

Minister of Defence

Chair, Cabinet Government Administration and Expenditure Review Committee

DEFENCE ESTATE WORK PROGRAMME

Proposal

1. This paper proposes:
 - 1.1. a First Principles Review of the Defence Estate Footprint s. 9(2)(f)(iv)

and
 - 1.2. continued investment in the Defence Estate through approval of the refreshed Defence Estate Regeneration Portfolio Business Case 2019-2035.

Executive Summary

2. The Defence Estate (the Estate) has suffered from long term under investment, resulting in deteriorating infrastructure. The current condition of the Estate does not align with, and risks delivery of, the policy priorities in the Coalition Government's *Strategic Defence Policy Statement 2018*.
3. To regenerate the Estate, and ensure it is future-proofed, I seek Cabinet approval to direct the New Zealand Defence Force (the Defence Force) to:
 - 3.1. Undertake a **First Principles Review of the Defence Estate Footprint** to provide the Coalition Government with a long term view (50 years) of the future of the Estate footprint;
 - 3.2. s. 9(2)(f)(iv)

; and
 - 3.3. Revise the **Defence Estate Regeneration Portfolio Business Case** to reflect the outcomes of the First Principles Review of the Defence Estate Footprint (including the Future Naval Base study) in 2021.
4. In advance of the above direction, the Defence Force has reviewed the Defence Estate Regeneration Programme Plan 2016-2030. The refreshed Defence Estate Regeneration Portfolio Business Case 2019-2035 (Annex C refers) has been developed in conjunction with the Defence Capability Plan 2019 being considered by this committee meeting.
5. Cabinet is requested to approve the Defence Estate Regeneration Portfolio Business Case 2019-2035 to provide a continued level of investment in the Estate while the First Principles Review of the Defence Estate Footprint is undertaken. This

investment will permit the Defence Force to address health and safety concerns from outdated working, training and living environments and to support the introduction and on-going delivery of strategic military capability.

6. A timeline of the key milestones for the above Estate work programme is provided at Annex A.

Background

7. The Coalition Government's *Strategic Defence Policy Statement 2018* affirms the priority the Government places on the New Zealand Defence Force's (the Defence Force) ability to operate, recognising the important role the Defence Force plays in promoting the overall wellbeing and resilience of New Zealand, its communities, and the environment. The *Community, Nation and World* framework of the Policy Statement also reinforces the Defence Force's contribution to global security and the maintenance of an international rules based order. The current Defence Estate (the Estate) is not fit to support this.
8. The Estate is needed to provide operational capability with the necessary training, working, living environments, and vital infrastructure critical for generating and maintaining the Defence Force's capabilities. The vision for the Estate is—a fit for purpose and sustainable Estate that enables the delivery of Defence Force outputs.
9. The Estate is at a point where improvement change is acute for personnel living and working on the Defence Force's camps and bases. The challenge for the Defence Force is balancing demands for investment in the Estate; supporting the introduction and on-going delivery of strategic military capability while also addressing increasing health and safety liability risks from degraded infrastructure. The challenge is compounded by compliance requirements for Healthy Homes, seismic strengthening, and fire safety.
10. The Estate has suffered from long term under investment, is old and outdated, with a large proportion dating back to World War II. The vast majority of the Estate (78%) has less than 30 years remaining useful life with a replacement cost of over \$3.2 billion. Of this, 15% has less than 10 years remaining life with a replacement cost of over \$600 million.
11. The approved Defence Estate Regeneration Programme Plan 2016-2030 provided the framework for an indicative investment (\$1.7 billion capital and \$2.553 billion operating) in the regeneration, management and use of the Estate to 2030 [CAB-16-Min-0333 refers]. The funding to implement the 2016 Plan was not provided at the time as individual investment decisions were to be subject to approval through business cases and to the year by year Budget process. The long term capital injections necessary to implement the 2016 Plan were not provided in full, which has slowed planning and delivery. In my view, this has the potential to impact the long-term needs of the Defence Force and delivery of the Coalition Government's policy priorities in the *Strategic Defence Policy Statement 2018*.
12. A fundamental reorientation of the Estate is required to ensure it is best positioned to deliver the Government's and Defence Force's long-term outcomes while also providing for continued investment to maintain a functional Estate in the interim.

13. As with the Defence Capability Plan, the 2019 Plan presents a significant affordability challenge for the Government given other known pressures in the capital pipeline and funding available through Budget capital allowances. This will require some difficult prioritisation decisions by Ministers, and Cabinet's agreement to the 2019 Plan does not imply that the funding necessary to implement it will be available.

First Principles Review of the Defence Estate Footprint

14. At Cabinet's direction, the Defence Force is to undertake a First Principles Review of the Defence Estate Footprint to ensure the Estate is fit for purpose, providing stability and direction for the Defence Force, and is able to deliver against Government and Defence Force strategies and priorities into the future. The Defence Force will lead the Review, with policy input also provided from the Ministry of Defence.
15. This work has previously been signalled to Cabinet as part of the December 2018 decision on the proposal to base the Singapore F-15s at Ohakea. Cabinet noted the capacity constraints faced by the Royal New Zealand Air Force (RNZAF) highlighted by the work to assess the F-15 proposal, and noted that the Minister of Defence will undertake an assessment of RNZAF air bases, as a key feature of a Defence Estate Footprint Review and a wider set of integrated Defence Estate workstreams [ERS-18-MIN-0027 refers].
16. The Review will provide recommendations for Cabinet consideration on the long term view (50 years) of the future Estate footprint including:
- 16.1. the appropriate location of all Defence Force sites;
 - 16.2. s. 9(2)(f)(iv) ; and
 - 16.3. requirements for headquarters, logistics, regional facilities and training functions that best meet the Defence Force's strategic long term capability requirements as well as consideration of wider social and economic drivers, including land acquisition opportunities.
17. The Review will consider a 50 year horizon as infrastructure and any changes to the Estate footprint require a long lead-time.
18. There are many benefits of undertaking the Review. The Review will:
- 18.1. consider previous Estate studies and reports to identify any consistent or reoccurring themes and information gaps;
 - 18.2. provide a sound basis for informed discussion between Ministers about long-term Estate investment objectives and priorities;
 - 18.3. clarify the strategic direction on the longer term future of the Estate to improve long term investment decision-making and provide greater certainty for Estate planning;
 - 18.4. help inform future government policy decisions including the realisation of all of government outcomes;

- 18.5. ensure the Estate is sustainable i.e. the Estate's natural, financial, manufactured, intellectual, social and human capital is enhanced and protected;
 - 18.6. support Defence Force related industries and employment; and
 - 18.7. enhance regional social and economic development including economic development opportunities from shared use of Defence Force facilities where appropriate.
19. The future Estate footprint will be assessed against the following criteria:
 - 19.1. the footprint aligns with known and anticipated Defence capability requirements;
 - 19.2. the footprint allows for flexibility in Estate design to incorporate changes in capability over time;
 - 19.3. the footprint provides tangible benefits and resilience to the Defence Force for the delivery of outputs;
 - 19.4. the footprint addresses encroachment pressures from third party competing land uses; and
 - 19.5. the footprint supports the Government's priorities including value for money and the Government's regional social and economic development goals.

Scope

20. The scope of the Review is limited to:
 - 20.1. consideration of the future location of Defence Force sites including camps and bases, regional/reserve facilities, headquarters, logistics and training area requirements, including land acquisition opportunities;
 - 20.2. consideration of the benefits and risks against agreed assessment criteria; and
 - 20.3. high level assessment of costs with reference to previous studies and projects.
21. The Review will exclude:
 - 21.1. detailed site planning including the development of site master plans; and
 - 21.2. changes to committed and inflight investments.

Ministerial oversight

22. Given the Review will consider wider Government priorities including its regional social and economic development goals, the Footprint Review s. 9(2)(f)(iv) will be overseen by a group of relevant Ministers being the Ministers of Defence, Finance, Regional Economic Development, Housing, and Urban Development and Infrastructure.

Terms of Reference

23. Terms of Reference for the Review will be developed based on the principles outlined in this paper. The Terms of Reference will be approved by the joint Ministers as outlined above.

Milestones

24. The proposed milestones for the Review are:
- 24.1. Joint Ministers to approve the Terms of Reference for the Review by the end of May 2019;
 - 24.2. outline future capability requirements including strategic locations by Q2 2019;
 - 24.3. site appraisals to determine constraints and development opportunities by Q3 2019;
 - 24.4. identify Estate footprint options for meeting future capability by Q4 2019;
 - 24.5. outline assessment of benefits, costs and risks including deliverability and operational impacts by Q4 2019;
 - 24.6. identify the policy implications of footprint options by Q4 2019;
 - 24.7. qualitative assessment of the regional social and economic impacts of options by Q4 2019;
 - 24.8. identify short list of viable footprint options for further direction from Cabinet to proceed to further detailed investigation by Q2 2020; and
 - 24.9. submit a Cabinet Paper by Q3 2020 on the outcome of the Review.

Financial Implications

25. The financial implications of conducting the First Principles Review of the Defence Estate Footprint will be prioritised within the existing Vote Defence Force operating baseline.
26. There are some capital funding risks associated with the potential outcomes of the Review. Funding for the Estate from the Defence Capability Plan Review 2019 is inadequate for substantial changes to the future Estate footprint.

27. While the Review is being undertaken, investment in the Estate needs to continue. For example, infrastructure to support the introduction of P-8A Poseidon at Ohakea and infrastructure for the Consolidated Logistics Project. Funding uncertainty requires rigorous prioritisation which has been reflected in the Defence Estate Regeneration Portfolio Business Case 2019-2035.

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

28. s. 9(2)(f)(iv), s. 9(2)(g)(i)

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Proactively Released by the Minister of Defence

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Defence Estate Regeneration Portfolio Business Case 2019-2035

39. The Defence Estate Regeneration Portfolio Business Case 2019-2035 (the 2019 Plan) (Annex C refers) is a refresh of the Defence Estate Regeneration Programme Plan 2016. The 2019 Plan has been developed in response to Cabinet direction for a review to be completed in 2018 [CAB-16-MIN-0333 refers].
40. The 2019 Plan has been developed alongside and in conjunction with the 2019 review of the Defence Capability Plan (DCP) and meets Cabinet Office requirements [CO (15) 5 refers] for Investment Management and Asset Performance in the State Services. The final details of the Plan will reflect any decisions made by Cabinet on the Defence Capability Plan 2019.
41. Estate Regeneration is a rolling programme which is updated every three years or in line with key strategic Defence policy reviews to enable flexibility of capital spend to respond to changing capability requirements. The next refresh will be in 2021 to reflect the outcome of the First Principles Review of the Defence Estate Footprint or following any changes to Defence policy as directed by Government, whichever occurs first.

1 Babcock have a current Provincial Growth Fund application for a dry dock at Northport.

42. The purpose of the 2019 Plan is to:
 - 42.1. respond to changes in requirements for the Defence Force;
 - 42.2. reflect changes to Government Defence policy and priorities;
 - 42.3. provide certainty for the next four years of Estate investment;
 - 42.4. provide a basis for long term planning, and
 - 42.5. support Defence Capability requirements.
43. An accompanying Defence Estate Regeneration Implementation Plan 2019 (the Implementation Plan) has been prepared as a stand-alone supporting document (Annex D refers). The Implementation Plan sets out the projects and indicative delivery timeline to 2035, and will be finalised to reflect the decisions made by Cabinet on the Defence Capability Plan 2019.

Guiding principles for the regeneration and management of the Estate

44. The Defence Force's approach to managing the Estate is currently guided by nine principles. These principles were approved by Cabinet in 2014 to provide the foundation for Estate Regeneration [SEC Min (14) 14/3]. I seek Cabinet approval to update these principles in the 2019 Plan to provide better alignment with policy priorities and to re-orientate the direction being taken for the Estate to:
 - 44.1. Operational units and support functions will be located or re-located to be in the best place for the Defence Force as a whole;
 - 44.2. Investment should primarily be in core operational locations where the Defence Force accommodates its deployable forces;
 - 44.3. Opportunities to rationalise or enhance the Estate to improve its efficiency and effectiveness will be pursued at all locations, e.g. by co-locating military training schools alongside operational units;
 - 44.4. Obsolete and inefficient infrastructure will be replaced and asset utilisation efficiencies and quality improvements will be generated over time;
 - 44.5. Infrastructure will be assessed for disposal if there is no longer a foreseeable need in the longer term;
 - 44.6. Management of the Estate will take full advantage of mandated all-of-government capital expenditure processes; and
 - 44.7. The funding allocated to the Estate Regeneration Programme, as set out in the Defence Capital Plan, will not be reallocated within Vote Defence Force without Cabinet agreement.
45. The main change is to no longer require the Defence Force to maintain a substantial presence in its current major locations, including training areas. This is necessary to remove any constraints on decisions for the Estate including as part of the First

Principles Review of the Defence Estate Footprint and to enable the Estate to be considered in its entirety.

46. I anticipate additional changes may be needed to the principles following the outcome of the First Principles Review of the Defence Estate Footprint to guide the long term direction of the Estate.
47. These changes will be reflected in the next Defence Estate Regeneration Portfolio Business Case in 2021 and in future Estate plans and strategies.

Approach to Estate Regeneration

48. The 2019 Plan considers the best options to deliver the objectives of Estate Regeneration that align with Government policy and the principles for managing the Estate. The preferred investment is to retain the integrated approach from the Defence Estate Regeneration Programme Plan 2016-2030 in conjunction with an anticipated \$2.1 billion of capital investment to 2030.
49. The preferred integrated approach maintains all existing camps and bases while allowing for possible changes in camp and base size, with assets and units relocated where there is a strong military and economic case to do so. Investment is focused on supporting military outputs and capability in the most cost-effective way. This approach will be reviewed again following the outcome of the First Principles Review of the Defence Estate Footprint (as part of the next Defence Estate Regeneration Portfolio Business Case in 2021).
50. As directed by Cabinet, the 2019 Plan has prioritised activities supporting the Future Air Surveillance Maritime Patrol (ASMP) capability (previously referred to as P-8A) and Complementary Capability infrastructure development [CAB-18-SUB-0305 refers].
51. The 2019 Plan accounts for key capability acquisitions consistent with the Defence Capability Plan 2019 as well as capital investment requirements for example, to address the Defence Force's horizontal infrastructure, and Defence housing.
52. The 2019 Plan has recognised and accounted for the impact of higher unscheduled maintenance costs, utility costs and costs of meeting building health and safety requirements associated with the aging Estate.

Supporting delivery of the 2019 Plan

53. Since the Defence Estate Regeneration Programme Plan 2016-2030, the Defence Force has progressed a significant change programme to better position itself for investment in the Estate including: the implementation of a new Defence Estate Operating Model with a focus on portfolio management; increase in personnel to support Estate delivery; improve asset management; improve the standard of Estate related policies and plans; and establish clear governance.
54. In addition to the above, to support the scale of investment, a Strategic Partnership is being procured through an Alliance commercial model to build the capacity and capability and to drive best practice and innovation for the effective management of the Estate.

55. The Strategic Partnership (Alliance) aims to establish a professional services relationship between industry partners and the Defence Force. The Strategic Partnership (Alliance) will provide professional services for the design and management of delivery of the Estate Regeneration capital programme, management of the Estate Regeneration maintenance (operational) programme, and the delivery of infrastructure to support new military capability.
56. Throughout the development and implementation process of the Strategic Partnership (Alliance) model, the Defence Force is consulting with officials from relevant agencies, including Treasury, Infrastructure Transactions Unit and MBIE.
57. In addition to the Strategic Partnership (Alliance), a new operating model, adopting a portfolio management approach, has been implemented for management of the Estate. Further organisational change is being undertaken to effectively progress Estate Regeneration, lift asset performance, promote greater innovation, maximise value for money and to successfully leverage industry sector capability. The Defence Force will work with the Infrastructure Transaction Unit to develop the 10 year pipeline view of this investment.

Financial Implications

Capital Cost and Funding

58. The Defence Force has delivered \$0.1B of approved Estate projects to date, with a remaining \$2.0B of expected investment to 2029/30.
59. Continued investment in the Estate's capital programmes is required to support Defence outputs. These prioritised and near term programmes include:
 - 59.1. continuation of the Approved Project Programme (from the Defence Estate Regeneration Programme Plan 2016-2030);
 - 59.2. additional infrastructure for the Future Air Surveillance Maritime Patrol capability at Ohakea;
 - 59.3. infrastructure supporting the Consolidated Logistics Project, and;
 - 59.4. continued investigation into other planned programmes (for example, housing).
60. s. 9(2)(f)(iv)
61. Table 1 presents the indicative capital expenditure for the Estate including contingency through to FY2022/2023 covering the Estate's capital programmes. Consistent with the Defence Capability Plan, and unspent contingency will be reprioritised within the portfolio. Detail on the indicative capital expenditure to 2035 is provided at Annex B.

Table 1: Indicative capital expenditure through to FY2022/2023

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

62. The indicative capital costs for Estate Regeneration are intended to be funded through a mix of centrally allocated depreciation funding and capital injections. The funding profile has been aligned with the indicative \$2.1 billion expenditure to 2030 from the Defence Capability Plan Review (with the view presented as at December 2018).
63. The Defence Force has allocated depreciation arising from Estate and Infrastructure assets to provide the Estate's investment profile some funding certainty. However, a significant portion of the 2019 Plan will require capital injections (Table 2 refers). Investment in priority Defence Force and Estate programmes will be funded through allocated depreciation to provide delivery certainty.

Table 2: Indicative capital funding through to FY2022/2023

Vote Defence Force (\$million)	2019/20	2020/21	2021/22	2022/23	Total
Approved projects funded through annual depreciation allocation	58	8	8	1	75
Approved projects funded through existing capital injections	43	76	55	9	183
Planned projects funded through accumulated and annual depreciation allocation	21	57	130	120	328
Planned projects capital injection sought through business cases and the Budget process	s. 9(2)(f)(iv)	s. 9(2)(f)(iv)	s. 9(2)(f)(iv)	s. 9(2)(f)(iv)	s. 9(2)(f)(iv)
Total	s. 9(2)(f)(iv)	s. 9(2)(f)(iv)	s. 9(2)(f)(iv)	s. 9(2)(f)(iv)	s. 9(2)(f)(iv)

64. Capital injections are currently estimated to be required in later years to deliver programmes such as Accommodation Messing and Dining Modernisation (indicatively \$161 million), the Estate's contribution to potential future investments in Consolidated Learning (indicatively \$205 million), and Estate projects linked to the introduction of capability such as the Air Surveillance Maritime Patrol (indicatively \$288 million). s. 9(2)(f)(iv)

65. As with the Defence Capability Plan, the 2019 Plan presents a significant affordability challenge for the Government given other known pressures in the capital pipeline and funding available through Budget capital allowances. This will require some difficult prioritisation decisions by Ministers, and Cabinet's agreement to the 2019 Plan does not imply that the funding necessary to implement it will be available.

Operating Cost, Personnel Cost and Funding

- 66. Estate operating costs cover maintenance, rental of property, utilities, rates, environmental costs and professional services (including operation of the Strategic Partnership (Alliance)).
- 67. Maintenance expenditure will be prioritised and targeted to maintain assets to an agreed level of service and performance. The current maintenance regime and utilities expenditure is based on 2.8 % - 3.35% of the replacement value of assets. Table 3 presents the indicative operating costs to FY2022/23.
- 68. The Defence Force has identified a backlog in maintenance. Additional operating funding for this is being sought through Budget 2019. Strategic Programmes in the 2019 Plan, including accommodation solutions, are anticipated to increase operating costs and will be addressed in later Budgets.
- 69. Estate operating expenditure is estimated to total **s. 9(2)(f)(iv)**. This figure excludes forecast depreciation and incremental capital charges (refer Table 3).

Table 3: Forecast Operating Costs to FY2022/2023

Estate Regeneration (\$million)	2019/20	2020/21	2021/22	2022/23	Total
Base Estate operating expenditure	165	168	172	176	681
s. 9(2)(f)(iv)					

70. Forecast Estate depreciation and incremental capital charges are outlined below.

Table 4: Forecast Depreciation and incremental Capital Charges to FY2022/2023

Estate Regeneration (\$million)	2019/20	2020/21	2021/22	2022/23	Total
Expected depreciation	63	66	72	79	280
Incremental capital charge on planned capital injections	-	1	8	19	28

71. To execute the 2019 Plan, the number of Estate delivery personnel has been approved to grow to 210 FTE within baselines to build capacity in project delivery, asset and facilities management. Personnel expenditure is estimated to be \$290 million between 2019/20 and 2029/30. Funding is allocated for this level of resource.

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

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

Consultation

73. This paper has been consulted with The Treasury, Department of Internal Affairs and Ministry of Business, Innovation and Employment. The Department of Prime Minister and Cabinet has been informed.

74. In addition to central agencies, a greater range of stakeholders will be consulted with during the First Principles Review of the Defence Estate Footprint including industry, local government, Ministry of Transport, NZ Transport Agency, National Maritime Coordination Centre, Maritime New Zealand, Ministry of Civil Defence and Emergency Management, Antarctica New Zealand, Fire and Emergency New Zealand, Department of Conservation, Ministry for Primary Industries, New Zealand Customs Service, Government Communications Security Bureau, New Zealand Police, New Zealand Security Intelligence Service, and Ministry of Foreign Affairs and Trade.

Other Implications

75. There are no Human Rights, Legislative, Regulatory, Gender or Disability implications resulting from this paper.

Proactive Release

76. This paper, alongside the Defence Estate Regeneration Portfolio Business Case 2019-2035 and the Defence Estate Regeneration Implementation Plan 2019 will be

proactively released within 30 business days of final decisions on the Terms of Reference for the First Principles Review of the Defence Estate Footprint being made by Joint Ministers, subject to any appropriate redactions.

Publicity

77. The Defence Estate Regeneration Portfolio Business Case 2019-2035 has been written with the intent of it being accessible for the public, the Defence workforce and infrastructure industry audiences.
78. Following approval of the Terms of Reference by Joint Ministers, I propose to issue a media release announcing the First Principles Review of the Defence Estate Footprint, alongside the public release of the Defence Estate Regeneration Portfolio Business Case 2019-2035.

Recommendations

79. I recommend that the Committee:

Background

1. **note** that a fundamental reorientation of the Estate is required to ensure it is best positioned to deliver the Government's and Defence Force's long-term outcomes while also providing for continued investment to maintain a functional Estate in the interim;

First Principles Review of the Defence Estate Footprint

2. **direct** the Defence Force to undertake a First Principles Review of the Defence Estate Footprint to provide the Government with a long-term view of the future of the Defence Estate;
3. **agree** that the Review will be overseen by a group of Ministers being the Ministers of Defence, Finance, Regional Economic Development, Housing and Urban Development and Infrastructure;
4. **direct** the Defence Force to draft Terms of Reference for the review to be approved by the joint Ministers as outlined above;
5. **agree** that the criteria to assess the range of viable options for the future Defence Estate footprint are:
 - 5.1. the footprint aligns with known and anticipated Defence capability requirements;
 - 5.2. the footprint allows for flexibility in Estate design to incorporate changes in capability over time;
 - 5.3. the footprint provides tangible benefits and resilience to the Defence Force for the delivery of outputs;

- 5.4. the footprint addresses encroachment pressures from third party competing land uses; and
 - 5.5. the footprint supports the Government's priorities including value for money and the Government's regional social and economic development goals;
 6. **invite** the Minister of Defence to submit a short list of viable footprint options for further direction for detailed investigation to Cabinet by Q2 2020;
 7. **invite** the Minister of Defence to submit the outcome of the First Principles Review of the Defence Estate Footprint, following the detailed investigation, to Cabinet by Q3 2020;
- s. 9(2)(f)(iv)
8. s. 9(2)(f)(iv)

Defence Estate Regeneration Portfolio Business Case 2019-2035

9. **note** that the draft Defence Estate Regeneration Portfolio Business Case 2019-2035 is a refresh of the Defence Estate Regeneration Programme Plan 2016-2030 approved by the previous Government in August 2016 [CAB-16-Min-0333 refers];
10. **note** that the draft Defence Estate Regeneration Portfolio Business Case 2019-2035 has been developed alongside and in conjunction with the Defence Capability Plan 2019;
11. **note** that the principles which provide the foundation for Estate Regeneration and the Defence Force's approach to managing the Defence Estate have been retested and updated;
12. **rescind** the existing principles for Estate Regeneration and the Defence Force's approach to managing the Defence Estate [SEC Min (14) 14/3 refers];
13. **approve** the updated principles for Estate Regeneration and the Defence Force's approach to managing the current Defence Estate:
 - 13.1. Operational units and support functions will be located or re-located to be in the best place for the Defence Force as a whole;
 - 13.2. Investment should primarily be in core operational locations where the Defence Force accommodates its deployable forces;
 - 13.3. Opportunities to rationalise or enhance the Estate to improve its efficiency and effectiveness will be pursued at all locations, e.g. by co-locating military training schools alongside operational units;

- 13.4. Obsolete and inefficient infrastructure will be replaced and asset utilisation efficiencies and quality improvements will be generated over time;
- 13.5. Infrastructure will be assessed for disposal if there is no longer a foreseeable need in the longer term;
- 13.6. Management of the Estate will take full advantage of mandated all-of-government capital expenditure processes; and
- 13.7. The funding allocated to the Estate Regeneration Programme, as set out in the Defence Capital Plan, will not be reallocated within Vote Defence Force without Cabinet agreement.
14. **note** that the principles for Estate Regeneration and the Defence Force's approach to managing the Defence Estate may be revised further to reflect the outcomes of the First Principles Review of the Defence Estate Footprint;
15. **approve** the Defence Estate Regeneration Portfolio Business Case 2019-2035 to provide for continued investment in the Defence Estate, subject to any changes required to reflect decisions made by Cabinet on the principles for Estate Regeneration and the Defence Capability Plan 2019;
16. **note** that the draft Defence Estate Regeneration Implementation Plan 2019 has been prepared as a supplementary document to the Defence Estate Regeneration Portfolio Business Case 2019-2035, and will be finalised to reflect decisions made by Cabinet on the Defence Capability Plan 2019;
17. **note** that the Defence Estate Regeneration Portfolio Business Case 2019-2035 has prioritised activities supporting the P-8A (now referred to as the Defence Force Future Air Surveillance Maritime Patrol) and Enhanced Maritime Awareness Capability infrastructure development as directed by Cabinet [CAB-18-SUB-0305];
18. **note** that a Strategic Partnership is being progressed through an Alliance commercial model to build capacity and capability and to drive best practice and innovation for the effective management of the Defence Estate;
19. **note** the Defence Force are consulting with officials from relevant agencies, including Treasury, Infrastructure Transactions Unit and MBIE, throughout the development and implementation of the Strategic Partnership (Alliance);

Financial Implications

20. **note** that the forecast capital expenditure of \$2.0 billion from FY2019/20 to FY2029/30, the operating and personnel forecast expenditure of \$2.7 billion and \$290 million respectively from FY2019/20 to FY2029/2030, presents a total capital and operating investment of \$4.9 billion, excluding depreciation and capital charge;
21. **note** that there are no capital injections required in FY2019/20, because near term capital expenditure on the Defence Estate is prioritised within baseline funding;
22. **note** that depreciation from Estate and Infrastructure assets is spent within the Defence Estate;

23. **note** that indicative requirements for investment through to 2022/23 in the Defence Estate Regeneration Portfolio Business Case 2019-2035 requires the following new capital funding to be sought through business cases and the Budget processes for Vote Defence Force:

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

24. **note** that agreement to the recommendations in this paper does not imply funding is agreed for the investments included in the Defence Estate Regeneration Portfolio Business Case 2019-2035;

25. **note** that each investment seeking additional funding needs to be justified through a business case considered by Cabinet before funding is agreed and is also subject to funding being available in the Budget capital allowances, taking into account other Government investment priorities;

26. **note** that there are substantial known capital pipeline pressures which will require prioritisation to manage within Budget capital allowances;

27. **note** that capital and operating cost increases will be managed through the annual Budget process for Vote Defence Force;

Next Steps

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

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30. **direct** the New Zealand Defence Force to update the Defence Estate Regeneration Portfolio Business Case in 2021, following the First Principles Review of the Defence Estate Footprint or following changes to Defence policy as directed by Government, whichever occurs first;

31. **invite** the Minister of Defence to submit to Cabinet in 2021 an updated Defence Estate Regeneration Portfolio Business Case;

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

- 33. note** that this paper, alongside the Defence Estate Regeneration Portfolio Business Case 2019-2035 and the Defence Estate Regeneration Implementation Plan 2019 will be proactively released within 30 business days of final decisions on the Terms of Reference for the First Principles Review of the Defence Estate Footprint being made by Joint Ministers, subject to any appropriate redactions.

Authorised for lodgement

Hon Ron Mark

MINISTER OF DEFENCE

Annexes:

- A. Timeline for key decisions
- B. Indicative capital expenditure to 2035
- C. Draft Defence Estate Regeneration Portfolio Business Case 2019-2035
- D. Draft Defence Estate Regeneration Implementation Plan 2019

Proactively Released by the Minister of Defence