

## **HON JUDITH COLLINS, MINISTER OF DEFENCE**

### **Defence Force: Navigation and Encrypted Radios Upgrade for the NH90 Medium Helicopter Fleet**

November 2024

This publication provides documents on Cabinet's June 2024 approval to direct-source the NH90 helicopter navigation system and encrypted radio upgrade with NATO Helicopter Industries as no other supplier or substitute is available.

The pack comprises the Cabinet paper *Defence Force: Navigation and Encrypted Radios Upgrade for the NH90 Medium Helicopter Fleet* and the associated minute of decision [EXP-24-SUB-0024 and EXP-24-MIN-0024].

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.

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

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 Expenditure and Regulatory 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.*

### Defence Force: Navigation and Encrypted Radios Upgrade for the NH90 Medium Helicopter Fleet

Portfolio                      Defence

On 18 June 2024, the Cabinet Expenditure and Regulatory Review Committee:

- 1        **noted** that the New Zealand Defence Force NH90 helicopter fleet needs an upgrade to its navigation systems to comply with the latest Civil Aviation Authority regulations;
- 2        **noted** that the NH90 helicopter fleet needs to complete an upgrade to its encrypted radios to remain operationally effective, including to communicate securely with international partners;

3        [Redacted content] s9(2)(f)(iv)

4        **noted** that on 29 April 2024 Cabinet:

- 4.1      agreed to establish a tagged operating and capital contingency for: NH90 Helicopter Upgrade: Navigation and Secure Radios as part of the Vote Defence Force Budget 2024 package:

	NZ \$ M - increase/(decrease)						
	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31 & out-years
NH90 Helicopter Upgrade: Navigation and Secure Radios – Tagged Capital Contingency	[Redacted content] s9(2)(j)						
NH90 Helicopter Upgrade: Navigation and Secure Radios – Tagged Operating Contingency	[Redacted content]						

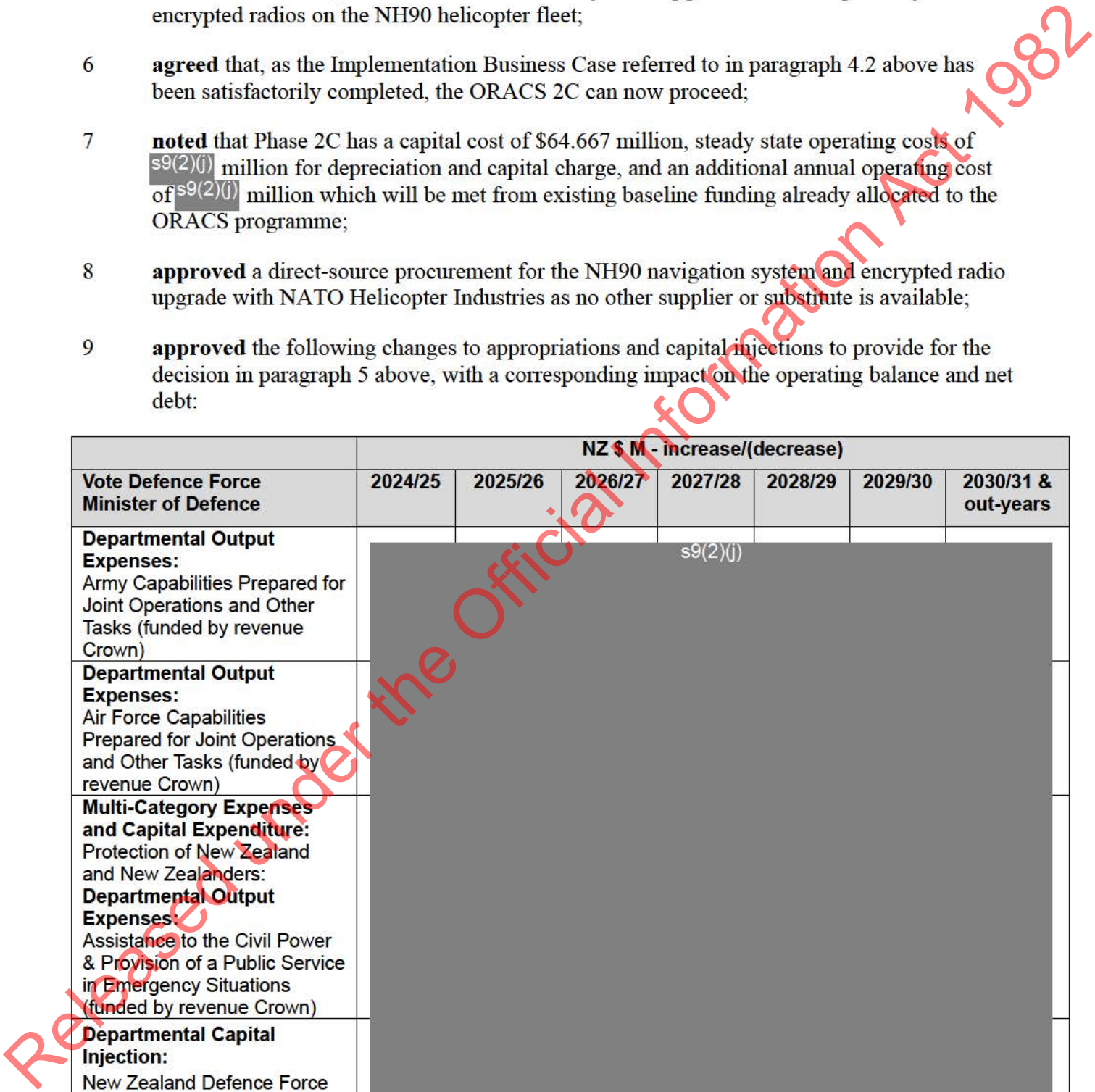
- 4.2      authorised the Minister of Defence and Minister of Finance jointly to draw down the tagged operating and capital contingency funding in paragraph 4.1 above subject to Cabinet approval of an Implementation Business Case;

4.3 agreed that the expiry date for the above tagged operating and capital contingencies be 30 June 2026;

[CAB-24-MIN-0148.24]

- 5 **approved** the ORACS Phase 2C Implementation Business Case, attached to the paper under EXP-24-SUB-0024, which involves the delivery of an upgrade to the navigation system and encrypted radios on the NH90 helicopter fleet;
- 6 **agreed** that, as the Implementation Business Case referred to in paragraph 4.2 above has been satisfactorily completed, the ORACS 2C can now proceed;
- 7 **noted** that Phase 2C has a capital cost of \$64.667 million, steady state operating costs of s9(2)(j) million for depreciation and capital charge, and an additional annual operating cost of s9(2)(j) million which will be met from existing baseline funding already allocated to the ORACS programme;
- 8 **approved** a direct-source procurement for the NH90 navigation system and encrypted radio upgrade with NATO Helicopter Industries as no other supplier or substitute is available;
- 9 **approved** the following changes to appropriations and capital injections to provide for the decision in paragraph 5 above, with a corresponding impact on the operating balance and net debt:

Vote Defence Force Minister of Defence	NZ \$ M - increase/(decrease)						
	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31 & out-years
<b>Departmental Output Expenses:</b> Army Capabilities Prepared for Joint Operations and Other Tasks (funded by revenue Crown)	s9(2)(j)						
<b>Departmental Output Expenses:</b> Air Force Capabilities Prepared for Joint Operations and Other Tasks (funded by revenue Crown)							
<b>Multi-Category Expenses and Capital Expenditure:</b> Protection of New Zealand and New Zealanders: <b>Departmental Output Expenses:</b> Assistance to the Civil Power & Provision of a Public Service in Emergency Situations (funded by revenue Crown)							
<b>Departmental Capital Injection:</b> New Zealand Defence Force Capital Injection							
<b>Total Operating</b>							
<b>Total Capital Injection</b>							



10 **noted** the following changes to the 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 long lead time items, initial technical work and project management, with a corresponding effect on net core Crown debt:

	NZ \$ M - increase/(decrease)					
Vote Defence Force Minister of Defence	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
<b>Departmental Capital Expenditure:</b> New Zealand Defence Force Capital PLA	s9(2)(j)					

11 **authorised** the Secretary of Defence to commit and approve expenditure of public money up to \$64.667 million for Phase 2C;

12 **authorised** the Secretary of Defence to commit and approve expenditure of public money of an additional NZ \$1.900 million as foreign exchange contingency to allow for any adverse movement in exchange rates before the contract with NATO Helicopter Industries is entered in to and the NZD cost is fixed;

13 **approved** the following changes to appropriations for the Secretary of Defence to commit to the acquisition process associated with the ORACS 2C;

	NZ \$ M - increase/(decrease)					
Vote Defence Minister of Defence	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
<b>Multi-Category Departmental Expenses and Capital Expenditure:</b>  <b>Non-Departmental Capital Expenditure</b> Defence Capability Delivery	s9(2)(j)					

14 **noted** that the expenditure in paragraph 13 above is offset by a capital receipt from the New Zealand Defence Force;

15 **agreed** that the expenditure incurred under paragraph 9 above be charged against the NH90 Helicopter Upgrade: Navigation and Secure Radios – Tagged Operating and Capital Contingency described in paragraph 4 above;

16 **noted** that 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];

17 **delegated** 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, 2B and 2C subject to total expenditure remaining within the combined approved total of \$162.134 million and the scope being consistent with the five separate approvals;

- 18 **approved** the transfer of foreign exchange contingency of \$1.000 million from ORACS Phase 1B and \$0.900 million from ORACS Phase 2A to ORACS Phase 2C;
- 19 **agreed** that the proposed changes to appropriations for 2024/25 in paragraphs 9, 10 & 13 above be included in the 2024/25 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply;
- 20 **noted** that, following the changes detailed in paragraph 9 above, the tagged operating and capital contingencies described in paragraph 4 above is now exhausted and therefore closed.

Sam Moffett  
Committee Secretary

---

**Present:**

Rt Hon Winston Peters  
Hon David Seymour  
Hon Nicola Willis  
Hon Simeon Brown  
Hon Louise Upston  
Hon Judith Collins  
Hon Simon Watts  
Hon Brooke van Velden  
Hon Shane Jones  
Hon Chris Penk  
Hon Melissa Lee  
Hon Andrew Bayly  
Hon Mark Patterson

**Officials present from:**

Officials Committee for EXP  
Ministry of Defence  
New Zealand Defence Force

Released under the Official Information Act 1982

Office of the Minister of Defence

Chair, Government Administration and Expenditure Review Committee

## **DEFENCE FORCE: NAVIGATION AND ENCRYPTED RADIOS UPGRADE FOR THE NH90 MEDIUM HELICOPTER FLEET**

### **Proposal**

1. This paper seeks:

- 1.1. Approval to proceed with an upgrade to the navigation system and encrypted radios of the eight NH90 transport helicopters flown by the New Zealand Defence Force (NZDF). This upgrade constitutes Phase 2C of the Operational and Regulatory Aviation Compliance Sustainment (ORACS) Project.
- 1.2. Approval to commit \$64.667 million for the capital investment and drawn down from the tagged capital contingency established in Budget 2024, plus \$1.900 million in foreign exchange contingency. This foreign exchange contingency will be funded by transfers from other ORACS phases.
- 1.3. Approval to draw down operating funding for the capital charge and depreciation costs associated with the capital investment of s9(2)(j) million over the forecast period, and steady state of s9(2)(j) million from 2029/30, from the tagged operating contingency established in Budget 2024.
- 1.4. Delegation of authority to the Ministers of Defence and Finance to jointly approve transfers of funding between all ORACS Phases.

### **Relation to government priorities**

2. The Speech from the Throne<sup>1</sup> recognised that to achieve our shared ambitions, the Coalition Government should not focus its efforts only within New Zealand's borders. In order for New Zealand to seize opportunities, to make more of its potential, and to manage the risks in an increasingly complex and contested world, we require an active foreign, defence and trade policy agenda.

### **Executive summary**

3. The purpose of the Operational and Regulatory Aviation Compliance Sustainment (ORACS) Project is to sustain the New Zealand Defence Force's (NZDF) ability to conduct air operations by complying with updated aviation regulations and addressing obsolescence.

---

<sup>1</sup> 6 December 2023.

4. This paper and its associated Project Implementation Business Case (PIBC) seeks approval for funding to deliver a *new navigation system* and the *completion of a secure communications upgrade* for the NH90 helicopter fleet.
5. The *new navigation system*, Performance Based Navigation (PBN), transitions the aircraft to using a satellite and digital based system. PBN is a safer and more efficient means of navigation for aircraft. This new navigation system is required under New Zealand Civil Aviation Authority regulations.
6. [Redacted] s6(a) [Redacted] Completion of the installation as part of this phase will ensure all NH90 radios are secure. s6(a) [Redacted]
7. This paper seeks approval to draw down \$64.667 million in capital funding that was set aside in a tagged capital contingency within Budget 2024. It also seeks approval to draw down operating funding for the depreciation and capital charge associated with this capital investment that was set aside in a tagged operating contingency at Budget 2024.
8. From 2030 onwards, an estimated annual operating cost of s9(2)(j) million is required for the annual license cost of navigation data software for the NH90, as is already utilised in other aircraft fleets. This operating cost will be met within existing baseline funding already allocated to the ORACS programme.
9. These upgrades will be finished in Q1 2030.

## Background

10. NZDF aircraft are required to be compliant with changing aviation regulations and international military standards. In 2019, in response to these regulations and standards, Cabinet approved the ORACS Single Stage Business Case and agreed in principle to the phased structure of the project (CAB-19-MIN-0171 refers).
11. Since 2019, Defence has undertaken work on the first four phases (1A, 1B, 2A, 2B). It now seeks approval for the fifth phase (2C) s9(2)(f)(iv) [Redacted]

12. [Redacted] s6(a) [Redacted]

s6(a)

s9(2)(f)(iv)

Table 1: ORACS Phases

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.	2021
✓	2B	Interim encrypted radio upgrade for the NH90 and A109 helicopters.	2023
→	2C	Upgrade navigational equipment for the NH90 helicopters and complete full upgrade for their encrypted radios.	Sought now

s9(2)(f)(iv)

### Why do the NH90s need upgraded navigation and communication systems?

13. 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.
14. To operate safely alongside other air traffic and to transit within New Zealand, NZDF aircraft must comply with regulations and their systems must ensure safe and effective, navigation and air traffic management. This is especially true in civilian-controlled airspace where the NZDF are not the only aircraft in the area and are not the primary controllers of air traffic. The Civil Aviation Authority are introducing Performance Based Navigation (PBN) as a regulatory requirement.
15. PBN provides aircraft the ability to operate with a higher degree of safety and efficiency, including more direct routes between two given points, and more efficient timing of take-offs and landings in high traffic areas. NH90s are currently fitted with systems that are not fully certified by the CAA and therefore do not comply with PBN standards.
16. If the NZDF did not equip the NH90 fleet with PBN, the aircraft would be unable to fly in certain locations (within New Zealand or internationally) and/or during certain weather conditions. This would limit available routes, resulting in reduced outputs and safety concerns for the NZDF.
17. To be operationally effective, the NH90 helicopters also need encrypted radios. The radios enable the helicopters to communicate securely both with each other and with other capabilities such as troops on the ground.

s6(a)



18. [Redacted] s6(a)

**How will the upgrades be carried out?**

19. Defence will partner with the original manufacturer, NATO Helicopter Industries (NHI). Defence needs to source the solution directly from NHI 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 therefore sought as part of this paper.

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

21. The final helicopter will complete the PBN and secure communications upgrade by March 2030.

Table 2: Governance Milestones

Milestone	Timeframe
Gain approval to commit	July 2024
Agree Preferred Suppliers	September 2024
Verify the Deliverables	s6(a), s9(2)(j)
Interim Operational Release (First Helicopter Upgraded)	
Operational Release (All Helicopters Upgraded)	

Released under the Official Information Act 1982

## Financial Implications

22. Capital expenditure is summarised in the table below:

Table 3: Capital Expenditure

	NZ \$ M - increase/(decrease)					
	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30 – 2048/49
Hardware and software	s9(2)(j)					
Project Management						
Capital Contingency						
Total cost						

23. As part of Budget 2024, Cabinet set aside NZ \$64.667 million in capital funding which includes capital contingency of s9(2)(j) million and operating funding of NZ s9(2)(j) million over four financial years from 2024 to 2028 in a tagged contingency as per the table below towards the ORACS 2C project.

Table 4: NH90 Helicopter Upgrade: Navigation and Secure Radios Tagged Contingency

	NZ \$ M - increase/(decrease)						
	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31 & out-years
NH90 Helicopter Upgrade: Navigation and Secure Radios – Tagged Capital Contingency	s9(2)(j)						
NH90 Helicopter Upgrade: Navigation and Secure Radios – Tagged Operating Contingency							

24. Depreciation and capital charge (operating expenditure) baseline movements are summarised in the table below.

Table 5: Baseline Movement

	NZ \$ M - increase/(decrease)					
	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30 & outyears
Depreciation	s9(2)(f)(iv)					
Capital Charge						
<b>Total Baseline Movement</b>						

25. In addition to the capital funding of \$64.667 million set aside in Budget 2024, \$1.900 million of foreign exchange contingency is required to mitigate against the risk of adverse foreign exchange movements impacting the New Zealand Dollar cost of the project.

26. Once the project is approved, the Ministry can enter foreign exchange forward contracts to gain certainty over the New Zealand dollar cost of the project. The \$1.900 million contingency will be funded from the transfer of unused foreign exchange contingencies from earlier ORACS project phases.

**Other Implications**

27. There are no legislative, regulatory, climate, population, cost of living or human rights implications.

**Use of External Resources**

28. No external resources were engaged in the development of the policy advice in this Cabinet Paper.

**Consultation**

29. This paper was prepared by the Ministry of Defence and the NZDF. It has been consulted with The Treasury, New Zealand Government Procurement, Department of Internal Affairs (Government Chief Digital Office), and the Government Communications Security Bureau.

**Communications**


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

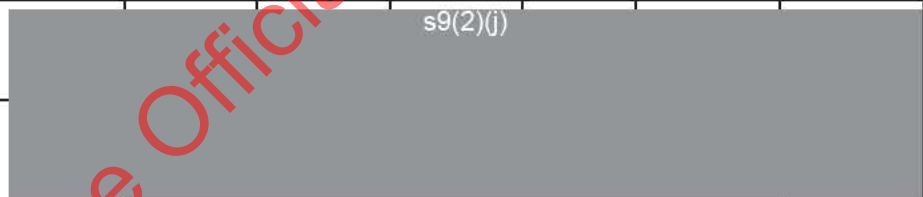
**Proactive Release**

31. I intend to proactively release this paper and associated minute, with appropriate redactions in line with the Official Information Act 1982.

## Recommendations

The Minister of Defence recommends that the Committee:

- 1 **note** the NH90 helicopter fleet needs an upgrade to their navigation systems to comply with the latest Civil Aviation Authority regulations;
- 2 **note** the NH90 helicopter fleet needs to complete an upgrade to their encrypted radios to remain operationally effective, including to communicate securely with international partners;
- 3  s9(2)(f)(iv)
- 4 **note** that on 29 April 2024 Cabinet [CAB-24-MIN-0148]:
  - 4.1 **agreed** to establish a tagged operating and capital contingency for: *NH90 Helicopter Upgrade: Navigation and Secure Radios* as part of the Vote Defence Force Budget 2024 package:

	NZ \$ M - increase/(decrease)						
	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31 & out-years
NH90 Helicopter Upgrade: Navigation and Secure Radios – Tagged Capital Contingency	 s9(2)(j)						
NH90 Helicopter Upgrade: Navigation and Secure Radios – Tagged Operating Contingency							

- 4.2 **authorised** the Minister of Defence and Minister of Finance jointly to draw down the tagged operating and capital contingency funding in recommendation 4 above subject to Cabinet approval of an Implementation Business Case;
- 4.3 **agreed** that the expiry date for the above tagged operating and capital contingencies be 30 June 2026;
- 5 **approve** ORACS Phase 2C Implementation Business Case, which involves the delivery of an upgrade to the navigation system and encrypted radios on the NH90 helicopter fleet;
- 6 **agree** that, as the Implementation Business Case described in recommendation 4.2 above has been satisfactorily completed, the ORACS 2C can now proceed;

- 7 **note** Phase 2C has a capital cost of \$64.667 million, steady state operating costs of s9(2)(j) for depreciation and capital charge, and an additional annual operating cost of s9(2)(j) which will be met from existing baseline funding already allocated to the ORACS programme;
- 8 **approve** a direct-source procurement for the NH90 navigation system and encrypted radio upgrade with NATO Helicopter Industries as no other supplier or substitute is available;
- 9 **approve** the following changes to appropriations and capital injections to provide for the decision in recommendation 5 above, with a corresponding impact on the operating balance and net debt:

Vote Defence Force Minister of Defence	NZ \$ M - increase/(decrease)						
	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31 & out-years
<b>Departmental Output Expenses:</b> Army Capabilities Prepared for Joint Operations and Other Tasks (funded by revenue Crown)	s9(2)(j)						
<b>Departmental Output Expenses:</b> Air Force Capabilities Prepared for Joint Operations and Other Tasks (funded by revenue Crown)							
<b>Multi-Category Expenses and Capital Expenditure:</b> Protection of New Zealand and New Zealanders: <b>Departmental Output Expenses:</b> Assistance to the Civil Power & Provision of a Public Service in Emergency Situations (funded by revenue Crown)							
<b>Departmental Capital Injection:</b> New Zealand Defence Force Capital Injection							
<b>Total Operating</b>							
<b>Total Capital Injection</b>							

- 10 **note** the following changes to the 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 long lead time items, initial technical work and project management, with a corresponding effect on net core Crown debt:

	NZ \$ M - increase/(decrease)					
Vote Defence Force Minister of Defence	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
Departmental Capital Expenditure: New Zealand Defence Force Capital PLA	s9(2)(j)					

- 11 **authorise** the Secretary of Defence to commit and approve expenditure of public money up to \$64.667 million for Phase 2C;
- 12 **authorise** the Secretary of Defence to commit and approve expenditure of public money of an additional NZ \$1.900 million as foreign exchange contingency to allow for any adverse movement in exchange rates before the contract with NATO Helicopter Industries is entered in to and the NZD cost is fixed;
- 13 **approve** the following changes to appropriations for the Secretary of Defence to commit to the acquisition process associated with the ORACS 2C;

	NZ \$ M - increase/(decrease)					
Vote Defence Minister of Defence	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
Multi-Category Departmental Expenses and Capital Expenditure:  Non-Departmental Capital Expenditure Defence Capability Delivery	s9(2)(j)					

- 14 **note** that the expenditure in recommendation 13 above is offset by a capital receipt from the New Zealand Defence Force;
- 15 **agree** that the expenditure incurred under recommendation 9 above be charged against the NH90 Helicopter Upgrade: Navigation and Secure Radios – Tagged Operating and Capital Contingency described in recommendation 4 above;
- 16 **note** 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);
- 17 **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, 2B and 2C subject to total expenditure remaining within

the combined approved total of \$162.134 million and the scope being consistent with the five separate approvals;

- 18 **approve** the transfer of foreign exchange contingency of \$1.000 million from ORACS Phase 1B and \$0.900 million from ORACS Phase 2A to ORACS Phase 2C;
- 19 **agree** that the proposed changes to appropriations for 2024/25 in recommendations 9, 10 & 13 above be included in the 2024/25 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply; and
- 20 **note** that, following the changes detailed in recommendation 9 above, the tagged operating and capital contingencies described in recommendation 4 above is now exhausted and therefore closed.

Authorised for lodgement

Hon Judith Collins KC MP  
**MINISTER OF DEFENCE**

Released under the Official Information Act 1982

## List of Appendices

A	Operational and Regulatory Aviation Compliance Sustainment Phase 2C Project Implementation Business Case
---	---

Released under the Official Information Act 1982