



Secretary of Defence  
Ministry  
of  
Defence

## OFFICE OF THE CHIEF EXECUTIVES

Defence House, Wellington, New Zealand



Chief of Defence Force  
New Zealand  
Defence  
Force

### Minister of Defence

## REPORT OF THE REVIEW OF THE SAFETY AND FUNCTIONALITY OF HMNZS CANTERBURY

### Introduction

- 1 On 20 December 2007 you directed us to commission an independent review of the acquisition and introduction into service of HMNZS CANTERBURY (the *Canterbury*). The review was to examine all stages of the process of acquisition of the *Canterbury*, except the conduct of the tender, and its introduction into service. In summary, it was to identify and report on:
  - ◆ any concerns relevant to the operation of the ship or to its design or performance;
  - ◆ whether the ship is capable of performing the functions for which it was acquired;
  - ◆ any remedial action that may be needed to address any shortcomings; and
  - ◆ any lessons for future acquisition projects, or the introduction into service of equipment.
- 2 The Review was conducted by a team led by Mr John Coles (formerly Chief Executive of the UK MoD's *Warship Support Agency*), Mr John Clayton (formerly Director of the UK MoD's *Project Rehabilitation Group*), with assistance from Captain Graham Baxter, Royal Navy (Admiralty Trials Master).
- 3 Mr Coles and his team began their review on 12 May 2008 and have now completed and submitted their report, a copy of which is enclosed.
- 4 The purpose of this document is to inform you of our initial view of Mr Coles' conclusions and recommendations, and to outline the actions that, subject to your agreement, we propose to take in response.

### Review Conclusions

- 5 In summary, the Review finds that Canterbury is intrinsically safe and will, with some remedial work, deliver the functionality required by the Navy. It identifies shortcomings in project management and governance. Defence officials accept all the findings of the Review.

*Canterbury is 'intrinsically safe' and its problems can be fixed.*

6 The Review has concluded that the *Canterbury* is intrinsically safe. However, certain remedial work will be required to better enable her to perform some military functions. In addition, some operating constraints will have to be accepted.

7 The Review identified a list of specific issues that include the sea boats (RHIBs), their alcoves, the landing craft (LCMs), the propulsion chain, the aviation facilities, replenishment-at-sea (RAS) arrangements, the ship/shore transfer system, the ballast requirements, possible re-certification of the vessel, and advice on sea keeping and patrol patterns.

*The acquisition was constrained by the initial choice of ship design.*

8 The Review concluded that, from the outset of the project, there was insufficient appreciation of the constraints to the ship's operation imposed by the selection of a commercial roll-on roll-off design. This has been the root of differences of opinion between Tenix, the Ministry and the NZDF, and the shortfalls in performance being faced today.

*There was pressure to get the ship into service*

9 The Review concluded that the project was managed with a relentless determination to deliver the ship on time, despite evidence of likely performance shortfalls. However, there was no explicit consideration of the risks of doing so.

*There were shortcomings in project management.*

10 The Review found that the complexity and challenges of the project have been underestimated in all respects. The project team lacked the size and full range of skills to manage a project of the complexity of *Canterbury*.

*There were shortcomings in project governance.*

11 The Review identified significant shortcomings in the governance of the project, exacerbated by some strained relationships between MoD and NZDF. Project reporting, in particular, was poor.

*Some roles and responsibilities need to be clarified.*

12 The Review concluded that responsibilities need to be clarified in a number of areas, notably for safety during the acquisition phase and design responsibility throughout the project's life.

## Review Recommendations, Responses and Work Programme

- 13 The Review recommendations can be grouped into four main groups:
- ◆ Physical and operational issues with the *Canterbury*;
  - ◆ The governance of this and other acquisition projects;
  - ◆ The resourcing of this and other acquisition projects; and
  - ◆ Procedural improvements.
- 14 For ease of presentation, we have listed the recommendations that we believe fall into each of these four broad groups. We then describe the actions or programme of work that we propose should be undertaken in response.

### *Physical and Operational Issues*

- 15 The Review makes the following recommendations:

*R12 Consideration should be given to entering into one or more arrangements for design support of the Protector Fleet to maintain the long term sustainability of the supplier base.*

*R13 To enhance the safe operation of the MRV:*

- a) The ship's designer should be requested to provide additional guidance to the RNZN on machinery configuration and preferred headings/speed in high sea states, both to minimise ship motions and to reduce the risk of the loss of propulsion when such conditions are encountered.*
- b) The sea boats should be relocated or, if relocation is not practical, they should be provided with protection.*

*R14 To improve the functionality of the vessel:*

- a) Advice from Lloyd's Register should be sought to secure Global Seas Operation for the desired operating profile.*
- b) Additional ballast should be added to the ship to reduce vertical accelerations.*
- c) Arrangements for ballasting the ship should be incorporated to maintain its design draught when lightly loaded.*

*R15 Assistant Chief Development (AC Dev) should be assigned formal responsibility for completing the work commenced on compliance of the Functional Performance Specification with the delivered ship.*

- R16 Work streams should be set up to implement the project management/governance recommendations in this report; implement a HMNZS CANTERBURY Get Well Programme, and develop a strategy for moving forward with Tenix.*
- 16 We accept and will address all the recommended remedial actions. The actual process by which remediation will be undertaken is still being worked through. It will be influenced in part by decisions yet to be taken in the context of current discussions with Tenix/BAE.
- 17 The Review recommended that a separate team be established to implement the necessary remedial work and should be provided with a provisional budget up to NZ\$20M. It proposed that the team, which would report jointly to CDF and Sec Def, should be tasked with defining the financial requirement in greater detail and set 12 months to complete its work.
- 18 There are some practical resourcing issues associated with setting up a separate team to implement the “Get Well Programme” proposed by the Review. In addition, warranty claims and nature and cost of remediation are matters currently being discussed with Tenix/BAE. The contractual requirements are clear and we cannot yet say whether any additional costs will need to be incurred by the Crown. We will report to you further on this issue shortly.

#### *The Governance of Acquisition Projects*

- 19 The Review makes the following recommendations:
- R5 The [Integrated Capability Management Committee] ICMC should be tasked formally to review the progress of projects in the acquisition phase, noting that Dep Sec (A) remains responsible to Sec Def.*
- R8 The Executive Capability Board (ECB) should include one or more non-executive directors, drawn from outside the MoD/NZDF, to provide independent expertise and challenge in the conduct of acquisition programmes.*
- 20 We take this issue very seriously. We propose to undertake an exercise with the assistance of external consultants to review the CMF governance structures and procedures. We will also ensure that those participating in the governance processes have the necessary skills to undertake their roles. We will promulgate a new mandate for the ICMC in the *Capability Management Framework* to empower it to review the progress of capability projects, as recommended by the Review. We find considerable merit in the recommendation relating to the appointment of non-executive

directors to the ECB and are considering how this might be done. We will report to you further on these issues in the near future.

### *The Resourcing of Acquisition Projects*

21 The Review makes the following recommendations:

*R2 Acquisition programmes should be reviewed to ensure that they are adequately staffed both in terms of size and specialist skills.*

22 The new Deputy Secretary (Acquisition) takes up his appointment on 1 October. He will be immediately tasked, among other things, with implementing and monitoring the implementation of relevant recommendations of this Review. He will be supported by an external adviser. The appointment of such an adviser is already under discussion but has not yet been finalised.

23 The Ministry has already acted to increase the capability of the Acquisition Division. Two new project managers have been appointed and will start, if possible, before the end of 2008. The Ministry is again advertising for additional project managers and a number of applications have been received.

24 We have reviewed the staffing of all projects other than Project Protector. We have concluded that current staffing levels for other projects are satisfactory, but will keep those levels and the skill mix of project teams under scrutiny. As indicated above, we are considering the best way in which issues relating to the Canterbury can be addressed (whether through a separate, dedicated team or otherwise) and the resourcing of Project Protector will be examined in the same context.

25 As you are aware, the possibility of further increasing the capability of the Ministry's Acquisition Division is being discussed with central agencies and with you. This may require a budget bid for additional resources.

### *Procedural and Other Changes*

26 The Review makes the following recommendations:


*R1 For future acquisition programmes, the risks of acceptance should be clearly identified and, as far as possible, quantified before the decision on acceptance is taken. Legal advice should be taken so that commercial risks can be taken into account.*

*R7 The Naval Authority should be independent of the Chief of the Navy.*

- R3 *Commercial experts should be consulted on key correspondence with contractors and attend all key meetings with them.*
- R4 *Deputy Secretary (Acquisition) should (a) hold quarterly reviews with his Project Directors and (b) provide written reports on project progress, issues, risks and their mitigation to the Integrated Capability Management Committee (ICMC).*
- R6 *CDF and Sec Def should issue a joint instruction to their staffs stressing the need to regard acquisition and in-service support as a continuum on which they should work together, and emphasising the importance of stakeholder management.*
- R9 *For ship acquisition, consideration should be given to planning for an additional period of ship's trials with the purpose of system proving before the formal acceptance off contract.*
- R10 *An explicit responsibility for procuring safe equipment should be included in Acquisition Staffs' terms of reference.*
- R11 *The Design Authority role should be defined in future acquisition programmes.*
- 27 An exercise has already begun to amend the Ministry's Acquisition Division guidelines in the light of the Review recommendations. Among other things, the guidelines will stipulate with greater clarity the points at which external commercial and legal advice should be sought. New guidelines for the acceptance of equipment are also being written and will be applied at the next acceptance. We accept that responsibility for acquiring safe equipment needs to be appropriately assigned to a particular individual or individuals (other than the Secretary, who has ultimate responsibility) and we are working through the implementation issues.
- 28 Some amendments will be required to the *Capability Management Framework*. This document is already scheduled for significant amendment to implement the consequences of other reviews and the new requirements under the Capital Asset Management regime. The amendments that arise from this Review will form part of that exercise.
- 29 As recommended, we will issue joint instructions relating to NZDF/Ministry cooperation across the capability continuum.
- 30 We are still working through the recommendations relating to the independence of the Naval Authority and the role of the Design Authority. We will report to you further on these issues in the near future.

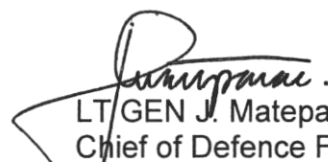
## Recommendations

- 31 We recommend that you:
- a Note that the Review of the Safety and Functionality Of HMNZS *Canterbury* has now been completed and that the Reviewer has submitted his report;
  - b Note that the Review has concluded that the *Canterbury* is intrinsically safe and, although there are some deficiencies, these can be remedied and in some cases, are in the process of being remedied;
  - c Note that the Review offers criticisms of the way in which the acquisition project has been resourced and managed
  - d Note that Defence officials accept all the findings of the Review and propose four streams of work to implement its recommendations, under the general headings of:
    - ◆ Physical and operational issues with the *Canterbury*;
    - ◆ The governance of this and other acquisition projects;
    - ◆ The resourcing of this and other acquisition projects; and
    - ◆ Procedural improvements.
  - e Note that the implications of some recommendations are still being worked through and that we will report to you further on these issues in the near future.



J. W. McKinnon  
Secretary of Defence

11 September 2008



LT GEN J. Mateparae  
Chief of Defence Force

11 September 2008