

## **HON RON MARK, MINISTER OF DEFENCE**

### **Operational and Regulatory Aviation Compliance Sustainment, Phase One: NH90 Helicopter – Release of Cabinet Documents**

September 2020

This publication provides documents supporting Cabinet's May 2020 decision to approve up to \$21.21 million to invest in the Operational and Regulatory Aviation Compliance Sustainment (ORACS) Phase One systems for the New Zealand Defence Force's NH90 Helicopters.

The pack comprises the following documents:

- The redacted Cabinet minute: *Operational and Regulatory Aviation Compliance Sustainment, Phase One: NH90 Helicopter* [GOV-20-MIN-0014]
- The redacted Cabinet paper: *Operational and Regulatory Aviation Compliance Sustainment, Phase One: NH90 Helicopter* [GOV-20-SUB-0014]

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

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

In addition, the business case for this project is withheld in full in accordance with the following provisions of the Act. Recognising the public interest in information on the investment decision, the Cabinet paper provides a summary of the key information that formed the basis of Cabinet's decision to invest this funding.

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

- the security or defence of New Zealand or the international relations of the Government of New Zealand [section 6(a)].

Information is also withheld in order to:

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



# Cabinet Government Administration and Expenditure Review Committee

## Minute of Decision

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

### Operational and Regulatory Aviation Compliance Sustainment, Phase One: NH90 Helicopter

Portfolio                      Defence

On 28 May 2020, the Cabinet Government Administration and Expenditure Review Committee:

- 1        **noted** that in April 2019, GOV:
  - 1.1      noted that due to a changing technological and regulatory aviation environment, New Zealand Defence Force (NZDF) NH90 helicopters cannot sustain effective, safe and secure air operations without upgrading current systems;
  - 1.2      approved funding for the Ministry of Defence to commit to the acquisition process associated with Phase One of the Operational and Regulatory Aviation Compliance Sustainment (ORACS) for all NZDF fleets except the NH90 Helicopters;

[GOV-19-MIN-0014]
- 2        **noted** that approval of the NH90 upgrade will mean that ORACS Phase One can be completed in its entirety across all fleets;
- 3        **noted** that the preferred option for ORACS NH90 Phase One is the *NATO Helicopter Industries block upgrade programme*, s6(a) detailed in the Project Implementation Business Case attached to the paper under GOV-20-SUB-0014 (the PIBC);
- 4        **approved** the PIBC and procurement of the preferred s6(a) option for ORACS NH90 Phase One;
- 5        **noted** that the capital cost (including contingency) of the s6(a) option for ORACS NH90 Phase One of \$21.05 million is affordable within the Defence Capability Plan 2019 provision of s9(2)(j)
- 6        **noted** that the capital cost of s9(2)(b)(ii) plus contingency of s9(2)(i), and foreign exchange contingency of s9(2)(i) (total of \$21.05 million) will be funded from NZDF's depreciation reserves;

7 **noted** that:

7.1 s9(2)(i) has been included above as part of the capital cost reflecting the potential foreign exchange risk of the exchange rate movement prior to hedge implementation following approval to proceed with the ORACS NH90 purchase;

7.2 any of the s9(2)(i) not required for this project will be returned to the Defence Capability portfolio;

8 **noted** that annual operating costs are estimated to be \$8,750 and will be managed within current NZDF baselines;

9 **authorised** the Secretary of Defence to commit and approve expenditure of public money up to \$21.05 million for Phase One systems for the NH90 helicopters;

10 **approved** the following changes to appropriations for the Secretary of Defence to commit to the acquisition process for ORACS NH90 Phase One:

| Vote Defence<br>Minister of Defence                           | NZ \$M – increase/(decrease) |         |         |         |
|---|------------------------------|---------|---------|---------|
|   | 2020/21                      | 2021/22 | 2022/23 | 2023/24 |
| Non-Departmental Capital Expenditure:<br>Defence Capabilities | s9(2)(b)(ii), s9(2)(j)       |         |         |         |

11 **noted** that the expenditure in paragraph 10 above is offset by a capital receipt from NZDF;

12 **noted** that the following changes to appropriations would be required in accordance with the New Zealand Defence Force – Capital Expenditure PLA authorised by section 24(1) of the Public Finance Act 1989, reflecting the forecast costs of developing the ORACS NH90 Phase One capability, with a corresponding impact on debt:

| Vote Defence Force<br>Minister of Defence                                  | NZD \$ M – increase/(decrease) |         |         |         |
|--|--------------------------------|---------|---------|---------|
|  | 2020/21                        | 2021/22 | 2022/23 | 2023/24 |
| Departmental Capital Expenditure:<br>New Zealand Defence Force Capital PLA | s9(2)(b)(ii), s9(2)(j)         |         |         |         |

13 **noted** that as a consequence of the \$21.05 million capital investment in ORACS NH90 assets, Defence Force depreciation expense will increase by s9(2)(f)(iv) per annum, from s6(a) (steady state);

14 **approved** the following changes to appropriations to take account of the increase in paragraph 13 above, with the following impact on the operating balance and/or net core Crown Debt:

|                          | NZ \$M - increase/(decrease) |         |         |         |                     |
|--------------------------|------------------------------|---------|---------|---------|---------------------|
|                          | 2020/21                      | 2021/22 | 2022/23 | 2023/24 | 2024/25 & Out Years |
| Operating Balance Impact | s9(2)(f)(iv)                 |         |         |         |                     |
| Total                    |                              |         |         |         |                     |

| Vote Defence Force<br>Minister of Defence   | NZ \$M - increase/(decrease) |         |         |         |                        |
|---|------------------------------|---------|---------|---------|------------------------|
|   | 2020/21                      | 2021/22 | 2022/23 | 2023/24 | 2024/25 & Out<br>Years |
| Departmental Output Expense:<br>Air Force Capabilities Prepared for<br>Joints Operations and Other Tasks<br>(funded by revenue Crown) | s9(2)(f)(iv)                 |         |         |         |                        |
| Total Operating   | s9(2)(f)(iv)                 |         |         |         |                        |

- 15 **agreed** that the proposed changes for Vote Defence Force and Vote Defence appropriations for 2020/21 above be included in the 2020/21 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply;
- 16 **agreed** that the expenses incurred under paragraph 14 above be charged against the Defence Capability Plan 2019 - Contingent Funding to Support the Introduction of New Capabilities tagged contingency established in Budget 2020 [CAB-20-MIN-0155.10];
- 17 **authorised** the Minister of Finance and the Minister of Defence (joint Ministers) to jointly approve low to medium risk Defence projects with a whole-of-life cost of less than \$50 million, where additional operating funding is required from the tagged contingency in paragraph 16 above;
- 18 **noted** that Defence, in consultation with the Treasury, will identify a list of specific projects within the delegation in paragraph 17 above, for joint Ministers' approval to drawdown from tagged contingency;
- 19 **noted** that the Minister of Defence intends to report back to Cabinet s9(2)(f)(iv) with a Single Stage Business Case for ORACS Phase Two commitment of expenditure.

Rachel Clarke  
Committee Secretary

**Present:**

Rt Hon Winston Peters  
Hon Chris Hipkins (Chair)  
Hon Stuart Nash  
Hon Kris Faafoi  
Hon Ron Mark

**Officials present from:**

Office of the Prime Minister  
Officials Committee for GOV

Chair, Government Administration and Expenditure Review Committee

## OPERATIONAL AND REGULATORY AVIATION COMPLIANCE SUSTAINMENT, PHASE ONE: NH90 HELICOPTER

### Proposal

1. This paper invites Cabinet to approve the investment of up to \$21.21 million in Operational and Regulatory Aviation Compliance Sustainment (ORACS) Phase One systems for the New Zealand Defence Force's NH90 Helicopters. The capital investment will be funded from depreciation reserves, and additional operating costs funded from the tagged contingency established at Budget 2020.

### Executive summary

2. The ORACS project is equipping New Zealand Defence Force (NZDF) aircraft fleets with updated communication, navigation, air traffic management and identification systems. These systems must be updated due to a changing aviation environment, driven by new regulations and technological upgrades that improve safety and security. Without them, NZDF aircraft will be unable to sustain effective, safe and secure air operations.

3. The systems are: civil air traffic management ('Automatic Dependant Surveillance-Broadcast'); [redacted] s6(a) 'Performance Based Navigation (PBN)'; and secure communications.

4. The ORACS project is being carried out in two phases. This is to ensure that investment decisions are fully informed and best placed to meet compliance requirements. Phase One includes Automatic Dependant Surveillance-Broadcast [redacted] s6(a) [redacted]. The remaining systems will be covered in Phase Two at a later date.

5. The ORACS Phase One Single Stage Business Case (SSBC) was approved by Cabinet in Q2 2019. It provided funding to equip most of the NZDF aircraft fleets with the necessary Phase One systems to operate as required in the changing regulatory environment.

6. The NH90 medium utility helicopter fleet was excluded from the SSBC as no viable solution was available at the time. The SSBC Cabinet paper noted that Phase One systems for the NH90 fleet would be addressed in a subsequent business case. A solution is now available and this paper seeks approval of that solution and its costs to complete the implementation for Phase One for the NZDF fleet. [redacted] s6(a)

[redacted]  
[redacted]  
[redacted]

7. The estimated total whole of life investment cost is \$21.21 million and is made up of capital investment of \$21.05 million (including contingency) and \$0.16 million operating costs.

8. Capital investment of up to \$21.05 million (including contingency) to acquire the Phase One systems for the NH90 will be funded from depreciation reserves.

9. Operating costs will be funded from within the current operating baseline. The estimated annual depreciation expense (at steady state) is s9(2)(f)(iv) based on a 15 year operating life starting from financial year s6(a). An uplift for this depreciation cost will be funded from the tagged contingency established at Budget 2020.

10. I also request approval from Cabinet to delegate authority to the Minister of Finance and myself to jointly approve low-to-medium risk defence investments with a whole-of-life cost of less than \$50 million, where additional funding is required from the Defence Capability Plan 2019 tagged operating contingency established as part of Budget 2020 ([CAB-20-MIN-0155.10] refers).

### **The ORACS project delivers Government policy priorities**

11. The Strategic Defence Policy Statement 2018 ([ERS-18-MIN-008] refers) recognises the important role the New Zealand Defence Force (NZDF) plays in promoting the overall wellbeing and resilience of New Zealand, its communities and environment, and the value it provides to the Community, Nation and World.

12. The core function of the NZDF is the ability to undertake a range of roles and tasks across diverse geographical and operating environments including New Zealand and its Exclusive Economic Zone, the immediate region, the Pacific, and supporting New Zealand's interests and partners internationally.

13. Aircraft are vital to the fulfilment of these roles and tasks, both as an enabler to help get personnel and equipment to where they are needed, and as a front line element undertaking operations ranging from regional disaster relief through to military operations as part of multi-national coalitions.

14. To carry out these tasks, NZDF aircraft must be equipped with the appropriate air traffic management and identification systems. This ensures compliance with regulatory requirements, and safe and efficient performance. Currently, the NZDF's aircraft are equipped in this way but due to a changing technological and regulatory aviation environment this will soon no longer be the case.

### **What is the problem?**

15. Due to changes in the regulatory and technological environment, NZDF aircraft require updates to their air traffic management systems and combat identification technologies.

16. **Civil air traffic management: 'Automatic Dependant Surveillance-Broadcast (ADS-B) Out'**: Air traffic management in controlled airspace is moving to ADS-B Out, which requires aircraft to continuously broadcast their GPS position and identity and status information, allowing ground controllers to track the aircraft more precisely than current radar systems. ADS-B Out therefore results in more efficient air traffic management which means better flight times, lower fuel usage and less environmental impact. It is currently

proposed by the Civil Aviation Authority that from January 2022 non-compliant aircraft will be significantly impaired in their ability to operate safely and effectively in controlled airspace. If the NH90 remained non-compliant then this would result in reduced outputs for the NZDF as well as reduced efficiency (e.g. increased operating costs, increased flying times to avoid controlled airspace, and reduced payloads).

17. [REDACTED] s6(a)  
[REDACTED]  
[REDACTED]  
[REDACTED]

18. [REDACTED] s6(a)  
[REDACTED]  
[REDACTED]  
[REDACTED]

### Previous Cabinet decisions

19. The ORACS Phase One SSBC was approved by Cabinet in Q2 2019 ([CAB-19-MIN-0171] refers). It provided funding to equip most of the NZDF aircraft fleet with the necessary ADS-B Out [REDACTED] s6(a) to operate as required in the changing technological and regulatory environment. This project is delivering to plan.

20. A request for funding for the NZDF's NH90 aircraft fleet was excluded from the SSBC as a solution could not be confirmed and investment-quality information was not available at the time. The SSBC Cabinet paper noted that ADS-B Out [REDACTED] s6(a) [REDACTED] for the NH90 fleet would be addressed in a subsequent business case. A solution is now available and this paper confirms that solution and its costs.

21. Approval of the NH90 upgrade will mean that ORACS Phase One will be able to be completed in its entirety across the fleet. Implementation for the rest of the relevant fleet is now well advanced. [REDACTED] s6(a)  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]

22. [REDACTED] s6(a), s9(2)(g)(i)  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]

### What is the solution?

23. The SSBC considered whether ADS-B Out [REDACTED] s6(a) were generally needed, and, if so, when they should be delivered, against all fleets within the NZDF, including the NH90. It was determined that [REDACTED] s6(a)  
[REDACTED]  
[REDACTED]



24. Subsequently, Defence examined two options for a solution. Option 1 was to develop a unique New Zealand solution, just for New Zealand's NH90. This option was ruled out due to the greater cost and risk of developing a bespoke solution, compared to Option 2.

25. Option 2, the recommended solution to fit ADS-B Out [redacted s6(a)] to the NH90 helicopters, is for New Zealand to adopt the NATO Helicopter Industries (NHI) block upgrade programme, labelled [redacted s6(a)] being developed for the NH90 user community. It is the best solution because:

- The development for this solution is already underway. Implementing this option would see ADS-B Out [redacted s6(a)]
- This option is a block upgrade being pursued by a number of nations (Australia, Finland, Sweden, Germany, Italy, France, and Norway) therefore the non-recurring engineering cost and risk is shared amongst the participating nations.
- The block upgrade approach is less expensive than New Zealand developing its own bespoke solution.

26. [redacted s6(a)]

**Commercial and management considerations**

27. The NZDF's NH90 fleet is supported by NHI, which is the original equipment manufacturer, via a through life support contract. NHI is experienced in development of the NH90 systems and is completing the same upgrade on a number of other nations' aircraft.

28. [redacted s9(2)(j)]

29. The indicative project timeline for ORACS Phase One NH90 Helicopter is shown in the following table:

| Project Lifecycle Phase | ORACS NH90                        | Deliverable                      | Date             |
|-------------------------|-----------------------------------|----------------------------------|------------------|
| Capability Delivery     | Procurement                       | Delivery of Phase One NH90 PIBC  | May 2020         |
|                         | Capability Integration            | NH90 Interim Operational Release | [redacted s6(a)] |
| In Service Phase        | Transition to Operational Release | NH90 Operational Release         | [redacted s6(a)] |
| Phase Closure           | Closure of NH90 Phase 1           | NH90 Phase 1 Closure             | [redacted s6(a)] |



## Defence Capability Plan Tagged contingency drawdown

30. The Defence Capability Plan 2019 - Contingent Funding to Support the Introduction of New Capabilities tagged operating contingency approved at Budget 2020 ([CAB-20-MIN-0155.10] refers) provides for the operating (Personnel, Direct Operating, Depreciation, Capital Charge) funding uplift requirements of all planned investments for which approval is expected to be sought out to April 2021. The contingency amounts to \$188 million over the four-year forecast period.

31. Excluding the proposed operating funding of the C130-J Hercules replacement, this leaves s9(2)(b)(ii) to fund the operating cost implications of other priority investments.

32. Cabinet Circular CO (19) 6 Investment Management and Asset Performance in the State Sector states that any investment that requires new funding (which includes funding not already in baselines) to implement, requires Cabinet approval. Funding included in tagged contingencies that are awaiting a future decision are not appropriated and are not considered to be within the baselines of a Vote or agency. The uplift of the operating funding for this investment therefore requires Cabinet approval, whereas otherwise it would have fallen within my delegation for approval under the Investor Confidence Rating for Defence Capability Investments approved by Cabinet in 2018 ([GOV-18-MIN-0075] refers).

33. The contingent funding provides funding for a number of investments (some of which comprise a number of business cases) that have whole-of-life-costs within my or the Chief of Defence Force's approval delegations. However, given:

- the increasingly high demand across the public sector for Cabinet consideration of papers;
- the confidence previously afforded to Defence through the Investor Confidence Rating processes; and
- Cabinet's approval of the tagged contingency funding through Budget 2020.

34. I propose that Cabinet delegate authority to the Minister of Finance and myself to jointly approve low-to-medium risk defence investments that have a whole-of-life cost of less than \$50 million and where additional funding is required from the Defence Capability Plan 2019 tagged operating contingency.

35. Defence will identify a list of specific projects (that are priorities and investment ready) within this delegation in consultation with Treasury for Joint Ministers to approve the drawdown of tagged contingency.

### Consultation

36. This paper has been consulted with Treasury, the Department of Prime Minister and Cabinet, the State Services Commission, the Ministry for Business, Innovation and Employment, and the Civil Aviation Authority.

## Financial Implications

37. The estimated whole of life cost for this project is \$21.21 million and is made up of capital investment of \$21.05 million and total operating costs of \$0.16 million.

### *Capital investment*

38. The Defence Capability Plan 2019 indicatively allocated a capital investment provision of s9(2)(i) for ORACS NH90 Phase One. The capital investment expenditure to deliver ORACS NH90 Phase One including capital delivery and foreign exchange contingency is \$21.05 million. The capital investment estimate is therefore affordable and within the Defence Capability Plan provision. No through-life capital investment is required.

39. The expenditure of the total \$21.05 million capital year by year is set out in the table below:

| NZ \$ Million  | 2020/21 | 2021/22  | 2022/23 | 2023/24 | Total |
|--|---------|----------|---------|---------|-------|
| Initial Capital Investment including capital delivery and foreign exchange contingency |         | s9(2)(i) |         |         | 21.05 |

40. No expenditure for ORACS Phase Two is requested here, and will be addressed in subsequent business case(s).

### *Capital funding*

41. The total capital cost of \$21.05 million – made up of s9(2)(b)(ii) plus capital delivery contingency of s9(2)(j) and foreign exchange contingency of s9(2)(i) – will be funded from depreciation reserves. The s9(2)(i) foreign exchange contingency reflects the potential foreign exchange risk of the exchange rate movement prior to hedge implementation following approval to proceed with the ORACS NH90 purchase. The foreign exchange contingency is assessed to be adequate in the light of significant recent currency fluctuations due to COVID-19. If any of the s9(2)(i) foreign exchange contingency for this project is not required, it will be returned to the Defence Capability Portfolio. The total capital cost is within the allocation provided in the Defence Capital Plan 2019.

### *Operating expenditure*

42. The estimated operating cost of the replacement capability is \$8,750 per annum and is within the current operating baseline. There are no changes in personnel costs associated with this investment.

43. The estimated annual depreciation expense (at steady state) as a result of the \$21.05 million capital investment is s9(2)(f)(iv) based on a 15 year operating life starting from financial year s6(a). Approval is requested for this uplift to be funded from the Defence Capability Plan 2019 tagged contingency established at Budget 2020.

### *Tagged contingency drawdown for other projects*

44. The uplift of the operating funding provisioned in the Defence Capability Plan 2019 tagged contingency for this investment required Cabinet approval, whereas otherwise it would have fallen within my delegation for approval. Budget 2020 has established Defence Capability Plan 2019 tagged contingency of operating funding uplift for thirty eight investments that have whole-of-life-costs within my or the Chief of Defence Force's approval delegations. To avoid all these investment decisions being required to be brought to Cabinet, this Cabinet Paper seeks approval for low-medium risk Defence projects with a whole-of-life cost of less than \$50 million, where additional operating funding from the tagged contingency is required, to be delegated to Joint Ministers. In addition, Defence and Treasury plan to identify a list of projects for Joint Ministers to approve the drawdown of tagged contingency for specific amendments.

### **Legislative, Human Rights, Gender, Disability Implications**

45. There are no legislative, human rights, gender or disability implications.

### **Publicity**

46. Publicity for this decision will be coordinated by the Office of the Minister of Defence.

### **Proactive Release**

47. I propose to release this paper proactively, subject to redaction as appropriate under the Official Information Act 1982.

### **Recommendations**

The Minister of Defence recommends that the Committee:

1. **note** that due to a changing technological and regulatory aviation environment, NZDF NH90 helicopters cannot sustain effective, safe and secure air operations without upgrading current systems;
2. **note** that Cabinet approved the ORACS Phase One Single Stage Business Case in Q2 2019 ([CAB-19-MIN-0171] refers) for all NZDF fleets except the NH90 Helicopters, and approval of the NH90 upgrade will mean that ORACS Phase One can be completed in its entirety across all fleets;
3. **note** the preferred option for ORACS NH90 Phase One is the NATO Helicopter Industries (NHI) block upgrade programme, s6(a)
4. **approve** the procurement of the preferred option for ORACS NH90 Phase One;
5. **note** that the capital cost (including contingency) of the proposed solution for ORACS NH90 Phase One of \$21.05 million is affordable within the Defence Capability Plan 2019 provision of s9(2)(j) ;
6. **note** that the capital cost of s9(2)(b)(ii) plus contingency of s9(2)(j) and foreign exchange contingency of s9(2)(i) (total of \$21.05 million) will be funded from NZDF's depreciation reserves;

7. **note** that s9(2)(i) has been included as part of the capital cost reflecting the potential foreign exchange risk of the exchange rate movement prior to hedge implementation following approval to proceed with the ORACS NH90 purchase. If any of the s9(2)(i) is not required for this project, it will be returned to the Defence Capability portfolio;
8. **note** that annual operating costs are estimated to be \$8,750 and will be managed within current NZDF baselines;
9. **authorise** the Secretary of Defence to commit and approve expenditure of public money up to \$21.05 million for Phase One systems for the NH90 helicopters;
10. **approve** the following changes to appropriations for the Secretary of Defence to commit to the acquisition process for ORACS NH90 Phase One:

| Vote Defence<br>Minister of Defence                           | NZ \$M – increase/(decrease) |         |         |         |
|---|------------------------------|---------|---------|---------|
|   | 2020/21                      | 2021/22 | 2022/23 | 2023/24 |
| Non-Departmental Capital Expenditure:<br>Defence Capabilities | s9(2)(b)(ii), s9(2)(j)       |         |         |         |

11. **note** that the expenditure in recommendation 10 above is offset by a capital receipt from the New Zealand Defence Force;
12. **note** the following changes to appropriations would be required in accordance with the New Zealand Defence Force – Capital Expenditure PLA authorised by section 24(1) of the Public Finance Act 1989, reflecting the forecast costs of developing the ORACS NH90 Phase One capability, with a corresponding impact on debt:

| Vote Defence Force<br>Minister of Defence                                     | NZD \$ M – increase/(decrease) |         |         |         |
|---|--------------------------------|---------|---------|---------|
|   | 2020/21                        | 2021/22 | 2022/23 | 2023/24 |
| Departmental Capital Expenditure:<br>New Zealand Defence Force<br>Capital PLA | s9(2)(b)(ii), s9(2)(j)         |         |         |         |

13. **note** that as a consequence of the \$21.05 million capital investment in ORACS NH90 assets, Defence Force depreciation expense will increase by s9(2)(f)(iv) per annum, from s6(a) (steady state);
14. **approve** the following changes to appropriations as a result of recommendation 13, with the following impact on the operating balance and/or net core Crown Debt:

|                          | NZ \$M - increase/(decrease) |         |         |         |                     |
|--------------------------|------------------------------|---------|---------|---------|---------------------|
|                          | 2020/21                      | 2021/22 | 2022/23 | 2023/24 | 2024/25 & Out Years |
| Operating Balance Impact | s9(2)(f)(iv)                 |         |         |         |                     |
| <b>Total</b>             |                              |         |         |         |                     |

| Vote Defence Force<br>Minister of Defence  | NZ \$M - increase/(decrease) |         |         |         |                        |
|--|------------------------------|---------|---------|---------|------------------------|
|  | 2020/21                      | 2021/22 | 2022/23 | 2023/24 | 2024/25 &<br>Out Years |
| <b>Departmental Output Expense:</b><br>Air Force Capabilities Prepared for<br>Joints Operations and Other Tasks<br>(funded by revenue Crown) | s9(2)(f)(iv)                 |         |         |         |                        |
| <b>Total Operating</b>   | s9(2)(f)(iv)                 |         |         |         |                        |

15. **agree** that the proposed changes for Vote Defence Force and Vote Defence appropriations for 2020/21 above be included in the 2020/21 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply;
16. **agree** the expenses incurred under recommendation 14 be charged against the Defence Capability Plan 2019 - Contingent Funding to Support the Introduction of New Capabilities tagged contingency established at Budget 2020 ([CAB-20-MIN-0155.10] refers);
17. **authorise** the Minister of Finance and the Minister of Defence to jointly approve low to medium risk Defence projects with a whole-of-life cost of less than \$50 million, where additional operating funding is required from the tagged contingency identified in recommendation 16 above;
18. **note** that Defence will identify a list of specific projects within this delegation in consultation with the Treasury for Joint Ministers (Finance and Defence) to approve the drawdown of tagged contingency; and
19. **note** as per Cabinet approval of the ORACS Phase One Single Stage Business Case in 2019 ([CAB-19-MIN-0171] refers), I will return to Cabinet s9(2)(f)(iv) with a Single Stage Business Case for ORACS Phase Two commitment of expenditure.

Authorised for lodgement

Hon Ron Mark  
Minister of Defence



# Operational and Regulatory Aviation Compliance Sustainment Project

Phase 1 was approved by Cabinet in 2019 for all aircraft fleets with the exception of NH-90 Helicopter. This submission is for NH-90 funding.

## PROBLEMS

- Due to a changing technological and regulatory aviation environment, systems on NZDF aircraft must be updated to sustain effective, safe and secure air operations.
- To remain compliant with mandates and in-step with modern technologies, systems on board these aircraft must be updated.

## SOLUTION

- To deliver platform-based capabilities that sustain effective, safe and secure air operations.
- Civil systems include Automatic Dependent Surveillance – Broadcast Out and Performance Based Navigation.

s6(a)

## BENEFITS

- Maintain ability to conduct military air operations.
- Maintain ability to effectively conduct air operations in civilian airspace in order to continue contributing to Community, Nation and World.

## COSTS

s9(2)(j)

PHASE 1 s6(a)

s6(a), s9(2)(f)(iv)

s6(a), s9(2)(j)

Previously Approved \$56.83M

This submission NH-90 \$21.05M

## Updating Systems (Phase 1)



### Automatic Dependent Surveillance – Broadcast Out

#### Civil

Automatic Dependent Surveillance – Broadcast Out allows aircraft to send precise GPS position to Air Traffic Control, resulting in safer and more efficient air traffic management. The driver for this change is regulatory.

#### Aircraft Fleets (underway)

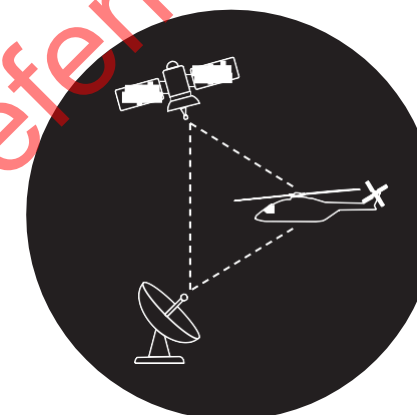
Boeing B757  
C-130H Hercules  
T-6C Texan II  
SH-2G(I) Seasprite Helicopter  
A109 Helicopter

**Aircraft Fleet for this submission**  
NH90 Helicopter



s6(a)

## Updating Systems (Phase 2)

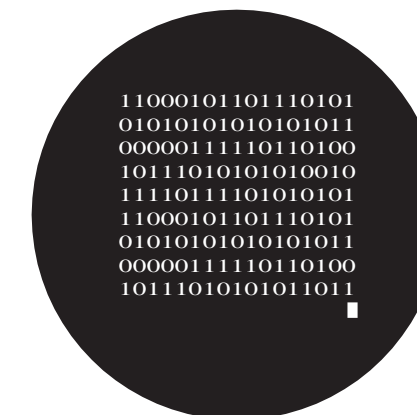


### Performance Based Navigation

#### Civil

Performance Based Navigation is used for safe and efficient navigation. It provides a higher degree of safety and efficiency than current systems. The driver for this change is regulatory.

s6(a)



### Secure Communications

#### Military

Secure communications allows NZDF to communicate securely both internally and with military partners. It is crucial to ensuring sensitive information is secure. s6(a)

s6(a)



#### Community

Defence supports New Zealand's community and environmental wellbeing and resilience.



#### Nation

Defence promotes a safe, secure and resilient New Zealand, including on its borders and approaches. Defence contributes to maintaining New Zealand's prosperity via secure air, sea and electronic lines of communication, and secure access to space-based services.



#### World

Defence contributes to the maintenance of the international rules-based order. Defence contributes to New Zealand's network of strong international relationships

Released by the Minister of Defence