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Te Ope Kātua O Aotearoa

NAVY NZ ARMY AIR FORCE

Major Projects Report 2013

1 July 2012 – 30 June 2013

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Foreword

From the Secretary of Defence and the Chief of Defence Force

This is the fourth Major Projects Report (MPR) which tracks progress and project management performance across Defence's major projects (those where the Government has specifically authorised Defence to acquire new equipment).

Seven of the eight projects in the 2012 report are covered in the 2013 report (omitted is the ANZAC Frigate Phalanx Close-in Weapon System Upgrade as it is now in the Introduction Into Service phase). The updated information that appears in this report for those projects shows that major progress occurred over the 12 month period from 1 July 2012 to 30 June 2013:

- Two further NH90 medium utility helicopters were delivered (of a total of four) to the RNZAF from manufacturer NATO Helicopter Industries.
- A third upgraded C-130 Hercules transport aircraft was delivered to the RNZAF for operational testing and evaluation with the fourth and fifth (last aircraft) C-130s currently being upgraded at Blenheim as part of the production phase upgrade programme.
- The second and third 'production phase' P-3K Orion maritime patrol aircraft (aircraft three and four) to be upgraded at Blenheim were delivered to the RNZAF. These aircraft joined the 'prototype' P-3 aircraft and the first 'production phase' aircraft in the operational testing and evaluation phase. The fifth and sixth (last) P-3K aircraft are currently being upgraded at Blenheim.
- The Protector Remediation Project was 60% complete, including major work on HMNZS *Canterbury* and remediation of the Landing Craft.
- The Global Command and Control System – Joint (GCCS-J) has been identified as the most suitable GCCS version for the Defence Command and Control System Project and is under consideration.

The return of the upgraded C-130 and P-3K aircraft has helped to regenerate the NZDF's ability to deliver its transport and Airborne Surveillance and Response outputs.

New projects foreshadowed in the *Defence White Paper 2010* have commenced and are reported on in this year's MPR. They are:

- the Maritime Helicopter Capability Project involving the acquisition of eight Kaman Seasprite helicopters (together with an additional two helicopters for spare parts and attrition air frames) for the RNZN ships to replace the current five Seasprite helicopters;
- the Medium/Heavy Operational Vehicles Project involving the acquisition of 200 trucks for the NZDF to replace an aging fleet of 500 vehicles; and
- the Strategic Bearer Network Project which is providing satellite communications equipment for the NZDF thereby enhancing the NZDF's connectivity.

These three projects were identified as priorities in the 2011 *Defence Capability Plan*. Given that work on these priority projects was well-advanced by the time of the *Defence Mid-point Rebalancing Review* – DMRR (the detailed consideration of how to ensure an enduring balance between defence policy, capability and funding), it was agreed that these projects should proceed and be considered on their merits by the Government.

Prior to making recommendations to the Government, Defence gave detailed consideration to the helicopters and vehicles projects at the Capability Management Board. This gave assurance to the Board that the projects' business cases were robust and ready for consideration by the Government.

These business cases had followed the Government's Better Business Case model (see paragraph 11 of the next section *Structure of and Background to the 2013 Major Projects Report* for a fuller explanation of this). They are the first projects in the MPR to have done so.

The adoption of the BBC approach also brought into focus the suggestions by the Controller and Auditor-General in the 2010 MPR on ways in which Defence should go about procuring equipment (paragraphs 97-99 of that report refer). We consider that both the helicopters and vehicles projects have taken into account those suggestions.

This MPR is the first to see a transition from pre *Defence White Paper* projects to *Defence Capability Plan* projects. Our focus will be to ensure that the requisite progress on both categories of projects occurs.

HELENE QUILTER
Secretary of Defence

19 December 2013

R. R. JONES
Lieutenant General
Chief of Defence Force

19 December 2013

Structure of and Background to the 2013 Major Projects Report

Structure

1. The 2013 MPR is presented in three parts, consistent with earlier MPRs:

   - **Part One** includes a qualitative and quantitative assessment of Defence's management of the seven current projects (the new projects not having sufficiently progressed to make an assessment), and performance with respect to three aspects: schedule, cost, and capability in the year 1 July 2012 – 30 June 2013. Part 1 also provides an update on the progress made in addressing the actions identified in the 2010 MPR for future focus in order to improve performance.

   - **Part Two** provides project summaries for the 10 projects. The project summaries provide a description of the projects' policy objectives, capability requirements, current status, active high level risks, recent developments and financial performance.

   - **Part Three** includes 10, more detailed, project data sheets/information sheets. These provide further information on the history and progress of each phase of the projects' development from definition to describing how the capability is being introduced into service.

Background

2. The 2013 MPR is the fourth to be produced. The first MPR was released in 2010 to improve the quality, transparency, and usefulness of reporting on defence capability projects. The 2013 MPR is the third update.

3. The project data sheet or information sheet for each subject project remains the centre-piece of the MPR. It contains information about the schedule, cost, and capability requirements for the subject project.

4. The 2013 MPR project data sheets/information sheets update seven of the eight projects included in last year's MPR i.e.

   - A109 Training and Light Utility Helicopter
   - C-130H Life Extension
   - NH90 Medium Utility Helicopter
   - P-3K Orion Mission Systems Upgrade
   - ANZAC Frigate Platform Systems Upgrade
   - Project Protector Remediation

- Defence Command and Control System (DC2S)

5. These seven projects have been updated where information has changed over the last year. This includes project status, contract payments, risks, and schedule information. As in 2012, for the Project Protector Remediation Project and the DC2S Project, there are Information Sheets rather than Data Sheets. These present the information about these projects in a different format to better reflect the differences of these two projects from the other eight discussed in the MPR.

Project not included

6. One project included in the 2012 MPR, the ANZAC Frigate Phalanx Close-in Weapon System Upgrade, has not been included in the 2013 MPR. This is the second project to be so treated, the other being Project Protector, which was not carried over into the 2012 MPR from the previous year's MPR.

7. The purpose of the MPR is to track the progress and management of projects as they move through the acquisition cycle. Once, therefore, a capability has been acquired and is handed to the NZDF to Introduce into Service (IIS) or complete IIS if this commenced while the capability was still under acquisition, the role of the Ministry's Acquisition Division changes substantially. Its residual task is to deal with warranty issues identified during IIS until these have all been actioned and the project can be formally closed off by the Ministry. Closure, including a final costing for the project, can sometimes occur some time after the Ministry has handed a capability to the NZDF for the IIS phase and all warranty issues have been appropriately dealt with.

8. Once the MoD moves into a residual role, therefore, in relation to acquisition a project no longer meets the criteria noted below in paragraph ten for continued inclusion in the MPR.

New projects included

9. The 2013 MPR includes three new projects: Maritime Helicopter Capability, Medium/Heavy Operational Vehicles (trucks), and Strategic Bearer Network (satellite communications).

10. The criteria for inclusion in the MPR is where the Government has specifically authorised Defence to acquire the capability and it is being managed by the Ministry as a "major" project. The Strategic Bearer Network Project was authorised in July 2012, the Vehicles Project in March 2013, and the Maritime Helicopters Capability Project in April 2013.

Capital Asset Management Regime

11. The Vehicles and Maritime Helicopters projects were the first Ministry managed projects to be developed using the Government's Capital Asset Management (CAM) Regime, including Treasury's Better Business Case (BBC) model. The requirements of these subjected the projects to a detailed and rigorous testing of the underlying assumptions and conclusions behind the projects. This was further tested by Defence's capability development processes under the Capability Management Framework and the top governance body, the Capability Management Board.

12. Table 1 below provides a comparison of the previous approval milestone points and the new ones under the BBC model. For the new projects the BBC milestones are used in the background section

of the data sheets. For the existing projects the milestones applying at the time the projects were approved are listed.

Table 1: GOVERNMENT APPROVAL MILESTONES

Text in 2010-2012 MPRs	Better Business Case Milestones
Project Initiation: Occurs once a capability requirement has been identified by Defence and a broad assessment of the options for meeting the capability requirement has been authorised by the Chief Executives and noted by the Minister of Defence.	Project Charter: Defence project initiation is guided by the *Defence White Paper 2010* and the 2011 *Defence Capability Plan*. Projects commence following notification to the Minister of Defence and approval of a project charter by the Capability Management Board.
Approval to Initiate: Attained when Cabinet agrees to the project's inclusion on the capital acquisition plan and authorise Defence to engage with industry to refine its initial assessment with more accurate information.	Approval of Indicative Business Case (IBC). Attained when Cabinet agrees to the strategic context for an investment and agrees to progress a shortlist of capability options to the Detailed Business Case stage. May also authorise Defence to engage with industry for more detailed information (e.g. a Request for Information).
Approval to Commence: Attained when Cabinet agrees to the refined capability requirement and authorises the Ministry of Defence to commence a formal tender and tender evaluation process.	Approval of Detailed Business Case (DBC): Attained when Cabinet agrees to a refined capability requirement and authorises Defence to commence formal engagement with industry (through a request for proposal or request for tender) on a preferred capability option.
Approval to Negotiate: Attained when Cabinet agrees to the preferred tender, specifies funding limits, and authorises the Ministry of Defence to enter into contract negotiations.	Approval of Project Implementation Business Case (PIBC): Attained when Cabinet agrees that Defence can conclude a contract based on the preferred supplier, the negotiated services, the maximum funding level and the arrangements to manage the project and the ongoing delivery of services.
Approval to Commit: Attained when Cabinet agrees to the final contract and authorises the Ministry of Defence to sign the contract and commit funding.	

Part 1: Assessment of Performance

1. This section provides an assessment across three metrics: schedule, budget, and capability of Defence's performance since the 2012 report in its management and delivery of the seven major capability projects reported on in 2012 and included in the 2013 MPR as well as one new project, Strategic Bearer Network. The other two new projects included in the 2013 MPR, Maritime Helicopters and Medium/Heavy Operational Vehicles, had not, at the time of this report, been in the acquisition phase long enough to enable an assessment to be made.

Assessment of Performance

2. Defence's approach throughout all phases of a project is to ensure that the project deliverables can be realised within the approved budget, within a reasonable time frame, and meet the contractual requirements that align with government policy.

3. Part 1 of the 2010 MPR discussed the difficulty in meeting targets across all three of these performance metrics for the projects reported on in that MPR. If two of these are held steady, pressures on a project will be felt on the third. Defence's preference is, where possible, to hold steady on cost (through fixed price contracts) and performance, with schedule taking the pressure, if contractors do not meet the time frames specified in the respective contracts. There can, however, be operational consequences to this approach with resulting impacts for platform availability, scheduled maintenance, and training which require careful management.

4. For the new projects under way it is Defence's objective that there should be no slippage on time. An important means of achieving this is to buy capability "off the shelf" and minimise the amount of change required to software. This approach is consistent with the comments made in 2010 by the Controller and Auditor-General for improving the management of projects.

Performance in the 2012/13 Year

5. Defence has assessed that for the 2012/13 year it has achieved a satisfactory standard, especially in the delivery of capability. As outlined in the Foreword by the Secretary of Defence and Chief of Defence Force further NH90s, C-130s and P-3Ks were handed over to the RNZAF. Important milestones were also achieved in the Protector Remediation project. We have, however, encountered some further delays in completing the three Air projects. No additional funding was requested for current projects.

6. The three new projects begun during this financial year have benefited from taking into account recommendations made by the Auditor-General in 2010 (see paragraphs 19 & 20). This should be reflected in future overall performance.

Schedule

7. The updated schedules for each major project were outlined in the 2012 MPR. Further updates are provided in the individual project data sheets provided in Part 3 of the 2013 MPR.
8. There has been further schedule slippage across the C-130, NH90, ANZAC Frigate Platform Systems Upgrade and Defence Command and Control System projects. In the case of the two air projects there was a need to accommodate unexpected production difficulties, for the Platform Systems Project to meet operational requirements, and for the Defence Command and Control System to take advantage of a more favourable version of the Global Command and Control System.
9. While, in most cases, Defence is able to mitigate some of the impacts of schedule slippage this requires careful management. Achieving a balance between competing operational, training, maintenance and project demands is sometimes difficult and as a result some activities either have to be revised, deferred or cancelled. For instance, in the past Defence had to renegotiate the schedule to induct future P-3K aircraft in order to maintain operational outputs.

Cost

10. Projections of final expenditure as at 30 June 2013 show that for the past year projects remained within budget.
11. The 2011 MPR noted that, as advised to Cabinet, the C-130 project cost may increase as the Ministry of Defence upgrades under its own management the remaining three aircraft: the "production phase". After the upgrade of the first production phase aircraft was completed in early 2013, an assessment was made of the costs involved in the upgrade. No additional funding was sought. The current C-130 being upgraded, however, has required a substantial amount of additional work to be undertaken on the aircraft's airframe and this may impact on the coming year's budget.
12. A number of projects are showing favourable foreign exchange variations, in some cases substantially.

Capability

13. Overall, there has been no change in capability requirements for the seven projects being assessed in this year's MPR. With that said, capability may, in some cases, be delivered in phases in order to meet contractual requirements or may be delivered differently from that envisaged when the project was approved for acquisition, for example the Defence Command and Control System Project proposal that GCCS-J should be acquired in addition to the GCCS-M product.
14. While projects can be affected by the lack of appropriately skilled personnel to undertake both the acquisition and introduction into service phases and become key risks or issues, there has been some progress on this in the past year, for example, the Defence Command and Control System Project which achieved full project staffing during the year. In addition, future capabilities in the Defence Mid Point Rebalancing Review and Future 35 have been developed with personnel requirements taken into account.
15. Table 2 on the next page summarises the situation in respect of the projects across the three metrics, and in respect of schedule through the life of the project.

Project	Change in cost (other than foreign exchange) since the 2012 MPR	Table 2: SUMMARY OF THREE METRICS AND OPERATIONAL IMPACT Schedule variation or update since the 2012 MPR	Cumulative schedule variations since the original contract forecast	Capability changes since the 2012 MPR	Operational Impact of Delay
A109 Training & Light Utility Helicopter	None	All helicopters were delivered by November 2011.	4 months.	None	No impact as minimal delay in delivery.
C-130H Life Extension	None	Three upgraded aircraft have been delivered to the RNZAF. The remaining two aircraft are forecast to be upgraded by December 2014, a four month slippage on that outlined in the 2012 MPR.	Around 54 months total variance for the completion of the five aircraft.	None	The reduced number of aircraft has required careful management of tasking because of the risks to meeting output requirements and in response option availability. The first upgraded aircraft have undertaken operational tasking.
NH90 Medium Utility Helicopter	None	Four NH90 helicopters had been delivered to the RNZAF by 30 June 2013. The eighth and last helicopter is forecast for delivery by March/April 2014, an additional six-seven months delay over that forecast in 2012.	Around 33-34 months total variance for the delivery of the eight helicopters.	None	While current reduced outputs to facilitate the transition are able to be met by the Iroquois the full capability inherent in the NH90 has been delayed.
P-3K Orion Mission Systems Upgrade	None	Four upgraded aircraft have been delivered to the RNZAF. The remaining two aircraft are forecast to be upgraded by February 2014, no change on 2012.	Around 41 months total variance for the completion of the six aircraft.	None	The reduced number of aircraft has required careful management of tasking because of the risks to meeting output requirements and in response option availability. Upgraded aircraft have undertaken operational tasking.

ANZAC Frigate Platform Systems Upgrade	None [1]	Phase 2 has been re-scheduled by 12 months for HMNZS *Te Kaha* and 29 months for HMNZS *Te Mana*. *Te Mana's* revised schedule aligns with an operational deployment and bringing *Te Kaha* back into full operational capability.	Around 29 months delay for Phase 2 of the project.	None	No impact as the programme has been designed around the availability of the frigates.
Defence Command and Control System (DC2S)	None forecast even with the possible capability change	DC2S is being undertaken as a phased roll out of capability. In 2013 it was determined that a more suitable product, GCCS-J, existed and the process for seeking approval to acquire this was initiated. As a consequence, an additional 12 month delay on the 2012 timetable of December 2013 for completion of the project is forecast.	Around 40 months total variation for the roll out of full operational capability.	Yes (Proposal to acquire GCCS-J)	No impact.
Project Protector Remediation	None	The Protector vessels are in service. Remediation work is undertaken on a time and availability basis.	N/A.	None	No impact as remediation work has been designed around the availability of the Protector vessels.
Strategic Bearer Network, Maritime Helicopter Capability, and Medium Heavy Operational Vehicles	Not applicable	The projects are in their first year of acquisition.	None.	Not applicable.	Not applicable.

[1] While no cost change was required before 30 June 2013, information to hand by that date indicated that in order to substantially complete the Platform Systems Upgrade Project as specified, additional funding will be required in the coming year.

Continuous improvement in performance

16. In the 2010 MPR, thirteen lessons learned were identified from information contained in the project data sheets, observations of project staff, and independent reviews of acquisition projects. These covered improvements, enhancements or scrutiny in or to:

Governance and Leadership:

- governance structures and strategic-level decision points;
- accountability and the need for a senior responsible owner to be allocated to projects;
- planning and prioritisation across the portfolio of capability projects;
- the making of decisions based on reducing costs in the short-term;

Project Management

- the criticality of resourcing projects with the right people;
- project management planning and having one single plan to improve coordination;
- the shortage of staff with corporate knowledge, expertise and understanding of project procedures;

Process and Execution

- enhanced integration and continuity phases of projects;
- greater scrutiny of contractor/sub-contractor competence;
- the speed of the definition and acquisition phases of projects;
- awareness of industry's ambitious and optimistic project planning;
- the technical risks around projects and the need to reduce these prior to contract signing; and
- incremental acquisition strategies where complex and high risk projects are better suited to this approach.

17. Defence continues to address these lessons as a way of ensuring continuous improvement in the way it manages future projects.

18. As well as having identified actions in the 2010 MPR already taken to address the lessons, a number of planned actions were identified as well. These are listed in Table 3. Shown against these are the actions taken in the last year to address, or begin to address, the planned actions. Defence will continue to make progress in these areas in the coming year as part of a process of continuous performance improvement.

19. In the 2010 MPR the Controller and Auditor-General suggested a number of ways in which Defence should change how it goes about procuring equipment, both in the negotiation of contracts and the procurement strategies used. The approach taken in the development of the business cases for the Maritime Helicopter and Medium/Heavy Vehicles projects (and being taken in other capability proposals currently under preparation) is consistent with the approach being suggested by the Controller and Auditor-General:

i. Buying off the shelf as far as possible thereby maximising value for money of the projects.

ii. Being flexible and innovative in terms of the procurements, the strategies used, and relationships established.

iii. Adopting an integrated project management plan.

20. Defence acknowledges, however, that it can still improve. For example, the initial estimates for the Maritime Helicopter Capability Project were significantly lower than the final cost. Key reasons for this were optimistic estimates of costs for work required to bring the helicopters up to a flying condition so they could be certified; under estimation of the cost of additional equipment; and not enough cost allowed to account for the "unknowns" that could emerge between doing the Detailed Business Case and the Implementation Business Case. The lesson from this is that Defence needs to take a conservative approach when assessing risk and calculating the project budget so that there is scope to take into account unexpected risks and costs as these are identified during business case refinement or where risks and costs cannot be adequately assessed.

Introduction into Service

21. Section 3 of the Project Data sheets outlines the intended Introduction into Service (IIS) plans for each of the platforms or systems.

22. With regard to the Maritime related projects, the Close-In Weapon System Project's IIS phase was practically completed with formal project closure expected in late 2013. For the ANZAC Frigate Platform System Upgrade Project, Phase 2: IIS planning commenced.

23. For the aviation related projects a number of IIS developments have occurred, for example:

P-3K Orion Mission Systems Upgrade

The second of the two transition courses graduated in June 2013. The two transition courses delivered four trained P-3K2 crews. Initial capability outputs for Search and Rescue and transit was achieved under an Interim Supplemental Type Certificate in March 2013.

C-130H Life Extension

Acceptance and release of capability into service was completed for Air Logistics Support, Search and Rescue, Self Protection System and High Latitude (Antarctic) Operations.

A109 Training & Light Utility Helicopter

Further Aircrew transition course training was undertaken to migrate crews from the UH-1H platform to the A109. The transition training utilised the synthetic flight training device and live flying.

NH90 Medium Utility Helicopter

An initial NH90 capability release was achieved in February 2013. This has allowed the conduct of New Zealand based non-tactical transport tasks with the helicopter.

24. Across the NZDF's Integrated Air Transition Programme, IIS is progressing well, though personnel resignations have necessitated reviews of transition plans.

Table 3: PLANNED ACTIONS

Lessons addressed	To be initiated by	Proposed Action based on that identified in 2010	Progress to date
1 - 13	2010 Defence White Paper	The 2010 Defence White Paper recommended a series of reforms for Defence's organisation and capability procurement processes. The lessons above are being used to help inform and guide these reforms. With respect to improving capability development and delivery, the White Paper focused upon:	
		• improving the governance arrangements between the Ministry of Defence and the NZDF;	The Capability Management Board (CMB) and Capability Steering Groups (CSG) are now well established and providing the top level governance direction for capability projects. They are supported by the Executive Branch of the MoD and the Programme Management Office of the NZDF Capability Branch. The NZDF intends to establish a Portfolio Management Office in the Capability Branch.
		• the training, professionalism and integration of Defence's workforce; • an organisational design that can improve outcomes and effectiveness; • selecting capabilities which will provide the best value for money; and	NZDF and some MoD staff have continued to undergo training on the UK Office of Government Commerce (OGC) standard PRINCE 2 Project Management, Managing Successful Programmes and Management of Portfolios methodologies. Staff will continue to undertake Treasury Better Business Case (BBC) training. NZDF and MoD capability staffs continue to work closely together in a collaborative manner. Business cases for capability investments going to the CMB are developed in accordance with Treasury's Better Business Case framework and are subjected to external quality assurance and the State Services Commission Gateway Review Process.
		• enhancing Ministerial choices by following the BBC model i.e. indicative business cases, detailed business cases, and implementation business cases as required by the new Capital Asset Management scheme.	All capability investment initiatives that require Ministerial or Cabinet approval are developed in accordance with the Capital Asset Management Regime expectations.

Lessons addressed	To be initiated by	Proposed Action identified in 2010	Progress in 2013
5 – 13	NZDF Capability Review Project	On completion of the Capability Review Project, Defence will have: • revised, simplified and standardised its capability management process; and • reviewed and updated its information technology systems for management of project information.	Work continues to embed and continuously improve on the Capability Management Framework. Requirements and Assurance Frameworks have been developed and will be integrated into the CMF. Capability Management Plans have been completed for several capabilities. The NZDF has yet to update the information technology systems for management of project information. The in house Programme Reporting System is still in use pending the introduction of the "Planview" Enterprise Portfolio Management system.
6, 7, 8	2010 MPR	The production of future MPRs will be supported by: • the development of an improved IT system for storing existing and future project data.	While the current IT system has proved to be adequate in generating the required information for the 2013 MPR, nevertheless the three new projects included in the 2013 MPR have highlighted the need for a greater focus on ways in which information held by both the MoD and the NZDF can be integrated into the MPR. Following its 2012 PIF Review, the Ministry has started a project to share data transparently between the agencies, and also carried out a major review of back office services to look at how IT interoperability with NZDF can be significantly improved.

Auditor-General's commentary

Background

In 2008, my staff identified a need for the Ministry of Defence and the New Zealand Defence Force (together referred to as "Defence") to report better and more complete information to show how well they manage capability projects. My Office worked with Defence to improve the quality, transparency, and usefulness of Defence's reporting of how it manages major projects to procure capability and bring it into service.

From 2010 to 2012, the Ministry of Defence published comprehensive *Major Projects Reports*, which covered eight major capability projects. My staff reviewed these reports when they were prepared.

Our overall view of the 2013 *Major Projects Report*

The 2013 *Major Projects Report* covers 10 projects. Three of these are new projects that Cabinet approved in the previous year. My staff reviewed the changes to the project data sheets and project information sheets for the existing projects. They also reviewed the three new project data sheets. The data sheets present detailed information about how each of the projects met cost, schedule, and capability needs. The results of this review are reported on pages 16-17.

My staff also reviewed Part 1 of the 2013 *Major Projects Report*, which provides Defence's summary assessment of its performance in managing and delivering the 10 capability projects. Overall, I consider that Defence has realistically assessed its performance in managing the projects and is being transparent about continuous improvement.

General commentary on the 2013 *Major Projects Report*

Co-operation between the Ministry of Defence and the New Zealand Defence Force is continuing to improve. There are opportunities for further improvement – in particular, by using joint risk registers for projects and by managing the increasing overlap between the acquisition and introduction into service phases (this is the point at which the capability passes from the Ministry of Defence to the New Zealand Defence Force).

The three new major projects show promising indications that, by buying off the shelf, capability definition and acquisition costs are being better managed. They also indicate that Defence is responding to opportunities to acquire capability. We look forward to seeing that the forecast delivery schedules are met during the next year.

Personnel risks

The availability of personnel continues to pose a significant risk to these projects. Six of the 10 projects name personnel as a risk or issue of medium to extreme severity. These risks and issues include the availability of staff to manage the acquisition projects and to introduce the new equipment into service. It can be difficult for Defence to maintain enough staff with enough training and experience to smoothly introduce new capability into service while continuing with business as usual and providing operational outputs. In some instances, Defence relies on the availability of a single individual. The operational implications if these risks eventuate are significant.

Defence is actively managing these risks and issues. It is concentrating on both short and medium-term issues where possible. However, in many instances, the possibilities for mitigation are limited.

Detailed comments on projects

The schedules show significant delays for projects started before the current financial year. Most of those delays are a legacy of previous decisions and events. The NH90 continues to make slow progress. The Defence Command and Control System has had additional delays during the last year, but the project now has a clear direction.

Last year, we also commented on the training difficulties that the need for three separate upgrades to the NH90s caused for the New Zealand Defence Force. The difficulties in training and re-training crew and in managing the availability of personnel remain unchanged this year.

Lyn Provost
Controller and Auditor-General
21 January 2014

INDEPENDENT REVIEW REPORT TO THE READERS OF THE MINISTRY OF DEFENCE AND THE NEW ZEALAND DEFENCE FORCE'S 2013 MAJOR PROJECTS REPORT

I have used my staff and resources to review the project summaries, project data sheets, and project information sheets included in the 2013 *Major Projects Report* prepared by the Ministry of Defence and the New Zealand Defence Force (together referred to as "Defence"). The review of the project summaries on pages 19- 56, the project data sheets on pages 57-219, and the project information sheets on pages 220-239 cover the following acquisition projects:

- A109 Training and Light Utility Helicopter;
- C-130H Life Extension;
- NH90 Medium Utility Helicopter;
- P-3K Orion Mission Systems Upgrade;
- ANZAC Frigate Platform Systems Upgrade;
- Project Protector Remediation;
- Defence Command and Control System;
- Maritime Helicopter Capability Project ;
- Medium/Heavy Operating Vehicles; and
- Strategic Bearer Network.

The project summaries, the project data sheets, and the project information sheets contain information about how Defence manages each project. They include:

- a description of the project;
- the status of the project;
- financial performance against the budgets approved by Cabinet;
- expected achievements;
- planned time frames;
- forecast expenditure;
- intended capability requirements; and
- project risks.

Review work carried out

We carried out our review in keeping with the New Zealand Institute of Chartered Accountants International Standard on Assurance Engagement (New Zealand) 3000: *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*. A review is not an audit and provides less assurance than an audit.

Our review involved carrying out the checks and making the enquiries we considered necessary to reach our conclusion. These checks and enquiries included:

- agreeing the non-financial information in the project summaries and project data sheets to the underlying information provided by Defence;
- agreeing selected financial information in the project summaries and project data sheets to the supporting job cost reports provided by Defence;
- reconciling selected financial information in the project summaries and project data sheets to the Ministry of Defence's audited 2012/13 financial statements; and
- seeking explanations from Defence for any questions arising from our review of the information provided.

Our review was limited to the information in the project summaries and project data sheets Defence provided to us. Therefore, we cannot guarantee that the project summaries and project data sheets provide a complete record of the projects.

Inherent uncertainty in some of the information

The project summaries and project data sheets contain information about expected achievements, planned time frames, forecast expenditure, intended capability requirements, and project risks. This information is, by its nature, inherently uncertain. Our review was limited to agreeing such information to underlying information and reports, and seeking explanations. The data sheets are summaries of more detailed information, and project managers use their judgement about what to include and omit. We sought explanations of selected judgements in our review.

The expert judgement of those involved in the projects informs several of the forecasts. Whether those forecasts will eventuate depends on future events or circumstances. Because of that uncertainty, what actually occurs might be materially different from what is set out in the information.

Responsibilities of Defence and of the Office of the Auditor-General

The Secretary of Defence and the Chief of Defence Force are responsible for preparing the project summaries and project data sheets included in the 2013 *Major Projects Report*.

Our responsibility is to review the information in the project summaries and project data sheets and to reach an independent conclusion based on our review.

Independence

The Auditor-General is constitutionally and operationally independent of the Ministry of Defence and the New Zealand Defence Force. Other than performing functions and exercising powers under the Public Audit Act 2001 as the auditor of the Ministry of Defence and the New Zealand Defence Force, we have no relationship with, or interests in, the Ministry of Defence and the New Zealand Defence Force.

Conclusion

Based on our review, nothing has come to our attention that causes us to consider that the information in the project summaries and project data sheets included in the 2013 *Major Projects Report* has not been fairly disclosed.

Lyn Provost
Controller and Auditor-General
21 January 2014

PART 2A: SUMMARIES OF PROJECT STATUS REPORTS

The project summaries contained in this part of the MPR provide a concise, simple and high level overview of each major project. The summaries include a basic description of each project's policy objectives and capability requirements; the current status with respect to capability, schedule and cost; active high level risks; recent developments; and financial performance. References are provided to the underlying project data sheets if greater detail or information on a specific project is required.

Readers Guide:

The following keys should be used when reading the current project status and active risks tables contained within each summary.

Key for Risk and Current Status	
	On track. The risks or issues that exist will have little or no impact on the ability to deliver project outputs, objectives or goals. Little or no resource allocation or management effort is required.
	Medium. The risks or issues that exist may temporarily degrade the ability to deliver project outputs, objectives and goals. A moderate level of resource allocation or management effort is required.
	High. The risks or issues that exist could degrade the ability to deliver project outputs, objectives and goals. A high level of resource allocation or management effort is required.
	Extreme. The risks or issues that exist could significantly degrade or prevent the ability to deliver project outputs, objectives and goals. Significant resource allocation or management effort is required.

Key for Likelihood	
Almost certain	Very high probability of occurrence; could occur several times during the coming year.
Likely	Likely to occur about once per year.
Possible	Possible, likely to occur at least once over a ten year period.
Unlikely	Very low likelihood, but not impossible, very unlikely during the next 40 years.
Rare	Plausible, unlikely to occur during the next ten to forty years.

Contents:

A109 TRAINING AND LIGHT UTILITY HELICOPTER (T/LUH)

Project Description

This project is providing the NZDF with a training and light utility helicopter capability (T/LUH). Five A109LUH(NZ) helicopters and a flight training simulator have been acquired to replace the current training helicopters for the Royal New Zealand Air Force. An additional (sixth) helicopter has been acquired and been broken down to form the majority of the spares and logistics package.

Policy Value

The A109's training capability will provide the Government with:

- the helicopter pilot and crewmen training necessary to support the NZDF's helicopter fleets and operations.

The A109's light utility capability will enhance the Government's options for:

- defending New Zealand's sovereignty, its Exclusive Economic Zone and territorial waters;
- contributing to whole of government efforts at home in resource protection, disaster relief, and humanitarian assistance; and
- operating with the Australian Defence Force to discharge our obligations as an ally of Australia.

Capability Requirements

The capability requirements necessary to support policy objectives include:

Helicopter pilot and crewmen training:

- Basic helicopter pilot training
- Training for qualified helicopter instructors
- Training for helicopter crewmen and crewmen instructors
- Conversion to aircraft-type and consolidation flying for pilots destined for NH90 and Seasprite helicopters
- Continuation training for helicopter pilots

Light utility tasks:

- Air movement
- Command, control and communications
- Special operations, including limited counter terrorism tasks
- Search and rescue
- Aero-medical evacuation
- Aerial sustainment
- Maintenance test flying

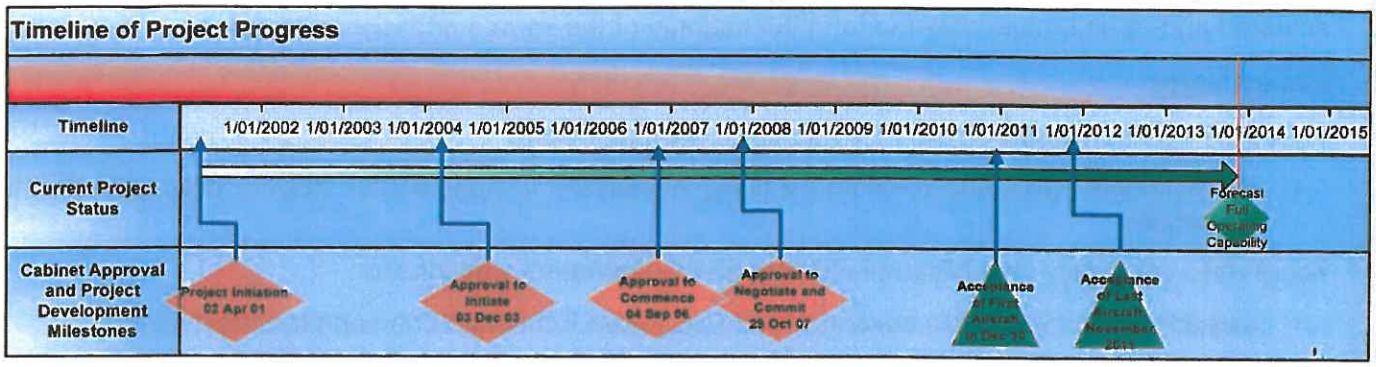
The operational requirements necessary to support the capability can be found at Part 3, page 67.

Current Project Status

	Capability: The contract's primary function and performance specifications are on track to be delivered.
	Schedule: All five helicopters and flight training devices have been delivered.
	Cost: The project budget is on track. Remaining expenditure is forecast to stay within the approved budget.

Recent Developments

An initial A109 capability release has been achieved in this financial year which has allowed the conduct of New Zealand based non-tactical transport tasks with the helicopter. Training for the first cadre of previous Iroquois maintainers and aircrew has been conducted and this will continue in order to grow qualified personnel capacity. This training also provides a basis for finalising ab initio aircrew training which will begin towards the end of 2013.



Active Risks and Issues

Further detail on these risks and the project's lower rated risks and issues can be found at Part 3, pages 81-82.

Issue	Phase	Impact	Treatment Actions
Introduction into Service personnel resources are limited. There are single points of failure. Recent pilot resignations have exacerbated the issue.	Introduction into service	The conduct of Introduction into Service to originally planned milestones and achievement of planned flying rates has not been achieved because of the limited number of trained aircrew.	Constant management of tasks, priorities and available resources and expectation as to what can be achieved and by when. An organisational redesign process is underway.

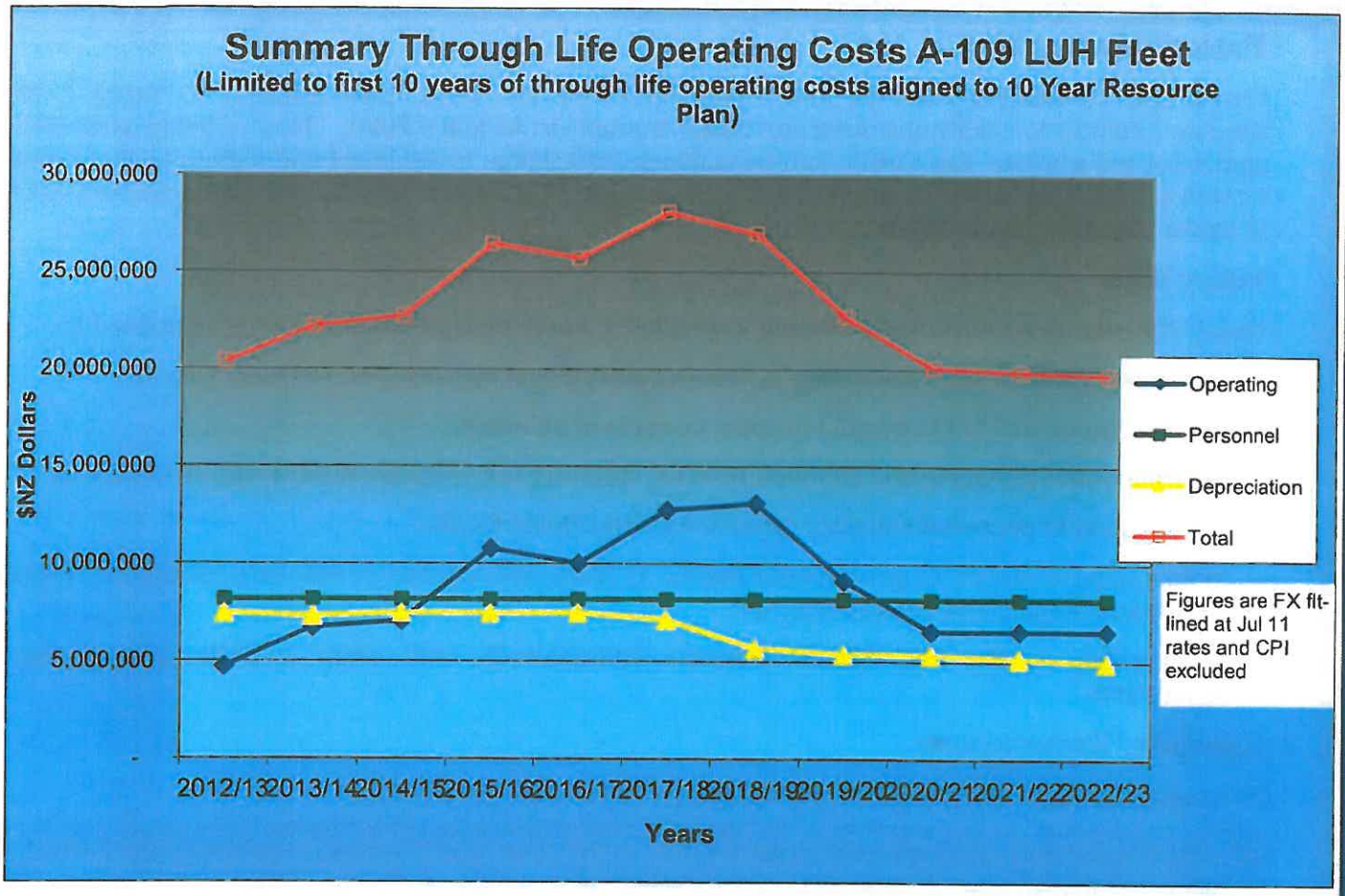
Financial Performance

Further detail on financial performance can be found at Part 3, pages 72-74.

Approved Budget & Expenditure

	TOTAL (NZ$ million)
Approved Budget	140.5
Life to Date Expenditure	123.6
Total forecast expenditure	132.4
Gross project variation (forecast)	8.1 under spend
Foreign exchange impact	(4.6)
Actual project variation (forecast)	3.5 under spend

Summary of Annual T/LUH Through Life Operating Costs



C-130H LIFE EXTENSION PROJECT

Project Description

This project is extending the life and availability of the five Royal New Zealand Air Force C-130H Hercules aircraft for airlift and transport tasks through to at least 2020. This is being achieved by upgrading the avionics, flight deck communications, navigation, mechanical and self-protection systems as well as extensively refurbishing the airframe structure. The project will also procure a part task trainer to assist pilot conversion training.

Policy Value

The C-130H provides essential air transport and airlift that enhances the Government's options for:

- defending New Zealand's sovereignty, its Exclusive Economic Zone and territorial waters.
- conducting operations to combat terrorism or acts of sabotage;
- operating with the Australian Defence Force to discharge our obligations as an ally of Australia;
- contributing to peace and stability operations in the South Pacific;
- contributing to whole of government efforts at home and abroad in resource protection, disaster relief, and humanitarian assistance; and
- participating in the Five Power Defence Arrangements and other multilateral exercises or operations.

Capability Requirements

The capability requirements necessary to support policy objectives include:

- Provide tactical airlift operations (inter-theatre air transport) in moderate threat environments in support of NZDF deployments.
- Conduct airlift operations as part of a coalition task force in support of our Defence partners.
- Conduct strategic airlift operations between New Zealand, the South Pacific, and the Asia Pacific.
- Assist in delivery of vital civil military tasks.

The operational requirements necessary to support the capability can be found at Part 3, page 88.

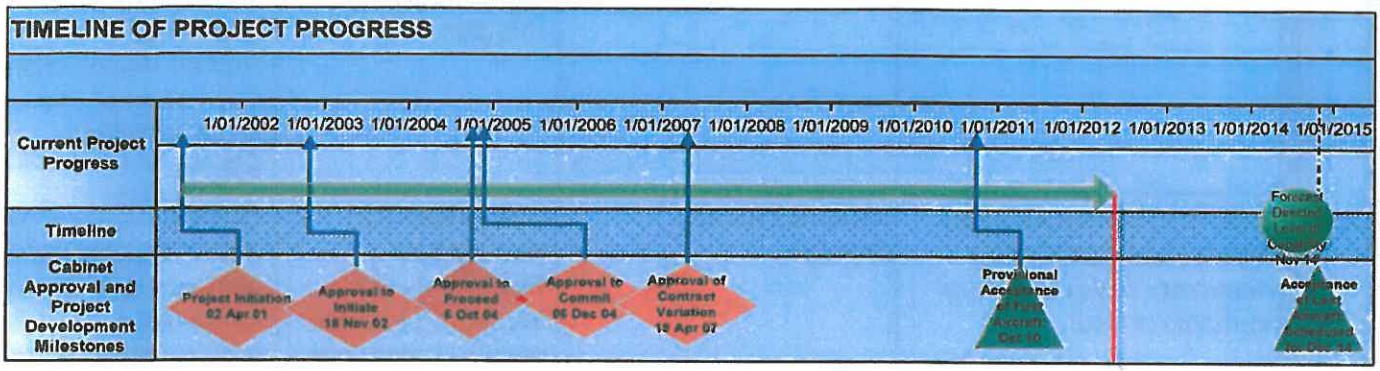
Current Project Status

	Capability: While a Directed Level of Capability is scheduled to be established by November 2014 with some aircraft upgraded and crews trained, the project is continuing through to early 2015 to upgrade all five aircraft.
	Schedule: Three upgraded aircraft have been delivered to the RNZAF. The last two aircraft are in the production phase (upgrade of the final three C-130H's at RNZAF Base Woodbourne, Blenheim). The last aircraft is scheduled for delivery in December 2014, fifty-four months later than originally forecast at contract signing.
	Cost: Defence is managing the production phase upgrade of the remaining three C-130H's for which an additional amount of NZ$9.85 million was allocated to the Ministry of Defence, to be reviewed during the production phase. This is a provisional estimate of the potential shortfall in production phase labour costs and Part Task Trainer development costs. No additional funding was requested on completion of the first production aircraft early in 2013. Further reviews will be carried out as the production phase progresses.

Recent Developments

A third upgraded C-130 Hercules transport aircraft was delivered to the Air Force for testing and evaluation. The remaining two C-130s entered the upgrade programme at RNZAF Base Woodbourne in Blenheim.

Software version (V118) has been delivered and accepted by the RNZAF as the baseline software load. In August 2012, acceptance and release of capability into service was completed for Air Logistics Support, Search and Rescue, Self Protection System and High Latitude Operations. Full capability release is planned to be achieved by early 2014 subject to the delivery and acceptance of the V119 and V1120 software loads and subsequent software certification. Delivery of this software is critical to full acceptance of the aircraft and associated systems.



Active Risks and Issues

Further detail on the project's risks and issues can be found at Part 3, pages 99-101.

Risk	Consequences	Likelihood	Treatment Actions
Production Phase. Labour costs may exceed approved budget.	Possible need to seek additional government funding.	Possible	Close monitoring of the project budget and a further review post completion of the second production aircraft.
Production Phase. A combination of work arising, increased production scope and parts lead-time may result in the further delay of the completion of the first production aircraft.	Furthers delays may lead to increased project costs and/or a temporarily reduced operational capability.	Possible	Close monitoring and periodic review to pro-actively reduce delays.
Production phase. A delay in the refurbishment of the Centre Wing Box in the USA may impact upon the production schedule.	Further delays may lead to increased project costs and/or a temporarily reduced operational capability.	Possible	Close monitoring of the Centre Wing Box status including weekly communication with contractor.

Issue	Phase	Impact	Treatment Actions
Production delays continue to affect project timelines and aircraft release dates. First production aircraft has been delivered. Significant delays being experienced with second and third production aircraft.	Introduction into Service	Delays in achieving upgrade milestones impact upon a range of operational, training and personnel activities.	Active management of the Transition Plan with on-going internal stakeholder engagement through the Joint Project Office.
There are multiple system Processor Reset/Swaps.	Introduction into Service	Operational capability could be significantly affected.	Targeted to be treated in software version V119. Standard Operating Procedures/checklists have been put in place to mitigate effects.
Qualified Flying instructor (QFI)/Qualified Aircrew Instructor (QAI) manning remains critical.	Introduction into Service	Insufficient QFI and QAI on RNZAF No.40 Squadron to meet required personnel levels.	Qualified aircrew that have been posted to staff appointments are being used temporarily to bridge the gap until sufficient personnel are qualified.
Reduced flying hours are impacting throughput of crew members and constraining the training and advancement of personnel.	Introduction into Service	Increased training burden on RNZAF No.40 Squadron and advancement of crewmembers – Co-Pilot to Captain.	Addressed through the reduction in ab-initio aircrew to RNZAF No.40 Squadron. The reduction of operational tasking will enable more crew to be trained.

	Aircraft delivery delays are causing a lack of currency, continuity and training.	Introduction into Service	The ability to maintain operational outputs is at risk. Limited training hours are disrupting the transition period and could prevent the RNZAF from reaching the required level of capability within the agreed timeframe. This would lead to a temporarily reduced operational capability.	Individual flying currencies and continuation are being managed carefully. Conversion courses are being tailored to allow for essential personnel only.

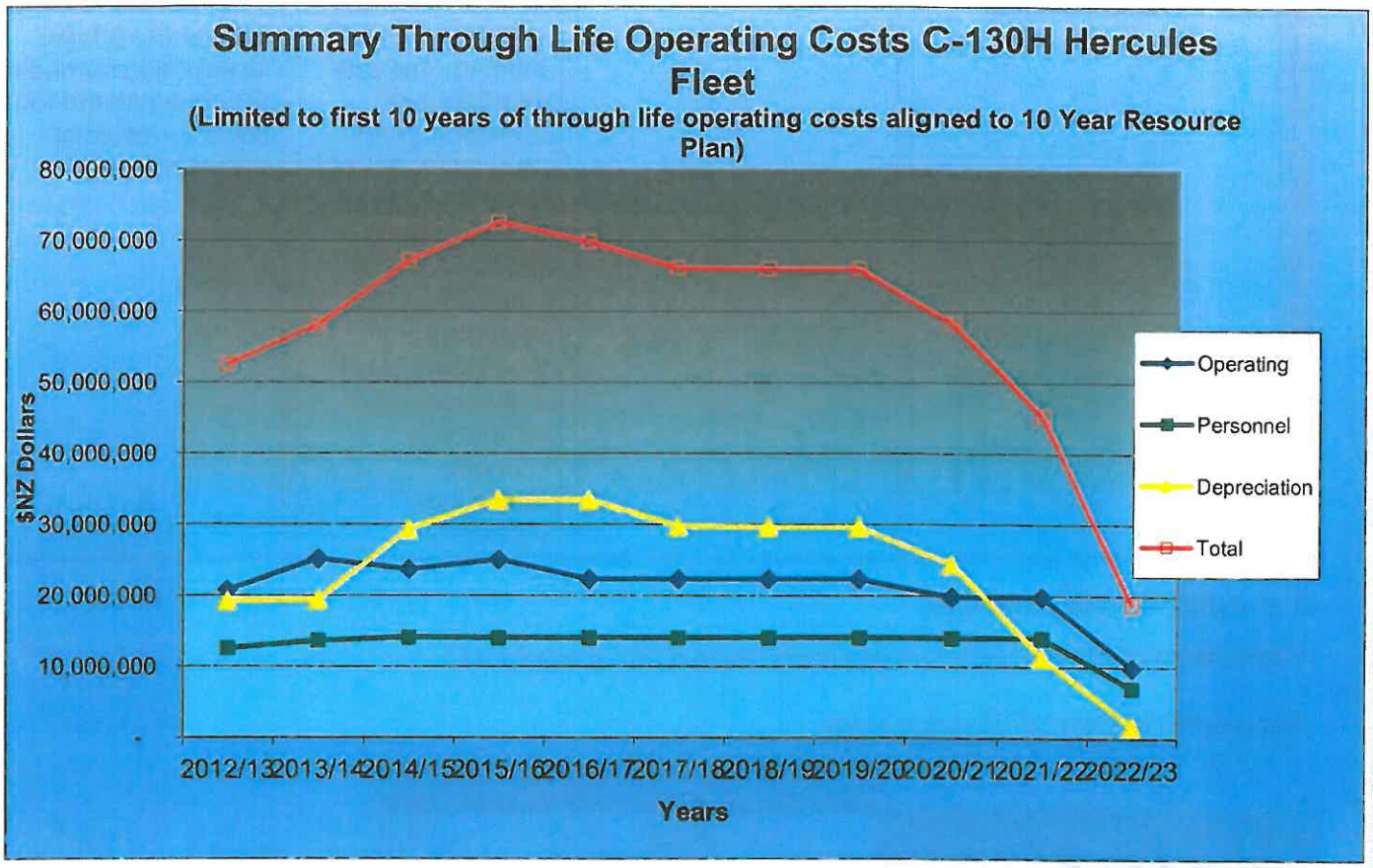
Financial Performance

Further detail on financial performance can be found at Part 3, page 91-93.

Approved Budget & Expenditure

	TOTAL (NZ$ million)
Approved Budget	264.8
Life to Date Expenditure	246.5
Total forecast expenditure	261.5
Gross project variation (forecast)	3.3
Foreign exchange impact	(3.3)
Actual project variation (forecast)	0.0

Summary of Annual C-130H Through Life Operating Costs



NH90 MEDIUM UTILITY HELICOPTER (MUH)

Project Description

This project is providing the NZDF with a medium utility helicopter capability for the next 30 years. Eight NH90 helicopters with associated deliverables will be acquired from NHIndustries to replace the Royal New Zealand Air Force Iroquois fleet. An additional (ninth) helicopter is being acquired and broken down to form the majority of the spares and logistics package.

Policy Value

The MUH provides rotary wing airlift that enhances the Government's options for:

- defending New Zealand's sovereignty;
- conducting operations to combat terrorism or acts of sabotage;
- operating with the Australian Defence Force to discharge our obligations as an ally of Australia;
- contributing to peace and stability operations in the South Pacific;
- contributing to whole of government efforts at home and abroad in resource protection, disaster relief, and humanitarian assistance; and
- participating in the Five Power Defence Arrangements and other multilateral operations.

Capability Requirements

The capability requirements necessary to support policy objectives include:

- Combat Missions: air assault; special operations; and intelligence, surveillance, target acquisition and reconnaissance.
- Combat Support Missions: air movement; command, control and communications; and search and rescue.
- Combat Service Support Missions: aerial sustainment; aero-medical evacuation; search and rescue; and transport of personnel.
- Ancillary Tasks: helicopter aircrew training and maintenance test flying.

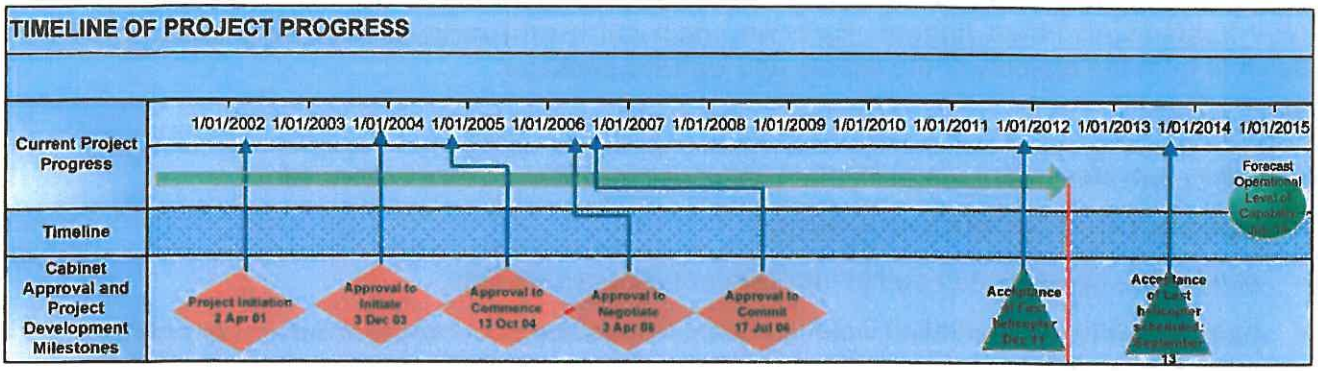
The operational requirements necessary to support the capability can be found at Part 3, page 108.

Current Project Status

	Capability: The functional and performance specifications are on track to be delivered. As a result, there is a pathway to achieving the project's primary capability and operational requirements.
	Schedule: Four NH90s had been delivered by 30 June 2013 (with two more delivered in July 2013). The last aircraft is scheduled to be delivered by March/April 2014 (33-34 months later than originally forecast at contract signing).
	Cost: The budget is projecting an under spend.

Recent Developments

Two further NH90 helicopters were delivered to the RNZAF from manufacturer NATO Helicopter Industries. An initial NH90 capability release was achieved in February 2013 which has allowed the conduct of New Zealand based non-tactical transport tasks with the helicopter.



Active Risks and Issues

Further risks and detail on the project's risks and issues can be found at Part 3, pages 121-124.

Risk	Consequences	Likelihood	Treatment Actions
Personnel resources. As IIS personnel resources are limited they may create a single point of failure.	May slow down the development and provision of capability.	Likely	Constant management of tasks, priorities and available resources and management expectation as to what can be achieved and by when.
Retrofit Activity. As retrofit activity is planned to upgrade the existing fleet from September 2013 to September 2014, there may be risks for IIS as during most of this period only 3 aircraft will be available to conduct IIS activities and progress the Transition Plan.	Delivery of the Transition Plan and DLOC may be delayed.	Likely	Constant management of tasks, priorities and available resources and management expectation as to what can be achieved and by when. Close coordination is planned between the Crown and NHI to minimise risk.

	Readiness of Role Equipment. There is a chance that some role equipment including External and Internal Auxiliary Fuel Tanks, Chaff and Flare Dispenser, Cargo Rolling Device, Ballistic Protection, Bottom Life Raft, Fast Roping and Rappelling Device, Pintle Machine-Gun Mount may not be ready prior to acceptance.	Acquisition and Introduction into Service	Operational Outputs. The delay in provision of this role equipment will prolong the time taken for the NH90 to reach its directed level of capability.	The Project Team is working alongside NHIndustries to qualify and deliver most of the role equipment in the agreed timeframe. With regard to the Fast Roping and Rappelling Device, and Pintle Machine-Gun Mount the RNZAF are developing solutions in concert with local industry (Rappelling) and Australia (Pintle Machine-Gun Mount).

Issue	Phase	Impact	Treatment Actions
Synthetic Training. An NH90 simulator was not acquired as part of the project.	Introduction into Service and In Service	**Crew Currency and Availability.** Crews have to deploy to Europe for up to a month twice a year to satisfy emergency training and currency requirements. During this time the Transition Plan is disrupted.	The ADF simulators will begin to be used from mid 2014. This will ease the time lost to travel. The preferred solution would be to use a certifiable NZ based synthetic training system.
Personnel. Personnel have been and continue to be lost from the IIS project due to posting and/or resignation.	Introduction into Service	**Personnel Availability.** Trained personnel continue to be lost from the project, with aircrew resignations hitting particularly hard.	Defence Personnel Executive is aware and examining mitigation strategies.

Air Transportation. The NH90 has been delivered without qualification for air transport.	Acquisition.	**Air Transportation**. A number of countries, including Australia, are yet to provide certification for air transport within C-17 aircraft. Any deployment by air will require OEM support and may have to be taken at the risk of impacting fatigue life.	MoD is working with NHI to acquire an air transportation scheme for NH90 which can be trialled in late 2013.

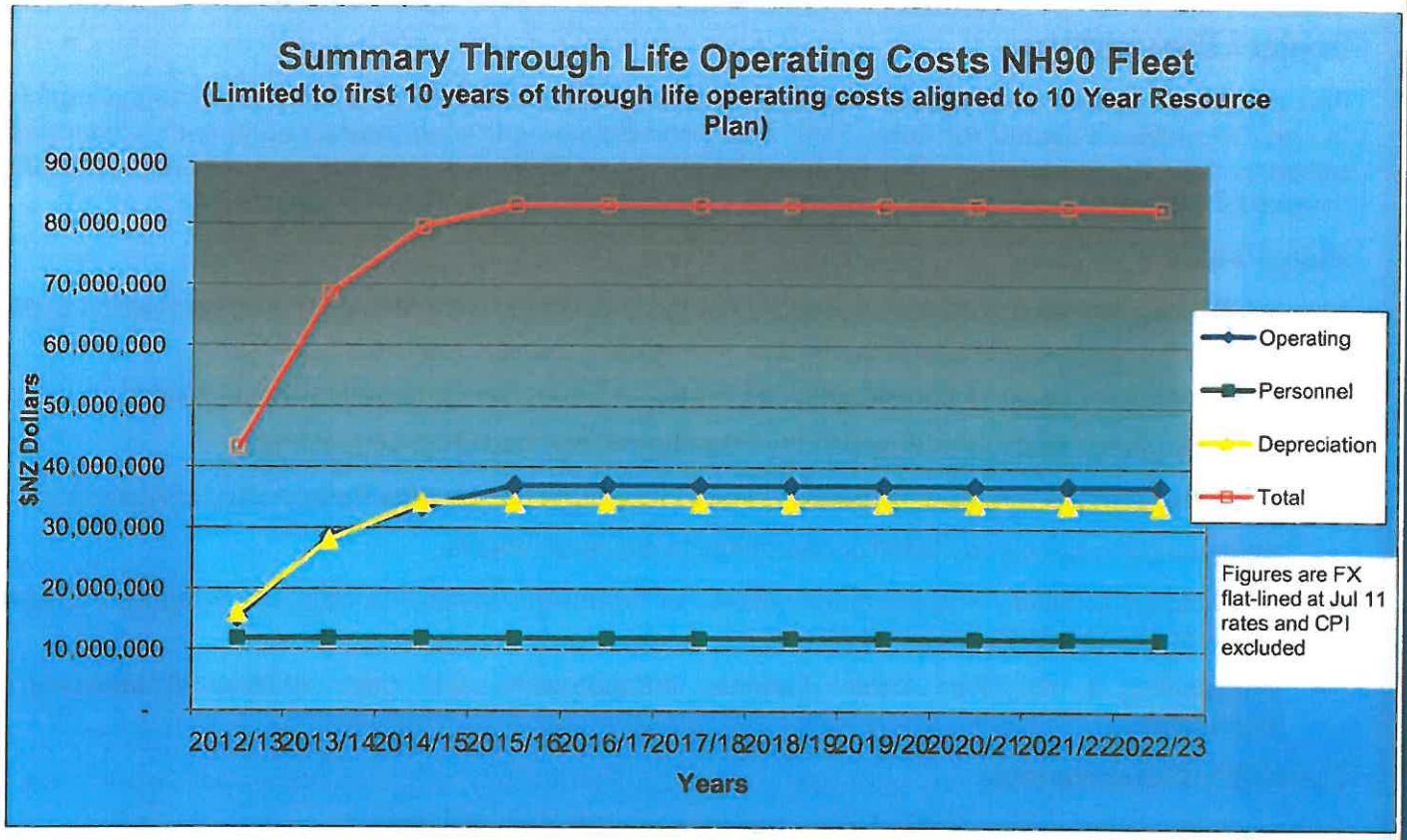
Financial Performance

Further detail on financial performance can be found at Part 3, pages 111-112.

Approved Budget & Expenditure

	TOTAL (NZ$ million)
Approved Budget	771.7
Life to Date Expenditure	600.8
Total forecast expenditure	771.7
Gross project variation (forecast)	90.2 under spend
Foreign exchange impact	(90.1)
Actual project variation (forecast)	0.1

Summary of Annual MUH Through Life Operating Costs



P-3K ORION MISSION SYSTEMS UPGRADE

Project Description

This project is upgrading the mission management, sensors, communications, and navigation systems for the six Royal New Zealand Air Force P-3K Orion surveillance and reconnaissance aircraft. A flight deck trainer is also being acquired. The prime contractor to undertake the upgrade is L-3 Communications Integrated Systems.

Policy Value

The surveillance and reconnaissance capability of the P-3K Orion will enhance the Government's options for:

- defending New Zealand's sovereignty, its Exclusive Economic Zone and territorial waters;
- protecting New Zealand's interests in the Southern Ocean and Ross Dependency;
- operating with the Australian Defence Force to discharge our obligations as an ally of Australia;
- contributing to peace and stability operations in the South Pacific;
- contributing to whole of government efforts at home and abroad in resource protection, disaster relief, and humanitarian assistance; and
- participating in the Five Power Defence Arrangements and other multilateral exercises or operations.

Capability Requirements

The capability requirements necessary to support policy objectives include:

Support to civilian agencies via the conduct of air operations throughout the New Zealand Exclusive Economic Zone, and surrounding waters to assist:

- Fisheries protection
- Border protection
- Oil spill and navigation hazard response
- Conservation support
- Search and rescue
- Police activities

Support to Defence and Foreign Policy within New Zealand's area of interest to assist:

- Air operations
- Land Forces
- Special Forces
- Maritime Forces

The operational requirements necessary to support the capability can be found at Part 3, page 130.

Current Project Status

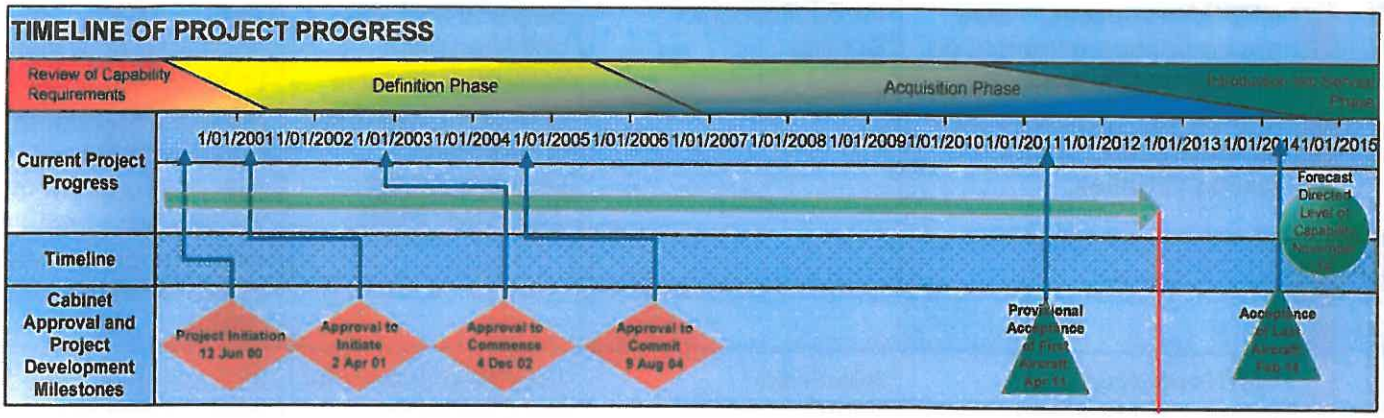
	Capability: The contract's primary function and performance specifications are on track to be delivered.
	Schedule: The second and third Production aircraft have been delivered to the RNZAF (in addition to two other P-3Ks). The last two P-3K aircraft are now undergoing the upgrade. The final aircraft is still scheduled for delivery to the RNZAF in February 2014.
	Cost: No additional costs were incurred during the year.

Recent Developments

The second and third P-3K Orion maritime patrol aircraft were delivered to the Air Force for operational testing and evaluation. The last two P-3K aircraft are being upgraded at RNZAF Base Woodbourne in Blenheim.

The planned conversion training of P-3K crews from RNZAF No.5 SQN commenced on 24 April 2012. The second of the two transition courses graduated in June 2013. The two transition courses delivered four trained P-3K2 crews. The first P-3K2 Operational Conversion Course to train ab initio P-3K2 crews commenced in August 2013.

Initial capability outputs for Search and Rescue and transit was achieved under an Interim Supplemental Type Certificate in March 2013. The phased release of capabilities will continue through until mid 2014.



Active Risks and Issues

Further detail on the project's risks and issues can be found at Part 3, pages 142-143.

Risk	Consequences	Likelihood	Treatment Actions
Serviceability problems with legacy aircraft systems (especially engines and propellers) may cause delays in Production Phase testing.	Further schedule delays are possible.	Likely	NZDF has mitigated the impact of this risk by providing ground support personnel at Blenheim to maintain the legacy systems, and by improving the logistics processes to deliver replacement equipment.

Issue	Phase	Impact	Treatment Actions
Competing demands on aircrew. The crew that have been trained on the upgraded P-3K systems are a resource on the critical path for most activities, including training further crews, remedial upgrade testing, production phase testing and NZDF Test and Evaluation while maintaining initial operational outputs.	Acquisition / Introduction into Service	Complications in any of these activities will inevitably create further resource conflicts and require further schedule compromises.	The Joint Project Office is closely monitoring the personnel situation and managing any potential conflicting activities. This sometimes requires schedule amendments.
Competing Demands on NZDF Resources. There are competing demands on finite resources for operational outputs as well as training and upgrade testing activities.	Acquisition / Introduction into Service	Delays in achieving upgrade and IIS activities (with resulting delays in delivering upgraded aircraft and progressing the Transition Plan).	Resource allocation is being managed, by necessity, on a daily basis by the JPO. Defence negotiated with the Contractor to defer the upgrade of the last two aircraft to maintain legacy fleet capability in the interim.
Work required after aircraft acceptance. The first four upgraded P-3K aircraft were 'provisionally' accepted. As a result, work is required on these aircraft to complete them after delivery.	Acquisition / Introduction into Service	Providing access for the Contractor makes the aircraft unavailable for other tasks and further diverts resources.	JPO planning includes provision for remedial work which will be addressed on a case by case basis in conjunction with other priorities. The late delivery of software updates by the contractor forces continual revision of these plans.

	The Contractor's turn-around time to repair failed equipment will delay aircraft delivery (particularly for the latter aircraft to be delivered).	Acquisition / Introduction into Service	The final two aircraft are likely to encounter delivery delays if upgrade equipment fails prior to delivery. This is because the contractor will not have any replacement equipment (all other equipment having been previously delivered and being required for NZDF operations).	Loan previously delivered equipment (if available) back for contractor's use to enable testing to proceed in the interim. Defer delivery of affected aircraft until all allocated equipment can be delivered in a serviceable condition, or accept incremental delivery of aircraft on a system by system approach without all equipment (depending on the nature of the compromise).
	Full supply and repair support contracts are not in place leading to equipment shortages and affecting aircraft availability.	Introduction into Service	Aircraft unavailable to conduct IIS activities and operational outputs.	Establish a Basic Ordering Agreement with the prime contractor, then establish supply and repair contracts. Purchase spare equipment directly from the manufacturer.

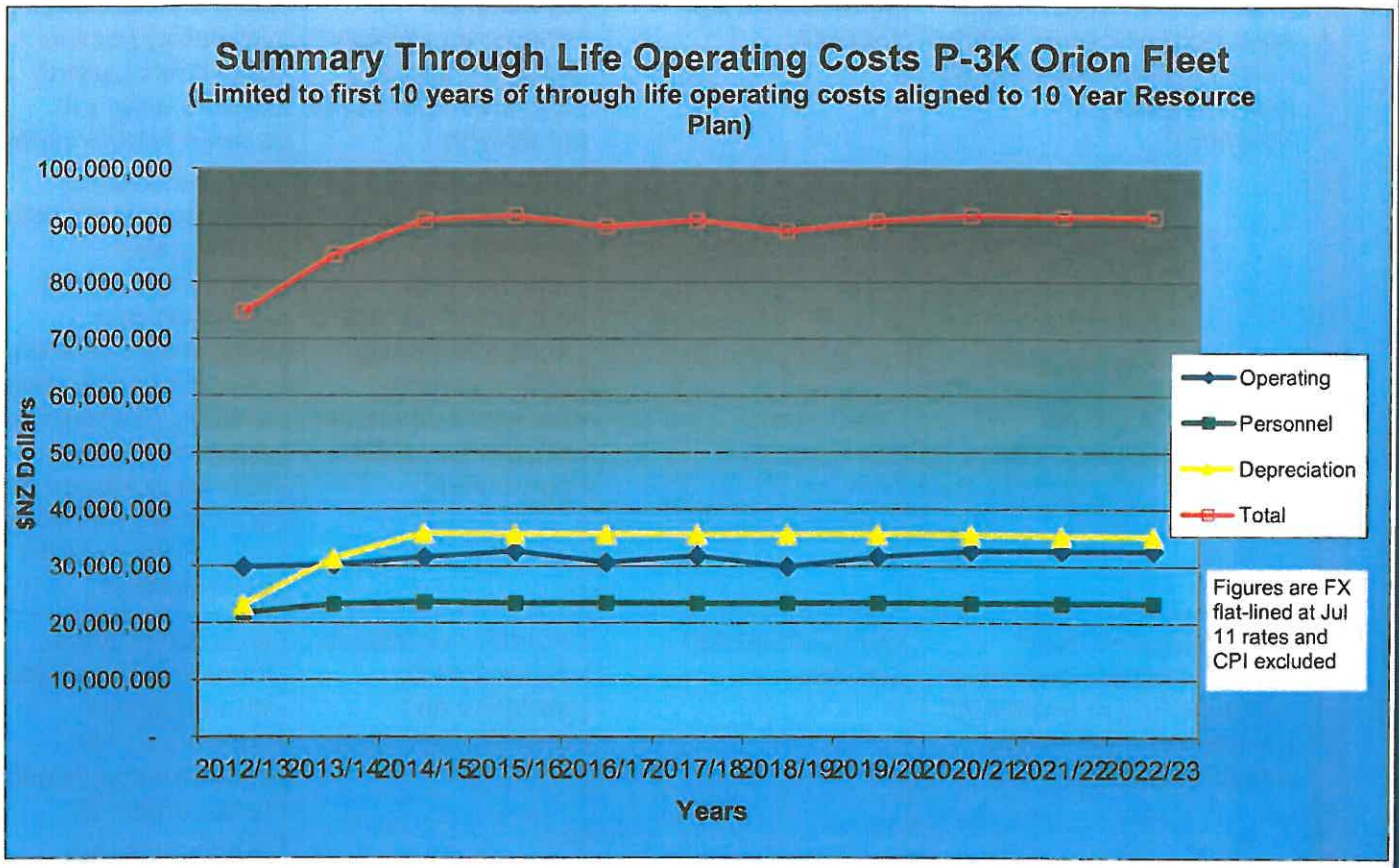
Financial Performance

Further detail on financial performance can be found at Part 3, pages 133-135.

Approved Budget & Expenditure

	TOTAL (NZ$ million)
Approved Budget	377.3
Life to Date Expenditure	316.7
Total forecast expenditure	332.6
Gross project variation (forecast)	44.7
Foreign exchange impact	(44)
Actual project variation (forecast)	0.7

Summary of Annual P-3 Through Life Operating Costs



PLATFORM SYSTEMS UPGRADE (PSU)

Project Description

The Platform Systems Upgrade (PSU) addresses equipment obsolescence, performance degradation, operational limitations, and compliance issues with the "platform systems" that enable the ANZAC frigates to move, float, generate power, and recover from damage.

Policy Value

The PSU will maintain the operational effectiveness and efficiency of the ANZAC frigates *Te Kaha* and *Te Mana* over their remaining lives and will thereby ensure the Naval Combat Force enhances the Government's options for:

- defending New Zealand's sovereignty, its Exclusive Economic Zone and territorial waters;
- operating with the Australian Defence Force to discharge our obligations as an ally of Australia;
- contributing to peace and stability operations in the South Pacific;
- contributing to whole of government efforts at home in resource protection;
- participating in the Five Power Defence Arrangements and other multilateral exercises or operations;
- protecting New Zealand's interests in the Southern Ocean and Ross Dependency; and
- providing a physical demonstration of New Zealand's commitment to regional and global security.

Capability Requirements

The capability requirements necessary to support policy objectives include:

- Increase the stability of the ANZAC Frigates after incurring damage
- Increase the ANZAC Frigates reserve buoyancy
- Improve the propulsion systems of the ANZAC Frigates
- Increase the ability of the ANZAC Frigates to operate at high temperatures
- Provide a control and monitoring system that delivers automated functions across all platform systems

The operational requirements necessary to support the capability can be found at Part 3, page 149.

Current Project Status

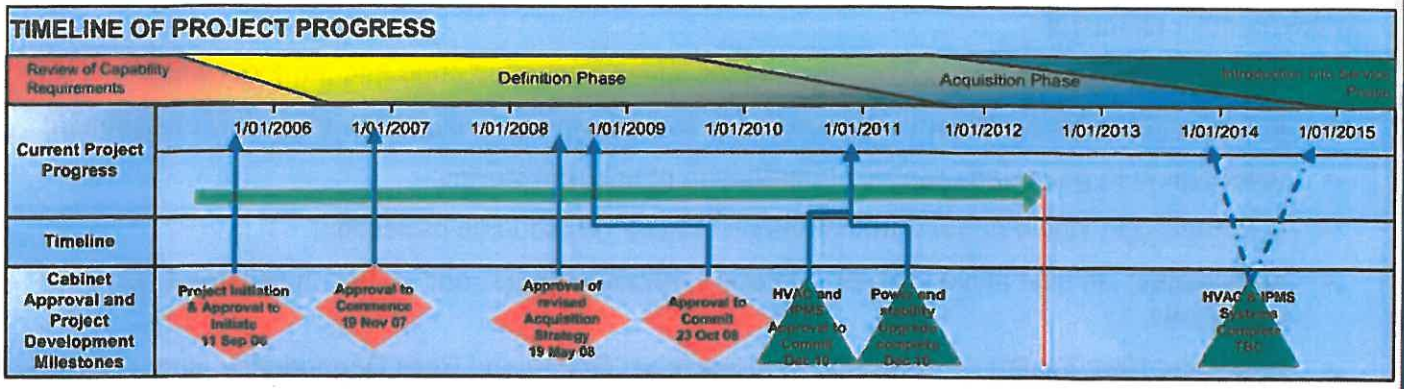
	Capability: Phase 2 of the project upgrade of the heating, ventilation, and air conditioning is under way on the first frigate, *HMNZS Te Kaha.* It was 80.5% complete as at 8 November 2013.
	Schedule: *Te Mana* will most likely not be available to commence PSU until mid 2014, once she returns from an operational deployment in early 2014 and *Te Kaha* has achieved a suitable level of operational capability post her upgrade.
	Cost: Work is underway on revising the overall project budget.

Recent Developments

The project contractor for Phase 2 on *Te Kaha*, Babcock, have recently advised a likely 6-7 month delay in the completion of their work programme.

Overall project cost: The project's cost is being reassessed to deal with longer than expected time taken to complete the first ship under Phase 2.

Impact: Once the reassessment is completed the effect on the project budget, and completing the overall project, will be apparent.



Active Risks and Issues

Detail on the project's risks and issues can be found at Part 3, page 162.

Risk	Consequences	Likelihood	Treatment Actions
Unexpected Costs: If there are further costs associated with the project that could not have been anticipated and were, therefore, not included in the original estimates, there may not be enough funding to complete the project.	Extra funding will be necessary to cover the unforeseen cost increases.	Almost certain	Monitor all project costs to make sure that the project outcomes are not compromised. Manage contracting to ensure solutions align with estimates. Identify possible options for obtaining additional funding.
Resources: If project staffing is inadequate this may impact on completion of the upgrades of the frigates.	This could result in a delayed return of the frigates and therefore availability for operational tasking.	Possible	MoD Project Director and the NZDF Capability Branch to manage requirements, including additional funding.

Issue	Phase	Impact	Treatment Actions
Schedule: Because timing of work is being synchronised with the Navy's operational requirements schedule forecasts can change.	Acquisition/IIS	This could result in the second frigate entering Phase 2 later than expected, in addition to any delays in completing the first frigate.	Work with the Navy on achieving optimum entry of the second frigate.

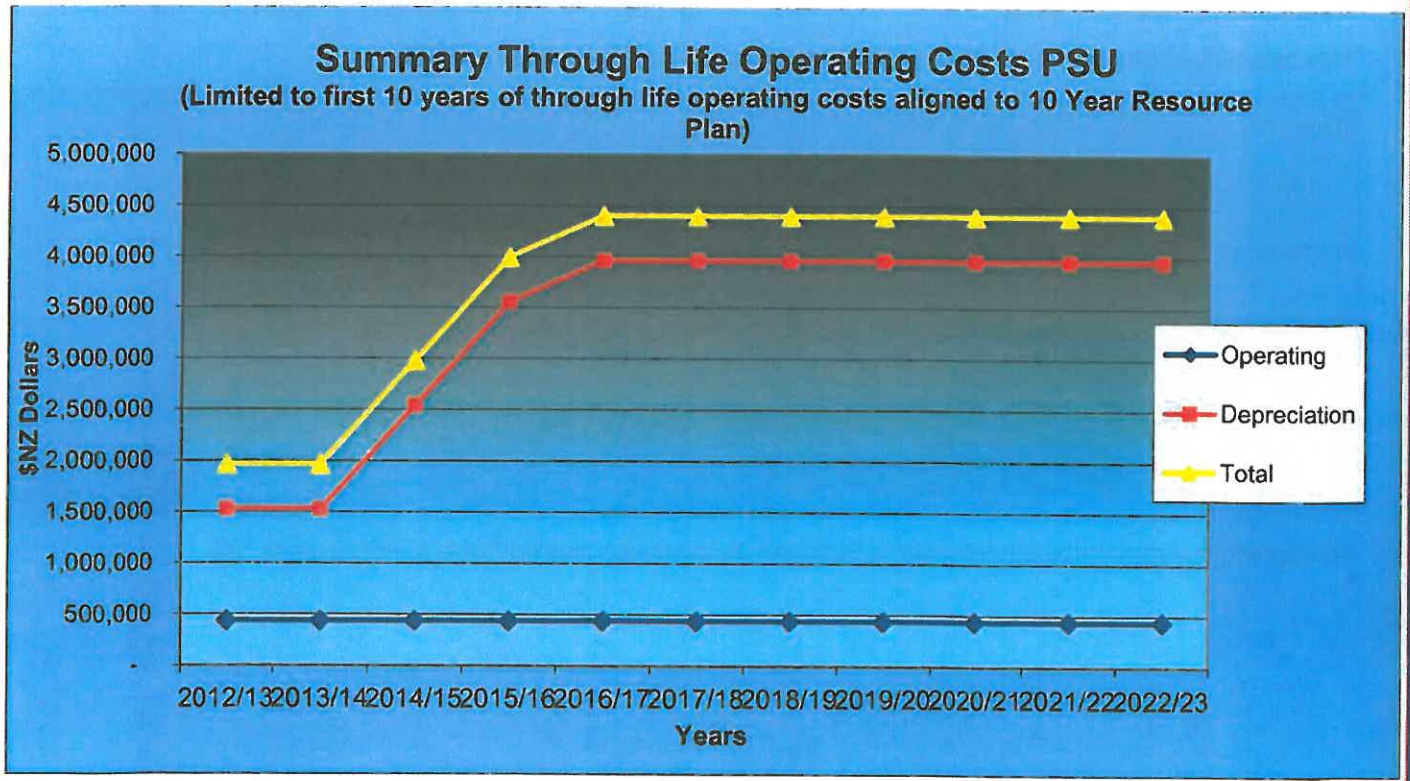
Financial Performance

Further detail on financial performance can be found at Part 3, pages 154-156.

Approved Budget & Expenditure

	TOTAL (NZ$ million)
Approved Budget	59.4
Life to Date Expenditure	46.9
Total forecast expenditure	58.7
Gross project variation (forecast)	0.7 under spend
Foreign exchange impact	(0.7)
Actual project variation (forecast)	0

Summary of Annual PSU Through Life Operating Costs



MARITIME HELICOPTER CAPABILITY PROJECT (MHCP)

Project Description

This project is providing an upgraded fleet of naval helicopters for the Royal New Zealand Navy. Eight SH2G (I) Super Seasprite helicopters are being acquired from Kaman Aerospace with associated spares, training aids and a full-motion flight training simulator. Two additional helicopters are part of the package. These will be stored for use as attrition airframes and for spare parts. The Project will also include acquisition of Penguin missiles to replace the current stock of Mavericks.

The existing Seasprite fleet was scheduled for a major upgrade of avionics and mission systems by 2015 to address system obsolescence. The offer of a fleet of SH2G (I) Super Seasprites with these systems already upgraded was assessed to provide greater value for money and at lower project risk.

The helicopters are currently stored at Kaman's facility in Connecticut, USA. A Defence Project Team has been located there to oversee the regeneration of the aircraft from storage; finalise design, installation and testing of the modifications required; and undertake provisional airworthiness certification. Once delivered to New Zealand the helicopters will be offered for acceptance by the NZDF and undergo a period of Operational Testing and Evaluation before being brought into service.

Policy Value

The Naval helicopters are a component of the Naval Combat Force and provide rotary wing surveillance, warfare and airlift that enhance the Government's options for utilising the NZDF for the principal tasks set out in the Defence White Paper 2010, in particular:

- to defend New Zealand's sovereignty;
- to discharge our obligations as an ally of Australia;
- to contribute to and, where necessary, lead peace and security operations in the South Pacific;
- to contribute to whole-of-government efforts at home and abroad in resource protection, disaster relief, and humanitarian assistance; and
- to make a credible contribution in support of peace and security in the Asia-Pacific region.

Capability Requirements

The capability requirements necessary to support policy objectives include:

Surveillance and reconnaissance:

- Conduct military and civil surveillance
- Embark and operate from all RNZN aviation capable units
- Detect threats in a hostile environment
- Conduct maritime Search and Rescue

Offensive action:

- Prosecute surface and sub-surface targets

Utility Lift

- Search and rescue
- Aero-medical evacuation
- Aerial sustainment

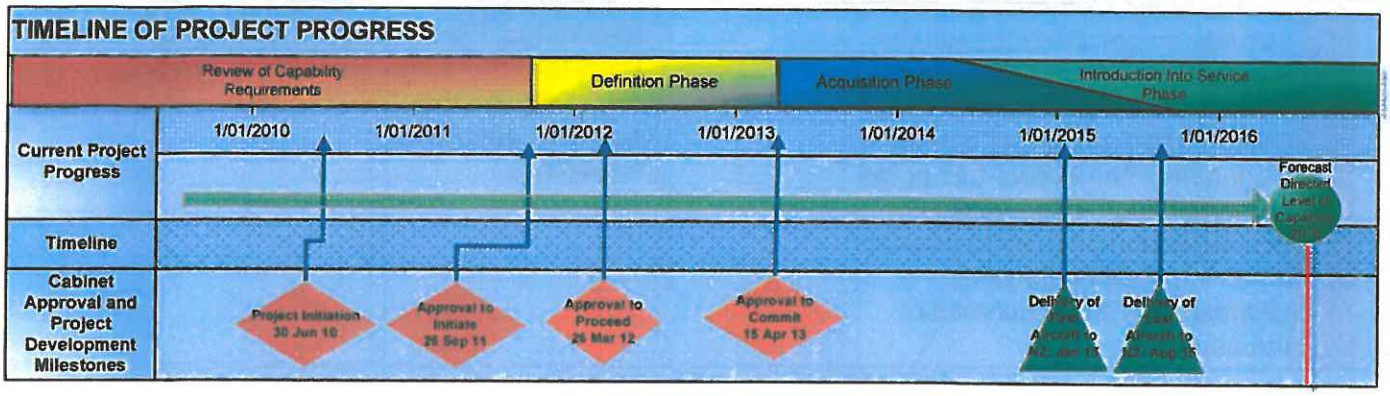
The operational requirements necessary to support the capability can be found at Part 3, page 169.

Current Project Status

	Capability: The contract's primary function and performance specifications are on track to be delivered. No major impacts on the specified operational requirements are envisaged at this stage.
	Schedule: The schedule is on track.
	Cost: The project budget is on track.

Recent Developments

Contract signature: This is a new project. The contract with Kaman Aerospace was signed in May 2013.



Active Risks and Issues

Further detail on these risks and the project's lower rated risks can be found at Part 3, page 180-181.

	Risk	Consequences	Likelihood	Treatment Actions
	Verification of specifications. There is a risk that we may determine that specification requirements have not been adequately demonstrated.	May require further testing to be completed at Crown expense.	Possible	Early establishment of an on-site team with a specific focus on completing the verification review as soon as possible, and use of some project contingency funds.
	Support contracts. There is a risk that the support contracts may not be established in time to meet the in-service date, because of personnel limitations.	Introduction Into Service and pilot training may be delayed.	Possible	Establish specific monitoring of progress at Governance level.
	Simulator delay. The Simulator may take longer than planned before it is ready to support in-service training.	Introduction into Service and pilot training may be delayed.	Possible	Use aircraft to fill the gap for training if the simulator encounters delays.
	Specialised equipment. There is a chance that delivery of items of equipment	Delay to Crown acceptance testing and introduction into	Possible	Early consultation with third parties to expedite acquisition.

	held by the Australian Defence Force may be delayed.	service.		
	Insufficient personnel. The project may be compromised because of insufficient people being available during the acquisition and Introduction Into Service phases.	This may result in the capability not being delivered on time, within budget, or to full potential.	Possible	The cost of contractors to staff some IIS activities have been provided for in the Introduction Into Service budget.

Issue		Phase	Impact	Treatment Actions
	Software Audit. Under the terms of the Contract, Kaman is obliged to complete an audit of the software for the Integrated Tactical Avionics System (ITAS) within three months of contract signature. The Crown has rights of termination if this audit is not completed in a timely fashion or if an impasse occurs with Kaman over the outcomes of the audit.	Acquisition	**Schedule.** The contract may be terminated if the ITAS fails the audit or if a satisfactory outcome cannot be negotiated.	Early engagement with Kaman and active monitoring by project team. This audit had begun by 30 June 2013.

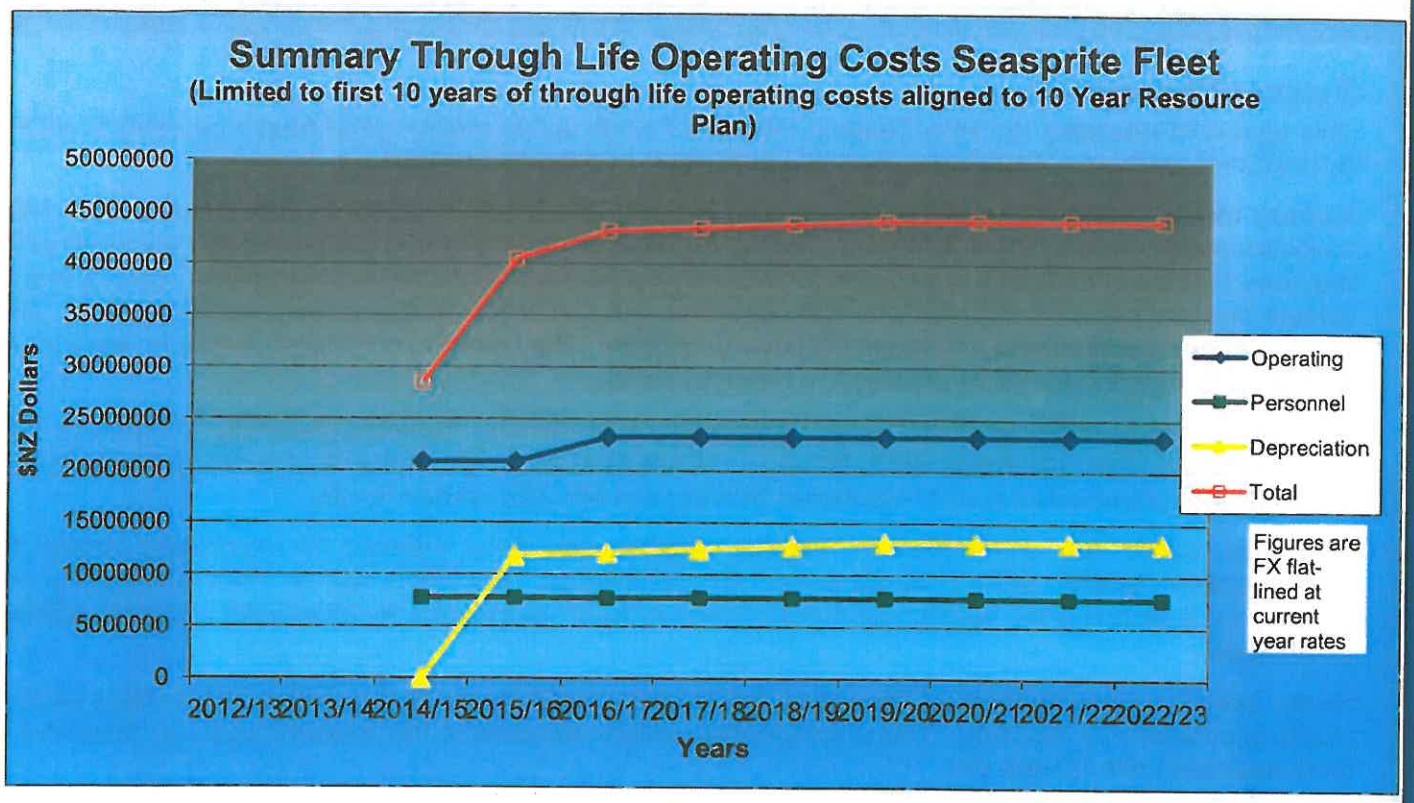
Financial Performance

Further detail on financial performance can be found at Part 3, page 172-174.

Approved Budget & Expenditure

	TOTAL (NZ$ million)
Approved Budget	242.2
Life to Date Expenditure	17.4
Total forecast expenditure	251.3
Gross project variation (forecast)	-9.1
Foreign exchange impact	-9.1
Actual project variation (forecast)	0.0

Summary of Annual Seasprite Through Life Operating Costs



MEDIUM/HEAVY OPERATIONAL VEHICLE PROJECT (MHOV)

Project Description

This project is replacing the New Zealand Defence Force's aging medium and heavy operational vehicle fleet with new vehicles. Trucks are essential to transport troops and supplies.

Current military operations require trucks that can operate in difficult terrain, and handle bulk loads including pallets, containers and liquids. Forces on deployment may need to be supplied with everything they need (such as fuel, food, water and ammunition) across widely dispersed operations. Trucks need to protect the occupants through the provision of armour and electronic countermeasures as required. They need to support contemporary communications equipment. They need to be reliable, efficient, easy to use and provide support even when deployed in remote places.

200 new trucks are being procured from Rheinmetall MAN Military Vehicles (Australia) (RMMVA). They will be delivered from November 2013 through to December 2015. On entry into operational service, they will allow the retirement of current Mercedes Unimog and MB 2228 series trucks.

The new trucks are assembled in Vienna, Austria and then shipped to Auckland, where the manufacturer's agents (MAN) will complete NZ compliance. The MoD will do final acceptance and delivery in Auckland, and transfer the trucks there to NZDF ownership for distribution to their intended destination.

Some specific subcomponents (dump bodies and semi trailers) will be manufactured in New Zealand under subcontract to RMMVA. These components will be matched to the relevant trucks in Auckland for final inspection prior to delivery.

Policy Value

The Medium/Heavy Operational Vehicle (MHOV) project provides essential land transport for the NZDF. This enhances the Government's options for utilising the NZDF for the principal tasks set out in the Defence White Paper 2010, in particular:

- to defend New Zealand's sovereignty;
- to discharge our obligations as an ally of Australia;
- to contribute to and, where necessary, lead peace and security operations in the South Pacific;
- to make a credible contribution in support of peace and security in the Asia-Pacific region;
- to protect New Zealand's wider interests by contributing to international peace and security, and the international rule of law; and
- to contribute to whole-of-government efforts at home and abroad in resource protection, disaster relief, and humanitarian assistance.

Capability Requirements

The capability requirements necessary to support policy objectives include:

- Can be fitted with NZDF specified voice and data communication equipment
- Can be equipped with active and passive protection
- Comply with current safety regulations
- Transportable by air and sealift
- Transport range of military loads including bulk liquids, palletised and containerised loads, NZDF modules, personnel, weapons and ammunition, loose loads
- Off road mobility including some self recovery
- Integrated load handling for some vehicles
- NZTA Compatible
- Operate in wide range of climate and lighting conditions
- Run on standardised military fuel
- Commonality across fleet
- Proven in service
- Supportable in NZ
- Proven global supply chain
- Supportable within current NZDF trades and resources
- Value for money over 20 year life

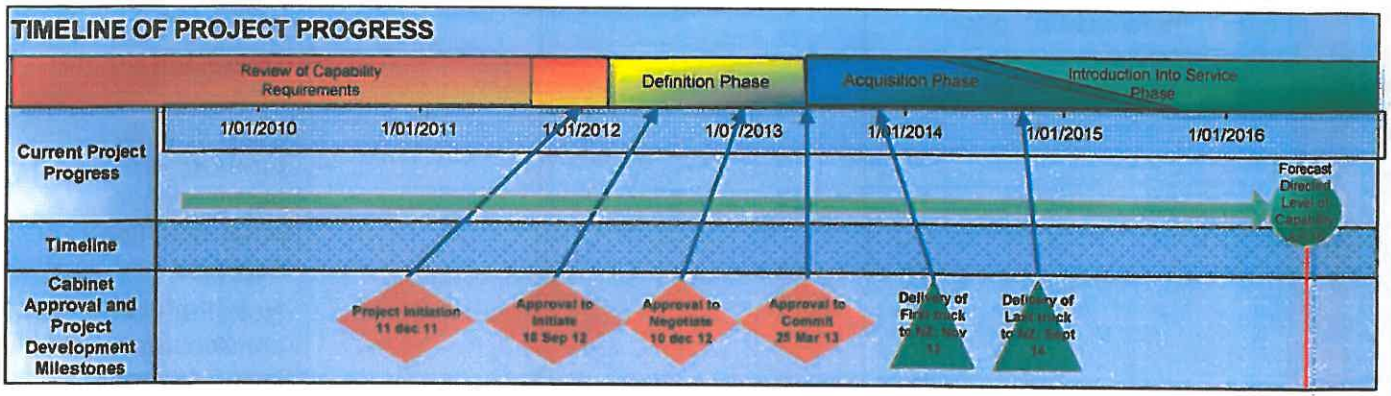
The operational requirements necessary to support the capability can be found at Part 3, page 189.

Current Project Status

Capability: The contract's primary function and performance specifications are on track to be delivered. No major impacts on the specified operational requirements are envisaged at this stage.
Schedule: The schedule is on track.
Cost: The project budget is on track.

Recent Developments

Contract signature: This is a new project. The contract with RMMVA was signed in April 2013.



Active Risks

Further detail on these risks and the project's lower rated risks can be found at Part 3, pages 199-200.

Risk	Consequences	Likelihood	Treatment Actions
Compliance: If training is not robust, then compliance issues relating to overloading may arise.	Impact on operation of the vehicles on public roads.	Probable, due to the fact that most legacy vehicles are not big enough to have incurred these issues.	Ensure that the implications for compliance management are fully appreciated. Training and awareness. This issue is not technical (many civilian vehicles need compliance management) – the treatment is effective understanding and training.
Developmental Vehicles Functional Performance Specifications (FPS): If there is a lack of clarity and agreement around the FPS users may feel they have not got what they wanted.	Relates to NZ specific variants (dumper, tractor/semi trailer combination). Vehicles do not meet the end-users expectations.	Likely	FPS will be subjected to internal management review to confirm that the requirements are reasonable and achievable.
Functional Performance Specifications (FPS): If the Functional Performance Specifications for some NZ specific ancillaries (such as towing frames) and weapons mounts are not robust, unambiguous and agreed by users, there may be user dissatisfaction.	A risk that the FPS "grows" the contracted capability and thus additional costs could be incurred.	Likely	Develop an FPS that adheres to already agreed requirements. Canvass users widely. Ensure specifications relate to actual user needs and operational concepts. Involve contractor. Dependant on the contractor response, there may be a need for trade-off discussions to determine final capability. Note that the MHOV contract agreed high level requirements for all these features, and the contracted responses were all agreed prior to contract.
Operating Budget: If in-service support arrangements do not leverage the	Increase in the annual operating budget, an adjustment of the level	Likely	Negotiation of support contract with the contractor. to address

	characteristics of modern vehicles, and instead apply obsolete concepts and processes, then operating costs may be higher than anticipated.	of support to be provided, or a reduction in the planned usage rate.		in service costs. Ensure that efficiency benefits of new vehicles are captured.
	Organisational Plan: If coordinated planning for training, introduction into service and support arrangements is not done, then the inherent efficiencies and benefits may not be realised.	Delays in coordinated activities associated with introduction into service.	Likely	Plan to be developed to pull together all related interfaces associated with the introduction into service and utilisation of the MHOV capability.

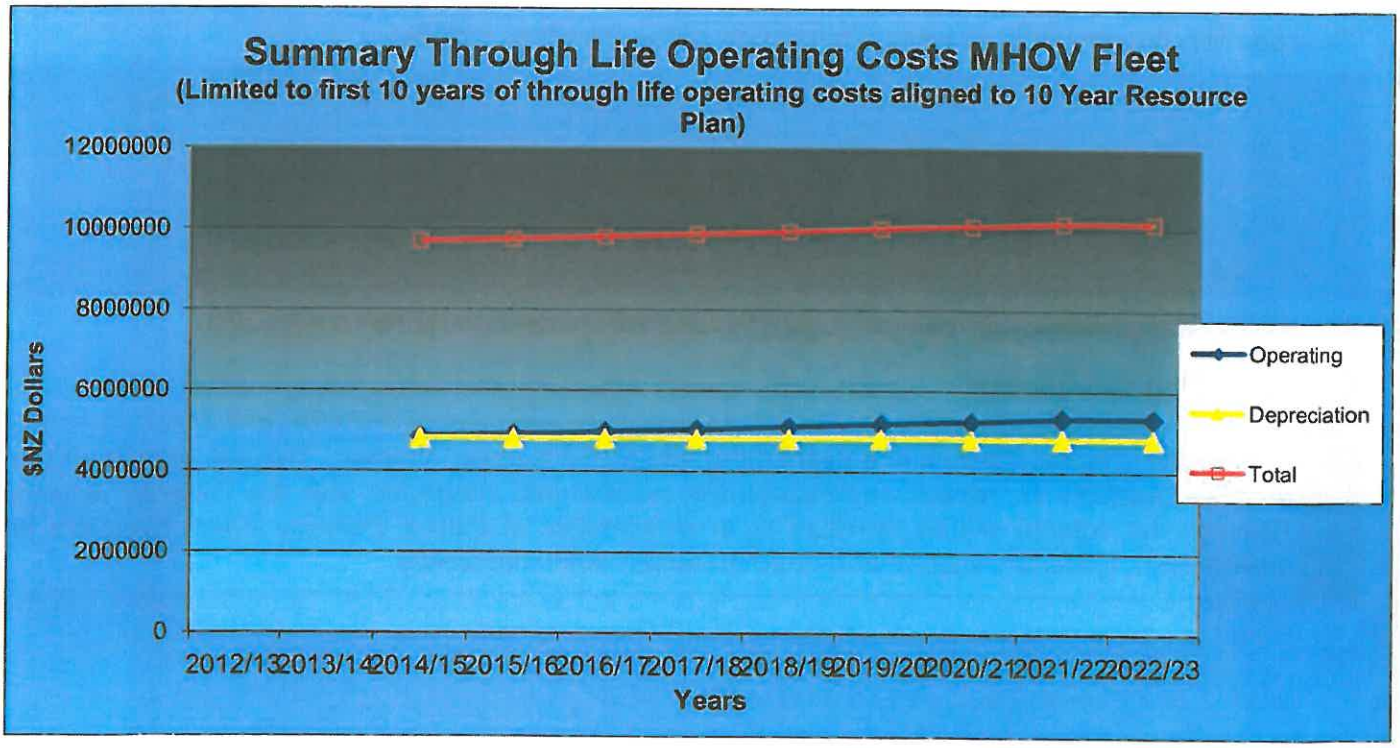
Financial Performance

Further detail on financial performance can be found at Part 3, page 192-193.

Approved Budget & Expenditure

	TOTAL (NZ$ million)
Approved Budget	112.7
Life to Date Expenditure	N/A
Total forecast expenditure	112.7
Gross project variation (forecast)	N/A
Foreign exchange impact	N/A
Actual project variation (forecast)	N/A

Summary of Annual MHOV Through Life Operating Costs



STRATEGIC BEARER NETWORK PROJECT

Project Description

This project will provide Satellite Communications (SATCOM) equipment to the New Zealand Defence Force (NZDF). A number of mobile (land based) terminals, maritime terminals for the Navy and fixed anchor station terminals will be purchased. This SATCOM equipment will access the US Department of Defense (DoD) Wideband Global SATCOM (WGS) constellation enabling deployed forces to meet current and future strategic information exchange requirements (and meet the growing demand for bandwidth). The WGS is a constellation of nine communications satellites with a full operational date of 2018/19. Five of the satellites are operational in orbit now with the remaining four being launched over the next four years. The NZDF have gained access to the WGS constellation through a Memorandum of Understanding (MoU) with the US DoD. This will provide a large increase in SATCOM capacity for the NZDF in return for funding a share of the build of WGS Satellite Nine and a share of the through life management costs.

Cabinet has approved the SATCOM bearer phase of the project which is the subject of this report. A further HF phase is anticipated to begin development of a Business Case in 2015.

Policy Value

The Strategic Bearer Network (SBN) project is an enabling project supporting a number of key NZDF functions across several capabilities including the Network Enabled Army programme, Defence Command and Control System, the P-3 Orions and the ANZAC frigates. This project will enable the Government's options for utilising the NZDF for the principal tasks set out in the Defence White Paper 2010, in particular:

- to defend New Zealand sovereignty;
- to contribute to and where necessary lead peace and secutrity operations in the South Pacific;
- to make a credible contribution in support of peace and security in the Asia - Pacific region;
- to protect New Zealand's wider interests by contributing to international peace and security, and the international rule of law;
- to contribute to whole of government efforts at home and abroad in resource protection, disaster relief, and humanitarian assistance; and
- to particpate in whole of government efforts to monitor the international strategic environment.

Capability Requirements

The capability requirements necessary to support policy objectives include:

- Provide a computer network infrastructure with global reach, high capacity and robust design.
- Enable the Command and Control of deployed forces
- Meet the growing demands for information exchange with our deployed forces
- Provide greater levels of interoperability with security partners
- Provide Value for Money from investment in SATCOM

The operational requirements necessary to support the capability can be found at Part 3, page 207.

Current Project Status

Capability: The first tranche of equipment for the NZDF is under contract. This will provide an Early Access capability for testing, introduction into service and integration with the Defence networks. Through life support will be provided by a combination of trained Defence Force operators and maintainers, in country support and return to factory when necessary.

Schedule: The first mobile terminals will undergo test, acceptance and integration with Defence networks from August 2013. Terminals may be deployed to Samoa and used on exercise Southern Katipo as part of this integration and testing. The first fixed infrastructure anchor station is due for delivery and acceptance in March 2014 and this will begin to provide the performance benefits of the WGS system. A tender for maritime terminals will be released in late 2013 and additional mobile terminals will be purchased in 2014. In 2015 the remaining terminals and another anchor station will be delivered.

Cost: The NZDF is managing New Zealand's share of the WGS satellite build and launch costs (agreed under the MoU). NZDF is also responsible for the through life support costs which are identified as a share of the WGS satellite project management office, and the support costs of the terminals used to access the satellite. The MoD is responsible for the acquisition of the infrastructure (mobile and maritime terminals and fixed anchor stations). The total approved budget is NZ$83.3m with a contingency of NZ$5.6m. The NZDF share of the budget for MOU costs is NZ$51m. The MoD acquisition budget is NZ$32.3 with NZ$18.3m in 2012 – 2015 and NZ$14m in 2022.

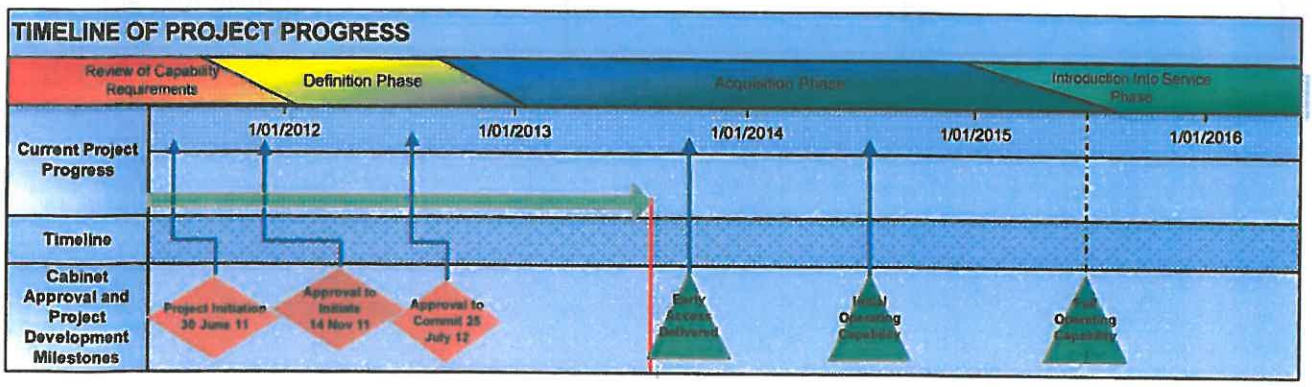
Recent Developments

Contract for the supply of WGS Mobile Terminals: A contract has been signed for two 2.4m antenna (2.4 meter dish) mobile terminals and two 1.3m mobile terminals. Both are deployable as international freight but the smaller one has the advantage of complying with checked baggage regulations. These terminals were delivered in August and October 2013 and are currently undergoing acceptance testing by the NZDF.

Impact: This will allow the NZDF to test and accept the capability before committing to a major roll out. One of the 2.4m will act as a temporary anchor station allowing the other three terminals to be used on training missions and exercises. Should the need arise they may be used to support missions. The NZDF will use these terminals to refine its operating procedures, training, maintenance and through life support plans. With these four terminals accepted into service by the NZDF an early access capability will be achieved.

Contract for the supply of a WGS Anchor Station: A contract has been signed for a dual 6.3m antenna (two 6.3 meter dishes) Anchor Station. This is due for delivery in March 2014.

Impact: This fixed anchor station will be able to support up to eight mobile and maritime terminals in the South Pacific and South East Asian areas. In terms of Employment Contexts (EC), EC1 and EC2 are fully covered, EC3 to 90% and EC4 to 80%. Once equipment is fitted and operational the network capacity provided by WGS will be used to enable a number of other information dependant projects including HRMIS, DC2S, and the Secure Information Environment. With the Anchor Station accepted into service an Initial Operating Capability will be achieved.



Active Risks and Issues

Further detail on the project's risks and issues can be found at Part 3, page 218-219.

Risk	Consequences	Likelihood	Treatment Actions
Acquisition: If the costs of the acquisition project rise above estimates this may impact on meeting all the project requirements.	FOC may not be achieved.	Possible	MoD is working with suppliers to ensure all options are proposed in tender documentation. Recent supplier developments are making this less of a risk as more terminal options are appearing on the market. NZDF priorities will establish the order in which deliveries are made.
Introduction into Service: If there are problems with WGS operations or contractual supply this may affect the achievement of operational capability.	There may be delays with achieving Operational Capability.	Possible	The NZDF and MoD are actively managing the many aspects of Introduction into Service including contract deliverables, installations, training and through life support.

Issue	Phase	Impact	Treatment Actions
Radio Licenses have not yet been granted to achieve Early Access.	Introduction into Service.	Delays in the use of the equipment and in the support of NZDF exercises	Radio Licenses have been granted that will allow for Crown acceptance though more licenses are required to complete Early Access. NZDF are working on this issue and are confident they will have the required licenses by August.

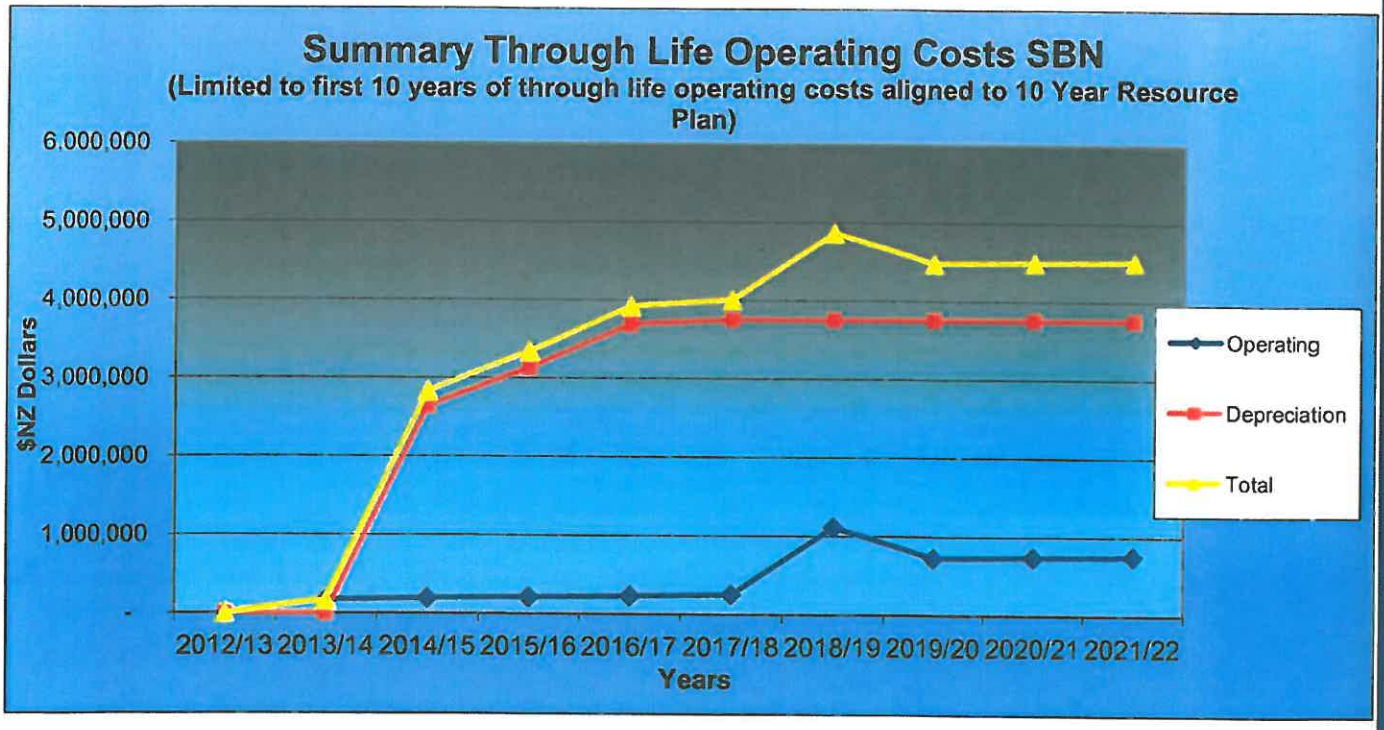
Financial Performance

Further detail on financial performance can be found at Part 3, pages 210-211.

Approved Budget & Expenditure

	TOTAL (NZ$ million)
Approved Budget	88.9
Life to Date Expenditure	8.9
Total forecast expenditure	83.3
Gross project variation (forecast)	5.6
Foreign exchange impact	0.0
Actual project variation (forecast)	5.6

Summary of Through Life Cost Estimates



PART 2B: SUMMARIES OF PROJECT INFORMATION SHEETS

Contents: Page

PROJECT PROTECTOR REMEDIATION

Project Background

Project Protector delivered a Multi-role Vessel (MRV), two Offshore and four Inshore Patrol Vessels (OPVs & IPVs). These vessels were acquired to perform a range of sealift and naval patrol tasks for the NZDF and civilian agencies.

The ships were delivered with capability shortfalls and deficiencies that were subject to a mediation claim and settlement. This project will remediate the shortfalls and deficiencies.

The Acquisition Work

A two phase programme is being undertaken:

- Phase one involves detailed planning and design work. This includes scrutiny of the costs of potential changes in relation to the level of benefit they provide and the amount of settlement funding that remains.
- Phase two involves the remediation solutions and optimisations for *Canterbury* and the rest of the Protector fleet which are priorities for implementation.

This second phase involves the implementation of the prioritised list of physical changes that have been identified during Phase One. These changes are being undertaken in six work streams:

- Priority One: Sea-keeping
- Priority Two: *Canterbury's* Ship to Shore Transfer system
- Priority Three: *Canterbury's* Mission Systems
- Priority Four: Aviation Integration on *Canterbury*
- Priority Five: *Canterbury's* Medical Systems
- Priority Six: Minor Safety and Compliance Items

A range of changes to address immediate safety and capability issues are being undertaken as well. Solutions to these issues have been identified, detailed designs for the solutions progressed, and any required physical changes scheduled for implementation. Identified work has been implemented on the ships progressively through to early 2013.

Schedule

Following completion of a recent major remediation of *HMNZS Canterbury*, the protector vessels are substantially delivering the intended capabilities and are being tasked accordingly. With the next phase of the Protector Remediation Project now under way, remaining contractual shortfalls will be addressed.

The macro level schedule for the project remains unchanged from the 2012 Major Projects Report and is planned to be completed by December 2015.

As at 30 June 2013 the project was 60% complete and the plan anticipates work completion of around 76% (2014) and 87 % (2015) in out years.

The major work package for HMNZS *Canterbury* completed in May 2013, including relocating the ship boats, aviation upgrades for the new helicopters, surgical facility upgrades and the remediation of the landing craft. The Chief of Navy issued an "Interim Operational Release" on 29 May 2013 that enabled *Canterbury* to commence Operational Test and Evaluation.

The purchase of mission systems for installation across the seven Protector vessels is underway and progressive installation will occur commensurate with the 'Fleet Availability and Maintenance Plan' allowing operations of the vessels as appropriate.

Risks and Issues

The project carries a number of risks and issues which are detailed in the project data sheet at pages 227-228.

Project Cost

Total forecast expenditure (as at 30 June 2013)

	TOTAL (NZ$ million)
Approved Budget	64.9
Total forecast expenditure	64.6
Gross project variation (forecast)	0.2 (under spend)
Foreign exchange impact	0.0
Actual project variation (forecast)	0.2 (under spend)
Explanation	In early project stages contingency is yet to be allocated

Further detail on financial performance can be found at Part 3, pages 222-223.

DEFENCE COMMAND AND CONTROL SYSTEM

Project Background

The 2010 Major Projects Report included the Joint Command and Control System (JCCS) Programme. It reported that of the four projects identified in that programme, only the Defence Command & Control System (DC2S) Project had commenced, and that the other three were still in the concept stage.

On 18 July 2011, however, Cabinet cancelled the JCCS Programme. It did so because the capability gaps identified in the 2008 Business Case, and which were to be addressed by the three projects other than DC2S, had significantly reduced. The previously agreed scope and structure of the Programme, therefore, were no longer appropriate.

Accordingly, this Summary Sheet reports on the DC2S Project only.

At the same time as the Cabinet decision, the lead for the acquisition of the DC2S Project transferred from the NZDF to the MoD.

The Acquisition Work

The project has been managed in spirals and phases, as follows:

- Spiral 1: the implementation of GCCS-M Version 4 including Intelligence features onto the Multi-Agency Network – Restricted (MAN-R) at the NMCC located at HQ Joint Forces NZ in Trentham.
- Spiral 2: the implementation of GCCS-M Version 4, including Intelligence features, onto the NZDF Secure Wide Area Network (SWAN).

Schedule

It is now expected that, subject to Ministerial approval to procure GCCS-J and access to ships during maintenance periods, the project will be completed by the end of 2014.

Active Risks and Issues

Further detail on the project's risks and issues can be found at Part 3, pages 238-239.

	Risk	Consequences	Likelihood	Treatment Actions
	CIS resources. The NZDF's CIS branch may not have the capacity, networks, or resources to support DC2S.	**Schedule.** May generate delays for the system's introduction into service.	Possible	Ensure that engagement with CIS is open, ongoing and orientated toward problem resolution.

Issue	Phase	Impact	Treatment Actions
User and system requirements. Requirements are currently defined at the programme level, not the project level. In addition some requirements are only 'place holders' rather than actual, measurable requirements.	Acquisition / Introduction into Service	**Schedule.** The project's progress will be delayed as the detailed operational requirements are confirmed by the project team.	The project team is leading a review of the NZDF's user requirements. Progress has been frustrated by the poor Intelligence performance of the GCCS-M product. The implementation of GCCS-J (subject to Ministerial approval), will allow the operational requirements review to be completed by March 2014.

Project Cost

Total forecast expenditure (as at 30 June 2013)

	Total (NZ$ million)
Approved budget	23.6
Total forecast expenditure	23.2
Gross project variation (forecast)	0.3 under spend
Contingency	3.4
Actual project variation (forecast)	0.0 under spend
Explanation	In the 2012 MPR an under spend of NZ$0.6 million was forecast. This is no longer the case due to adjusted contract costs.

Further detail on financial performance can be found at Part 3, pages 231-232.

Summary of Through Life Cost Estimates