

HON RON MARK, MINISTER OF DEFENCE

Defence Capability Plan 2019 – Release of Cabinet Documents

August 2019

This publication provides Cabinet's 2018 and 2019 consideration of the Defence Capability Plan Review, as provided for in the Labour-New Zealand First coalition agreement. Cabinet's decisions from the Review formed the basis of the *Defence Capability Plan 2019*, which outlines the proposed future investment in New Zealand's Defence capabilities.

- The Terms of Reference for the Review were approved by the Minister of Finance and Minister of Defence, and were noted by Cabinet in September 2018 as part of considering the appointment of Sir Brian Roche as a Ministerial Advisor to support the Review.
- In November 2018, Cabinet agreed to take forward for further consideration a shortlist of three options for Defence capabilities.
- In April 2019, Cabinet considered three capability options and agreed to Option One – Enhanced Pacific Projection and Sustainment, with an indicative capital envelope of \$19.9 billion to 2030. Cabinet authorised the Minister of Defence, in consultation with the Minister of Finance, to finalise and approve the publication of the unclassified *Defence Capability Plan 2019* on the basis of this decision. The Minister of Defence was invited to report back to Cabinet annually on the delivery of the Capability Plan, beginning in December 2019 and continuing out to 2022.

This pack comprises the following documents:

- April 2019 Cabinet minute *Defence Capability Plan 2019: Final Approval* [GOV-19-MIN-0011]
- the associated Cabinet paper *Defence Capability Plan 2019 – Final Approval* [GOV-19-SUB-0011], excluding the draft Capability Plan that was attached as Annex C.
- November 2018 Cabinet minute *Defence Capability Plan Review 2018: Midpoint Update* [GOV-18-MIN-0086]
- the associated Cabinet paper *Defence Capability Plan Review 2018 – Midpoint Update* [GOV-18-SUB-0086]
- September 2018 Cabinet minute *Defence Capability Plan Review 2018 – Appointment of a Ministerial Advisor* [APH-18-MIN-0214]
- the associated Cabinet paper *Defence Capability Plan Review 2018 – Appointment of a Ministerial Advisor* [APH-18-SUB-0214].

The *Defence Capability Plan 2019* is available on the Ministry of Defence website at www.defence.govt.nz/publications/publication/defence-capability-plan-2019. It reflects the finalised version of Annex C from the *Defence Capability Plan 2019 – Final Approval* Cabinet paper.

This pack has been released on the Ministry of Defence website, available at: www.defence.govt.nz/publications.

Proactively Released Defence Documents

It has been necessary to withhold certain information in accordance with the following provisions of the Official Information Act 1982. Where information is withheld, the relevant sections of the Act are indicated in the body of the document. Where information has been withheld in accordance with section 9(2) of the Act, no public interest has been identified that would outweigh the reasons for withholding it.

Information is withheld where making it available would be likely to prejudice:

- the security or defence of New Zealand or the international relations of the Government of New Zealand [section 6(a)]
- the entrusting of information to the Government of New Zealand on the basis of confidence by the Government of any other country [section 6(b)(i)].

Information is also withheld in order to:

- maintain the constitutional conventions for the timing being which protect the confidentiality of advice tendered by Ministers of the Crown and officials [section 9(2)(f)(iv)]
- maintain the effective conduct of public affairs through the free and frank expression of opinions by or between or to Ministers of the Crown or members of an organisation or officers and employees of any department or organisation in the course of their duty [section 9(2)(g)(i)]
- enable a Minister of the Crown or any department or organisation holding the information to carry out, without prejudice or disadvantage, negotiations [section 9(2)(j)].



Cabinet Government Administration and Expenditure Review Committee

Minute of Decision

This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.

Defence Capability Plan 2019: Final Approval

Portfolio **Defence**

On 11 April 2019, the Cabinet Government Administration and Expenditure Review Committee (GOV):

- 1 **noted** that the Labour-New Zealand First coalition agreement included a commitment to re-examine the Defence procurement programme within the context of the 2016 Defence Capability Plan budget;
- 2 **noted** that in November 2018, GOV agreed that the capabilities from a short list of three options should be taken forward for further consideration, and invited the Minister of Defence to report back to GOV in the first quarter of 2019 with a recommended option [GOV-18-MIN-0086];
- 3 **noted** that further analysis by Defence officials has produced three capability options for Defence capability, outlined in Annex A of the paper under GOV-19-SUB-0011, that provide different balances of indicative funding requirements against the ability to meet the government's foreign policy, national security and defence policy priorities, including as expressed through the Pacific Reset and *Strategic Defence Policy Statement 2018*;
- 4 **noted** that the estimated capital cost of all three capability options remains within the funding envelope of \$20 billion to 2030 established by the 2016 Defence Capability Plan, and that the \$20 billion includes \$5.8 billion already spent or committed since 2014;
- 5 **noted** that an update of foreign exchange rates has reduced the projected cost of the recommended investments by [REDACTED] s9(2)(f)(iv) [REDACTED], but given the volatile nature of foreign exchange rates, there is a risk that these gains may reverse in the future;
- 6 **noted** that there are substantial known capital pipeline pressures which will require prioritisation to manage within Budget capital allowances;
- 7 **agreed** to Option One - Enhanced Pacific Projection and Sustainment, with an indicative capital envelope of \$19.9 billion to 2030 and [REDACTED] s9(2)(f)(iv) [REDACTED] from 2030 to 2035, as outlined in Annex B of the paper under GOV-19-SUB-0011;

8 **noted** that Option One in paragraph 7 above:

8.1 provides both the capability and capacity enhancements that best meet the government’s foreign policy, national security and defence policy priorities;

8.2 identifies that around ^{s9(2)(f)}_(iv) Defence Force personnel additional to that signalled by the Defence White Paper will be required by 2035, in order to meet the government’s foreign policy, national security and defence policy priorities, including an increased priority placed on Defence Force operations in the Pacific;

9 ^{s9(2)(f)(iv)}

10 ^{s9(2)(f)(iv)}

11 ^{s9(2)(f)(iv)}

12 **agreed** that the Defence Capability Plan 2019 should state that the Plan represents government investment intentions out to 2030, subject to individual business cases justifying the investment and available funding through the Budget process, with potential indicative investments identified for the 2030 to 2035 period to be assessed and reviewed in detail at the 2022 Defence White Paper;

13 **noted** that Defence has identified a requirement of ^{s9(2)(f)(iv), s9(2)(j)} of contingency for investments seeking approval over the next four years to provide assurance that the investments can be delivered within the approved tolerances;

14 **noted** that Defence and Treasury officials will work together to develop mechanisms for the centralised management of contingency across the Defence capability portfolio to enhance the efficiency of the use of contingency funds;

15 **noted** that the decisions above do not imply that funding is agreed for the investments included in the Defence Capability Plan;

16 **agreed** that each investment included in the Defence Capability Plan must be justified through a business case to be considered by Cabinet, and is subject to funding being available in the Budget capital allowances, taking into account other government investment priorities;

17 **noted** that:

17.1 in October 2018, GOV agreed to maintain the current approval thresholds for Estate Portfolio investments and expand the general approval thresholds for Specialised Military Equipment Capability portfolio investments in recognition of Defence’s strengthened ‘B’ investor confidence rating [GOV-18-MIN-0075];

17.2 as a result of the decisions in paragraph 17.1 above, some projects that had been expected to be brought back to Cabinet for approval are now within the approval threshold of the Minister of Defence or Defence chief executives;

- 18 **agreed** that an unclassified version of the proposed Defence Capability Plan 2019 be launched at an appropriate public event, supported by a range of engagements with relevant domestic and international audiences;
- 19 **authorised** the Minister of Defence, in consultation with the Minister of Finance, to finalise and approve for publication an unclassified version of the proposed Defence Capability Plan 2019, attached as Annex C under GOV-19-SUB-0011;

20

s9(2)(f)(iv)

Rachel Clarke
Committee Secretary

Present:

Rt Hon Winston Peters
Hon Phil Twyford
Hon Chris Hipkins (Chair)
Hon David Parker
Hon Stuart Nash
Hon Ron Mark
Hon Shane Jones

Hard-copy distribution:

Minister of Defence

Officials present from:

Department of the Prime Minister and Cabinet
Officials Committee for GOV

Chair, Cabinet Government Administration and Expenditure Control Committee

DEFENCE CAPABILITY PLAN 2019 – FINAL APPROVAL

Proposal

1. This paper seeks Cabinet's agreement to a capability option for the Defence Capability Plan 2019. The Plan will outline the proposed future investments in New Zealand's Defence capabilities.

Executive summary

2. The Labour-New Zealand First coalition agreement included a commitment to "re-examine the Defence procurement programme within the context of the 2016 Defence Capability Plan budget". A short list of three options for future Defence capability was recommended to Cabinet in November 2018. Cabinet agreed that the capabilities in these options should be used to develop a recommended option [GOV-18-MIN-0086 refers].

3. Defence officials have subsequently developed a further three options for the future of Defence capability, all of which remain within the \$20 billion funding envelope to 2030. The three capability options provide different balances of indicative funding requirements against the ability to meet the Government's Defence policy, as set out in the *Strategic Defence Policy Statement 2018*. The capability options are presented at Annex A.

4. All three capability options sustain the current force structure of the New Zealand Defence Force, and address the once in a generation replacement of critical capabilities. They differ in the extent to which they address some of the key policy changes identified in the *Strategic Defence Policy Statement 2018*:

- New Zealand's ability to respond to events in the Pacific;
- maritime domain awareness and response; and
- operations in the modern information environment.

5. I recommend that Cabinet select Option One, Enhanced Pacific Projection and Sustainment, as its agreed option for future Defence capability. It provides both the capability and capacity enhancements that best meet the Government's foreign policy, national security and defence policy priorities, including as expressed through the Pacific Reset and the *Strategic Defence Policy Statement 2018*. The Capital Plan for this option is presented at Annex B.

6. The three capability options require similar investment decisions across the next four years. [REDACTED]

s9(2)(f)(iv)

[REDACTED] This demonstrates the ability to balance the timing of the introduction of the capability enhancements projected by the plan against other demands on the capital allowance over the next four Budgets.

7. The cost of investments in Defence capability can be significantly impacted by external factors such as foreign exchange. The affordability of proposed investments in the Defence Capability Plan 2019 will be subject to individual business cases and funding decisions through future Budgets, allowing Ministers to consider each investment in greater detail and to balance the investments against other calls on available funding. The investment will also be subject to review through future Defence White Papers and Capability Plans.

8. The Defence Capability Plan Review extended the planning horizon for Defence capability from 2030 (the horizon since 2013) to 2035, allowing Defence to continue to conduct the long term planning needed to deliver a coherent and effective Defence Force. Investment choices beyond 2030 are of a significant scale and will require careful management. In accordance with the Terms of Reference for the Review, approved by the Ministers of Finance and Defence, indicative costs are provided for capabilities beyond 2030 due to the uncertain nature of costs for investments more than a decade away.

9. [REDACTED] s9(2)(g)(i)
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

10. [REDACTED] s9(2)(g)(i)
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

11. In addition, I seek Cabinet's agreement to the public release of an unclassified version of the Defence Capability Plan 2019. The draft will be updated based on Cabinet's direction on its preferred capability option. This document will provide the public with a detailed view of indicative investments, and also support Defence's engagement with industry. The last Defence Capability Plan was publically released following the 2016 Defence White Paper.

12. I propose that the unclassified version of the Defence Capability Plan 2019 be launched at an appropriate public event, supported by a range of engagements by officials and myself with relevant domestic and international audiences.

13. [REDACTED] s9(2)(f)(iv)
[REDACTED]
[REDACTED]
[REDACTED]

The role and value of Defence Force capability

14. As part of the *Strategic Defence Policy Statement 2018*, Cabinet agreed to six principles to underlie New Zealand's Defence policy:

- Defence is combat capable, flexible and ready;

- Defence personnel are highly trained professionals;
- Defence has the resources to meet the Government's operational and strategic priorities;
- Defence operates in a way that maintains public trust and confidence;
- Defence embodies and promotes New Zealand's values; and
- Defence is a credible and trusted international partner.

15. The New Zealand Government expects the Defence Force to support New Zealand's security, wellbeing, and resilience across a broad range of activities under the framework of Community, Nation, and World.

16. At home, the Defence Force operates alongside and in support of a broad range of other Government agencies. This is most visible following natural disasters such as the Kaikoura and Canterbury earthquakes, and most recently the forest fires in Nelson. Defence Force capabilities enable border and fisheries patrols on the sea and in the air, support the New Zealand Police in high-threat situations, keep Department of Conservation rangers supplied on the isolated islands that protect our endangered wildlife, and support New Zealand's presence in Antarctica.

17. The Defence Force carries out operations around New Zealand, in the South Pacific, the Southern Ocean, and Antarctica. These operations include fisheries patrols in support of our Pacific neighbours and in the Southern Ocean, and responding to disasters such as Cyclone Winston and the earthquake and tsunami on the island of Sulawesi in Indonesia.

18. The increasing severity and frequency of significant weather due to climate change will challenge the current ability of the Defence Force to respond to these events while maintaining a range of commitments further afield.

19. Ensuring the New Zealand Defence Force can deliver this spectrum of required activities, which support the overall wellbeing of New Zealanders, has been a key focus in developing the Defence Capability Plan.

Options for future Defence Capability

20. The purpose of the Defence Capability Plan is to allow the Government to communicate its Defence capability priorities to the public, industry, and international partners. The Defence Capability Plan does not represent a final commitment by the Government, and individual investments are subject to Cabinet approval of individual business cases to justify the proposed investment, and consideration of available funding within Budget capital allowances taking into account other Government investment priorities.

21. In November 2018 I provided Cabinet with an update on the progress of the Defence Capability Plan Review. Cabinet agreed that the capabilities from a short list of three options be taken forward for further consideration [GOV-18-MIN-0086 refers].

22. Defence officials have subsequently developed a further three capability options for the future of Defence capability, all of which remain within the \$20 billion funding envelope to 2030. The three capability options provide different balances of indicative funding requirements against the ability to meet the Government's Defence policy, as set out in

the *Strategic Defence Policy Statement 2018*. The capability options are presented at Annex A.

23. All capability options sustain the current force structure of the New Zealand Defence Force, and address the once-in-a-generation replacement of critical capabilities. The options differ in the extent to which they address some of the key policy changes identified in the *Strategic Defence Policy Statement 2018*:

- New Zealand's ability to respond to events in the Pacific;
- maritime domain awareness and response; and
- operations in the modern information environment.

24. I recommend that Cabinet select Option One, Enhanced Pacific Projection and Sustainment, as its preferred option for future Defence capability. It provides the capability and capacity enhancements that are needed to meet New Zealand's commitments to the Pacific and support the wellbeing of New Zealanders, including through supporting the operations of other Government agencies.

25. Ministers may however wish for the Defence Capability Plan to signal an alternative level of investment in Defence capabilities. Options Two, Pacific Projection, and Three, Sustaining Defence Capabilities, have been presented to outline the capability investments that would be removed at different levels of investment. Option Two provides a lift in Defence Force capabilities over the previous Capability Plan, but does not provide the lift in capacity to respond to concurrent events in the South Pacific and New Zealand. Option Three would see a reduced level of planned investment out to 2030 and leave unaddressed challenges in maritime domain awareness and response, our ability to respond to events in the South Pacific, and the degradation of some of the Defence Estate.

26. Analysis of the policy impact of the capability options across the three areas cited above follows.

New Zealand's ability to respond to events in the Pacific

27. New Zealand is a Pacific country, linked by history, culture, politics, and demographics to the Pacific Islands. The Government's priorities in our region are spelt out in the Pacific Reset. New Zealand's national security remains directly tied to the stability of the Pacific, with situations from transnational threats to geostrategic competition having the potential to directly impact New Zealand's security and wellbeing. The *Strategic Defence Policy Statement 2018* recognised these ties, as well as the increasingly complex environment in the region, and so raised the priority placed on the Defence Force's ability to operate in the South Pacific to the same level as for New Zealand's territory, the Southern Ocean and Antarctica.

28. The *Strategic Defence Policy Statement 2018* and the Defence Assessment on Climate Change (*The Climate Crisis: Defence Readiness and Responsibilities*) stated that the scale, scope, and frequency of the activities required from the Defence Force in this vast area of operations will increase. This increase in activities is driven by climate change, resource competition, the increasing presence of malign non-state and transnational actors, and the increasing presence and influence of new partners.

29. These activities will include an increased number of small-scale deployments by specialist Defence Force teams to conduct training, health programmes, and construction

projects to build resilience in Pacific communities. At the high end these activities will include large-scale deployments that will require the air and sealift of large quantities of Defence Force personnel and equipment, and of humanitarian aid to isolated Pacific Islands.

30. These deployments could last from a week for a specialist team through to the sustainment of a task group of several hundred personnel for multiple years, as in Timor-Leste from 1999 to 2002.

31. The *Strategic Defence Policy Statement 2018* reaffirmed New Zealand's commitment to maintain levels of Defence capability that allows it to conduct independent operations, and lead combined operations, in the Pacific. Conducting these operations would engage the full spectrum of Defence Force capabilities, and as such are among the most demanding tasks that we ask of our Defence Force.

32. The recommended Option One, Enhanced Pacific Projection and Sustainment, provides for uplift in both the **capability** and **capacity** of the Defence Force in order to respond effectively to these increasing demands while meeting obligations at home.

- The uplift in **capability** will see a Defence Force better equipped for operations in higher-threat environments, including progressively more dangerous peacekeeping operations, and able to maintain interoperability with key Defence partners.
- The uplift in **capacity** will deliver a Defence Force that is able to meet the increasing scale, scope and frequency of activities in the region, and that can sustain that heightened level of activity.

33. To meet the Government's Defence policy direction on operations in the South Pacific, Option One signals the following capability areas for investment out to 2030:

- The replacement of the current fleet of C-130 Hercules, renewing a key asset in support of Defence Force operations in the region;
- The introduction of a Landing Platform Dock in 2029. Landing Platform Dock vessels can operate in a wider range of conditions and carry more personnel and equipment than HMNZS *Canterbury*; and
- The replacement of the current Maritime Helicopters at the end of their lives in 2026, ensuring the helicopter fleet can continue to conduct a range of missions from New Zealand's naval vessels.

34. From 2030 to 2035 the recommended option includes:

- Growing the Army to 6,000 personnel by 2035, an increase from the current level of 4,727 and the Defence White Paper 2016 target of 5,150 by 2030. This will grow key trades to support increased disaster relief operations, and will enable the Defence Force to sustainably undertake multiple concurrent activities for example, humanitarian relief, stability operations and ongoing commitments such as peacekeeping operations on the Sinai Peninsula; and
- The replacement of the multi-role vessel HMNZS *Canterbury* with a second Landing Platform Dock in 2035, giving an ability to conduct concurrent sealift operations.

Maritime domain awareness and response

35. New Zealand has a vast maritime domain, encompassing waters from Antarctica through the South Pacific to the Equator. This area is vital to the wellbeing of New Zealand and our Pacific neighbours, as a natural resource and as a means of transport.

36. The *Strategic Defence Policy Statement 2018* identified maritime domain awareness and response as a particular capability requirement. Defence's ability to support understanding of the maritime domain is becoming increasingly important in responding to threats and challenges, including search and rescue, biosecurity, border security, resource protection, and operations in an increasingly congested strategic domain.

37. In June 2018, Cabinet agreed to the purchase of four P-8A Poseidon Maritime Patrol Aircraft, providing a maritime patrol capability with the range and endurance needed to monitor and respond to events in our maritime domain and assist our partners in the region.

38. The proposed capabilities in the recommended Option One, Enhanced Pacific Projection and Sustainment, would deliver a layered approach to maritime domain awareness and response. Defence Force personnel would analyse the data from naval, air, and space assets, identifying and characterising an activity that requires a response. An aircraft could then be sent to inspect the vessel more closely, and a Navy patrol ship sent to board if required. The scope of planned Defence Force assets would enable this response from the ice sheets of the Southern Ocean to the Pacific Islands.

39. Specific maritime domain awareness and response capabilities identified in Option One for investment out to 2030 include:

- Investment in space-based systems, including the use of satellite surveillance to provide imagery of activity in New Zealand's maritime domain;
- The Enhanced Maritime Awareness Capability¹, to support the P-8A and to ensure that New Zealand's air surveillance capability remains fit for purpose into the future;
- The like-for-like replacement of the two Offshore Patrol Vessels at the end of their lives. These will be able to provide naval patrol and response, and support to humanitarian assistance and disaster relief operations;
- An ice-strengthened Southern Ocean Patrol Vessel to enhance the ability of the New Zealand Government to maintain a presence, and undertake enforcement activities, in the environmentally demanding conditions of the Southern Ocean; and
- Growing the analytical intelligence capability and communications systems of the Defence Force to turn data from air, sea and space platforms into usable insights on activities in our region that can be acted upon by the Defence Force and other government agencies.

40. From 2030 to 2035 Option One also includes a Long Endurance Unmanned Surveillance capability, which will provide the capability to conduct surveillance over areas of interest for an extended period even in the far reaches of our maritime domain.

¹ Previously the Future Air Surveillance Complementary Capability

Operations in the modern information environment

41. The Defence Force operates in an environment with new threats. It is also seeking to make use of the opportunities presented by new data-driven models of operating, similar to other public service organisations. Often termed the Information Domain, this is a new environment for Defence operations. Specific capabilities in this area include communications networks, operational intelligence, cyber operations, and the use and monitoring of space based systems.

42. Across all the tasks required of it by Government, the Defence Force will face increasing cyber threats, and operate in environments in which cyber activities are increasingly part of day-to-day military activities. To maintain relevant combat capabilities, including interoperability with close partners, the Defence Force will need to be able to undertake a broad range of cyber operations. This will include providing military commanders with a broader set of tools to achieve military objectives and maintain the safety of Defence Force personnel.

43. The *Strategic Defence Policy Statement 2018* identified that managing and effectively using information is fundamental to Defence Force operations. To ensure its effectiveness the Defence Force needs to be able to gather and analyse information from a range of sources, and share that information with other agencies and Defence partners.

44. The *Strategic Defence Policy Statement 2018* also identified secure access to space-based systems and enhanced cyber capabilities as particular capability requirements. It recognised the maintenance of interoperability with our key Defence partners as an imperative for the Defence Force. Investment in the information domain seeks to address these policy priorities.

45. Capabilities in the Defence Capability Plan 2019 that build the Defence Force's ability to operate in the modern information environment include:

- Increased investment in cyber capabilities, including the development of deployable teams to both support the security of Defence Force networks overseas and to provide military commanders with a broader set of tools to achieve military objectives;
- Investment in space-based situational awareness systems and satellite-based military communications; and
- Improvement of the ability of the Defence Force to communicate securely and share classified information across camps and bases in New Zealand, with our Defence partners, and with forces deployed overseas.

46. [REDACTED] s9(2)(f)(iv)
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

47. [REDACTED] s9(2)(f)(iv)
[REDACTED]
[REDACTED]
[REDACTED]

The Defence Estate

48. The Defence Estate is a strategic asset. It provides operational capability with the training, working, and living environments, and vital infrastructure critical for generating and maintaining the Defence Force. The Defence Force needs the right infrastructure, in the right place, at the right time, and at the right cost.

49. The recommended capability options include \$2.1 billion for investment in the Defence Estate, an increase of \$400 million over the Defence Capability Plan 2016. The Cabinet Paper 'Defence Estate Work Programme', also being considered by this Committee, provides detail as to how this funding is being prioritised and the impact of this prioritisation on Defence Force personnel and direct operational costs.

Alternative options for future Defence capability and funding

50. Options with lower Defence capability, capacity, and overall capital cost have also been prepared to provide Cabinet with alternative paths for future Defence Capability. These further demonstrate the value of the investments signalled in the recommended Option One.

Option Two - Pacific Projection

51. Under Option Two New Zealand continues to operate a single sealift vessel. The second Landing Platform Dock is removed from the Capability Plan, and HMNZS *Canterbury* would be retired when the single Landing Platform Dock enters service.

52. The growth of Army personnel is lower than Option One, with the total number of Army personnel increasing to 5,250 by 2030, with new personnel focused in key trades to support increased disaster relief operations. This is accompanied by a reduction in capital spending for associated equipment. The Army would carry risk in its ability to undertake multiple concurrent activities.

53. Together these changes retain the capability uplift of the Plan, but reduce its capacity improvements. For example, the maintenance of the single sealift vessel will continue to be managed around the Pacific hurricane season, making it potentially unavailable in the event of a natural disaster or other emergency outside of this period.

Option Three - Sustaining Defence Capabilities

54. In addition to maintaining only a single sealift vessel, Option Three would see no additional growth in Army personnel. As forecast by the Defence White Paper 2016, the Army would grow to 5,150 personnel by 2030. Risks would remain in the ability of the Army to support a deployment of several hundred personnel for multiple years, as it did in Timor-Leste from 1999 to 2002, or the multiple smaller activities and deployments forecast by the *Strategic Defence Policy Statement 2018*.

55. This option also sees the removal of the investment in a Long Endurance Unmanned Surveillance capability and loss of the benefits of this new capability area. Long Endurance Unmanned Surveillance is a new area of operations for the Defence Force, and would provide a significant uplift in capability in both maritime and land operations. In addition to being an uplift in our maritime domain awareness and response capability, such a capability would be a significant contribution that New Zealand could make to coalition operations in its own right. Deployed alongside New Zealand land forces, it would

enhance the security of personnel by providing persistent surveillance to identify and track potential threats.

56. The purchase of the ice strengthened Southern Ocean Patrol Vessel would be deferred by six years, extending the existing gap in New Zealand's ability to provide naval patrol in the Southern Ocean. The replacement of the two current Offshore Patrol vessels would also be deferred by three years.

57. Investment in the Defence Estate remain at s9(2)(f)(iv), s9(2)(j) to 2030 in Option Three. This is the \$1.7 billion established in the 2016 Defence Estate Regeneration Programme plus s9(2)(f)(iv), s9(2)(j) of contingency. Investment in critical operational capabilities will be prioritised such as upgrades to Ohakea Airforce Base, additional infrastructure to support the Consolidated Logistics Project; investment required for essential health and safety, seismic strengthening, asbestos management; and storm, sewerage and drinking water. Prioritisation of investment will see some assets continue to deteriorate and the backlog of deferred maintenance continue to increase. Minimal investment will be available for housing, accommodation, training, and messing facilities with some continuing to deteriorate or remaining unfit for the new capabilities being developed. Consequently, significant cost pressures will remain.

Commitment post 2030

58. The Terms of Reference for the Defence Capability Plan Review, jointly approved by the Ministers of Finance and Defence, specified that "indicative costs for the investments between 2030 and 2035" would be included in the plan. This reflects the uncertainty of decisions that are more than a decade away.

59. All capabilities identified in the plan are subject to individual business cases justifying the investment and funding being available through the Budget process. s9(2)(g)(i)

[Redacted]

60. s9(2)(g)(i)

61. s9(2)(g)(i)

A sustainable investment plan

62. As well as the need to meet the Government's foreign policy, national security and defence policy priorities, Defence has also focused on creating a plan that maximises value for money from investment in Defence capability while minimising risk to the Government in terms of cost pressure or capability failure.

63. The *Strategic Defence Policy Statement 2018* identified the replacement of major platforms as an upcoming capability challenge. Through the purchase of the P-8A and the replacement of the dive ship HMNZS *Manawanui* this government has begun to address this challenge. The review has prioritised provisioning for the replacement of

assets such as the C-130 Hercules transport aircraft and the replacement of the maritime helicopters, which have been brought forward. Defence has determined that the life of the ANZAC frigates can be extended to maximise the value from the current upgrades and defer a major fiscal expenditure to beyond 2030 (see below).

64. The Defence Capability Plan 2019 lifts the emphasis on provision for the maintenance and sustainment of assets and infrastructure to bolster organisational resilience and prevent asset degradation from driving future costs. The plan signals an additional s9(2)(f)(iv), s9(2)(j) investment to 2030 for asset management to maximise the life and therefore value from the Defence Force's existing platforms. The recommended option also lifts the level of investment in Defence estate and in information technology capabilities to address known gaps and past underinvestment.

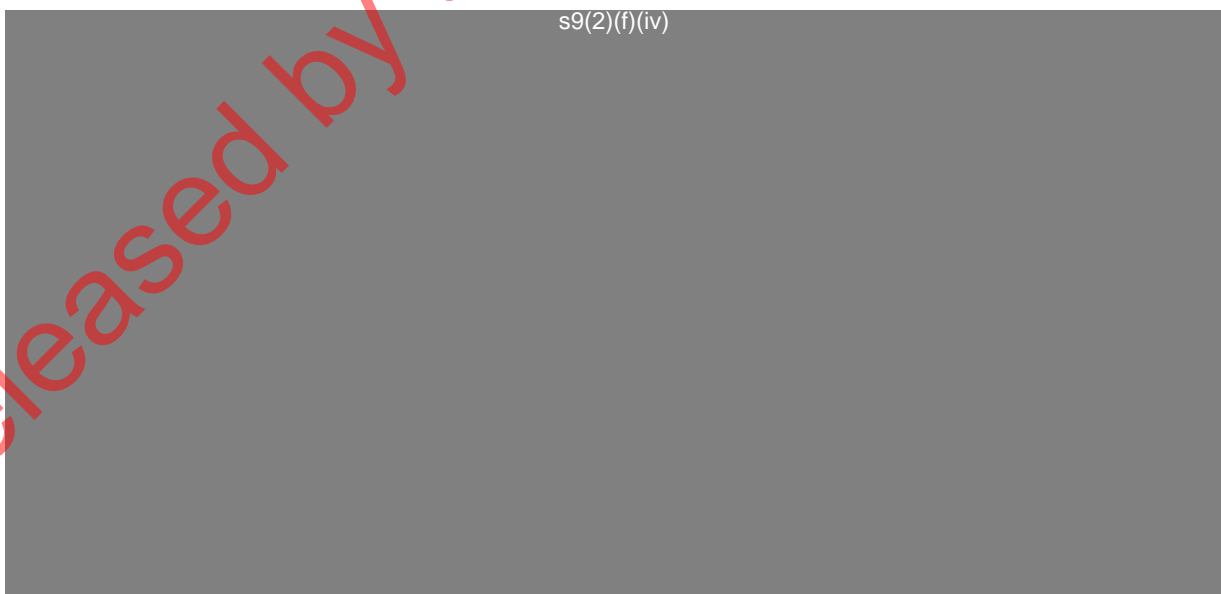
65. An indicative list of all Defence capability projects requiring approval by Cabinet, Ministers, or Defence Chief Executives is provided at Annex D.

Implications of the Defence Capability Plan 2019

Capital cost

66. The table below outlines the indicative capital cost of each of the capability options presented in this paper:

	Capability Options		
	Option One – Enhanced Pacific Projection and Sustainment (Recommended)	Option Two – Pacific Projection	Option Three – Sustaining Defence Capabilities
\$ billion			
Total to 2030		s9(2)(f)(iv), s9(2)(j)	
Total to 2030 including contingency	19.9		
Total from 2030 to 2035			
Total to 2035			



s9(2)(f)(iv)

Capital cost movements

71. The Defence Capability Plan 2016 estimated the cost of Defence capital investment from 2014 to 2030 as \$19.7 billion. As part of the Defence Capability Plan Review there have been changes to this envelope to reflect investments brought forward, additional investment in capability enhancements, updates to estimated costs, re-forecast foreign exchange rates, and the addition of contingency provision in the next four years. The end result of these movements is an estimated capital cost of Defence capability from 2014 to 2030 of \$19.9 billion.

72. The table and subsequent commentary outline the movement in projected capital costs from the Defence Capability Plan 2016 to the recommended Option One, Enhanced Pacific Projection and Sustainment. Selection of a different capability option or phasing choice will impact these figures.

Cost Elements	\$ billion increase/(decrease)	2014 -2030	2030 -2035
Defence Capability Plan 2016 funding envelope		19.7	
Force structure sustainment		s9(2)(f)(iv), s9(2)(j)	
Changes to base costs			
ANZAC frigate extension			
Cost adjustment for frigates			
Impact to Defence White Paper projection			
Investments brought forward			
- Landing Platform Dock (Pacific response)			
- Maritime Helicopters (Sustainable investment)			
- Offshore Patrol Vessel like for like replacement (Maritime domain)			
Capability enhancements			
- Information Domain (Information environment)			
- Army growth (Pacific response)			
- Long Range Unmanned Surveillance (Maritime domain)			
- Second Landing Platform Dock (Pacific response)			
Foreign exchange adjustment			
Adjusted Total			
Contingency			
Option One total		19.9	

73. **Defence Capability Plan 2016 funding envelope.** The Defence Capability Plan 2016 estimated the cost of Defence capital investment from 2014 to 2030 as \$19.7 billion dollars.

74. **Force structure sustainment.** Defence officials estimate that the cost of extending the 2016 Defence Capability Plan to 2035 would be s9(2)(f)(iv), s9(2)(j). This is based on the like for like replacement of capabilities that reach the end of their economic lives in this period, including the replacement of HMNZS *Canterbury*, the current two Offshore Patrol Vessels, and the maritime helicopter fleet.

75. **Changes to base costs.** New cost estimates for the capabilities in the Defence Capability Plan 2016 were undertaken following the Midpoint Cabinet paper in November 2018, based on updated information from industry and updated cost-estimation methodology. This showed that the estimated cost of the 2016 Plan had increased s9(2)(f)(iv), s9(2)(j).

76. **ANZAC frigate extension.** All options agreed to by Cabinet in the Midpoint Cabinet Paper proposed extending the life of the two ANZAC class frigates to at least 2034, allowing the replacement of the frigates to be deferred from introduction into service in late 2020s to the mid-2030s. This reduces the capital expenditure to 2030 by s9(2)(f)(iv), s9(2)(j) with a corresponding shift of s9(2)(f)(iv), s9(2)(j) to beyond 2030. The total cost of the frigate replacement becomes s9(2)(f)(iv), s9(2)(j). The increased cost reflects a s9(2)(f)(iv), s9(2)(j) increase in the base cost and s9(2)(f)(iv), s9(2)(j) related to timing changes and sustainment of the current frigates, offset in part by the projected reduction in cost of s9(2)(f)(iv), s9(2)(j) due to updated foreign exchange rate estimates.

77. Extending the life of the frigates has three significant benefits:

- *Managing capital demand.* Based on the Defence Capability Plan 2016 timeframes, a decision on the replacement of the frigates would need to be made in the term of government beginning 2020. This would be the largest capital investment decision ever taken by the New Zealand Government. Extending the life of the frigates removes this significant capital commitment from the next four years.
- *Value for money.* The cost of additional maintenance to extend the life of the Frigates is estimated at s9(2)(f)(iv), s9(2)(j) across 15 years. If the ships are not extended around s9(2)(f)(iv), s9(2)(j) will still need to be spent on maintenance to 2030, and a replacement frigate capability would require an investment of s9(2)(f)(iv), s9(2)(j) (based on Defence Capability Plan 2016 costing) in the term of government beginning 2020. Extending the life of the Frigates will also allow maximum benefits to be realised from the modern combat systems that are currently being installed in these ships.
- *Prioritising investment.* Extending the life of the frigates will allow the prioritisation of investment in capabilities focused on the Pacific, particularly the Landing Platform Dock vessels. The introduction of a Landing Platform Dock in 2029, in addition to the ongoing capability provided by HMNZS *Canterbury*, will provide a significant enhancement in the Defence Force's ability to support the community, nation, and world.

78. The life extension of the ANZAC class frigates will be subject to Cabinet approval following the preparation of a business case by Defence.

79. **Cost adjustment for frigates.** Following the Midpoint Cabinet Paper the estimated cost of the replacement of the ANZAC frigates has been updated, based on information provided by s6(b)(i) on the cost of their frigate programme. This indicates that the costs of a replacement capability have increased by s9(2)(f)(iv), s9(2)(j).

s6(b)(i) frigate programme has been used as an indicative exemplar to provide costing information. All options for the future of this capability will be explored as business cases are developed for Cabinet's consideration.

80. **Investments brought forward.** All three capability options propose that the replacement of three capabilities, with a cost of s9(2)(f)(iv), are brought forward from the post to pre 2030 time period. These are;

- Replacement of the HMNZS *Canterbury*, brought forward to provide enhanced capability in the Pacific;
- Replacement of the maritime helicopters, brought forward to reflect the expected life of the current fleet based on engineering studies since 2016; and
- Replacement of the two Offshore Patrol Vessels, brought forward to manage the capital and personnel demands of several maritime projects including the two listed above.

81. **Capability enhancements.** Option One, Enhanced Pacific Projection and Sustainment, then proposes a series of capability enhancements, which are detailed in Annex E. The estimated cost of these enhancements is s9(2)(f)(iv) to 2030 and s9(2)(f)(iv) from 2030 to 2035.

82. **Contingency.** To provide assurance to Ministers on the costs of the proposed capabilities and the overall Plan, contingency funding was added to projects that plan to seek approval in the next four years. This is in line with project management methodology used across government. Investment decisions beyond the next four years will also require contingency and these will only be able to be assessed as they come into the four year window and the options become clearer.

83. Contingency figures were calculated using best practice methodology for project management. Total contingency across this four year period is s9(2)(f)(iv), s9(2)(j). Any unspent contingency will be reprioritised within the portfolio, and any projects that exceed projected costs will be funded from within the overall portfolio. Treasury and Defence officials will work together on possible centralised management of contingency that could reduce total amounts of funding needed, enhance the utilisation of funds, and better manage risk.

84. **Foreign exchange adjustment.** Foreign exchange projections for the proposed capabilities were then updated, using rates provided by The Treasury. This saw a reduction in the estimated cost of future projects of s9(2)(f)(iv) to 2030, and s9(2)(f)(iv) from 2030 to 2035. s9(2)(f)(iv), s9(2)(j)

[Redacted]

85. The foreign exchange rate projections are highly volatile and the long-term assumptions are driven strongly by the current market environment. Exchange rate assumptions need to be treated with caution and the cost of implementing the Defence Capability Plan could change significantly.

86. **Option One total.** The end result of these movements is an estimated capital cost of Defence capability from 2014 to 2030 of \$19.9 billion. This is in line with the overall capital envelope established by the 2016 Defence Capability Plan. The \$19.9 billion is a nominal figure and so includes estimated inflation, current foreign exchange rates, and other factors that impact the cost of capability over time.

87. The \$19.9 billion includes \$5.8 billion of funding already committed. This covers all Defence capital spending since 2013, and major purchases like the P-8A Poseidon Maritime Patrol Aircraft, the Dive and Hydrographic Vessel HMNZS *Manawanui*, and the naval tanker HMNZS *Aotearoa*.

88. The capital cost of capabilities from 2030 to 2035 is estimated at s9(2)(f)(iv), s9(2)(j). As these projects are more than a decade away there is higher cost uncertainty than those in the nearer term. Future Defence Capability Plans and other reviews will see the ongoing refinement of the estimates for these future capabilities.

Foreign exchange risk

89. Defence has also calculated the potential foreign exchange risk exposure that the Government faces for projects in the next four years, which is s9(2)(f)(iv), s9(2)(i). The largest portion of this risk relates to the project to replace the current C-130 Hercules fleet. This could be an increased or decreased cost of capability, depending on the value of the New Zealand Dollar.

90. Defence is not able to take action to mitigate foreign exchange risk until Cabinet approves the commitment of funding for a project. Defence will work with The Treasury on possible approaches to managing exchange rate risks for Defence projects prior to Cabinet commitment.

Personnel and operating impacts

91. The Defence Capability Review has assessed the workforce and operating cost implications of the proposed changes to planned capability investments. Most of the proposed changes occur outside the immediate four-year budget window. s9(2)(f)(iv)

92.

s9(2)(f)(iv)

93. The table below presents the estimated increase in Defence Force direct operating cost, depreciation, and capital charge expenditure, driven by the planned capability investments.

Planned Capability Investments (\$ million)	2019/20	2020/21	2021/22	2022/23
Personnel	s9(2)(f)(iv)			
Direct Operating Costs	s9(2)(f)(iv)			
Depreciation	s9(2)(f)(iv)			
Capital Charge	s9(2)(f)(iv)			
Total	s9(2)(f)(iv)			
Defence White Paper 2016	s9(2)(f)(iv)			
Movement from DWP 2016	s9(2)(f)(iv)			

Personnel to support future capability

94. Highly trained New Zealanders serving in the Defence Force are the core of Defence capability. The proposed enhancements to future Defence capability in Option One, Enhanced Pacific Projection and Sustainment, have an indicative requirement for around s9(2)(f)(iv) additional Defence Force personnel above that projected by the Defence White Paper by 2035. The additional personnel are spread as follows:

- s9(2)(f)(iv) personnel for the Navy;
- 850 personnel for the Army;
- s9(2)(f)(iv) personnel for the Airforce;
- s9(2)(f)(iv) personnel to support Information Domain capabilities; and
- s9(2)(f)(iv) civilians to support uniformed personnel.

95. The indicative personnel growth above occurs outside the immediate four year budget window.

96. s9(2)(f)(iv)

[Redacted]

97. s9(2)(f)(iv)

[Redacted]

98. Future increases in personnel will be refined further, informed by s9(2)(f)(iv), individual business cases, and analysis of the Defence Force operating model.

Estimated work force requirement for capabilities to 2035 (Full Time Equivalents) ²	
Current work force	12,493
Defence White Paper projected growth	s9(2)(f)(iv)
Defence Capability Plan growth	

Operating cost of planned capability investments

99. Planned investments in capability in Option One, Enhanced Pacific Projection and Sustainment, have been estimated to increase the Defence Force direct operating expenditure s9(2)(f)(iv). The operating cost implications of the proposed changes in the next four years are driven primarily by the increased

² s9(2)(f)(iv)

[Redacted]

maintenance expenditure on the ANZAC frigates to extend their lives. s9(2)(f)(iv)

100. The majority of the operating cost changes driven by the Defence Capability Plan will occur with the introduction of the new capabilities from the mid-2020s. These capabilities include space-based systems, enhanced communications capabilities, the frigate sustainment programme, and the Enhanced Maritime Awareness Capability. Defence estimates direct operating expenditure will increase s9(2)(f)(iv) above Defence White Paper 2016 projections by 2030 in order to deliver Option One.

101. s9(2)(f)(iv)

Depreciation and capital charge impacts

102. Defence Force capital charge expenditure will increase s9(2)(f)(iv) due to current and planned Defence projects. Of this, the majority is a result of the purchase of the P-8A, and most of the balance relates to the upcoming decision on the replacement of the C-130 Hercules fleet.

103. Defence Force depreciation expenditure will increase s9(2)(f)(iv) due to current and planned Defence projects. The majority of this increase is a result of the introduction into service of the dive and hydrographic vessel HMNZS *Manawanui* and the tanker HMNZS *Aotearoa*, and the completion of the Frigate Systems Upgrade.

Total operating change from Defence Capability Plan 2016

104. Total operating costs by 2022/23 are estimated to be s9(2)(f)(iv) above Defence Capability Plan 2016 projections. This is largely driven by the ANZAC frigate life extension, and timing of capital expenditure for the P-8A and C-130 replacement. As such, it is the same across all three capability options.

105. s9(2)(f)(iv)

Assurance in the next four years and beyond

106. Defence has a long-term programme of work to ensure that the Defence capability portfolio remains within agreed bounds of policy, capability, and funding.

107. s9(2)(f)(iv)

108. At a future date, Cabinet can choose to commission a Defence White Paper. A Defence White Paper allows defence policy to be reassessed in light of the Government's overall policy direction, and developments in the international environment. It also provides an opportunity to review the Defence Force's force structure, capability plan, and the costs and contingency assigned to projects. The last two Defence White Papers were published in 2010 and 2016 respectively.

109. Given the thorough development of the Coalition Government's *Strategic Defence Policy Statement 2018* and the time horizons of the *Defence Capability Plan 2019*, a Defence White Paper is unlikely to be required until at least 2022, unless there is a major shift in the strategic or fiscal environment.

110. During the next four year period, Defence will be focussed on delivering the investments required to meet the Coalition Government's defence policy. Defence will continue their rolling programme of Defence Assessments that consider specific topics relevant to the strategic environment, such as the Climate Crisis report released in late 2018.

111. Looking beyond the next four years, I consider it prudent that the next Defence Capability Plan be published in 2023. The Plan should, subject to future Cabinet direction, be based on a Defence White Paper published in 2022, which in turn would be informed by a consideration of the international strategic environment through a Ministry of Defence-led Defence Assessment in 2021.

Upcoming capability decisions

112. To begin the delivery of the Defence Capability Plan 2019, continue addressing the challenge of major platform replacement, and address the capability and capacity challenges identified in the *Strategic Defence Policy Statement 2018*, I am presenting Cabinet with the following business cases for consideration alongside this paper, which are required to be progressed in April 2019 to meet critical project deadlines:

- The Protected Mobility Capability Project (PMCP) Detailed Business Case, which outlines how the operational vehicle fleets will be replaced and upgraded in phases over the next decade; and
- The Operational and Regulatory Aviation Compliance Sustainment Project (ORACS), which will upgrade our aircraft to comply with new air traffic control regulations, and provide military identification and associated security systems that comply with new standards to allow our aircraft to fly safely and securely in operational environments.

113. In late May I will progress the Future Air Mobility Capability Detailed Business Case, which provides a way forward for the replacement of the current fleet of five C-130 Hercules. Final approval for the project, including funding, will be sought in 2020.

114. As a result of Defence earning an 'A' Investor Confidence Rating for the capability portfolio, Ministers agreed to increased thresholds for approval by the responsible Minister and Chief Executives. [GOV-18-MIN-0075 refers]. Defence has identified eight projects that had been expected to seek approval from Cabinet within the next four years that may be impacted by the changed thresholds. Defence and Treasury officials will provide a recommendation to joint Ministers on the possible application of the ICR thresholds to these projects.

115. Annex D of this Cabinet paper provides an indicative list of all the capability investments that will be presented for consideration by Cabinet, either as Business Cases or Budget bids, over the next four years.

Financial Implications

116. There are no immediate financial implications from this paper. Funding for Defence capability will be sought through future Budgets. Irrespective of the option chosen by Ministers, the Defence Capability Plan presents a significant affordability challenge for the Government, given other known pressures in the capital pipeline and funding available through Budget capital allowances. [REDACTED] s9(2)(g)(i)

Other Implications

117. There are no Human Rights, Legislative, Regulatory, Gender or Disability Implications resulting from this paper.

Publicity

118. Attached as Annex C is a draft unclassified version of the Defence Capability Plan 2019 for public release. This document provides the New Zealand public with a view of the future capability of the Defence Force. It also supports Defence's engagement with New Zealand's defence partners and industry. I propose that the unclassified version of the Defence Capability Plan be launched at an appropriate public event.

119. To support the public release, I further propose that officials and I undertake a range of engagements with relevant domestic and international audiences. Such engagements would help to ensure informed commentary of the contents of the plan and understanding on the part of New Zealand's international partners. These engagements would include discussions with academics, speeches at relevant international events, and briefings for representatives of New Zealand's key defence and security partners.

120. I request that the finalisation and approval of the unclassified version of the proposed Defence Capability Plan 2019 be delegated to myself, in consultation with the Minister of Finance.

Proactive Release

121. This Cabinet Paper and supporting annexes will be proactively released, in coordination with the production and launch of the unclassified Defence Capability Plan 2019.

Consultation

122. The Review was governed by a cross agency Governance Board. The Board consisted of the Chief Executives of the New Zealand Defence Force, Ministry of Defence, Department of the Prime Minister and Cabinet, Ministry of Foreign Affairs and Trade, The Treasury's Manager for Justice, Security and Government Services, and an Assistant Commissioner from the State Services Commission. The Board also included Sir Brian Roche, who was appointed as an Independent Ministerial Advisor [APH-18-MIN-0214 Refers].

123. New Zealand Police, Customs, MPI, MBIE, DOC, FENZ, National Maritime Coordination Centre, Antarctica New Zealand, and the Intelligence Agencies were consulted during the preparation of this paper. The consultation process included an inter-agency forum and the opportunity to comment on the Cabinet Paper. This has allowed proposals to be tested with the agencies that make use of Defence capabilities as part of their operations.

124. This paper has been prepared by the Ministry of Defence and New Zealand Defence Force. The Treasury and the Department of the Prime Minister and Cabinet were consulted in the preparation of this paper. The State Services Commission was informed.

Treasury Comment

125. Treasury considers that the options outlined in this paper could present an affordability challenge for Government given the size of other known pressures in the capital pipeline. [REDACTED] s9(2)(f)(iv)

126. Although the plan is costed based on the best available information, there is greater certainty in the short-term, particularly where a business case has been developed or is in development. In all cases the costings are based on an exemplar capability, and may not necessarily be representative of the type and level of capability that would deliver the greatest value for money, which is examined through each business case process. Within the plan, therefore, Ministers continue to have choices around the level of investment through each business case and at each Budget, depending on the level of funding available and other Government priorities.

127. [REDACTED] s9(2)(f)(iv), s9(2)(g)(i)

Recommendations

128. The Minister of Defence recommends that the Committee:

1. **note** that the Labour-New Zealand First coalition agreement included a commitment to “re-examine the Defence procurement programme within the context of the 2016 Defence Capability Plan budget”;
2. **note** that Cabinet was provided with a long list of six options and agreed that the capabilities from a short list of three options should be taken forward for further consideration, and invited the Minister of Defence to present a preferred option to Cabinet [GOV-18-MIN-0086 refers];

3. **note** that further analysis by Defence officials has produced three capability options for Defence capability, provided as Annex A, that provide different balances of indicative funding requirements against the ability to meet the Government's foreign policy, national security and defence policy priorities, including as expressed through the Pacific Reset and *Strategic Defence Policy Statement 2018*;
4. **note** that the estimated capital cost of all three capability options remains within the funding envelope of \$20 billion to 2030 established by the 2016 Defence Capability Plan, and that the \$20 billion includes \$5.8 billion already spent or committed since 2014;
5. **note** that an update of foreign exchange rates has reduced the projected cost of the recommended investments [redacted] s9(2)(f)(iv), s9(2)(j) [redacted] but that given the volatile nature of foreign exchange rates there is a risk that these gains reverse in the future;
6. **note** that Option One is recommended as it provides both the capability and capacity enhancements that best meet the Government's foreign policy, national security and defence policy priorities;
7. **note** that agreement to the recommendations in this paper does not imply funding is agreed for the investments included in the Defence Capability Plan;
8. **note** that each investment needs to be justified through a business case considered by Cabinet before funding is agreed and is also subject to funding being available in the Budget capital allowances, taking into account other Government investment priorities;
9. **note** that there are substantial known capital pipeline pressures which will require prioritisation to manage within Budget capital allowances;
10. **agree** to either:
 - 10.1. Option One - Enhanced Pacific Projection and Sustainment, recommended by the Minister of Defence, with an indicative capital envelope of \$19.9 billion from 2014 to 2030 and [redacted] s9(2)(f)(iv) [redacted] from 2030 to 2035; **OR**
 - 10.2. Option Two - Pacific Projection, with an indicative capital envelope of [redacted] s9(2)(f)(iv) [redacted] from 2014 to 2030 and [redacted] s9(2)(f)(iv) [redacted] from 2030 to 2035; **OR**
 - 10.3. Option Three - Sustaining Defence Capabilities, with an indicative capital envelope of [redacted] s9(2)(f)(iv) [redacted] from 2014 to 2030 and [redacted] s9(2)(f)(iv) [redacted] from 2030 to 2035.

11.

[redacted] s9(2)(f)(iv) [redacted]

12. [Redacted] s9(2)(f)(iv)

13. **agree** that:

13.1. [Redacted] s9(2)(g)(i)

13.2. [Redacted] s9(2)(g)(i) the Plan represents Governments investment intentions out to 2030, subject to individual business cases justifying the investment and available funding through the Budget process, with potential indicative investments identified for the 2030 to 2035 period that will be assessed and reviewed in detail at the 2022 Defence White Paper.

14. **note** that Defence has identified a requirement of [Redacted] s9(2)(f)(iv), s9(2)(f) of contingency for investments seeking approval over the next four years to provide Ministers assurance that the investments can be delivered within the approved tolerances;

15. **note** that Defence and Treasury officials will work together to develop mechanisms for the centralised management of contingency across the Defence capability portfolio to enhance the efficiency of the use of contingency funds;

16. **note** that, in order to meet the Government's foreign policy, national security and defence policy priorities, including an increased priority placed on Defence Force operations in the Pacific, Option One Enhanced Pacific Projection and Sustainment identifies that [Redacted] s9(2)(f)(iv) Defence Force personnel additional to that signalled by the Defence White Paper will be required by 2035;

17. **note** that the operating cost of these additional personnel will be sought through future Budgets;

18. **note** that as a result of Defence earning an 'A' Investor Confidence Rating for the capability portfolio, Ministers agreed to increased thresholds for approval by Chief Executives and the responsible Minister [GOV-18-MIN-0075 refers];

19. **note** that as a result of these changes some projects that had been expected to report back to Cabinet for approval are now within the approval threshold of the Minister of Defence or Defence Chief Executives;

20. **agree** that an unclassified version of the proposed Defence Capability Plan 2019, a draft of which is provided as Annex C, be launched at an appropriate public event, supported by a range of engagements with relevant domestic and international audiences;

21. **agree** that the finalisation and approval of the unclassified version of the proposed Defence Capability Plan 2019 be delegated to the Minister of Defence, in consultation with the Minister of Finance;

22.

s9(2)(f)(iv)

23.

24.

Authorised for lodgement

Hon Ron Mark
MINISTER OF DEFENCE

Released by the Minister of Defence

Annex A: Defence Capability Plan Review 2019 - Investment Options *significant differences highlighted in red*



Manatu Kaupapa waorunga

s6(a)

	Enhanced Pacific Projection and Sustainment	Pacific Projection	Sustaining Defence Capabilities
	Option 1	Option 2	Option 3
Airlift	Like for like replacement of current five C130s in 2023 and two Boeing 757s in 2027	Like for like replacement of current five C130s in 2023 and two Boeing 757s in 2027	Like for like replacement of current five C130s in 2023 and two Boeing 757s in 2027
Air Surveillance Capability	Enhanced Maritime Awareness Capability introduced in 2023 Long Range Unmanned Surveillance Capability introduced in 2033	Enhanced Maritime Awareness Capability introduced in 2023 Long Range Unmanned Surveillance Capability introduced in 2033	Enhanced Maritime Awareness Capability introduced in 2023
Maritime Patrol	Commercial ice strengthened Southern Ocean Patrol Vessel is introduced in 2027 Current two Offshore Patrol Vessels are replaced like for like in 2032	Commercial ice strengthened Southern Ocean Patrol Vessel is introduced in 2027 Current two Offshore Patrol Vessels are replaced like for like in 2032	Commercial ice strengthened Southern Ocean Patrol Vessel is introduced in 2033 Current two Offshore Patrol Vessels are replaced like for like in 2035
Maritime Projection	Sealift enhanced with a Landing Platform Dock in 2029. HMNZS Canterbury retained until potential second Landing Platform Dock Dive and Hydrographic Vessel replaced like for like in 2030-35	HMNZS Canterbury replaced with an enhanced sealift vessel (LPD) in 2029 Dive and Hydrographic Vessel replaced like for like in 2030-35	HMNZS <i>Canterbury</i> replaced with an enhanced sealift vessel (LPD) in 2028 Dive and Hydrographic Vessel replaced like for like in 2030-35
Maritime Helicopters	Current eight naval helicopters are replaced with nine in 2026	Current eight naval helicopters are replaced with nine in 2026	Current eight naval helicopters are replaced with nine in 2026
Maritime Combat	Extend life of two current frigates by five years, and replace with the Future Surface Combatant in 2035	Extend life of two current frigates by five years, and replace with the Future Surface Combatant in 2035	Extend life of two current frigates by five years, and replace with the Future Surface Combatant in 2030-2035
Land Operations	Army grows to 6,000 personnel	Army grows to 5,250 personnel	Army grows to 5,150 personnel
Space Surveillance	Space based surveillance providing improved situational awareness, particularly in New Zealand's maritime domain	Space based surveillance providing improved situational awareness, particularly in New Zealand's maritime domain	Space based surveillance providing improved situational awareness, particularly in New Zealand's maritime domain
Communications Network	Regenerate communications capability to build and sustain a foundation for a secure, networked, interoperable and information-led defence force Sustaining current global satellite communications	Regenerate communications capability to build and sustain a foundation for a secure, networked, interoperable and information-led defence force Sustaining current global satellite communications	Regenerate communications capability to build and sustain a foundation for a secure, networked, interoperable and information-led defence force Sustaining current global satellite communications
Analytical Intelligence	Enhanced regional understanding Building up the Defence Force intelligence enterprise to improve the provision of accurate and relevant intelligence to Ministers, other government agencies and Defence Force operations	Enhanced regional understanding Building up the Defence Force intelligence enterprise to improve the provision of accurate and relevant intelligence to Ministers, other government agencies and Defence Force operations	Enhanced regional understanding Building up the Defence Force intelligence enterprise to improve the provision of accurate and relevant intelligence to Ministers, other government agencies and Defence Force operations
Cyber	Capability to defend Defence networks from cyber threats in New Zealand and when deployed A deployable capability to deliver tactical and operational cyber effects in support of military objectives	Capability to defend Defence networks from cyber threats in New Zealand and when deployed A deployable capability to deliver tactical and operational cyber effects in support of military objectives	Capability to defend Defence networks from cyber threats in New Zealand and when deployed A deployable capability to deliver tactical and operational cyber effects in support of military objectives
Estate	Enhance funding to \$2.1 billion to 2030	Enhance funding to s9(2)(f)(iv) to 2030	Restore funding to s9(2)(f)(iv) to 2030
Estimated Capital 2014 to 2030	s9(2)(f)(iv)		
Estimated Capital 2031 to 2035	s9(2)(f)(iv)		
Estimated Capital 2036 to 2040	s9(2)(f)(iv)		

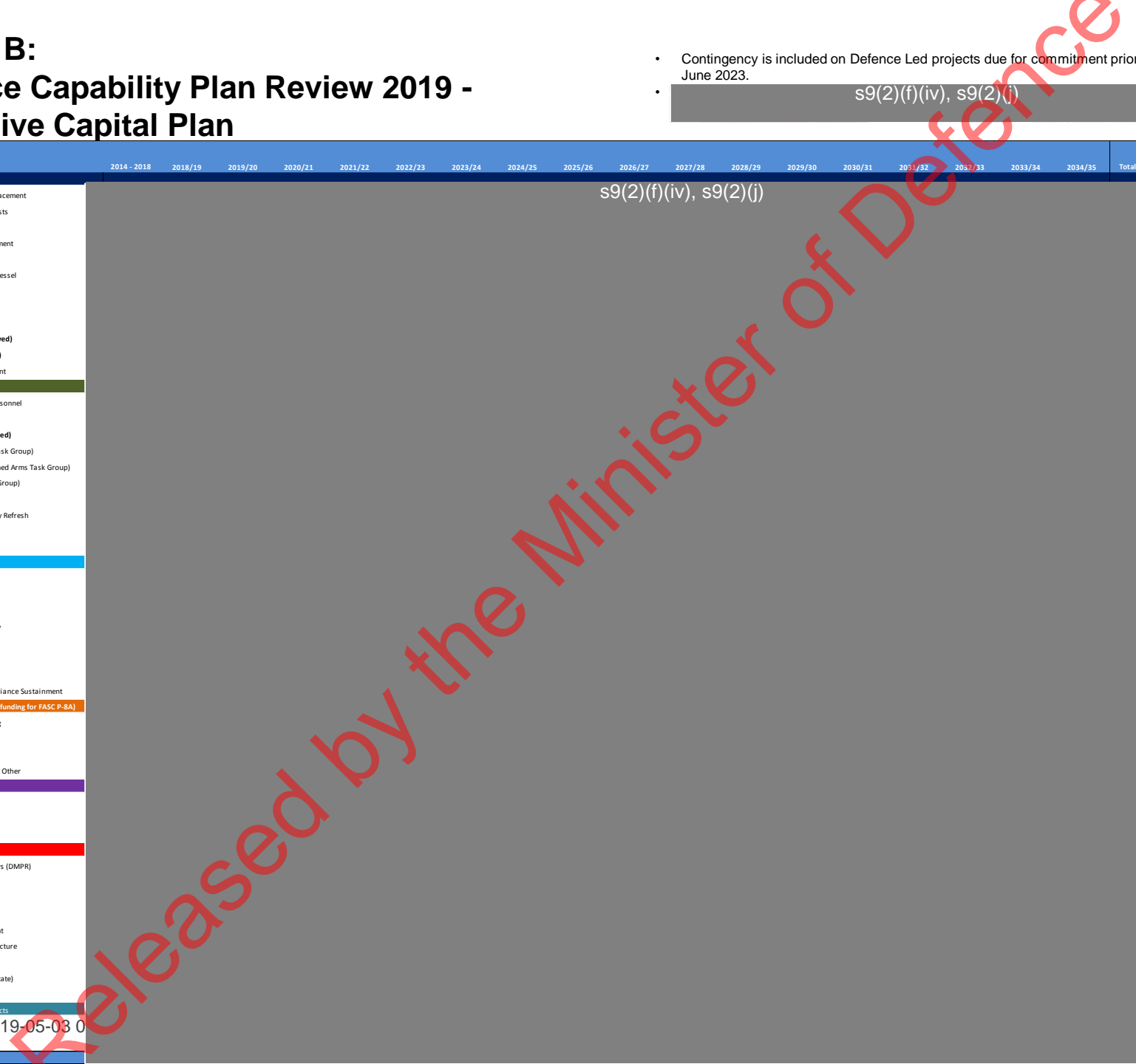
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Annex B: Defence Capability Plan Review 2019 - Indicative Capital Plan

- Contingency is included on Defence Led projects due for commitment prior to June 2023.

s9(2)(f)(iv), s9(2)(j)

Projects within Domains	2014 - 2018	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34	2034/35	Total to 2030	2031 - 2035	Total to 2035
s9(2)(f)(iv), s9(2)(j)																					
Maritime Domain																					
Surface Combatant (ANZAC Frigates) Replacement																					
Frigate Extension Capital Sustainment Costs																					
Frigate Systems Upgrade (Approved)																					
ANZAC Frigates Communications Sustainment																					
Offshore Patrol Vessel Replacement																					
Ice Strengthened Southern Ocean Patrol Vessel																					
First Land Platform Dock																					
Second Landing Platform Dock																					
Naval Helicopter Replacement																					
Maritime Sustainment Capability (Approved)																					
Dive and Hydrographic Vessel (Approved)																					
Dive and Hydrographic Vessel Replacement																					
Land Domain																					
Investment to support growth in Army personnel																					
Land Investments																					
Network Enabled Army Tranche 1 (Approved)																					
Network Enabled Army Tranche 2 (Light Task Group)																					
Network Enabled Army Tranche 3 (Combined Arms Task Group)																					
Network Enabled Army Tranche 4 (Battle Group)																					
Protected Mobility Capability Project																					
Night Vision Equipment Rolling Capability Refresh																					
Garrison and Training Support Vehicles																					
In-Service Weapon Replacement																					
Air Domain																					
P-8A (Approved)																					
P-8A Spiral Upgrades & Refreshes																					
P-8A Increment 3 Block 2 Upgrade																					
Enhanced Maritime Awareness Capability																					
Future Air Mobility - Tactical																					
Future Air Mobility - Strategic																					
Long Range Unmanned Surveillance																					
Operational & Regulatory Aviation Compliance Sustainment																					
Estate Regeneration (Excluding \$101M of funding for FASC P-8A)																					
Additional Ohakea Infrastructure Loading																					
Consolidated Logistics Project - Estate																					
Programme RURU - Estate																					
Defence Estate Regeneration Programme - Other																					
Information Domain																					
Command, Control and Communications																					
Wideband Global Satellite Replacement																					
Analytical Intelligence																					
Organisational Enablers																					
Capital Through Life Sustainment Outflows (DMPR)																					
Rotables Replacement Budget																					
NZDF Led (Minors)																					
NZDF Led Major Minors																					
Organisational Enhancement/Sustainment																					
Computer Informations Systems Infrastructure																					
Consolidated Logistics Project																					
Programme RURU (Not funded through Estate)																					
Future Headquarters																					
Prior Year Actuals and Other Minor Projects																					
Actuals - 1 dksflq9v 2019-05-03 0																					
Other Minor Projects																					
Total Capital Expenditure																					



Annex D: Indicative Approval Authority for Defence Projects 2019-2023

These tables indicate the likely approval authority of individual Defence projects over the next four years.

- **Indicative Business Case (IBC):** seeks approval of a shortlist of options.
- **Detailed Business Case (DBC):** seeks approval of a preferred option.
- **Single Stage Business Case (SSBC):** seeks approval of a preferred option, and may seek approval to commit funds.
- **Programme Business Case (PBC):** seeks approval to invest in a programme of transformation change.
- **Project Implementation Business Case (PIBC):** seeks approval to commit funds.

Authority to commit funds is based on proposed changes to the ICR thresholds, and is highlighted in yellow.

s9(2)(f)(iv), s9(2)(j)



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Annex E: Defence Capability Plan 2019 - Lift in Capability in Recommended Option

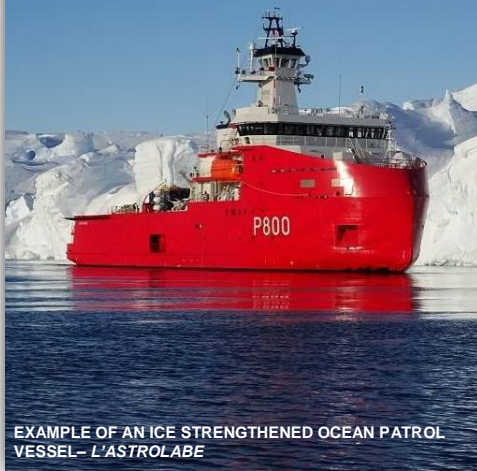
TO 2030

2030 TO 2035

Ice Strengthened Southern Ocean Patrol Vessel

Estimated Capital Cost: s9(2)(f)(iv), s9(2)(j)
Investment Decision: s9(2)(f)(iv)
Introduction into Service: 2027

The ice strengthened Ocean Patrol Vessel (included in the Defence White Paper 2016) would be capable of patrolling the Southern Ocean and Ross Sea, including in ice covered areas currently inaccessible to the Navy's offshore patrol vessels. This would support resource protection and illegal, unreported and unregulated fisheries monitoring, fulfilling New Zealand's obligations under the Convention for the Conservation of Antarctic Marine Living Resources, as well as other national Antarctic interests.



Information Domain

Estimated Capital Cost: s9(2)(f)(iv), s9(2)(j)
Investment Decision: s9(2)(f)(iv)
Introduction into Service: Progressive development of capability

Proposed investments in communications networks, analytical intelligence, surveillance, and cyber capabilities are intended to address some of the current shortcomings across the information domain. This includes space based surveillance providing situational awareness of New Zealand's full maritime domain, and an increase of analytical intelligence personnel.

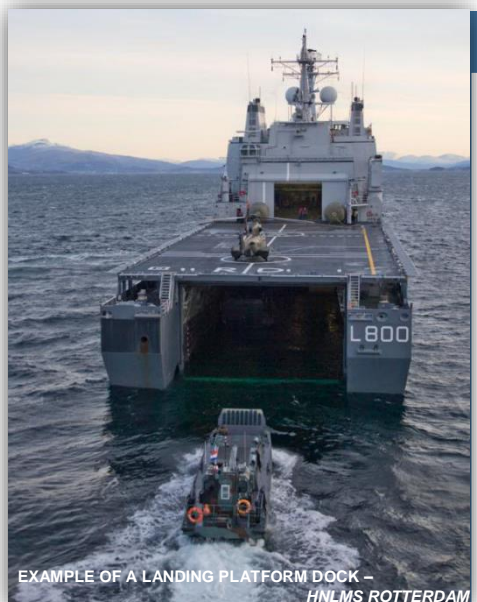


Landing Platform Dock

Estimated Capital Cost: s9(2)(f)(iv), s9(2)(j)
Investment Decision: s9(2)(f)(iv)
Introduction into Service: 2029

The proposed investment in a Landing Platform Dock ship is brought forward due to the uplift in sealift capability it provides compared to the current sealift vessel, HMNZS Canterbury. This includes operation in a wider range of sea conditions as its stern can be flooded to allow landing craft to float into the well dock to be loaded and unloaded, rather than by crane or connecting with a stern ramp.

Annex D contains further information about the features and benefits of a Landing Platform Dock.



Long Range Unmanned Surveillance

Estimated Capital Cost: s9(2)(f)(iv), s9(2)(j)
Investment Decision: s9(2)(f)(iv)
Introduction into Service: 2033

An unmanned aerial system provides surveillance and communications capabilities beyond the human line of sight. A medium altitude/long endurance unmanned aerial system can undertake missions over thousands of kilometres and stay airborne for over 24 hours, providing increased surveillance capabilities. This would be a new capability for Defence.



Growing the Army

Estimated Capital Cost: s9(2)(f)(iv), s9(2)(j)
Investment Decision: s9(2)(f)(iv)
Introduction into Service: Realised by 2035

The Defence White Paper 2016 directed that the Army grow to 5,150 personnel by 2030.

The Defence Capability Plan 2019 proposes further growth of the Army to a total of 6,000 personnel. This would de-risk the deployment of a Combined Arms Task Group of 800 personnel for 36 months (a Timor-Leste like scenario).

It will also provide greater choice to the Government by enabling multiple concurrent deployments both in the Pacific and further afield.

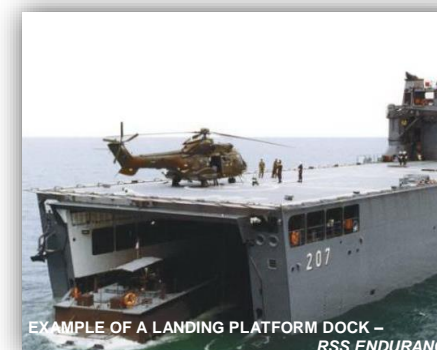


Second Landing Platform Dock

Estimated Capital Cost: s9(2)(f)(iv), s9(2)(j)
Investment Decision: s9(2)(f)(iv)
Introduction into Service: 2035

A second Landing Platform Dock would provide a lift in capacity, allowing for concurrent operations or for one ship to still be available while the other is undergoing maintenance.

Annex D contains further information about the features and benefits of a Landing Platform Dock.



Annex F: Defence Capability Plan 2019 - Enhanced Sealift Capability



A capability to support the Community, Nation, and World



EXAMPLE OF A LANDING PLATFORM DOCK SHIP – HNLMS ROTTERDAM

Responding to growing demand in New Zealand and the Pacific

The *Strategic Defence Policy Statement 2018* and the Defence Assessment on Climate Change (titled *The Climate Crisis: Defence Readiness and Responsibilities*) concluded that there will be increases in the scale, scope, and frequency of the activities required from the Defence Force in New Zealand's neighbourhood. These activities will span humanitarian assistance, disaster relief, and stability operations.

Sealift is key to New Zealand's ability to undertake these activities independently. It allows Defence personnel and equipment to be transported en masse into an area even when transport and harbour infrastructure is no longer usable, or to areas which lack port facilities or airfields to accommodate strategic aircraft.

Combat capable, flexible, and ready

A Landing Platform Dock ship capability is a highly flexible military asset due both to its size and systems, including a hospital, planning spaces, communications, and self defence capability. It can support the deployment of capabilities including Special Forces and Unmanned Aerial Vehicles.

The Landing Platform Dock ship is also more suited towards amphibious operations as, due to its docking capability, it is able to conduct amphibious operations in a wider range of sea conditions. It additionally has the size and capacity to carry large equipment, significant numbers of troops, sufficient aviation capacity to allow ongoing operations, and a larger capacity to be able to offload large equipment and forces over the beach. This provides an uplift in the sealift capability required to support disaster relief operations and the deployment of land forces.

Supporting international partners

A Landing Platform Dock ship would be a key part of New Zealand's contribution to the resilience of Pacific states by supporting the response to, and recovery from, natural disasters. They would help to maintain New Zealand's position as a valued and reliable security partner in the Pacific.

Landing Platform Dock ships are an in-demand capability, and depending on the scenario, could be a valuable contribution to multinational and coalition operations in the wider Asia-Pacific.

Sealift capabilities support the sustainability and self-reliance of New Zealand contributions to multi-national operations, enhancing their effectiveness and overall value.

NZDF's sealift capability has played an important role in recent disaster relief operations



2011 Christchurch Earthquake
HMNZS *Canterbury* participated in the disaster relief operation following the 2011 Christchurch earthquake. It provided invaluable support during the initial days when resources were stretched.



2016 Kaikoura Earthquake
HMNZS *Canterbury* was used to deliver aid and transport evacuees from Kaikoura to Lyttelton in the aftermath of the quake. *Canterbury* was in Auckland to participate in an International Naval Review at the time of the earthquake, and was quickly re-tasked to undertake relief operations.



2016 Cyclone Winston
HMNZS *Canterbury* has an annual maintenance cycle which is scheduled so that the ship remains available during the South Pacific cyclone season from November to April, to maximise its availability for humanitarian aid and disaster relief operations in the region. This enabled *Canterbury* to be sent to Fiji to support relief and recovery efforts following Cyclone Winston in February 2016.

Landing Dock



The stern of a Landing Platform Dock ship can be flooded to allow landing craft to float into the well dock and be loaded and unloaded. This allows for safe loading and unloading of vehicles to take place in a higher sea state, enabling operations in a wider range of sea conditions than HMNZS *Canterbury*, which does not have a well dock.

Aircraft Capability



Landing Platform Docks are able to carry NH90 size helicopters as well as the crew and fuel to sustain them. Helicopters are vital to disaster relief and other operations where roads are no longer usable and communities are cut off. NH90 helicopters cannot be airlifted by C130 Hercules aircraft and must be deployed by sea.

Hospital



A Landing Platform Dock ship may include hospital facilities, which can be used to support humanitarian assistance missions or deployed Defence Force personnel. For example, the HNLMS *Rotterdam* has an operating theatre, ten intensive care beds, and an area for non-surgical life-saving medical treatment.

Landing Craft



Landing Platform Dock ships carry up to four Landing Craft to shuttle personnel and vehicles from ship to shore. These are able to carry three of the Army's trucks or other heavy equipment (both military and civilian) up to shore quickly and safely, and then get them back to the Landing Platform Dock when needed.

Accommodation



As well as crew, Landing Platform Dock ships are able to accommodate greater numbers of additional personnel. This capacity allows for the transport of a significant contingent of NZDF and/or other Government agency personnel, including persons displaced by a humanitarian disaster.

Command and Control



Landing Platform Docks contain the space and communications capability needed to plan and control complex operations. This would make them the heart of New Zealand's response to major humanitarian relief or stability operations, and would reduce the burden on land based Headquarters.

FEATURES OF A LANDING PLATFORM DOCK SHIP

Released by the Ministry of Defence



Cabinet Government Administration and Expenditure Review Committee

Minute of Decision

This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.

Defence Capability Plan Review 2018: Midpoint Update

Portfolio **Defence**

On 6 November 2018, the Cabinet Government Administration and Expenditure Review Committee (GOV):

- 1 **noted** that in April 2018, GOV noted that the Minister of Finance and Minister of Defence would jointly finalise and approve the Terms of Reference for the Defence Capability Plan Review (the Review) [GOV-18-SUB-0008];
- 2 **noted** that the Minister of Finance and Minister of Defence have approved the Terms of Reference for the Review;
- 3 **noted** that the purpose of the Review is to enable government to make decisions on capability choices, ensure these decisions are aligned with government defence policy and its fiscal strategy, and provide confidence for Defence planning;
- 4 **noted** that Defence has developed six options for future Defence capability that manage policy, affordability, deliverability and workforce demands at different levels;
- 5 **noted** that:
 - 5.1 capability investment options have been developed using the \$19.7 billion capital envelope from 2014 out to 2030 as the guiding parameter;
 - 5.2 indicative costs have also been developed for investments from 2030 to 2035;
- 6 **agreed** that the capabilities within Options Three, Four and Five, in the paper under GOV-18-SUB-0086, are taken forward for further consideration;
- 7 **invited** the Minister of Defence to report back to GOV in the first quarter of 2019 with a recommended option and draft Defence Capability Plan.

Rachel Clarke
Committee Secretary

Hard-copy distribution:

Present:

Hon Kelvin Davis
Hon Grant Robertson (Chair)
Hon Phil Twyford
Hon Chris Hipkins
Hon Stuart Nash
Hon Ron Mark
Hon Tracey Martin
Hon Shane Jones
Hon James Shaw

Officials present from:

Office of the Prime Minister
Officials Committee for GOV

Hard-copy distribution:

Minister of Defence

Released by the Minister of Defence

Chair, Cabinet Government Administration and Expenditure Control Committee

DEFENCE CAPABILITY PLAN REVIEW 2018 – MIDPOINT UPDATE

Proposal

1. This paper presents the initial findings of the Defence Capability Plan Review 2018, and seeks agreement to a short list of options to undergo further development.
2. Finalised options for the Plan will be presented to Cabinet for consideration in the first quarter of 2019.

Executive summary

3. The Labour-New Zealand First coalition agreement included a commitment to: 're-examine the Defence procurement programme within the context of the 2016 Defence Capability Plan budget'. The Defence Capability Plan Review (the Review) is now underway. It will produce recommendations on future investments in military capability, guided by the Government's Strategic Defence Policy Statement 2018, decisions already taken on Defence Force capability (such as the purchase of the P-8A Poseidon), and the Government's fiscal strategy.
4. Once completed, the new Defence Capability Plan will set out the indicative timing and level of proposed investments to give Ministers assurance that these are affordable and deliver a coherent Defence Force. Individual investment decisions will then be subject to future Budgets and the Better Business Case process, allowing Ministers to consider each investment in greater detail before any funds are committed.
5. To deliver value for money the Review has prioritised potential investment in capabilities to address known risks and gaps in performing the roles and tasks outlined in the policy statement. This is balanced against the need to manage the sequencing and affordability of significant investments.
6. Defence continues to manage any identified cost pressures at a portfolio level through trade-offs of proposed investments. It has also identified options to smooth out the delivery of investments which reduces the fiscal impact.
7. The Review has generated an initial long list of six options that present progressive changes to proposed investment. The options provide choice around the priority assigned to:
 - 7.1. supporting other government agencies and New Zealand communities;
 - 7.2. New Zealand-led activities in the South Pacific in support of our neighbours, or as part of a coalition contribution to maintain the rules based international order;
 - 7.3. the timing of expenditure against the emergence of gaps in Defence Force capabilities; and

7.4. the accepted degree of ambition and risk to effective delivery across the portfolio.

8. I recommend that the capabilities within Options Three, Four and Five are taken forward for further consideration. These options balance the Government's policy objectives against affordability, achievability, workforce demands, and project delivery.

9. Further analysis and refinement of the short list will be undertaken over the coming months to provide Ministers assurance that the options are robust and Defence is able to deliver the proposed investments.

10. Capital and operating cost projections will be updated to reflect changes to foreign exchange forecasts (foreign exchange rates are a major driver of cost and uncertainty for defence investments) and capability. Defence will also model uncertainty for individual cost estimates and across the portfolio to inform appropriate contingency levels.

11. I will report back to Cabinet in the first quarter of 2019 with the outcomes of this analysis, my recommended option, and a draft of the Defence Capability Plan for consideration.

The value of Defence Force capability

12. The capabilities of the New Zealand Defence Force are called upon daily to serve the Community, Nation, and World. The New Zealand Government expects the Defence Force to support New Zealand's security, wellbeing and resilience across a broad range of activities under the framework of Community, Nation, and World.

13. At the higher end the Government expects the Defence Force to be able to deploy overseas to contribute to international security and the maintenance of the international rules-based order.

14. The Strategic Defence Policy Statement 2018 raised the priority placed on the Defence Force's ability to operate in the South Pacific to the same level as New Zealand's territory, the Southern Ocean and Antarctica. Defence Force operations in this expansive area, New Zealand's neighbourhood, include supporting fisheries patrols for our Pacific neighbours and in the Southern Ocean, and responding to disasters like Cyclone Winston or the earthquake and tsunami on the island of Sulawesi in Indonesia.

15. At home, the Defence Force operates alongside and in support of a broad range of other government agencies. This was most visible following disasters such as the Kaikoura and Canterbury earthquakes. Defence Force capabilities conduct border and fisheries patrols on the sea and in the air, support the New Zealand Police in high threat situations, keep DOC rangers supplied on the isolated islands that protect our endangered wildlife, and support New Zealand's presence in the Antarctic.

16. The spectrum of required activities, which benefit the day to day lives of New Zealanders, have been a key focus in developing the future capability options.

The need to review the Defence Capability Plan

17. The 2016 Defence Capability Plan set out a substantial programme of investments to maintain and modernise Defence Force capabilities. This included once in a generation replacement of major platforms now at the end of their serviceable life, and the regeneration of aging infrastructure across Defence Force facilities.

18. The plan was supported by an indicative capital and operating funding track out to 2030. The capital component of this track indicated investment of \$19.7 billion between 2014 and 2030. Allocation of funding to the Plan was made on a Budget-by-Budget basis, and through the Better Business Case process.

19. The Labour-New Zealand First coalition agreement included a commitment to: 're-examine the Defence procurement programme within the context of the 2016 Defence Capability Plan budget'. In April 2018 Cabinet noted that Defence would undertake four reviews over 2018: Defence policy settings; Defence's Procurement Policies and Practices; Investor Confidence Rating assessment, and the review of the Defence Capability Plan [GOV-18-MIN-0008 refers].

20. The Strategic Defence Policy Statement 2018 released in July outlined this Government's defence policy and expectations for the Defence Force. The statement noted that the increasing demands for Defence Force operations in New Zealand and our neighbourhood will present a capacity challenge, while maintaining interoperability with security partners presents a capability sophistication challenge. The statement identified focus areas as:

- 20.1. the replacement of major capabilities;
- 20.2. maritime domain awareness and response;
- 20.3. contribution to secure access to space-based systems; and
- 20.4. enhanced cyber capabilities.

21. The Strategic Defence Policy Statement 2018 also set out the following principles that underpin New Zealand's defence policy:

- 21.1. Defence is combat capable, flexible and ready;
- 21.2. Defence personnel are highly trained professionals;
- 21.3. Defence has the resources to meet the Government's operational and strategic priorities;
- 21.4. Defence operates in a way that maintains public trust and confidence;
- 21.5. Defence embodies and promotes New Zealand's values; and
- 21.6. Defence is a credible and trusted international partner.

22. The Review of Defence's Procurement Policies and Practices and the Investor Confidence Rating Assessment evaluated Defence's procurement and capability management system. Both reviews outlined a strengthened system for managing capability investments. The Procurement Policies and Practices review found that the system is providing decision-makers with a strong level of confidence and assurance to support informed decision-making. The Investor Confidence Rating Assessment gave an A rating for Defence's capability management system and a B rating for the Defence estate investment system.

23. The Government announced the purchase of four P-8A Poseidon aircraft in July, assuring the long term future of our airborne maritime patrol capability. Due to the need to act whilst the P-8A was available, this decision occurred earlier than planned and,

s9(2)(f)(iv)

24. These decisions and reviews together establish the need for, and provide the baseline of, the Defence Capability Plan Review 2018. The Terms of Reference for the Review were signed by the Ministers of Finance and myself in September and are included as Annex A.

How the Review is being undertaken

25. The Review is using the 2016 Defence Capability Plan indicative capital funding track of \$19.7 billion out to 2030 as a guiding parameter for the development of options. This includes \$5.5 billion of capital investment committed since 2014, including major decisions on the new naval tanker HMNZS *Aotearoa* (currently being built), the Frigates Systems Upgrade, the Dive and Hydrographic Vessel HMNZS *Manawanui*, and the P-8A.

26. The Review focuses on forthcoming investment decisions. This includes extending the horizon of the Defence Capability Plan to also cover indicative cost estimates for investments in the period 2030 to 2035. This allows for the incorporation of capabilities that reach life of type in that timeframe (including HMNZS *Canterbury*, the naval patrol force, maritime helicopters, land transport, and offensive support capabilities¹).

27. The capability investment choices phase of the Review is being conducted in three stages:

27.1. stage one: preliminary analysis;

27.2. stage two: development of initial options for total investment out to 2030, and indicative estimates for between 2030 and 2035; and

27.3. stage three: refinement of final options.

28. The first stage has been completed. It entailed the collection of necessary inputs to assess the relative merits and costs of individual investment options. This included:

28.1. an update of the current plan, including updating information and decisions for investments;

28.2. testing of the proposed future capabilities against recently developed scenarios capturing key roles and tasks set out in the Strategic Defence Policy Statement 2018; and

28.3. evaluation of the relative value of alternative investment options against policy objectives.

29. Stage two of the Review has used the inputs from stage one and assessed constraints on delivery to develop a long list of six options for Cabinet consideration.

¹ Currently the 105mm howitzers operated by the Royal Regiment of New Zealand Artillery.

30. Stage three will commence following Cabinet agreement of a short list of options to take forward for in-depth analysis and refinement. This will include assurance over cost estimates, updating of costs to reflect projected foreign exchange rates (a key determinant of future costs), and outlining the uncertainty parameters and proposed risk management approach.

Capability priorities identified

31. Defence utilised a set of scenarios to test the value of capabilities in responding to the roles and tasks set out in the Strategic Defence Policy Statement 2018. They covered Defence Force operations in support of the Community, Nation, and World. The scenarios were used by military planners to assess the level of risk in responding to hypothetical but representative security events with the capabilities projected by the 2016 Defence Capability Plan. The security events used in the scenarios were:



32. The scenario analysis underlined the proposed force structure for the Defence Force as broadly able to meet the demands of the scenarios and thus deliver the roles and tasks of the Strategic Defence Policy Statement 2018. The analysis also identified a number of risks and challenges which we have the opportunity to address through this Review. Evaluation of possible alternative investment options also indicated capabilities that provide the greatest value for money in achieving policy goals. A summary of results for this analysis is provided as Annex B.

33. The 2016 Defence Capability Plan identified the need for investment in surveillance, analytical intelligence, and cyber capabilities. The growing importance of these areas has been underlined by the Review and future plans will need to reflect that. This includes ensuring access to space based systems, and improving our understanding of the space domain. These systems, together with the P-8A and complementary capability, enhance New Zealand's maritime situational awareness.

34. Air and sea transport remain vitally important for operations in New Zealand and the South Pacific. This was demonstrated following the Canterbury and Kaikoura earthquakes. The need to replace the aging C-130s has already been identified as a priority. An enhancement of our sealift capability would improve both the capability and capacity of the Defence Force.

35. Maritime capabilities are expected to see extensive change in the period out to 2035 with all the Navy's ships (with the exception of the tanker HMNZS *Aotearoa*), and the supporting maritime helicopters, reaching the end of their expected lives. There is also an identified need for an additional vessel that has enhanced ice strengthening and safety features for fisheries patrols in the Southern Ocean. This presents an opportunity

to address capability deficiencies in the current fleet and better manage the block obsolescence as many of these ships reach end of life in the 2030 to 2035 period.

36. Proposed investments in networked command and control systems, protected mobility vehicles, and the supporting logistics system were confirmed as necessary to enabling the Army to work in support of other government agencies in New Zealand, with our South Pacific neighbours, and with our partners globally. As with maritime capabilities, acquisition of these systems will need to be staggered to ensure effective delivery and introduction. Upgrade and sustainment of combat systems will be required in the later years of the Defence Capability Plan.

Identified challenges

37. The preliminary analysis has also underlined challenges in the delivery of capability investments that will be addressed by this Review, including:

- 37.1. constraints on the number of projects able to be delivered;
- 37.2. cost pressures for some investments;
- 37.3. optimising the value of aging assets; and
- 37.4. identifying the personnel that will be required to operate new assets.

Constraints on the number of projects to be delivered

38. Defence faces constraints on the rate of proposed investments that can be undertaken. Defence currently has 20 major capability projects underway; the current Defence Capability Plan forecasts that number of projects to increase to 26 by 2020. The proposed investments result in a significant number of business cases and other capability decisions that would need to be progressed to Cabinet.

39. Defence has historically experienced problems with getting the appropriate number of military subject matter experts to manage the introduction into service of equipment. Options development included looking at methods to manage these demands to enable successful delivery.

40. The scale and complexity of the proposed investments also presents unique challenges that require careful management of the proposed pipeline of investments.

Cost pressures

s9(2)(f)(iv), s9(2)(j)



Optimising value from aging assets

44. The Review is considering where additional investment in sustainment can ensure New Zealand gains the maximum value from Defence assets, and where further investment no longer makes economic sense and replacement needs to be undertaken. For example, the Review recommends the life of the two Anzac frigates is extended by five years to allow the value of the midlife upgrades to be fully realised, and allowing capital and project personnel from the frigate replacement project to be reprioritised (see Annex D). Conversely, the Review recommends the replacement of the current eight Seasprite Maritime Helicopters is brought forward from 2035 to 2028. The increasing levels of maintenance required to keep the Seasprite fleet operating safely and effectively out to 2035 would be uneconomic and result in the helicopters being increasingly unavailable for use.

Workforce challenges

45. Highly trained personnel are the core of Defence capability. Maintaining the right number of personnel in the right rank and trade is an ongoing challenge for the Defence Force. The development of the long list options demonstrated that all but minor changes to Defence Force capability would also require an uplift in personnel numbers to operate it. New technology and the increasing importance of the new domains, such as cyber, is also driving changes in the number and skills of defence personnel. Balancing these personnel demands is as fundamental a consideration for the Review as the capital cost of capability.

46.

s9(2)(iv)

How the Review is addressing these priorities and challenges

47. An initial long list of options has been developed to identify choices on how the size, capability focus, and timing of capability investments out to 2035 can be managed within the portfolio. These options provide:

47.1. a range of choices that enable the balancing of capability investments and their fiscal impact against policy outcomes;

47.2. different investment options that support the prioritisation of specific policy objectives, including the development of emerging capabilities and current deficiencies; and

47.3. the progressive management of the capital and other fiscal implications, and meeting the implementation and delivery challenges.

48. Six options have been developed. An outline of the options is provided below with greater detail in the attached Annex C.

Table One: Key changes to planned capability investments across the options

Options	2016 Capability Plan	One	Two	Three	Four	Five	Six
Sealift	-	-	-	←↑	←↑	←↑↑	s6(a)
Naval combat	-	-	→	→	→	→	
Naval patrol	-	↓	↓	→	←↑	↑	
Land Combat	-	-	-	-	↑	↑	
Airlift	-	-	-	-	-	↑	
Network ²	-	-	-	↑	↑	↑	
Capital to 2030 ³	\$19.7B	s9(2)(f)(iv)					
Capital to 2035	NA						

Legend			
Increase in capability	↑	Decrease in capability	↓
Deferral of project	→	Acceleration of project	←

49. Option Zero: Current baseline. This benchmarking option provides delivery within current parameters of both funding and timing for major projects out to 2030, and provides a common start point for the subsequent options. This option is not reflective of the Government's Strategic Defence Policy Statement 2018 and is therefore not intended as a final option.

50. Option One: Critical cost pressures managed. This option reprioritises approximately \$600 million to manage capital cost pressures and fund critical priorities, such as the P-8A block upgrade, maintenance of current equipment, and the relocation of Defence Headquarters following the Kaikoura earthquake. Deferring projects has not been included. Trade-offs include a reduction in infrastructure funding, and not pursuing investment in an Ocean Patrol Vessel. No additional investment was proposed for cyber, space, communications, analytical intelligence and surveillance capabilities beyond those in the 2016 Defence Capability Plan.

51. Option Two: Smoothing out investment profile. This defers some planned investments to address delivery challenges and fiscal impacts, including extending the life of the current Anzac frigates by five years. The estate funding traded-off in Option One is restored. No additional investment is sought, except critical sustainment costs to reflect life extension of aging assets and additional cost for deferring projects due to escalation. This option provides a lower total cost (compared to the current baseline) but does not meet the policy priorities set out in the Strategic Defence Policy Statement 2018.

52. Option Three: Prioritised South Pacific capability. This leverages the deferment of some investments, including the replacement of the Anzac frigates, to fund capability that enhances New Zealand's maritime domain awareness and lifts the Defence Force's ability to respond to security events in the South Pacific. Increased investment in cyber, space, communications, and analytical intelligence and surveillance capabilities provides a solid foundation for subsequent technological evolution. The Ocean Patrol Vessel is included, and HMNZS *Canterbury* is replaced with a more capable vessel pre-2030 to

² The networked domain includes cyber, space, analytical intelligence, and communications capabilities that operate across land, air and maritime domains.

³ This includes all Defence investment since 2014 including the tanker HMNZS *Aotearoa*, the dive and hydrographic vessel, and the P-8A.

enhance sealift. Asset sustainment costs, additional investment to manage other project costs, and address critical requirements for organisational enablers are included.

53. Option Four: Modernising and building resilience. This builds on Option Three, which included extending the life of the current Anzac frigates by five years, and undertakes a more fundamental rebalancing of the portfolio to increase early investment in cyber, space, communications, and analytical intelligence and surveillance capabilities. As the current two Offshore Patrol Vessels reach life of type after 2030 they will be replaced with more capable vessels that also have some sealift and advance force capabilities.⁴

54. Option Five: Enhanced South Pacific capacity. This builds on Option Four, emphasising increased capacity to respond to security events in the South Pacific. A second sealift ship is procured after 2030, the Littoral Operations Support Vessel replaces the Dive and Hydrographic Vessel at the end of its life. Land forces are enhanced to provide greater sustainability over time, with a particular focus on regional operations. It includes a significantly enhanced intelligence, surveillance and reconnaissance capability, based on Unmanned Aerial Vehicles providing persistent coverage. Capability improvements over Option Four also include heavy military airlift to supplement the tactical airlift fleet.

55. Option Six:

s6(a)

Selecting a short list of options

56. The Strategic Defence Policy Statement 2018 sets out the Government's defence policy, including the expectation that Defence provide value to New Zealand's Communities, the Nation, and the World.

57. When assessed against the Strategic Defence Policy Statement 2018, it was found that Options Three through Six met the Government's defence policy intent. Options One and Two required the trade-off of the Ocean Patrol Vessel, impacting the ability of the Defence Force to operate safely in the Southern Ocean. As constructed, Options One and Two also do not grow the cyber, space, communications, and analytical intelligence and surveillance capabilities. These were identified as being key to the Defence Force having the ability and resilience to effectively support agencies in New Zealand and our South Pacific neighbours into the future.

58. Capital affordability, workforce demands, and the ability to successfully deliver projects are also key areas of analysis. Option Six was discounted due to the high risk across these three criteria. Options One through Four were assessed as having manageable risk.

⁴ Advance force operations take place ahead of a sealift ship arriving to ensure forces can be landed safely.

59. Option Five represents a growth path which would help the Defence Force to build resilience as a further response to emerging regional challenges. Further investigation is underway on the feasibility of this higher growth path.

60. On this basis, I recommend that the capabilities within Options Three, Four and Five are taken forward for further consideration. These options balance the Government's policy objectives against affordability, achievability, workforce demands, and project delivery. Further development of these options will focus on further addressing affordability (both capital and operating), workforce demands, and project delivery.

61. Selecting these options provides a framework for the development of the Defence Force but does not preclude future development that may be driven by changes to the international environment and New Zealand's priorities.

62. [REDACTED] s9(2)(f)(iv)

Refinement of final options

63. I will present a paper to Cabinet with my recommended option and draft Defence Capability Plan 2018 in first quarter of 2019. The paper will include the alternative options that were considered and consulted prior to selecting the preferred option.

64. Defence will refine and modify the short listed options to balance the themes, capabilities, and risks identified above, as well as ensuring that the proposed future Defence investments maintain a coherent and capable Defence Force for New Zealand. The final paper will outline the policy, capability, and funding implications of the proposed options, and the management of project delivery and workforce growth.

65. The accuracy of cost estimates is a central focus point for the Review. As the options are refined, the quality of costing information will be improved. This will see the updated cost estimates included in the final options. These updates will reflect foreign exchange rate projections out to 2035 and final review of the estimates for significant investments. Defence will also conduct risk modelling, focusing on investments over the next four years, so that Cabinet is fully informed as to the level of uncertainty for proposed investments and the level of contingency recommended. This uncertainty will increase over time. Cost estimates provided for the next four years will have a low uncertainty, while investments beyond this initial period will have much higher uncertainty. Defence will continue to refine cost estimates for future investments to inform future capability decisions.

66. Defence will also work on enhancements to the management of its total capital portfolio to make the most efficient use of the Government's capital investment.

67. The short listed options will be consulted across Ministers, government agencies and external stakeholders to ensure that the proposed capability investments meet the intent of the Strategic Defence Policy Statement 2018, providing support to the Community, Nation, and World.

Resource and personnel implications

68. This Review is primarily focused on capital investments whereas turning capital into capability requires a combination of equipment, personnel, training, and support. Personnel and operating funding have been taken into account in developing the options. The final Cabinet paper will include operating and personnel implications of the preferred options. [REDACTED] s9(2)(f)(iv)

69. Defence's current personnel constraints impose limits on both the implementation and execution of investment plans, and the introduction, support and sustainment of capability. This particularly applies to the information domain, which includes analytical intelligence, space and cyber capabilities, where the personnel demands are high and under demand across the New Zealand and international labour market. Specialists in computers and information technology, logistics, and management resources have also all been highlighted during the Review process as impacting on Defence's ability to build and manage capability.

70. The Defence Force is undertaking strategic programmes of change to improve its workforce planning and management system and improve logistics, and communication and information systems. These will enhance future service delivery to front line capabilities and be key to realising the benefits of an updated Defence Capability Plan.

71. The final Cabinet paper will draw on the work currently underway to provide the best information available to Ministers on the resource and personnel implications of the review, including estimated operating cost impacts.

72. The outcomes of the 2018 Defence Capability Plan Review, and the outcomes of the workforce planning and management, logistics, and communication and information systems work programmes, will feed into the next Defence White Paper. [REDACTED] s9(2)(f)(iv)

Defence estate regeneration programme

73. The Defence Capability Plan Review will guide the level of investment in the Defence Estate. A refresh of the Defence Estate Regeneration Programme is running in parallel with the Defence Capability Plan Review and will report to Cabinet in 2019 with options for future investment in the Defence Estate.

74. The recommended short list options in the Defence Capability Plan Review focus the Defence Estate Regeneration Programme on delivery of compliance, health and safety projects already in-flight, infrastructure loading associated with introduction of P-8A aircraft at Ohakea, and support to the Consolidated Logistics Programme.

Consultation

75. The Review is being governed by a cross agency Governance Board, which also includes Sir Brian Roche who was appointed as an independent Ministerial Advisor [APH-18-MIN-0214 Refers]. This is to ensure that the Review takes account of how Defence capability supports the Community, Nation, and World, and the support Defence provides across the public sector. The Board includes the Chief Executives of the New Zealand Defence Force, Ministry of Defence, Department of the Prime Minister and Cabinet, Ministry of Foreign Affairs and Trade, The Treasury's Manager for Justice,

Security and Government Services, and an Assistant Commissioner from the State Services Commission.

76. Further engagement across government is being undertaken through a range of inter-agency forums that include Police, Customs, MPI, MBIE, DOC, FENZ, Ministry of Transport, Maritime New Zealand, Antarctica New Zealand, and the Intelligence Agencies. This has allowed proposals to be tested with the agencies that make use of Defence capabilities as part of their operations.

77. This paper has been prepared by the Ministry of Defence and New Zealand Defence Force. The Treasury and the Department of the Prime Minister and Cabinet were consulted in the preparation of this paper. The State Services Commission was informed.

Financial Implications

78. The costs of conducting the Review will be met from within Ministry of Defence and New Zealand Defence Force baselines.

Other Implications

79. There are no Human Rights, Legislative, Regulatory, Gender or Disability Implications resulting from this paper.

Publicity

80. The intention that the Government would carry out a Review of the Defence Capability Plan in 2018 has already been noted publicly.

81. Defence is conducting targeted engagement with academic and defence industry to ensure the plan represents robust thinking and that industry is able to support its delivery.

82. Information on publicity for the launch of the Defence Capability Plan 2018 will be presented to Cabinet when final approval is sought.

Recommendations

83. The Minister of Defence recommends that the Committee:

83.1. **note** that the April 2018 Cabinet paper, Defence: Conduct of Defence Reviews in 2018, signalled that the Ministers of Finance and Defence would jointly approve the Terms of Reference for the Defence Capability Plan Review 2018 [GOV-18-SUB-0008 refers];

83.2. **note** that the Ministers of Finance and Defence have approved the Terms of Reference for the Defence Capability Plan Review 2018;

83.3. **note** that the purpose of the Review is to enable Government to make decisions on capability choices, ensure these decisions are aligned with Government defence policy and its fiscal strategy, and provide confidence for Defence planning;

83.4. **note** that Defence has developed six options for future Defence capability that manage policy, affordability, deliverability and workforce demands at different levels;

83.5. **note** that capability investment options have been developed using the \$19.7 billion capital envelope from 2014 out to 2030 as the guiding parameter. Separately, indicative costs have also been developed for investments from 2030 to 2035;

83.6. **agree** that the capabilities within Options Three, Four and Five are taken forward for further consideration. These options balance the Government's policy objectives against affordability, achievability, workforce demands, and project delivery.

83.7. **invite** the Minister of Defence to report back to the Cabinet in the first quarter of 2019 with a recommended option and draft Defence Capability Plan.

Authorised for lodgement

Hon Ron Mark
MINISTER OF DEFENCE

Released by the Minister of Defence

ANNEX A

TERMS OF REFERENCE Defence Capability Plan Review 2018

Purpose

1. The purpose of the Defence Capability Plan Review (the Review) is to present options to Government for planned investments in future New Zealand Defence Force military capability to 2035.
2. The Review will enable Government to take decisions on capability choices, ensure these decisions are aligned with Government defence policy and its fiscal strategy, and provide confidence for Defence planning.

Background

3. The Defence Capability Plan was last updated in 2016, following the Defence White Paper 2016. The release of the *Strategic Defence Policy Statement 2018* allows a Defence Capability Plan Review to ensure that Defence capability investments are aligned with the Government's defence policy and fiscal strategy.
4. The Minister of Defence wrote to the Prime Minister on 14 December 2017 to set out his priorities for the Defence portfolio, including a key priority to:
“Review the Defence Capability Plan, and supporting Capital Plan and Defence Estate Regeneration Programme, to optimise capability outcomes and deliver value of money for taxpayers, within a \$20 billion capital envelope out to 2030.”
5. The Defence Capability Plan Review 2018 (“the Review”) will deliver on this priority and provide advice to Ministers on any recommended changes to the Defence Capability Plan.
6. The 2018 Review will build upon the outcomes of the Strategic Defence Policy Review, the Review of Defence's Procurement Policies and Practices, the Investor Confidence Rating Assessment, and Government decisions on capability investments.
7. The updated Defence Capability Plan will incorporate Cabinet's decision to invest in four P-8A Poseidon Maritime Patrol Aircraft, given the significant capability and fiscal impacts of the decision.

Parameters

8. The Review seeks to align and update the Defence Capability Plan to reflect the Government's policy priorities and fiscal strategy.
9. The Review is not intended to consider the total force structure of the New Zealand Defence Force but instead to focus on individual capability investment decisions to ensure the planned investments represent best value for money and are affordable within agreed fiscal constraints. Separately, indicative costs will be provided for investments from 2030 to 2035.
10. In undertaking the Review, Defence will develop options and advice to ensure continued alignment of policy, funding and capability.

11. The policy settings as outlined in the *Strategic Defence Policy Statement 2018*, approved by Cabinet on 14 May, are the key guide for the consideration of capability options. The Review will assess capability investment options in terms of the relative value they deliver on the specified roles, tasks and objectives for the New Zealand Defence Force outlined in the statement.
12. The Review will also assess the proposed options against the principles established by the *Strategic Defence Policy Statement 2018*:
 - 12.1. Defence is combat capable, flexible and ready;
 - 12.2. Defence personnel are highly trained professionals;
 - 12.3. Defence has the resources to meet Government's operational and strategic priorities;
 - 12.4. Defence operates in ways that maintain public trust and confidence;
 - 12.5. Defence embodies and promotes New Zealand's values; and
 - 12.6. Defence is a credible and trusted international partner.
13. The funding parameters for the Review will be guided by the current capital and operating indicative funding track underlining the Defence Capability Plan 2016, and the Government's fiscal strategy. The Review will develop and assess options around both the timing and the total level of investment in Defence.
14. The capability investments will be presented using the \$20 billion capital envelope from 2013 out to 2030 as a guiding parameter. Separately, indicative costs will be provided for investments from 2030 to 2035. Options for alternative funding tracks can be assessed to provide Ministers choice on balancing capability trade-offs against the fiscal impacts.

Scope

15. The Review will focus on three areas:
 - 15.1. planned investments in capability;
 - 15.2. the cost drivers of critical organisational enablers for capabilities; and
 - 15.3. mechanisms to support management of the portfolio.
16. The Review will also integrate the outcomes of the Defence Estate Regeneration Programme Plan, which will be completed in November 2018.

Planned investments

17. The review of investments in Defence capability will develop options around proposed capability investments based on the following:
 - 17.1. testing of potential additions or alterations to planned capability investments, including an assessment of the following areas identified in the *Strategic Defence Policy Statement 2018*:
 - Cyber
 - Space
 - Maritime Awareness

- 17.2. assessing alternative capability options for the planned investments to ensure these investments best reflect the Government's priorities and the demands of the strategic environment;
- 17.3. updating the timeline of planned investments against the organisational and fiscal capacity to deliver;
- 17.4. updating the cost estimates and timelines for planned investments to ensure they are based on the most accurate information, can be achieved with available resources, and capture any areas of risk;
- 17.5. assessing the operating cost implications of planned investments against the sustainment of current capabilities
- 17.6. ensuring the infrastructure and workforce requirements of the planned military capability are captured, including thorough assessments of the military personnel required for successful delivery; and
- 17.7. ensuring that the Defence Force maintains a coherent range of capabilities.

Organisational enablers

18. The Defence Capability Plan Review will incorporate the updated Defence Estate Regeneration Programme Plan, which will be completed in November 2018. The Defence Estate is a key enabler for capability and a large proportion of the Government's planned capital investment in Defence.
19. The Review will also outline and incorporate, as appropriate, the work currently underway to ensure that other Defence Force organisational enablers will be able to sustain the planned military capabilities, including upcoming decision points on these enablers. This includes:
 - 19.1. the implementation of the new Communications and Information System Change Transformation Project, which was approved by the Defence Force Board in December 2017;
 - 19.2. the Integrated Workforce Planning and Management Project, which will be completed in July 2019; and
 - 19.3. the continuing implementation of the Consolidated Logistics Project, approved by the previous government in December 2016.

Mechanisms to support portfolio management

20. The portfolio management work stream will develop comprehensive investment options in the Defence Capability Plan, and will also examine mechanisms within Defence's purview to support the management of the total portfolio of investment. This will provide enhanced information to Ministers on investment choices and impacts. This work may include:
 - 20.1. how Defence can best manage project and portfolio contingency within the current delegations under the government investment system;
 - 20.2. the management of the timing and scale of significant Defence investment decisions so these fit within the fiscal strategy and budget approval process;

- 20.3. the identification of uncertainty in cost estimates for proposed investments, and the management of changes to these cost estimates during regular portfolio updates; and
- 20.4. the process for updating of economic cost assumptions, including foreign exchange costs.
21. Any issues that are surfaced during this process that are outside of Defence's delegations under the government investment system will be identified and become the subject of future work between Defence and The Treasury.
22. Alongside the Defence Capability Plan Review, Defence will provide input into The Treasury's review of the capital allowance framework. This will ensure that planned Defence investments are reflected in the Government's medium to long-term view of capital requirements. The Review will engage external stakeholders as part of the development of advice for Ministers. These stakeholders will include:
 - 22.1. other government agencies;
 - 22.2. defence industry; and
 - 22.3. the academic community.

Outputs and Timeline

23. The Review's principal output will be recommended options for the indicative capability investments and capital funding track for Defence out to 2030, with identification of the indicative funding required for investments over the period of 2030 - 2035. Additional outputs include:
 - 23.1. an integrated investment plan for Defence;
 - 23.2. a revised Defence Capability Plan public document to set out the Government's intentions; and
 - 23.3. recommendations for possible mechanisms within Defence's purview to support the management of the total portfolio of investments.
24. The substantial work of the Review, including consultation with agencies, will be undertaken across July to November 2018. Consultation with Ministers will take place across November, with the Review submitted to the Cabinet Government Administration and Expenditure Review Committee for consideration in December.

ANNEX A: GOVERNANCE AND ADVISORY ARRANGEMENTS

Roles and Responsibilities

25. The Review will be the joint responsibility of the Secretary of Defence and the Chief of Defence Force. They will have final accountability for the findings of the Review and the presentation of its recommendations to Ministers.
26. The Review will be carried out by a joint Ministry of Defence and New Zealand Defence Force Review Team, led by the Ministry's Director of Development Branch and the Defence Force's Assistant Chief Capability (the Review Coordinators). Other agencies will be consulted in the course of the Review.
27. The Review Coordinators will manage the Project Team, chair the Working Group and support the governance bodies.
28. The Chief Executives and the Review Coordinators will seek regular opportunities to understand the Minister's views and priorities and provide him with updates on the Review's progress.

Governance Structure

29. The governance structure for the Review will consist of a Review Governance Board and a supporting Review Management Group. This will be supported by a Ministerial Advisor and a Working Group with representatives from other agencies. A graphic representation of the relationship between the governance and management bodies, and the Review Coordinators and Project Team is appended to this document.

Review Governance Board

30. The Review Governance Board will be co-chaired by the Secretary of Defence and Chief of the Defence Force. Members will include the chief executives of the Department of the Prime Minister and Cabinet and Ministry of Foreign Affairs and Trade (or their nominated alternates), the Vice Chief of the Defence Force, the Deputy Secretary of Defence and the Treasury's Manager for Justice, Security and Government Services. The Review Coordinators will report to the Governance Group.
31. The Review Governance Board will convene monthly. An agenda will be set and promulgated prior to this meeting. This meeting will consist of an oral update from the Review Coordinators (supported by Review Team members as required), a discussion of progress and content and decisions on actions required. An action log will be kept and updated.
32. The Review Governance Board will provide direction on the development of the Review. This will include supplying feedback on key documents to be provided to the Minister of Defence and Minister of Finance (e.g. Cabinet Papers), receiving regular updates on progress, actively monitoring and managing risk, and providing challenge, support and guidance to the Review Team.

33. The Secretary of Defence will update the Security and Intelligence Board of the Officials Committee for Domestic and External Security Coordination (ODESC-SIB) and the Hazards and Risk Board (HRB) to ensure that work on the Review is considered alongside similar work being taken across the wider security sector. Stakeholder agencies outside ODESC-SIB and HRB will be kept informed of progress through informal briefings as required.

Review Management Group

34. The Review Management Group will be jointly led by the Vice Chief of the Defence Force and Deputy Secretary of Defence. The other members are the Chief Financial Officers of the New Zealand Defence Force and the Ministry of Defence, Chief of Performance, Strategy and Governance, and the Deputy Secretary for Capability Delivery.
35. The purpose of the Review Management Group is to support the Review by providing management direction to the Directors on behalf of the Governance Board. This will include the review of the analysis and options developed by the Review, the assurance that sufficient resources and support have been allocated to the Review, and an escalation point for the resolution of points requiring senior direction.
36. The Review Management Group will convene weekly. The Director will provide a verbal update on the progress and present papers on the work undertaken and guidance sought on a required basis.
37. The Vice Chief of the Defence Force will communicate back to the Executive Committee the progress and findings of the Review, and present back to the Review directors the input from its members, including the Service Chiefs. The Deputy Secretary of Defence will communicate back to the Ministry Leadership Team the progress and findings of the Review and present back to the directors the input of its members.

Ministerial Advisor

38. The Review will be supported by a Ministerial Advisor.
39. A Ministerial Advisor will be appointed to support the Defence Capability Plan Review. They will provide independent advice to the Minister of Defence throughout the Review. From time to time, the Ministerial Advisor is likely to both seek support from and advise the Governance Board. The Minister will ultimately decide on any recommendations or other matters raised by the Ministerial Advisor.
40. The Ministerial Advisor will be appointed in accordance with the State Service Commission board appointment guidelines.
41. The Review will provide support to the Ministerial Advisor as required.

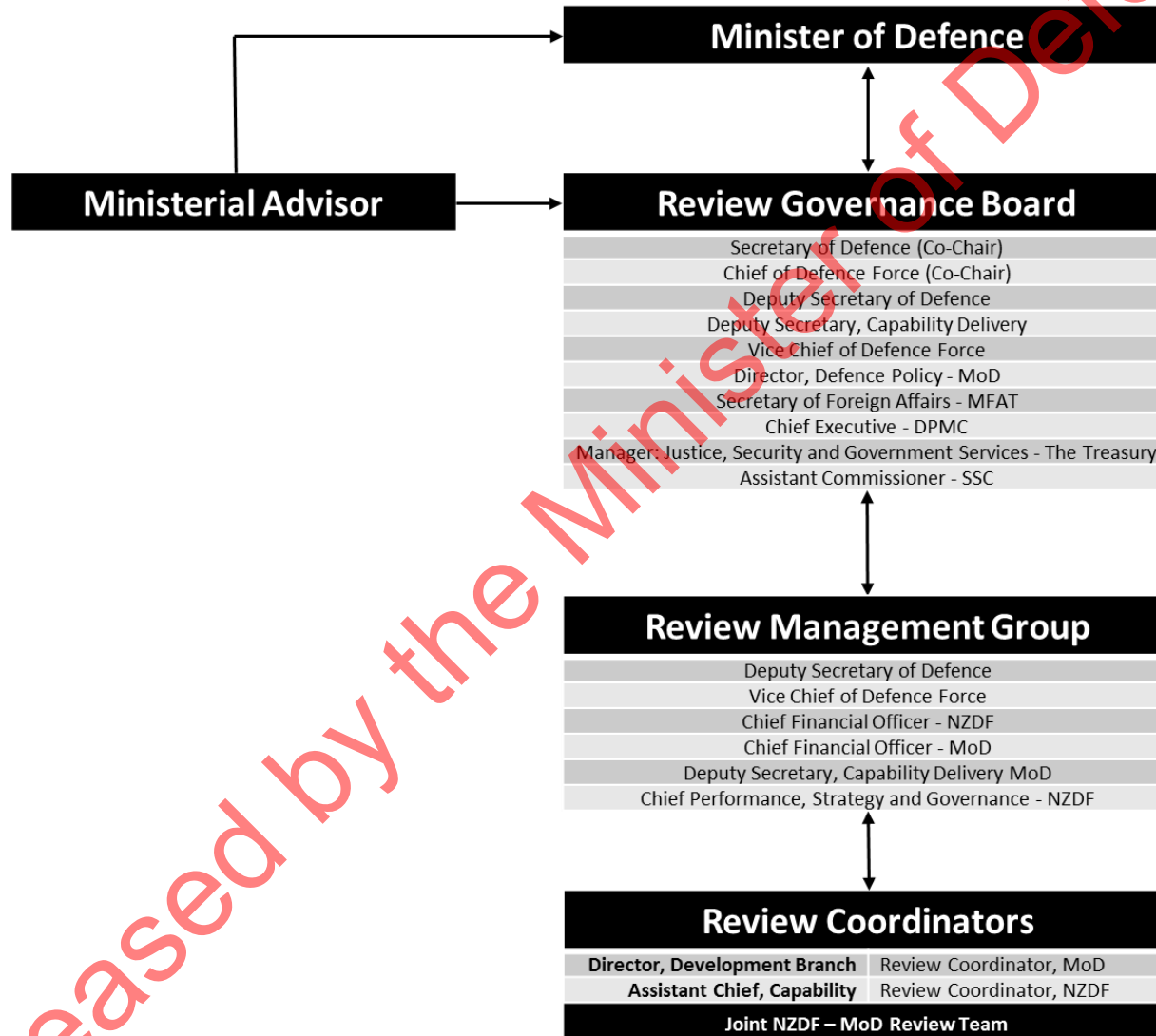
The Defence Capability Plan Review team

42. The Review team will consist of New Zealand Defence Force and Ministry of Defence personnel. The Review will draw on external support as required, including from contractors with relevant specialist skills and representatives from external agencies.

43. The Review team will work closely with Treasury and DPMC in the development of options and recommendations. The following principles will guide the work undertaken by the Review:
 - 43.1. the Defence Capability Plan must reflect the Minister's and Government's priorities by testing alternative options to planned investments;
 - 43.2. the plan needs to reduce or articulate the level of risk around the projected investments;
 - 43.3. the plan must be achievable from a delivery perspective;
 - 43.4. the Review must identify challenges around alignment between capability, organisational enablers, and operating and capital funding; and
 - 43.5. the plan must represent a combined and unified view from the NZDF and the Ministry of Defence.

Released by the Minister of Defence

Review Governance and Management Arrangements



ANNEX B
Defence Capability Plan Review 2018:
Scenario Analysis and Concurrency



New Zealand
**DEFENCE
FORCE**
Te Ope Kaitiaki o Aotearoa



New Zealand
**MINISTRY
OF DEFENCE**
Manatū Kaupapa Waonga

s6(a)

Released by the Minister of Defence

ANNEX B
Defence Capability Plan Review
Scenario Analysis and Concurrency



New Zealand
**DEFENCE
FORCE**
Te Ope Kaitua o Aotearoa



New Zealand
**MINISTRY
OF DEFENCE**
Manatū Kaupapa Waonga

s6(a)

Released by the Minister of Defence

ANNEX C
Defence Capability Plan Review 2018:
Long List Capital Investment Options



s9(2)(f)(iv), s9(2)(j)

Released by the Minister of Defence

ANNEX D: EXTENDING THE FRIGATES

Why should the frigates be extended?

The current planned frigate end of life is 2027-29. The current major upgrades will not be fully completed until 2023, which means there is quite a short time remaining before replacement.

Can their life be extended?

Independent analysis has confirmed that the hulls could last an additional five years with good maintenance. The mission systems are in excellent condition as a result of the upgrades. Ongoing maintenance and support will keep other ship systems operational for an extended life.

What will it cost?

A comprehensive maintenance and support programme that keeps the ships in full operational condition until 2032-34 is estimated to cost up to [REDACTED] spread over the next 15 years. This represents an increase of [REDACTED]. This cost is included in Options 2 to 6.

What's the relative value of early replacement vs deferring?

The capital acquisition net present cost of replacing the frigates in 2027-2029, as included in the 2016 Defence White Paper, is [REDACTED] out to 2035. The capital acquisition net present cost of deferring replacement, taking into account additional capital through life sustainment costs, is [REDACTED] out to 2035. In net present cost terms, deferring replacement reduces capital acquisition costs [REDACTED] out to 2035.

Are there other benefits?

As well as more than doubling the effective life of the current upgrades, a comprehensive maintenance and support programme will ensure that some new systems (such as the Sea-Ceptor missile system) can be migrated to replacement ships if required.

Deferring the replacement de-conflicts this with other major investment commitments, such as the C130 Hercules replacement.

It also allows other priorities to be brought forward, such as information domain projects, improved sealift, increased surveillance capabilities and maritime helicopters. This helps prevent a capability logjam in the post 2030 period.

What's the alternative?

The alternative is replacing the frigates in the currently planned timeframe of 2027-29. This would still incur around [REDACTED] to maintain the current vessels, and replacements would also incur maintenance costs out to 2035 (and beyond).

If the frigates were to be replaced in 2027-29, what's the timeframe and cost?

Based on experience, to have a replacement vessel like a frigate in service in 2027 would require it being ordered up to seven years in advance.

Applying the assumptions used in DWP16 and the P-8 decision, the current estimated cost of replacement in the 2027-29 timeframe is around [REDACTED].

Extending the current ships by five years would extend this decision timetable by the same amount. It would also allow more time for comprehensive capability definition work and evaluation of equivalent programmes currently planned by our partner navies that will have made considerable progress in that time.

The NZDF at Work: Ready and Responding Across Community | Nation | World



A snapshot of what the NZDF does 24/7/365

Community

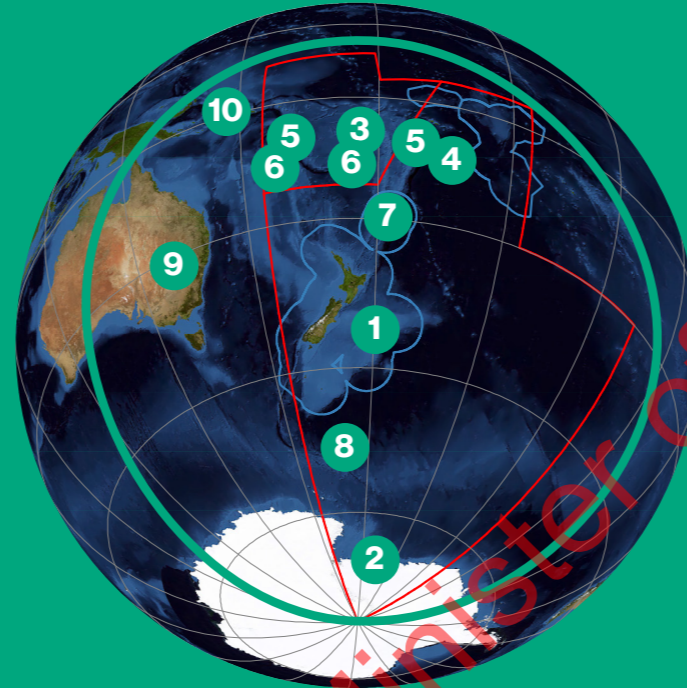


1. Humanitarian and Disaster Relief in support of Ministry of Civil Defence and Emergency Management during Christchurch and Kaikoura earthquakes.
2. Humanitarian and Disaster Relief in support of Ministry of Civil Defence and Emergency Management during floods in Otago and Manawatu.
3. Support to Pike River re-entry.
4. Crash Response on Desert Road and SH1 in Canterbury.
5. Support to domestic security events such as the Napier siege.

Nationwide:

- Support to veterans.
- Support to Ministry of Corrections during industrial action.
- Emergency and Rural Fire response in support of Fire and Emergency New Zealand.
- Counter Terror response capability nationwide.
- Band support to community events.
- Underwater search and recovery in support of NZ Police.
- Counter Explosive Hazard nationwide.
- Maritime and border patrolling in support of NZ Customs.
- Support to national events such as APEC, Rugby World Cup, Rugby Sevens.
- Support to NZ Police counter-narcotics operations.
- Support to VIP visits and international engagement.
- Support to the Youth Development Unit (Limited Service Volunteers and Service Academies).
- Support to NZ Cadet Forces.
- Support to school and community events.

Nation



1. Fisheries Patrol in the Chatham Islands.
2. Support to Operation Antarctic New Zealand.
3. Support to Fiji EEZ Patrolling.
4. Support to health initiatives in the Cook Islands.
5. Capacity building in Vanuatu/Tonga.
6. HADR response to Vanuatu and Fiji.
7. Support to the Department of Conservation in the Auckland and Kermadec Islands.
8. Fisheries Patrol in the Southern Ocean.
9. Rural fire response to the Australian Eastern seaboard.
10. Fisheries Patrol in the Solomon Islands.

Annual training exercises and capacity building in the South Pacific as part of Pacific Partnership/RIMPAC.

4th Largest Search and Rescue Responsibility in the world.

Support to Pacific Deployment and Official Conferences/Working Group Events.

World



- | | |
|---|--|
| 1. Egypt 28
Op FARAD (Peace Monitoring) | 8. Bahrain 2
Op PUKEKO (Counter Piracy) |
| 2. Israel/Lebanon/Syria 8
Op SCORIA (Peace Monitoring) | 9. Qatar 2
Op PUKEKO (Counter Piracy) |
| 3. Iraq/Kuwait 6
Op MOHUA (Peace Monitoring) | 10. South Sudan 4
Op SUDDEN (Peace Keeping) |
| 4. Iraq 106
Op MANAWA (Train, Advise, Assist) | 11. Papua New Guinea
(Capacity Building and support to APEC) |
| 5. South Korea 5
Op MONITOR (Peace Monitoring) | 12. Sulawesi, Indonesia
(HADR Post-earthquake) |
| 6. Afghanistan 10
Op RUA II (Train, Advise, Assist) | 13. Middle East and Indian Ocean
Op ARIKI (Counter Piracy) |
| 7. Middle East 11
Op TROY (Sustainment)
Op CORVUS (Maritime Ops) 4 | 14. Five Power Defence Agreement
(Training Events) |

Additional operations:

- Commitments to the International Rule of Law (10 missions).
- Participation in International Military training events.
- International Training engagements with partners such as 120 personnel training in the USA.
- Support to the aftermath of the Indonesian tsunami.
- Maintains a rapid HADR response force.

ANNEX F: DEFENCE ESTATE INVESTMENT OPTIONS

Background

The Defence estate is a strategic asset that provides the infrastructure, facilities and training areas to generate and maintain military capabilities. The Defence estate has degraded in condition due to sustained under investment with forty per cent of infrastructure now at end of life. In 2013 the Defence Midpoint Rebalancing Review estimated that the cost of recapitalising the Defence estate, where it was legislatively compliant and fit for purpose, was \$1.7 billion out to 2030. Cabinet subsequently approved in 2016 the Defence Estate Regeneration Programme Plan that set out the detailed direction for the investment in estate and its ongoing management.

Since the development of the 2016 plan, the estimated cost of regeneration of estate has increased for a number of reasons: increasing cost across the construction sector; the growing awareness of the state of the current building stock; lift required to provide fit for purpose facilities; and additional infrastructure and accommodation requirements identified. The Defence Estate Regeneration Programme will be updated and re-submitted to Cabinet for consideration in 2019 following approval of the Defence Capability Plan and the Defence Estate Strategy.

Options identified in Defence Capability Plan

A set of indicative funding tracks have been developed for the defence estate based on different rates of expenditure per year and the total planned expenditure out to 2030 and 2035. Within each of these indicative funding tracks, infrastructure investment has been prioritised to critical infrastructure in support of an integrated investment that balances the requirements of new capability and supporting the delivering of existing Defence outputs.

s9(2)(i)(iv)



Options 4 and 5: Fit for purpose

Capital funding to 2030 is increased to [redacted s9(2)(f)(iv)] for options four and five respectively. Annual expenditure on infrastructure increasing to around [redacted s9(2)(f)(iv)] by 2020.

The increase in provision offsets some of the cost pressures identified to regenerate the estate and will see an overall improvement in the condition of the Defence estate. In addition to the prioritised investments identified in the options above, living quarters, underground infrastructure, and shared services at targeted locations will be made fully fit for purpose and top priority strategic programmes to optimise estate assets will be able to be commenced.

[redacted s9(2)(f)(iv)]
[redacted s9(2)(f)(iv)]
[redacted s9(2)(f)(iv)]
[redacted s9(2)(f)(iv)]

Released by the Minister of Defence



Cabinet Appointments and Honours Committee

Minute of Decision

This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.

Defence Capability Plan Review 2018 - Appointment of a Ministerial Advisor

Portfolio **Defence**

On 19 September 2018, the Cabinet Appointments and Honours Committee:

- 1 **noted** that in March 2018, the Cabinet Government Administration and Expenditure Review Committee noted that four reviews covering Defence policy, procurement and capabilities will be undertaken in 2018 [GOV-18-MIN-0008];
- 2 **noted** that:
 - 2.1 the Minister of Finance and Minister of Defence have approved the terms of reference for the Defence Capability Plan Review 2018 (the Review);
 - 2.2 the terms of reference provide for a Ministerial Advisor to provide independent advice to the Minister of Defence on the Review and its proposed outcomes;
- 3 **noted** that the Minister of Defence intends to **appoint** Sir Brian **ROCHE** as the Ministerial Advisor for the Review, for a term commencing on the date of appointment and expiring at the completion of the Review, which is scheduled to be in December 2018;
- 4 **noted** that, in accordance with a Group 4, Level 1 governance board rating under the Cabinet Fees Framework, Sir Brian will receive a fee of \$1,000 per day for the role in paragraph 3 above.

Rachel Clarke
Committee Secretary

Present:

Rt Hon Winston Peters (Chair)
Hon Kelvin Davis
Hon Grant Robertson
Hon Andrew Little
Hon Jenny Salesa
Hon Ron Mark
Hon Tracey Martin
Hon Aupito William Sio
Hon Eugenie Sage

Officials present from:

Hard-copy distribution:
Minister of Defence

Chair, Cabinet Appointments and Honours Committee

DEFENCE CAPABILITY PLAN REVIEW 2018 – APPOINTMENT OF A MINISTERIAL ADVISOR

Proposal

1. This paper outlines my intention to appoint Sir Brian Roche as a Ministerial Advisor in support of the Defence Capability Plan Review 2018. The appointment will begin on the date of appointment and will expire at the completion of the Review, which is currently scheduled for December 2018.

Background

2. In September 2018 Ministers of Finance and Defence approved the Terms of Reference for the Defence Capability Plan Review.
3. The purpose of the Defence Capability Plan Review is to ensure that Defence capability investments are aligned with the Government's Defence Policy, as outlined in the *Strategic Defence Policy Statement 2018*.¹ Together the Policy Statement and Capability Plan will largely supersede the Defence White Paper 2016.
4. The Review will present options to Government for planned investments in future New Zealand Defence Force military capability to 2035.
5. The Review will enable Government to take decisions on capability choices, ensure these decisions are aligned with Government Defence Policy and Fiscal Strategy, and provide confidence for Defence planning.
6. One of the key outputs of the Review will be a publicly released Defence Capability Plan. This will provide the New Zealand public, our international partners, and New Zealand and international defence industry with information on the Government's capability intentions for Defence over the next 17 years.
7. A commercially sensitive version of the plan will provide more detailed timing and cost information for forthcoming investment decisions.
8. The Terms of Reference for the Review provide for a Ministerial Advisor to provide independent advice to the Minister of Defence throughout the Capability Plan Review Process. The Terms note that the appointment of the Advisor will be the subject of a paper to the Cabinet Appointments and Honours Committee.

¹ Defence defines capability as the personnel, equipment, platforms, and/or other resources that affect the capacity to undertake military operations.

9. There is a precedent for the provision of this type of independent advisory role for significant Defence reviews. A Panel was set up to advise Ministers of Defence on the 2010 and 2016 Defence White Papers.
10. The appointment of a single Ministerial Advisor rather than a panel reflects the reduced scope of the Defence Capability Plan Review compared to a full Defence White Paper process.

Proposed Appointee

11. I intend to appoint Sir Brian Roche as the Ministerial Advisor for the Defence Capability Plan Review 2018.
12. Sir Brian has extensive leadership and governance experience across multiple sectors and entities. As the reviewer for the Review of Defence's Procurement Policies and Practices, and the Chair of the Ministerial Group for the Defence White Paper process in 2016, he brings an understanding of the key challenges faced across the Defence portfolio. Through current and previous chairmanships, including the Wellington Gateway Partnership and City Rail Link Ltd, Sir Brian also brings an extensive understanding of large and complex capital projects.

Terms of Appointment

13. Sir Brian will commence in the role from the date of appointment, and conclude when the Review of the Defence Capability Plan is complete and the resulting Plan approved by Cabinet. The Review of the Defence Capability Plan is scheduled to be completed by the end of 2018.

Responsibilities

14. Sir Brian will provide me and, where appropriate, the Secretary of Defence, Chief of Defence Force and the Defence Capability Plan Review Governance Board², with relevant advice and views which are consistent with the Defence Capability Plan Review Terms of Reference approved by the Ministers of Finance and Defence.

Representativeness of appointment

15. I am satisfied that the appointment of Sir Brian as Ministerial Advisor will provide an appropriate mix of skills and experience for the role.

Remuneration

16. The appointment is classified as a Group 4 Level 1 Governance Board under the Cabinet Fees Framework. This is in line with the group and level used for the 2010 and 2016 Panel.

² The Review Governance Board will be co-chaired by the Secretary of Defence and Chief of the Defence Force. Members will include the chief executives of the Department of the Prime Minister and Cabinet and Ministry of Foreign Affairs and Trade (or their nominated alternates), the Vice Chief of the Defence Force, the Deputy Secretary of Defence and the Treasury's Manager for Justice, Security and Government Services.

17. I recommend a fee of \$1,000 per day, which is within the fee range of the Chair a body of this group and level. This is appropriate for a panel with a single member, as is the case for this appointment, and for an individual with the mix of skills and experience that Sir Brian brings to the role.

Appointment process and consultation

18. I can confirm that an appropriate process has been followed in selecting the proposed appointee, in terms of the State Services Commission appointment guidelines. This process was appropriate given the timeframe of the Defence Capability Plan Review.
19. Sir Brian's existing knowledge, experience and continuity with Defence policy and procurement will give me experienced, but practical and independent advice. The State Services Commission, The Treasury and the Department of the Prime Minister and Cabinet have been informed.

Conflicts of interest

20. I can confirm that appropriate enquiries concerning conflicts of interest have been carried out, in accordance with the State Services Commission appointment guidelines, to identify any conflict of interest that could reasonably be identified, and no conflicts of interest have been identified.

Fiscal implications

21. All fees and other costs associated with Sir Brian's appointment will be met from Defence Force and Ministry of Defence baselines.

Publicity

22. No publicity is planned for this appointment.

Recommendations

The Minister of Defence recommends that the Committee:

1. **note** that the Terms of Reference for the Defence Capability Plan Review 2018 were approved by the Ministers of Finance and Defence in September 2018;
2. **note** that the Terms of Reference for the Defence Capability Plan Review 2018 provide for a Ministerial Advisor to provide independent advice to the Minister of Defence on the Review and its proposed outcomes;
3. **note** my intention to appoint Sir Brian Roche as a Ministerial Advisor for the Defence Capability Plan 2018, commencing on the date of appointment and expiring at the conclusion of the Review, which is scheduled to be completed by the end of 2018;
4. **note** that the proposed daily fee for the Ministerial Advisor is \$1,000, which is appropriate under the Cabinet Fees Framework panel for a Group 4 Level 1 Governance Board with a single member; and

5. **note** that Sir Brian Roche be paid daily fees of \$1,000, for the term of his appointment.

Authorised for lodgement

Hon Ron Mark
MINISTER OF DEFENCE

Released by the Minister of Defence