

HON ANDREW LITTLE, MINISTER OF DEFENCE

Defence Force: Upgrading the Frigates

November 2023

This publication provides information regarding Cabinet's April 2023 decision to:

- approve changes to appropriations to fund the build and install phase of the communications upgrades for the Royal New Zealand Navy's two Anzac-class frigates under the Frigate Sustainment Communications project
- progress Phase 1 of the Frigate Sustainment Programme, which delivers critical system replacements and design for later phases.

The pack comprises the following documents:

- the Cabinet minute of decision: Defence Force: Upgrading the Frigates [ERS-23-MIN-0020]
- the Cabinet paper Defence Force: Upgrading the Frigates [ERS-23-SUB-0020].

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)]

Information is also withheld in order to:

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



Cabinet External Relations and Security Committee

Minute of Decision

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

Defence Force: Upgrading the Frigates

Portfolio Defence

On 4 April 2023, the Cabinet External Relations and Security Committee:

Frigate sustainment – communications

- 1 **noted** that the communications systems on the Royal New Zealand Navy's two Anzac-class frigates (HMNZS *Te Mana* and *Te Kaha*) [REDACTED] s6(a) and need to be updated to ensure that the frigates can continue to operate in a modern environment;
- 2 **noted** that on 4 August 2021, the Cabinet Economic Development Committee approved \$21.18 million for the Design Phase for detailed design work and for the purchase of long-lead government furnished equipment items [DEV-21-MIN-0167];
- 3 **noted** that the Design Phase is complete, and is expected to be \$5.03 million under budget;
- 4 **noted** that the Design Phase has confirmed that the total cost for the Build and Install Phase of the project is \$76.69 million [REDACTED] s9(2)(j);
- 5 **noted** that the combined cost for the Design, and Build and Install Phases totals \$92.84 million, and therefore does not exceed the indicative cost laid out in the Project Implementation Business Case of \$95.00 million;
- 6 **noted** that \$29.73 million is sought as a charge against the tagged contingency *Defence White Paper 2016 (DWP 2016) – Contingent Capital Funding* established through Budget 2017 [CAB-17-MIN-0185.06], with the remaining costs of \$46.96 million being met from depreciation reserves and from the Design Phase underspend;
- 7 **noted** that a steady state operating uplift of \$1.92 million per annum will be sought as part of the Budget 2023 process (\$3.44 million over the forecast period);

- 8 **approved** the following changes to appropriations and departmental capital injections to give effect to the policy decision above, with the following impact on net core Crown debt:

	NZ \$M – increase/(decrease)					
	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28 & out years
Operating Balance impact	-	-	-	-	-	-
Debt Impact	9.165	20.569	-	-	-	-
No Impact	-	8.520	9.247	9.221	14.937	-
Total	9.165	29.089	9.247	9.221	14.937	-

	NZ \$M – increase/(decrease)					
Vote Defence Force Minister of Defence	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28 & out years
New Zealand Defence Force – Capital Injection	9.165	20.569	-	-	-	-
Total Operating	-	-	-	-	-	-
Total Capital	9.165	20.569	-	-	-	-

- 9 **agreed** that the \$29.73 million capital injection in the table above will be a charge against the tagged contingency *Defence White Paper 2016 (DWP 2016) – Contingent Capital Funding* established through Budget 2017 [CAB-17-MIN- 0185.06];
- 10 **noted** that the current balance of the Defence White Paper 2016 (DWP 2016) – Contingent Capital Funding [CAB-21-MIN-0298] is as follows:

	NZ \$M
Balance of tagged contingency	50.234
Frigate Sustainment Communications (Design)	20.500
Frigate Sustainment Communications (Build & Installation)	29.734
Forecast Balance after planned project	-

- 11 **noted** that following the above drawdown, the contingency is now closed;

Changes required for the Secretary of Defence to commit to the acquisition process

- 12 **authorised** the Secretary of Defence to commit and approve expenditure of public money up to the amount of \$92.84 million for the Frigate Sustainment Communications project, which is made up of the \$21.18 million already approved for the Design Phase [CAB-21-MIN-0298], and the additional \$71.66 million being sought in the submission under ERS-23-SUB-0020;

- 13 **approved** the following changes to appropriation for the Ministry of Defence to commit to the acquisition process associated with the Frigate Sustainment Communications project:

Vote Defence Minister of Defence	NZ \$M – increase/(decrease)					
	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Multi-Category Appropriation Defence Capabilities MCA Capital Expenditure Defence Capability Delivery	9.165	29.089	9.247	9.221	14.937	-

- 14 **noted** that these costs are offset by a capital receipt from the New Zealand Defence Force;
- 15 **noted** the following changes to appropriations 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 \$71.66 million for the Frigate Sustainment Communications project build and installation phase, with a corresponding impact on debt:

Vote Defence Force Minister of Defence	NZ \$M – increase/(decrease)					
	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Departmental Capital Expenditure: New Zealand Defence Force Capital PLA	9.165	29.089	9.247	9.221	14.937	-

- 16 **agreed** that the changes for Vote Defence Force and Vote Defence appropriations for 2022/23 in paragraphs 8, 9, 13 and 15 above be included in the 2022/23 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply;

Frigate Sustainment Programme

- 17 **noted** that the *Defence Capability Plan 2019 Plan 2019* [GOV-19-MIN-0011] laid out the plan to extend the life of the frigates until the mid-2030s;
- 18 **noted** that the frigates will currently reach their end of life in 2026 and 2028, s6(a)
- 19 **noted** that investing \$57.00 million now will ensure that the frigates' lives can be extended, s9(2)(f)(iv)
- 20 s6(a)
- 21 **agreed** that the 'Consistent Capability' option be the preferred way forward for the Frigate Sustainment Programme Phase 1;
- 22 **noted** that Phase 1 delivers critical system replacements and design preparation for projects in later phases prior to the life extension period (2026 onwards), s9(2)(f)(iv)
- 23 **noted** that a capital injection of \$57.00 million and a steady state operating uplift of \$0.50 million per annum will be sought as part of the Budget 2023 process to proceed with and fund Phase 1 of the Frigate Sustainment Programme;

- 24 **authorised** the Secretary of Defence to commit and approve expenditure of public money up to the amount of \$57.00 million for Phase 1 of the Frigate Sustainment Programme, subject to funding being approved as part of the Budget 2023 process;
- 25 **noted** that increases in Vote Defence appropriations have been sought as part of the Budget 2023 process, to allow the Ministry of Defence to commit to the acquisition process for the Frigate Sustainment Programme Phase 1.

Janine Harvey
Committee Secretary

Present:

Rt Hon Chris Hipkins (Chair)
Hon Carmel Sepuloni
Hon Kelvin Davis
Hon Grant Robertson
Hon Michael Wood
Hon Andrew Little
Hon David Parker
Hon Ginny Andersen

Officials present from:

Office of the Prime Minister
Officials Committee for ERS

Released by the Minister of Defence

Office of the Minister of Defence

Chair, External Relations and Security Committee

DEFENCE FORCE: UPGRADING THE FRIGATES

Proposal

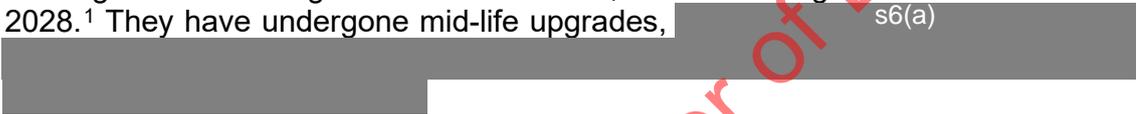
1. This paper seeks to progress two investments in the Royal New Zealand Navy's two Anzac-class frigates (HMNZS *Te Mana* and *Te Kaha*).
 - 1.1. Firstly, this paper confirms that, following completion of the Design Phase, the total cost of the Frigate Sustainment - Communications Project remains within the overall budget indicated in the Project Implementation Business Case approved by Cabinet in August 2021 (CAB-21-MIN-0298 refers) and seeks approval to proceed with the Build and Install Phase of the project. No new capital is sought, however an operating uplift of \$1.92 million per annum for 2026/27 and outyears will be sought at Budget 23. The average steady state from 2027/28 onwards is estimated at \$1.95m per annum.
 - 1.2. Secondly, it requests agreement to proceed with the Frigate Sustainment Programme Phase 1, subject to funding being made available in Budget 2023. The estimated funding requirements of the Frigate Sustainment Programme Phase 1 are: capital injection of \$57.00 million; and a steady state operating uplift of \$0.50 million per annum.

Relation to government priorities

2. This investment strongly aligns with the Defence priorities approved by Cabinet in October 2021 (CAB-21-MIN-0439 refers), and will ensure the Defence Force continues to provide New Zealand with strong maritime security and protection.
 - 2.1. *Pacific*. The two frigates are New Zealand's only naval vessels capable of performing tasks across the operational range from humanitarian assistance and disaster relief to combat roles as part of a multinational coalition. This is especially important in the Pacific, where the security environment is becoming increasingly challenging (see *Defence Assessment 2021*). The communication systems upgrade enables the Defence Force to continue contributing to the maintenance of the international rules based system s6(a)

Executive summary

3. I recommend the Committee:
 - 3.1. **approve** the **Frigate Sustainment – Communications Project** build and install phase; and
 - 3.2. **agree** to proceed with Phase 1 of the **Frigate Sustainment Programme**, subject to funding being made available in Budget 2023.

4. The frigates are one of three high-end capabilities provided by the Defence Force. They are capable of undertaking a wide range of operations in support of New Zealand's interests, including:
 - 4.1. humanitarian assistance and disaster relief;
 - 4.2. maritime patrol;
 - 4.3. capacity building;
 - 4.4. protecting critical maritime trade routes;
 - 4.5. combating transnational organised crime;
 - 4.6. monitoring illegal, unreported and unregulated fishing; and
 - 4.7. combat roles within a multinational coalition.
5. The frigates were designed in the late 1980s, and their design life ends in 2026 and 2028.¹ They have undergone mid-life upgrades, s6(a)


Upgrading the communications systems on the frigates will ensure they continue to provide a valuable capability for New Zealand

6. The Frigate Sustainment – Communications Project Build and Install Phase will proceed with the installation of new communications systems on both frigates. s6(a)

7. In August 2021 Cabinet approved the Project Implementation Business Case for the Frigate Sustainment – Communications Project and approved funding for the Design Phase and long lead items. Cabinet also noted that a phased approval was sought to provide an off ramp after completion of the Design, if updated costs for the Build and Install Phase exceeded expectations.
8. Updated costs have been received and while they have risen slightly, an underspend in the Design Phase means that overall project cost remains within the indicative project budget of \$95.00 million capital. The total investment is now \$92.84 million, including a \$1.80 million allowance for foreign exchange movements².
9. I am now seeking approval for the Build and Install Phase. No new capital funding is required for this phase as the \$71.66 million capital funding will be covered from New Zealand Defence Force (NZDF) accumulated depreciation and the tagged contingency *Defence White Paper 2016 (DWP 2016) – Contingent Capital Funding*

¹ The design life is the length of time for which a vessel was originally designed to operate. Without significant work to extend the life of a vessel, or the replacement of certain systems, this is the point at which it would normally be replaced or retired from service.

² The project will be procuring items in NZD, USD, CAD, EUR, GBP, and AUD, and therefore the cost of the project will be subject to fluctuations in these currencies up until the time of project approval when exchange rates can be confirmed.

established through Budget 2017 (CAB-17-MIN-0185 061)

s9(2)(j)

A \$1.92 million steady state operating uplift for through life support costs has been sought through Budget 2023.

Frigate Sustainment Programme Phase 1

10. The Frigate Sustainment Programme Phase 1 will replace or stabilise critical systems that, if left to degrade, will mean the frigates spend more time in unplanned maintenance, s6(a). The cost of Phase 1 is \$57.00 million capital injection and \$0.50 million steady state operating uplift. Advice on further phases to extend the life of the frigates past 2030 will be provided after the Defence Policy Review s9(2)(f)(iv). This paper seeks approval of Phase 1 subject to funding being made available in Budget 2023.

Next steps

11. If Cabinet agrees, Defence will:
 - 11.1. Sign the contract for the communications system upgrade to be built and installed on the frigates.
 - 11.2. Subject to receiving funding in Budget 2023, begin the Phase 1 sustainment activities on the frigates. Enhanced survey and feasibility studies will also be undertaken in preparation for providing advice on further phases of the Frigate Sustainment Programme following the conclusion of the Defence Policy Review.

Background

New Zealand's strategic environment is deteriorating, and security threats are increasing

12. The *Defence Assessment 2021* (ERS-21-MIN-0039 refers) found that New Zealand's strategic environment has become substantially more challenging, and that this trend is likely to accelerate in coming years.
13. The Assessment identified two major challenges that will have the greatest impact on New Zealand's security over the next 20 years, these are:

13.1. strategic competition s6(a)
and

13.2. the intensifying and wide-ranging impacts of climate change.

14. s6(a)

s6(a)

15. The recent climate driven events both in the Pacific and New Zealand have required humanitarian assistance and disaster relief responses, underscoring the need for a strong Defence Force. There are likely to be increasing demands on New Zealand to respond to an increasing frequency of natural disasters or extreme weather events

The frigates are a high-end capability which contribute to New Zealand's security in an increasingly contested strategic environment

16. In the context of an increasingly contested strategic environment, the two frigates are the only naval vessels capable of operating across the spectrum of military and national security tasks, from constabulary and humanitarian operations, to combat roles as part of a multinational coalition. The frigates are also one of three high-end military capabilities the NZDF maintains, along with P-8A Poseidon maritime patrol aircraft and Special Forces.

17.

s6(a)

18.

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

The current communications systems s6(a) *need replacing*

19.

s6(a)

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



Figure 1: Te Kaha on the Pacific Ocean (2022).

s6(a)

20. The recently completed Frigate Systems Upgrade (FSU) has ensured that the intelligence, surveillance and primary weapons systems will remain relevant to extend the ships' operations life to the mid-2030s. However, the frigates reach the end of their design life in 2026 (HMNZS *Te Kaha*) and 2028 (HMNZS *Te Mana*).

s6(a)

21.

s6(a)

Frigate Sustainment – Communications

The design of the communications upgrade is now complete and the total project costs are within the anticipated budget

22. In August 2021 Cabinet approved the Project Implementation Business Case for the Frigate Sustainment – Communications Project and approved funding for the Design Phase and the purchase of long lead Government Furnished Equipment items. Cabinet also noted that a phased approval was sought to provide an off ramp after completion of the Design, if updated costs for the Build and Install Phase exceeded expectations.
23. The Design Phase was completed in December 2022. Updated Build and Install costs have been received and while they have risen slightly, an underspend in the Design Phase means that capital costs remain within the amount indicated in the approved Project Implementation Business Case.

The communications upgrade as designed delivers on the original plan...

24. As originally laid out in the Project Implementation Business Case the communications upgrade will provide the frigates with:

- 24.1 [Redacted] s6(a)
- 24.2 [Redacted] s6(a)
- 24.3 [Redacted] s6(a)
- 24.4 [Redacted] s6(a)
- 24.5. The **flexibility to adapt to future technology**.
- 24.6. [Redacted] s6(a)

25. Overall, the communications upgrade will provide the frigates with a modern capability that enables them to undertake critical tasks for both New Zealand's and the Pacific's security.

Financial Implications

26. Cabinet approved the Project Implementation Business Case on 9 August 2021, and approved \$21.18 million for the Design Phase of the project (CAB-21-MIN-0298 refers). The indicative cost for the Build and Install Phase at that stage was \$73.82 million. The total indicative investment was \$95.00 million.

27. The Design Phase is now expected to cost \$16.15 million, \$5.03 million below its original budget. The revised capital cost to complete the Build and Install Phase of the Frigate Communications project is \$76.69 million [Redacted] s9(2)(j)
[Redacted] The total investment cost is therefore \$92.84 million.

28. It is proposed that the \$5.03 million underspend from the Design Phase be applied to the \$76.69 million cost of the Build and Install Phase, and therefore \$71.66 million of additional capital funding is required as set out below:

Capital Expenditure NZ \$M						
	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Capital Investment: Build and Install Phase including capital delivery contingency	9.165	29.089	9.247	9.221	14.937	-

29. Capital funding for the Build and Install Phase is proposed to be sourced as follows:

29.1. \$29.73 million is to be charged against the tagged contingency *Defence White Paper 2016 (DWP 2016) – Contingent Capital Funding* established through Budget 2017 [CAB-17-MIN-0185.06], and

29.2. \$41.93 million to be funded from NZDF depreciation reserves.

30. Operating funding requirements to maintain the Communications System is forecast to cost \$1.95 million per annum at steady state, for through life support on the new systems. There are no changes to personnel costs associated with this investment.

31. The annual depreciation expense resulting from the Design Phase and the Build and Install Phase is forecast to be s9(2)(f)(iv) at steady state and will be met within current baseline.

32. Capital charge for the Defence White Paper 2016 Contingent Capital Funding is included in current baselines.

33. The estimated changes to the operating baseline are reflected in the following table:

	NZ \$M – increase/(decrease)					
	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28 & out years
Operating Cost Baseline Movement	-	-	-	1.517	1.921	1.951
Depreciation Baseline Movement	-	-	-	-	-	-
Capital Charge Baseline Movement	-	-	-	-	-	-
Total	-	-	-	1.517	1.921	1.951

34. The NZDF is unable to manage the operating costs within current baselines and is therefore requesting an operating uplift through Budget 2023.

Next Steps

35. If approved, Defence will finalise negotiations with the contractor to commence the Build and Install Phase. The upgraded communications are expected to be fully operational by 31 October 2027.

Frigate Sustainment Programme Phase 1

36. I recommend that the Committee approve Phase 1 of the Frigate Sustainment programme, subject to funding of \$57.00 million capital and a steady state operating uplift of \$0.50 million per annum being made available in Budget 2023. This investment is the first step to enable the life extension of the two frigates until the mid-2030s. Phase 1 will also prepare for Phase 2 investments through enhanced survey and feasibility studies for sustainment projects.

37. Phase 1 of the programme is made up of a series of small projects that s9(2)(j) are not directly dependent on each other. However, Defence is managing the projects under a work programme to provide greater visibility and transparency on the total costs of life extension. The programme will also provide consistent management through subsequent phases, if approved.
38. The two frigates were constructed in 1996 and 1998⁴ and originally designed for a 30 year life. The Defence Capability Plan 2019 laid out the plan to extend their life out until the mid-2030s to make the most of previous upgrades including the Frigate Systems Upgrade and the Platform Systems Upgrade and to de-conflict the replacement of the most significant defence capabilities.

The frigates will require significant sustainment work to extend their life to the mid 2030's

39. s6(a)
40. s6(a), s9(2)(f)(iv)
41. s6(a), s9(2)(f)(iv)
42. s9(2)(f)(iv)

The best way forward is to continue with the decision to extend the life of frigates

43. Three types of projects were considered as a part of Phase 1: **Platform Projects**, a **Defensive Capability** project, and an **Interoperability** project. These categories also make up the basis of the three options presented in the Frigate Sustainment Programme business case.

44. s6(a)

⁴ The delivery and commissioning of the ships occurred a year later than the construction year.

45.

s6(a)

46.

s6(a)

47. A summary of the options considered by the Frigate Sustainment Programme and their capital cost is shown in Table 1 below

s9(2)(j)

Table 1: Analysis of the four options for Phase 1 of the Frigate Sustainment Programme

Phase 1 Options	Phase 1 Capital (\$ million)	Platform Projects	Defensive Capability	Interoperability
Status Quo	0	No	No	No
Minimum Capability	s6(a)	Yes	No	No
Reduced Capability		Yes	Yes	No
Consistent Capability	55.3	Yes	Yes	Yes

The consistent capability option would enable future decisions to sustain a safe, secure, and versatile platform until the end of life

48. The recommended way forward is the Consistent Capability option. This option ensures the frigates maintain full capability

s9(2)(f)(iv)

The Frigate Sustainment Programme Phase 1 requires a capital injection and operating uplift

49. The capital injection sought for the Frigate Sustainment Programme Phase 1 is \$57.00 million, as set out below:

s6(a)

Capital Expenditure NZ \$M						
	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Capital Investment: Frigate Sustainment Programme Phase 1 including capital delivery contingency	-	25.217	14.623	17.160	-	-

50. [Redacted] s6(a)

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

52. The estimated operating baseline movement requirements are reflected in the following table:

	NZ\$ M - Increase / (Decrease)					
	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28 & out years
Operating Cost baseline movement	-	0.500	0.500	0.500	0.500	0.500
Depreciation Baseline Movement	-	-	-	-	-	-
Capital Charge Baseline Movement	-	-	-	-	-	-
Total baseline movement	-	0.500	0.500	0.500	0.500	0.500

53. The NZDF is unable to manage these operating costs within current baselines and additional funding is therefore being sought through Budget 2023.

Next Steps

54. If approved, Defence will, subject to funding being approved in Budget 2023, proceed to implement Phase 1 [Redacted] s9(2)(f)(iv)

[Redacted] All projects [Redacted] s6(a), s9(2)(f)(iv) will be delivered through the existing Maritime Fleet Support Services (MFSS) contract with Babcock New Zealand. [Redacted] s9(2)(j)

55. [Redacted] s9(2)(j)

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

Risks

57. [Redacted] s6(a)

The frigates are key for humanitarian assistance and disaster relief as well as for maritime patrols and other activities that further New Zealand’s interests including our reputation, and support of the international rules based order.

58. [Redacted] s6(a), s9(2)(g)(i)

Dependencies

59. The projects within this paper have dependencies between each other as set out below:

59.1. [Redacted] s6(a)

Implementation

Frigate Sustainment - Communications

60. The governance milestones for the Frigate Sustainment – Communications project are set out in the table below

Governance Milestones	Baseline
Gain Approval to Commit – (Build and Install Phase)	s6(a), s9(2)(j)
Verify the deliverables and accept	
A. Equipment Procurement Complete	
B. Factory Acceptance Test (Ship 1)	
C. Ship Installation Complete (Ship 1)	
D. Factory Acceptance Test (Ship 2)	
E. Ship Installation Complete (Ship 2)	
Acceptance of Interim Operational Release	
Acceptance of Operational Release	

**These dates are dependent on the Fleet Maintenance Plan, which is subject to change due to frigate deployment requirements.

Frigate Sustainment Programme

61. The projects within the Frigate Sustainment Programme have been scheduled to align with the maintenance schedules for the frigates. This ensures the frigates are available for training, operations and contingencies, for the most time throughout the course of the programme.
62. Should the maintenance schedule change or projects become unfeasible for unforeseen technical or supply issues, projects may need to be shifted to later phases. If budget (including contingency) is available then projects from Phase 2 may be shifted to Phase 1. Any decision to change the projects included in the phase will be approved by the Defence Capability Governance Board, co-chaired by the Defence Chief Executives. Should this be required the Phase 1 cost will remain within the indicated \$57.00 million.

Other Implications

63. There are no legislative, regulatory, privacy, human rights or other implications for the funding requests contained in this paper.

Consultation

64. This paper has been consulted with the Ministry of Foreign Affairs and Trade, Public Service Commission, Department of Internal Affairs, and Treasury. The Department of the Prime Minister and Cabinet (PAG) have been informed.

Proactive Release

65. As the Frigate Sustainment – Communications Project has reached the final phase, this part will be proactively released. The parts of this paper pertaining to the Frigate Sustainment Programme will be redacted as is standard practice for projects at earlier stages.

Recommendations

The Minister of Defence recommends that the Committee:

Frigate Sustainment – Communications

1. **note** that the communications systems on the frigates [REDACTED] s6(a) [REDACTED] need to be updated to ensure that the frigates can continue to operate in a modern environment;
2. **note** that in August 2021 Cabinet approved \$21.18 million for the Design Phase for detailed design work and for the purchase of long lead Government Furnished Equipment items in the Design Phase (CAB-21-MIN-0298 refers);
3. **note** that the Design Phase is complete and is expected to be \$5.03 million under budget;
4. **note** that the Design Phase has confirmed that the total cost for the Build and Install Phase of the project is \$76.69 million, [REDACTED] s9(2)(j) [REDACTED]

5. **note** that the combined cost for the Design, and Build and Install Phases totals \$92.84 million and therefore does not exceed the indicative cost laid out in the Project Implementation Business Case of \$95.00 million;
6. **note** that \$29.73 million is sought as a charge against the tagged contingency *Defence White Paper 2016 (DWP 2016) – Contingent Capital Funding* established through Budget 2017 [CAB-17-MIN-0185.06], with the remaining costs of \$46.96 million being met from depreciation reserves and from the Design Phase underspend;
7. **note** that a steady state operating uplift of \$1.92 million per annum will be sought as part of the Budget 2023 process (\$3.44 million over the forecast period);
8. **approve** the following changes to appropriations and departmental capital injections to give effect to the policy decision above, with the following impact on net core Crown debt;

	NZ \$M – increase/(decrease)					
	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28 & out years
Operating Balance impact	-	-	-	-	-	-
Debt Impact	9.165	20.569	-	-	-	-
No Impact	-	8.520	9.247	9.221	14.937	-
Total	9.165	29.089	9.247	9.221	14.937	-

Vote Defence Force Minister of Defence	NZ \$M – increase/(decrease)					
	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28 & out years
New Zealand Defence Force – Capital Injection	9.165	20.569	-	-	-	-
Total Operating	-	-	-	-	-	-
Total Capital	9.165	20.569	-	-	-	-

9. **agree** that the \$29.73 million capital injection in the table above will be a charge against the tagged contingency *Defence White Paper 2016 (DWP 2016) – Contingent Capital Funding* established through Budget 2017 [CAB-17-MIN-0185.06];
10. **note** the current balance of the Defence White Paper 2016 (DWP 2016) – Contingent Capital Funding (CAB-21-MIN-0298 refers) is as follows;

	NZ \$M
Balance of tagged contingency	50.234
Frigate Sustainment Communications (Design)	20.500
Frigate Sustainment Communications (Build & Installation)	29.734
Forecast Balance after planned project	-

11. **note** that following the above drawdown, the contingency is now closed;

Changes required for the Secretary of Defence to commit to the acquisition process

12. **authorise** the Secretary of Defence to commit and approve expenditure of public money up to the amount of \$92.84 million for the Frigate Sustainment Communications project, which is made up of the \$21.18 million already approved for the Design Phase (CAB-21-MIN-0298 refers), and the additional \$71.66 million being sought in this paper;
13. **approve** the following changes to appropriation for the Ministry of Defence to commit to the acquisition process associated with the Frigate Sustainment Communications project:

Vote Defence Minister of Defence	NZ \$M – increase/(decrease)					
	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Multi-Category Appropriation Defence Capabilities MCA Capital Expenditure Defence Capability Delivery	9.165	29.089	9.247	9.221	14.937	-

14. **note** that these costs are offset by a capital receipt from the New Zealand Defence Force;
15. **note** the following changes to appropriations 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 \$71.66 million for the Frigate Sustainment Communications project build and installation phase, with a corresponding impact on debt:

Vote Defence Force Minister of Defence	NZ \$M – increase/(decrease)					
	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Departmental Capital Expenditure: New Zealand Defence Force Capital PLA	9.165	29.089	9.247	9.221	14.937	-

16. **agree** that the changes for Vote Defence Force and Vote Defence appropriations for 2022/23 in recommendations 8, 9, 13 and 15 above be included in the 2022/23 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply.

Frigate Sustainment Programme

17. **note** that the *Defence Capability Plan 2019 Plan 2019* (CAB-19-MIN-0171 refers) laid out the plan to extend the life of the frigates until the mid-2030s;
18. **note** that the frigates will currently reach their end of life in 2026 and 2028 s6(a)
[REDACTED]
19. **note** that investing \$57.00 million now will ensure that the frigates lives can be extended s9(2)(f)(iv)
[REDACTED]
20. s6(a)
[REDACTED]
21. **agree** that the “Consistent Capability” option is the preferred way forward for the Frigate Sustainment Programme Phase 1;
22. **note** that Phase 1 delivers critical system replacements and design preparation for projects in later phases prior to the life extension period (2026 onwards). s9(2)(f)(iv)
[REDACTED]
23. **note** that a capital injection of \$57.00 million and a steady state operating uplift of \$0.50 million per annum will be sought as part of the Budget 2023 process to proceed with and fund Phase 1 of the Frigate Sustainment Programme;
24. **authorise** the Secretary of Defence to commit and approve expenditure of public money up to the amount of \$57.00 million for Phase 1 of the Frigate Sustainment Programme, subject to funding being approved as part of the Budget 2023 process; and
25. **Note** that increases in Vote Defence appropriations have been sought as part of the Budget 2023 process, to allow the Ministry of Defence to commit to the acquisition process for the Frigate Sustainment Programme Phase 1.

Authorised for lodgement

Hon Andrew Little
Minister of Defence

List of Appendices

A	Frigate Sustainment Programme - Single Stage Business Case
B	Frigate Sustainment Communications - Project Implementation Business Case approved by Cabinet in August 2021 [CAB-21-MIN-0298]

Released by the Minister of Defence