

ASSOCIATE MINISTER OF DEFENCE

Accommodation Messing and Dining Modernisation Programme: Linton Pilot Project Detailed Business Case

April 2025

This paper seeks approval of the New Zealand Defence Force Accommodation, Messing and Dining Modernisation – Linton Pilot Project Detailed Business Case.

The pack comprises the following documents:

- July 2024 Cabinet Minute of Decision: *Accommodation Messing and Dining Modernisation Programme: Linton Pilot Project Detailed Business Case* [CAB-24-MIN-0276.01];
- July 2024 Cabinet Expenditure and Regulatory Review Committee Minute of Decision: *Accommodation Messing and Dining Modernisation Programme: Linton Pilot Project Detailed Business Case* [EXP-24-MIN-0035];
- The associated Cabinet Paper: *Accommodation Messing and Dining Modernisation Programme: Linton Pilot Project Detailed Business Case*; and
- Appendices B-F to the Cabinet Paper.

Note that there is a correction to Footnote 3 on Page 3. The footnote refers to 186 sexual violence incidents reported; this should more correctly be phrased as 186 reported incidents of harmful sexual behaviour, some of which are categorised as sexual violence.

Harmful sexual behaviour is a descriptor for a number of sexual behaviours that can involve elements of force, coercion, and/or power where by one person, with reasonable cause, given the power differential, context or culture (or a combination of those factors), feels objectified or sexualised by the actions of another. Harmful sexual behaviour can include both contact and non-contact behaviours.

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 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;*
- section 9(2)(g)(i) of the OIA: *to maintain the effective conduct of public affairs through the free and frank expression of opinions by or between or to Ministers of the Crown or members of an organisation or officers and employees of any public service agency or organisation in the course of their duty; and*
- section 9(2)(j) of the OIA: *to enable a Minister of the Crown or any department or organisation holding the information to carry out, without prejudice or disadvantage, negotiations.*

In addition, the Detailed Business Case (Appendix A) has been withheld in full in accordance with sections 9(2)(f)(iv) and 9(2)(j) of the OIA. The public interest is met with a summary of the key information that formed the basis of Cabinet's decision to invest this funding being provided by the Cabinet paper.



Cabinet

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.

Accommodation Messing and Dining Modernisation Programme: Linton Pilot Project Detailed Business Case

Portfolio Associate Defence

On 29 July 2024, following reference from the Cabinet Expenditure and Regulatory Review Committee (EXP), Cabinet:

Business case

- 1 **noted** that in April 2023, Cabinet endorsed the Accommodation, Messing and Dining Modernisation Programme Business Case [GOV-23-MIN-005], noting that the 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 New Zealand Defence Force (NZDF) owes a duty of care;
- 2 **noted** that on 1 July 2024, the Cabinet Business Committee invited the Associate Minister of Defence to submit a Detailed Business Case for accommodation, messing and dining modernisation at Linton Military Camp to EXP [CBC-24-MIN-0068];
- 3 **noted** that the Programme Business Case recommended an approach of replacing existing barracks and messes with new build assets, investing in five tranches out to 2045, including a pilot tranche at Linton Military Camp in the Manawatū to be delivered before s.9(2)(g)(i);
- 4 **noted** that the Preferred Option in the Detailed Business Case for Linton Military Camp is to deliver 1,124 new build barrack rooms and a new consolidated mess to replace the existing facilities;
- 5 **endorsed** the Detailed Business Case for the Accommodation, Messing and Dining Modernisation Programme Pilot Project at Linton Military Camp, as set out in Appendix A to the submission under EXP-24-SUB-0035;
- 6 **noted** that NZDF will seek funding through s.9(2)(f)(iv) future Budgets processes for the cost of the proposed investment and that endorsement of the Detailed Business Case is not a commitment to funding, which is subject to future Budget decisions;
- 7 **agreed** that further information is required on the procurement model options before the preferred Design Build Finance Maintain approach is approved;

- 8 **invited** the Associate Minister of Defence to report back to EXP with more detailed information to allow a thorough comparison of the short-listed procurement approaches, including:
- 8.1 a clear articulation of the advantages and disadvantages of the alternative approaches;
 - 8.2 a breakdown and phasing of costs under the different options;
 - 8.3 the implications for the Budget allowances of each option;
 - 8.4 a detailed comparison of the timelines, decision points, possible off-ramps, and costs of each stage of the process;
- 9 **noted** that the report back referenced in paragraph 8 above will seek decisions on the proposed procurement, funding, and Implementation Business Case processes.

Rachel Hayward
Secretary of the Cabinet

Secretary's Note: This minute replaces EXP-24-MIN-0035. Cabinet amended paragraphs 5 to 9 and deleted paragraphs 10 to 16.



Cabinet Expenditure and Regulatory Review Committee

Minute of Decision

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Accommodation Messing and Dining Modernisation Programme: Linton Pilot Project Detailed Business Case

Portfolio Associate Defence

On 23 July 2024, the Cabinet Expenditure and Regulatory Review Committee (EXP):

Business case

- 1 **noted** that in April 2023, Cabinet endorsed the Accommodation, Messing and Dining Modernisation Programme Business Case [GOV-23-MIN-005], noting that the 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 New Zealand Defence Force (NZDF) owes a duty of care;
- 2 **noted** that on 1 July 2024, the Cabinet Business Committee invited the Associate Minister of Defence to submit a Detailed Business Case for accommodation, messing and dining modernisation at Linton Military Camp to EXP [CBC-24-MIN-0068];
- 3 **noted** that the Programme Business Case recommended an approach of replacing existing barracks and messes with new build assets, investing in five tranches out to 2045, including a pilot tranche at Linton Military Camp in the Manawatū to be delivered before s.9(2)(g)(i);
- 4 **noted** that the Preferred Option in the Detailed Business Case for Linton Military Camp is to deliver 1,124 new build barrack rooms and a new consolidated mess to replace the existing facilities;
- 5 **approved** the Detailed Business Case for the Accommodation, Messing and Dining Modernisation Programme Pilot Project at Linton Military Camp, as set out in Appendix A to the paper under EXP-24-SUB-0035;
- 6 **approved** the Detailed Business Case recommendation that the Preferred Procurement Model be a Design Build Finance Maintain, which is a form of Public-Private Partnership;
- 7 **noted** that the Value for Money assessment shows that the project can be delivered as a Public-Private Partnership at the same or lower cost than a Design Build procurement in Whole of Life Net Present Cost terms;
- 8 **noted** that the Value for Money assessment will be revalidated before a Request for Proposals is issued to the market, with an Affordability Threshold set at the cost of procuring the project as a Design Build, which bids will not be allowed to exceed;

- 9 **noted** that NZDF will continue to seek expertise and oversight from the Infrastructure Commission on the use of the Public-Private Partnership;

Financial impact

- 10 **noted** that NZDF will seek funding through s.9(2)(f)(iv) future Budget processes for the cost of the Design Build Finance Maintain agreement, with an estimated total direct capital cost of s.9(2)(j) and total operating and capital cost of s.9(2)(j) through to 2060;
- 11 **noted** that the cost of the project finalised on negotiation with the preferred bidder will remain within the agreed fiscal envelope set at future Budgets, which will be no more than the Affordability Threshold;

Procurement process

- 12 **noted** that, if funding is made available at s.9(2)(f)(iv) future budgets, the Minister of Defence intends to issue a media release outlining the overall direction and project timeframes;
- 13 **noted** that, if sufficient funding is made available for the cost of the Design Build Finance Maintain agreement at s.9(2)(f)(iv) future Budgets, NZDF will move into the open market procurement process, which includes the release of the Request for Proposals and evaluation of bid submissions;
- 14 **noted** that, if funding is made available at s.9(2)(f)(iv) future Budgets, the NZDF will reimburse external bid costs up to a total of s.9(2)(g)(i) per unsuccessful bidder, for a maximum of two unsuccessful bidders from the Short-listed Respondents during the procurement phase;
- 15 **invited** the Associate Minister of Defence to submit an Implementation Business Case to EXP following the evaluation of bids, with a focus on achieving optimal value for money and reducing build costs;
- 16 **noted** that the Implementation Business Case will identify a preferred bidder for Cabinet approval and will seek permission for NZDF to enter into contractual negotiations and reach contract and financial close within an agreed fiscal envelope.

Sam Moffett
Committee Secretary

Present:

Rt Hon Winston Peters
Hon David Seymour (Chair)
Hon Nicola Willis
Hon Chris Bishop
Hon Brooke van Velden
Hon Simeon Brown
Hon Erica Stanford
Hon Louise Upston
Hon Mark Mitchell
Hon Andrew Bayly
Hon Mark Patterson
Hon Chris Penk
Hon Penny Simmonds

Officials present from:

Office of the Prime Minister
Officials Committee for EXP
New Zealand Defence Force

Office of the Associate Minister of Defence

Cabinet Expenditure and Regulatory Review Committee

ACCOMMODATION MESSING AND DINING MODERNISATION PROGRAMME – LINTON PILOT PROJECT DETAILED BUSINESS CASE

Proposal

- 1 This paper requests approval of the New Zealand Defence Force (NZDF) Accommodation, Messing and Dining Modernisation (AMDM) – Linton Pilot Project Detailed Business Case (DBC) (Appendix A). The Linton Military Camp (Linton) is the pilot site for the Cabinet-approved AMDM Programme Business Case (PBC) [GOV-23-MIN-005 refers].
- 2 This paper sets out the plan to provide fit-for-purpose living conditions for military personnel at Linton Military Camp using a Design Build Finance Maintain model delivered as a Public Private Partnership. Successful delivery is critical to the operational readiness of the NZDF. The NZDF intends to submit a bid through s.9(2)(f)(iv) future Budgets for funding to support this project.

Relation to Government Priorities

- 3 This paper directly relates to the Government's foreign, defence and trade policy priorities. It supports the Minister of Defence's Defence Capability Plan (DCP), which will present 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.¹ Nothing in this paper pre-empts Cabinet consideration of the DCP.

Executive Summary

- 4 NZDF personnel are at the frontline of New Zealand's security, but they cannot do their jobs without the right equipment and conditions. Barracks (on-base living quarters) and messes (dining and social facilities) provide the environment for our people to eat, sleep, and study, which enables them to train effectively and perform their duties to support an operationally-prepared defence force.
- 5 Attrition is the most significant risk currently facing the NZDF as we rebuild the Force. Personnel who are in the early stages of their careers typically live in barracks. This is a critical stage in their training and development as soldiers, sailors and aviators. Initiatives that improve the living conditions of service personnel, such as this project, are key factors to rebuilding and sustaining the NZDF's workforce and regenerating a resilient military capability.

¹ As articulated in: Defence Policy and Strategy Statement [ERS-23-MIN-0033] and Future Force Design Principles [CAB-23-MIN-0265].

- 6 Existing barracks 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. Communal bathrooms, a legacy from an all-male era, impair personal safety and privacy; these issues disproportionately affect women and are a barrier to achieving the diversity essential in a modern defence force.
- 7 Continued delay to investment means these risks persist, and conditions further deteriorate, contributing to the further degradation of the NZDF's capabilities. This project is a significant opportunity to support the NZDF's most important capability with modern living conditions.
- 8 The attached DBC proposes to deliver 1,124 new barrack rooms and a new mess at Linton. This will transform the living conditions of personnel at Linton, delivering buildings that are functionally fit-for-purpose, safer for all personnel, and better support the NZDF's operational effectiveness. The project responds to the recommendations of Operation RESPECT², while delivering a new barrack room standard that is adaptable by accommodating double occupancy for surge scenarios.
- 9 The Preferred Procurement Model is a Design Build Finance Maintain (DBFM) to be delivered as a Public Private Partnership (PPP). Selection of DBFM as the preferred procurement model was an outcome-focused decision by the NZDF to support the ongoing quality of the living environment for its personnel. It 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.
- 10 The Value for Money assessment has identified that this PPP would be no more expensive than a traditional Design-Build across the life of the assets. Market engagement has confirmed that there is market capacity and interest for the project under this model. A PPP approach for this type of infrastructure is new to the NZDF, however shared service delivery is not. The approach will require added capability in procurement and contract management. The resourcing of this uplift has been considered as part of the DBC and the NZDF has committed to this change.
- 11 Delivery of the project will be subject to the necessary funding being made available through s.9(2)(f)(iv) future budget processes. The project is estimated to require a capital investment of s.9(2)(j) and an average annual operating cost uplift of s.9(2)(j) (including depreciation and capital charge) during the steady state of the DBFM contract (i.e. once the facilities are built and operational). This includes the unitary charge that pays back the initial capital investment by the private sector spread over a 25-year contract duration.

² 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."

Background

- 12 In April 2023, the AMDM PBC was approved by Cabinet [GOV-23-MIN-005]. The PBC supports the Government's direction for the NZDF to maintain operational readiness, recognising that personnel are a fundamental component of any military capability and the importance of barracks and messes in enabling service personnel to perform as required.
- 13 Military personnel are regularly required to take postings between different camps and bases to attend training courses, maintain unit capability, or when deployed as part of a team on operations both domestically and internationally. Barracks and messes enable this mobility and flexibility. They are also used for disaster response and multi-agency response such as the 2011 Christchurch Earthquake.
- 14 Across the NZDF estate, existing barracks are in a highly deteriorated or end-of-life condition, and they are no longer functionally fit-for-purpose for a modern adaptable defence force. Furthermore, personnel have consistently raised issues that most barrack rooms have insufficient space for storage of required equipment, personal effects and a study area, which is required as part of their training and ongoing development.
- 15 Poor noise isolation between barrack bedrooms also means that more than half of personnel at Linton report that their barracks are not quiet enough to allow a good night's sleep. Dated buildings fall well short of modern thermal insulation standards and energy efficiency is poor. s.9(2)(g)(i)
- 16 Existing barracks are legacy infrastructure from a predominantly all-male defence force. Barracks are now mostly unisex to support efficiency and unit cohesion, however they are not suited for mixed gender use. Barracks have communal toilets and showers, and other features that compromise the privacy, safety and security of their users.³ These issues disproportionately affect women, and hinder targets to substantially increase the number of military women in the NZDF.
- 17 The current state of these facilities undermines learning and operational effectiveness. It affects morale, adding to attrition of highly trained personnel. This is a profound and current issue for the NZDF as continued attrition risks the loss of further capabilities and undermines operational readiness.
- 18 The energy and water systems for barracks and messes are similarly in a deteriorated condition. Therefore, the costs of maintaining these assets are

³ Almost all reported incidents of sexual harm occur within barracks and messes. 186 sexual violence incidents have been reported that occurred in NZDF camps and bases from July 2016 to April 2022. Where location details have been recorded, almost all of these have occurred in barracks or messes. The 2020 review of Op RESPECT stated, "During the course of this review women told us about a range of situations in which they felt uncomfortable, vulnerable or at serious risk because of unisex facilities. We heard from women who had delayed showering until the early hours of the morning to increase their chance of privacy and reduce the risk of becoming the target of inappropriate behaviour when using unisex bathrooms".

becoming unsustainable and represent sunk investment through escalating costs to repair inefficient, unfit-for-purpose facilities. Closure of entire barrack blocks or rooms for emergency repairs is a frequent occurrence and long term closure due to critical defects and compounding maintenance issues is becoming more common.

Pilot approach

- 19 The PBC sets out a programme of five tranches starting with a pilot project to develop the design 'blueprint', as well as to identify lessons to be applied to future tranches. The PBC demonstrates clear economic benefits to modernisation in tranches of whole camps and bases, rather than piecemeal replacement of individual buildings. This maximises efficiency of construction and widens the range of staging and procurement options. It also brings additional benefits to consolidate existing accommodation precincts for safer and more efficient movement pathways.
- 20 Linton Military Camp near Palmerston North has been selected as the pilot project for the AMDM Programme. Linton is the most populous camp or base within the Defence Estate, so it provides a significant opportunity to realise benefits. The proposed site for new accommodation requires no major relocation of other asset types so there is less development complexity and lower risk.

New barracks and mess features

- 21 The new barrack room designs provide adequate storage, living and sleeping space and study space. They provide for personal privacy by moving away from shared ablutions. These design features are consistent with United Kingdom Armed Force and Australian Defence Force barracks standards that have been delivered for more than 10 years. The rooms can also accommodate double occupancy in surge scenarios compared to existing rooms.
- 22 A single consistent design standard for all single living barrack rooms, including self-contained bathrooms, will enable greater efficiency and flexibility of room allocation resulting in a reduction in the total bed numbers required. Existing room sizes that differ between ranks, and shared bathrooms mean that it is common practice to set aside whole blocks for specific ranks, genders, or units.
- 23 A consolidated mess design will be more efficient and combine the functions of multiple existing buildings into a single footprint allowing all ranks to share a combined dining space, while retaining rank-specific social spaces. The design will foster social cohesion and support a wider range of social activity and will be more inclusive for families of military personnel attending social events.

Preferred Option

- 24 The DBC evaluated three shortlisted accommodation options and a consolidated mess option. Accommodation and mess options were considered separately so as not to conflate the benefits of one with the whole. These options and the base case comparison are summarised as follows:

- 24.1 *Base Case* accommodation option delivering only the necessary investments to maintain existing facilities to the status quo;
- 24.2 *Infrastructure Feasibility Focus* accommodation option consists of a mix of new build barracks, major alterations to existing barracks, and maintained existing barracks;
- 24.3 *People Focus* accommodation option consists of a mix of new build barracks, and major alterations to existing barracks; and
- 24.4 *New Build* accommodation option consists of a replacement of all existing barracks with new builds.
- 25 The options analysis for accommodation used both a Cost Benefit Analysis (CBA) and a Multi-Criteria Analysis (MCA). The two highest Benefit-Cost Ratios (BCR) were 0.90 for *New Build* and 0.91 for *Infrastructure Feasibility Focus*. Both options had a BCR of less than one, however there are several key non-monetisable, people-focused benefits that are critical drivers for this investment. The MCA took account of these benefits, and *New Build* scored significantly higher than *Infrastructure Feasibility Focus*, with weighted scores of 5.0 and 3.4 respectively.
- 26 The options analysis for the mess options compares the *Base Case*, which includes only the necessary investments to maintain existing messes to the status quo, to the *Consolidated Messing Facility* (CMF) option that replaces multiple existing messes with a new single building. The mess options CBA showed that the monetisable benefits accrued from the operational efficiencies of the CMF are greater than the cost of investment, as illustrated by its BCR of 1.70.
- 27 Therefore, the *New Build* accommodation option and new *Consolidated Mess Facility* were selected by the NZDF as the preferred option.

Procurement

- 28 DBFM, to be delivered as a PPP, has been selected by the NZDF as the Preferred Procurement Model. The decision was informed by market engagement, procurement options workshops, the Value for Money assessment, and consideration of organisational impacts. DBFM bundles 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.
- 29 Selection of DBFM as the preferred procurement model was an outcome-focused decision to support the ongoing quality of the living environment for its personnel. It 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. Key advantages of the DBFM model therefore include:
- 29.1 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.

29.2 Greater certainty of costs and time, as the NZDF won't start making payments to the consortium until the asset is operational. It allows better allocation of risk such as the total construction cost and the residual value of the asset at the end of the contract period.

- 30 The Value for Money assessment has identified that this PPP would be no more expensive than a traditional Design-Build across the life of the assets. PPP is new to the NZDF and will require added capability in procurement and contract management. The resourcing of this uplift has been considered as part of the DBC and the NZDF has committed to this change.
- 31 A market engagement process was carried out in 2023 that involved 15 participants consisting of local and international building contractors, equity providers, banks, facilities maintenance and hospitality providers. Most participants indicated that they were interested in the project if it were to be delivered under a DBFM and that they had the capacity and capability to deliver.
- 32 The proposed contract structure is the NZ Standard Form PPP Project Agreement (Project Agreement) adapted to meet the NZDF's specific requirements⁴. Market engagement participants made recommendations for updates to the PPP procurement process and the Project Agreement. The NZDF will work closely with the Infrastructure Commission on any changes to the Project Agreement.
- 33 The preferred bidder will be the respondent that offers the highest level of positive outcomes to the NZDF within the set Affordability Threshold. The Affordability Threshold will be based on the Public Sector Comparator using a Design Build approach. This will provide assurance that the pilot will not cost the NZDF any more to deliver under the DBFM model than it would for them to deliver the project under a Design Build model, on a whole-of-life Net Present Cost basis. The Implementation Business Case will confirm that the Affordability Threshold has been met before contract award. If the market cannot meet the Affordability Threshold, the procurement approach can revert to a Design Build.
- 34 The contract with the successful bidder can contain expansion mechanisms to extend it to future tranches of the programme to accelerate its delivery. The decision to extend it would be formally considered in future business cases and the NZDF will be under no contractual obligation to do so.

⁴ A licence will be substituted for the lease in the standard form agreement.

Implementation

- 35 A timeline for the procurement and implementation phases of the project is at Appendix B.
- 36 The NZDF will work with bidders for opportunities to minimise the impact of works at Linton through innovative approaches to construction, such as off-site manufacturing, and potentially the provision of temporary accommodation. Sequencing the construction ensures beds remain available for use.
- 37 The NZDF will resource the procurement and implementation and long-term contract management with people and capabilities specific to the PPP model. This includes equipping governance with the appropriate people and capability. Embedding this will require organisational change, including a capability assessment and alignment, funding and implementation.

Cost-of-living Implications

- 38 The project has no direct implications to cost of living for NZDF personnel. NZDF tenants occupying housing and barrack accommodation are subject to a discounted NZDF tenancy rate rather than an open market tenancy rate. The discount acknowledges a number of factors, including that members can be posted to any base entirely at the discretion of the NZDF and that accommodation is generally assigned with no choice given. Rent for housing and barrack accommodation is renegotiated with Inland Revenue every three years. Adjustment to this agreement with Inland Revenue and consequential changes to accommodation charges are managed separately to the project.

Financial Implications

Estimated Whole of Life Costs

- 39 The investment proposed for the project has been modelled over a 36-year period (9 years in phased delivery and 25 years in full service) to estimate the required capital investment and operating expenditure associated with the preferred option.
- 40 The estimated total cost of the preferred option of the project is s.9(2)(j) in capital expenditure and s.9(2)(j) in projected operating expenditure (including payments to the PPP consortium, personnel cost, depreciation and capital charge). Final operating expenditure will be determined once contractual terms have been agreed with the preferred bidder, which will not exceed the Affordability Threshold.
- 41 A portion of the payments to the PPP consortium will relate to the construction of the barracks asset and will be capitalised on NZDF's balance sheet as the barracks come into use. The timing and amounts capitalised will be determined once contractual terms have been agreed with the preferred bidder.

- 42 The estimated capital costs to resource the next phase of the project, covering the procurement phase through to preferred bidder stage, and then the DBFM implementation (including mobilisation and construction delivery phase), is s.9(2)(j). This includes specialist technical, commercial, financial and legal advice. Roles will be a combination of key FTE roles, and contracted roles as part of the Defence Estate and Infrastructure Alliance.
- 43 During the construction phase of the Linton Pilot Project, there will also be costs outside of the DBFM contract that are incurred directly by the NZDF. This includes capital costs such as bid stipends for unsuccessful bidders, and any works required prior to DBFM contract close.
- 44 The bid stipends, set at s.9(2)(g)(i) are a refund of a portion of the bid costs to the (up to two) unsuccessful Short-listed bidders, and reflects the high costs associated with preparing a bid for a DBFM. This has become common practice in comparable international markets and was highlighted in the market engagement as important to support interest in bidding for the project.
- 45 The operating expenditure portion of the cost will cover payments to the PPP provider (along with depreciation, capital charge and other operating expenditure) and will be subject to finalisation of contractual terms with the preferred bidder.

46 These amounts are summarised below:

\$ millions	Total FY24/25 to FY59/60
Direct capital expenditure	s.9(2)(j)

\$ millions	Total FY24/25 to FY59/60
Depreciation	s.9(2)(j)
Capital charge	
Personnel costs	
DBFM Unitary Charge	
Reduction in directly incurred operational costs	
Total estimated operating and capital costs	

47 As a portion of the Unitary Charge paid to the PPP consortium will result in an asset on NZDF's balance sheet, it is likely the funding sought for this amount will be a mix of operating and capital. NZDF will discuss and confirm this with Treasury ahead of any future budget bid process.

Future funding requirements

48 The NZDF will seek funding through s.9(2)(f)(iv) future Budgets to meet the operating requirements for the cost of the DBFM agreement, additional personnel, depreciation and capital charge. The final amount of funding required will depend on finalisation of the contractual terms with the preferred bidder, which will not exceed the Affordability Threshold.

49 Existing capital seed funding from depreciation reserves for the project will be used to fund preparation of procurement materials ahead of a future budget bid, including selected capitalised project team roles.

Legislative Implications

50 There are no legislative implications for the project.

Climate Implications of Policy Assessment

51 The threshold of reductions for Climate Implications of Policy Assessment is not reached. Discontinuing the use of fossil fuel-powered boilers for space and water heating in favour of energy efficient grid-connected heating will result in 87% emissions savings at Linton (28,260 tonnes of emissions savings over 25 years).

Population Implications and Human Rights

52 Linton is the NZDF's most populous camp with approximately 2,000 of Army's 4,300 personnel. Population implications by demographic are at Appendix F.

53 There are no implications for the New Zealand Bill of Rights Act 1990 or the Human Rights Act 1993.

Use of External Resources

54 NZDF has formed an alliance with professional services firms Beca, Ernst & Young and GHD Ltd (the Alliance). The AMDM DBC for Linton has been delivered by the Alliance. The total fee for external resources for this business case is s.9(2)(j) the majority of which will be capitalised. External legal support with appropriate expertise on PPP contracts will be required to help to negotiate an outcome and also draft procurement and contractual documentation.

Consultation

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

56 The Infrastructure Commission has been consulted throughout the development of the detailed business case, participating in market engagement sessions, assessing the DBFM quantitative analysis and attending internal governance group discussions on the preferred procurement model. The Infrastructure Commission confirms the process followed by the NZDF, to date, has been robust and compliant with established PPP practice and expectations. The Infrastructure Commission emphasises the importance of specific technical capability for the procurement and ongoing management of a PPP project, which it sees as essential to improved project delivery outcomes. The Infrastructure Commission has advised the NZDF that in selecting DBFM as its preferred procurement model that it requires continued oversight of the procurement and

implementation of the DBFM model; and strongly advises that the NZDF improves its internal capability by appointing a specialist and experienced PPP adviser/manager (reporting directly to the appropriate governance group).

Proactive Release

57 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

58 The Associate Minister of Defence recommends that the Committee:

Business Case

- 1 **Note** that Cabinet endorsed the Accommodation, Messing and Dining Modernisation Programme Business Case in April 2023 [GOV-23-MIN-005 refers], noting the 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 New Zealand Defence Force owes a duty of care;
- 2 **Note** that Cabinet have invited me to submit a Detailed Business Case for accommodation, messing and dining modernisation at Linton Military Camp to the Cabinet Expenditure and Regulatory Review Committee [CBC-24-MIN-0068 refers];
- 3 **Note** that the Programme Business Case recommended an approach of replacing existing barracks and messes with new build assets, investing in five tranches out to 2045, including a pilot tranche at Linton Military Camp in the Manawatū to be delivered before s.9(2)(g)(i)
- 4 **Note** that the Preferred Option in the attached Detailed Business Case for Linton Military Camp is to deliver 1,124 new build barrack rooms and a new consolidated mess to replace the existing facilities;
- 5 **Approve** the Detailed Business Case for the Accommodation, Messing and Dining Modernisation Programme Pilot Project at Linton Military Camp as set out in Appendix A;
- 6 **Approve** the Detailed Business Case recommendation that the Preferred Procurement Model is a Design Build Finance Maintain, which is a form of Public-Private Partnership;
- 7 **Note** that the Value for Money assessment shows that the project can be delivered as a Public-Private Partnership at the same or lower cost than a Design Build procurement in Whole of Life Net Present Cost terms;
- 8 **Note** that the Value for Money assessment will be revalidated before a Request for Proposals is issued to the Market, with an Affordability Threshold set at the cost of procuring the project as a Design Build, which bids will not be allowed to exceed;

- 9 **Note** that the New Zealand Defence Force will continue to seek expertise and oversight from the Infrastructure Commission on the use of Public-Private Partnership;

Financial Impact

- 10 **Note** that the New Zealand Defence Force will seek funding through s.9(2)(f)(iv) future Budgets processes for the cost of the of the DBFM agreement, with an estimated total direct capital cost of s.9(2)(j) and total operating and capital cost of s.9(2)(j) through to 2060;
- 11 **Note** that the cost of the project finalised on negotiation with the preferred bidder will remain within the agreed fiscal envelope set at future Budgets which will be no more than the Affordability Threshold;

Procurement process

- 12 **Note** that, if funding is made available at s.9(2)(f)(iv) future budgets, the Minister of Defence intends to issue a media release outlining the overall direction and project timeframes;
- 13 **Note** that, if sufficient funding is made available for the cost of the of the Design Build Finance Maintain agreement at s.9(2)(f)(iv) future Budgets, the New Zealand Defence Force will move into the open market procurement process, which includes the release of the Request for Proposals and evaluation of bid submissions;
- 14 **Note** that, if funding is made available at s.9(2)(f)(iv) future Budgets, the New Zealand Defence Force will re-imburse external bid costs up to a total of s.9(2)(g)(i) per unsuccessful bidder, for a maximum of two unsuccessful bidders from the Short-listed Respondents during the procurement phase;
- 15 **Invite** the Minister of Defence to submit an Implementation Business Case to Cabinet following the evaluation of bids; and
- 16 **Note** that the Implementation Business Case will identify a preferred bidder for Cabinet Approval and will seek permission for the New Zealand Defence Force to enter into contractual negotiations and reach contract and financial close within an agreed fiscal envelope.

Authorised for lodgement

Hon Chris Penk
Associate Minister of Defence

Appendices:

- A. Detailed Business Case for the Linton Pilot Project Appendix A withheld under s.9(2)(f)(iv) and s.9(2)(j)
- B. Timeline for implementation for the Linton Pilot Project
- C. Cost Estimate Benchmarking
- D. Preferred option site plan

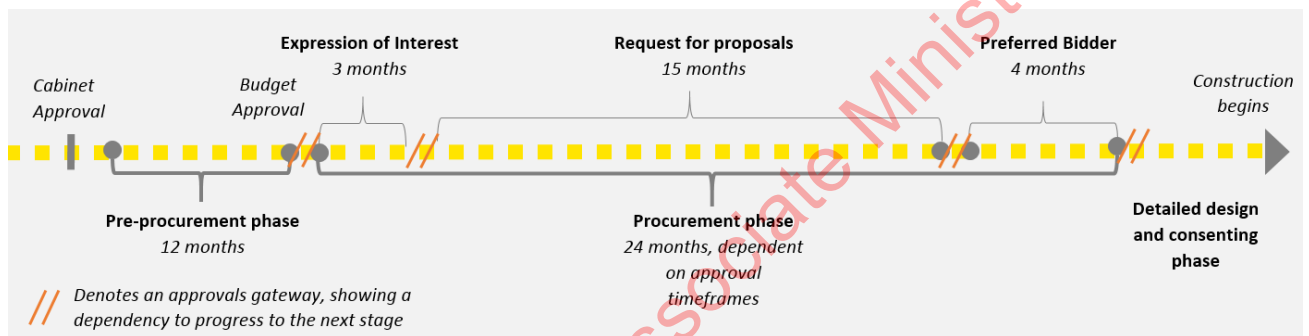
- E. Standard new barrack room layout
- F. Population implications

Proactively Released by the Associate Minister of Defence

Appendix B: Timeline for implementation for the Linton Pilot Project

The timeline below shows the outline process of procurement and implementation, which begins with the development of procurement documents that will be taken to market. Once funding is secured for the project, the NZDF will move into the open market procurement process, which includes the release of the Request for Proposals and Evaluation of bid submissions;

The durations of each phase have been developed from Treasury guidance and precedent PPP projects in New Zealand.



Appendix C: Cost Estimate Benchmarking

These benchmarks look at the cost of constructing the barrack blocks and how they compare to the building of a hotel or rest home, based on benchmark industry cost estimation figures. Both asset types are multi-storey construction of a similar use and amenity and provide a relevant basis for cost benchmarking. The figures are in 2023 costs, and are for construction costs and fitout, excluding site specific aspects of re-development (such as demolition and decontamination, landscaping, roads and carparking) and project contingencies.

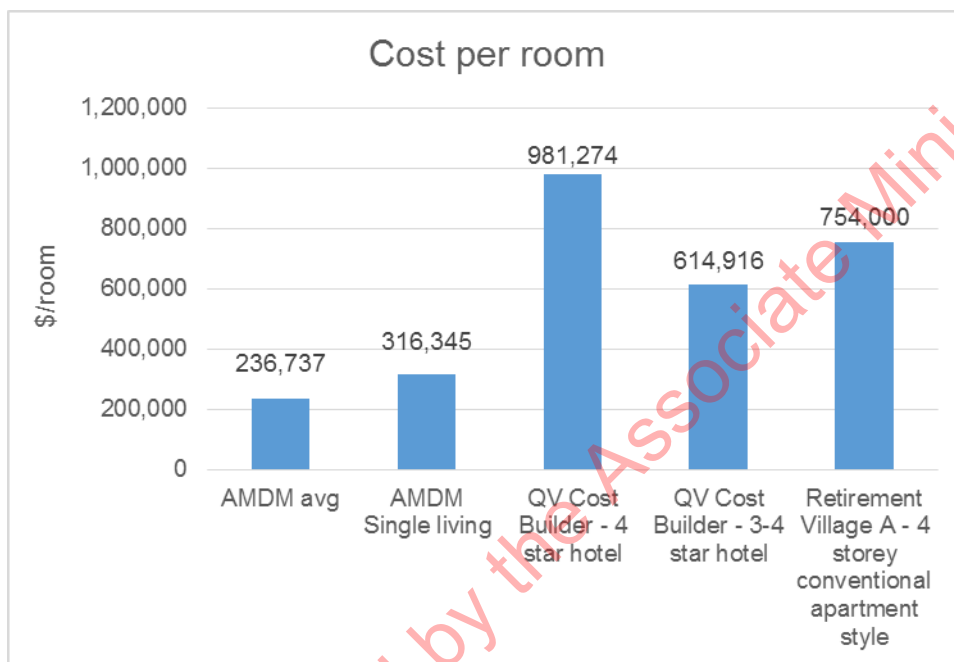


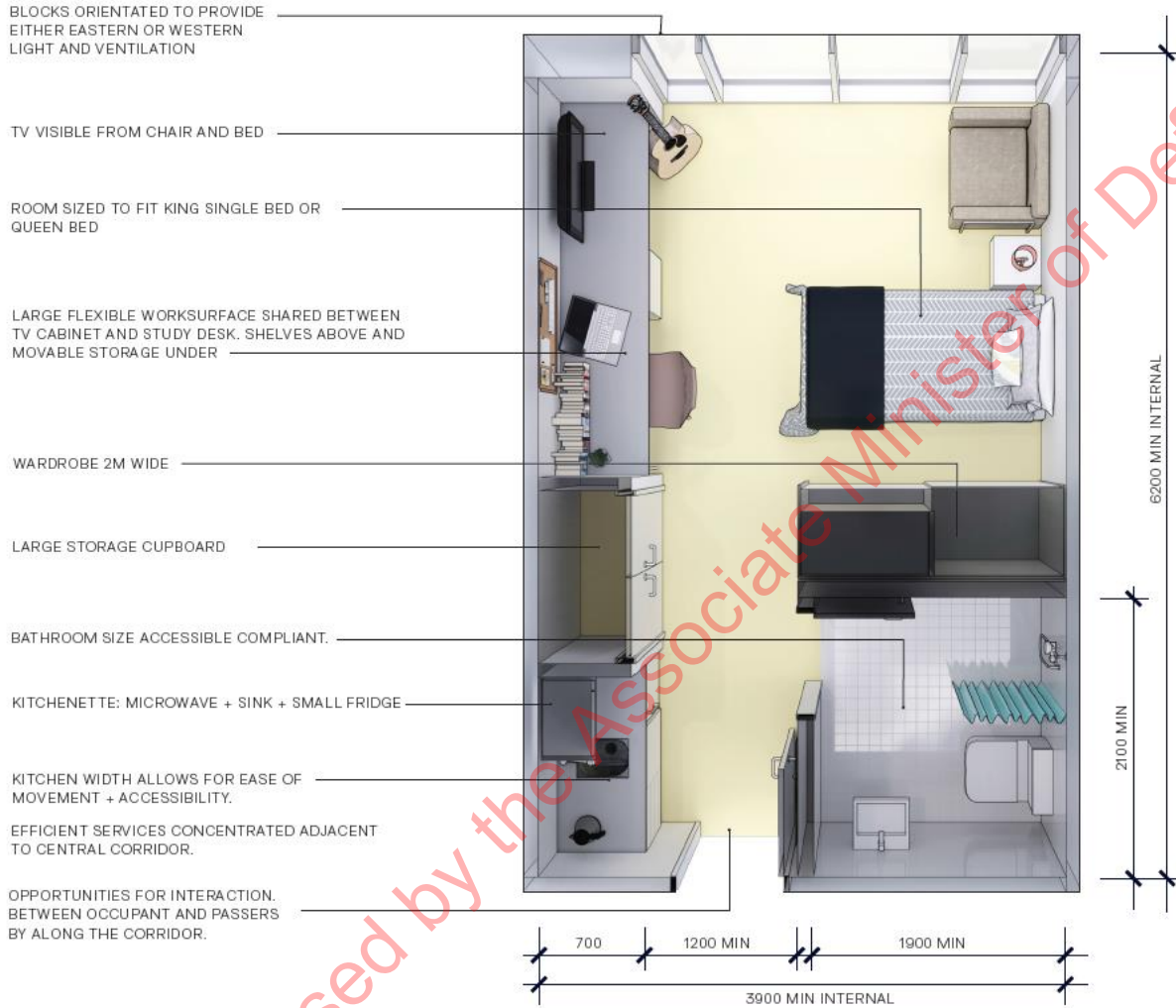
Figure 1 Cost benchmarking on per room basis

As per the graph above, due to an efficient design, the cost per room of the AMDM Single Living standard (which applies to the Linton pilot project) are favourable. This is driven by a room size for single living rooms, at 24m², which has been optimised to be smaller than the comparators whilst providing the required functional amenity. The comparators are at least 57m² per room.

Appendix D: Indicative project site plan at Linton Military Camp



Appendix E: Standard new barrack room layout



Appendix F: Population implications

Population group	How the Linton Pilot Project may affect this group
Māori	17% of the NZDF Regular Force personnel identify as Māori, and 21.6% identify as Māori at Linton. The Linton Pilot Project supports the health, safety, and wellbeing of Māori living on Linton Camp. The design process for the living and social environment will use Te Aranga Design principles. Opportunities to partner with Rangitāne O Manawatū, commercially or otherwise, will be sought across project delivery and service operations.
Women	The proposed facilities are designed to support the health, safety and wellbeing of women in a way that current facilities do not. This supports respect for and inclusion of women in NZDF, and the recruitment and retention of women in alignment with NZDF strategy and Chief of Defence Force's stated priorities. Currently women make up approximately 15% of Army personnel.
LGBTTIQ+	NZDF received the Rainbow Tick accreditation in 2019 and is recognised as one of the most inclusive military forces for LGBTTIQ+ personnel in the world. Moving away from communal bathrooms to self-contained rooms supports gender diversity.
Disabled people	Facilities and surrounding spaces are designed to be safe and accessible for all users, including civilians, and injured and wounded military personnel.