

ASSOCIATE MINISTER OF DEFENCE

The New Zealand Defence Force Estate and Future Investment via Public Private Partnerships

April 2025

This paper seeks agreement that bundled procurement options, such as Public Private Partnerships (PPPs), be considered for future investments in the Defence Force Estate.

The pack comprises the following documents:

- July 2024 Cabinet Business Committee Minute of Decision: *The New Zealand Defence Force Estate and Future Investment via Public Private Partnerships* [CBC-24-MIN-0068]; and
- The associated Cabinet Paper: *The New Zealand Defence Force Estate and Future Investment via Public Private Partnerships*;

This pack has been released on the New Zealand Defence Force website, available at: www.nzdf.mil.nz/nzdf/search-our-libraries/documents/?document-type=Official+information&sort=relevance.

Information has been withheld in accordance with:

- section 6(a) of the OIA: if the making available of that information would be likely to prejudice the security or defence of New Zealand or the international relations of the Government of New Zealand; and
- section 9(2)(f)(iv) of the OIA: to maintain the constitutional conventions for the time being which protect the confidentiality of advice tendered by Ministers of the Crown and officials.



Cabinet Business 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.

The New Zealand Defence Force Estate and Future Investment via Public Private Partnerships

Portfolio Defence

On 1 July 2024, the Cabinet Business Committee:

- 1 **noted** that the New Zealand Defence Force estate is in very poor condition, impacting on the delivery of military outputs;
- 2 **agreed** that, given the scale of investment and nature of the assets in the New Zealand Defence Force estate, bundled procurement options should be considered for ongoing service delivery, such as Public Private Partnerships;
- 3 **invited** the Associate Minister of Defence to submit a Detailed Business Case for accommodation, messing and dining modernisation at Linton Military Camp to the Cabinet Expenditure and Regulatory Review Committee;
- 4 **noted** that consideration of the Detailed Business Case referred to above does not represent a pre-commitment to funding and funding decisions will come later;
- 5 **noted** that the upcoming Defence Capability Plan and the subsequent refresh of the Defence Estate Regeneration Programme will contain a number of estate infrastructure investments, including accommodation, messing and dining modernisation at Linton Military Camp.

Janine Harvey
Committee Secretary

Present: (see over)

Present:

Rt Hon Christopher Luxon (Chair)
Hon David Seymour
Hon Nicola Willis
Hon Chris Bishop
Hon Shane Jones
Hon Dr Shane Reti
Hon Simeon Brown
Hon Erica Stanford
Hon Paul Goldsmith
Hon Mark Mitchell
Hon Simon Watts
Hon Casey Costello
Hon Chris Penk
Hon Andrew Hoggard

Officials present from:

Department of the Prime Minister and Cabinet

Proactively Released by the Associate Minister of Defence

THE NEW ZEALAND DEFENCE FORCE ESTATE AND FUTURE INVESTMENT VIA PUBLIC PRIVATE PARTNERSHIPS

Proposal

- 1 This paper outlines the very poor condition of the New Zealand Defence Force (NZDF) estate and the potential to use alternative funding and finance mechanisms such as Public Private Partnerships (PPP) to support investment. This paper also seeks agreement from Cabinet to receive a Detailed Business Case (DBC) to provide fit-for-purpose accommodation for military personnel at Linton Military Camp, facilities that are critical to NZDF operational readiness.

Relation to government priorities

- 2 This paper directly relates to the Government's foreign, defence and trade policy priorities¹. It supports the Minister of Defence's request that officials accelerate the delivery of the Defence Capability Plan (DCP). The DCP presents options for long term investment in specialist military equipment, estate, digital infrastructure, logistics and people, and associated costs, required to meet the Government's defence policy.²

Executive Summary

- 3 The NZDF estate is a critical enabler of military effect; providing the working, training and living environments required for generating and maintaining defence outputs. The dilapidated condition of the NZDF estate is evident everywhere, but mainly in the living and training environments, and with utilities such as power, water supply and sanitation.
- 4 There have been ongoing funding constraints for estate investment. Funding has impacted personnel readiness and availability. As a result, the NZDF is not optimised to respond to current day requirements, s.6(a)
- 5 The asset class having the greatest negative impact on the wellbeing of NZDF personnel is barracks and messes³. Existing barracks and messes are in a deteriorated condition, are not functionally fit-for-purpose and present health and safety risks to personnel, to whom the NZDF owes a duty of care. Personal safety issues associated with existing barracks are affecting women disproportionately. Most barracks in the NZDF estate were designed and built

¹ *Speech From the Throne* 6 December 2023 <https://gazette.govt.nz/notice/id/2023-vr5697>

² As articulated in: Defence Policy and Strategy Statement [ERS-23-MIN-0033] and Future Force Design Principles [CAB-23-MIN-0265].

³ Barracks provide temporary and longer term accommodation for single persons on camps and bases, and messes provide the associated dining and social spaces.

decades ago for a male-only force, and most have shared toilets and showers that create safety and privacy issues. To resolve these issues, new infrastructure is required.

- 6 A PPP is one option for delivering new infrastructure on the NZDF estate, in line with CO (23) 9⁴. The NZDF has selected a Design Build Finance Maintain (DBFM)⁵ model delivered as a PPP as the preferred procurement model for new accommodation and messing at Linton Military Camp. I therefore seek Cabinet agreement to present a DBC that supports investment in this infrastructure.

Background

- 7 The NZDF estate covers 81,000 hectares across nine camps and bases, two large training areas and various regional support facilities. It comprises more than 4,700 buildings. The land and buildings have a value of \$4.474 billion (at 30 June 2023), although the likely replacement value is three times this figure.
- 8 The estate is a critical enabler of NZDF capabilities and supports outputs in two primary forms:
- 8.1 as an enabler to military operations (e.g. wharf infrastructure, runways, and training grounds); and
 - 8.2 as personnel support (e.g. working accommodation, barracks, and horizontal infrastructure).
- 9 In 2016 [CAB-16-MIN-0333 refers] and again in 2019 [CAB-19-MIN-0171.01], successive Governments approved proposals to invest in the NZDF estate through the Defence Estate Regeneration Programme (DERP). The DERP was designed to achieve a fit-for-purpose and sustainable estate that more effectively enabled the delivery of NZDF outputs. To date the investment required by the DERP has not been matched by annual Budget allocations. Funding and investment in the NZDF estate has not kept up with requirements and the NZDF estate continues to fail to effectively support military outputs.
- 10 Alternative financing mechanisms offer greater options to 'pay as you go' for some infrastructure. Effective financing can link to better value and service whole of life outcomes for long-lived infrastructure. In this regard, a PPP is part of the mix of solutions available to deliver infrastructure and service outcomes for the NZDF estate.

State of the NZDF Estate

- 11 Most of the NZDF estate dates from the 1980s or earlier and much was built during or before World War II. There is minimal to no remaining useful life in most assets. Many NZDF personnel are living and working in aged buildings

⁴ Cabinet Office Circular (23) 9: Investment Management and Asset Performance in Departments and Other Entities

⁵ DBFM is a project delivery methodology that allows a private consortium to design, construct, finance, and provide regular maintenance and rehabilitation of an infrastructure asset over the term of the contract to meet predefined performance specification.

that are not fit-for-purpose, with accelerated states of deterioration resulting in substandard and unsafe conditions. Maintaining safe living and working conditions is a constant challenge. The very poor condition of the NZDF estate is mainly evident in the living and training environments and with utilities, such as power, water supply and sanitation.

- 12 It is estimated that 70% of the NZDF estate (by value) has less than 20 years' remaining useful life and 10% is already beyond its design life. The proportion of total estate assets (by value) that are beyond usable life is increasing. As at March 2024, there was a \$480 million maintenance backlog as the NZDF estate cannot be maintained or regenerated in a fit-for-purpose state given the rate that it continues to degrade and funding constraints. This results in increasing asset failures (both buildings and the underground utilities), costs, disaffection, reputational damage and an inability to delivery on military effect.
- 13 The problem is most evident where NZDF personnel live on camps and bases, in 7,100 existing barrack beds. Some living accommodation is not fit for occupation with barracks closing due to adverse conditions e.g., from water inundation, mould, and structural issues. Moreover, exit surveys have confirmed that 10% of personnel leave the NZDF predominantly due to the unsatisfactory working, training, and living environments.
- 14 At current levels of funding, it will take 120 years to regenerate the current estate at 2024 prices. This is unsustainable and will result in increased asset failures given critical infrastructure is unable to be maintained to required service levels.
- 15 The longer investment is delayed, the worse the situation will become, and the NZDF will need to shut down buildings. Depending on the criticality of the asset(s) to the function and operation of the camp or base, wholesale shut-down of operations at that location may be needed.
- 16 It is unreasonable to expect NZDF personnel to continue to work, live and train in the environments with these facilities, especially given the increasing health, safety and wellbeing risks and against the increasing call on the military to improve its readiness for military outputs.

Investment in the Defence Estate

- 17 On an annual basis there is \$108.692 million of depreciation capital generated by the NZDF estate (based on the value of NZDF buildings and infrastructure of \$3.461 billion, as at June 2023). Based on Cabinet direction [CAB-19-MIN-0171.01 refers] funding allocated to the DERP has been 'ring fenced'; i.e. will not be reallocated within Vote Defence Force without Cabinet's agreement. This is also aligned to the expectations set out in CO (23) 9 that agencies must apply depreciation funding *"to ensure the levels and methods of service enabled by the agency's assets reflect its strategic intentions"*.
- 18 Investment in NZDF estate is currently happening in accordance with the DERP and the priorities previously agreed by Cabinet [CAB-22-MIN-027 refers]. The main investments under consideration are:

- 18.1 continuation of approved projects to meet compliance health and safety requirement;
- 18.2 the Ohakea Infrastructure Programme;
- 18.3 the Consolidated Logistics Programme at Linton and Burnham;
- 18.4 the Horizontal Infrastructure Programme;
- 18.5 homes for families off-base;
- 18.6 on-base accommodation, messing and dining modernisation;
- 18.7 infrastructure linked to new capabilities and platforms;
- 18.8 regional facilities providing for Reserves, Defence Careers and contingent capability in support of local government;
- 18.9 investment in infrastructure to support Army training schools (Headquarters Training and Doctrine Command, The Army Depot and Army Command School functions (ab-initio training));
- 18.10 investment required to remain at the Devonport Naval Base; and
- 18.11 investment required to develop a supplementary facility at Whangārei.
- 19 Priorities for investment in the NZDF estate are being updated as part of the DCP and the DERP is being refreshed to reflect the adjusted priorities. In this regard, the level of investment required in the NZDF estate exceeds the level of depreciated funding available. The DERP always envisaged capital injection to support its implementation but investment has not been forthcoming to the levels identified. Further, costs have escalated. Implementation of the DERP is currently over \$500 million behind the 2019 agreed plan. This is in addition to the \$480 million of deferred maintenance associated with the existing estate.

Alternative Financing in the Context of the NZDF Estate

- 20 Given the lack of estate investment funding, the NZDF is less equipped with the capability to respond to current day requirements s.6(a)
- 21 There are several options for both investment and procurement of the necessary infrastructure explored in the DBC for Accommodation, Messing and Dining Modernisation (AMDM) at Linton Military Camp for example. Pricing and user charges are standard practice in some sectors, while public subsidies are more common in others. Either way, infrastructure is ultimately funded by users and taxpayers.
- 22 In the NZDF estate there are choices for the Government regarding how to gain best value for money while delivering the required service levels. The Design Build Finance Maintain (DBFM) model, to be delivered as a PPP, is

one of those mechanisms. DBFM enables the bundling of the detailed design, construction, financing and maintenance of the assets into one contract and spreads the payment to the supplier over a 25 year contract term. DBFM also provides greater assurance of realising the project benefits long-term as the parties responsible for design and construction of the assets are responsible for their whole of life performance and maintenance to an agreed standard and cost.

23 Key advantages⁶ to the Crown of the DBFM model therefore include:


23.1 Incentive for innovation in design, construction and maintenance as the same consortium is responsible for the quality of the assets over the full 25 years. Ongoing service quality is managed through a stringent performance regime, which can impose revenue abatements for poor performance.

23.2 Greater certainty of costs and time, as NZDF payments to the consortium only start when the asset is operational. It therefore allows for a better allocation of risk such as the total construction cost and the residual value of the asset at the end of the contract period.

24 A key question for the NZDF in use of DBFM, will be to balance the immediate access to capital to progress infrastructure versus being locked into an obligation to pay for said infrastructure over a very long time span.

Accommodation, Messing and Dining Modernisation (AMDM) at Linton Military Camp

s.9(2)(f)(iv)



⁶ Greater detail of the advantage of the DBFM model and the alternatives considered are outlined in the DBC for AMDM at Linton Military Camp.

s.9(2)(f)(iv)

33 I seek Cabinet's invitation to present the DBC for AMDM at Linton Military Camp to the Cabinet Expenditure and Regulatory Review Committee. The

⁷ Operation RESPECT was launched by the Chief of the Defence Force in 2016 to eliminate harmful and inappropriate sexual behaviour in NZDF, and is subject to audit by the Office of the Auditor General. A 2020 review recommended NZDF: "Prioritise work to increase the individual personal safety factors of barracks, ablutions and toilet facilities for all users."

DBC will outline all the issues raised in this Cabinet paper in more detail, as well as present the full range of investment and procurement options.

Cost-of-living and Financial Implications

- 34 There are no cost of living or financial implications from this paper. Cost-of-living and financial implications will be considered at the time any subsequent papers are presented.

Legislative Implications and Climate Change Implication of Policy Assessment

- 35 There are no legislative or climate change implications.

Population Implications and Human Rights

- 36 The NZDF is made up of 14,996 Regular Force Service people, Reserves and civilian employees (at 30 June 2023). Linton Military Camp is the NZDF's most populous camp with approximately 2,000 of the Army's 4,300 personnel. Modernised barracks and messes will support well-being and assist the NZDF to meet the needs of a diverse, modern workforce.
- 37 There are no implications for the New Zealand Bill of Rights Act 1990 or the Human Rights Act 1993.

Use of External Resources

- 38 No external resources were engaged in writing this paper. NZDF has formed an Alliance with professional services firms Beca, EY, and GHD. EY are providing commercial advice on PPP procurement generally, and there will be appropriate external commercial and legal support in any PPP procurement process and management.

Consultation

- 39 The following agencies were consulted on this paper: Ministry of Defence, The Treasury, New Zealand Infrastructure Commission, Ministry of Business, Innovation and Employment. The Department of the Prime Minister and Cabinet was informed.

Communications and Proactive Release

- 40 No communications are proposed in relation to this paper.
- 41 Whether I will release the Cabinet paper proactively in whole or in part or delay the release beyond 30 business days is yet to be confirmed.

Recommendations

- 42 The Associate Minister of Defence recommends that the Committee:
- 1 note the very poor condition of the NZDF estate impacting on the delivery of military outputs;

- 2 agree that given the scale of investment and nature of the assets in the New Zealand Defence Force estate, bundled procurement options should be considered for ongoing service delivery, such as Public Private Partnerships;
- 3 invite the Associate Minister of Defence to present to the Cabinet Expenditure and Regulatory Review Committee a Detailed Business Case for accommodation, messing and dining modernisation at Linton Military Camp;
- 4 note that consideration of the Detailed Business Case does not represent a pre-commitment to funding and funding decisions will come later; and
- 5 note that the upcoming Defence Capability Plan and the subsequent refresh of the Defence Estate Regeneration Programme will contain a number of estate infrastructure investments, including accommodation, messing and dining modernisation at Linton Military Camp.

Authorised for lodgement

Hon Chris Penk

Associate Minister of Defence

Proactively Released by the Associate Minister of Defence