

## MINISTER OF DEFENCE

### Future Enterprise Resource Planning: Programme Business Case

May 2025

This paper seeks agreement to progress the preferred option in the attached Detailed Programme Business Case to establish fully integrated and digital Enterprise Resource Planning capability for the NZDF.

The pack comprises the following documents:

- March 2025 Cabinet Expenditure and Regulatory Review Committee Minute of Decision: *Future Enterprise Resource Planning: Programme Business Case* [EXP-25-MIN-0025]; and
- The associated Cabinet Paper: *All-of-NZDF Future Enterprise Resource Planning (ERP) Capability*.

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](http://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;*
- 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 Programme Business Case 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 Expenditure and Regulatory Review Committee

## Minute of Decision

*This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.*

### Future Enterprise Resource Planning: Programme Business Case

Portfolio                      Defence

On 25 March 2025, the Cabinet Expenditure and Regulatory Review Committee:

- 1        **noted** that Enterprise Resource Planning (ERP) describes capability that underpins all New Zealand Defence Force (NZDF) operations, enabling the NZDF to efficiently undertake day-to-day business management functions and report on the health and risks of the business;
- 2        **noted** that the NZDF relies on this capability to pay, train, house, and equip its frontline personnel and ensure military and non-military assets can respond to directed outputs;
- 3        **noted** that legacy ERP constrains the NZDF's core functions and limits interoperability with Australia and other partners, while modern ERP will allow the NZDF executives to base decision-making and advice on real-time insights;
- 4        **noted** s. 6(a) [REDACTED]
- 5        **agreed** that the preferred option set out in the paper under EXP-25-SUB-0025, Option 3 – ERP for Defence, Paced for Success, be further developed;
- 6        **noted** that the programme will be delivered over two tranches of investment to implement the new ERP capability for the NZDF;
- 7        **noted** that programme activity and associated funding is indicated in all options of the Defence Capability Plan;
- 8        **noted** that the current estimate for the programme across 10 years is s. 9(2)(f)(iv) [REDACTED] (including cost of change and ongoing running costs commencing at year three of the programme delivery);
- 9        **noted** that the NZDF will submit a Programme Implementation Business Case s. 9(2)(f)(iv) [REDACTED] to progress the Prepare Tranche (Tranche One) of the programme;
- 10      **noted** that the NZDF is mitigating some of the risk by funding s. 9(2)(j) [REDACTED] of the NZDF capital depreciation reserves to commence mandatory SAP Remediation of the existing ERP, a project under the programme Prepare Tranche;

11 **authorised** the Minister of Finance and the Minister of Defence to jointly approve subsequent tranches, contingent on funding being made available through future Budgets.

Sam Moffett  
Committee Secretary

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**Present:**

Rt Hon Christopher Luxon  
Rt Hon Winston Peters  
Hon David Seymour (Chair)  
Hon Nicola Willis  
Hon Chris Bishop  
Hon Brooke van Velden  
Hon Simeon Brown  
Hon Paul Goldsmith  
Hon Louise Upston  
Hon Judith Collins KC  
Hon Mark Mitchell  
Hon Simon Watts  
Hon Shane Jones  
Hon Casey Costello  
Hon Chris Penk  
Hon Andrew Hoggard  
Hon Mark Patterson

**Officials present from:**

Office of the Prime Minister  
Office of the Chair  
Office of the Minister of Transport  
Office of the Minister of Defence  
Officials Committee for EXP

Proactively Released by the Minister of Defence

Office of the Minister of Defence

Chair, Cabinet Expenditure Committee

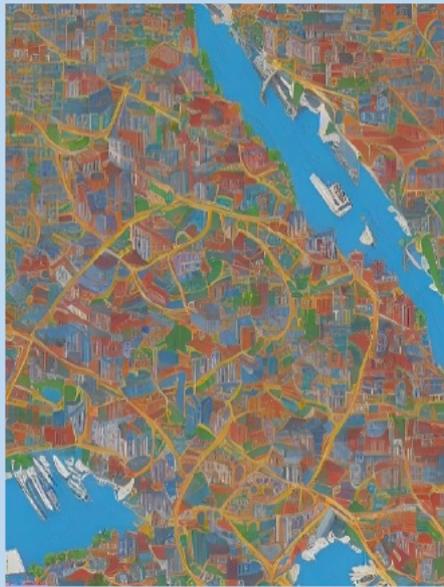
## **ALL-OF-NZDF FUTURE ENTERPRISE RESOURCE PLANNING (ERP) CAPABILITY**

### **Proposal**

- 1 This paper, and the attached Detailed Programme Business Case, seeks Cabinet agreement to establish fully integrated and digital Enterprise Resource Planning (ERP) capability for the New Zealand Defence Force. This will replace the organisation's outdated suite of fragmented ERP systems, introduce modern tools, and automate business processes. It will drive efficiency.
- 2 Modern ERP enhance combat readiness and sustainment. They decrease deployment lead times, enable integration within and across operational theatres, and drive efficiency and controls. This investment will align our ERP with our ally the Australian Defence Force, other FVEY nations, and with NATO members. The Australian Defence Force has adopted this solution. The NZDF will be more integrated and interoperable in an era where global security is becoming more volatile and contested.
- 3 This investment is crucial to sustaining daily business operations. ERP keeps military capabilities at the readiness levels required for immediate deployment and sustain delivery. ERP enables the NZDF to pay, train, house, equip and assure its frontline personnel.
- 4 s. 6(a)  
. The workforce required to operate the legacy ERP are retiring, and the NZDF must act swiftly to secure personnel with the skills to implement a digital ERP.
- 5 This Programme Business Case covers the whole of life cost for the entire replacement capability and seeks approval in principle for the programme, consisting of three tranches:
  - Tranche One: Prepare
  - Tranche Two: Modernise and Enhance
  - Tranche Three: Leverage and Sustain

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


## This investment is required to remediate the current environment



**City analogy:** The NZDF's ERP with 140+ disparate systems and applications – many based on manual processes – is like a city that started as a small village and grew chaotically over centuries.

Instead of a well-planned metropolis with seamless roads and transit, it has a patchwork of winding streets, old bridges, and disconnected train lines – some built for horses, others for high-speed rail, with people still carrying goods by hand in between. City services developed unevenly. The police, courts, hospitals, and council each hold paper records on their citizens in their own file cabinets. Every new district or government service (system) was added with good intentions, but navigating the city streets and its bureaucracy requires maps, workarounds, and local

knowledge.

**Warship Example:** ERP for NZDF means understanding and organising information and resources. Deploying a warship involves:

- Checking equipment availability/functionality: Is the ship seaworthy? How have its engines / fire control / radar been maintained? Were faults mitigated by qualified people?
- Assembling individual people into a collective crew: Who is available? Are they qualified? Does the crew have the right ranks and trades? Are they medically fit to deploy?
- Supplying the ship: Does it have enough fuel, ammunition, spare parts, medicine, water, and food? Where can it take on more?
- Determining how well the ship's systems work: Are there problems with damage control or propulsion? When do they next need maintenance? Does it have secure communications?
- Checking security: Do personnel have the right security clearances? When do they expire? Does the ship have the right communications networks to be interoperable with partners?



The NZDF must understand where there are gaps and what risk it must manage before and during the deployment. This one example of a deployment tasking is currently undertaken across up to 140 loosely connected systems – many with their own sources of data that require constant manual intervention and verification. Layered on top of this is the NZDF's own governance responsibilities – like the example of the city the NZDF has its own police, justice, healthcare, and finance systems. There is no way to achieve a single view of its capabilities in real time. The faster the NZDF must react to developing situations, the greater the risk of error.

## Relation to government priorities

- 6 The Speech from the Throne recognised that to achieve our shared ambitions, the Coalition Government should not focus its efforts only within New Zealand's borders. For New Zealand to seize opportunities, to make more of its potential, and to manage the risks in an increasingly complex and contested world, we require an active foreign, defence and trade policy agenda. This depends on functional and efficient partnerships.
- 7 A modern ERP capability allows the NZDF to more accurately and efficiently pay its people and suppliers, maintain, repair and assure military assets, equipment and worthiness, and supply the right people at the right time. This will sustain military operations around the clock and around the globe.
- 8 This investment will help the NZDF be financially agile by improving its understanding of its resources, capabilities, workforce alignment, and enabling real-time insights and planning. Streamlining and automating manual processes supports Government's goal of an efficient public service.
- 9 This investment is consistent with the strategy for a Digital Public Service and follows the overall 'Cloud-First' direction for the NZ Government. The NZDF will procure ERP products through the Government Chief Digital Officer's (GCDO) planned All of Government Portfolio and collaborate with other agencies to create system efficiencies and fiscal savings. It also enables the NZDF to meet Asset Management requirements as set out in CO(23)9 and expectations with regards to invoicing and payments.
- 10 Ministers and the Public Service Commissioner have directed the Public Service to organise and deliver common policies and processes for back-office functions, and utilise All of Government commercial constructs to gain full value for Crown funding. At a conservative estimate, agencies save around 15% on procurement, market price, security, and supplier management costs by consuming services through the All of Government Portfolio. Agencies procuring an ERP solution through the planned Portfolio could save money in the procurement, establishment, design, and implementation phases, as well as ongoing savings in licensing and solution support costs. These cannot be quantified at this stage of the process, and may not be uniform across agencies.

## Executive Summary

- 11 Public, and private sector organisations use ERP to manage day-to-day business activities such as accounting, procurement, logistics and supply chain operations, asset life cycle management, workforce management and payroll. Militaries extend these corporate applications to optimise support through to the front line. These solutions integrate organisational processes and data in real time to enable efficiency and inform decisions.

12 ERP underpins capability management of all NZDF military and corporate assets, equipment, and resources. Managing the life cycle of such broad capabilities, while maintaining their associated data, requires sophisticated integrated solutions and technologies.

13 The NZDF has built an extensive footprint of legacy ERP over 28 years in an ad-hoc and incremental manner which no longer meets requirements. The ERP landscape is fragmented and fragile. Circa 140 applications, systems and tools make up this eco-system. It encourages manual work-arounds, reducing leadership confidence in its data.

14 s. 6(a)

15

16 A Special Procurement Assurance Board process recommended continuing to partner with SAP for this capability. The business case process selected the military specific *SAP Defense and Security™* ERP solution, which provides the following key benefits:

16.1 Aligning the NZDF's ERP capability with that of Australia, Canada, USA and 16 other like-minded countries who have adopted *SAP Defense and Security™*.

16.2 Real-time management and end to end planning, providing fact-based insights to support decision making at pace and assurance of readiness across operations and capability generation. This coherency will enable the NZDF to be more responsive to Government needs.

16.3 Addressing significant risks s. 6(a), contested supply chain, effectively managing suppliers and contracts, s. 6(a)

17 The total Whole of Life Cost (WoLC) estimate of the new ERP over 10 years is s. 9(2)(f)(iv) operating funding. Of this WoLC, the cost of change (Tranche Two – Implementation) is s. 9(2)(f)(iv) drawn down over six years, the remaining investment includes six years of contingency, and annual operating costs which the NZDF will fund internally. This investment takes the NZDF from traditional software licencing models (CAPEX) to a cloud-based consumption subscription, via software as a service (OPEX).

18 All options of the Defence Capability Plan include the need to replace the ERP s. 9(2)(f)(iv) but limit OPEX indications to a four-year horizon. The cost of the ERP project is within the indicative cost included in the draft Defence Capability Plan options. s.9(2)(f)(iv)

The ERP will also allow the

NZDF to drive greater availability and efficiency from its current and future capabilities. This investment does not displace combat capability in the Defence Capability Plan – it brings the NZDF's ability to generate and support combat capability into the information age. Delaying further risks:

18.1 s. 6(a)

18.2

18.3

18.4

18.5

19 The Detailed Programme Business Case proposes a multi-year delivery, with Cabinet approval required to negotiate contracts and secure incentives or volume discounts.

20 The NZDF has committed to this roadmap and is internally funding a project within the first Investment Tranche – Prepare (Tranche One) to commence preparations and foundation work. The NZDF has allocated s. 9(2)(j) of internal capital to fund mandatory SAP Remediation work which has reduced the required operating baseline uplift s. 9(2)(j) operating cost (across three years) for Tranche One.

21 The operating baseline uplift s. 9(2)(f)(iv) process for the remaining activities included in the first Investment Tranche – Prepare (Tranche One). Subject to Budget 2025 funding availability a Programme Implementation Business Case will be submitted for approval. The full commercial strategy and costings will be developed in Tranche 1 alongside GCDO, based on GCDO's planned All of Government ERP panel.

22 The outcome of investment **Tranche One** will allow discovery of the 140+ disparate systems and applications that currently make the ERP environment as well as all the manual processes that have been introduced over time to cover the gaps between these systems. It derisks the remaining investment by confirming the architecture and conducting testing to confirm that the approach will work. It represents s.9(2)(j) of the whole of life cost, which is a relatively small entry cost to give assurance around the remaining investment.

23 **Tranche One** includes three delivery phases:

23.1 **Foundations & Design** – Ensuring the investment delivers the capability that the NZDF requires to deliver its outputs. The NZDF will complete a

robust analysis and design. This tranche will identify where there are opportunities to reduce duplication in systems and wastage.

- Deliver a technical model to prove the delivery approach – giving the NZDF confidence in the cost of the change and its timeframes. This gives the NZDF the information it needs to maintain business continuity while conducting the change.
- Payroll - Design a job framework, review remuneration systems and processes (including automatic pay progression processes), and review data sharing and reporting between the Human Resources and Payroll systems. This will prepare the organisation to implement the Human Resources system of the ERP Military Planning and Operations capability, and derisk its implementation in Tranche Two.
- Ensure that all existing systems and critical data that will endure following the upgrade can integrate with the new ERP system.
- Implement data quality software (SAP Data Services) to identify and correct current and historical data errors and gaps. *This will deliver an immediate benefit to the organisation.*

23.2 **Remediation outputs** - Complete remediation work on existing systems and data, taking them to a state where they can be updated and then integrated into the new platform.

- s. 9(2)(j) [REDACTED]. This enables NZDF to realise contract efficiencies by the end of the tranche.
- Update the NZDF's property asset management system, as the current software is too old to migrate into the new system. This will add functionality for the NZDF's estate management and allow the NZDF to retire an end of life system.
- Modernise the finance Chart of Accounts and General Ledger so they can be ready to move to the new systems in Tranche 2.
- Identify and eliminate the many issues created by historic and current bespoke integrations across the 140+ systems.

23.3 **Mobilisation & Preparation** - Prepare the NZDF for the enterprise-wide change programme.

- A technical rehearsal of the change to future state, which will give a high level of delivery confidence.
- Establish commercial & procurement arrangements.
- Implement business partner arrangements to supplement internal capability.
- Business case preparation for Tranche Two.

- Establish governance.
- Business change and stakeholder communications.
- Programme services.

24 The key cost drivers for Tranche One are:

24.1 Most of the investment in the Prepare Tranche <sup>s. 9(2)(f)(iv)</sup> [REDACTED] is funding to secure expert technical and business change specialists partnering with suitably qualified companies experienced in safely delivering the required outcomes in SAP cloud-based services whilst ensuring business as usual activities are protected. These will include a mix of consultants and contractors to provide the expertise the NZDF lacks. For example, IT experts (such as enterprise architecture and configuring the systems for NZDF use), and business specialists (such as organisational design and job framework design).

24.2 The NZDF has taken a conservative approach to the costs for contractors and consultants and three aspects drive up the costs:

- **Skills & experience.** ERP implementations require a well-defined set of skills that are not transferrable across different ERP software. The programme requires personnel with expertise in business process design, large scale technology-enabled business change, and data and technical change. The ERP cost model uses rate cards from SAP accredited partners as well as the All of Government pricing as the baseline for these roles. Qualified and accredited experts in ERP command prices at the upper end of benchmarks. <sup>s.9(2)(i)</sup> [REDACTED]
- **Supply.** Personnel with SAP S4/HANA experience do not exist in the NZDF. They are scarce in the NZ market. There are no SAP Defense & Security™ specialists in the NZ market. The NZDF expects to have to recruit people with these skills from Australia and other approved jurisdictions. The NZDF has costed these personnel at a <sup>s. 9(2)(j)</sup> [REDACTED] premium to cover the price difference necessary to attract them. This premium includes considerations such as Australian wages, fees, exchange rate, travel, and accommodation. The NZDF's security requirements mean that it cannot outsource this work to experts in lower-wage countries (such as India or the Philippines) as industry can do. These costs may reduce as the NZDF advances through procurement with partners, but the supply problem forces them to be based on a conservative estimate at this stage to avoid overruns.
- **Demand.** There are other large scale SAP S4/HANA implementations across industry in NZ occurring over the same timeframe. This reduces the available pool domestically and drives up rates that the few experts here can demand. Industry can offset

this by blending their workforce with cheaper offshore experts that the NZDF cannot.

- 24.3 This funding also completes the technical proof of concept, which proves that the technical conversion will work. The remaining funding supports software licensing and tools to support the technical proof of concept and data quality tools s. 9(2)(f)(iv), external legal and contract/commercial support s. 9(2)(f)(iv) and general support.
- 25 A subsequent Business Case will be developed for the next investment tranche of the programme – Implementation (Tranche Two) which is anticipated to seek funding through future Budget processes.

### Why does the Defence Force need investment in new ERP capability?

- 26 The NZDF has implemented a series of individual ERP components since 1996. The result is a fragmented landscape of 140 applications, excel spreadsheets, emails, databases, manual and digitised forms, and other workarounds.
- 27 The Defence Force is now constrained by this legacy environment. This makes it more difficult to conduct core functions including:
- 27.1 s. 6(a)
- 27.2 Understanding and monitoring whole of life capability ownership costs, including investment and lifecycle management.
- 27.3 s.9(2)(g)(i)
- 27.4 s. 6(a)
- 27.5 Providing the digital working environment expected by a modern, world class defence force.

### Complete and fully integrated ERP will improve strategic outcomes for the New Zealand Defence Force

- 28 To achieve the Government's aim of promoting and protecting our interests in a more proactive and deliberate way the NZDF will need to:
- 28.1 **Understand.** Have improved visibility of the condition of our assets, finances, workforce, equipment, and capabilities.
- 28.2 **Partner.** Improve interoperability and integration with Australia and like-minded nations at a system and planning level.
- 28.3 **Act.** Enhance the availability of capabilities for operations, optimising them to make the most efficient use of scarce defence resources.

**Not only does the NZDF's current ERP situation result in significant organisational risk...**

- 29 SAP has announced the global end of standard support for current ERP solution versions in December 2027 and withdrawal of all support from December 2030.<sup>s.6(a)</sup>
- 30 The compounding effect of disparate and aging systems together with fragmented processes, policies, and inconsistent access management creates unacceptable cumulative risk. It poses risk of physical, financial, and reputational harm. The workforce supporting the legacy ERP is retiring, adding to the risk.

**...the NZDF will exploit the new capability to uplift organisational performance in delivering Outputs**

- 31 The end of support for the current system offers the NZDF an opportunity to address this holistically. Modern, integrated, military ERP will address constraints from an underperforming and retiring patchwork of systems.
- 32 The key investment objectives for the Future ERP Programme are:<sup>1</sup>
- 32.1 **Strategic enhancement.** Using an all of enterprise view and trend forecasts to provide timely advice to government on the NZDF's organisational health and readiness to deploy.
- 32.2 **Readiness and operations.** Enabling all-of-Defence resource, equipment, planning, management, and costing to have the right military capability in the right place at the right time. This will enhance opportunities for interoperability through integration with international defence partners and military accredited suppliers.
- 32.3 **Enterprise optimisation.** Enterprise-wide resource management capability that is modern, digital, and integrated. This will automate processes to increase speed, agility, and efficiency. This will free up highly trained military personnel to focus on their speciality rather than processes. The NZDF leadership will have insight to total business performance that enables them to reduce the overall cost of business.
- 32.4 **Reduced risk.** Addressing systemic and organisation-wide risks where a lack of sophisticated and integrated business management capability is the root cause. This includes:
- Manual processes and approvals resulting in slow and complex business management, and risking data loss, privacy breaches, and harm.
  - Ageing tools that limit transparency of the end-to-end internal control environment.

<sup>1</sup> Further information on the Investment Objectives, Current State and Business need is provided on pages 27 to 35 of the Programme Business Case.

- Lack of modern tools to support total workforce management including career management and succession planning.

**The NZDF is drawing on the experience of other ERP transformations to design a successful programme**

- 33 The NZDF is engaged with the Australian Defence Force, Netherlands Armed Forces, and Canadian Armed Forces along with 16 other nations undertaking similar programmes to share lessons and strategies for success. The Australian Defence Force is already deploying *SAP Defense and Security*<sup>TM</sup> to personnel across all three Services.
- 34 In developing the Programme Business Case, the NZDF drew on the lessons of the IRD Business Transformation Programme, which included an ERP component. The Programme Board includes an external member with direct involvement in the IRD programme. The NZDF collaborated with MBIE on the Procurement Strategy, which other agencies could reuse in their own programmes.
- 35 The NZDF is committed to working with GCDO and other agencies in establishing the All of Government ERP Portfolio for procurement. The NZDF ERP procurement represents a significant government ERP investment, and will follow the mandated procurement approach for government.
- 36 The NZDF is also committed to minimising the duplication of cost and effort in the programme by utilising the Common Process Model for preconfigured common back-office processes as mandated by the GCDO; and collaboration with the NZ Police Enterprise Resource Management on commonalities between the programmes wherever possible.
- 37 A New Zealand cross-agency ERP working group, supported by the Government Chief Digital Office, meets regularly and shares lessons and problem solving. This enables common planning and implementation approaches. This currently includes NZ Police, Ministry for Social Development, Department of Corrections and Health New Zealand.
- 38 Understanding the delivery approach and change management challenges faced by other organisations has been critical in developing initial plans for mitigating programme risks.

**The NZDF identified *ERP for Defence, Paced for Success* as the preferred option for the Future Enterprise Resource Planning Programme**

- 39 During the development of the Economic Case, the NZDF analysed a long list of 29 options. These considered what the programme would deliver, how it would be delivered, by whom, and over what time period. This followed The Treasury's best practice process.
- 40 A short list of four options was then down selected for analysis against investment objectives and critical success factors, and costed over 10 years:

- 40.1 Option 1 – Technical conversion only s. 9(2)(f)(iv)
- 40.2 Option 2 – Corporate back-office functions only s. 9(2)(f)(iv)
- 40.3 Option 3 – ERP for Defence, Paced for Success s. 9(2)(f)(iv)
- 40.4 Option 4 – ERP for Defence at an accelerated pace s. 9(2)(f)(iv)

41 *Option 3 - ERP for Defence, Paced for Success* is the preferred way forward. Pages 43 to 57 of the Programme Business Case (Annex A) detail complete options analysis. The key justifications for the preferred option are that the SAP Defense & Security™ solution:

- 41.1 Puts the NZDF in a user community that includes Australia, Canada, USA and NATO-aligned countries.
- 41.2 Provides features critical to day-to-day military operations, management, and planning. A corporate ERP solution<sup>2</sup> (such as that presented via Option 1 and 2) cannot offer this functionality or incorporate it later.
- 41.3 Provides a trusted source of ERP data for the NZDF allowing real time planning and assurance of readiness across operations and military capability, enabling enhanced responsiveness to Government needs.

42 The WoLC of the preferred option is currently estimated at s. 9(2)(f)(iv) (including contingency) over 10 years. This includes pre-acquisition business case costs, preparatory and remediation costs, implementation, and ongoing operating costs (starting at year three of delivery) encompassing the initial 10 years of delivery and operation.

43 Establishing modern ERP for the NZDF and safely transitioning is estimated at s. 9(2)(f)(iv) programme implementation costs (Tranche Two of this investment excluding contingency and initial years of running costs). This includes the system implementation, business change and integration, and archiving and decommissioning at least 58 systems and a large number of ancillary tools, databases and applications.

44 This is the upper estimate identified during the early stage of programme planning and will be refined during the development of the subsequent business case. The total includes 18% contingency (assessed as being within industry norms based on market engagement input). A programme work stream will focus on identifying and negotiating cost efficiency and discount opportunities, while maintaining quality of delivery.

45 The investment will fund:

<sup>2</sup> In addition to accessing innovations for standard business ERP (approximately 90% of the entire solution), adopting the SAP “Defense and Security” industry version provides specific additional functionality to support military operational planning, interoperability with partners, and the ability to use the capability while on operations with limited connectivity. The Defense and Security version has been in use and undergoing improvement for over 20 years, and is the capability currently being adopted by Australian Defence Force as well as other militaries.

- 45.1 Software as a Service (Cloud) Subscriptions from SAP (and other supporting partner providers). Subscriptions, tools and technical licenses will account for approximately s.9(2)(j) of the overall costs. GCDO has advised that at a conservative estimate, agencies save around 15% on procurement, market price, security, and supplier management costs by consuming services through the All of Government Portfolio, however these cannot be quantified in relation to the NZDF business case until later in the PIBC process.
- 45.2 Business and technical experts to design and deliver the end to end solution and business change. This expertise includes skills in business process design, large scale technology-enabled business change and data and technical change. The overall programme has a demand for a large specialist programme team to ensure the move to the new solutions are as seamless as possible and new ways of working are adopted and efficiencies delivered.
- 45.3 External specialists to support independent assurance, commercial and legal work.
- 45.4 Decommissioning costs to ensure obsolete systems and data are safely and securely removed from the environment.
- 45.5 Establishment of an ERP “Centre of Excellence” to govern and manage the capability, ensuring the NZDF can exploit the capability and that it remains current and secure.

I will seek s. 9(2)(f)(iv) to support the Prepare Tranche of the programme

- 46 The programme consists of two Tranches of investment, with six Phases of activities.

Delivery Phase	Summary of indicative activities	Estimated (\$ million, operating)	Estimated (\$ million, capital)	Estimated time horizon
<b>Pre-Acquisition</b>				
Pre-Business Case	All activities required to develop the Business Case and Planning	s.9(2)(j)		Up to end of FY24/25
<b>Investment Tranche - Prepare (Tranche One)</b>				
Preparation	Prepare the New Zealand Defence Force for the enterprise-wide change programme	s.9(2)(j)		Over two financial years referred to as “Years Zero” in planning.
Foundations and design	Complete the pre-work required for the implementation phase	s.9(2)(j)		Sequence of activities will be prioritised based on level of funding available.
Remediation	Complete remediation work to de-risk delivery and address historical issues	s.9(2)(j) (Project 2)	s.9(2)(j) (Project 1)	<b>Project 1</b> is the NZDF internally funded CAPEX activities. Its SSBC was approved in Nov 24. <b>Project 2</b> comprises the

				OPEX phases of Tranche One.
<b>Investment Tranche - Implementation (Tranche Two)</b>				
Implementation	Complete the implementation of the new ERP capability.	s.9(2)(j)		Years one to six of investment
Archiving and Decommissioning	Consolidate the ERP landscape and ensure no ongoing undue IT or commercial risk with redundant systems and contracts.	s.9(2)(j)		
Sustained Capability and Enduring Centre of Excellence	Through-life sustainment of the integrated ERP capability.	s.9(2)(j)		Cost component begins in Year 3 & continues through Year 10 and on-going
	Total estimated cost over 10 years - pre contingency	s.9(2)(j)	s.9(2)(j)	10 years total (delivery and operation)
	Contingency for Tranche Two & through life sustainment	s.9(2)(j)		
	<b>Total Upper range Investment estimate</b>	s.9(2)(j)	s.9(2)(j)	
	<b>Total Investment</b>	s. 9(2)(f)(iv)		<b>Whole life cost over 10 years</b>

- 47 I am seeking approval, subject to funding being made available at Budget, for the NZDF to undertake the remaining activities of the Prepare Tranche (Tranche One) of the programme (Project 2). This will be funded from an increase in baseline funding of s. 9(2)(f)(iv)

**The NZDF will submit an Implementation Business Case to Cabinet for programme Tranche One, and seek approval to commence work**

- 48 A Programme Implementation Business Case (PIBC) for Tranche One is planned to be delivered in Q2 2025, s. 9(2)(f)(iv)
- 49 The PIBC will detail the activities that comprise the Prepare Tranche that position the NZDF to be ready to implement the new ERP. This will incorporate GCDO guidance to develop the procurement actions for subsequent tranches.
- 50 As part of this work, the design component will provide further detail to the Implementation Tranche delivery plan (Tranche Two), increasing fidelity in the subsequent costing and commitment requirements.
- 51 The Future ERP Tranche Two is estimated at s. 9(2)(f)(iv) of operating cost across six years. The indicative funding to be sought through future Budget for Tranche Two is s. 9(2)(f)(iv). The remaining cost of the Tranche Two will be

managed from the existing NZDF operating baseline. The table below shows the indicative phasing for the programme Tranche Two:

Tranche Two (million)	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	Total
s. 9(2)(f)(iv)							

- 52 Ongoing operation of the ERP capability is estimated to start at s. 9(2)(f)(iv) when programme delivery has completed. The NZDF intends to fund this from savings and available operating baselines realised from the efficiency gains through implementation of the new capability.

### Cost-of-living Implications

- 53 There are no direct cost-of-living implications from this Cabinet Paper.

### Financial Implications

- 54 The estimated ten-year cost of the programme (including ongoing operating costs from year three) is s. 9(2)(f)(iv), of which s. 9(2)(f)(iv) will be managed from the NZDF operating baselines, s. 9(2)(j) will be funded from NZDF internal capital. The remaining programme funding will be sought through future Budget processes. Information on the key cost assumptions is included at page 132 of the attached Programme Business Case.

- 55 The NZDF is committed to building a fit-for purpose ERP capability, and addressing end of support risks of key current systems. It has initiated work via internal capital funding to get ready for technical conversion (Project 1). The remaining s. 9(2)(f)(iv) as Future ERP Tranche One investment.

- 56 A further Programme Implementation Business Case s. 9(2)(f)(iv) will provide updated cost estimates and confirm s. 9(2)(f)(iv) values for Tranche Two.

### Legislative Implications

- 57 There are no legislative implications from this proposal.

### Impact Analysis

- 58 There are no regulatory, climate, population, or human rights implications from this proposal.

## External resources used in the preparation of the Business Case and Cabinet Paper

- 59 The following external resources were used in the development of the Programme Business Case and Cabinet Paper. These resources were sourced from the external market to bring SAP expertise and other specific skill sets to the development of the investment opportunity, where the skill set did not exist within the NZDF.

Summary of external resources used in preparation of the Business Case and Cabinet Paper	FTE	Cost Million
Programme services covering leadership and support for development of Programme Business Case including: Programme leader & support services, stakeholder engagement; communications, communication & change strategy; Commercial strategy & market engagement; Business Case writing; investment costing	s.9(2)(g)(i)	
Technical and business analysts with prior New Zealand Defence Force experience to support capacity to assess current state		
SAP cloud solution expertise to assess and document solution and programme delivery requirements and options		
Services engaged in assurance and advice related activities such as Gateway review, probity, procurement, legal and assurance services		
<b>Total over the 24 months to June 24</b>		

## Consultation

- 60 The following agencies were consulted on this proposal and the attached Programme Business Case: The Treasury, Department of Internal Affairs (GCDO), and through the Defence Investment Forum, Office of the Auditor General, The Department of Prime Minister & Cabinet, and Te Kawa Mataaho Public Service Commission. Consultation will continue throughout the life for the programme.
- 61 Following consultation with GCDO, this Cabinet Paper has been amended to reflect the need to adapt the commercial approach for procurement through GCDO's planned All of Government ERP Portfolio. The NZDF will collaborate with GCDO and other agencies to create system efficiencies and fiscal savings.

## Communications

- 62 Public communications relating to this investment will be coordinated through my office and anchored to key messages of the Government's commitment to the New Zealand Defence Force illustrated through the investment in the Defence Capability Plan.

**Proactive Release**

63 To be confirmed.

Proactively Released by the Minister of Defence

## Recommendations

The Minister for Defence recommends that the Committee:

- 1 **note** that Enterprise Resource Planning (ERP) describes capability that underpins all NZDF operations. ERP enables the NZDF to efficiently undertake day-to-day business management functions and report on the health and risks of the business;
- 2 **note** that the NZDF relies on this capability to pay, train, house, and equip its frontline personnel and ensure military and non-military assets can respond to directed outputs;
- 3 **note** legacy ERP constrains the NZDF's core functions and limits interoperability with Australia and our other partners, while modern ERP will allow the NZDF executives to base decision making and advice on real-time insights;
- 4 **note** s. 6(a) [REDACTED]
- 5 **agree** the preferred option, *Option 3 – ERP for Defence, Paced for Success*, be further developed;
- 6 **note** that the programme will be delivered over two tranches of investment to implement the new ERP capability for the NZDF;
- 7 **note** programme activity and associated funding is indicated in all options of the Defence Capability Plan;
- 8 **note** that the current estimate for the programme across 10 years is s. 9(2)(f)(iv) [REDACTED]  
This includes cost of change as well as ongoing running costs commencing at year three of the programme delivery.
- 9 **note** that the NZDF will s. 9(2)(f)(iv) [REDACTED] progress the Prepare Tranche of the programme;
- 10 **note** that the NZDF is mitigating some of the risk by funding s. 9(2)(j) [REDACTED] of the NZDF capital depreciation reserves to commence mandatory SAP Remediation of the existing ERP, a project under the programme Prepare Tranche; and
- 11 **authorise** the Minister of Finance and the Minister of Defence to jointly approve subsequent tranches, contingent on funding being made available through future Budgets.

Authorised for lodgement

Hon Judith Collins KC

**MINISTER OF DEFENCE**

Proactively Released by the Minister of Defence

**Appendix 1 – the New Zealand Defence Force Future ERP Programme Business Case**

**Appendix 2 – Future Enterprise Resource Planning Programme Gateway 0-1 and Action Plan**

Proactively Released by the Minister of Defence