

HON ANDREW LITTLE, MINISTER OF DEFENCE

New Zealand Defence force: Encrypted Radio Upgrade for NH90 and A109 Helicopters

August 2023

This publication provides the Cabinet paper and associated Minute of Decision on the transfer of funding between approved phases of the Operational and Regulatory Aviation Compliance Sustainment to allow an upgrade to the encrypted radios of the eight NH90 and five A109 helicopters flown by the New Zealand Defence Force.

The pack comprises the following documents:

- the March 2023 Cabinet paper and associated Minute of Decision *New Zealand Defence Force: Encrypted Radio Upgrade for NH90 and A109 Helicopters* [GOV-23-SUB-0004 and GOV-23-MIN-0004]

This pack has been released on the Ministry of Defence website, available at:

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.

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

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

Information is also withheld in order to:

- protect information where the making available of the information be likely unreasonably to prejudice the commercial position of the person who supplied or who is subject of 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)]
- 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.

New Zealand Defence Force: Encrypted Radio Upgrade for NH90 and A109 Helicopters

Portfolio **Defence**

On 30 March 2023, the Cabinet Government Administration and Expenditure Review Committee (GOV):

1 **noted** that on 16 December 2021, GOV authorised the Ministers of Finance and Defence to transfer funding between approved phases of Operational and Regulatory Aviation Compliance Sustainment (ORACS) to allow efficient allocation of funding across the phases in case of any higher or lower than anticipated expenditure;

[GOV-21-MIN-0057]

2 **noted** that the NH90 helicopter fleet needs upgraded encrypted radios to remain operationally effective, including to communicate securely with international partners;

3 **noted** that it is important for the A109 helicopter fleet to have upgraded encrypted radios so it can continue to be used for training on secure communications, to prepare personnel for operations;

4 **approved** ORACS Phase 2b, which involves the delivery of an upgrade to the encrypted radios on the NH90 helicopters on the A109 helicopters;

5 [Redacted] s6(a)

6 [Redacted] s6(b)(i), s6(a)

7 **noted** that the scope change in paragraph 4 above will make available s9(2)(j) million to fund Phase 2b, including s9(2)(j) million from Phase 1a and s9(2)(j) million from Phase 2a;

8 **noted** that Phase 2b has a capital cost of s9(2)(j) million and total direct operating costs of s9(2)(j) million;

9 **noted** that all operating costs will be managed within baseline funding;

- 10 **approved** the transfer of s9(2)(j) million from Phase 1a and s9(2)(j) million from Phase 2a, a total of s9(2)(j) million, to Phase 2b to meet the capital and contingency costs;
- 11 **approved** a direct-source procurement for the NH90 encrypted radio upgrade with NATO Helicopter Industries as no other supplier or substitute is available;
- 12 **authorised** the Secretary of Defence to commit and approve expenditure of public money up to s9(2)(j) million for Phase 2b;
- 13 **noted** that Cabinet previously authorised the Ministers of Defence and Finance to transfer funding between approved phases of ORACS (1a, 1b, and 2a) to allow efficient allocation of funding across the phases in case of any higher or lower than anticipated expenditure [GOV-21-MIN-0057];
- 14 **authorised** the Ministers of Defence and Finance to jointly approve transfer of funding between the separately-approved budgets of ORACS Phases 1a, 1b, 2a, and 2b subject to total expenditure remaining within the combined approved total of s9(2)(j) million and the scope being consistent with the four separate approvals.

Vivien Meek
 Committee Secretary

Present:

Hon Grant Robertson (Chair)
 Hon Jan Tinetti
 Hon Andrew Little
 Hon Kieran McAnulty
 Hon Dr Duncan Webb

Officials present from:

Office of the Prime Minister
 Officials Committee for GOV

Released by the Minister of Defence

Office of the Minister of Defence

Chair, Government Administration and Expenditure Review Committee

DEFENCE FORCE: ENCRYPTED RADIO UPGRADE FOR NH90 AND A109 HELICOPTERS

Proposal

- 1 I seek agreement to proceed with an upgrade to the encrypted radios of the eight NH90 and five A109 helicopters flown by the New Zealand Defence Force (NZDF).
- 2 No new funding is sought. The paper seeks agreement to fund the upgrade by transferring s9(2)(j) million in unspent capital from earlier phases of the project.

Relation to Government priorities

- 3 The proposal is strongly aligned with the Government's priorities for the Defence portfolio, in particular the *Pacific* priority (ERS-21-MIN-0040 refers).
 - 3.1 Encrypted radios are essential for the NH90 helicopters to communicate securely with international partners, allowing them to undertake multi-national operations, including in the *Pacific*. Upgrading the encrypted radios on the A109 is important to ensure they can continue to be used for training on secure communications, to prepare personnel for operations.



The NH90 (rear) and A109 (front) helicopters

Executive Summary

- 4 I recommend the Committee agree to upgrade the encrypted radios on two helicopter fleets, the NH90 (transport) and the A109 (light transport and training).

5 The upgrade is Phase 2b of a larger five phase project to modernise the NZDF's aircraft to meet changing regulations and standards – the Operational and Regulatory Aviation Compliance Sustainment (ORACS) project. Since the project was approved in 2019, Defence has undertaken work on the first three phases and now seeks approval for the fourth (Phase 2b).

6 For the NH90 and A109 helicopters to remain operationally effective, they must be capable of communicating securely with encrypted radios. ^{s6(a)}

[Redacted]

7 ^{s6(a)}

[Redacted]

8 Defence recommends the following two solutions to upgrade the radios:

8.1 partner with NATO Helicopter Industries for the NH90 fleet; and

8.2 develop an in-house upgrade for the A109 fleet.

9 No additional funding is sought. The ^{s9(2)(j)} million capital cost can be met by transferring unspent funds from earlier phases of the project. The funding is not needed for its original purpose due to a proposed scope change. This paper requests Cabinet agreement to the scope change and transfer of funds.

10 Operating costs will be met from baseline funding.

11 If Cabinet agrees, the next steps are to contract two suppliers and begin investigating the in-house design for the A109 fleet.

Background

12 NZDF aircraft need to be compliant with changing aviation regulations and international military standards. In response to upcoming changes, in 2019 Cabinet approved the ORACS Single Stage Business Case and agreed in-principle to the phased structure of the project (CAB-19-MIN-0171 refers).

13 Since 2019, Defence has undertaken work on the first three phases (1a, 1b and 2a). It now seeks approval for the fourth phase (2b) ^{s9(2)(f)(iv)}
[Redacted] The structure is set out below.

Status	Phase	Description	Cabinet Approval
✓	1a	Meet new air traffic management requirements and ensure safe aviation operations in military environments.	2019
✓	1b	Phase 1a upgrades for the NH90 helicopters.	2020
✓	2a	Design and installation of encrypted radios for the B757 transport aircraft. Design work for encrypted radio upgrade on the C-130H Hercules aircraft and the Seasprite helicopters.	2021
→	2b	Encrypted radio upgrade for the NH90 and A109 helicopters.	Sought now
Future	■	s9(2)(f)(iv)	

14 [Redacted] s6(a)

15 The upgrade to the A109 fleet was also originally included in Phase 2b.

16 [Redacted] s6(a)

17 The proposed focus of Phase 2b is now to undertake the encrypted radio upgrades for the NH90 and A109 fleets.

18 [Redacted] s6(a)

19 [Redacted] s9(2)(f)(iv)

Why do the two helicopter fleets need upgraded radios?

20 The Air Force operates eight NH90 transport helicopters. The fleet is used for a range of military and all-of-government operations, from carrying soldiers on the battlefield to delivering humanitarian aid after a natural disaster. The five A109 helicopters are used for light transport and training.

21 To be operationally effective, the NH90 and A109 helicopters need encrypted radios. The radios enable the helicopters to communicate securely, which is particularly important when working with international partners. s6(a)

[Redacted]

Secure communications is also important for domestic security operations, such as counter-terrorism.

22 [REDACTED] s6(a)

How should the radio upgrades be carried out?

23 Two solutions are recommended, one for each helicopter fleet.

Upgrading the NH-90

24 The recommended solution for the NH90 helicopters is to partner with the original manufacturer, NATO Helicopter Industries. [REDACTED] s6(b)(i)

[REDACTED] s9(2)(b)(ii)

25 [REDACTED] s6(a)

26 [REDACTED] s9(2)(f)(iv)

27 Defence would need to source the solution directly from NATO Helicopter Industries; due to intellectual property reasons, no other suppliers or substitute products are available. This exempts the purchase from open advertising under the Government Procurement Rules. Cabinet agreement to the direct-source procurement is sought.

Upgrading the A109

28 For the A109 helicopters, the recommendation is for the NZDF to investigate a solution and design the upgrade in-house. Equipment will be sourced from Collins Aerospace (who will also supply equipment for the NH90) and installed either by the NZDF or through existing contracts. [REDACTED] s9(2)(b)(ii)

29 [REDACTED] s9(2)(b)(ii)

Next Steps

30 If Cabinet agrees, Defence will proceed to:

30.1 contract NATO Helicopter Industries to undertake the NH90 upgrade;

30.2 begin the in-house design of the A109 upgrade; and

30.3 contract Collins Aerospace to supply equipment for the A109 and NH90 upgrades.

31 [Redacted] s6(a)

Financial Implications

32 The agreed budget for all four phases of the ORACS project is s9(2)(j) million.

33 Phase 2b has a capital cost of s9(2)(j) million. If Cabinet agrees, this will be met by transferring unspent funding from previous phases of the project (s9(2)(j) million from Phase 1a and s9(2)(j) million from Phase 2a).

34 Direct operating costs of s9(2)(j) million will be met from Vote Defence Force baseline funding, along with depreciation, which will rise to a steady state of s9(2)(j) million from 2026/27.

35 If any of the foreign exchange contingency is not needed, it will also be returned to the Defence portfolio.

		(\$millions)
	Total	s6(a)
A109	s9(2)(j)	
NH90		
Spare remote control units		
Project management	s9(2)(j)	
Total capital costs escalated (excl. contingency)	s9(2)(j)	
Total contingency		
Total foreign exchange contingency	s9(2)(j)	
Total capital costs escalated	s9(2)(j)	
Through-life operating costs		
Whole of life costs (undiscounted)		
Whole of life costs (discounted)		

36 Cabinet previously delegated authority to the Ministers of Defence and Finance to transfer funding between approved phases of ORACS to allow efficient allocation of funding across the phases in case of any higher or lower than anticipated expenditure (GOV-21-MIN-0057 refers). Approval is sought to extend this delegation to Phase 2b.

Other Implications

37 There are no legislative, human rights, specific population group or climate change implications.

Consultation

38 This paper was prepared by the Ministry of Defence and the NZDF. It has been consulted with Treasury, MFAT, MBIE, Department of Internal Affairs (Government Chief Digital Office), and the GCSB.











39 The Department of the Prime Minister and Cabinet (PAG) has been informed.

Proactive Release

40 I propose to release this paper proactively, subject to appropriate redactions.

Recommendations

The Minister of Defence recommends that the Committee:

- 1 **note** the NH90 helicopter fleet needs upgraded encrypted radios to remain operationally effective, including to communicate securely with international partners;
- 2 **note** it is important for the A109 helicopter fleet to have upgraded encrypted radios so it can continue to be used for training on secure communications, to prepare personnel for operations;
- 3 **approve** ORACS Phase 2b, which involves the delivery of an upgrade to the encrypted radios on the NH90 helicopters on the A109 helicopters;
- 4  s6(a)
- 5  s6(a), s6(b)(i)
- 6 **note** the scope change in recommendation 4 will make available  s9(2)(j) million to fund Phase 2b, including  s9(2)(j) million from Phase 1a and  s9(2)(j) million from Phase 2a;
- 7 **note** Phase 2b has a capital cost of  s9(2)(j) million and total direct operating costs of  s9(2)(j) million;
- 8 **note** all operating costs will be managed within baseline funding;
- 9 **approve** the transfer of  s9(2)(j) million from Phase 1a and  s9(2)(j) million from Phase 2a, a total of  s9(2)(j) million, to Phase 2b to meet the capital and contingency costs;
- 10 **approve** a direct-source procurement for the NH90 encrypted radio upgrade with NATO Helicopter Industries as no other supplier or substitute is available;

- 11 **authorise** the Secretary of Defence to commit and approve expenditure of public money up to s9(2)(j) million for Phase 2b;
- 12 **note** Cabinet previously delegated authority to the Ministers of Defence and Finance to transfer funding between approved phases of ORACS (1a, 1b, and 2a) to allow efficient allocation of funding across the phases in case of any higher or lower than anticipated expenditure (GOV-21-MIN-0057 refers); and
- 13 **delegate authority** to the Ministers of Defence and Finance to jointly approve transfer of funding between the separately-approved budgets of ORACS Phases 1a, 1b, 2a, and 2b subject to total expenditure remaining within the combined approved total of s9(2)(j) million and the scope being consistent with the four separate approvals.

Authorised for lodgement

Hon Andrew Little

Minister of Defence

Released by the Minister of Defence