

HON ANDREW LITTLE, MINISTER OF DEFENCE

New Zealand Defence Force Housing Programme Business Case and Detailed Business Cases

July 2023

This paper has been proactively released.

This paper seeks agreement in principle to the preferred option for the Defence Force Housing Programme (the Housing Programme), and authorisation for the Minister of Finance and Minister of Defence to approve the drawdown of Budget funding for tranche one.

The pack comprises the following documents:

- June 2023 Cabinet Government Administration and Expenditure Review Committee Minute of Decision *New Zealand Defence Force Housing Programme Business Case and Detailed Business Cases* [GOV-23-MIN-0014]; and
- The associated Cabinet Paper *New Zealand Defence Force Housing Programme Business Case and Detailed Business Cases*.

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 Programme Business Case (Annex G) and Detailed Business Cases (Annex H) have been withheld in full in accordance with the above provisions 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 Government Administration and Expenditure 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.

New Zealand Defence Force Housing Programme Business Case and Detailed Business Cases

Portfolio Defence

On 8 June 2023, the Cabinet Government Administration and Expenditure Review Committee:

Background

- 1 **noted** that the Defence Force currently has 1,821 houses, mostly in poor condition and at end of useful life, across nine locations in New Zealand;
- 2 **noted** that there are multiple issues with the current housing stock, including a mismatch between supply and demand, expected loss of existing stock in Auckland, and poor condition and functionality, meaning continuing to adopt a status quo approach is not sustainable;

The Defence Force Housing Programme – preferred option

- 3 **noted** that the Defence Force Housing Programme (the Housing Programme) seeks to deliver 1,628 modern, quality houses that support operational effectiveness, support health and wellbeing, mitigate future attrition of key personnel, and deliver overall value for money;
- 4 **noted** that the Housing Programme is split into three tranches, with Ministers provided with off ramp opportunities prior to approving each tranche;
- 5 **noted** that the preferred option has a capital expenditure of \$1,012 million and \$2,088 million in net operating expenditure (operating expenditure plus personnel costs, depreciation and capital charge, less revenue) over 25 years;
- 6 **noted** that funding at a camp and base level will be sought through subsequent budget processes and, if agreed, drawn down through approval of Implementation Business Cases;
- 7 **noted** that Housing Programme support costs are \$10.519 million (\$9.300 million unescalated) for the first five years and are included within the capital expenditure, personnel costs, and operating expenditure costs lines (\$4.030 million, \$1.860 million and \$3.410 million unescalated respectively);

8 **agreed in principle, subject to** sufficient funding being made available through the annual Budget process, the preferred way forward, as set out in the Programme Business Case, attached as Annex G to the submission under GOV-23-SUB-0014, and the individual preferred options at each location as set out in the Detailed Business Cases, attached as Annex H;

Tranche 1 of the Programme

9 **agreed** that the Defence Force to commence Tranche 1 of the Housing Programme, which includes:

- 9.1 building 50 new properties in Waiouru;
- 9.2 renovations in Linton/ Ohakea and Burnham; and
- 9.3 programme management costs;

10 **noted** that the total capital cost for the proposed solution for the commencement of Tranche 1 is \$75.436 million, which includes:

- 10.1 s.9(2)(j) million at Waiouru;
- 10.2 s.9(2)(j) million to modernise houses at Linton/Ohakea and Burnham; and
- 10.3 \$3.573 million for programme management costs;

11 **noted** that the annual depreciation uplift for commencement of Tranche 1 is \$1.993 million (at steady state from financial year 2026/27);

12 **noted** that the capital charge expense for commencement of Tranche 1 is \$3.751 million (at steady state from financial year 2026/27);

13 **noted** that in April 2023, Cabinet agreed to a tagged operating and capital contingency for: New Zealand Defence Force Housing Programme – Tranche 1 (the tagged contingency) as part of the initiatives for inclusion in the Budget 2023 package [CAB-23-MIN-0139]:

New Zealand Defence Force Housing Programme Tranche 1	\$m – increase / (decrease)				Total
	2023/24	2024/25	2025/26	2026/27	
Tagged operating contingency	0.266	1.002	3.114	5.744	10.126
Tagged capital contingency	10.631	14.813	49.087	0.905	75.436

14 **noted** that the Defence Force will return to the Minister of Finance and the Minister of Defence for authority to drawdown funding from the tagged contingency of up to \$75.436 million capital costs and subsequent operating costs, subject to approval of an implementation business case;

15 **authorised** the Minister of Finance and the Minister of Defence to jointly approve up to \$75.436 million capital expenditure and subsequent operating costs associated with New Zealand Defence Force Housing Programme Tranche 1, in accordance with the conditions agreed by Cabinet on 11 April 2023;

16 **noted** that the tagged contingency expires in June 2025.

Jenny Vickers
Committee Secretary

Present:

Hon Dr Megan Woods
Hon Michael Wood (Chair)
Hon Andrew Little
Hon David Parker
Hon Kieran McAnulty
Hon Dr Duncan Webb
Hon Dr Deborah Russell

Officials present from:

Office of the Prime Minister
Officials Committee for GOV

Proactively Released by the Minister of Defence

Office of the Minister of Defence

Chair, Cabinet GOV Committee

New Zealand Defence Force Housing Programme Business Case and Detailed Business Cases

Proposal

1. This paper is seeking:
 - 1.1. Cabinet agreement for the preferred way forward of the New Zealand Defence Force (Defence Force) Housing Programme; and
 - 1.2. Agreement for commencing Tranche 1 capital investment of \$75.436 million and operating costs of \$10.126 million over the forecast period.

Relation to government priorities

2. The proposed Defence Force Housing Programme will help support two key objectives of the Government's priorities (CAB-20-Min-0525 refers):
 - 2.1. Objective 2: *Accelerating the Recovery*: Investment in housing is at the core of the Government's economic plan. Realigning Defence Force housing stock to meet demand is a major infrastructure project that will create jobs in regions across the country, including in places such as Waiouru. Investment in housing on Defence Force owned land will minimise the impact on local housing markets, particularly in under-pressure housing markets across New Zealand, while supporting regional economic development and opportunities for local business. It is predicted to support in the vicinity of 450 direct jobs per annum over the 8 years of delivery, plus a similar number of indirect jobs.
 - 2.2. Objective 3: *Laying the Foundations for the Future*: The provision of affordable, fit for purpose and future proofed housing will ensure current and future generations of Defence Force personnel, supported by their families, are well equipped to deliver operational outputs.
3. The Government has noted¹ that key to achieving these objectives will be our commitment to honour Te Tiriti o Waitangi. Māori owned businesses provide approximately 200 houses for the Defence Force and Māori entities are likely commercial partners to deliver additional parts of the Housing Programme.
4. The Programme also supports several of the Government's Wellbeing Objectives:²
 - 4.1. Just Transition – supporting the transition to a climate-resilient, sustainable, and low emissions economy through modern and fit for purpose housing at the right locations in close proximity to Defence Force camps and bases;

¹ CAB-20-Min-0525, paragraph 3

² Further detail on links to relevant well being indicators is contained in the Programme Business Case (PBC) at Appendix E.

- 4.2. Physical and Mental Wellbeing – supporting improved health outcomes for Defence Force personnel and their whānau through healthier modern homes made for modern living;
 - 4.3. Māori and Pacific Peoples – lifting Māori and Pacific peoples' incomes, skills and opportunities, including through access to affordable, safe, and stable housing. The Defence Force is actively engaging with relevant iwi at three locations regarding possible housing deals or partnerships; and
 - 4.4. Child Wellbeing – improving child wellbeing, including through access to affordable, safe and stable housing, for Defence Force families prioritised and targeted through the Defence housing policy.
5. The Housing Programme is also aligned to two of the main Defence priorities, specifically:
- 5.1. *People*: providing housing that is safe, future proofed and fit for the needs of personnel at individual camps and bases will ensure that personnel are healthy and well positioned to perform effectively in their roles. Presently, housing features as a factor in the attrition of personnel and in a recent survey of Regular Force (RF) members, 76 percent reported that they do not believe their accommodation support is fair for their situation.
 - 5.2. *Infrastructure*: Assessing and improving the current poor standard of housing provided to RF personnel and their families will ensure that in the future they will live in buildings that are healthy, safe and fit-for-purpose.

Executive Summary

6. The Defence Housing Programme seeks to create an affordable, modern, high-quality Defence Force housing estate that supports operational effectiveness, mitigates future attrition of key personnel and provides overall value for money.
7. The proposed approach to achieving this outcome is outlined in the Programme Business Case (PBC). The preferred option is to realign housing stock to more closely reflect operational need and to meet the current and projected future demand which will deliver 1,628 modern, high-quality houses that support operational effectiveness, and deliver overall value for money. Through the completion of Detailed Business Cases (DBC), preferred options have been identified at each location.
8. This programme, when approved, will result in 227 new houses being constructed, 877 houses being modernised, 524 long-term private rental properties, 40 hectares of land being declared surplus to defence purposes and able to be disposed of under the Public Works Act or any over-riding Treaty settlement legislation and 267 houses released (potentially to other agencies or iwi organisations) to the open market for sale and removal.
9. The recommended programme is estimated to have total costs of \$3,100 million over a 25-year period. This consists of capital costs of approximately \$1,012 million to be funded from capital injection, and net operating costs (operating expenditure, personnel costs, depreciation and capital charge, less revenue) of \$2,088 million to be funded from a mixture of baseline funding and operating expenditure uplift over the next 25 years. The balance of operating and capital costs reflects the preferred commercial solutions

chosen in each location with a mixture of private rental, refurbishment and new build solutions.

10. The Defence Force can contribute roughly \$139 million through existing baseline funding towards the cost of the preferred option. The Defence Force will also seek to finance this programme through retaining proceeds from the sale of surplus housing stock and land. Preliminary estimates suggest approximately \$181 million could be released from these sales. This has been excluded from the current financial model due to the uncertainty in the Defence Force's ability to retain these proceeds.
11. On 11 April 2023 Cabinet agreed to establish a tagged contingency to commence the programme at Budget 2023 for: New Zealand Defence Force Housing Programme – Tranche 1. This initiative will allow progress on implementing the commercial redress partnership opportunity in the Ngāti Rangi Claims Settlement Act 2019 for the Defence Force to procure construction of, sell and lease back housing in Waiouru. In addition, six properties in Burnham and seven properties in Linton/ Ohakea will be renovated and modernised.
12. The tagged contingency above consists of \$75.436 million of capital investment and \$10.126 million of operating uplift over the forecast period. An Implementation Business Case will be presented to the Minister of Finance and the Minister of Defence for approval to drawdown up to: s.9(2)(j) million of the capital costs for investment at Waiouru; s.9(2)(j) million capital cost for modernising housing at Burnham, Linton/Ohakea; \$3.573 million for programme management costs; and subsequent operating costs.

Requirement for Defence Housing

13. The military is distinguished from other government agencies by routinely compelling its RF personnel to relocated to different locations, separated from their families, and undertake operations with risk of injury or death.
14. The Defence Force is tasked by the Government to deliver military outputs. This requires the ability to generate the appropriate forces and to sustain them. To do this, the Defence Force must have suitably skilled and experienced service personnel, in the right numbers, at the right time, and in the right location. The Defence Force compels RF personnel with families to post to different locations in order to provide the force generation to support outputs.
15. To support RF personnel when they are required to change posting location, the Defence Force offers one of three forms of accommodation assistance: Defence Force housing, barracks or an allowance - the Operational Enabling Allowance Posting Readiness (OEAPR).
16. Defence Force housing is the most substantial form of accommodation assistance and is the most effective in maintaining operational effectiveness. It provides the Defence Force with a readily available stock of housing, avoids disruption and cost as people transition between locations and it allows the Defence Force to post RF personnel where they are needed to deliver military outputs, including locations with high cost of housing or limited housing supply.
17. Military practice globally is to provide housing for Armed Forces personnel. In Britain, Canada, the United States and Australia the outputs of the Defence Force and the requirement for housing are linked.

Housing Profile and Issues

18. The Defence Force has disposed of existing housing in some locations, including \$116 million in value in 2012 from the disposal of housing and land in Devonport as part of the Ngati Whatua Claims Settlement Act. Commitments exist to hand back most of the remaining Devonport and other North Shore housing and land to Marutūāhu under a Settlement Deed which has been initialled by the Crown and 4 of the 5 Marutūāhu Iwi but is yet to be executed and supporting legislation passed. The total number of current houses in scope for the Housing Programme is 1,821.
19. There are several issues with the current housing stock, as outlined in Table 1 below:

Issue	Impact
There is a mismatch between supply and demand for housing across the Defence Force's nine locations. Too much supply in some locations and not enough in others.	Negative impact on the Defence Force's ability to post RF personnel with the right skills to locations where they are needed most.
The Defence Force's current contractual sale commitments to iwi under Treaty settlements could in theory see the housing stock reduce over the next seven years from 1,821 to 1,437 by year 2028, if no action is taken to replace the affected houses. The largest impact would be Devonport and Northshore potentially reducing from 297 to just 27 by 2028.	Loss of access to housing (and the corresponding increase to living costs) could lead some RF personnel to reconsider their ongoing commitment to the Defence Force. The Defence Force has limited options for replacing RF personnel lost through attrition. The Defence Force requires skills and experience that are not readily available in the market, and it takes several years for RF personnel to become fully effective in their role.
The Defence Force houses are ageing (most are more than 60 years old), do not meet modern functionality, or are in a marginal physical condition and are therefore past their useful life. Most require upgrading urgently to improve poor condition and to meet Healthy Homes legislation and a programme of work is underway to ensure houses comply with the Healthy Homes Guarantee Act. This is expected to be complete by 1 July 2023.	This poses potential health risks and can cause housing-related stress to RF personnel and their families. Poor quality housing has been linked to increased rates and severity of asthma, respiratory infections, rheumatic fever and respiratory illnesses such as bronchiolitis, pneumonia, bronchiectasis and tuberculosis. Healthy Homes 2017 Act compliance is a minimum but still won't provide improvement to the current poor condition and layout of Defence Force houses leaving them unfit for modern living and a contributing factor to current rates of attrition.

Table 1: Housing Issues and Impact

Cost of Current Settings (Status Quo)

20. Under current settings, it is estimated that it will cost the Defence Force \$77 million to operate the existing housing stock over the next 25-year period.³ This primarily consists of operating costs such as lease costs, maintenance, and rates, and is partly offset by rental income from tenants. However, this figure is not comparable to the preferred option as it assumes no activity to replace the housing at Devonport and the North Shore as it is progressively transferred to the iwi under Treaty settlement legislation, no replacement capital expenditure on replacement properties and no adjustment for maintenance costs which would be significantly higher under this option. The Status Quo would also result in higher risk of major unexpected future expenditure as existing housing reached the end of its useful life.
21. There are also significant non-monetised costs associated with the current settings:
- 21.1. Increased pressure on already high attrition rates and poor satisfaction levels with housing, which will affect the delivery of Defence outputs;

³ This is net of rent revenue.

- 21.2. Additional number of houses taken offline for maintenance, adding further pressure to waitlists and more RF personnel in the wider rental market;
- 21.3. Maintenance spend that does not address layout issues or the poor condition of Defence houses;
- 21.4. A growing gap between the housing stock and what are considered common modern living standards; and
- 21.5. An unbalanced housing supply that draws on funding and resource at some locations and creates waitlists at others where supply is insufficient.

Overall Direction

- 22. The PBC was developed to canvass a wide range of programme-level options, from no-asset solutions (such as a housing subsidy) to various forms of housing provision and is tabled with this paper. It has been prepared to select an option that best balances costs, benefits and risks while meeting the investment objectives. These are:
 - 22.1. To improve operational effectiveness through better mobility of key personnel.
 - 22.2. To provide more cost effective and better targeting of housing access.
 - 22.3. To meet regulatory, legislative, and organisational requirements; specifically the Healthy Homes Guarantee Act (2017), Residential Tenancies Act (1986), and Health and Safety regulations for the provision of housing by an employer.
 - 22.4. To mitigate the negative impacts on operational effectiveness caused by housing related attrition of key personnel resulting in posting vacancies.
- 23. The long list of nine options detailed in the Economic case was assessed against the investment objectives and critical success factors to produce a short list of four;
 - 23.1. Option 1, Status quo: Housing for eligible RF members up to a maximum of 6 years. No disposals of surplus and no replacement of housing contractually committed to Iwi in Auckland. Minimum improvement works to meet legislative requirements.
 - 23.2. Option 3, Minimum housing with postings support: Most housing provided by other market solutions. Minimal housing retained for welfare, transit and remote locations.
 - 23.3. Option 6, Realign housing stock to current demand and move to a regional discounted rent: Mix of refurbish, build, dispose or sale and lease-back.
 - 23.4. Option 7, Realign housing stock to current demand and maintain the national discounted rent: Mix of refurbish, build, dispose or sale and lease-back.
- 24. Following an assessment of risks, costs and coverage (Annex A), Option 7 was preferred, on balance, as being the best at supporting operational effectiveness, with certainty of supply close to camps and bases. Option 6 was identified as the second best option while status quo (did not meet investment objectives) and option 3 (higher cost and risk) were discounted.

25. The PBC found a realignment of the housing stock to 1,628 houses nationally and to maintain the national discounted rent⁴ as the preferred option. This option would see the Defence Force dispose of housing in locations where there is excess supply, and lease, build or refurbish houses in other locations to meet demand.
26. As noted, the preferred option best supports operational effectiveness by providing certainty of supply of appropriate housing close to all camps or bases. It also has the lowest risk of attrition of key personnel,⁵ and supports the physical and mental wellbeing of RF members through maintaining the Defence Force's approach to supporting its personnel and providing fit-for-purpose housing. The option also avoids adding more pressure on high demand housing markets. Option 6, by contrast, anticipates a high risk of attrition for RF members in major centres (Auckland and Wellington) who would experience a marked increase in their rental and living costs.
27. For affordability purposes, the future number of houses has been modelled on the number of RF personnel with more than 5, but fewer than 9 years experience, and with a partner and/or dependant. This group are critical to military outputs, have the skills to be fully effective in their role and are known to be at a higher risk of leaving the Defence Force, often due to family reasons. This modelling assumption is more restrictive than the current housing eligibility criteria (RF personnel are eligible for access to Defence housing if they have not been a service tenant of Defence housing for six years or more).
28. An overview of the proposed housing numbers against the existing portfolio is provided in Annex B.
29. Through the development of the DBCs, preferred options for housing have been identified for each location. These are summarised in Annex C.

Delivery of the Programme

30. The Defence Force Housing Programme is split into three tranches (as outlined in Annex D). Varying levels of intervention will take place at each camp and base, during all three tranches. Tranches will remain flexible to accommodate any future changes or requirements and will provide Minister's with off ramp opportunities. Tranching has been established based on considerations of military capability, market delivery capacity, demand, and pace of implementation.
31. Delivery of the programme is subject to funding being made available through the annual Budget process. Delivery of Tranche 1 will be required before moving on to Tranche 2 and then Tranche 3.
32. A tagged contingency was established at Budget 2023 for the initial approval of \$75.436 million in capital funding and \$10.126 million in operating funding over the forecast period to commence Tranche 1. Additional funding for the remainder of the housing programme will be sought through subsequent Budgets, s.9(2)(f)(iv)

⁴ The national discounted rent for Defence Force housing, regardless of location, is currently set at a 17.5% discount to the market rent, as agreed between the Defence Force and Inland Revenue Department in accordance with s.CE1D of the Income Tax Act 2007.

⁵ As determined in the risk assessment conducted for the PBC.

33. Subject to approval of this PBC, the associated DBCs, and funding being made available, it is expected that implementation will commence in 2024, with delivery completed for all tranches by mid-2031.
34. The Defence Force needs to commence procurement activity with urgency so that the Programme can begin to address the critical issues of condition and locality. The initial stage involving Ngāti Rangi is shovel ready and, as noted, a tagged contingency has been established as a part of Budget 2023.

Relationship to Estate Regeneration

35. The Defence Midpoint Rebalancing Review (DMRR) conducted in 2013 reflected Defence Policy at the time and excluded housing. In the 2016 Defence White Paper the policy position on housing changed and on 15 April 2019 the Defence Force Housing Programme was included as part of the Defence Estate Regeneration Portfolio (DERP) Business Case [CAB-19-MIN-0171.01 refers]. The DERP indicated capital funding of s.9(2)(j) to address Waiouru as a priority, subject to business case approval and availability of Budget capital allowance [CAB-19-MIN-0171.01 refers].

Quality Assurance

36. The PBC has been subjected to numerous quality assurance processes:
 - 36.1. Treasury Investment Clinic;
 - 36.2. Independent Quality Assurance by IQA NZ;
 - 36.3. Reviewed by Adrienne Young Cooper, the then Chairperson of Kāinga Ora;
 - 36.4. Stage 0/1 Gateway for the Defence Estate Regeneration Portfolio Business Case, undertaken in November 2018 and resulted in a Green/Amber rating;
 - 36.5. The Targeted Investment Review of the Defence Estate Regeneration Programme in October 2019 resulted in an Amber rating, but it was confirmed that the programme was ready for successful delivery, if a small number of issues were addressed promptly; and
 - 36.6. Stage 0/2 Gateway for the PBC and eight DBCs was undertaken in September 2022 which resulted in an Amber rating.
37. All DBCs have undergone Independent Quality Assurance by IQA NZ.
38. The Defence Force has accepted and addressed the recommendations arising from the reviews.

Financial Implications

Whole of Life Costs

39. The investment proposed for the Defence Force Housing Programme has been modelled over a 25-year period to estimate the required capital investment and operating expenditure associated with the preferred option.

40. The total cost of the preferred option of the Defence Force Housing Programme comprises \$1,012 million in capital expenditure (Capex) and \$2,088 million in net operating expenditure (Opex) (operating expenditure plus personnel costs, depreciation and capital charge, less revenue). Table 2 below summarises the total cost of the preferred option.
41. Programme support costs totalling \$10.519 million (\$9.300 million unescalated) over the first five years of the programme are included within the Capex, personnel costs and Opex costs lines (\$4.030 million, \$1.860 million, and \$3.410 million unescalated respectively) below in Table 2.

Total cost	Preferred Option	Status Quo	Incremental Requirement
\$ millions (escalated)	Total (WOLC)	Total (WOLC)	Preferred less Status Quo
Revenue**	(814.807)	(751.9)	(62.927)
Capex required	1,011.841	-	1,011.841
Personnel costs	76.062	59.8	16.269
Opex required	1,319.914	670.4	649.517
Sub Total	1,593.010	(21.7)	1,614.699
Depreciation	407.472	57.0	350.509
Capital Charge	1,099.285	41.8	1,057.508
Total cost	3,099.767	77.051	3,022.716
NPC*	1,673.132	68.202	1,604.929

* Net Present Costs are calculated using a discount rate of 7.1% (5% real) based on Treasury guidance.

** Revenue is displayed as a negative here as it reduces the level of funding that is required for the option.

Table 2: Programme Costs

42. For further detail on whole-of-life costs, including a breakdown of Capex, Opex and Base costs, refer to Annex E.

Budget 2023 – Tranche 1

43. On 11 April 2023 Cabinet met and agreed to a tagged operating and capital contingency for: New Zealand Defence Force Housing Programme – Tranche 1. This included an initial investment at Budget 2023 of \$75.436 million of capital funding and \$10.126 million of operating costs, detailed in the table below.

Budget 2023					
\$ millions	FY23/24	FY24/25	FY25/26	FY26/27 & Outyears	Total
Waiouru	s.9(2)(j)	s.9(2)(j)	s.9(2)(j)	-	s.9(2)(j)
Burnham	s.9(2)(j)	s.9(2)(j)	-	-	s.9(2)(j)
Linton/ Ohakea	s.9(2)(j)	s.9(2)(j)	-	-	s.9(2)(j)
Programme Management	s.9(2)(j)	s.9(2)(j)	s.9(2)(j)	0.905	3.573
Total Capital	10.631	14.813	49.087	0.905	75.436
Depreciation	-	0.101	0.612	1.993	2.706
Capital Charge	0.266	0.901	2.502	3.751	7.420
Total Operating	0.266	1.002	3.114	5.744	10.126

Table 3: Budget 2023

44. s.9(2)(j) will be spent at Waiouru between FY24 and FY26 constructing 50 new properties. This is a strategic priority and reflects investment to mitigate attrition due to Waiouru's remote location and harsh conditions. There is also a commitment from both Ngāti Rangī and the Defence Force to undertake a housing development as part of the commercial redress in the Ngāti Rangī Claims Settlement Act 2019, which enables transfer of Defence land to Ngāti Rangī for the construction of houses. If a sale and leaseback is agreed, sale proceeds could be returned at development completion. The Defence Force will return to the Minister of Finance and the Minister of Defence jointly to draw down from the tagged contingency, subject to approval of an implementation business case for the investments at Waiouru.
45. s.9(2)(j) will be spent in the Manawatu region on the renovation of seven properties in Linton/ Ohakea with supporting infrastructure; and s.9(2)(j) will be spent renovating six properties in Burnham. These initial stages will be used to modernise a portion of the Defence Force's ageing properties in these locations, validate cost estimates for the wider programme and prove the ability to meet modern living standards within the Quantity Surveyor estimates. The remaining capital costs of \$3.573 million will fund capitalised programme management costs over the first four years of the programme.
46. As part of the tagged contingency established at Budget 2023, the Defence Force is investing \$10.126 million of operating uplift over the forecast period to meet the depreciation and capital charge incurred from capital spend. This includes depreciation expense of \$1.993 million and capital charge of \$3.751 million per annum at steady state from financial year 2026/27.
47. Capital funding for the remaining stages of Tranche 1 works in other locations will be sought in Budgets 2024-26 along with capital for further works in Waiouru, Burnham and Linton/Ohakea. Tranche one funding is spread across four budget years in total, as detailed in Annex E. Budget years 2025 and 2026 see key future decision points for Ministers with the commencement of Tranches 2 and 3 respectively.

Legislative Implications

48. There are no immediate legislative implications for the Housing Programme. However, the Ngāti Rangī Claims Settlement Act 2019 requires the parties to reach agreement within a four year timeframe. A separate request has been made in conjunction with Te

Arawhiti and the Minister for Crown Maori Relations to amend the four year timeframe to seven years via a Statutes Amendment Bill. This would allow time for approval of the business cases and binding agreement to be reached.

Climate Implications of Policy Assessment

49. The Ministry for the Environment have been consulted and confirmed that the Climate Implications of Policy Assessment requirements do not apply to this proposal as the threshold for significance is not met.

Population Implications

50. The Defence Force employs around 9,600 RF service personnel, 2,700 reserves and 3,100 civilian staff. The Defence Force currently provides housing to 1,487 personnel. Providing housing that is legislatively compliant and fits the needs of its personnel will help ensure the well-being of personnel and assist the Defence Force to meet the needs of a diverse, modern workforce.
51. Continuation of Defence Force Housing minimises impact on local private housing markets (particularly in under pressure housing markets across New Zealand). Approval of this programme will enable the Defence Force to declare some housing land surplus for defence purposes under the Public Works Act.

Population group	How the proposal may affect this group
Māori	This proposal will enable the Defence Force to continue to expand and enhance its commercial iwi partnerships nationwide to provide mutually beneficial outcomes and ensure that the Defence Force is upholding its responsibilities as an engaged Treaty Partner. Defence Force housing development will likely result in employment opportunities for iwi in the relevant areas.

Human Rights

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

Consultation

53. This paper has been consulted on with The Treasury, Ministry of Defence, Ministry of Business, Innovation and Employment, Ministry of Housing and Urban Development, Te Arawhiti, Public Service Commission, Kāinga Ora and the New Zealand Infrastructure Commission. The Department of Prime Minister and Cabinet has been informed.
54. For a full list of those consulted through the development of the PBC and DBCs, refer to Annex F.

Communications

55. It is expected that the Minister will announce the proposal to undertake further investigations at an appropriate event in the coming months.

Proactive Release

56. Parts of this Cabinet paper, the PBC and DBCs will be withheld under the Official Information Act 1982, Section 9 (2) (j). The release of these documents may undermine the Defence Force's commercial position during negotiations with potential providers.

These documents will be released shortly after the conclusion of commercial negotiations for the final tranche of the Defence Force Housing Programme.

Next steps

57. Following Cabinet approval of this paper, an Implementation Business Case will be developed to drawdown the funding requested as part of Budget 2023 processes.
58. The remainder of programme funding will be sought through subsequent budget bids, with additional Implementation Business Cases presented to the Minister of Defence and the Minister of Finance jointly to draw down on each stage of funding.

Recommendations

The Minister of Defence recommends that the Cabinet Committee:

1. **Note** that the Defence Force currently has 1,821 houses mostly in poor condition and at end of useful life, across nine locations in New Zealand;
2. **Note** that there are multiple issues with the current housing stock, including a mismatch between supply and demand, expected loss of existing stock in Auckland, and poor condition and functionality, meaning continuing to adopt a status quo approach is not sustainable;
3. **Note** that the Defence Force Housing Programme seeks to deliver 1,628 modern, quality houses that support operational effectiveness, support health and wellbeing, mitigate future attrition of key personnel and deliver overall value for money;
4. **Note** that the Defence Force Housing Programme is split into three tranches, with Ministers provided with off ramp opportunities prior to approving each tranche;
5. **Note** that the preferred option has a capital expenditure of \$1,012 million and \$2,088 million in net operating expenditure (operating expenditure plus personnel costs, depreciation and capital charge, less revenue) over 25 years;
6. **Note** that funding at a camp and base level will be sought through subsequent budget processes, this will be drawn down through approval of Implementation Business Cases;
7. **Note** that the Programme support costs are \$10.519 million (\$9.300 million unescalated) for the first five years of the Programme and are included within the capital expenditure, personnel costs and operating expenditure costs lines (\$4.030 million, \$1.860 million and \$3.410 million unescalated respectively); and
8. **Agree**, subject to sufficient funding being made available through the annual Budget process, the preferred way forward, as set out in the Defence Force Housing Programme Business Case (Annex G to this submission), and the individual preferred options at each location as set out in the Detailed Business Cases (Annex H).

Tranche 1

9. **Agree** for the Defence Force to commence Tranche 1 of the Housing Programme which includes: building 50 new properties in Waiouru; renovations in Linton/ Ohakea and Burnham; and programme management costs;

10. **Note** that the total capital cost for the proposed solution for the commencement of Tranche 1 is \$75.436 million. This includes: s.9(2)(j) at Waiouru; s.9(2)(j) to modernise houses at Linton/Ohakea and Burnham; and \$3.573 million for programme management costs;
11. **Note** that the annual depreciation uplift for commencement of Tranche 1 is \$1.993 million (at steady state from financial year 2026/27);
12. **Note** that the capital charge expense for commencement of Tranche 1 is \$3.751 million (at steady state from financial year 2026/27);
13. **Note** that on 11 April 2023 Cabinet met and agreed to a tagged operating and capital contingency for: *New Zealand Defence Force Housing Programme – Tranche 1* as part of the initiatives for inclusion in the Budget 2023 package.

New Zealand Defence Force Housing Programme Tranche 1	\$m – increase / (decrease)				
	2023/24	2024/25	2025/26	2026/27	Total
Tagged operating contingency	0.266	1.002	3.114	5.744	10.126
Tagged capital contingency	10.631	14.813	49.087	0.905	75.436

14. **Note** that the Defence Force will return to the Minister of Finance and the Minister of Defence for authority to drawdown funding from the tagged contingency of up to \$75.436 million capital costs and subsequent operating costs, subject to approval of an implementation business case;
15. **Authorise** the Minister of Finance and the Minister of Defence to jointly approve up to \$75.436 million capital expenditure and subsequent operating costs associated with: *New Zealand Defence Force Housing Programme Tranche 1*, in accordance with the conditions agreed by Cabinet on 11 April 2023;
16. **Note** that the tagged contingency for: *New Zealand Defence Force Housing Programme – Tranche 1* agreed by Cabinet is expiring in June 2025.

Authorised for lodgement

Hon Andrew Little
Minister of Defence

ANNEXES:

- A. Risk, Cost and Coverage Assessment
- B. Proposed changes to Defence Housing portfolio
- C. Proposed options at each location
- D. Indicative timeline for Housing Programme tranches
- E. Whole-of-Life costs
- F. Consultation
- G. Programme Business Case
- H. Detailed Business Cases

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ANNEX A: Risk, cost and coverage assessment

	Option 1: Status Quo	Option 3: Min. housing + support for postings	Option 6: Realign stock + regional discount	Option 7: Realign stock + national discount
Number of Defence Force houses	1,437 ⁴²	333	1,532	1,628
Coverage (RF members in housing or receiving other support)	1,437	6,297	1,628	1,628
Net present cost:				
— <i>Operating expenditure</i>	\$338,347,215	\$1,038,694,516	\$543,711,132	\$614,788,041
— <i>Capital expenditure</i>	-	\$243,042,227	\$776,579,935	\$776,919,308
— <i>Allowance for terminal value</i>	(\$2,012,747)	(\$33,565,774)	(\$99,025,122)	(\$98,924,773)
— <i>Disposal Proceeds at book value</i>	(\$15,502,095)	(\$44,421,561)	(\$19,954,795)	(\$19,954,795)
— <i>Rent received</i>	(\$329,463,101)	(\$161,182,037)	(\$549,885,768)	(\$352,330,639)
Total net present cost	(\$8,630,728)	\$1,042,567,372	\$651,425,381	\$920,497,142
Net present cost per RF member	(\$5,899)	\$165,566	\$400,138	\$565,416
Combined risk score	High	Medium/High	Medium	Low

ANNEX B: Proposed changes to Defence Housing portfolio

Location	Current Profile		Indicative Proposed Profile	Increase (decrease) in housing stock	
	Total housing profile	Housing profile (excluding on-base housing)		Total housing profile	Excluding on-base housing
Burnham	313	269	181	(132)	(88)
Devonport	297 ⁶	297	270	(27)	(27)
Linton	302	302	468	166	166
Ohakea/Bulls	180	136	118	(62)	(18)
Papakura	71 ⁷	71	75	4	4
Trentham	70	70	98	28	28
Waiouru	211	211	211	-	-
Whenuapai	206	169	172	(34)	3
Woodbourne	171	171	35	(136)	(136)
Total	1,821	1,696	1,628	(193)	(68)

⁶ Current owned stock may reduce to 27 houses by 2028 as the result of the Defence Force's current contractual commitments.

⁷ Noting there are 49 surplus houses already in the disposal process, which are out of scope.

ANNEX C: Preferred options at each location

Location	Preferred Option	Total number of future houses	Description
Devonport	Private Rental	270 houses	The Defence Force will retain and modernise the current 27 houses on Calliope Road and rent 243 private rental properties.
Whenuapai	Private Rental	172 houses	The Defence Force will continue leasing 76 properties, and procure 96 additional properties through the private rental market.
Papakura	Private Rental	75 houses	The Defence Force will continue to provide the 75 required houses through the private rental market.
Ohakea	Modernisation	118 houses	The Defence Force will retain and modernise 118 current off-base houses at Ohakea, and dispose of the remaining surplus housing.
Linton	Modernisation and new build (Defence Force owned land)	468 houses	The Defence Force will retain and modernise 291 current houses at Linton, and provide the remaining 177 houses through new builds on existing Defence Force owned land.
Waiouru	Modernisation and new build (Defence Force owned land)	211 houses	The Defence Force will build 50 new houses on Defence Force owned land as part of Ngāti Rangī housing development, and retain and modernise 161 current Defence Force houses.
Wellington Region	Modernisation (Private Rental)	98 houses	The Defence Force will retain and modernise around 64 current Defence-owned properties, and provide the further 34 houses through rentals in the private market.
Woodbourne	Modernisation	35 houses	The Defence Force will retain and modernise 35 current Defence Force-owned properties and dispose of the remaining surplus housing.
Burnham	Modernisation	181 houses	The Defence Force will retain and modernise 181 current Defence Force-owned properties and dispose of the remaining surplus housing.

ANNEX D: Indicative timeline for Housing Programme tranches

s.9(2)(g)(i)

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ANNEX E: Whole-of-Life costs

Capital investment

1. The capital expenditure covers the refurbishment of Defence Force houses across seven bases and construction of new Defence Force houses at Linton and Waiouru to meet the shortfall between future modelled supply and demand. The decision to refurbish existing houses was made due to the relative affordability of refurbishment over rebuilding houses based on estimates derived from Quantity Surveyors (QS).
2. Table 4 below summarises the estimated annual capital investment for the preferred option. New builds at \$295.768 million (\$271.729 million unescalated) and refurbishment costs at \$711.466 million (\$600.924 million unescalated) are the main components of capital costs reflecting the assumption that the Defence Force will rebuild 227 houses and refurbish 877 houses under the preferred option. These totals are based on an assumed 3-bedroom new build cost of \$756,000 and refurbishment costs of \$419,000 to \$499,000 (excluding costs associated with civil works and contingency) depending on the location and condition of the house. Furthermore, capitalised programme support costs of \$4.607 million (\$4.030 million unescalated) have been included to support the implementation of the programme.
3. A contingency s.9(2)(j) is included on all refurbishment and rebuild capital costs taken from the QS cost estimates based on their level of certainty surrounding the costs.

Capital Costs - Preferred Option															
\$ millions	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34	FY35	FY36	FY37 - FY48	Total
Purchases (unescalated)	s.9(2)(j)	s.9(2)(j)	88.334	79.854	27.030	-	-	-	-	-	-	-	-	-	271.729
Upfront Refurbishment/ Rebuild Costs (unescalated)	s.9(2)(j)	s.9(2)(j)	77.246	72.709	117.264	123.421	88.050	44.723	-	-	-	-	-	-	600.924
Programme Support Capex (unescalated)	0.806	0.806	0.806	0.806	0.806	-	-	-	-	-	-	-	-	-	4.030
Total (unescalated)	73.907	81.726	166.387	153.369	145.101	123.421	88.050	44.723	-	-	-	-	-	-	876.683
Escalation (3% p.a.)	0.062	3.567	14.661	20.681	26.637	28.918	25.304	15.328	-	-	-	-	-	-	135.158
Total (escalated)	73.969	85.293	181.048	174.050	171.737	152.339	113.353	60.052	-	-	-	-	-	-	1,011.841

Table 4: Capital Costs

Operating investment

4. The indicative net operating expenditure required over the 25-year period is \$2,088 million as outlined in Table 5 below. The outcomes of Budget 2023 processes is funding the initial stages of Tranche 1.

Operating Investment – Preferred Option															
\$ millions	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34	FY35	FY36	FY37 – FY48	Total
Revenue	(23.177)	(23.905)	(23.695)	(24.560)	(26.903)	(25.280)	(24.456)	(27.011)	(28.345)	(28.345)	(30.973)	(30.973)	(30.973)	(466.210)	(814.807)
Operating Costs	34.785	34.130	38.822	44.930	49.372	47.222	47.651	47.861	47.921	48.771	49.858	50.972	52.113	725.506	1,319.914
Personnel Costs	2.796	2.491	2.565	2.642	2.722	2.339	2.409	2.481	2.556	2.632	2.711	2.793	2.877	42.048	76.062
Depreciation	5.451	6.782	9.291	11.684	14.027	16.020	17.759	18.708	18.655	18.613	18.613	18.613	18.613	214.644	407.472
Capital Charge	5.759	9.002	15.337	23.863	32.203	40.072	46.564	50.764	52.127	52.007	51.906	51.819	51.731	616.131	1,099.285
Total (escalated)	39.556	46.643	69.308	96.466	120.012	138.453	156.237	164.264	165.685	166.286	164.622	165.642	166.692	1,986.750	2,087.927

Table 5: Operating Costs

5. Lease costs are the main drivers of operating costs at \$885.861 million over the 25-year period. The cost reflects an assumption of 524 long term private rental properties across four locations under the preferred option. Private rental costs have been derived from QV median rents and market sounding estimates (inflated at 2% p.a.). Other operating costs including maintenance, insurance and rates have been derived from the Defence Force's typical expenditure per house in each region. Core operating costs are partially offset by rent paid by the Defence Force personnel renting the Defence housing to the Defence Force at the rental essentially determined by agreement with the Commissioner of Inland Revenue⁸.
6. The total escalated personnel costs over the 25-year period are \$76.062 million under the preferred option. Recurring personnel expenditure on housing managers and administrative staff are the main factor, reflecting a mixture of existing administrative staff and additional housing managers to support the increase in private market rental properties.
7. Depreciation on the total housing portfolio amounts to \$407.472 million over the 25 year period. An annual capital charge of 5% (based on Treasury guidance) is also applied to the total cumulative capital spend of the housing programme. This capital charge is a significant contributor to costs at \$1,099.285 million over the 25-year period.
8. If the Defence Force retains its existing baseline (including for properties transferred as part of current contractual commitments), it will be able to meet \$139.073 million of the required operating funding for the preferred option.

⁸ Section.CE1D of the Income Tax Act 2007. If Defence Personnel pay less than the rent established under s.CE1D of the Income Tax Act, then the Defence Force personnel become liable to income tax on the difference as it is deemed to be assessable income.

Base Costs

Preferred Option by Base (25 year cost)				
\$ millions	Capex	Opex	Total	Preferred Option
Burnham	128.324	161.270	289.594	Modernisation
Devonport	46.871	458.788	505.659	Private Rental & Modernisation
Linton	477.896	654.952	1,132.848	Modernisation and build new
Ohakea/Bulls	90.958	118.019	208.977	Modernisation
Papakura	0.191	75.546	75.737	Private Rental
Trentham	51.751	96.007	147.758	Private Rental & Modernisation
Waiouru	190.359	299.810	490.169	Modernisation and build new
Whenuapai	0.530	189.024	189.554	Private Rental
Woodbourne	24.961	34.511	59.471	Modernisation
Total	1,011.841	2,087.927	3,099.767	

Table 6: Base Costs

9. The commercial solution adopted for each location has been selected to balance cost, benefit and risk and present the best value for money. In aggregate these solutions drive the overall mix of operating and capital costs of the programme. Auckland locations generally following a private rental solution, while the remaining locations favour refurbishments due to lack of available rental supply in close proximity to the bases.

Capital costs by Tranche

Capital Costs - Preferred Option															
\$ millions	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34	FY35	FY36	FY37 - FY48	Total
Programme Support Costs	0.868	0.894	0.921	0.948	0.977	-	-	-	-	-	-	-	-	-	4.607
Tranche 1	73.101	84.399	169.488	85.193	-	-	-	-	-	-	-	-	-	-	412.181
Tranche 2	-	-	10.639	85.623	143.882	55.901	-	-	-	-	-	-	-	-	296.045
Tranche 3	-	-	-	2.287	26.878	96.438	113.353	60.052	-	-	-	-	-	-	299.008
Total (escalated)	73.969	85.293	181.048	174.050	171.737	152.339	113.353	60.052	-	-	-	-	-	-	1,011.841

ANNEX F: Consultation

1. The PBC was developed in consultation with The Treasury and the Ministry of Defence. The Department of Prime Minister and Cabinet have been informed.
2. The Public Service Commission was consulted on the development of the underpinning Defence Accommodation Assistance policy, which came into effect on 1 July 2017.
3. The Ministry of Business, Innovation and Employment was consulted on the high-level procurement strategy as part of the PBC Treasury End-Point clinic, and on the proposed commercial approaches to the preferred options in the Programme Tranches.
4. The Ministry of Housing and Urban Development was consulted on the alignment with the Government Policy Statement on Housing and Urban Development – Te Tūāpapa Kura Kāinga and MAIHI Ka Ora, the National Māori Housing Strategy.
5. Kāinga Ora has been engaged throughout the development of the PBC and the DBCs, and during implementation. A representative from Kāinga Ora sits as an independent member on the Defence Force Accommodation Programme Working Group to facilitate alignment between the two agencies and support potential efficiencies. Collaboration with Kāinga Ora will continue in programme implementation.
6. The Defence Force has current commercial housing relationships with iwi and additional ones are also likely including the proposed new housing at Waiouru. The Defence Force continues to work closely with Te Arawhiti to ensure the durability of Treaty related redress commitments.
7. The PBC and Cabinet Paper were provided to the Central Agencies, including The Treasury, for comment in April 2021 and again in October 2022. Feedback provided has been considered and integrated into the documents. Further engagement occurred with the PBC, Cabinet Paper and DBCs provided to Central Agencies on 18 April 2023 prior to Cabinet submission.

ANNEX G: Programme Business Case

Withheld under s.9(2)(f)(iv) and s.9(2)(j).

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ANNEX H: Detailed Business Cases (8 total)

Withheld under s.9(2)(f)(iv) and s.9(2)(j).

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