing business with Defence easier for you. We wanted to improve the quality and timing of information about our tenders for major military equipment. We wanted to work with New Zealand Industry more

effectively. We wanted to get the best possible value for money over the life of our purchases. And most importantly, we wanted to build a more effective partnership with you, Defence Industry.

I am delighted to be able to tell you today that we are making good progress to achieving these goals. Let me tell you about some of the changes we've made to our practice as a result of the Industry report.

We are engaging earlier with Industry through our Requests for Information. Responding to our RFIs is one of the means by which you, Defence Industry, can be involved in our capability decisions.

We are helping to facilitate local industry partnerships with Prime Contractors by publishing the names and contact details of our RFI respondents.

Since releasing the Industry report we have published the names of the companies responding to our RFIs including;

- Maritime Sustainment capability
- Littoral Operations Support capability
- The Strategic Bearer Network phase 2
- The P3 satellite communications system
- The Underwater ISR projects, and
- The Individual Weapons Replacement project

We have incorporated New Zealand Industry Engagement Plans into our Tender documentation; to afford New Zealand Industry a full and fair opportunity to compete for involvement in major acquisition projects. And all of our procurement business cases to Government now include information on opportunities for New Zealand Industry.

Through Life Support arrangements are being asked for in Requests for Information and our Tenders. This has been evident in the Requests for Tenders we have released for the Maritime Sustainment Capability, the Individual Weapon replacement, and the Underwater ISR capability projects.

Work has commenced on improving our Whole of Life costing so we can be clear about the true costs of our capabilities.

And we've moved forward on putting in place industry liaison representatives. As you know, the Defence Force has appointed Debbie Howarth as the Industry Engagement Director. And the Ministry will be recruiting a Senior Industry Specialist and an Industry Advisor next year.

These new Industry staff will be part of the significant change programme I mentioned in my opening remarks. These people will be the first point of contact for Defence Industry. They will facilitate open and transparent engagement with Industry wishing to provide goods and services to Defence. They will enable Industry's ability to effectively contribute to Defence procurement and acquisition decisions. And they will broker appropriate introductions and linkages across Defence Industry and within the Defence organisations.

Debbie is already making great progress in evolving the relationship between Defence and Industry. Currently she is working with Andy Warden and to ensure a welcoming front is being presented to industry, along with their motto of "no wrong door". Industry can confidently approach any of these people and they will arrange the appropriate connection with Defence people.

Ladies and gentleman, I hope you're pleased with the progress that we are making in addressing the recommendations from the Industry Report. We will continue to grow our relationship with Industry, a relationship I strongly believe is evolving into a successful partnership. This is not only through the implementation of the Industry Report recommendations, or Industry's input into the next White Paper, but also through our engagement with Industry on our change programme.

Last year the Ministry of Defence put a comprehensive business case to the Government to strengthen our acquisition and capability development functions. The Government accepted most of our recommendations.

The Ministry received approximately \$27 million dollars of additional funding over four years in the 2015 Budget, with an additional \$8 million per annum in operating budget ongoing. This enables us to put significant additional resources into the Acquisition Division to manage our substantial procurement programme.

As you will know, the current acquisition programme that the Ministry is delivering is valued at over \$3 billion. Over the next 15 years the Ministry of Defence will be responsible for managing approximately \$11 billion worth of major capital projects. This will include replacing the ANZAC Frigates, the C-130 Hercules, and the P-3 Orions; and acquiring a new naval tanker and a Littoral Operations Support Capability.

The additional resources will include around 30 new roles in the Acquisitions Division, and five in the capability development area. The Ministry's Acquisition Division is being restructured to accommodate these new roles. We have advertised for a new Deputy Secretary and a new Assistant Secretary in the Acquisition Division.

The Deputy Secretary's role will have a more strategic focus, contributing to the leadership of integrated, end-to-end capability management and programme alignment across the portfolio. The Assistant Secretary position will focus on maintaining high standards of practice and providing expert support to the Acquisition Division. I am in the process of making appointments into both of these roles and will be announcing the successful candidates in the next couple of weeks.

We have established four new Programme Director roles for the Maritime, Land, Air, and C4ISR domains. Recruitment for these positions is underway.

We're strengthening our Project, Programme and Portfolio management disciplines and increasing the number of Project Directors and Project Managers. Some of these roles have been filled by existing staff. The remaining roles will be advertised externally next year.

And we're enhancing our in-house support with the creation of specialist roles in areas including procurement, contracting, risk, and industry engagement.

All of this is part of a wider programme of change. Over the next four years the Ministry of Defence, together with the New Zealand Defence Force, will be undertaking a programme of improvement to our capability management system. This programme of work is being led by Jenni Norton, who is here today.

Jenni was previously a Deputy Commissioner with the State Services Commission and responsible for driving performance improvement across the State sector. She is an expert leader in change management.

Our goal, through our Change Action Plan, is to develop a fully integrated, end-to-end capability management system that is recognised as an international exemplar, that is, in the context of a small country with a small military.

Last month we held a workshop to define what being an international exemplar in Defence capability management should look like for New Zealand. Expert practitioners from the UK, across Defence, the private sector, and other government agencies attended. There were also representatives from Defence Industry, including Safe Air, Beca, Thales, and your association's Chair, Bernie Diver, to name but a few.

It was a good day with a lot of very useful ideas put forward. Many people noted that New Zealand is already doing a good job in some areas and we need to retain these strengths. But there is room for improvement.

As you know, one area we are dedicated to improving is our relationships with Industry. At the workshop it was noted that there is a critical interdependence between Defence and its commercial and industry partners. We are working through the output from the workshop and we are finalising a vision of the future – what Defence will look like and how it will operate and interact with Industry when it has become that international exemplar.

I would like to thank those people who attended this workshop for their contribution to this work. It's an exciting time for everyone associated with Defence. With a long-term vision being created and a programme of positive change being implemented, our partnership with Industry can only become more successful as we work together to enhance New Zealand's security.

To conclude, I want to pay special tribute to the Deputy Secretary of Acquisition, Des Ashton; and the Assistant Secretary of Acquisition, Kevin McMahon. This year's Industry Forum will be the last Forum for both Des and Kevin in their present roles although they remain with the Ministry in different roles next year to help us with our transition to a new structure.

Des was appointed as Deputy Secretary Acquisition in 2008. He trained as an engineering officer and a pilot in the Royal New Zealand Air Force. In 1992 Des received the Meritorious Service Medal from the US Government. He retired from the Air Force in 1993. Des then went on to executive appointments with Safe Air, Ansett Australia, Air New Zealand, and Port Marlborough. Des' career in both the military and the commercial sector has given him a wealth of knowledge in engineering, management and procurement, along with a huge range of contacts.

His experience has been significantly advantageous in the delivery of our acquisition programme over the last seven years. I especially want to mention Des's role in the Blenheim C-130 upgrade project.

When the proposed massive US Air Force upgrade project we had intended to leverage from evaporated, we were left with unfinished aircraft and no solution in sight. Des conceived a plan whereby the Ministry would set up a workforce in Blenheim and, using skilled talent and expertise, complete the upgrade project ourselves. The relationships and knowledge that Des had, got this audacious plan off the ground.

And Des got the confidence and trust of the Minister and Government to convince them that this would work. What was a potential disaster has seen an extended period of life for the C-130s. It hasn't been easy. Indeed, I think there have been more hours spent refurbishing the last aircraft than it took to build it in the first place. But the end result has been a credit to everyone involved, and a big share of that credit must go to Des.

Kevin McMahon has also experienced the trials and tribulations of the C-130 upgrade, as he is one of the longest serving members of the Ministry. Having previously held positions with the New Zealand Electricity Department, The Treasury, and the State Services Commission, Kevin joined Defence in 1979. He was originally appointed the Deputy Director of Supply and was responsible for the procurement of a broad range of military equipment and services.

When the Defence Contracts Organisation was established in 1982, Kevin filled the role of Defence Contracts Officer. In 1987 Kevin was the New Zealand Special Advisor to the ANZAC Ship Project based in Canberra and New Zealand's Principal Contract Negotiator.

Since returning to New Zealand in 1990, Kevin has been involved with a number of significant Defence procurements. These include the NH90 and A109 helicopters; the Protector fleet; the Boeing 757 aircraft; and the upgrades to the C-130 and P-3 Orions. Kevin's extensive knowledge and experience in military equipment procurement and contracting have benefitted the Ministry immensely over the last 25 years.

I am so grateful to Des and Kevin for the huge contribution they have made to the Ministry of Defence. I know that a lot of you will be expressing the same sentiments to them over the course of this Forum.

Ladies and gentlemen, thank you for the opportunity to speak today and I wish you all the best for the remainder of the Forum. Please join me in a round of appreciation for Des Ashton and Kevin McMahon.