

## **HON ANDREW LITTLE, MINISTER OF DEFENCE**

### **Defence: Frigate Sustainment Communications**

November 2023

This publication provides information on Cabinet's August 2021 decisions agreeing to:

- the signing of the negotiated contract with Systems Engineering and Assessment Ltd to commence detailed design work for the communications systems upgrade of the Anzac frigates
- commit \$21.182 million to the Design Phase for detailed design work and the purchase of long lead government furnished equipment items.

The pack comprises the following documents:

- the Cabinet minute of decision: *Defence: Frigates Sustainment Communications* [DEV-21-MIN-0167]
- the Cabinet paper *Defence: Frigates Sustainment Communications* [DEV-21-SUB-0167].

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.

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)]
- 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 Economic Development 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: Frigate Sustainment Communications

Portfolio                      Defence

On 4 August 2021, the Cabinet Economic Development Committee:

- 1        **noted** that on 21 November 2019, the Cabinet Government Administration and Expenditure Review Committee:
  - 1.1        noted that external communications systems are a vital enabler of the roles the Anzac-class frigates undertake in support of New Zealand's contribution to the international rules-based order, and to regional and national security;
  - 1.2        [REDACTED] s6(a)
  - 1.3        authorised the Secretary of Defence to undertake a competitive tender for an external communications upgrade;
  - 1.4        noted that the Minister of Defence would report back with a project implementation business case for the design and build of the upgraded communications systems on the Anzac frigates;

[GOV-19-MIN-0052]
- 2        **agreed** to the signing of the negotiated contract with Systems Engineering and Assessment Ltd to commence detailed design work for the communications systems upgrade of the Anzac frigates;
- 3        **agreed** to the procurement of long lead government furnished equipment;
- 4        **noted** that the total project capital cost for a full upgrade is expected to be \$95.0 million (at Defence Capital Plan 2019 exchange rates), and is made up of:
  - 4.1        [REDACTED] s9(2)(b)(ii) for the Design Phase;
  - 4.2        [REDACTED] s9(2)(f)(iv) for government furnished equipment;
  - 4.3        \$73.8 million for the Build and Install Phase;

- 5 **noted** that a phased approval is sought for capital costs to provide an off-ramp for the government, after completion of the Design Phase, if updated quoted costs for the Build and Install phase exceed expectations;
- 6 **agreed** to commit \$21.182 million to the Design Phase for detailed design work and the purchase of long lead government furnished equipment items to prevent significant Build and Install Phase delay, noting that \$0.682 million was previously approved as pre-contract capital costs [CAB-19-MIN-0626];
- 7 **noted** that of the initial capital cost, \$20.50 million will be funded from the *Defence White Paper 2016 (DWP 2016) – Contingent Capital Funding* tagged contingency of \$50.2 million established through Budget 2017 [CAB-17-MIN-0185.06];
- 8 **noted** that the Minister of Defence intends to report back to Cabinet seeking approval for the Build and Install Phase on completion of the Design Phase and on receipt of an acceptable fixed and firm quote from Systems Engineering and Assessment Ltd;
- 9 **noted** that if a decision is made to not continue with the Build and Install Phase after the Design Phase, then Defence may need to expense the cost of the design portion of the Design Phase s9(2)(b)(ii) and that there is sufficient funding available in the Budget 2020 tagged contingency for operating uplift associated with new capabilities to cover this cost;
- 10 **approved** the following changes to appropriations and departmental capital injections to give effect to the policy decision above, with the following impact on the operating balance and net core Crown debt:

	NZ \$M – increase/(decrease)					
	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27 & outyears
Operating Balance Impact	-	-	-	0.066	0.486	0.841
Debt Impact	11.793	8.707	-	-	-	-
<b>Total</b>	<b>11.793</b>	<b>8.707</b>	<b>-</b>	<b>0.066</b>	<b>0.486</b>	<b>0.841</b>

	NZ \$M – increase/(decrease)					
<b>Vote Defence Force Minister of Defence</b>	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27 & out years
Departmental Output Expense Navy Capabilities Prepared for Joint Operations and Other Tasks (funded by revenue Crown)	-	-	-	0.066	0.486	0.841
New Zealand Defence Force Capital Injection	11.793	8.707	-	-	-	-
Total Operating	-	-	-	0.066	0.486	0.841
<b>Total Capital</b>	<b>11.793</b>	<b>8.707</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

- 11 **agreed** that the operating costs in the table above be funded through the Budget 2020 tagged contingency for operating uplift associated with new capabilities [CAB-20-MIN-0155.10];
- 12 **agreed** that the expenses incurred under paragraph 6 above 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];
- 13 **agreed** to extend the expiry of the tagged contingency *Defence White Paper 2016 (DWP 2016) – Contingent Capital Funding* [CAB-17-MIN-0185.06] to 31 December 2023, and to rephrase the tagged contingency as follows:

	NZ \$M – increase/(decrease)					2026/27 & out years
	2021/22	2022/23	2023/24	2024/25	2025/26	
Defence White Paper 2016 (DWP 2016) – Contingent Capital Funding	11.793	36.162	2.279	-	-	-

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

- 14 **authorised** the Secretary of Defence to commit and approve expenditure of public money up to the amount of \$21.182 million for the Frigate Sustainment Communications project, noting that \$0.682 million of this total has previously been approved for pre-contract capital costs [CAB-19-MIN-0626];
- 15 **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)				
	2021/22	2022/23	2023/24	2024/25	2025/26
Multi-Category Appropriation					
Defence Capabilities MCA					
Capital Expenditure	11.793	8.707	-	-	-
Defence Capability Delivery					

- 16 **noted** that these costs are offset by a capital receipt from the New Zealand Defence Force;
- 17 **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 \$21.182 million for the Frigate Sustainment Communications project design phase and government furnished equipment, with a corresponding impact on debt:

Vote Defence Force Minister of Defence	NZ \$M – increase/(decrease)				
	2021/22	2022/23	2023/24	2024/25	2025/26
Departmental Capital Expenditure:					
New Zealand Defence Force Capital PLA	11.793	8.707	-	-	-

- 18 **agreed** that the changes for Vote Defence Force and Vote Defence appropriations for 2021/22 in paragraphs 10, 15 and 17 above be included in the 2021/22 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply.

Janine Harvey  
Committee Secretary

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**Present:**

Hon Grant Robertson (Chair)  
Hon Dr Megan Woods  
Hon Carmel Sepuloni  
Hon Nanaia Mahuta  
Hon Peeni Henare  
Hon Willie Jackson  
Hon Michael Wood  
Hon Dr David Clark  
Hon Dr Ayesha Verrall  
Dr Deborah Russell, MP

**Officials present from:**

Office of the Prime Minister  
Officials Committee for DEV

Released by the Minister of Defence

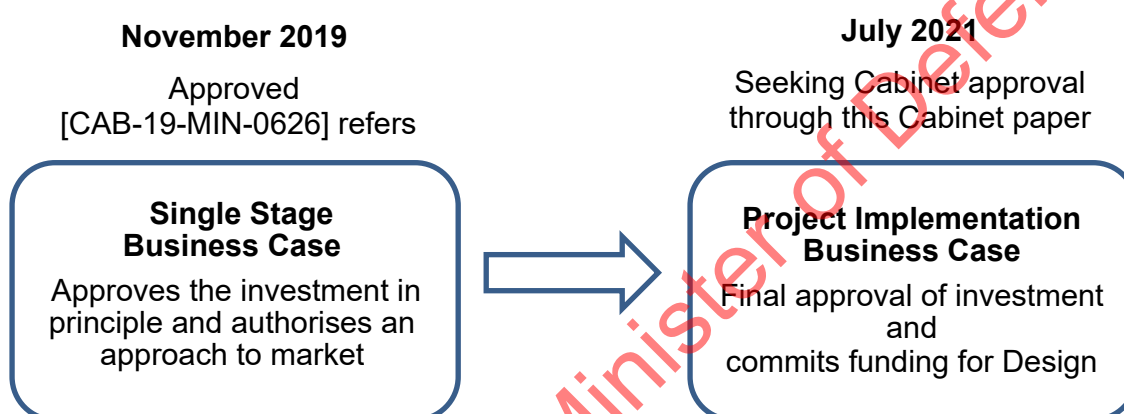
Office of the Minister of Defence

Chair, Economic Development Committee

## DEFENCE: FRIGATE SUSTAINMENT COMMUNICATIONS

### Proposal

1. This paper seeks your approval of a Project Implementation Business Case for investment in the design phase for an upgrade to the external communications systems to the Anzac frigates. No additional capital injection is required as this project will be funded from the capital tagged contingency of \$50.2m established through Budget 2017. This project seeks no additional operating funding.



### Relation to government priorities

2. New Zealand's two Anzac-class frigates, along with their integrated capability systems, are the only maritime elements capable of operating across the spectrum of operations, from constabulary and humanitarian tasks to combat roles as part of a multinational coalition.

3. The ability to make a valuable contribution across the spectrum of operations, either alone or with partners, is an important support for Aotearoa's independent foreign policy. It also contributes to the priorities of valuing who we are as a country, and having an international reputation we can be proud of.

4. Frigate Sustainment Communications project will help support two key objectives of the Government's priorities (CAB-20-MIN-0525 refers).

5. The project will support *Objective 2: Accelerating the Recovery* of the Government's priorities, and in particular point two of the economic recovery plan:

- II. *Job retention and creation, and training opportunities to support workers and Businesses:* As part of their response to our tender, the preferred supplier proposes utilising New Zealand based subcontractors to support capability delivery. This will involve three New Zealand companies in the Design Phase and at least five New Zealand companies throughout the life of the project. In addition to the build and install work, all of which will be carried out in Devonport

Naval Base Auckland, system engineering, training development and training support and through life support will all be provided by New Zealand companies.

6. This upgrade project also supports *Objective 3: Laying the Foundations for the Future*. By ensuring the ongoing effectiveness of the frigates to protect New Zealand and carry out Government policy we are helping to ensure the conditions needed to look beyond just economic prosperity as a measure of success. Having a safe and secure foundation on which to build the future is an important contribution by Defence not just to economic prosperity but to the country as a whole.

### Executive summary

7. The ability to communicate is a critical enabler of the frigates. Communications systems enable operational management of deployed forces, interoperability, and tactical decision making; facilitate collection of data; and provide critical information systems which enable situational awareness and help to keep our people safe.

s6(a)

8. The *Defence Capability Plan 2019*, signalled the extension of the life of the frigates until at least 2034

s3(a)

Therefore, a decision on an upgrade to communications needs to be taken now as a first investment to ensure the ships are effective until the end of their service lives.

9. Following Cabinet approval of the business case for the preferred option in November 2019, Defence issued a Request for Tender (RFT) and received four offers from suppliers. Evaluation and due diligence was conducted on those responses that met the selection criteria and a preferred supplier was identified.

10. Learning from previous upgrade projects, this project has been divided into two phases to provide greater control over costs as the project progresses. This paper seeks approval of the first phase (the Design Phase). No additional capital injection is required and operating costs for the Design Phase can be met from within existing baselines.

11. The indicative capital investment cost of the Frigate Sustainment Communications project is \$95 million. This Cabinet paper seeks approval of \$21.18 million for the Design Phase and long lead government furnished equipment (GFE). An acquisition contract, for the Design Phase, has been negotiated between the Secretary of Defence and the preferred supplier. This Cabinet paper seeks authorisation for the Secretary of Defence to sign that contract.

12. Subsequent approval for the "Build and Install Phase" will be sought through a separate Cabinet paper, on receipt of an acceptable fixed and firm price from the preferred supplier for that phase. This is expected to occur in Q4 2022.

## Background

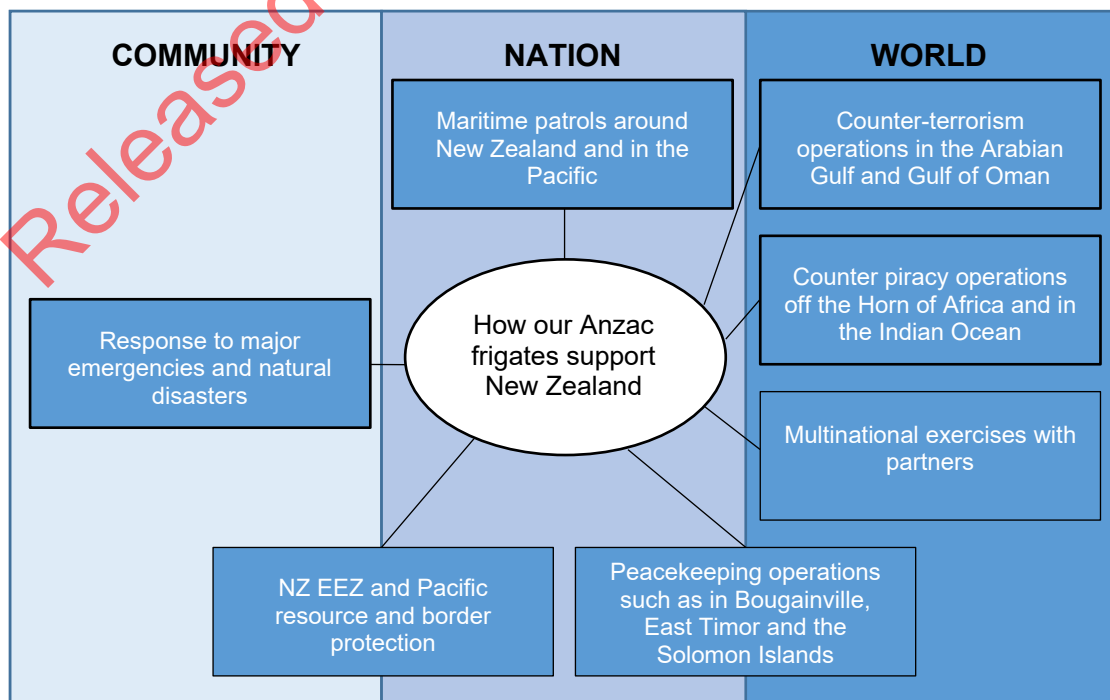
13. On 25 November 2019, Cabinet approved the Single-Stage Business Case's preferred option and procurement approach ([CAB-19-MIN-0626] refers). This authorised officials to undertake a competitive tender to provide detailed information and costing for an upgrade to the external communications systems on the Anzac frigates.

14. Cabinet also invited the Minister of Defence to report back to the Cabinet Government Administration and Expenditure Review Committee with a Project Implementation Business Case for the design and build of the upgraded Anzac communications systems, and, at that time, seek approval to commit to contract. This Project Implementation Business Case responds to this request.

15. This project is separate to the Frigate Systems Upgrade Project (approved in 2014) which is now nearing completion. That project was focused on restoring the surveillance and combat capabilities of the frigates. A deliberate decision was made at the time not to include an upgrade to the external communications systems in the scope of that project. Since that time [REDACTED] s6(a) [REDACTED] the life of the ANZAC frigates has been extended by around 7 years, to the mid-2030's.

### The Anzac-class frigates are a core Defence Force capability

16. The two Anzac-class frigates, HMNZS *Te Mana* and *Te Kaha* ('the Frigates'), together with embarked Seasprite helicopters, provide the Government with a maritime capability that can operate across the spectrum of military and national security tasking, from constabulary and humanitarian tasks to combat roles as part of a multinational coalition. Some examples of HMNZS *Te Kaha* carrying out these roles include a 2015 deployment to support maritime security operations in the Indian Ocean (this included the seizure of US\$164.5m worth of heroin), support provided following the 2016 Kaikoura earthquake and a 1999 deployment to East Timor as part of INTERFET peacekeeping efforts.





## Communications are critical to Frigate operations

17. The fulfilment of the Frigates' roles, both now and in the future, requires interoperable and secure communications that support the ability to work with other capabilities of the Defence Force and our partners. To be effective, the frigates must be able to speak with and exchange information simultaneously and securely with multiple parties, and to communicate and integrate with our partners in multinational operations.

18. The *Defence Capability Plan 2019* proposed the life of the Frigates be extended from the late-2020s to at least 2034. [REDACTED] s6(a)

## Existing communications systems hinder the Frigates' ongoing ability to meet Government expectations

19. [REDACTED] s6(a)  
[REDACTED] issues will increasingly reduce the Frigates' ability to undertake the full range of roles expected by the Government.

- **A changing information environment** – other Defence Force capabilities and our partners have introduced more modern communications systems, which has led to a significant growth in the volume and range of data the Frigates need to communicate.

[REDACTED] s6(a)

20. [REDACTED] s6(a)

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1 [REDACTED] s6(a)

## The preferred option

21. The SSBC approved **Option 4: Interoperable over extended life** as the most cost-effective upgrade option. It was assessed as able to restore the [redacted] s6(a) communications technology [redacted] s6(a) until retirement in the mid-2030s. Notably, the Frigates would:

21.1. [redacted] s6(a)

21.2. [redacted] s6(a)

21.3. [redacted] s6(a)

21.4. [redacted] s6(a)

21.5. Have the **flexibility to adapt to future technology** over the remainder of the life of the frigates.

21.6. [redacted] s6(a)

## Risk reduction measures

22. Learning from previous upgrade projects, this project has been divided into two phases to provide greater control over costs as the project progresses. Previous experience in large Defence capability projects, in particular the Frigate System Upgrade Project, has shown that the Design Phase can impact the final agreed solution and this in turn can have an impact on cost and/or schedule.

23. The two phases are:

23.1. **Design Phase:** following approval of the PIBC, the preferred supplier will be contracted to complete detailed design. Once a design has been agreed the supplier will provide a fixed and firm quote for the build and installation phase. The preferred supplier has already provided an estimate for the Build and Install Phase which included a fixed price for relevant components and rates. This means that the updated quote for the Build and Install Phase must use these fixed component prices (such as for labour rates and equipment). Any increase in price should be limited to significant changes in the scope agreed to as part of the design process.

23.2. Long lead Government Furnished Equipment (GFE) items identified in the initial design will also be purchased during this Design Phase. Long lead GFE items must be purchased early as delivery can take 12-18 months. [redacted] s6(a) These items

could be utilised for other NZDF capabilities (ships or aircraft) if a decision was made not to continue with the Build and Install Phase.

23.3. **Build and Install Phase:** following the completion of the Design Phase, and on receipt of an acceptable fixed and firm quote I will return to Cabinet seeking approval to proceed with the Build and Install Phase. If approved, the preferred supplier will be contracted to undertake the build and installation on both Frigates.

24. Our experience from previous projects is that the detailed design work can identify previously unknown issues or complexities which can impact time and cost for the Build and Install Phase. The process of developing the design includes: a more detailed inspection of the spaces available on the ship for the updated communications equipment; a decision on the ability or not to reuse existing communications equipment; and a detailed understanding of the complexity of integrating into existing systems.

25. It is for this reason that we have developed a contract that provides cost assurance to the Crown for the second phase in the form of fixed unit prices, but is not unrealistic in terms of the impact of the detailed design on the Build and Install costs. Based on the fixed pricing components already negotiated, the QRA analysis and financial contingencies held, we are confident the total project cost will not exceed the amount forecasted.

#### *Enduring risk*

26. If, at completion of design, the final quote for the Build and Install Phase were to exceed the project budget, and Cabinet takes a decision not to proceed with the project, expenditure on the Design Phase <sup>s9(2)(b)(ii)</sup> will need to be expensed on completion of the work. There is sufficient funding available in the *Budget 20 tagged contingency for operating uplift associated with new capabilities* [CAB-20-MIN-0155.10] to cover this cost. The long lead GFE that will be purchased during the Design Phase would be able to be used on other capabilities and therefore will have an enduring value.

27. In the contract negotiated our preferred supplier, the Crown has reserved the right not to proceed with the Build and Installation Phase – including not proceeding with the current preferred supplier.

#### **Evaluating the market - which supplier is best suited to meet the Government's needs?**

28. As instructed by the SSBC, a Request for Tender was issued on 4 December 2019. Four suppliers provided offers: <sup>s9(2)(b)(ii)</sup> Systems Engineering & Assessment Ltd (SEA), and <sup>s9(2)(b)(ii)</sup>. A high level comparison of the final assessment of the offers can be seen in Table 1.

**Table 1: High level comparison of supplier offers**

	s9(2)(b)(ii)	SEA	s9(2)(b)(ii)
<b>Based in</b>		UK	
<b>Full compliance</b>		✓	
<b>Quality of proposal met expected standards</b>		✓	
<b>Result</b>		Shortlisted	
<b>Reasoning</b>		Proposal met all major requirements	

29. Due diligence was conducted on s9(2)(b)(ii) SEA, who met the initial selection criteria.

30. The results of this exercise are summarised in Table 2 below:

**Table 2: High level post-due diligence supplier comparison**

Category	Met requirements ( ✓ / ✗ )	
	s9(2)(b)(ii)	SEA
<b>Technical solution</b>		✓
<b>Training</b>		✓
<b>Through life support</b>		✓
<b>Ability to deliver</b>		✓
<b>Schedule and long lead items</b>		✓
<b>Commercial</b>		✓
<b>Capital cost</b>		\$91.4m
<b>Result</b>		Selected
<b>Reasoning</b>		<ul style="list-style-type: none"> <li>Key risk areas addressed</li> <li>Assessed as superior in resilience, flexibility and scalability</li> </ul>

- *Training plan uses RNZN preferred computer-based solution*

31. SEA was selected as the preferred supplier. Its proposal was assessed as providing a better solution overall, offering a highly modular, expandable and flexible design. SEA was also able to address or mitigate key risk areas.

32. An acquisition contract has been negotiated between the Secretary of Defence and SEA for the Design Phase.

### **Assuring delivery of the agreed proposal**

33. The services agreed with the preferred supplier are incorporated in the Design Statement of Work which will deliver the detailed design for the communication capability.

34. The delivery of the Design phase will be subject to a structured development approach:

34.1. **Pre-refit condition assessment** of each ship to be performed at the start of the Design Phase.

34.2. **Design Reviews** at agreed intervals during and at completion of the Design Phase.

34.3. **Acknowledgement** by the Crown, at completion of a Critical Design Review, that the required criteria have been met and the design is ready to proceed to the next phase, i.e. Build and Install.

35. All deliverables will be tracked against an agreed delivery schedule and payment milestones. Progress will be tracked monthly and assessed against pre-agreed measures. Key governance milestones are noted in Table 4.

**Table 4: Governance Milestones**

<b>Milestone</b>	<b>Date</b>
Contract Execution, Design	July 2021
Design Completion Acknowledged	December 2022

36. The Crown will procure the GFE via the Foreign Military Sales process.

### *Financial Implications*

37. The indicative capital investment cost of the overall Frigate Sustainment Communications project is \$95.0 million.

38. This Cabinet paper seeks approval of \$21.18 million for the Design Phase and long lead GFE. Subsequent approval for the Build and Install Phase (\$73.8 million) will be sought through a separate Cabinet paper, on receipt of an acceptable fixed and firm price from the preferred supplier.

### Design Phase and Government Furnished Equipment

39. The indicative capital investment cost for the Design Phase and GFE of the Frigate Sustainment Communications project is \$21.18 million. The phasing of which is set out in the table below:

	Capital Expenditure NZ\$ M							
	2020/2	2021/2	2022/2	2023/2	2024/2	2025/2	2026/2	Total
	1	2	3	4	5	6	7	
Capital Investment: Design Phase including capital delivery contingency	s9(2)(j)							
Capital Investment: GFE including capital delivery contingency	s9(2)(j)							
<b>Design Phase Total</b>	<b>0.682</b>	<b>11.793</b>	<b>8.707</b>					<b>21.182</b>

40. The \$0.682 million funding for the 2020/21 year was previously approved as pre-contract capital costs [CAB-19-MIN-0626] and is funded from existing baselines.

41. Funding for the Design Phase and GFE will be funded from the capital tagged contingency of \$50.2m established through Budget 2017 for the project [CAB-17-MIN-0185.06].

	Capital Injection NZ\$ M					
	2020/2	2021/2	2022/2	2023/2	2026/2	Total
	1	2	3	4	7	
New Zealand Defence Force – Capital Injection	-	11.793	8.707	-	-	20.500

42. Operating b funding requirements to maintain the GFE is forecast to cost \$0.131 million per annum at steady state. There are no changes to personnel costs associated with this investment.

43. The annual depreciation resulting from the s9(2)(f)(iv) of initial capital expenditure on GFE is forecast to be \$0.71 million at steady state.

44. The Design Phase will only be capitalised following the Build and Install Phase with the operational release of the communications upgrade.

45. Capital charge can be met within current baselines.

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

	NZ\$ M - Increase / (Decrease)					
	2021/ 22	2022/ 23	2023/ 24	2024/ 25	2025/ 26	2026/27 & out- years
Operating Cost baseline movement	-	-	0.066	0.131	0.131	0.131
Depreciation Baseline Movement			-	0.355	0.710	0.710
<b>Total baseline movement</b>	-	-	<b>0.066</b>	<b>0.486</b>	<b>0.841</b>	<b>0.841</b>

47. There is sufficient funding available in the *Budget 20 tagged contingency for operating uplift associated with new capabilities* [CAB-20-MIN-0155.10] to meet the operating and depreciation charges for the acquired GFE.

#### *Build and Installation Phase*

48. On receipt of an acceptable fixed and firm price from the preferred supplier, after successful completion of the Design Phase, a Cabinet paper seeking approval for the Build and Install Phase will be submitted (expected in Q4 2022). The indicative capital investment cost for the Build and Install Phase is \$73.8 million. The phasing of which is set out in the table below:

	Capital Expenditure NZ\$ M							Total
	2020/2 1	2021/2 2	2022/2 3	2023/2 4	2024/2 5	2025/2 6	2026/2 7	
Capital Investment: Build and Installation Phase including capital delivery contingency	-							- 73.818
<b>Build and Installation Total</b>	-							<b>- 73.818</b>

49. Funding for the Build and Install Phase will be funded from the remainder of the tagged capital contingency of \$50.2m established through Budget 2017 for the project [CAB-17-MIN-0185.06], with the balance being funded from depreciation reserves.

50. Depreciation costs and operating baseline movements resulting from the Build and Install Phase will be finalised through the cabinet paper seeking approval for that phase.

### Other Implications

51. There are no regulatory, climate, population or human rights implications.

### Consultation

52. This paper has been consulted with the Department of Prime Minister and Cabinet, Department of Internal Affairs, Treasury, Public Services Commission, Ministry of Business, Innovation and Employment, Ministry of Transport, Government Communications and Security Bureau, Ministry of Foreign Affairs and Trade.

### Communications

53. I do not plan to publically announce this decision. However, I will assess the appropriateness of an announcement if the Build and Install Phase, to be considered by Cabinet following completion of the Design Phase, is approved.

### Proactive Release

54. This paper will be proactively released, with appropriate redactions, once the contract with the preferred supplier has been signed.

### Recommendations

55. The Minister of Defence recommends that the Committee:

1. **note** that this communications upgrade is required s6(a)  
[Redacted]
2. **agree** to the signing of the negotiated contract with Systems Engineering and Assessment Ltd to commence detailed design work for the communications systems upgrade of the Anzac frigates;
3. **agree** to the procurement of long lead Government Furnished Equipment;
4. **note** the total project capital cost for a full upgrade is expected to be \$95.0 million (at Defence Capital Plan 2019 exchange rates) and is made up of s9(2)(b) million for the Design Phase; (ii) s9(2) million for Government Furnished Equipment; (i) s9(2) million for the Build and Install Phase;
5. **note** that a phased approval is sought for capital costs to provide an off-ramp for the Government, after completion of the Design Phase, if updated quoted costs for the Build and Install phase exceed expectations;
6. **agree** to commit \$21.182 million to the Design Phase for detailed design work and for the purchase of long lead GFE items to prevent significant Build and Install Phase delay, noting that \$0.682 million was previously approved as pre-contract capital costs [CAB-19-MIN-0626];



7. **note** that of the initial capital cost \$20.50million will be funded from the *Defence White Paper 2016 (DWP 2016) – Contingent Capital Funding* tagged contingency of \$50.2 million established through Budget 2017 [CAB-17-MIN-0185.06];
8. **note** that I will return with a Cabinet paper seeking approval for the Build and Install Phase on completion of the Design Phase and on receipt of an acceptable fixed and firm quote from Systems Engineering and Assessment Ltd;
9. **note** that if a decision is made to not continue with the Build and Install Phase after the Design Phase, then Defence may need to expense the cost of the design portion of the Design Phase s9(2)(b)(ii) and there is sufficient funding available in *Budget 20 tagged contingency for operating uplift associated with new capabilities* to cover this cost;
10. **approve** the following changes to appropriations and departmental capital injections to give effect to the policy decision above, with the following impact on the operating balance and net core Crown debt;

	NZ \$M – increase/(decrease)					
	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27 & out years
Operating Balance Impact	-	-	-	0.066	0.486	0.841
Debt Impact	11.793	8.707	-	-	-	-
<b>Total</b>	<b>11.793</b>	<b>8.707</b>	<b>-</b>	<b>0.066</b>	<b>0.486</b>	<b>0.841</b>

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<b>Vote Defence Force Minister of Defence</b>	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27 & out years
Departmental Output Expense Navy Capabilities Prepared for Joint Operations and Other Tasks (funded by revenue Crown)	-	-	-	0.066	0.486	0.841
New Zealand Defence Force – Capital Injection	11.793	8.707	-	-	-	-
<b>Total Operating</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0.066</b>	<b>0.486</b>	<b>0.841</b>
<b>Total Capital</b>	<b>11.793</b>	<b>8.707</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

11. **agree** that the operating costs in the table above will be funded through the *Budget 20 tagged contingency for operating uplift associated with new capabilities* [CAB-20-MIN-0155.10];

12. **agree** that the expenses incurred under recommendation 6 above 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];
13. **agree** to extend the expiry of the tagged contingency *Defence White Paper 2016 (DWP 2016) – Contingent Capital Funding* [CAB-17-MIN-0185.06] to 31 December 2023 and re-phase the tagged contingency as follows:

	NZ \$M – increase/(decrease)					
	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27 & out years
Defence White Paper 2016 (DWP 2016) – Contingent Capital Funding	11.793	36.162	2.279	-	-	-

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

14. **authorise** the Secretary of Defence to commit and approve expenditure of public money up to the amount of \$21.182 million for the Frigate Sustainment Communications project, noting that \$0.682 million of this total has previously been approved for pre-contract capital costs [CAB-19-MIN-0626];
15. **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)				
	2021/2 2	2022/2 3	2023/2 4	2024/2 5	2025/2 6
Multi-Category Appropriation Defence Capabilities MCA Capital Expenditure Defence Capability Delivery	11.793	8.707	-	-	-

16. **note** that these costs are offset by a capital receipt from the New Zealand Defence Force;

17. **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 \$21.182m for the Frigate Sustainment Communications project design phase and GFE, with a corresponding impact on debt:

Vote Defence Force Minister of Defence	NZ \$M – increase/(decrease)				
	2021/22	2022/23	2023/24	2024/25	2025/26
Departmental Capital Expenditure: New Zealand Defence Force Capital PLA	11.793	8.707	-	-	-

18. **agree** that the changes for Vote Defence Force and Vote Defence appropriations for 2021/22 in recommendations 10, 15 and 17 above be included in the 2021/22 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply.

Authorised for lodgement

Hon Peeni Henare  
**MINISTER OF DEFENCE**

Released by the Minister of Defence