New Zealand DEFENCE FORCE Te Ope Kātua O Aotearoa

DEFENCE ESTATE REGENERATION PORTFOLIO BUSINESS CASE

2019 - 2035

30 April 2019 (V1.5)

A FORCE FOR NEW ZEALAND

CONTENTS

Executive Summary

Overview

The New Zealand Defence Force's Estate and infrastructure is a critical enabler and strategic asset. It provides the working, training and living environments required for generating and maintaining the Defence Force.

The Defence Estate needs to improve the support it provides to the Defence Force.

The Estate is old and outdated, with a large proportion dating back to World War II. The vast majority of the Estate (78 percent) has less than 30 years remaining useful life with a replacement cost of over $3.2 billion. Of this, 15 percent has less than 10 years remaining life with a replacement cost of more than $600 million.

As Estate assets and infrastructure age, the effectiveness of maintenance decreases resulting in increasing deterioration. Living facilities are no longer meeting the needs of the Defence Force and are largely unfit for purpose. In addition, the Defence Force's shared services (horizontal utility infrastructure for example, roads, waste water, stormwater, electricity, gas and communication networks) are increasingly unfit for purpose.

In 2016, the Defence Force initiated a significant investment programme, the 'Defence Estate Regeneration Programme Plan 2016-2030' (the 2016 Plan), to address critical under-investment in the Estate. A reduction, or a lack of continued Estate investment, limits the Estate's ability to support operational performance and capability. It also risks creating a progressively unsafe, non-compliant and unsatisfactory work environment, increases inefficiencies and avoidable costs, while also increasing risks to strategic execution, reputation, recruitment and retention, and most critically, military operations.

The Defence Force seeks *'A fit for purpose and sustainable Estate that enables the delivery of Defence outputs'.*

Purpose

The Defence Strategic Policy Statement 2018 puts an emphasis on operational readiness; affirming the importance of the Defence Force's contribution to *Community, Nation and World*. The current Estate is not fit for supporting this.

This Defence Estate Regeneration Portfolio Business Case (the 2019 Plan) provides the refreshed framework for the regeneration, management and use of the Defence Estate (the Estate) out to 2035. Investment in Estate Regeneration seeks to deliver the benefits of:

- The Defence Force is effective and flexible in delivering outputs;
- Improved well-being, safety, recruitment and retention of personnel;
- The Defence Force operates efficiently and sustainably; and
- The Defence Force provides greater support to wider New Zealand economic and social outcomes.

The 2019 Plan follows Better Business Case principles and meets Cabinet Office requirements (CO (15) 5) for long-term infrastructure investment and asset management in the State Services.

The Plan provides the direction for regeneration of the Estate. It ensures alignment to Defence-wide strategies, value for money, and a strategic portfolio based approach to delivery and management of its assets.

An accompanying Defence Estate Regeneration Implementation Plan 2019-2035, has been prepared as a stand-alone supporting document to this business case. The Implementation Plan sets out the projects and indicative sequence to be delivered to 2035 and will be updated annually.

Estate Regeneration is a rolling programme which is updated every three years or in line with key strategic Defence policy reviews to enable flexibility of capital spend to respond to changing capability requirements.

Strategic Case

The case for change outlined in the 2016 Plan has been reviewed with updates made to reflect changes to Government Defence policy and priorities and alignment with Defence Force strategic direction and objectives. This 2019 Plan has been developed in conjunction and aligns with the review of the Defence Capability Plan 2019.

The guiding principles have been retested and updated by the Minister of Defence and Cabinet to:

- Remove the requirement for the Defence Force to remain in its current major locations including training areas;
- Remove the requirement to pursue opportunities for all of government and/or private sector asset development, supply (including ownership) and management where this is most efficient; and
- Incorporate minor wording changes.

The principles provide the foundation for Estate Regeneration and the Defence Force's approach to managing the Estate. The key effect of the changes to the principles have resulted in assumptions for Estate Regeneration being retested, particularly within the Economic Case.

The key reasons for change and investment in the Estate have been retested and remain appropriate being:

- Service-centric estate footprint and asset configuration does not support existing strategy or capability intentions;
- Deteriorating infrastructure risks impacting delivery of defence outputs; and
- Inefficient management approaches prevent effective decision making and value for money.

Investment in regeneration of the Estate seeks to:

- Improve the Defence Force's ability to sustainably accommodate future military capabilities in an uncertain global environment.
- Improve the Defence Force's ability to meet demands to use and deploy military capabilities.
- Improve service performance, operational efficiency and ease of use through future-proofed Estate configuration.
- Improve the working, training and living environments for personnel and their families, to promote the well-being, recruitment and retention of personnel.
- Meet legislative and government regulatory standards.
- Optimise asset investment decision making.
- Drive an increase in value over the life of investments.

Economic Case

The Economic Case considers the best options to deliver the objectives of Estate Regeneration within the parameters of the guiding principles for the Estate. The effect of the changes to the principles have mainly been in the Economic Case as options previously discounted through the 2016 Plan had the potential to now be available.

A high-level re-assessment of the 2016 options was undertaken and the preferred approach is to retain the 'Integrated' option.

Under the Integrated option, the Defence Force maintains all major camps and bases but with a possible change in camp and base size, with assets and units relocated where there is a strong military and economic case to do so. Investment is focused on supporting military outputs and capability in the most cost-effective way. The Integrated option meets the critical success factors, aligns to the Defence Force's strategic direction, and supports the Treasury's Living Standards Framework.

For this 2019 Plan, the preferred Integrated option has provided the base case against which alternative investment profiles have been compared (with the main differences being the level of total planned expenditure to 2035 and the rate of expenditure per year) (Table 1 refers). These profiles have been developed alongside the Defence Capability Plan Review and recognise Cabinet direction for this 2019 Plan to prioritise activities supporting the Defence Force Future Air Surveillance Maritime Patrol (ASMP) capability and Complementary Capability infrastructure development [CAB-18-SUB-0305 refers].

Table 1: Option comparison

$million Description	Total Cost ($)	Net Present Cost to 2035 ($2018 including terminal value)[1]
2016 Plan	$4,405	$3,273
	S9(2)(f)(iv)	
Option 4: Fit for purpose		
Cost pressures to regenerate the Estate offset and overall improvement in the condition of the Estate	$5,880	$5,733
	S9(2)(f)(iv)	

[1] Note this Plan covers proposed funding to 2030 and proposed capability investment to 2035

S9(2)(f)(iv)

Recommended preferred way forward

The recommended preferred way forward is to retain the Integrated option from the 2016 Plan in conjunction with funding Option 4 ('fit for purpose'). Option 4 is the preferred way forward organisationally and aligns with the Defence Capability Plan 2019.

Under Option 4, the pipeline for Estate Regeneration over the next four years sees investment prioiritised towards delivery of infrastructure that supports capability (51%). Approved projects from the 2016 Plan, housing and other rolling programmes make up 49% of the investment pipeline, with much of this investment occurring towards the end of the four year period.

Commercial Case

To support the scale of investment associated with Estate Regeneration, there has been an identified need to increase the capability and capacity of the Defence Force's Defence Estate and Infrastructure (DEI) Group which is responsible for the management of delivery of Defence Estate.

The strategy for delivery of Estate Regeneration has been developed through the establishment of a Strategic Partnership (Alliance) Project. The Strategic Partnership (Alliance) approach aims to establish a professional services relationship between industry partners and the Defence Force to provide additional estate management services capability and capacity to support delivery. The Strategic Partnership (Alliance) will provide professional services required to design and manage the delivery of the Estate Regeneration capital programme, management of the Estate Regeneration maintenance (operational) programme, and the delivery management of infrastructure to support new military capability.

Industry engagement

Engagement with industry has identified both national and international companies interested in the Strategic Partnership (Alliance) procurement approach.

Procurement strategy

A range of methodologies are available for delivery of the identified Estate Regeneration projects and programmes including (generally in priority order):

- Delivered using non-asset solutions such as off-site service delivery by a third party with an already established asset base;
- Accommodated in off-site leased property which provides appropriate functionality and meets the Defence Force's special requirements for security and access;
- Accommodated by purchasing single off-site assets, such as an office block, identified for meeting requirements for long-term investment;
- Aggregated to form a national or regional work stream depending on location, value and commercial viability; or
- Delivered as single construction projects completed using appropriate design and construction methodology.

Financial Case

The financial context of this 2019 Plan is aligned with the Defence Capability Plan Review which assumes a capital investment profile of $2.1 billion with a corresponding level of operating and personnel expenditure through to 2030 for Estate Regeneration.

Capital investment

The preferred option, the Integrated option coupled with Option 4 'fit for purpose', anticipates $2.1 billion of capital investment for the period 2016-2030 and seeks a sustainment beyond that to 2035. The investment profile has been developed in conjunction with the Defence Capability Plan Review, accounting for key capability acquisitions and recognising new information for capital investment requirements such as the state of horizontal infrastructure, the Defence Force's regional facilities, and housing.

The proposed investment is structured into Strategic Programmes to better align and reflect investment priorities. Strategic Programmes are grouped services or assets proposed for joint consideration to maximise economies of scale and to provide efficiencies and effectiveness of commercial arrangements and delivery approaches. The below graph shows the proposed Estate Regeneration annual capital expenditure profile grouped by Strategic Programme to 2035.

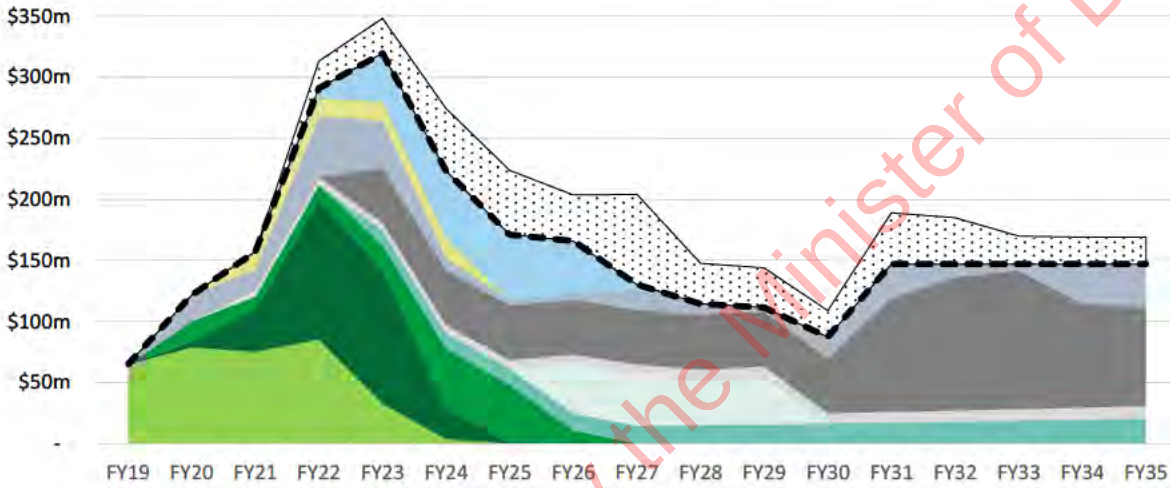

Figure 1 Estate Regeneration capital expenditure profile

Table 2 Priority list of strategic programmes (legend to Figure 1 above)

Prioritised Strategic Programmes		Key
1	Approved DEI Projects (projects approved through the 2016 Plan)	
2	Approved Air Surveillance Maritime Patrol	
3	Consolidated Logistics Project	
4	Horizontal Infrastructure Programme	
5	Accommodation, Messing and Dining Modernisation Programme	
6	Rolling Replacement Programmes	
7	Estate Development Plan Projects	
8	Defence Capability Projects	
9	Housing Programme	
10	Consolidated Learning Programme (Ruru)	
11	Regional Facilities	
–	Portfolio Contingency	

Operating and personnel funding

Figure 2 shows the estimated operating and personnel funding for delivery of Estate Regeneration to 2035.

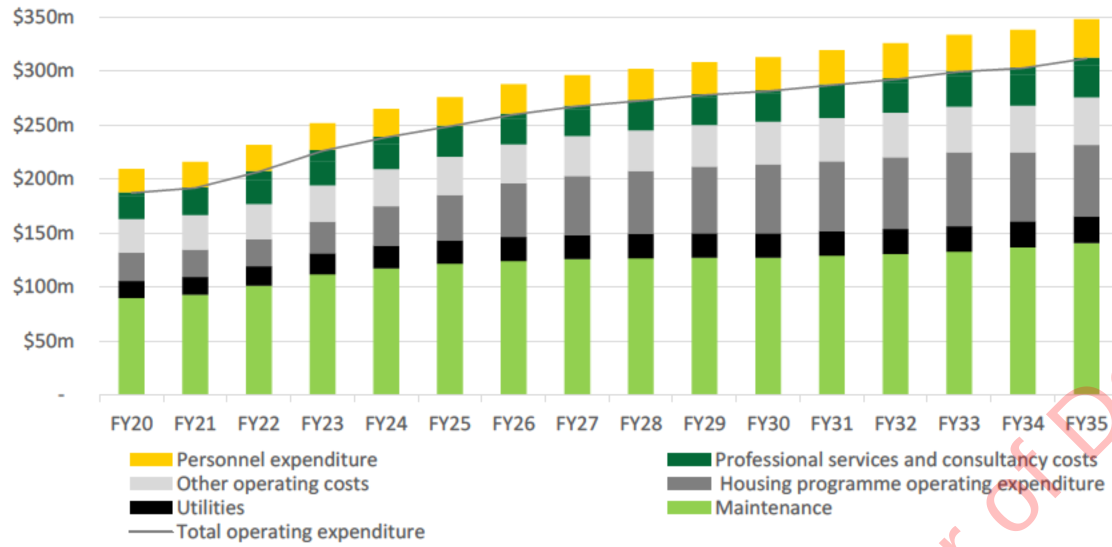

Figure 2 Operating and personnel funding

Operating expenditure reflects the day-to-day costs of running the Estate and includes maintenance, utility charges, professional services and consultancy costs, property rental and leases and other operating costs. Operating expenditure is confirmed on an annual basis through the Defence Force's Four Year Plan.

Forecast operating expenditure assumptions are based on and linked to the replacement value of assets. This 2019 Plan has recognised the need for higher unscheduled maintenance costs, utility costs and costs of meeting building health and safety requirements associated with the aging Estate.

To support the delivery of the capital investment profile, a Strategic Partnership model will be adopted, delivered by Estate personnel and professional services.

Personnel expenditure has been increasing year on year since 2016 as the portfolio implements the Operating Model Transformation and moves towards the Strategic Partnership model. Forecast personnel expenditure is based on a business case completed by DEI to identify the personnel requirements to deliver Estate Regeneration. This sees an increase in personnel to an estimated 210 FTE.

Whole of life costs

Whole of life costs have been determined for the total investment of capital, operating and personnel expenditure. The Total Net Present Cost of the preferred option is $5.733 billion.

Management Case

DEI has recognised the need to function differently to manage the major capital delivery programme. To achieve the change required, DEI will be structured into the functional areas of: Estate Strategy; Estate Performance; Estate Delivery; Asset Management (under development); and, Strategic Partnership (Alliance) (under development).

Within DEI's operating model, portfolio, programme and project management is an integrated way of meeting the Government's ambitions, driving better decisions and increasing the likelihood of successful outcomes.

A Strategic Partnership (Alliance) model is being progressed to build capacity and capability and to drive best practice and innovation for the effective management of the Estate. Industry feedback has indicated that a Strategic Partnership model or similar is the preferred approach, given the likely inability of any one provider to be able to deliver all of the outcomes the Defence Force requires.

In planning the on-boarding of a strategic partner(s), the existing DEI organisation will configure itself to manage both business as usual as well as support transition to the new Strategic Partnership (Alliance) model. This is already underway through the Estate Transformation programme, with work progressing in five key areas: Business Partnering; Organisational Design and Culture Change; Governance and Portfolio Management; Business Improvement; and, Information Management.

1. Introduction

The Defence Estate (the Estate) is a strategic asset. It provides operational capability with the training, working, and living environments, and infrastructure critical for generating and maintaining the Defence Force. The Defence Force needs the right infrastructure, in the right place, at the right time, and at the right cost.

This Government is seeking to place greater emphasis on addressing critical underinvestment in the Estate and to define the long-term view of the Estate footprint. The Estate is at a point where real change is needed for personnel living, training and working on the Defence Force's locations. The challenge for the Defence Force is balancing demands for investment in the Estate—supporting delivery of strategic capability while also addressing increasing health and safety liability risks from a degraded Estate.

In 2016, in response to Government policy decisions to invest in the Estate and the expectation for all significant investment proposals to be developed in accordance with the Treasury's Better Business Case framework, the Defence Estate Regeneration Programme Plan 2016-2030 (the 2016 Plan) was prepared. The 2016 Plan provided the framework for the regeneration, management and use of the Defence Estate out to 2030 and met the Defence Force's requirements under Cabinet Office Circular CO (15) 5: Investment Management and Asset Performance in the State Services.

The 2016 Plan was approved by Government in August 2016 along with an indicative capital funding envelope of $1.7 billion to 2030 to address the effects of accumulated maintenance backlog as well as upgrades and replacement across the Estate. An indicative operating funding envelope of $2.5 billion was also provided over the same period to cover planned, scheduled and unscheduled maintenance, utilities, rates, rentals and personnel expenses associated with running the Estate.

This Defence Estate Regeneration Portfolio Business Case 2019-2035 (the 2019 Plan) is a refresh of the 2016 Plan. It advances the Plan, building on the body of work that has been progressed and addressing lessons learned. The intent of this refresh is to transition the programme towards a portfolio approach.

This 2019 Plan has been developed alongside and in conjunction with the 2019 review of the Defence Capability Plan. The Plan provides certainty for the next four years of Estate investment to 2022, aligned to Defence Capability requirements, and anticipates the Estate initiatives and programmes to be delivered and the associated funding and profile to 2035.

Estate Regeneration is a rolling programme, updated every three years to enable flexibility of capital spend to respond to changing capability requirements. The next refresh will be in 2021 to reflect the outcome of a First Principles Review of the Defence Estate Footprint or following any changes to Defence policy as directed by Government, whichever occurs first.

1.1. Context and prior decisions

A legacy of under-investment and deferred maintenance in the Estate has resulted in portions of the Estate's buildings and infrastructure nearing, or past the end of their useful life; in average condition; at risk of not meeting minimum regulatory requirements; and in some cases, not fit for purpose.

The Defence White Paper 2010 highlighted the challenges being faced by the Estate, drawing attention to the historic under-investment that was resulting in running costs falling considerably short of what was required to maintain an estate of such a size and condition[3]. It concluded that a greater level of investment in infrastructure was required and recommended the provision of a smaller, modernized and upgraded Estate, with increased investment in routine maintenance in line with international asset management good practice.

In 2013, as part of the Defence Midpoint Rebalancing Review (DMRR), Cabinet approved an indicative funding envelope ($1.7 billion for capital expenditure and an $0.8 increase in operating expenditure to be spent on maintenance – total operating $2.2 billion) to deliver a fit-for-purpose and legislatively compliant Estate.

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[3]New Zealand Defence Force (2010). *Defence White Paper 2010* (p67)

In July 2014, Cabinet [SEC Min (14) 14/3 refers] directed the development of a high-level Plan outlining the intended investment programme in the Estate to FY2029/30. Cabinet also endorsed nine guiding principles for investment and the Defence Force's approach to managing the Estate (Appendix A refers).

In July 2015, Cabinet noted the investment intensions for 2015/16 and FY2016/17 [SEC Min (15) 9/3 refers] and agreed that a Plan be reported back in June 2016.

The Defence White Paper 2016 confirmed the position of the Defence White Paper 2010 that Estate running costs fell considerably short of what was required to maintain an estate of such a size and condition and that a greater level of investment was needed. The Defence White Paper 2016 confirmed that the guiding principles were appropriate for regeneration of the Estate (as opposed to recapitalisation).

The Defence White Paper 2016 followed the funding evaluation outlined in the DMRR for investment and management of the Estate despite the shift in focus from recapitalisation to regeneration.

In 2016, Cabinet approved the Defence Estate Regeneration Programme Plan 2016-2030 (the 2016 Plan) [CAB-16-MIN-0333 refers].

The Government's Strategic Defence Policy Statement 2018 stated that "Defence must also ensure that infrastructure in place in New Zealand is appropriate for the tasks and the Government requires of the Defence Force"[4]. The Strategic Defence Policy Statement 2018 affirms the priority the Government places on the Defence Force's ability to operate, recognising the important role the Defence Force plays in promoting the overall wellbeing and resilience of New Zealand, its communities, and the environment. The Community, Nation and World framework of the Policy Statement also reinforces the Defence Force's contribution to global security and the maintenance of an international rules based order. The current Estate is not fit to support this.

1.2. Scope and Key Service Requirements

The scope of this business case covers everything associated with Estate Regeneration, covering all Crown owned or leased Defence property and Estate assets and services required to support the functioning of the Defence Force to 2035. Estate Regeneration includes the majority of the functions or programmes delivered by the Defence Estate and Infrastructure (DEI) portfolio. The separation is largely based on funding and governance arrangements (Figure 3 refers). Therefore, the business case has taken a portfolio management approach.

Through a portfolio approach, Estate Regeneration projects and programmes are selected, prioritised and controlled based on alignment with strategic organisational strategy and objectives, subject to risk, capacity to deliver and affordability. This approach supports the objective from the 2016 Plan to maximise the benefits realised from investment and promotes efficient and effective delivery.

[4] Ministry of Defence (2018). *Strategic Defence Policy Statement 2018* (p38, para 255)

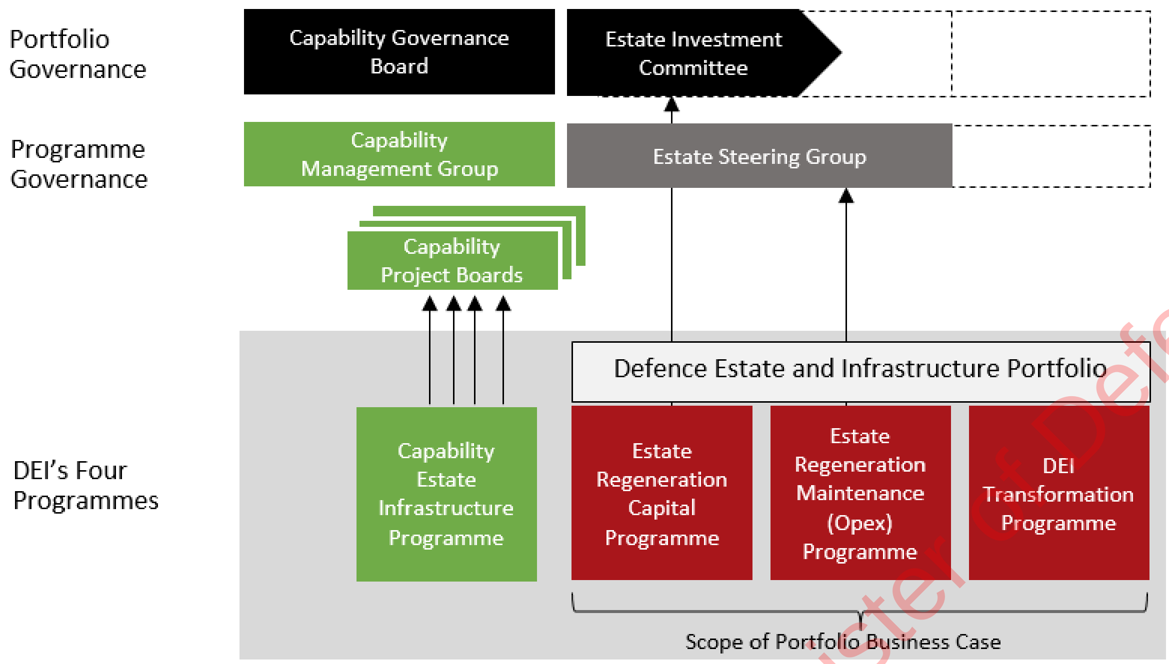

Figure 3: DEI portfolio and underlying programmes

This business case also covers:

- Approved projects that have been initiated or are to be initiated and capital projects required earlier than anticipated (from the 2016 Plan Tranche 1A–C and residual projects from the Infrastructure Recapitalisation Programme).
- The cost pressures from delivery of approved Estate Regeneration projects from Tranches 1A-C and residual projects from the Infrastructure Recapitalisation Programme (IRP).
- Additional funding requirements for the period 2030/31 – 2034/35. The 2016 Plan investment profile was $1.7 billion capital and $2.7 billion operating and personnel expenditure through to 2029/30. The 2019 Plan refreshes these profiles.

1.2.1. Out of scope

The Plan is not intended to include funding associated with the Capability Estate Infrastructure Programme including funding for wholesale enhancement or expansion of existing assets or infrastructure to increase capacity or capability. These works are to be properly priced and budgeted for within the whole of project costs of capability acquisition. The exception is infrastructure requirements associated with the introduction of the P-8A Poseidon surveillance aircraft at Ohakea where funding and approval for a hangar was directed through Cabinet.

1.3. Lessons learned

Through May – July 2018, a series of lessons learned workshops were held across DEI to discuss, share and reflect on Estate Regeneration to date. The findings from these workshops and the out-of-session information provided have helped inform this refresh.

The feedback from the lessons learned workshops were summarised into the five cases that form the business case and accompanying Implementation Plan (Strategic (S), Economic (E), Commercial (C), Financial (F), Management (M) and Implementation (I)). The feedback and recommendations for the five cases and the Implementation Plan are summarised in Figure 4.

Figure 4: Summary of key findings and recommendations from lessons learned workshops 2018

2. Strategic Case

This section provides the strategic context for the Defence Force's Estate Regeneration, outlining the drivers and objectives for investment in, and the ongoing management of, the Estate portfolio. The case for change outlined in the 2016 Plan has been reviewed with minor updates made to reflect changes to the Defence Force's strategic direction.

2.1. Organisational Overview

The principle role of the Defence Force is to defend the nation's sovereignty and territory and those areas for which New Zealand is responsible, providing security for New Zealanders, including against terrorism and related threats. The collective purpose of the Defence Force is to be *A Force for New Zealand.*

The Defence Force has responsibilities for contributing to national, community and environmental wellbeing and resilience, and to whole-of-government security objectives as well as contributing to international peace and security and the international rules-based order.

To help protect and advance New Zealand's security interests and to be able to take action to respond to likely contingencies, the Government needs a Defence Force that offers a range of credible deployment options. To do this, the Defence Force requires a mix of capabilities (equipment, platforms, estate and people), including having the right property, infrastructure and facilities, managed to appropriate standards. To this end, the Defence Estate forms a key part of the Defence Force's capability for delivery of military outputs.

The Defence Force requires a mix of capabilities (equipment, platforms, infrastructure and people), including having the right property, infrastructure and facilities, managed to appropriate standards.

2.1.1. Overview of the Defence Estate

The Estate is a strategic asset maintained by the Defence Force on behalf of the Government. The portfolio is significant, both in terms of its size and complexity and with respect to the importance of what it supports to deliver.

Delivery of the Estate provides a vital capability to the Defence Force.

The portfolio is responsible for delivering, maintaining, operating and monitoring most of the infrastructure, assets, facilities and services required to run and sustain the Defence Force's camps, bases, training areas and other regional and support facilities.

The portfolio is the third largest Crown land area and covers a diverse range of assets and services, spanning the Defence Force's living, working, training and shared environments (Figure 5 refers).

2.1.2. Management of the Estate

The Estate portfolio is managed at the functional level for the Defence Force by the Defence Estate and Infrastructure (DEI) Group, reporting to the Vice Chief of the Defence Force. DEI is responsible for the strategy, performance and delivery of fit for purpose and sustainable Defence Estate solutions. The portfolio is centrally controlled and is then managed regionally through the Defence Force's camps and bases.

Figure 6 shows the current structure and functions of DEI.

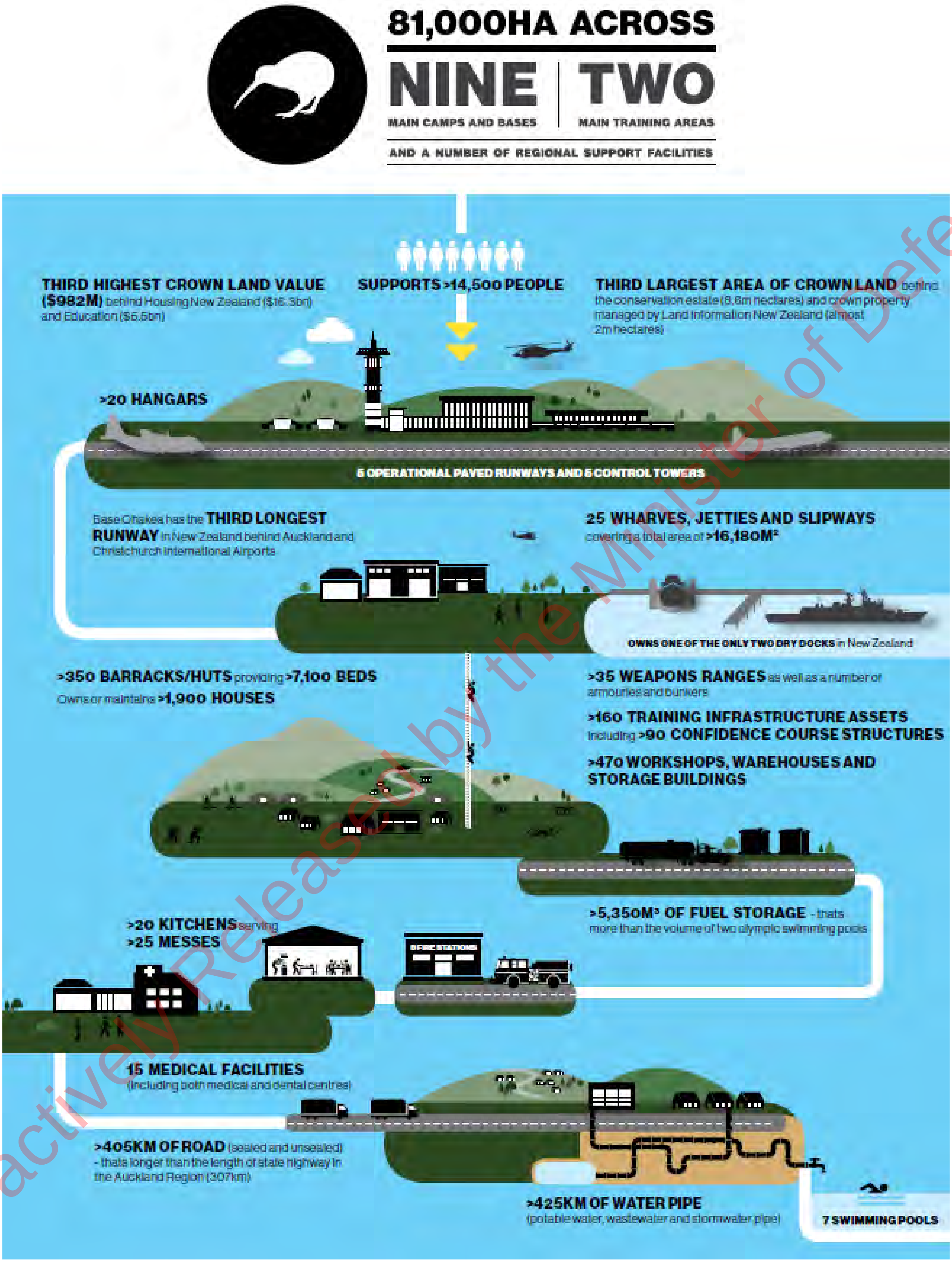

Figure 5: Overview of the Defence Estate

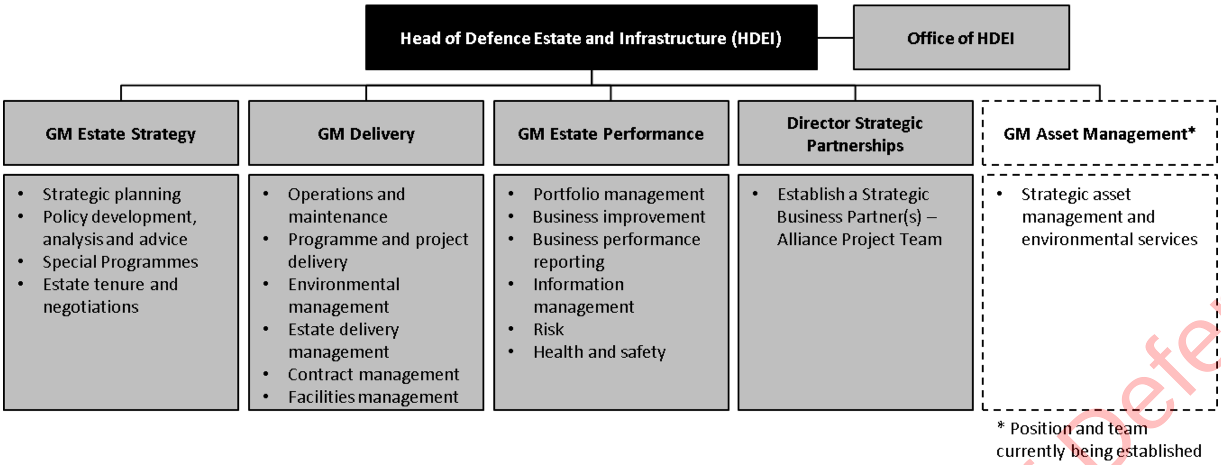

Figure 6: Structure and functions of Defence Estate and Infrastructure (DEI)

2.2. Alignment to existing strategies

Estate Regeneration is informed by Government direction and expectations and is responsive to, and aligns with, Defence strategic priorities and objectives (Figure 7 refers).

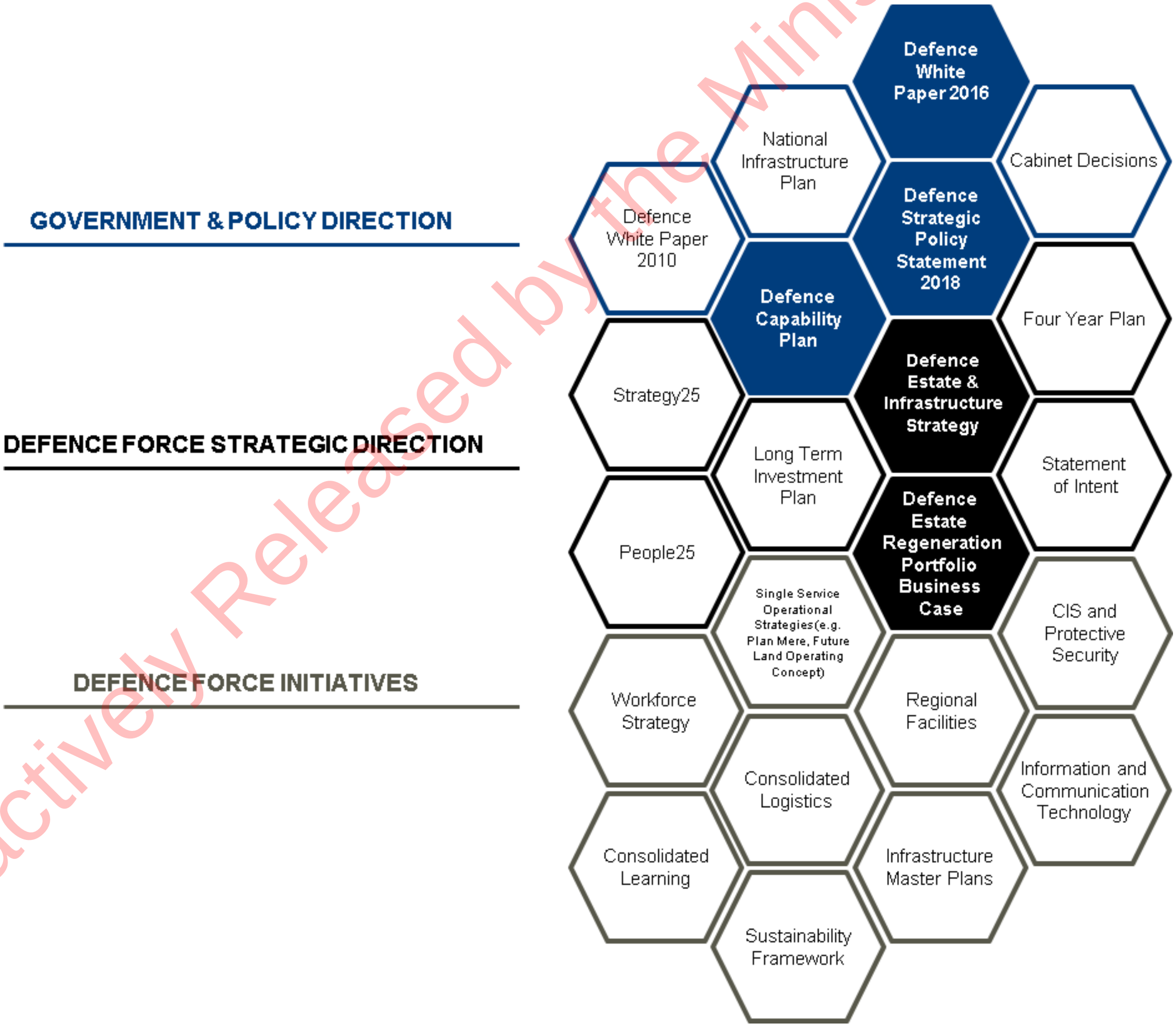

Figure 7: Inputs to Defence Estate Regeneration

Since 2016, there have been a number of changes to the strategic context within which Estate Regeneration operates (Figure 8 refers). Figure 9 shows how Estate Regeneration aligns to the outcomes and outputs of the Defence Force and contributes to delivering the Government's Defence policy priorities. Figure 10 presents the Estate Regeneration document hierarchy.

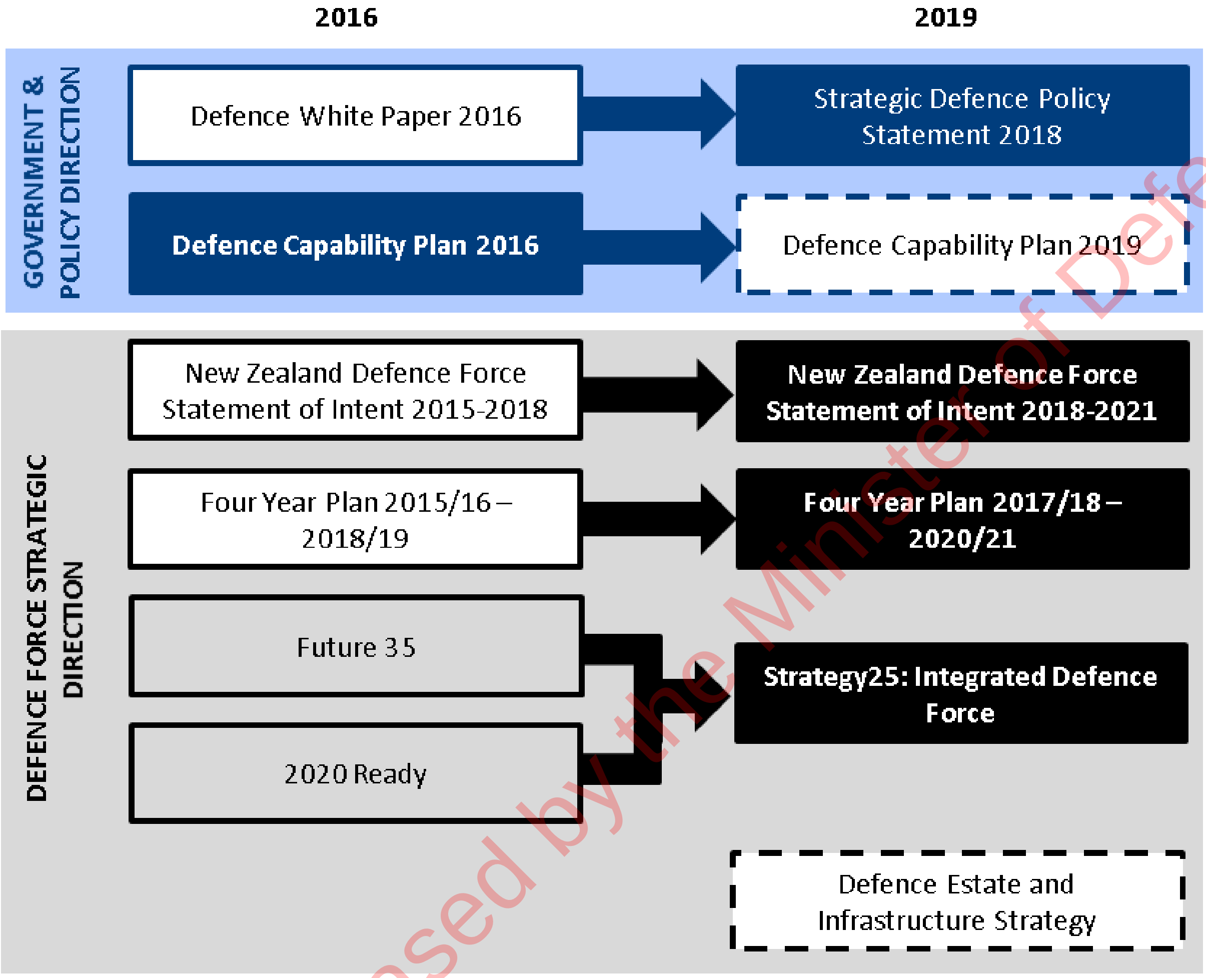

Figure 8: Change in government and Defence Force strategic direction 2016-2019

The strategic direction (Government and Defence Force) for Estate Regeneration is primarily set through:

- The **Strategic Defence Policy Statement 2018**
- The **Defence Capability Plan**
- **Cabinet decisions**
- The **Defence Estate and Infrastructure Strategy: Defence Estate to 2030.**

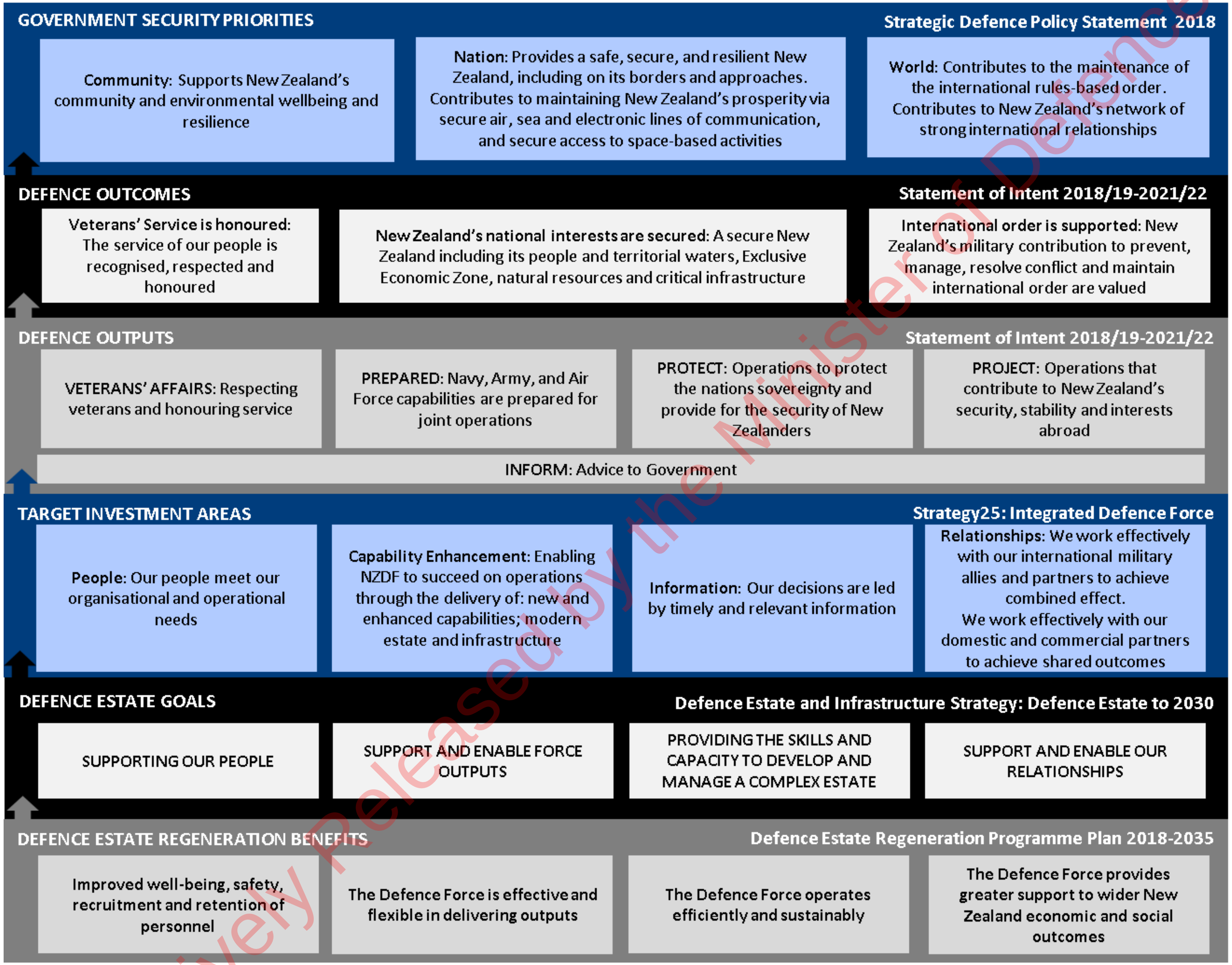

Figure 9: Relationship between Estate Regeneration, Defence outputs and outcomes, and Government Defence priorities

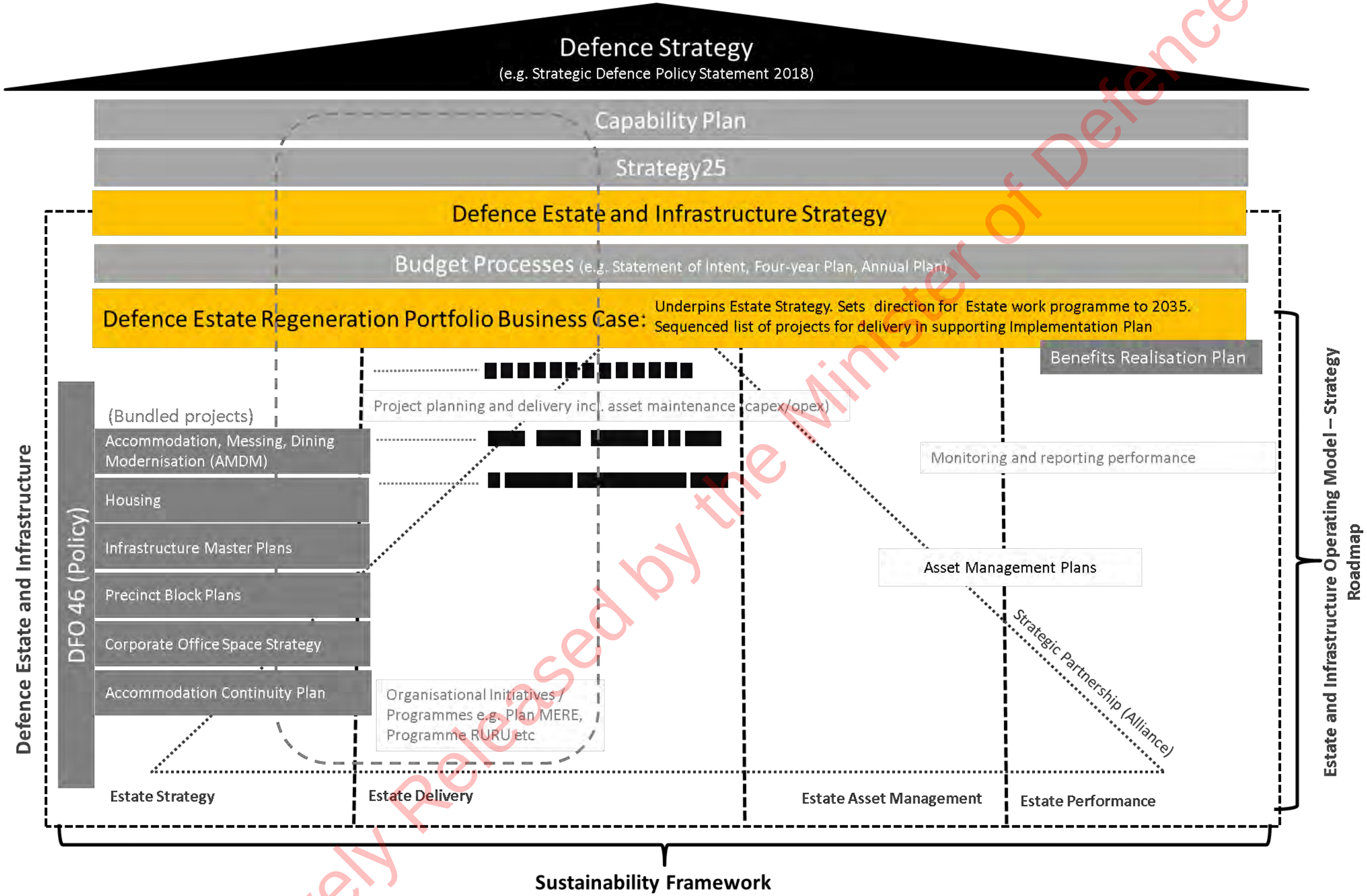

Figure 10: Document hierarchy

2.2.1. Strategic Defence Policy Statement 2018

The Defence White Paper 2016 set the overarching strategic direction for investment in the Estate.

The Strategic Defence Policy Statement 2018 builds on the Defence White Paper 2016, setting out Government's policy objectives for Defence.

The Statement affirms the priority the Government places on the Defence Force's ability to operate in New Zealand and its neighbourhood and outlines a focus on the outcomes for Defence of:

- **Community:** Supports New Zealand's community and environmental wellbeing and resilience.
- **Nation:** Promotes a safe, secure, and resilient New Zealand, including on its borders and approaches.
- **World:** Contributes to the maintenance of the international rules-based order.

For the Estate, the Statement notes:

> *"…Defence must continue to modernize the equipment available to the Defence Force to ensure mission effectiveness. Defence must also ensure the infrastructure in place in New Zealand is appropriate for the tasks and the Government requires of the Defence Force"[5].*

To deliver the outcomes of the Strategic Defence Policy Statement requires appropriate estate and infrastructure.

2.2.2. Defence Capability Plan 2019

The Defence Capability Plan provides the vehicle for Government to communicate its Defence capability priorities and outlines the investment required to deliver the outcomes in the Strategic Defence Policy Statement 2018. This 2019 Plan has been developed in conjunction and aligns with the review of the Defence Capability Plan 2019.

A big focus of this review has been to understand the impacts and requirements of major capability purchases from a whole of system approach, including the impacts and requirements on the Estate. This includes analysing the commitments required for the acquisition of the four Boeing P-8A Poseidon maritime patrol aircraft approved by Cabinet to replace the aging P-3 Orion fleet. Cabinet has directed that this 2019 Plan is to prioritise activities supporting the P-8A and Complementary Capability infrastructure development [CAB-18-SUB-0305 refers].

Key decisions on capability acquisitions and associated timing are recognised and accounted for within this 2019 Plan and its accompanying Implementation Plan.

The Defence Capability Plan considers capability investment to 2035 and funding to 2030. To align with this, the options in this 2019 Plan present funding to 2030 but proposed investment to 2035.

The funding for Estate set through the Defence Capability Plan 2019 has increased the investment set through the Defence Mid-Point Rebalancing Review in 2013 from $1.7 billion to $2.1 billion (CAPEX) to 2030. The value of this investment will see a 'fit for purpose' Estate where:

- The increase offsets some of the cost pressures identified to regenerate the Estate and will see some improvement in the condition of the Estate.

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[5] Ministry of Defence (2018). *Strategic Defence Policy Statement 2018* (p38, para 255)

- Investments will support the P-8A at Ohakea (now referred to as Future Air Surveillance Maritime Control) and consolidated logistics infrastructure requirements.

- The condition of the Estate will be acceptable. However, investment will be targeted in the working environments aligned with priorities in the Defence Capability Plan 2019, and there will be potential deterioration in living environments.

- The remaining useful life of the Estate increases.

- Working environments will be fit for purpose. However, only living quarters, underground infrastructure, and shared services at targeted locations will be made fully fit for purpose.

- Funding will be provided for the maintenance backlog, deferred maintenance, recapitalisation backlog, future recapitalisation and seismic strengthening costs.

- Minimal funding for top priority Strategic Programmes to optimise Estate assets starting with the Defence Housing Programme, Consolidated Learning Infrastructure (Programme Ruru) and Defence House corporate accommodation.

- Minimal funding for regional facilities which will be prioritised to Auckland, Hamilton, Tauranga, Wellington, Christchurch and Dunedin.

- The scope of the Accommodation Messing and Dining Modernisation programme is not extended to include extra requirements; assumes a continuation of historic capacity requirements.

Additional funding allocation and approval is required for Estate investment in 2030/2031-2034/2035.

The Defence Estate is an enabling function that supports military capability and personnel to deliver Defence outputs.

2.2.3. Cabinet direction

In 2014, Cabinet set guiding principles for the Defence Force's approach to managing the Estate [SEC Min (14) 14/3] (Appendix A refers). The principles were reconfirmed in the Defence White Paper 2016 and provided the foundation for Estate Regeneration, and reflected the previous Government's intent for the Estate.

For this refresh, the principles have been retested and following the direction of the Minister of Defence and Cabinet, are now:

1. Operational units and support functions will be located or re-located to be in the best place for the Defence Force as a whole;

2. Investment should primarily be in core operational locations where the Defence Force accommodates its deployable forces;

3. Opportunities to rationalise or enhance the Estate to improve its efficiency and effectiveness will be pursued at all locations, e.g. by co-locating military training schools alongside operational units;

4. Obsolete and inefficient infrastructure will be replaced and asset utilisation efficiencies and quality improvements will be generated over time;

5. Infrastructure will be assessed for disposal if there is no longer a foreseeable need in the longer term;

6. Management of the Estate will take full advantage of mandated all-of-government capital expenditure processes; and

7. The funding allocated to the Estate Regeneration Programme, as set out in the Defence Capital Plan, will not be reallocated within Vote Defence Force without Cabinet agreement.

The principles will be further tested through a First Principles Review of the Defence Estate Footprint.

The changes to the principles have resulted in retesting assumptions made for Estate Regeneration, particularly within the Economic Case following the removal of the constraint to maintain a substantial presence in the Defence Force's current major locations, including training areas. The effect of the change in principles and the approach taken for this refresh is addressed further within the Economic Case.

2.2.4. Defence Estate and Infrastructure Strategy: Defence Estate to 2030

The Defence Estate and Infrastructure Strategy (the Strategy) was developed to fill a gap in long-term planning, sitting above and providing direction for this Plan (Figure 10 refers).

The Strategy sets out the following four strategic goals for the Estate:

- Support and enable Force outputs;
- Supporting our people;
- Support and enable our relationships; and
- Providing the skills and capacity to develop and manage a complex Estate.

These goals will guide the Defence Force in realising the vision for the Estate of:

'A fit for purpose and sustainable Estate that enables the delivery of Defence outputs'

The goals for the Estate directly align to the target investment areas of Strategy 2025—'People', 'Information', 'Relationships' and 'Capability Enhancement'. The goals are supported by priorities which provide the key areas of focus for development and delivery of the Estate.

2.2.5. Investment Strategy

The capital and operating expenditure for Estate Regeneration align with the vision and four strategic goals for the Estate in that investment seeks to:

- Maintain the value and productivity of assets on the Defence Force's balance sheet;
- Provide a flexible, agile and resilient infrastructure network to support the Defence Force's outputs and achievement of outcomes;
- Maintain continuity in both asset performance and service delivery from critical assets (e.g. water supply, sanitary services and utilities); and
- Achieve fiscal outcomes expected from the investment into long-life assets.

2.3. The Case for Change

The three problems identified as the foundation for investment in the Estate in the 2016 Plan have been reviewed and minor wording changes made for consistency with Investment Logic Mapping best practice. The changes to the problems are underlined:

1. Service-centric ~~base~~ estate footprint and asset configuration ~~will~~ does not ~~enable~~ support existing strategy or capability intentions;

2. Deteriorating infrastructure risks impacting delivery of defence ~~Force~~ outputs;

3. ~~Existing Defence Force~~ Inefficient asset management approaches ~~are driving poor~~ prevent effective decision making ~~practices~~ and value for money.

The revised Investment Logic Map (Appendix B refers) was approved by the Estate Investment Committee on 5 October 2017[6].

2.4. Investment Objectives, Existing Arrangements and Business Needs

The investment objectives for Estate Regeneration remain consistent with the 2016 Plan, being:

2.4.1. To improve the Defence Force's ability to sustainably accommodate future military capabilities in an uncertain global environment

The environment within which the Defence Force operates is constantly evolving and with it, the demands to respond to new and changing threats. The Defence Force's ability to adapt quickly to changing requirements is critical to the success of its operations. Within this context, the Estate needs to be sufficiently flexible and resilient to sustainably respond to, and accommodate new and changing requirements.

The Estate consists of a range of buildings, facilities and infrastructure (e.g. three-waters and roading networks) of varying ages and stages of repair, but in most cases were not designed or constructed to support modern military capabilities. For example, a large proportion of the Estate was built over 70 years ago, during World War II (Figure 11 refers). There are often restrictions on the ability of assets or the capacity of network infrastructure to adapt to new or emerging service requirements without undertaking costly upgrades.

The Estate needs to be flexible to respond to change. A proactive long-term strategic approach will be taken to Estate and infrastructure planning to help anticipate, identify or plan for possible changes that may affect the demand or delivery of the Estate. The delivery and management of the Estate needs to be strategically aligned and future focused, recognizing that delivery of infrastructure has a longer lead-in period, often longer than decisions on military capability.

[6] Estate Investment Committee Meeting Reference: M0009

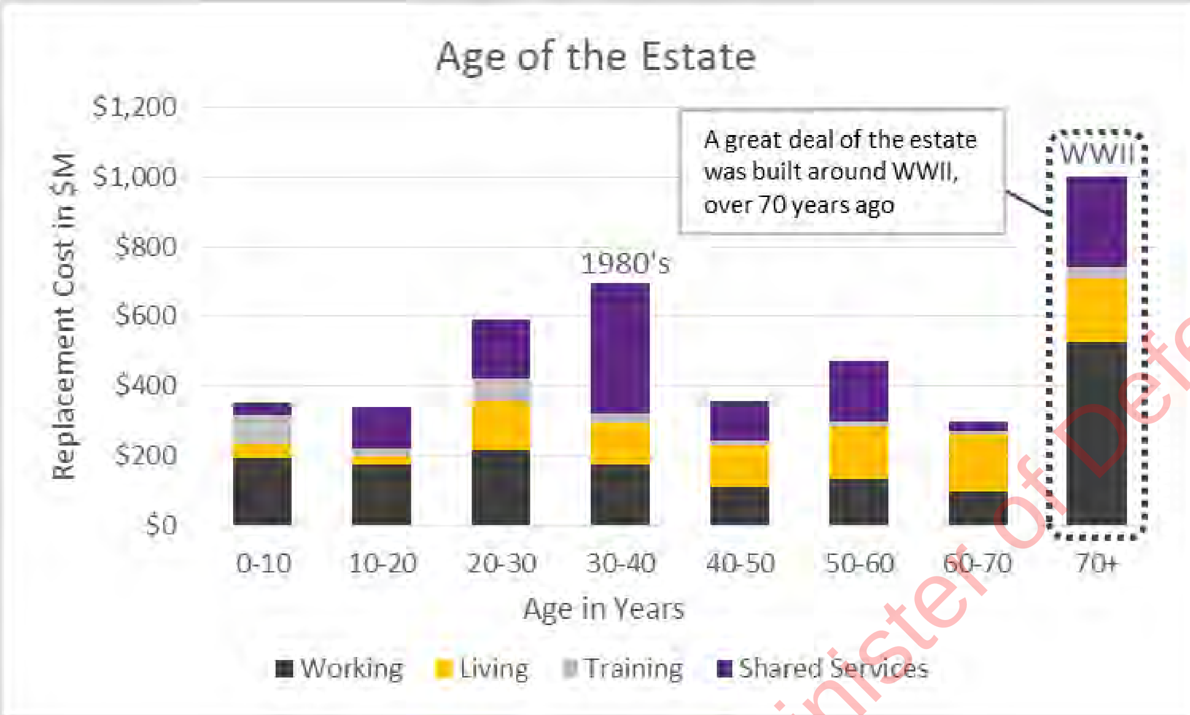

Figure 11: Age of Estate assets

2.4.2. To improve the Defence Force's ability to meet demands to use and deploy military capabilities

The Defence Force needs to have the resources required to meet the operational requirements placed on it. This includes an Estate that meets the demands of military capabilities now and into the future and provides for the effective and efficient operation of Defence Force personnel.

Almost 80 percent of the Estate is reaching the end of its remaining useful life (Figure 12 refers). Much of the Estate's in-ground infrastructure is aging and is approaching the end of its expected life. Older facilities are less likely to be fit for purpose and put increasing pressure on operating expenditure through higher asset-related costs associated with repairs and maintenance. Maintenance of older assets reaches a point where it becomes increasingly ineffective (Figure 13 refers) and are at higher risk of failure.

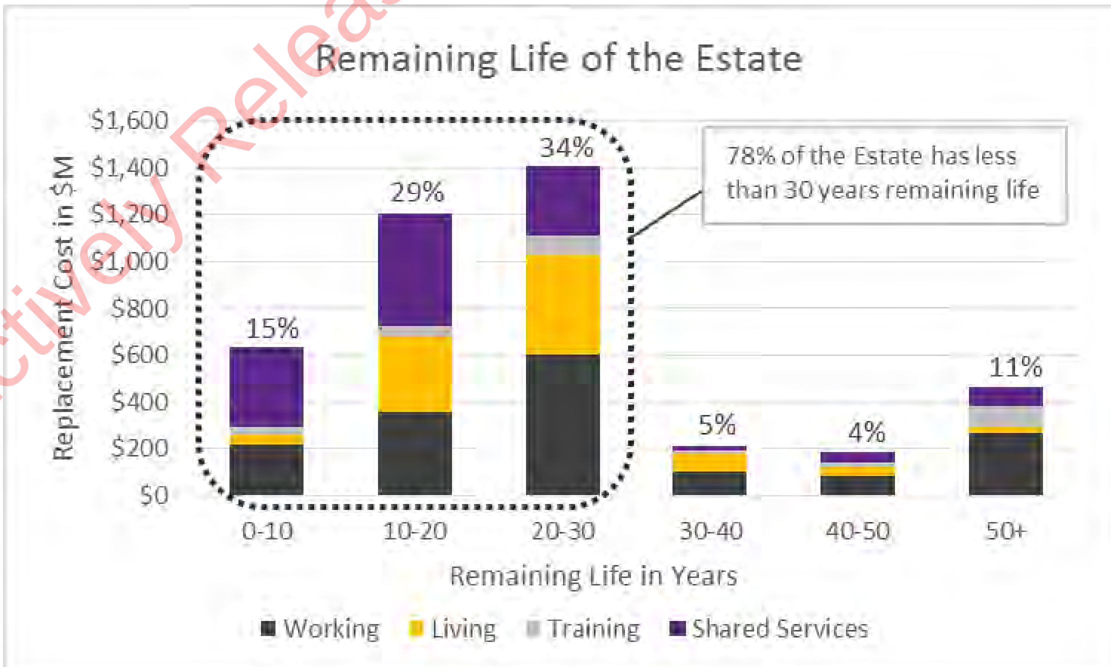

Figure 12: Remaining life of assets

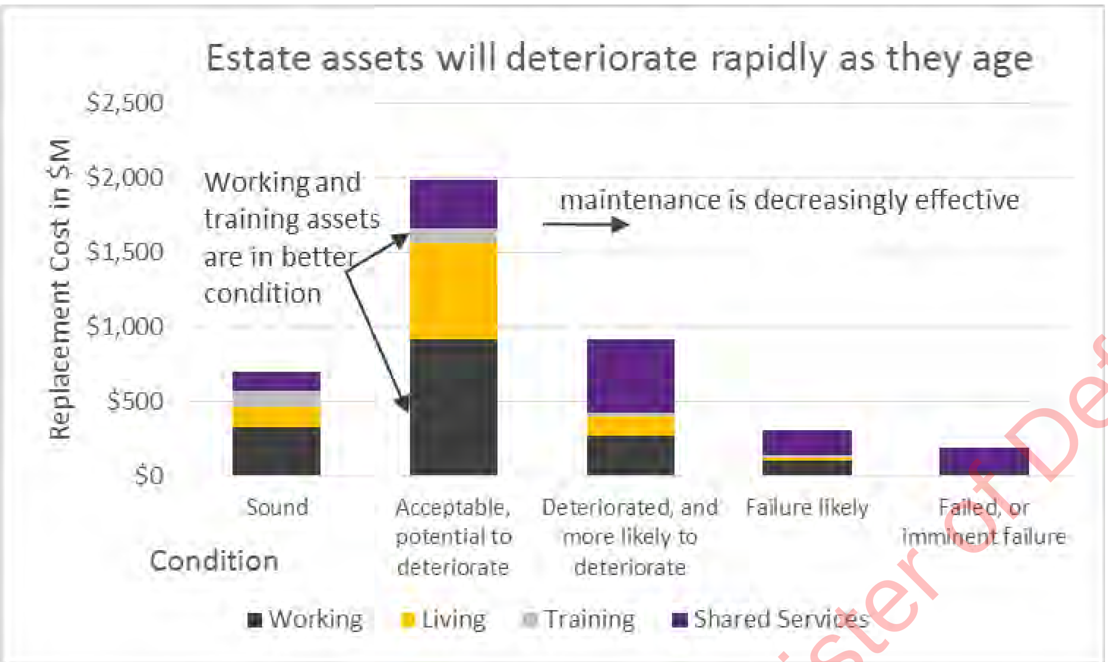

Figure 13: Condition of assets

The Defence Force is currently not meeting its targets for the condition and functionality of the Estate (Table 3 refers). This is attributed to the majority of Estate assets reaching the end of their economic and/or useful lives.

To improve the ability of the Defence Force to meet the demands to use and deploy military capabilities, the condition of the Estate must be improved to a level that allows Defence Force personnel to operate in an effective and efficient manner. By improving the condition of assets, the available useful life of assets will increase, reducing operational costs of maintaining the Estate.

Table 3: Performance of Estate assets (Source: NZDF Annual Report 2018)

	Measure	Indicator	Target	FY14-15	FY15-16	FY16-17	FY17-18
Critical Estate Assets	% of critical estate assets with actual functionality of satisfactory or better	Functionality	>75%	69%	Not measured	Not measured	61%
	% of critical estate assets with actual condition rated as average or better	Condition	>70%	63%	61%	59%	60%
Non-Critical Estate Assets	% of critical estate assets with actual functionality of satisfactory or better	Functionality	>80%	53%	Not measured	Not measured	59%
	% of critical estate assets with actual condition rated as average or better	Condition	>84%	91%	90%	74%	89%

2.4.3. To improve service performance, operational efficiency and ease of use through ~~optimised~~ future-proofed Estate configuration[7]

The Defence Force needs an Estate that is 'future-proofed' to support and facilitate the ongoing generation and delivery of Defence outputs. The delivery and management of the Estate needs to be able to provide security of tenure while also being appropriate to best meet the requirements of the Defence Force. The Estate needs to drive for efficiencies both in the way it is delivered and managed but also efficiency outcomes for its key users.

Currently, each camp and base predominantly supports one of the three Services. This results in inefficiency across the Estate due to asset duplication and an inability to relocate some functions.

The functional layout of the Estate also creates inefficiencies and is reflective of the age of assets. The legacy of building types, and the layout has led to sub-optimal utilisation of land and inefficient use of assets.

Greater economies of scale are required across the Estate, as well as improvements in the condition, effectiveness and efficiency of assets, facilities management, and other infrastructure. Efficiencies can be achieved through the creation of multipurpose or multifunctional facilities, resulting in a reduction in the number of assets. This would lead to improvements in the utilisation of land, providing the Defence Force with a greater return on investment.

[7] Minor wording change following direction from the Minister of Defence to replace 'optimised'

2.4.4. To improve the working, training and living environments for personnel and their families, to promote the well-being, recruitment and retention of personnel

Many of the Defence Force's people join at a young age and remain through the course of their careers. They serve New Zealand and her interests in a range of activities, often in situations of high personal risk. The Defence Force has an obligation to invest in its people and to support family resilience.

The Defence Force seeks to provide for enhanced flexibility in working conditions to meet the needs of a diverse and distributed workforce, and a better connection between the Defence Force and the rest of New Zealand[8]. The Estate needs to provide fit for purpose working, training and living environments with investment needing to recognise the changing needs of personnel, providing for greater diversity, relationships with iwi, changing operational requirements and advances in technology.

The existing Estate is currently unable to properly support the way Defence personnel need to work, train and live, undermining their learning, operational effectiveness and quality of life[9]. Large portions of the Estate either need minor changes or are currently barely fit for purpose (Figure 14 refers). The age of Estate facilities means that a large proportion were built prior to noise and thermal insulation being required and have low structural seismic performance ratings. There has typically been a culture of 'making do' with the Estate. However, the quality of the Estate risks undesirable outcomes including personnel becoming increasingly dissatisfied and disengaged, affecting recruitment and retention and also reflecting poorly on the value the Defence Force places on its people.

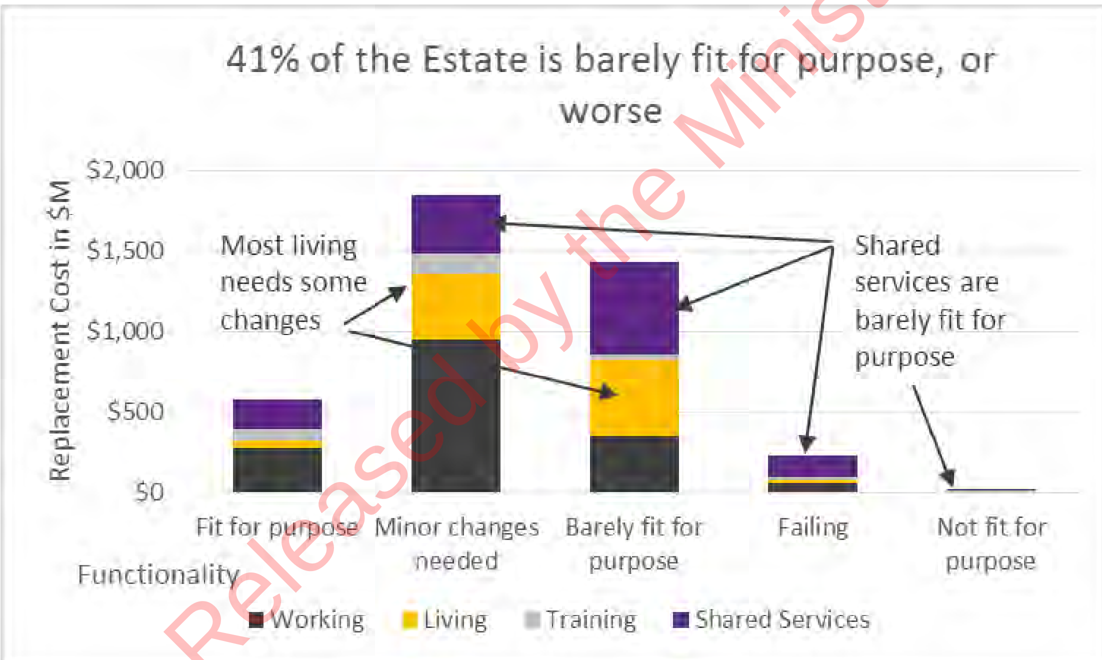

Figure 14: Functionality of Defence Estate assets and infrastructure

To improve the ability to recruit and retain personnel, the Defence Force will provide the right infrastructure in the right locations, with safer and fit-for-purpose assets and facilities. This will allow the Defence Force to support both its people and the delivery of outputs. The Estate will be innovative, flexible and adaptable.

[8] New Zealand Defence Force (September 2017). *People25: Strategy to 2025*

[9] Problem statement identified through the Accommodation, Messing and Dining Modernisation Programme: Programme Business Case

2.4.5. To meet legislative and government regulatory standards

The Defence Force has a responsibility to ensure it meets and is able to sustain compliance with legislative and regulatory requirements (including recognised Defence Force Orders and standards). Delivery of the Estate needs to ensure the risk of non-compliance with legislative and government regulatory requirements is minimized along with any associated harmful consequences in a coherent and comprehensive manner, while also being responsive to possible future changes in the legislative environment.

There are currently portions of the Estate that are not compliant with New Zealand standards or are increasingly at risk of not meeting minimum regulatory requirements and are in urgent need of investment. Non-compliance risks the health and safety of personnel (and the public where services are provided to local communities or the impacts of non-compliance extends beyond the Estate boundary), the environment, and has the potential for negative public perception of the Defence Force. This has the potential to impact staff morale and retention, has potential liability and enforcement risks and could result in some facilities or infrastructure being unable to be used, or having limited use resulting in camps and bases being unable to effectively support operations.

Key areas of observed risk have been identified across the Defence Force's horizontal infrastructure network[10]. There are known issues associated with aging infrastructure and networks with infrastructure, systems and networks being in poor condition, at the end of life, having issues with capacity and supply, and concerns about contamination. In some areas there is a lack of services information. There are some 46 potentially earthquake prone buildings across the Estate (being less than 34% of the National Building Standard)[11].

A legacy of potentially contaminated sites presents a clean-up liability and is constraining some activities. For example, many of the Defence Force's buildings were constructed at a time when asbestos was widely used in building products and materials. In addition, some locations have issues with mould associated with the age and condition of assets.

To meet legislative and regulatory standards, upgrades are required across the Estate. Systems to enable monitoring and assurance are also required along with increased awareness of the importance of, and risks associated with, legislative compliance of Estate assets, infrastructure and services.

2.4.6. To optimise asset investment decision making

Optimising asset investment decision making is about making investment as effective as possible, making sure that decisions relating to the management, maintenance and delivery of the Estate effect the best outcomes for the Defence Force. This is about having a clear, holistic picture to facilitate good investment decisions. The Defence Force needs to have in place effective strategic and asset planning systems and processes to facilitate good Estate decision making that includes consideration of current capabilities, delivery of Defence objectives, user needs and future requirements while balancing cost, risk, levels of service, opportunity and performance factors.

A legacy of historic under-investment in the Estate has meant funding decisions have typically been allocated on a criticality basis, with a large proportion on reactive maintenance. The historic layout of the Estate and the development of the Estate over time as funds were available has resulted in asset duplication and an inconsistent standard of infrastructure and other assets within and between camps and bases. Inconsistent facilities, developed without consideration of whole-of-life costs, increase the complexity and therefore the costs of maintaining and operating the Estate. Decisions for investment in the Estate were generally made at

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[10] Horizontal infrastructure includes: potable water supply, treatment, storage and network; wastewater network, storage and treatment; stormwater network, channels and water quality; power network and generation; heating network and source; gas network; roading network; and the ICT/Communications network.

[11] Within the 46, there are five buildings that need adjustment immediately. These buildings have been vacated. The remaining 41 have been deemed safe to occupy by engineers although they will require some strengthening work in the future. Some of these have restrictions on occupancy. Under legislation the Defence Force has 15-35 years (the variation relates to building location and associated earthquake hazard risk within New Zealand seismic regions) to complete strengthening work or demolish buildings (Source: Annual Plan 2018).

the camp and base level. The consequence of this has been a larger requirement for both management and maintenance, resulting in an inefficient Estate that is not providing the greatest value to the Defence Force.

Since the 2016 Plan, work has progressed to improve the standard of asset management across the Estate. An asset management policy has been prepared and asset management plans have been developed for all camps and bases which include high-level definitions of level of service. Further improvements to the collection and analysis of data to support key processes and fact based decision-making are being made.

To optimise asset investment decision making, management of the Estate needs to maintain a requirements-based approach to decision-making. Opportunities to get agreement on the size, location and composition of the Estate, improve management information on which to base decisions, and aligning the interests of different stakeholders will enable a focus on strategic and critical assets. Opportunities to restructure investment priorities will be available.

2.4.7. To drive an increase in value over the life of investments

The Defence Force is responsible for demonstrating and actively seeking to achieve 'more with less'. This is about maximising the value or benefit that investment delivers to both the Defence Force and for government. To drive an increase in the value of investment, the Estate needs to:

- Ensure infrastructure regeneration is 'right-sized' where decisions are informed by required levels of service, user requirements and strategic alignment.
- Facilitate integration and co-location of compatible activities; encouraging shared-use (including with wider government partners or others where appropriate) and functional collaboration through the design, configuration and build of the Estate.
- Consider approaches to enhance asset utilisation, standardisation and whole-of-life decision making.
- Improve financial management and planning including improve linkages between actual and projected capital expenditure requirements and target and actual levels of service, drawing on information in camp and base asset management plans[12].

The configuration and size of the Estate as well as aged facilities and infrastructure is increasingly becoming a financial burden for the Defence Force as historic under-investment is being reflected in accelerated degradation and increasing reactive maintenance when assets are failing or nearing failure. This is resulting in a maintenance liability where similar management and maintenance plans are required for both strategic and non-strategic assets. This approach is not delivering the greatest value to the Defence Force.

To drive an increase in value over the life of investments, the Defence Force will provide greater active management of its strategic assets, reducing the risk of Defence Force outputs not being met. By maintaining consistent levels of service, rather than letting assets degrade, there will be a reduction of the large costs associated with bringing assets back to acceptable levels of service and minimising future repair costs. There will also be greater consideration, where possible, to multi-use, multi-functional and flexible in use spaces and assets as well as to wider Defence Force and government requirements.

Strategic investment is required to provide for a fit for purpose and regenerated Estate that is safer, efficient and effective, and better able to respond and adapt to the needs of the Defence Force.

2.5. Benefits

Since 2016 a comprehensive benefits realisation plan has been developed. Through this process and following a review of the original programme Investment Logic Map, the following changes have been made to the benefits. These changes were approved by the Estate Investment Committee on 5 October 2017[13].

Regeneration of the Estate is anticipated to achieve the benefits of:

[12] Asset Management Maturity Assessment (Post Moderation): Ministry of Defence and the New Zealand Defence Force, June 2018

[13] Estate Investment Committee Meeting Reference: M0009

- **The Defence Force is effective and flexible in delivering outputs**

  No change made to benefit.

  The Estate will align with and support the Defence Force's strategic direction. The Estate will be better able to support Defence Force outputs and respond to changes in requirements with minimum impediments and greater strategic alignment of investment. The Estate will form the foundation for integrated ways of working, and will be ready to support the introduction of new capabilities while still maintaining the ability to meet current operational priorities.

- **~~Enhanced~~ Improved well-being, safety, recruitment and retention of personnel**

  The intent of this benefit included the safety of personnel. The wording of the benefit has been amended to reflect this.

  Defence Force personnel will have access to improved living, working and training environments. Facilities will be safer, healthier and have greater amenity for personnel, their families and other Estate users.

- **The Defence Force operates ~~in an efficient~~ efficiently and ~~sustainable~~ sustainably ~~manner~~**

  Minor wording changes.

  The Estate will be configured in a way that encourages efficient and sustainable operating practices, providing the effective delivery of infrastructure to support capability. Improved strategic asset management practices will allow the Estate to remain fit for purpose across its useful lifespan and enhance financial sustainability. The plan will improve the timeliness of project delivery and increase the number of assets meeting target levels of service.

- **The Defence Force provides greater support to wider New Zealand economic and social outcomes**

  No change made to benefit.

  The Estate enables greater support to wider New Zealand economic and social outcomes through collaboration with other government agencies, surrounding communities and wider New Zealand trade and national interests. Investment in the Estate will support regional and national growth, and enable platforms to promote or preserve trade (e.g. monitoring of trade routes, protecting New Zealand's Exclusive Economic Zone (EEZ)).

- ~~**Improved compliance with relevant Defence Force and legislation standards**~~

  Benefit removed because of duplication with: 'Improved well-being, safety, recruitment and retention of personnel'.

2.5.1. Benefits Framework

Benefits of Estate Regeneration will be measured against the following key performance indicators. The Benefits Realisation Plan will be managed by the Estate Performance function within Defence Estate and Infrastructure.

Many of the initiatives delivered by Estate are enablers. While delivery of the Estate contributes to the achievement of benefits, they do not deliver direct benefits[14].

Benefit	Direct / Indirect	Key Performance Indicator (KPI)			
		Description	Indicator	Quantifiable	Financial
The Defence Force is effective and flexible in delivering outputs	Indirect	Improve Estate decision making and investment to better support Defence outputs and meet changing requirements enabling: an Estate aligned to NZDF strategic priorities; multi-use and multi-functional assets supporting integrated ways of working across the Defence Force; and improved Protective Security Requirements	Improved fit for purpose Estate	Yes	No
			Created more opportunities for integrated ways of working across NZDF	Yes	No
			Improved NZDF security assessment score	Yes	No
		Increase the number of milestones achieved that support new NZDF operating approaches or capabilities	Increased ability of DEI to enable capability (readiness)	Yes	No
Improved well-being, safety, recruitment and retention of personnel	Indirect	Improve personnel experience with respect to: living environments; working environments; and training environments	Improved personnel experience with respect to Estate living environments for themselves and family	Yes	No
			Improved personnel experience with respect to Estate working environments	Yes	No
			Improved personnel experience with respect to Estate training environments	Yes	No
			Improved health and safety compliance to legislation and regulation	Yes	No
The Defence Force operates efficiently and sustainably	Indirect	Improved efficiency and sustainability through: improved site configuration; improved asset management maturity; improved environmental performance; and asset management performance	Improved site configuration resulting in more efficient operating practices	Yes	Yes
			Improved asset management maturity and performance including improved financial sustainability	Yes	No
			Improved environmental sustainability score	Yes	No

[14] P3M3 Diagnostic Assessment: Defence, 7 September 2018

Benefit	Direct / Indirect	Key Performance Indicator (KPI)			
		Description	Indicator	Quantifiable	Financial
			Improved percentage of assets meeting target levels of service	Yes	No
		Increase the number of projects delivered on time, on budget and to the right level of service	Improved project delivery, timeliness and quality	Yes	Yes
The Defence Force provides greater support to wider New Zealand economic and social outcomes	Indirect	Increase NZDF's support to wider economic and social outcomes through: increased shared use of assets by other government agencies; improved regional economic growth; local communities	Increased all of government use of NZDF assets	Yes	No
			Improved support to regional economic growth and promote or preserve trade and national interests	No	No
			All estate project initiation documentation (charters and business cases) should include a community impact assessment	Yes	No

2.6. The impact of not investing

The Estate is an important element of Defence capability, providing the space to train and undertake operations and for providing the accommodation for personnel and their families. Historic under-investment and a legacy of using funding for the Estate to balance the Defence Force's financial position and to enable it to afford military capability has contributed to the challenges the Estate currently faces. Continued under-investment, or not investing in the Estate, not only has the potential to jeopardise the delivery of new and existing Defence capabilities and operational performance, but it also risks a progressively unsafe, non-compliant and unsatisfactory work environment, exacerbates inefficiencies and avoidable costs, and presents increasing risks to the Defence Force's reputation, and to the recruitment and retention of personnel.

If the Estate's condition is allowed to continue to deteriorate, there is a real risk that some parts may need to wholly or partially close. This will have flow-on impacts, exacerbating other risks and could reduce operational readiness.

The $1.7 billion identified through Defence Midpoint Rebalancing Review (DMRR) only funded partial remediation of the Estate. High-level analysis commissioned by DEI estimates an assessed value for full regeneration of the whole Estate of $2.29 billion (based on a range of assumptions and exclusions including any Estate requirements for responding to new capability)[15]. The funding for the Estate set through the Defence Capability Plan 2019 is $2.1 billion (capex) to 2030 of which there are a number of capital investments required to support on-boarding of new capability. There will be a continued risk in the Estate's ability to support military capability unless actions are taken to address shortfalls in funding to sustain the Estate and to ensure ongoing investment in the Estate.

[15] Aurecon. (2017). *Estate Regeneration Capital Budget Review: NZDF Estate Capital Cost Review.* Wellington, New Zealand.

2.7. Risks

All risks are managed in accordance with the Defence Force's risk management framework in DFO 81 (Defence Force Order). This follows accepted good practice consistent with *AS/NZS ISO 31000:2009 Risk Management – Principles and Guidelines.*

The main risks identified that have the potential to impact achieving the investment objectives of Estate Regeneration are provided in Table 4 below.

Table 4: Portfolio risk analysis

Risk	Consequence	Untreated / No mitigations applied			Response
		Likelihood	Impact	Rank	
Insufficient or sub-optimal stakeholder engagement to support Estate Regeneration	Influential stakeholders lose confidence in DEI's ability to deliver Estate Regeneration, staff and industry become frustrated and dis-engaged, and programme delivery is impacted	Likely	Major	Critical	• Each significant initiative must have a Stakeholder Engagement and Communications Plan prepared and approved by HDEI. Consideration of the overall plan should be undertaken with Defence Public Affairs (DPA) • Governance Boards to hold executives and senior managers to account for adhering to and executing the Stakeholder Engagement Plan. Each Governance Board is to give consideration to risks and issues
Estate investment decision-making processes are not consistently followed and criteria do not enable sound investment decisions	Inefficient Estate decisions are made and financial sustainability targets are not met. Objectives and benefits of Estate Regeneration are not achieved. Estate Regeneration programmes and projects are delayed, creating additional cost and reduced stakeholder confidence	Possible	Major	High	• Monitoring to ensure investment decisions and asset management practices are consistent with Cabinet Office Circular (15)5 • Establish regular Governance reporting • Develop a Benefits Management Strategy
Insufficient capacity and capability within the Defence Force to deliver Estate Regeneration	Delivery of Estate Regeneration is impacted Reactive asset management approach continues and financial sustainability targets are not met	Likely	Major	Critical	• Identify resource requirements to meet workload • Strategic Partnership approach being implemented to support delivery of Regeneration • Asset management capability is continuously monitored through quality control and assurance processes
Insufficient capacity and capability within industry (including at the right time and cost)	Delivery of Estate Regeneration is impacted (time and cost)	Likely	Major	Critical	• Early engagement with industry

Risk	Consequence	Untreated / No mitigations applied			Response
		Likelihood	Impact	Rank	
The Defence Force strategic direction or output requirements change beyond the Estate's ability to adapt	The Estate does not support changed capability and operational requirements	Possible	Major	High	• Flexibility is built into the Plan, giving the ability to restructure the programme to adapt to changes to strategic requirements • Large strategic shifts will be considered through their own business case and associated funding
Unforeseen capability or other projects with unanticipated Estate infrastructure or funding component unaccounted for	Delivery and the affordability of Estate Regeneration is impacted. The objectives and benefits of Estate Regeneration are not achieved Reduction in planned maintenance to offset or balance budgets	Almost certain	Major	Critical	• Issue is elevated through governance structure • Develop and maintain Interdependencies Strategy • Flexibility is built into the Plan, giving the ability to restructure the programme to adapt to changes to strategic requirements • Large strategic shifts will be considered through their own business case and associated funding
There are barriers to cross-service asset use e.g. service-specific assets	The Estate cannot support cross-service integration	Almost certain	Minor	Medium	• Issue is elevated through governance structure for determination at executive level
If asset performance does not meet specifications	Assets are not available to support capability and operational requirements	Possible	Moderate	High	• Assets are commissioned through a formal process with any failures addressed through contractual arrangements with the designer and/or constructor
The efficiency assumptions from improved site configuration at a base and national level are not achievable, e.g. needing to retain current configuration	Additional assets are required above those identified through the preferred option (the Integrated option)	Possible	Major	High	• The Plan is continuously updated to align with current operating environment
Estate management fails to adopt a proactive maintenance strategy	Reactive maintenance cycle continues, resulting in significant and compounded deferred costs for the Defence Force	Likely	Major	Critical	• Asset management capability is continuously monitored through quality control and assurance processes

Risk	Consequence	Untreated / No mitigations applied			Response
		Likelihood	Impact	Rank	
Cost drivers[16] are annually higher than forecast	The scope for regeneration will be reduced due to an impact on allocated funding The objectives and benefits of Estate Regeneration are not achieved	Likely	Moderate	High	• Monitor construction cost indices periodically and adjust projects accordingly • Embedding robust costing processes into the Business Case process. • Portfolio contingency management
Estate services and programme are insufficiently funded	Investment in Estate programmes and projects will be deferred. Cost pressures associated with service and project delivery will increase	Likely	Major	Critical	• The Plan is updated to align infrastructure spending with strategic requirements • Sequencing of projects/programmes is monitored through quality control and assurance processes
Personnel expectations of asset standards, locations, etc. change over time	The Estate does not contribute to the Defence Force being able to recruit or retain personnel	Possible	Major	High	• The Plan is continuously updated to align with the changing operating environment and technological developments
Personnel are disrupted by Estate changes	Retention of personnel is impacted	Possible	Major	High	• Change management practices are followed

[16] For example cost escalation, project delays and optimism bias.

2.8. Constraints

Estate Regeneration is subject to the following constraints:

- The level of investment in Estate Regeneration is constrained within the funding track set through the Defence Capability Plan Review. The Review has used the Capability Plan 2019 funding track where investment in the Estate is set at $2.1 billion for capital expenditure and $3.5 billion for operating expenditure out to 2030.

  The costs for regenerating the Estate have increased since the 2013 Defence Mid-Point Rebalancing Review which set the funding constraint for the 2016 Plan due to an increase in market rates, a greater awareness of the cost of replacing aged infrastructure and greater demand on investment to deliver required Defence outputs. The level of investment constrains the number of projects able to be delivered and therefore the rate of Estate Regeneration.

2.9. Dependencies

The success of Estate Regeneration is dependent on the following external influences:

Table 5: Dependencies

Dependency	Management Approach
Defence Force Annual Budget approval processes: approval of Estate Regeneration Budgets will be through Defence Force Annual Budget processes.	• Input into Defence Force Budget processes • Communication with Treasury
Investor Confidence Rating: rating assessment that provides an indication of the level of confidence investors (e.g. Cabinet and Ministers) have in an agency's ability to realise a promised investment result. Agency's that receive a good result may obtain greater autonomy, higher financial delegations and less monitoring and reporting. The financial delegations for the Estate are informed by the ICR.	• Ensure appropriate systems and processes for monitoring, reporting and assessing delivery of target levels of performance and progress on addressing improvement actions (from previous ICR assessments) • Ensure systems and processes for collecting and analysing reliable and durable Estate information
Defence Force procurement processes for construction projects.	• Communication and engagement with Defence Commercial Services • Training for Estate Delivery Manager and Project Managers on Defence Force procurement processes
Procurement of Strategic Partnership: to provide the surge capacity and capability to deliver Estate Regeneration.	• Core team established within DEI to manage and deliver the procurement of a Strategic Partnership • Timely engagement with industry
Communications and Information Systems (CIS): capacity of the CIS unit to support both existing and new buildings and infrastructure works.	• Communication and engagement with Communications and Information Systems

The Estate is a system input required to achieve Defence outputs. Delivery of Estate Regeneration requires close alignment with other change programmes. Programme/project interdependencies impact Estate Regeneration funding, sequencing/prioritisation and resourcing. Interdependencies are identified and managed through DEI's Interdependency Management processes.

3. Economic Case

3.1. Overview

The 2016 Plan identified the Integrated option as the preferred way forward to deliver an Estate that supports capability, is sustainable and delivers the Defence Force's strategic intent.

The Integrated option provided a strategic approach to delivery of the investment objectives and critical success factors. This option has the highest benefit rating when compared to the other options, based on the Net Present Cost (NPC) analysis and the non-quantified financial benefits.

3.1.1. Reaching the preferred Integrated option

As part of the 2016 Plan, a range of options were considered that provided alternative approaches for the best way to achieve the objectives and benefits of Estate Regeneration. The attributes, or option 'building blocks' across the dimensions of scope, service solution, service delivery, implementation and funding where agreed by stakeholders prior to the development of options. Across the attributes a continuum of possible variables were considered. For example, the scope dimension considered different levels of change and consolidation across the Estate ranging from replacing assets in critical locations only to a fully designed and consolidated Estate. This approach provided the framework for the development of the longlist of options.

Options were shortlisted in the 2016 Plan based on alignment to the investment objectives and to critical success factors. All shortlisted options were expected to deliver against the critical success factors (Table 6 refers). The critical success factors were developed through a series of workshops held with Defence Force representatives.

The detailed long list and analysis aligning the options to the investment objectives and critical success factor is provided at Appendix C and Appendix D.

Table 6: Critical success factors (CSF)

Reference	Critical Success Factor	Description
CSF1	Alignment to strategy and Defence Force outputs	How well the option meets strategic objectives of the Defence Force, Government defence policy, and other Defence Force initiatives. Does this option meet the investment objectives?
CSF2	Compliance	How well the option meets legislative and regulatory requirements
CSF3	Potential value for money	How well the option optimises the value to the Defence Force through balancing implementation and ongoing costs within the available funding envelope, benefits and risks
CSF4	Supplier capacity and capability	How well the option matches the ability of potential suppliers to deliver the required services and how well the programme is likely to result in a sustainable arrangement that optimises value for money
CSF5	Potential achievability	The likelihood of successful delivery of the programme given the Defence Force's capacity and capability, and the level of change associated with the option, including constraints around suitable sites

As part of the full evaluation, shortlist options were rated using a scale estimating the expected level of benefits realisation. From this assessment, the Integrated option was anticipated to deliver more benefits when compared to the other options for a comparable Net Present Cost (NPC).

3.2. Approach to the 2019 Plan

The changes to the principles for Estate Regeneration (Section 2.2.3, Strategic Case refers) have had flow-on implications, in particular to the approach in the Economic Case. Notably due to the removal of the principle 'the Defence Force will maintain a substantial presence in its current major locations, including training areas'.

The effect of this change is that major consolidation or closure of any of the existing camps, bases, training areas and regional locations and the development of 'greenfield' sites can be considered and has meant that options previously discounted in the 2016 Plan could now be available (for example the 'Maximise Benefit' and 'Full Transformation' options).

A high level re-assessment of the 2016 discounted options against the investment objectives and the critical success factors has been undertaken (Table 7 refers). The only change is against the 'Full Estate Transformation' option which with the change in Cabinet principles, would now meet the critical success factor of aligning to strategy and Defence Force outputs. However, it would still not achieve value for money in that with the constrained budget, this option continues to be unaffordable in the near-term and therefore, is not achievable.

The preferred approach is to retain the 'Integrated' option.

The preferred approach is to **retain the Integrated option.** The Integrated option still meets the critical success factors, aligns to the direction being taken by the Defence Force, and supports the Treasury's Living Standards Framework.

Table 7: Re-assessment of 2016 discounted long-list options and preferred Integrated option to reflect change in Cabinet principles

		Short-Term Remediation	Integrated (preferred)	Maximise Benefit	Full Estate Transformation
1	To improve the ability to sustainably accommodate future military capabilities in an uncertain global environment	NO	YES	YES	YES
2	To improve the Defence Force's ability to meet demands to use and deploy military capabilities	NO	YES	YES	YES
3	To improve service performance, operational efficiency and ease of use through more optimised configuration	NO	YES	YES	YES
4	To improve the working, training and living environments for personnel and their families to promote well-being, recruitment and retention of personnel	NO	YES	YES	YES
5	To meet legislative and government regulatory standards	YES	YES	YES	YES
6	To optimise asset investment decision making	NO	YES	YES	YES
7	To drive an increase in value over the life of investments	NO	YES	YES	YES
Critical Success Factors					
1	Alignment to strategy and Defence Force outputs	NO	YES	YES	YES
2	Compliance	YES	YES	YES	YES
3	Potential value for money	NO	YES	NO	NO
4	Supplier capacity and capability	YES	YES	YES	YES

		Short-Term Remediation	Integrated (preferred)	Maximise Benefit	Full Estate Transformation
5	Potential achievability	YES	YES	NO	NO

S9(2)(f)(iv)

3.2.1. 2019 shortlist options

For this 2019 Plan, the preferred 'Integrated option' forms the base case against which alternative investment profiles (options or scenarios) are compared. The difference between the options (or scenarios) is the level of total planned expenditure out to 2035 and the rate of expenditure per year. Within each option, investment in critical infrastructure associated with requirements for new capability and the delivery of existing Defence outputs has been prioritised.

The options for this 2019 Plan have been developed alongside the Defence Capability Plan Review[17], recognising Cabinet direction to prioritise estate investment to support capability at Base Ohakea.

The options considered include:

S9(2)(f)(iv)

[17] Note this considers capability investment to 2035 and funding to 2030.

S9(2)(f)(iv)

S9(2)(f)(iv)

- **Option 4 – Fit for purpose** S9(2)(f)(iv) : Capital expenditure to 2030 is increased to $2.1 billion. Annual operating expenditure on infrastructure increasing to around $200 million per year by 2020.

  The increase in expenditure offsets some of the cost pressures identified to regenerate the Estate and will see an overall improvement in the condition of the Estate. In addition to the prioritised investments identified in the options above, living quarters, horizontal infrastructure, and shared services at targeted locations will be made fully fit for purpose and top priority Strategic Programmes to optimise estate assets will be able to be commenced.

S9(2)(f)(iv)

Table 8: Option comparison of 2016 Plan – 2019 Plan

$ million	2016 Plan	S9(2)(f)(iv)	Option 4	S9(2)(f)(iv)
Total Capital 2016 to 2030	$1,704		$2,039	
Total Operating 2016 to 2030	$2,553		$3,484	
Total Personnel 2016 to 2030	$148		$357	
Total Cost	$4,405		$5,880	
Net Present Cost to 2035 ($2019 incl. terminal value)	$3,273		$5,733	

S9(2)(f)(iv)

3.3. Recommended Preferred Way Forward

The preferred approach is to retain the 'Integrated' option in conjunction with funding Option 4 ('fit for purpose'). Option 4 was identified as the preferred way forward organisationally and supports the Defence Capability Plan 2019. Option 4 delivers a Net Present Cost (NPC) of $5,733 million to 2030 (Table 9 refers).

Table 9: NPC preferred option

$ million	2016 Plan		Option 4	
Total Cost ($) 2016 to 2030	4,405	S9(2)(f)(iv)	$5,880	S9(2)(f)(iv)
Net Present Cost 2016 to 2035 ($2018 including terminal value)	3,273		$5,733	

In the 2016 Plan, delivery of the preferred 'Integrated' option was broken into three investment tranches: 'ramping up' investment (2015/16-2019/20); 'major regeneration' investment (2020/21-2024/25); and 'steady state' investment (2025/26-2029/30). The 2019 Plan has developed the tranches into Estate Strategic Programmes to better align and reflect investment priorities.

The Strategic Programmes in the 2019 Plan are defined as grouped services or assets that have been considered together to maximise economies of scale, efficiency and effectiveness through commercial arrangements and delivery approaches. The following are the current or planned Strategic Programmes (Section 4.12 and Appendix E refer):

1. **Approved DEI and Capability Programmes:** for example, approved projects in the 2016 Plan and investment associated with the P-8A (noting that the infrastructure loading will require prioritisation).

2. **Consolidated Logistics Project**: Infrastructure to support the Consolidated Logistics Project.

3. **Accommodation, Messing and Dining Modernisation Programme:** Strategic barrack and messing upgrades.

4. **Housing Programme:** Capital and operating solutions to deliver Defence Force Housing.

5. **Regional Facilities Programme:** Facilities outside the nine main camps and bases and which are not included within camp and base master plans (e.g. Buckle Street).

6. **Horizontal Infrastructure Programme:** Three-waters (potable water, waste water and stormwater), electricity, gas/heating, roading and ICT/Communication networks.

7. **Planned Defence Capability Plan Programmes:** Projects anchored to capabilities.

8. **Consolidated Learning Programme (Programme Ruru):** Investment in Defence learning.

9. **Estate Development Plan (EDP):** Planned estate projects, ordered through the Optimised Sequence for Project Delivery (OSPD) sequencing tool.

10. **Rolling Replacement Programmes:** Minor Capital Projects Programme (capitalised PMP), Annual Security Fire Panel Replacement Programme, Rolling Plant Replacement ($1m p.a. $2016), Obsolete Security Access Systems Upgrade and New, National HVAC Consolidated Programme, Fume and Extract Remediation.

11. **Plan Mere:** Relocation of TRADOC, Army Command School, and The Army Depot from Waiouru to other camps (i.e. Burnham and Linton).

12. **Future Air Mobility Capability:** the replacement of the current air mobility or 'airlift' fleet of five Lockheed C130J and two Boeing 757-200 aircrafts.

Figure 15 below shows how these Strategic Programmes sit within DEI's four programmes.

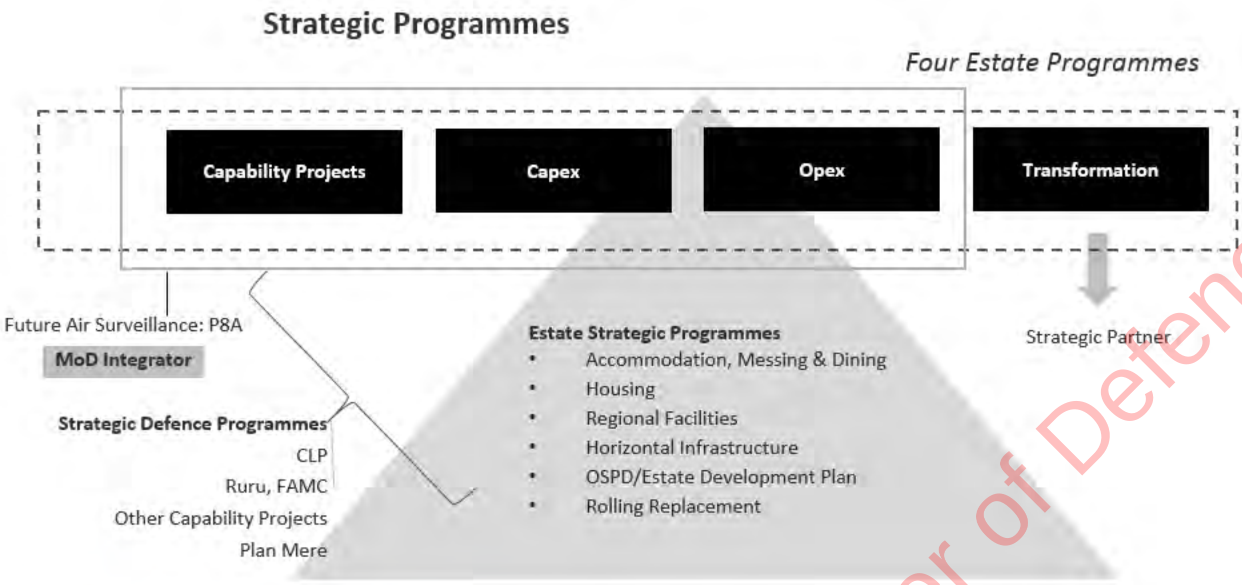


Figure 15: Strategic Programmes (DEI and Capability)

To determine priority, each Strategic Programme was assessed against the CSFs and benefits of Estate Regeneration (Table 10 refers) using a five point scale (Figure 16 refers).

Table 10: Benefits of Estate Regeneration

Reference	Weighting	Benefit	KPIs
B1	40%	The Defence Force is effective and flexible in delivering outputs	• KPI 1: Improve decision making and planning • KPI 2: Increase integrated ways of working • KPI 3: Increase ability to enable capability
B2	25%	Improved wellbeing, safety, recruitment and retention of personnel	• KPI 1: Improve personnel experience across living, working and training environments • KPI 2: Improved health and safety compliance
B3	20%	The Defence Force operates efficiently and sustainably	• KPI 1: Improve site configuration and management practices • KPI 2: Increase timeliness of project delivery
B4	15%	The Defence Force provides greater support to wider New Zealand economic and social outcomes	• KPI 1: Improve support to wider NZ Economic and social outcomes • KPI 2: Increase shared asset use

Criteria	Does not meet	Meets with major reservations	Meets with minor reservations	Meets	Exceeds
Score	1	2	3	4	5

Figure 16: Five-point assessment scale

Based on the scoring assessment, the programmes were ranked and delivery phasing options were considered (Table 11 refers). The first five programmes (approved projects Tranches 1A-C, P-8A, CLP, cost pressure associated with approved Tranche 1A-C projects, and the additional Ohakea infrastructure loading associated with delivery of P-8A) are 'approved' and have less flexibility on the timing of delivery than the planned programmes.

The delivery profile of planned programmes may be re-phased to fit within the funding envelope.

The outcome of this prioritisation is used to present capital investment in the Finance Case.

*Table 11: Phasing options (Ratings: **X** = no / not an option; ✓ = yes / it is a feasible option; **?** = further information required).*

Rank	Programme	Phasing Options			
		Delayed delivery	**Reduced delivery**	**Full delivery over longer period**	**Full programme delivery per Business Case**
1	Approved Projects	X	✓	X	X
2	Approved P-8A and Ohakea loading ($170m)	X	X	X	✓
3	Consolidated Logistics Project	X	X	✓	X
4	Approved Projects – Cost pressure	X	✓	✓	X
5	Additional Ohakea loading	X	X	?	✓
6	Accommodation, Messing and Dining Modernisation (AMDM)	X	X	✓	X
7	Housing	✓	X	X	✓
8	Regional Facilities	✓	✓	✓	?
9	Horizontal Infrastructure	X	?	✓	✓
10	Consolidated Learning (Programme Ruru)	✓	✓	✓	?
11	Plan Mere	✓	X	✓	✓
12	FAMC	X	X	✓	✓
13	Estate Development Plan (OSPD)	?		✓	✓
14	Estate Development Plan (OSPD) – specific				✓

Rank	Programme	Phasing Options Delayed delivery	Reduced delivery	Full delivery over longer period	Full programme delivery per Business Case
	projects anchored to capabilities				
15	Rolling Replacement Programmes	x	x	✓	✓

Option 4 has investment profile gaps such as no Devonport housing capital investment, no Regional Facilities, and assets in poor condition at the end of their remaining life will continue to be used across the Estate.

The pipeline for Estate Regeneration over the next four years sees estate investment prioritised (51%) towards delivery of infrastructure that supports capability (P-8A hangar and additional infrastructure; Consolidated Logistics; capability linked regeneration; and Consolidated Learning (Programme Ruru)). The 2016 Plan approved projects across the Defence Force's camps and bases, Housing and other rolling programmes make up 49%, noting much of this investment occurs towards the end of the four year period.

The initial projects to be delivered over the next four year period include (Figure 17 refers).

- Continued delivery of the Approved Project Programme (Tranche 1A-C of the 2016 Plan);
- Additional Base Ohakea infrastructure to support the P-8A investment;
- Nominated infrastructure components within the Consolidated Logistics Project; and
- Consolidated Learning (Programme Ruru) infrastructure to support Defence learning.

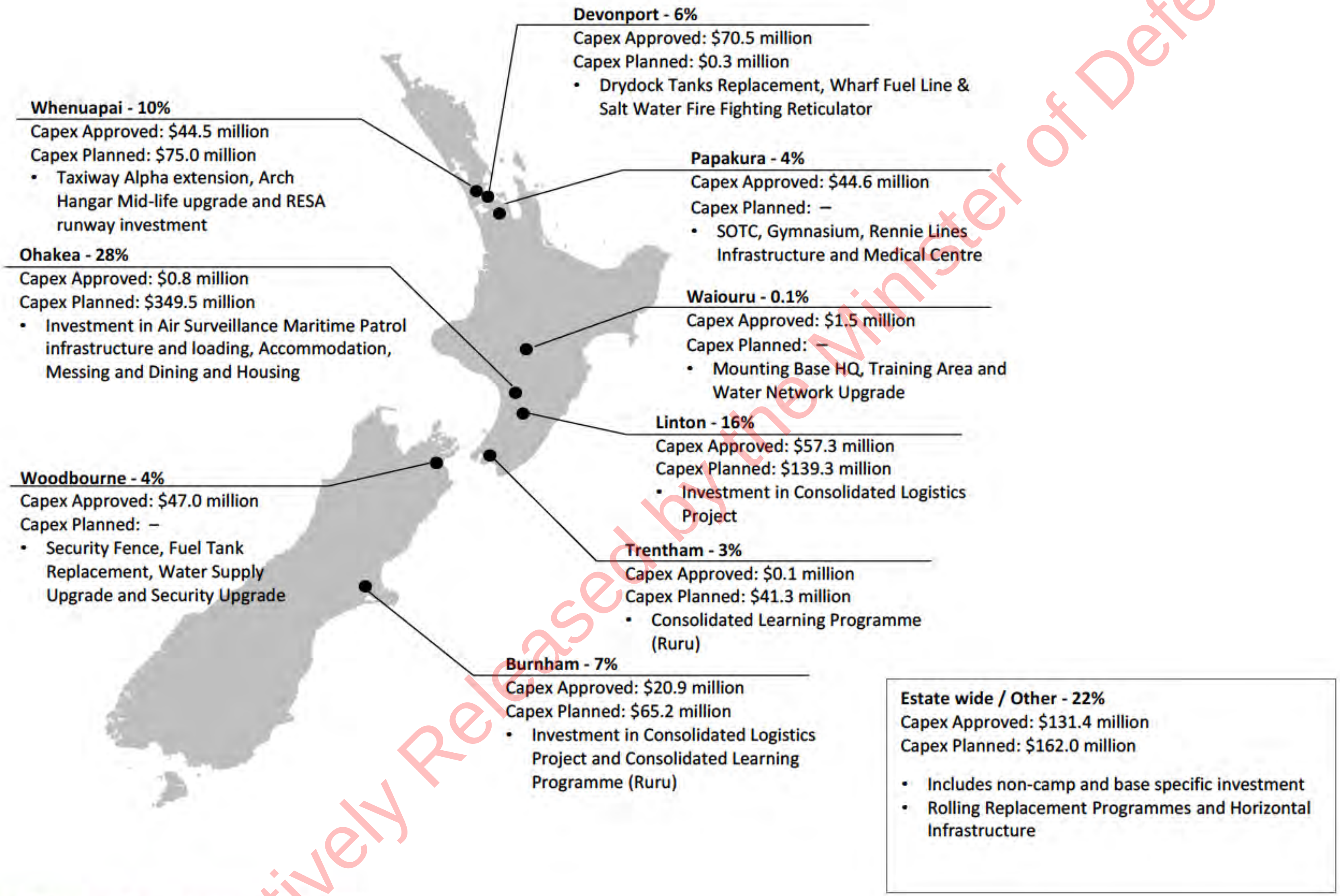


Figure 17: Camp and Base Investment 2015 to 2023

4. Commercial Case (Commercial Strategy)

4.1. Overview

The Commercial case outlines procurement options to deliver the preferred option, the Integrated option, which will provide best value for money for the Defence Force, while still ensuring internal objectives are met and constraints managed.

4.2. Developments in the Commercial case: 2016 to 2019

In 2016, the Defence Force identified capital investment projects that formed the basis for indicative Estate investment out to 2030. This 2019 Plan includes the capital and operating investment in Estate related programmes and projects out to 2035.

The objective of this Business Case is still to identify the sequence of programmes (and underlying projects) that delivers the best value for money from a procurement perspective, while taking into account Defence Force priorities and objectives (for example, the infrastructure loading associated with the introduction of the P-8A aircraft at Base Ohakea) and alternative procurement options (such as the Strategic Partnership (Alliance) model).

Currently, delivery on the 2016 Plan occurs in the context of the value for money considerations of the Commercial Strategy developed in 2016, including:

- Reviewing how the Plan maps to spending constraints in each delivery year, particularly in light of external funding capability; and
- Considering any potential problems related to the delivery of a large number of relatively small-value projects and any economies of scale implications.

For this 2019 Plan, further consideration has been given to:

- Reviewing objectives related to accessing third-party funding, including shared use facilities and whole-of-life costing analysis;
- Bundling like or related projects to maximise efficient delivery (programmes within the Portfolio for example, Housing and horizontal infrastructure);
- Reviewing sequencing and phasing assumptions to maximise efficiencies; and
- Ensuring industry capacity aligns with delivery milestones.

These considerations are balanced with the need to logically sequence and prioritise projects based on dependencies, and as per agreed criteria and Defence Force outcomes (as provided in the stand-alone Implementation Plan supporting this business case).

4.3. Commercial Strategy

To deliver Estate Regeneration and the associated increase in capital investment presented through the 2016 Plan, while also ensuring ongoing operational activities are appropriately covered, DEI recognised the need to increase its capability and capacity.

The scale of investment has required a fundamental shift in the way DEI delivers and manages the Estate and has presented an opportunity to take a more innovative, leading practice approach to service delivery. Analysis has occurred since the 2016 Plan (section 6.4.5 refers) into industry capability and the feasibility and design of a procurement model that support the delivery of Defence Estate outcomes. The feasibility and design of strategic partnership model was analysed and approved internally for development in May 2017 (Appendix F refers).

Industry engagement provided insight that such a partnership is likely to be able to provide services in all of the Defence Force required areas (facilities management, leasing, acquisition, and divestment; management of infrastructure design and delivery, and other specialist services). Research also revealed that in a high functioning model, the Alliance partner/s can be expected to have a support role in:

- Strategy support, portfolio level planning and management;

- Strategic asset management planning and execution as well as the development of the forward capital works programme;
- Collecting, storing, managing and analysing data across the entire estate; and
- Providing financial management (for example, managing payments to sub-contractors).

The industry engagement also established some of the key aspects of operating a successful strategic partnership (Alliance), taking into consideration models in New Zealand and internationally. A strategic partnership (Alliance) may be formed with one or more partners, with the key features to include:

- Partners, including the client resource, are embedded in a collaborative, co-located, working arrangement. In a Defence Force context that would see selected Defence Estate and Infrastructure staff working alongside Alliance staff;
- Utilising skills and resources from the partner to support and make better strategic decisions in both capital and operating programmes and activities;
- Having a focus on estate outcomes and key responsibilities, and accountabilities, jointly owned by both the Defence Force and the partner(s) (the Alliance team); and
- Being flexible and enduring over the medium to long-term—specifically suggested as being a seven to twelve year period to enable the uplift in performance required to meet the term of the Defence Estate Regeneration Plan.

An Alliance model, would require representation from both the strategic partner(s) and Defence Estate and Infrastructure in an integrated approach, bringing together the Defence Force knowledge of its estate and current and future operational requirements with industry expertise delivering outcomes.

The Strategic Partnership (Alliance) Project has been established as part of the implementation of the 2016 Plan and is being established alongside this 2019 Plan. The Strategic Partnership (Alliance) approach aims to establish a professional services relationship between industry partners and the Defence Force (known as the Strategic Partnership) to provide estate management services to enable the regeneration and ongoing operation and maintenance of the Estate out to 2035.

The goal of the Strategic Partnership (Alliance) Project is to establish an innovative, collaborative, collegial organisation comprising multidisciplinary professionals drawn from industry alongside Defence Force personnel to provide the technical expertise, commercial acumen, surge capacity, and the tools and technology necessary to manage the future operation and development of the DEI Portfolio.

The primary intent of the Strategic Partnership (Alliance) is to be a holistic professional services unit which provides facilities and asset management, combined with design and construction management as part of its service deliverables. A key attribute of the Strategic Partnership (Alliance) will be for the partner to provide flexible surge capacity, both up and down, offering scalability to support variations in the annual funding envelope. These requirements cover not only current practices but also any best practice gaps and align with future transformational changes currently underway within DEI.

4.3.1. Commercial principles of the Strategic Partnership framework

The objective of the Strategic Partnership (Alliance) commercial framework is consistent with the principle in the 2016 Plan: to ensure value for money is achieved. The commercial framework is comprised of a number of inter-related elements, which act together to provide appropriate commercial safeguards, while at the same time staying true to alliancing principles including:

- Scope and deliverables specified through an annual and multi-year works plan and agreed Target Outturn Costs (TOCs);
- Pricing and risk allocation/ sharing model;
- A performance framework that links incentives to outcomes;
- Commercial oversight, including Independent Quantity Surveyor and open book accounting provisions;
- Strategic Partnership (Alliance) management and governance forums;
- Tenure and opt out clauses;

- Appropriate insurance coverage and/or legal remedies; and
- Value for money and Benefits Realisation Plan.

Key project drivers for the adoption of a Strategic Partnership (Alliance) model are:

- The scale and complexity of the Estate and the functions required to manage and regenerate it;
- Efficient delivery of Estate Regeneration;
- Recognition that the current Estate Operating Model needs agility to deliver Estate solutions effectively; and
- Building the capability and capacity required to deliver Estate functions.

The Defence Force's current Construction Consultancy Services Panel is a list of consultants only and does not include pre-agreed rates or a pricing mechanism. Rates are still required to be negotiated for every engagement. AOG panels are typically for transactional services and are not appropriate for developing a partnership to achieve continuous improvement. A partnership approach has its members working together at the outset to ensure objectives are aligned towards achieving the agreed goal. Panels are principal/contractor agreements and the relationship between each contractor is bilateral with the Defence Force, even if contractors are obliged to cooperate with each other. The relationship is not a multilateral one as it is under a Strategic Partnership (Alliance). The buoyancy of the current New Zealand construction market poses a risk of not securing good market rates as well as the risk of consultants not needing to bid for the work itself.

The Strategic Partnership (Alliance) approach aligns with the Ministry of Business, Innovation and Employment's (MBIE) Planning Construction Procurement "*A guide to developing your procurement strategy, October 2016*" based on the following programme features:

- Programme(s) scope and risks are highly uncertain.
- There are significant time constraints.
- The Programme(s) are highly challenging in a technical sense.
- There are complex external factors, for example political, environmental or stakeholder-related.
- Innovative or cutting-edge solutions are required.
- There is a need for flexibility, for example in scheduling and programming.
- A collective approach is considered advantageous for the management of Programme risks and challenges.
- There is a desire for knowledge sharing and transfer between parties.

The Strategic Partnership (Alliance) will support the DEI portfolio and its underlying four programmes (Section 6.2 refers). The primary focus of the Strategic Partnership (Alliance) will be to provide professional services to design and manage the delivery of the Estate Regeneration capital programme, the management of the Regeneration maintenance (operational) programme and the delivery management of infrastructure to support new military capability, with some involvement in the DEI Transformation Programme and the Base Ohakea programme (planning).

4.4. Procurement Strategy

The Implementation Plan 2019, provided as a stand-alone supporting document to this business case, sets out the projects and indicative sequence to be delivered over the defined timeframe. The way in which the Defence Force engages project teams and delivers the Plan will influence each project.

Each project identified in the preferred option, the Integrated option, will be delivered using one or more of the following methodologies (generally in priority order):

- Delivered using non-asset solutions such as off-site service delivery by a third party with an already established asset base;
- Accommodated in off-site leased property which provides appropriate functionality and meets the Defence Force's special requirements for security and access;
- Accommodated by purchasing single off-site assets, such as an office block, identified for meeting requirements for long-term investment;
- Aggregated to form a national or regional work stream depending on location, value and commercial viability; or
- Delivered as single construction projects completed using appropriate design and construction methodology.

Since December 2016 and following engagement with industry, the procurement outcome sought for Estate Regeneration is through the appointment of professional services through a Strategic Partner(s) that will augment the existing DEI workforce.

The procurement process outlined in this 2019 Plan is designed to select the best partner(s) that can deliver across the range of capabilities required, with the capacity to support the scale of investment outlined, and who can progress and work within the high performance culture DEI is aspiring to build.

There are a number of existing AoG, Defence Force and other government department panels that currently provide discrete packages of professional services to DEI. These are unsuitable to support the scale and complexity of this portfolio.

There will be some occasions where services may be required outside the Strategic Partnership (Alliance), for example, if the Strategic Partnership (Alliance) is unable to provide the services due to capacity or where specialist services (e.g. peer review of complex designs) are needed. In these instances it is proposed to use existing AoG panels as appropriate.

4.4.1. Strategic Partnership: high level procurement and selection process

The Strategic Partner(s) will be procured under a fair and transparent process adhering to the Government Rules of Sourcing (GRoS), through an open market multi-stage Quality Based Method approach. Defence Force early market engagement has generated significant interest and indications are that the procurement is likely to attract a number of quality bids. Procuring though an open market multi-stage approach will allow for an appropriate level of competition, including potential overseas interest.

The process will involve a Registration of Interest (ROI) followed by Request for Proposal (RFP), concluding with interactive workshops. This process will identify quality bids based on capability and cultural alignment. Once the preferred Strategic Partner(s) has been identified, an Interim Services Alliance Agreement (ISAA) will be entered into. Following this, there will be a co-design period, likely to take up to six months, covered by the ISAA where the Defence Force will work with the Strategic Partner(s) to confirm commercial content such as setting benefits, measures and the first year Strategic Partnership Work Plan for the final contract during the ISAA period.

The Defence Force will pay the Strategic Partnership (Alliance) actual costs with margin accrued and released on satisfactory completion of the co-design period and a Programme Alliance Agreement (PAA) is entered into. The Defence Force will benefit through retention of Intellectual Property generated during the ISAA period.

4.5. Procurement Methodology

The suite of procurement methods to meet functional requirements outlined in the 2016 Plan still apply. While the majority of solutions will be asset based, opportunities for alternative delivery solutions will be explored across Estate Strategic Programmes. These may include funding solutions, such as alternative investment.

Historically, the Defence Force's infrastructure procurement has predominantly been on a 'design then build' basis where the design, cost management and project management, as well as the construction and facilities management, have been outsourced through separate contracts. The Strategic Partnership (Alliance) proposal will allow for alternative mechanisms for procurement design and delivery.

The methods proposed for delivery remain unchanged and include:

- Design then build;
- Design and build;
- Alternative funding arrangement;
- Lease; or
- One-off purchase.

There are a number of options available within these basic methods that target the transfer of risk. Each method will be reviewed against the parameters for the programme and / or project, work stream or commercial opportunity, to ensure benefits are maximised.

The method adopted for each project or group of projects (work stream) will be considered against the following three components:

- The delivery strategy;
- The delivery method—the way in which work can be contracted out; and
- The commercial framework—the commercial or payment terms applied to contracts and delivery methods.

4.6. Delivery Strategies

Different delivery strategies acknowledge that there is no single solution to provide the best value for money.

The selection of the most appropriate delivery strategy will be influenced by a number of factors, including but not limited to:

- Source, availability and timing of project funding;
- The total cost of the project;
- Delegated authorities and governance structure;
- The risk tolerance to the project/work stream and how this matches project/work stream risks and risk allocation;
- The key project stakeholders and their influence either for or against the project/work stream;
- The implications of Government Rules of Sourcing;
- The structure, capability and availability of the Defence Force's in-house property management resources;

- Any commercial, strategic or operational advantages of early delivery of the project/ programme;
- Fixed project time constraints, e.g. aligning delivery to support the introduction of new Defence Force capabilities;
- Strategic partnering arrangements already in place, for example the regional facilities maintenance contracts and hospitality contracts;
- Quality objectives and whole-of-life cost objectives and policies; and
- Operation and maintenance requirements.

Defence Force requirements may change rapidly and in unexpected ways. The delivery strategy must allow the Defence Force to mitigate these while also managing control of costs and programming.

There are also considerations for the types of suppliers to be used, e.g. larger suppliers can offer wider services in their specialist areas, while smaller suppliers may be able to offer more depth of experience in specific areas.

Situations which could impact on delivery strategies include:

- Delay or acceleration of unit consolidations and relocations;
- Heightened security alert status on one or more camp or base;
- Short-notice change or addition of a capability;
- Escalation of construction costs beyond the budget; or
- Deterioration in industrial relations.

The impact and how this is managed will differ for each delivery strategy.

4.7. Delivery Methods

The following delivery methods are available for programme/project delivery under the portfolio:

Table 12: Delivery methods

Delivery	Description
Managing Contractor	A Managing Contractor could enter into a contract with the Defence Force through an agreed commercial process to manage, design and deliver all, or significant parts, of the Plan. The actual delivery methods and commercial frameworks to be contracted would be determined by the Defence Force prior to tender. Financing the projects generally remains with the Defence Force. Design consultancy and construction contracts would be established as sub-contracts to the Managing Contractor. The Managing Contractor may or may not have their own workforce to complete part of the works. The Managing Contractor would manage all the interfaces between the Defence Force and the construction teams.
Multiple contracts (Design and build or Design-bid-build)	The design and construction of individual projects or work streams would be contracted out to one or more third parties through either combined or separate contractual arrangements. Financing the projects generally remains with the Defence Force. Operation and maintenance of the facility remains with the Defence Force at the end of the project. However, there is some advantage in the inclusion of an initial period of routine maintenance to ensure continuity in the completion of maintenance and defect remediation under a single contract. This method provides maximum flexibility in the programming of projects. **Design and build:** Independent advisors are engaged to develop the 'employer's requirements' to be included in the design and build tender documentation. At an appropriate stage in the design development, competitive tenders are called. The successful contractor is then responsible for completing design and construction.

Delivery	Description
	Depending on in-house expertise and capacity of the Defence Force, separate contracts may also be let for project and cost management to provide independent control and advice. **Design-bid-build:** The designer and constructor are contracted separately. The design is completed and is then used as the basis for tendering the construction contract. The facility is then constructed under the supervision of the design consultant. Similar to design and build, dependent on in-house expertise and capacity, separate contracts may also be let for project and cost management to provide independent control and advice. *Advantages of these methodologies:* **Design and build** • Lead-in time associated with this procurement method is generally shorter due to the client providing only concept or preliminary design before starting the tendering process for a design and build contractor. • Cost certainty will depend on the comprehensiveness of the client brief and is generally dependent on the simple nature of the requirements. • Discrepancies or changes due to buildability issues remain a contractor risk and not, therefore, the subject of claims. **Design-bid-build** • The client team maintains full control of the design, detailing and finishes and therefore, the quality of the end product. • A high degree of cost certainty is achieved prior to committing to construction, provided that the design is complete and accurate. • The construction tender process does not have to proceed if funding is not available. • Depending on the market at the time, this method can provide very competitive pricing. • Changes can be accommodated relatively easily and cost-effectively during the design phase. • Best understood method of project delivery and established industry standard forms of contract exist, e.g. Conditions of Contract for Consultancy Services (CCCS) and NZS3910 for construction. • Allows selection on the basis of quality and price through the use of non-price attributes for complex projects. • Single construction contract possible. *Disadvantages:* **Design and build** • The client team can lose control of the design, detailing and finishes if the design brief is not sufficiently comprehensive. The quality of the end product may not be what was envisaged and changes or variations may be disproportionately expensive. • Can be adversarial in nature if client expectations do not align with the basis of the accepted tender. **Design-bid-build** • Lead-in time associated with this procurement method is longer due to the requirement to produce a full and complete design before starting the tendering process for a construction contractor. • Discrepancies or changes due to build-ability issues may become a client risk and can give rise to significant claims. Can be adversarial in nature if bid on a lowest-price basis.
Lease and Fit out	Leasing provides an alternative where operational need and/or dependency is uncertain for the long term. This method limits the capital expenditure to the fit-out of leased premises.
One-off purchase and fit out	Where an appropriate facility is available and provides an appropriate fit to long term operational requirements, it may be best to purchase an existing building.

4.8. Contract Management

The objective of the Contract Management function is to maintain sufficient resources with the appropriate level of skills, knowledge, and commercial experience, to manage and drive the overall performance of both existing and new contracts. Examples of the type of contracts to be managed include but are not limited to:

- Facility management contracts;
- Construction contracts;
- Services contracts; or
- Utilities supply.

The Contract Management function shall plan and effectively manage the systematic delivery of the full contract lifecycle, including structured transition between the different phases in a satisfactory way, and collaborating with all stakeholders in a timely manner. A high level of responsiveness is expected at all times, especially when managing the obligations under the contracts, negotiating contracts, and managing stakeholder engagement and relationships.

This function will manage value for money ("VFM") outcomes and ensure benefits are realised and reported for every contract. It will identify, mitigate/minimise, monitor, manage and report risks, and consider and/or ensure appropriate insurances are in place.

The Contract Management function will deliver a complete suite of services and be accountable for the end to end management of all relevant contracts.

The Contract Management scope of services will deliver the following six main portfolio areas:

1. Contract and Performance Management;
2. Stakeholder Management;
3. Compliance Management;
4. Risk Management;
5. Contract Quality Management Systems; and
6. Continuous Improvement.

The management of the contract between the Defence Force and the Strategic Partner(s) is not part of this contract management scope, although many of the principles and good practice will apply. At this point in the development, the Strategic Partnership (Alliance) contract will be managed by the GM Estate Performance reporting to the Head of DEI.

4.9. Market Analysis: Industry engagement and capacity

Across New Zealand, demand for construction-related occupations is projected to increase by 10% by 2021, approximately 49,000 employees (including working proprietors) to a total of 539,500. One of the occupations that is expected to experience the largest growth to 2021 are civil engineering professionals (11%). With this in mind the Defence Force will need to be able to secure good quality skills at the right price and at the right time.

Such skills and expertise are required to come up with innovative ways of maintaining a sustainable supply chain of Professional Services for the Defence Force; looking internally within the Defence Force (how we operate) and externally to the market.

Market assessment of the Strategic Partnership (Alliance) model has been carried out through industry engagement sessions. The initial focus of these engagements was to identify the optimal commercial model resulting in the recommendation of a Strategic Partnership (Alliance) approach. Subsequent industry engagement has helped to reaffirm and refine the proposed commercial approach. Industry have not only signalled their readiness to support a Strategic Partnership (Alliance) model confirming their capacity and capability, but have also suggested that an Alliance-type approach is the most effective commercial arrangement to deliver the Defence Force's requirements.

The current professional services industry is under increasing pressure to support an active infrastructure development market. While the scale of the Estate Regeneration investment is a significant uplift for the Defence Force, it is still relatively minor in a national context (estimated 1% of the New Zealand construction industry at the height of the Estate Regeneration capital funding profile, and this is expected to be mirrored in the professional services industry). As such our assessment is that this will not adversely affect the New Zealand market and that there will still be sufficient capacity to support broader Government objectives outside of the Defence Force.

4.9.1. Industry engagement

Engagement with industry has identified both national and international companies interested in the Strategic Partnership (Alliance) procurement approach. It is likely some respondents will form a collaborative-type relationship in order to fulfil the expertise required to support the functional areas.

The following provides a high-level timeline of the engagements that have been undertaken to inform the Strategic Partnership (Alliance) approach:

- August 2016: The Defence Force: Review of Defence Property Group Services (PwC report).
- November 2016: Industry Engagement Forum (117 organisations, 204 attendees).
- February 2017: Industry Capability Review (Spire Consulting Limited): Feasibility and design of a strategic business partner to support the Defence Force Estate outcomes, including: Feedback from Industry on Strategic Partnership Model; and Addendum: Additional information on Client's Facilities Management and Maintenance experience.
- December 2017: Industry engagement session (28 organisations, 55 attendees).
- May 2018: New Zealand Defence Industry Association (NZDIA) Member Meeting, Wellington.
- Various across 2017 and 2018: Pre-procurement one-on-one meetings with various interested parties that have attended industry engagement sessions.

4.9.2. Market analysis: Strategic Partnership model considerations

Strategic Partnership (Alliance) models have been used by other government agencies to achieve relationship-based outcomes.

Since January 2018, interviews and presentations have been completed and continue to be held with domestic and overseas organisations that have utilised an Alliance-type model. The purpose of these sessions has been to document lessons learned, both positive and negative, to help inform the design of the Defence Force's Strategic Partnership relationship.

4.9.3. Communications and Stakeholders

The Strategic Partnership (Alliance) Project "Communications and Stakeholder Engagement Strategy" has been approved for the period up to initiation of the ISAA. This document outlines the strategy and approach for the development and delivery of communications and stakeholder engagement for the Strategic Partnership (Alliance) Project and ensures all impacted stakeholders and users receive appropriate messages, at the right time, through the most effective channels. This document will form the basis of the Strategic Partnership (Alliance) Project Communications Plan.

It is envisaged that an extended Communications and Stakeholder Strategy for the Strategic Partnership (Alliance) will be developed during the transitional period with the Strategic Partner(s) and will include:

- Strategic Partnership: Partner(s) and DEI Strategic Partnership (Alliance) personnel;
- Various DEI and wider Defence Force departments and members of the Defence Force Armed Forces; and

- External stakeholders e.g. residents at different camps and bases, local authorities, government agencies, property owners / developers, utility infrastructure service providers, iwi groups and community interest groups.

4.10. Risk

As stipulated in the Management case, the Portfolio Management Office (PMfO) identifies, monitors and reports on risk for the Portfolio and Programmes. The Project Management Office for the Strategic Partnership Project manages and monitors the Strategic Partnership Project Risk Register which feeds into the PMfO.

By its nature, a Strategic Partnership (Alliance) is a risk-sharing model and as such, risk management will be a critical component of the procurement and implementation approach. A Strategic Partnership (Alliance) Risk Register will be developed with the Strategic Partner(s) during the ISAA period.

The following Strategic Partnership (Alliance) characteristics and key risks have been identified:

- It is expected that the Strategic Partnership (Alliance) will commence March 2020 for the programme to FY2024/25 and potentially through to FY 2029/30. The proactive management of the collaborative "one team" relationship will be critical. Choosing the right team members is therefore also critical.

- A robust and appropriate performance measurement regime needs to be established to enable fair allocation of risk/reward monies and to enable the early identification of improvement opportunities for the Strategic Partnership (Alliance).

- Incentives will need to be discussed during the negotiations phase. It is anticipated that a draft performance framework will be developed and agreed with the preferred Strategic Partner(s) as part of this process.

- To perform as a team and get the additional value opportunities from having a Strategic Partnership (Alliance), it must be driven by behaviours based on 'Collaboration, Relationships and Trust'. Strategic Partner(s) will need to proactively manage culture through personnel assigned this responsibility, particularly at commencement where a Strategic Partnership (Alliance) culture is foreign to some individuals.

- Potential Strategic Partner(s) will be required to provide a list of named key staff with specific skills in their proposal. It is important these individuals remain available as part of the Strategic Partnership (Alliance). How these staff are replaced, will be addressed in the Strategic Partnership (Alliance) Agreement.

- Probity is a key issue for the Strategic Partnership (Alliance) given the sensitive and confidential nature of the work and the potential conflict of interest with others from a Strategic Partnership (Alliance) member's home organisation. A Probity Auditor has been appointed to manage this process from the tender period to the contract end. Those involved in the Strategic Partnership (Alliance) will be required to sign conflict of interest and confidentiality agreements.

The top 10 risks identified for the implementation of the Strategic Partnership (Alliance) model are outlined in Table 13.

4.11. Construction Risk

A significant number of Estate Regeneration projects are likely to be less than $5 million. These projects are unlikely to be of a sufficient size to attract first or possibly second tier contractors, particularly if the market is stretched. There are risks associated with third-tier contractors including a lack of appropriate experience, insufficient resources in areas such as project management, cost management and design services.

Generally projects will be bundled into programmes in a single region to optimise engagement with the local construction market and to manage issues associated with appropriate levels of insurance. If the potential for a national contract is identified (both plant and labour), this will also be investigated. However, the diversity of asset classes and the relatively high number of small projects (<$5M), limits the potential value of this approach at a national level. The selection of contractors through an evaluated prequalification process, careful drafting of special conditions of contract, and attention to tags in tenders will allow for mitigation of most of these risks.

Projects identified in the Implementation Plan are not expected to present any challenges with respect to sourcing of specialist or unusual design or construction skill sets. Similarly, there are few, if any, difficulties perceived in the sourcing of materials and construction plant because of any unique requirements. However, this will be closely monitored to ensure the early identification of any requirements which could impact on programme delivery. Market availability of such resources will be determined as and when the requirements are identified in the design process.

Table 13: Top 10 risks identified for the implementation of the Strategic Partnership

Risk Name	Description	Impact (THEN)	Untreated rating (no mitigations applied)	Controls that may manage the risk	Treated/ Current Position
Probity and conflicts of interest disclosed throughout procurement process	If probity is not managed and an independent probity advisor is not appointed to oversee the procurement process. If there is a perceived conflict of interest of individuals that are working on RFP documentation as internal or external support services.	Then there is a high risk that the procurement process may be challenged prior or during the procurement process and post award. Then the contract may not be credible due to perceived or actual bias and therefore likely to be challenged.	Critical	• Probity auditor/advisor engaged. • Probity Plan developed. • Conflict Management Plans in place when required. • Name evaluators in RFP (to enable backup if required). • Sign conflict of interest on every evaluation milestones.	Medium
Ineffective engagement of industry and external communications to industry.	If industry is not engaged in a structured, well understood, best practice and professional manner. If industry receive poor quality (minimal or inaccurate) information.	Then the Defence Force's reputation could be harmed and there could be a loss of stakeholder confidence in Treasury and Ministers. Then the operating model may not meet the needs for high performance people, cultural alignment, innovation, and collaboration.	High	• Early engagement credibility. • Communications strategy. • Clear and effective communications that are well interpreted. • Oversight of all communications to ensure consistency.	Medium
Undefined scope of services.	If the scope of services cannot be defined well enough.	Then commercial arrangements and negotiations may result in a scope of services that is beyond what is necessary to form the required state.	Critical	• Ensure scope is written well and peer reviewed by the Strategic Procurement Advisory Board and also independently. • Ensure the right expert technical advisors with experience are advising and peer reviewing scope and procurement documents.	Medium
Compromised Business Partner solution.	If the proposed Business Partner model is not feasible.	Then it may have to be modified to a suboptimal solution or it may question the viability of a business partner solution.	Critical	• Comprehensive analysis of industry options completed. • Industry engagement.	Medium

Risk Name	Description	Impact (THEN)	Untreated rating (no mitigations applied)	Controls that may manage the risk	Treated/ Current Position
				• Due diligence (other client experience). • Refine the financial model. • Independent and internal peer reviews of the procurement plan.	
Selection of evaluation team	If the evaluation team does not have a breadth of knowledge and experience and is not available for the appropriate succession plan.	Then the procurement is not evaluated well and the best suited tender may not be chosen, and procurement succession may not be effectively carried out.	High	• Conflict of interest forms completed to ensure credibility of evaluation panel. • Prioritise Strategic Partnership operating model needs and objectives over business as usual demands to ensure personnel are available. • Ensure that the right skills are included and plan ahead in the selection process.	Medium
DEI not ready for a Strategic Partnership (Alliance)	If the DEI Transformation (people, processes, tools) is not aligned and implemented before the Strategic Partnership (Alliance) delivery model is implemented.	Then there will be complexities in holding the Strategic Partnership (Alliance) to account for their performance because there would be a sub-optimal partnering working environment.	Critical	• Project Plan used to sequence implementation of Estate and Infrastructure transformation and transition to the Alliance. • Co-ordination of services required for Change related roles: Communications, People and Capability, Process Improvements; Information Management; Alliance Readiness. • Clear definition of the required state, with Alliance Readiness as part of the plan.	High
Identifying legal milestones	If legal milestones are not defined proactively.	Then it may be too late for their advice.	Critical	• Defence Legal and external legal advisors engaged and well managed.	Medium

				• Legal workshop for contract documents. • Legal review for procurement documentation and negotiations (if any)	
Acquisition of talent	If the Strategic Partnership cannot attract, develop and retain talent.	Then talented people cannot support the culture change and operating model and may be taken by other organisations or companies.	Critical	• Transition Plan developed with Partners. • Recognise the shortage in the job market. • Train people according to their job descriptions. • Manage people by monitoring job performance.	High
Insufficient respondent quality	If there is insufficient quality from respondents	Then the Strategic Partnership Project may have to release another ROI causing delays and added cost.	Medium	• Effectively manage communications and interactions with industry. • The market sounding report has said that there is capability within New Zealand industry. • Go out to the same market again with another ROI.	Medium / Low
Industry unable to support Strategic Partnering model	If New Zealand estate and infrastructure sectors do not support a Strategic Partnering model with the Defence Force.	Then the Strategic Partnership arrangement or increased use of third parties will need to be reconsidered.	High	• Industry participants have indicated a high level of interest and support for the Strategic Partnering model. • Ensure RFP Non-Price Attributes accommodate capability, capacity, and culture.	Medium / Low

4.12. Strategic Programmes (Estate and Defence Capability)

The 2016 Plan introduced bundling of projects into longer-term programmes to realise potential synergies and other cost efficiencies.

The bundling of like projects (normally of similar asset classes) into programmes reduces the number of business cases required and will provide some economies of scale, particularly for common costs such as project management, cost management and design services. Generally, projects will be bundled into programmes in a single region, to optimise engagement with the local construction market (for example the Defence Force Housing Programme).

In the 2016 Plan, the asset classes identified for further development included hospitality related projects (incorporating accommodation, messing and community/welfare), as it provided sufficient scale, clarity of requirements and market maturity (identified as the ability to deliver service requirements) to deliver benefit to the Defence Force as well as the market. In this 2019 Plan, Housing, Regional Facilities, and Horizontal Infrastructure have been included for further programme development.

The Implementation Plan, prepared as a separate supporting document to this business case, provides a more detailed definition of project delivery.

5. Financial Case

5.1. Overview

This section outlines the financial parameters and principles that guide the 2019 Plan. The Financial Case presents a high level assessment of the costs, funding and affordability of the preferred way forward identified in the Economic Case. The costs through to financial year (FY) 2035 and the related funding requirements to 2030 are presented.

5.2. Current financial context

The financial context of this 2019 Plan is aligned with the 2019 Defence Capability Plan Review. This Financial Case assumes a capital investment profile of $2.1 billion with a corresponding level of operating and personnel expenditure through to 2030. The level of operating and personnel expenditure is anticipated to be $3.5 billion and $357 million respectively.

The 2016 Plan presented a capital investment programme of $1.7 billion to 2030, supported by $2.6 billion for operating expenditure and $150 million for personnel expenditure. New learnings that have emerged over the past three financial years include:

- **Capital:** Slower than anticipated annual capital expenditure due to optimism bias in delivery timeframes and longer than anticipated business case and decision making processes. Further assessment of Estate assets has revealed new information for investment requirements such as the state of horizontal infrastructure, regional facilities, housing and capability support infrastructure (Figure 18 refers).

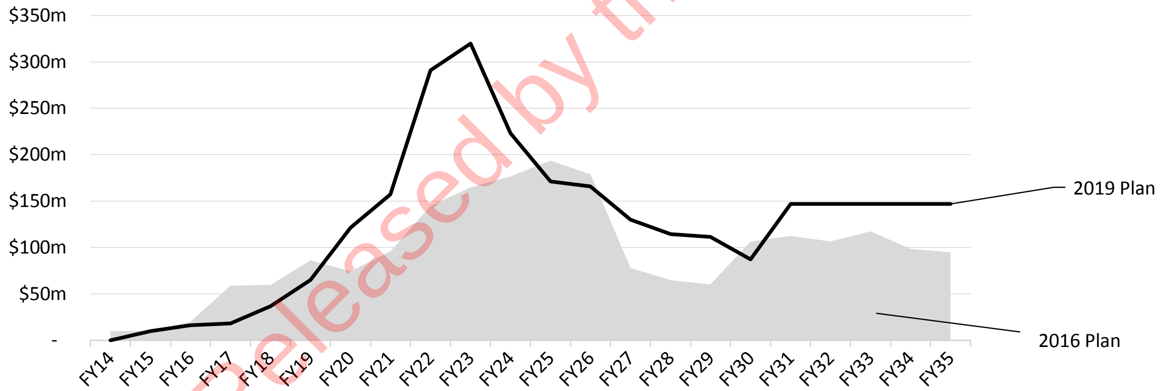
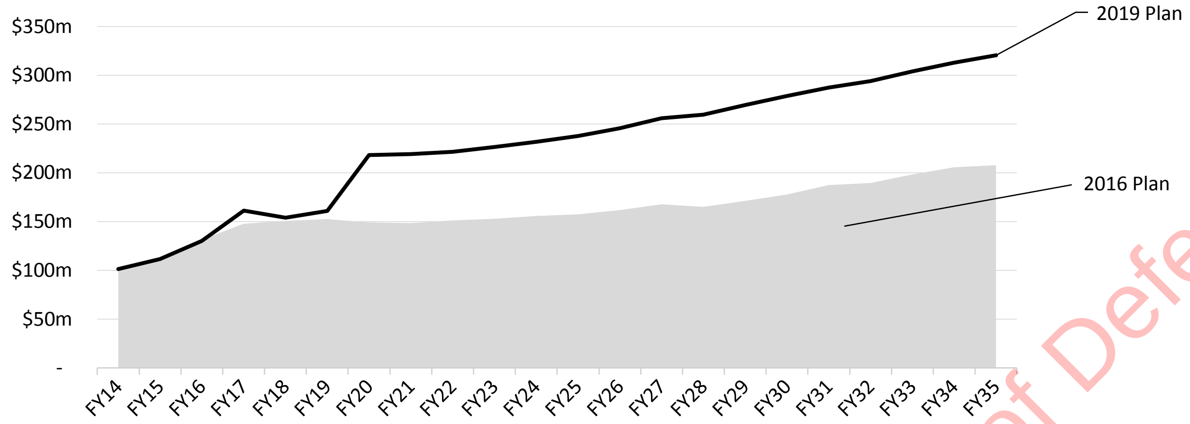


Figure 18: Capital expenditure comparisons 2016 and 2019 Plans

- **Operating:** The aging Estate is causing higher unscheduled maintenance costs, higher utility costs and higher costs to meet minimum building health and safety requirements, for example asbestos, three waters, seismic integrity, healthy homes and environmental requirements. To allow DEI to execute the capital investment profile, a Strategic Partnership (Alliance) will support the planning and delivery of the 2019 Plan, increasing professional services costs (Figure 19 refers). The Strategic Partnership (Alliance) will offer surge capacity of an estimated 63 roles to deliver large programmes and high levels of capital expenditure.



- **Personnel:** To execute the 2019 Plan, DEI needs to grow to an estimated 210 roles (Figure 20 refers) in conjunction with the establishment of a Strategic Partnership (Alliance). In addition, since the 2016 Plan, DEI has executed the Transformation Programme, establishing a new operating model and growing the number of people across the portfolio (Section 6.4 refers)

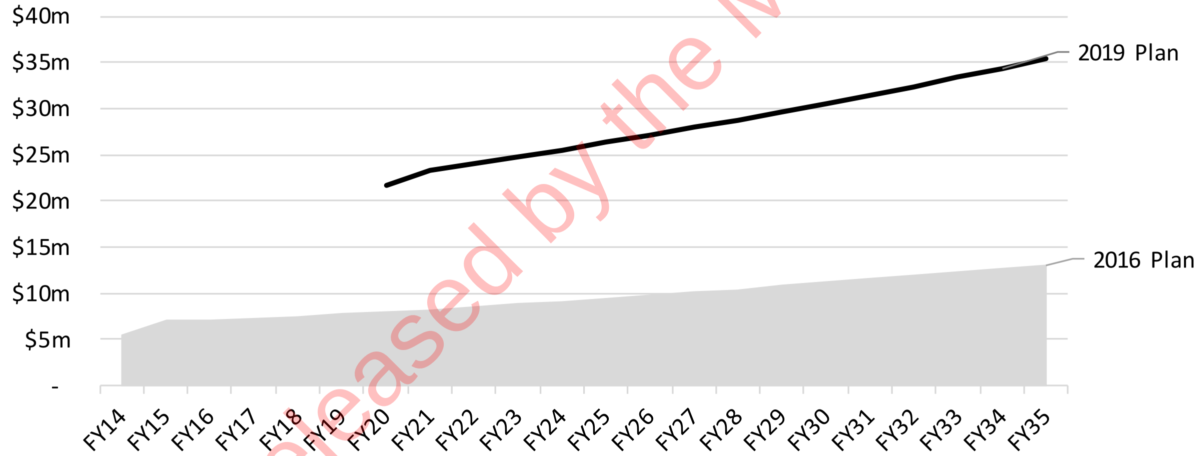


Figure 20: Personnel expenditure comparisons 2016 and 2019 Plans

5.3. Capital funding and expenditure

5.3.1. Capital Investment

DEI's capital investment is made up of Estate Strategic Programmes and infrastructure to support identified Defence capability projects (Figure 21 and Table 14 refer).

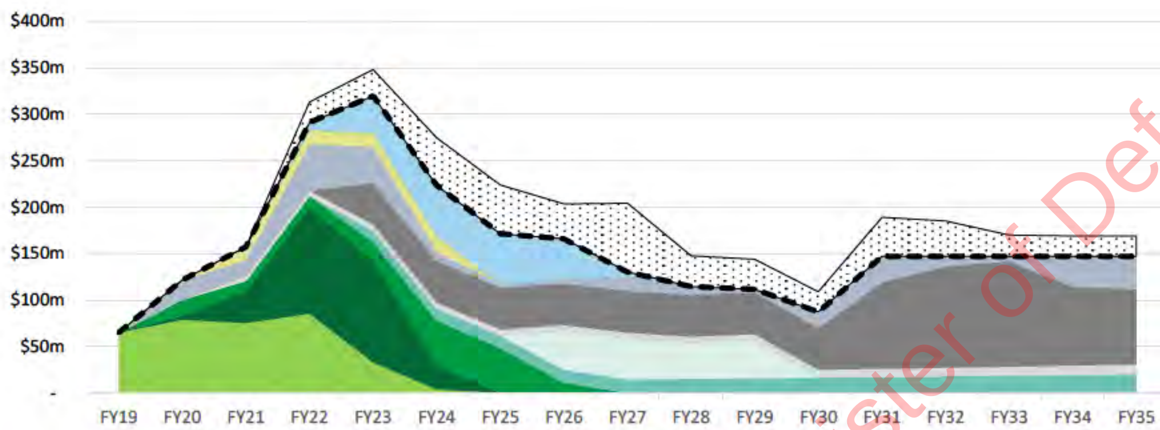


Figure 21: Estate Regeneration capital expenditure profile (2019 Plan)

Table 14: Priority list of capital expenditure (legend to Figure 21 above)

Prioritised Strategic Programmes		Key
1	Approved DEI Projects (projects approved through the 2016 Plan)	
2	Approved Air Surveillance Maritime Patrol	
3	Consolidated Logistics Project	
4	Horizontal Infrastructure Programme	
5	Accommodation, Messing and Dining Modernisation Programme	
6	Rolling Replacement Programmes	
7	Estate Development Plan Projects	
8	Defence Capability Projects	
9	Housing Programme	
10	Consolidated Learning Programme (Ruru)	
11	Regional Facilities	
–	Portfolio Contingency	

Approved: 2016 Plan Tranche 1A-C Capital Projects Programme

Since 2016, DEI has had $276 million of projects approved under the Estate Regeneration Programme and $10 million under the Infrastructure Recapitalisation Programme (pre 2016 Plan). By 30 June 2019, it is anticipated between $131 million and $146 million of project expenditure will be delivered.

Through the delivery of the Approved Capital Programme, cost pressures have emerged due to urgent capital expenditure requirements, wider than anticipated project scope or requirements, and construction cost escalation exceeding planning and business case estimates. There is at least $72 million of known cost pressures within the Approved Project Programme and a further $50 million of anticipated cost risk (Figure 21 refers).

As at 30 June 2018 the delivery position of the Approved Projects programme is illustrated in Figure 22. Through this refresh this cost pressure is addressed by prioritisation of depreciation funding.

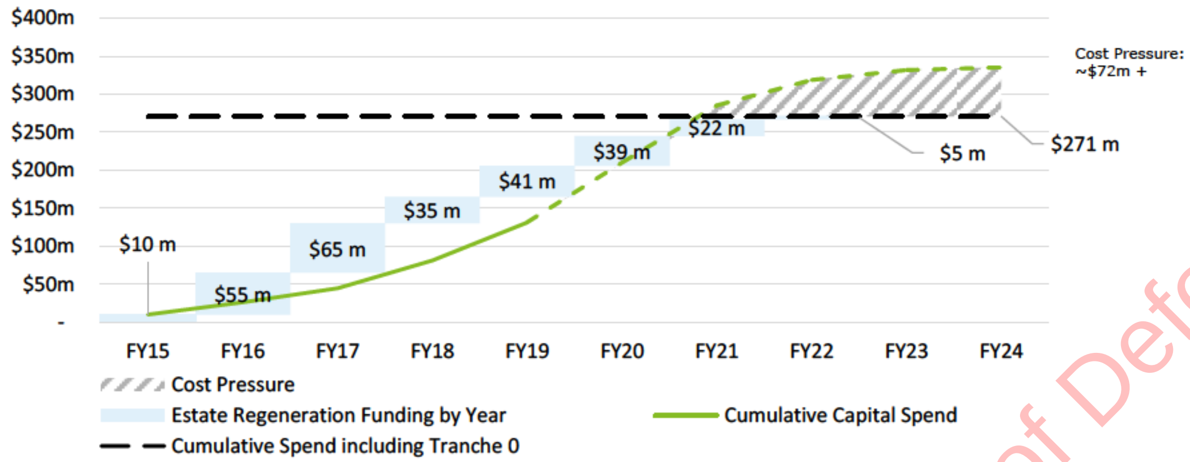


Figure 22: Approved Projects Programme - Tranche 1 capital funding and expenditure

Approved: Air Surveillance Maritime Patrol Investment

The infrastructure investment at Base Ohakea to support the introduction of the Air Surveillance Maritime Patrol Capability was estimated in the project's business case at $170 million. This infrastructure included a hangar ($101 million) and supporting infrastructure for effective operations of the Base ($68 million).

The supporting infrastructure requirements continue to be assessed and the 2019 Plan includes $188 million for supporting infrastructure prioritised through the Defence Capability Plan and is to be delivered by DEI.

Further analysis will be completed through a Detailed Business Case to establish critical investment requirements.

Approved: Consolidated Logistics Project

The 2019 Plan has allocated $169 million to address the infrastructure requirements of the Consolidated Logistics Project and to alleviate identified project cost pressures.

The capital investment will deliver maintenance support and regional supply facilities at both Linton and Burnham and vehicle storage (MHOV) at Linton by 2026.

Planned Capital Programme Expenditure

The planned capital expenditure includes Estate Strategic Programmes identified by DEI, projects linked to the introduction of Defence capability, rolling replacement programmes, and projects identified through camp and base master planning. The prioritised profile supports the preferred option presented in the Defence Capability Plan Review.

The profile of investment assumes activity on the following programmes by 2035:

- Horizontal infrastructure – three waters, roads, electricity networks;
- Accommodation, Messing and Dining Modernisation Programme – investment equivalent to upgrading a smaller camp in the mid-late 2020s;
- Housing – capital expenditure at a prioritised location to be delivered by mid 2020s;
- Consolidated Learning Programme (Programme Ruru) – facilities to support Defence learning Hub in the mid-2020s;
- Regional facilities – minimal capex available for regional facilities needing to come from other programmes; and

- Planned Defence Capability Programmes – there is no provision for planned projects in the Defence Capability Plan 2019 that requires new infrastructure. The infrastructure costs are assumed to be captured within the Capability Business Cases and bring associated funding according to the PRICIE costing approach.

The base costs identified for the planned projects are escalated at a Construction Cost Index rate of 4.3% per annum. Further modelled assumptions are included in Appendix G.

5.3.2. Capital funding

The capital costs for Estate Regeneration will be funded through a mix of centrally allocated depreciation funding and capital injections determined through the Defence Capability Plan Review. The funding profile has been aligned with the $2.1 billion expenditure.

The Defence Force has allocated $55 million of depreciation per year to provide DEI funding certainty. However, a significant portion of the 2019 Plan will require capital injections in later years.

While not quantified in this 2019 Plan, the Defence Force will investigate the allocation of revenue from the sale and transfer of property (Figure 23 refers).

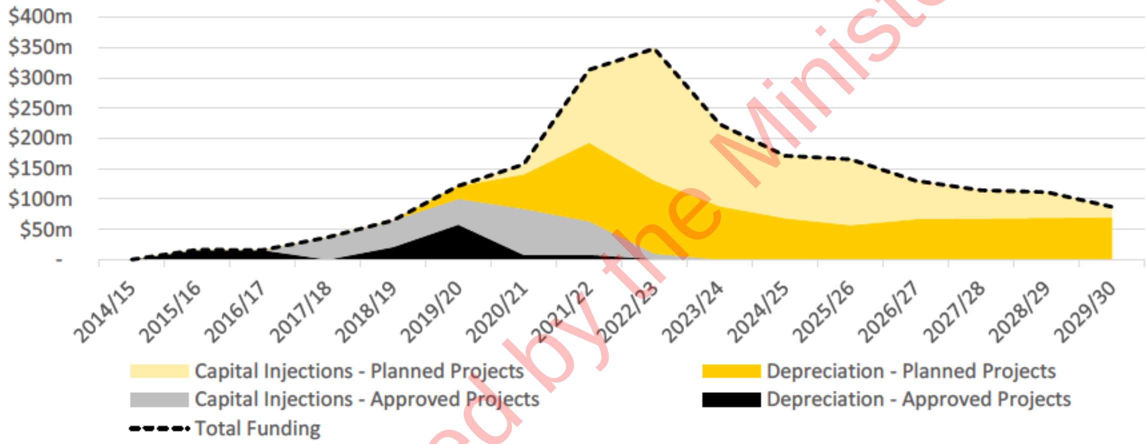


Figure 23: 2019 Capital Plan Funding

5.3.3. Capital affordability

The capital investment profile for the 2019 Plan has been prioritised to fit within the indicative forecast funding of $2.1 billion to 2030, signalled within the Defence Capability Plan Review. The proposed allocation of programmes is shown against the total indicative funding of $2.1 billion (Figure 24 refers).

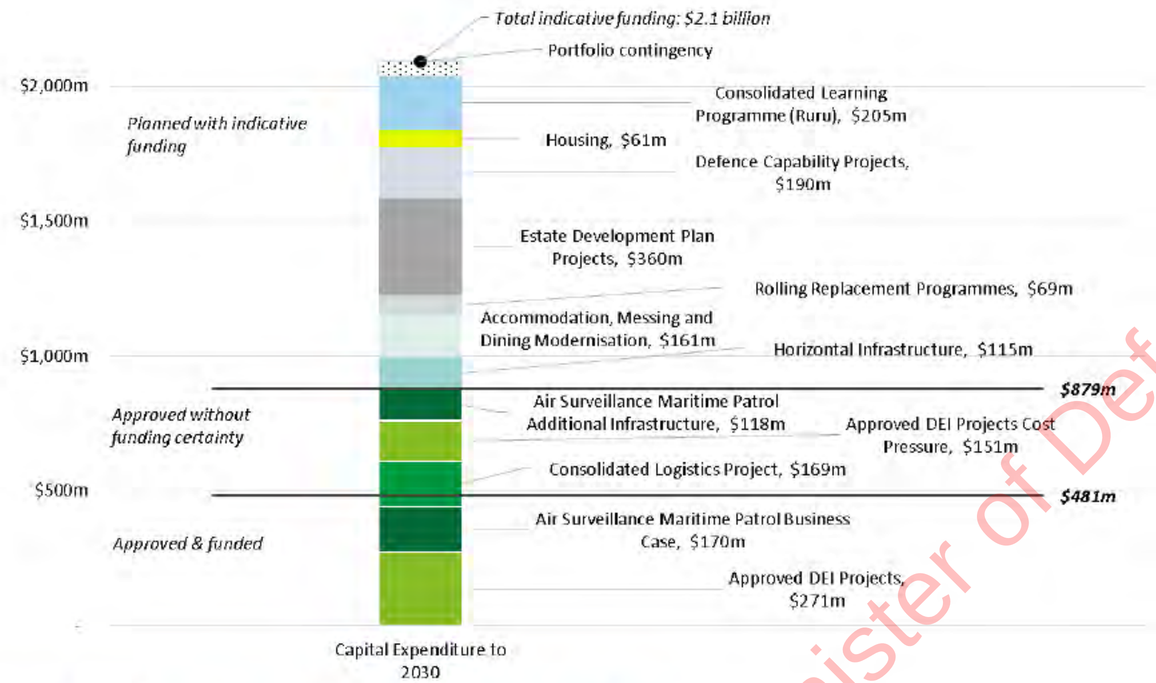


Figure 24: Total expenditure prioritised against capital funding allocation

5.4. Operating and personnel expenditure and funding

Operating expenditure reflects the day-to-day costs of running the Estate including maintenance, utility charges, other operating costs, and personnel costs (Figure 25 refers). The operating expenditure is confirmed on an annual basis through the Defence Force's Four Year Plan.

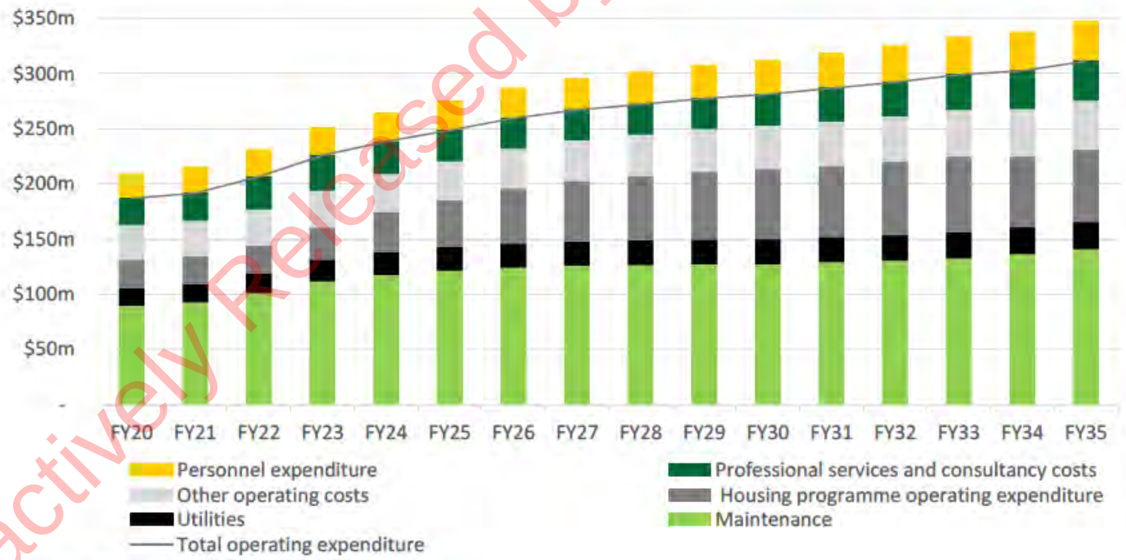


Figure 25: Operating and personnel expenditure

5.4.1. Operating costs

In FY2019 DEI is budgeted to spend $161 million of operating expenditure. Key operating costs reflect the day-to-day costs of running the Estate and include:

- Maintenance: planned, scheduled, and unscheduled maintenance, cleaning, pest control;

- Utilities: power, water, fuel and telecommunications;

- Housing programme costs: maintenance and property rates for houses owned by the Defence Force, programme business case estimates of leasing solutions where houses are not owned;

- On-going rental of property and leases;

- Professional services and consultancy costs: subject matter expert advice, advisory services;

- Other operating costs including incidental costs such as environmental costs, software licences, training, subscriptions, travel, rates etc.; and

- DEI receives recoveries from the rental of housing and barracks to personnel.

Historically, DEI has spent approximately $160 million annually, with over 60% of this expenditure spent on facilities maintenance (Figure 26 refers).

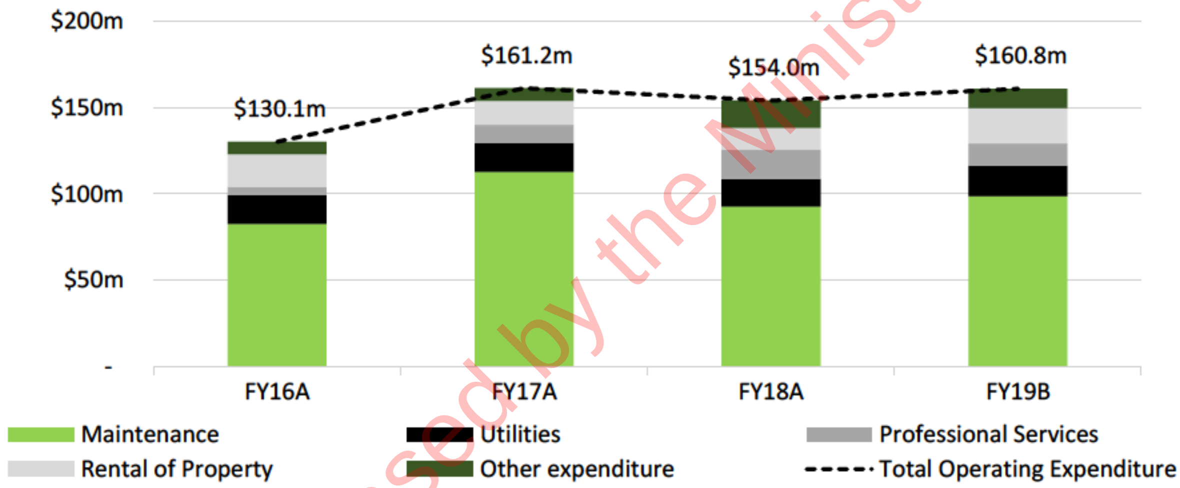


Figure 26: Actual (A) and budget (B) operating expenditure FY16 - FY19

Forecast operating expenditure is assumptions based, linked to the replacement value of assets. Maintenance expenditure will be prioritised and targeted to maintain assets to an agreed level of service and performance. The current maintenance regime and utilities expenditure is based on 2.8 % - 3.35% of the replacement value of assets. As the Estate is regenerated, the operating costs increase over time to maintain the higher value asset base (Figure 27 refers). Operating costs are assumed to increase at 2.3% per annum.

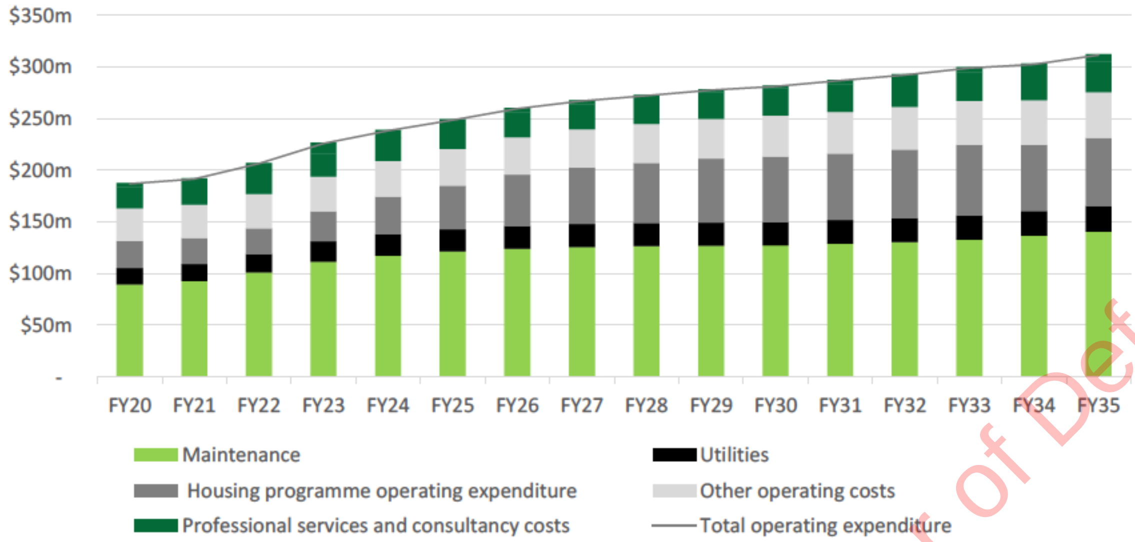


Figure 27: 2019 Plan forecast operating expenditure

Professional services and consultancy costs are intended to cover technical services, consultants, contractors and the Strategic Partner costs. The move to a Strategic Partnership (Alliance) model anticipates a change in current expenditure on consultants and contractors and the delivery of facilities management and administration services. To support the delivery of the 2019 Plan, DEI anticipates that overall professional services costs will increase to allow the delivery of over $200 million of annual capital expenditure. The costs of the Strategic Partnership (Alliance) model are based on identified roles and industry based salaries including margins. DEI will still procure some professional services outside of the Strategic Partnership (Alliance) model (Section 4.4 refers).

Strategic Programmes are anticipated to increase operating costs over the duration of the 2019 Plan. DEI anticipate an increase in costs for the delivery of housing services. The Housing programme is investigating design and lease solutions for rental of houses for Defence personnel.

The 2019 Plan does not reflect any changes in operating costs that may emerge from programme business cases, except for Housing.

5.4.2. Personnel costs

DEI personnel expenditure has increased year on year since 2016 as the portfolio implements the Operating Model Transformation (Section 6.1 refers). Personnel costs include salaries, allowances, superannuation, and accumulated leave, less capitalised labour costs introduced from FY18 onwards (Figure 28 refers).

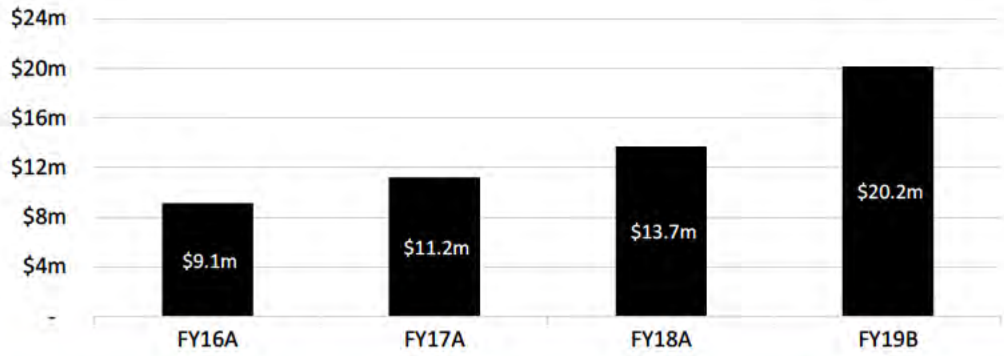


Figure 28: Actual (A) and budgeted (B) personnel expenditure FY16 – FY19 (including capitalised labour from FY19)[18]

Forecast personnel expenditure (Figure 29 refers) is based on a business case completed by DEI to identify personnel requirements to deliver the capital and operating expenditure for this 2019 Plan.

Personnel costs are modelled to increase by 3% annually and are estimated based on an average DEI salary for the roles and responsibilities required across the business unit. DEI analysis suggests 23 roles of the 210 will be capitalised through the delivery of this 2019 Plan.

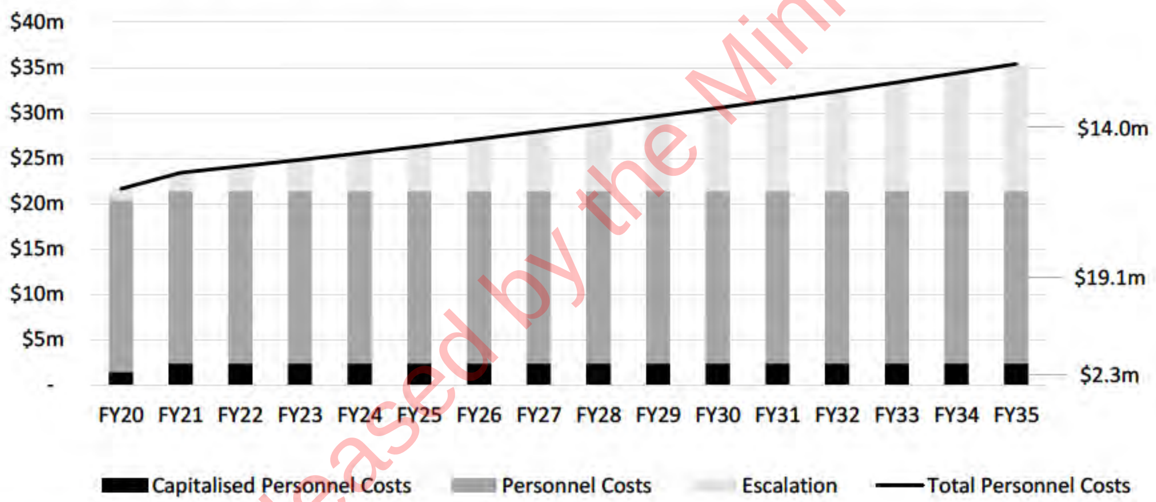


Figure 29: Forecast personnel costs

5.4.3. Depreciation

Depreciation forecasts reflect the existing asset base, disposals and planned regeneration investment (Table 15 refers).

Table 15 Depreciation estimate for Defence Estate

$million	**Depreciation to 2030**
Depreciation on existing assets	620
Depreciation on new or replacement assets	288
Total depreciation	**908**

[18] Source: SAP Budget v1

5.4.4. Capital charge

Capital charge is estimated based on approved but not yet received capital injections and planned capital injection requirements at 6.0% per annum. This 2019 Plan anticipates $370 million of additional capital charge between 2020 and 2030.

5.4.5. Operating and personnel funding

Operating funding

Operating funding uses the 2019 baseline funding profile and includes the cost pressure Budget Bid for Budget 2019. The cost pressure assumes an annual increase to respond to known budget pressures in FY19 such as a backlog in planned maintenance, increases in unscheduled maintenance, increases in construction cost indices and development of programme level pre-acquisition business cases (Figure 30 refers). Future operating cost increases will be minimised through careful business operations. Should operating costs increase, requests will be made through official budget processes.

DEI receives revenue from renting housing and barrack accommodation to Defence Force personnel. The level of revenue is less than the cost to deliver the services and is anticipated to change over time. DEI also receives some third party revenue through contracts with entities such as Marlborough Airport, Airbus, Babcock and for providing utility services to communities. All funding requirements are shown net of revenue received.

S9(2)(f)(iv)

Figure 30: Forecast operating funding

Personnel Funding

Since the 2016 Plan, on-going personnel levels have been updated based on the DEI Personnel Requirements Business Case, a better understanding of roles and responsibilities and the expected transition to a Strategic Partnership (Alliance) model. Figure 31 presents the forecast personnel funding to 2035.

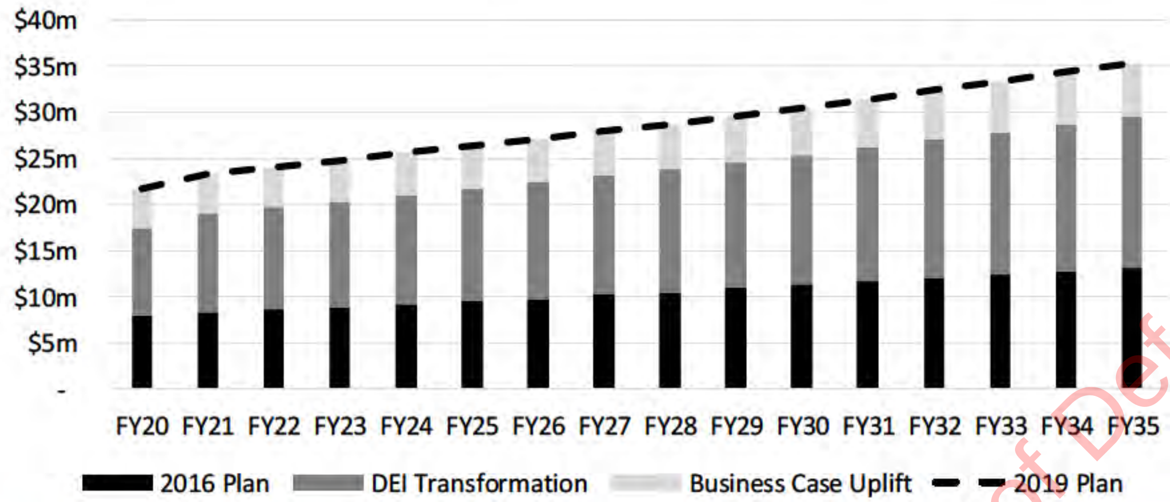


Figure 31: Forecast personnel funding through DEI Transformation

Operating and personnel affordability

Table 16: Operating and Personnel Affordability

$m nominal	Operating and personnel affordability 2020 to 2030 (Total Cost)	Operating and personnel affordability 2020 to 2035 (Total Cost)
Maintenance	1,265	1,935
Utilities	223	341
Housing programme operating costs	473	803
Other operating costs	380	587
Consultancy & Professional Services	315	483
Total Operating Costs	**2,656**	**4,148**
Personnel expenditure	290	457
Total Operating & Personnel Costs	**2,946**	**4,605**
FY 19 Baseline (Forecast)	S9(2)(f)(iv)	
FY20 Cost Pressures*		
Total Operating Costs		
2016 Personnel Funding		
Personnel DEI Transformation**		
Personnel Business Case Uplift		
Total Funding		
Net Funding (Shortfall)		
Strategic Programmes & Other Cost Increases		
Housing Programme		
Professional Services Increase		
Net Funding (Shortfall) including increases		

*Cost pressures have not yet been approved and are subject to a baseline budget bid.

**Following the approval of the 2016 Plan, DEI underwent a transformation programme to transition from Defence Property Group to the current business unit.

DEI anticipates some funding tension across operating and personnel expenses. As Strategic Programmes are progressed, the changes in operating and personnel requirements will be reflected through future Budget

Bids. Note the above costs include a component of operating and personnel expenditure that will be capitalised through the delivery of this 2019 Plan.

5.5. Whole of life costs

Whole of life costs have been determined for the total investment of capital, operating and personnel expenditure (Table 17 refers). The Total Net Present Cost of the preferred option is $5.733 billion.

The Total Net Present Cost calculation assumes:

- a real discount rate of 7% for infrastructure and special purpose single-use buildings;
- a terminal value of $81 million based on forecast depreciation for capital expenditure; and
- terminal values for operating and personnel expenditure based on final period costs.

Rental and recoveries revenue has been included in operating funding for reporting purposes, as opposed to offsetting the operating cost displayed below.

Table 17: Whole of life costs (presented as dollars of today (2018))

$million	**Whole of life affordability to 2035 (Net Present Cost)**
Capital	$2,048
Operating	$3,322
Personnel	$363
Total	$5,733

5.6. Portfolio risk and contingency

A portfolio contingency of $600 million has been established for the capital investment portfolio. This contingency is allocated with $250 million embedded within the programme costs and $350 million held at the portfolio level. Consistent with the Defence Capability Plan Review, contingency will only be sought for the four year period through to FY2022/23 of $51 million of Portfolio Contingency for the 2019 Plan. The level of contingency was established through quantitative risk assessment.

Some contingency is captured and spread through the following Strategic Programmes:

- Approved Projects: Known cost pressure within the list of projects is $72 million. DEI anticipate a further cost pressure of $50 million.
- Estate Development Plan (OSPD) has a 30% factor built into the base costs used to predict the costs of each project.
- DEI have identified further projects that cost more than the amount of expenditure approved in the Future Air Surveillance P-8A Business Case. A detailed business case looking at additional Base Ohakea infrastructure requirements will be completed.
- Accommodation, Messing and Dining Modernisation includes a quantitative risk assessment (QRA) on programme costs. The costs included within the financial model include the assessed contingency.
- Housing includes a contingency of 24% of capital costs.
- The Consolidated Logistics Project allows for $3.7 million infrastructure contingency, approximately 2.3% of the total infrastructure cost.

The Regional Facilities and Horizontal Infrastructure programmes are at the strategic assessment phase. Placeholder figures are included in the unconstrained capital expenditure profile, noting that Regional Facilities are not prioritised within this option.

5.6.1. Quantitative Risk Analysis

The 2019 Plan includes a quantitative risk analysis (QRA) of the Plan's capital and operating expenditure forecasts. This analysis examined the range of likely values (best and worst case) for each financial component.

The following factors were identified as key assumptions that influence the capital cash flow costs:

- Construction cost index changes.
- Time delays.
- Optimism Bias.

This QRA is used to test the contingency assumption for the programme costs. The QRA determined a 30% - 40% contingency should cover increases in capital costs due to escalation rates and time delays at the 85th percentile of expected values. The analysis supports a proposed contingency of $600 million for the portfolio (Figure 32 refers). The Strategic Programmes include $250 million of contingency embedded within the presented costs. A further $350 million is suggested at the portfolio level. Over time, this approach may be updated and refined based on the risk profiles of the Estate programmes. Through the Defence Capability Plan Review, the Defence Force and the Ministry of Defence established that contingency would be sought until 2023. The portfolio contingency included in the Defence Capability Plan Review for Estate is $51 million. Figure 32 presents the full view to 2035.

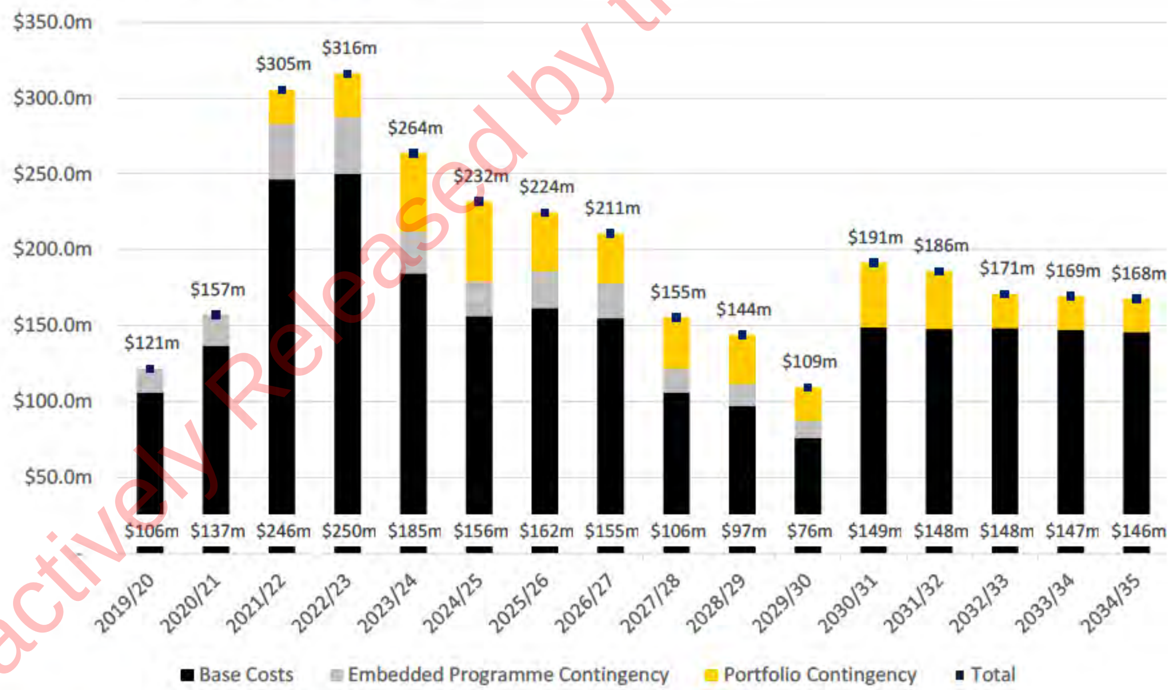


Figure 32: Proposed contingency to 2030 ($600m)

Any unused contingency should be returned to DEI for reallocation and prioritisation to agreed programmes. The formal process and approach for this is to be determined.

6. Management Case

This section outlines the structure, performance (including governance and reporting requirements) and delivery required to implement Estate Regeneration.

6.1. The Evolution of the Operating Model

In November 2015, a review of the Defence Property Group's (DPG) Operating Model was launched in anticipation of the 2016 Plan being approved. The review confirmed that if shortfalls in the existing organisational structure were not resolved, the Defence Force's ability to deliver Estate Regeneration would be compromised.

The supporting DPG Operating Model review recognised that to achieve Estate Regeneration, changes were needed to the operating model to ensure adequate organisational capacity and capability more closely aligned to the emerging and complex investment programmes.

The DPG Operating Model review identified a continuum of possible organisation and resource options, including a strategic business partner approach to meet the desired outcomes. Internal business change alone was not sufficient to deliver improved estate management. The review found that to fully leverage broader and sector wide improvements, a new business partnering approach will be required. To not do so means many of the capability issues currently faced will continue to impact the ability to deliver key infrastructure on time and to budget. Under a strategic business partnering approach, the Defence Force would engage one or more partners to co-manage the Defence Estate. This is a variation to more traditional client / supplier arrangements where services are delivered against specified requirements and on a more transactional basis. Instead, a strategic partner/s would bring specialist expertise in estate management, and would have increased input and ownership of outcomes. The range of services included would potentially cover the full suite of estate management functions including facilities management, capital project delivery, and specialist services related to environment, risk, and estate compliance. The changes this arrangement would bring are intended to be both transformational and sustainable.

The section below outlines the changes completed and the ongoing changes being undertaken within the Defence Estate and Infrastructure (DEI) portfolio.

6.2. Portfolio Approach

In April 2017, DPG, now known as DEI, adopted a portfolio management approach as part of the new operating model.

Within the new DEI's operating model, portfolio, programme and project management is an integrated way of meeting the government's ambitions, driving better decisions and increasing the likelihood of successful outcomes.

The DEI portfolio, governed through its portfolio (or business) plan, comprises four key programmes (Figure 33 refers) including:

- **Estate Regeneration Capital Programme:** Delivers all Estate and infrastructure capital investment to 2035.

- **Estate Regeneration Maintenance (operational spend) Programme:** Delivers all Estate and infrastructure operational investment and supporting services across the Defence Estate.

- **Capability Estate Infrastructure Programme:** Delivers for Capability Branch/Ministry of Defence, all new Estate infrastructure included within approved business cases for new capability.

- **DEI Transformation Programme:** Delivers the evolving operational model (including the Strategic Partnership (Alliance)), business improvement initiatives and some business as usual functions.

The portfolio also includes a range of sub-programmes, projects, other programmes and other work.

For the purposes of DEI, a programme, project and other work or other work programme are defined as:

- **Programme:** a temporary, flexible organisation created to co-ordinate, direct and oversee the implementation of a set of projects and other work components, to deliver outcomes and benefits related to a set of strategic objectives. Programmes can be undertaken in one or more tranches of Regeneration, each of which is structured around distinct step changes in capability, capacity and benefit realisation.

- **Project:** a temporary management environment, undertaken in stages, created for the purpose of delivering one or more estate assets or services. A project can also be standalone within a portfolio or part of a programme.

- **Other work or other programmes**: a set of information relevant to the creation of one or more deliverables or outputs within the DEI portfolio. It comprises a description of the outputs required, work plan and details of any constraints (for example, the Consolidated Learning Programme (Programme Ruru)).

The Estate Regeneration Programme comprises two elements being:

1. A new, transformed Estate Management Operating Model; and

2. An Estate Regeneration Portfolio (for both capital and operating funded programmes and projects).

DEI is also responsible for delivering other substantial programmes including the Capability Estate Infrastructure Programme and a broad spectrum of estate management functions. The DEI team works closely with Capability Branch to ensure Defence existing programme delivery methods exist within Defence Capability Management Framework and the Better Business Case requirements, while also incorporating the best practice programme management practices across benefits, risks, dependencies, scheduling and resourcing elements.

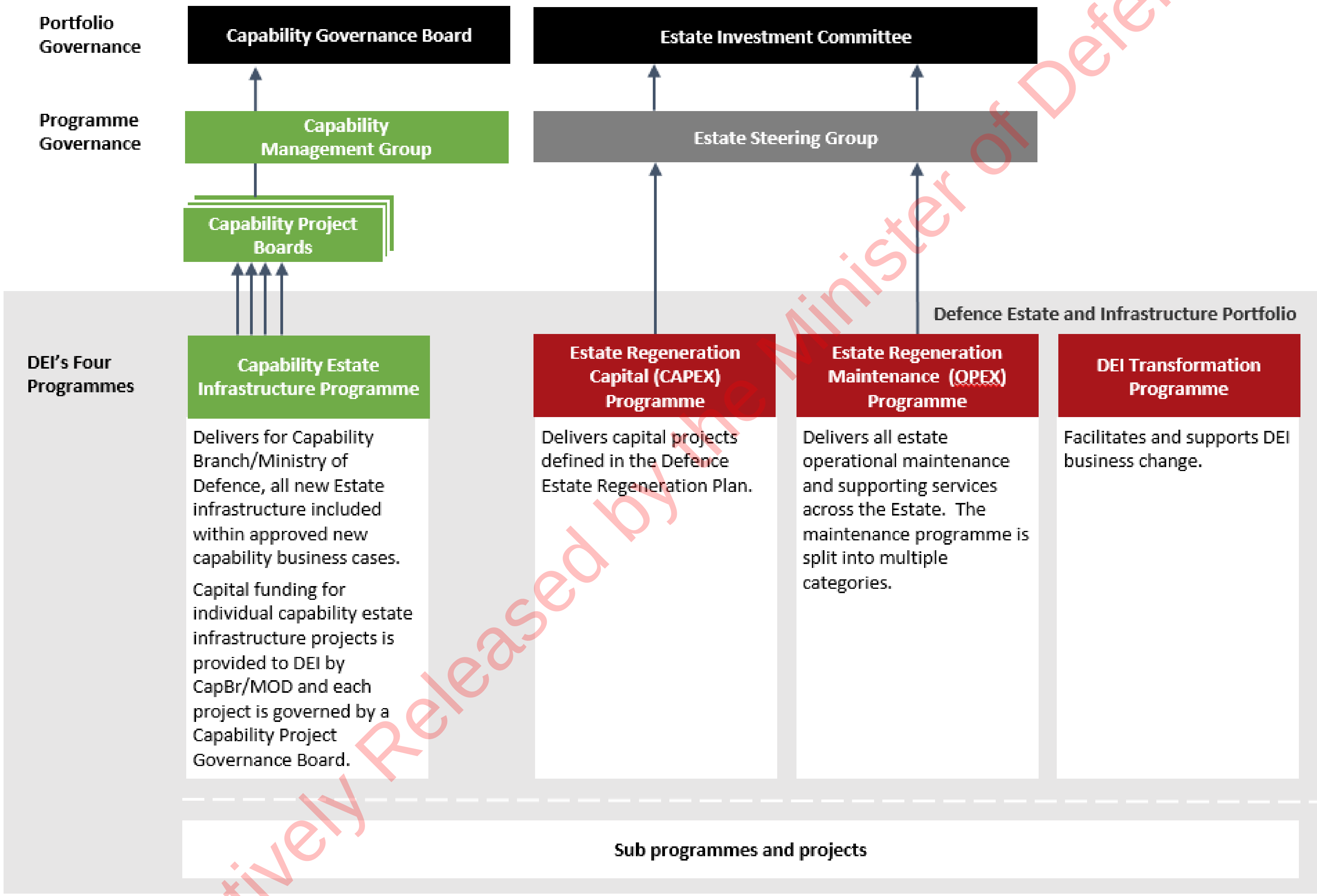


Figure 33: DEI Portfolio and underlying four programmes

6.3. Defence Estate and Infrastructure Portfolio

6.3.1. Current state

In September 2018, the Defence Force's Investor Confidence Rating review found that "DEI has put significant effort into aligning the portfolio level frameworks and systems to DEI's needs". These portfolio level frameworks and systems have been developed and adopted from the Defence Capability Branch team to ensure consistency across the Defence Force (Section 6.4.2 refers).

DEI's current structure, resources and activities have been based on delivering smaller scale property outcomes, largely built on a reactive operating model. To further the portfolio level approach, the following challenges need to be addressed:

- A clear focus on estate / portfolio strategic direction at estate performance level.
- Current processes sees disproportionate effort required in relation to project cost and risk. The current capital project process steps are the same regardless of project size with effort based on process rather than project size, value or complexity.
- In-house / current service providers' capability and maturity is sometimes inconsistent or insufficient, impacting DEI's ability to effectively deliver on time, within budget, to scope, or meeting customer expectations.
- In-house / current service providers' capability is at varying stages and maturity for ensuring contract management obligations are meeting performance requirements.
- In-house skillsets have gaps particularly in technical engineering and asset management e.g. water systems.
- DEI do not have integrated Information Management Systems in place to support having the right information, in the right place, at the right time, that is mobile and connected to facilitate informed decisions at all levels (i.e. information to support tactical and strategic investment decisions, Whole of Life management of assets, and monitoring and reporting of performance measures). In addition, there are material data gaps at present.

6.3.2. Future state

DEI needs to function differently to manage the major capital and operating delivery proposed through Estate Regeneration as well as continuing to supporting business as usual operations management and maintenance. The future state envisaged is one where:

- There is comprehensive and effective portfolio, estate and asset plans in place;
- An integrated cohesive team manages the forward works programme with indicative project construction start dates that could commit funds for project initiation earlier than current practice;
- Current processes are streamlined and Standard Designs and Design Standards are utilised where appropriate to reduce delivery time, cost and risk; and
- Real time and connected asset data will enable DEI to make informed tactical and strategic investment decisions, factoring whole of life costs, and providing for programming and prioritising of works and effective asset management and maintenance.

6.3.3. Changing DEI's culture and ways of working

DEI is undergoing organisational change to effectively progress Estate Regeneration, lift asset performance, promote greater innovation, maximise value for money, and successfully leverage industry sector capabilities. To move forward, a culture that is more strategic, outcome focused, aligned, collaborative, and innovative is required.

In discussions with industry and other client organisations that have implemented variations of business partnerships, all commented that to be successful and for maximum benefit to be obtained from any arrangement, the client organisational culture must be ready for change. Therefore, DEI will specifically need to:

- Lift its organisational focus to a more strategic level with a greater emphasis on strategy, longer-term planning, and relationship management; with a workforce that is motivated to work within a different and more commercially integrated model;
- Create a structure that supports improved governance and strengthens accountability and a focus on the customer;
- Simplify business processes and contracting arrangements; with a stronger emphasis on performance;
- Have a greater and more innovative 'value-for-money' focus; and
- Have comprehensive information management at its core.

In developing the new DEI model, a number of key changes to the structure of the previous DPG have been identified and actioned. These will support achieving the above improvements regardless of any future strategic partnering arrangements. Changes include:

- In early 2018, DEI concluded a Portfolio, Programme Management Review. As a result, DEI is implementing a portfolio approach enabling effective delivery of its range of delivery and change programmes. This includes the establishment of both programme and portfolio level management offices.
- A clear focus on stakeholder relationships and strategic direction for operational functions. This includes better alignment to DEI's customers at both base and camp level, as well as the strategic level.
- A newly created responsibility area of 'Estate Performance' which focuses on portfolio management, information management, reporting and business improvement.
- Developing and increasing capability in operational areas including strategy, planning, project management, and asset management.
- Development of a Defence Estate and Infrastructure Strategy.
- Improving business processes and performance in delivering both capital spend and operational elements of Estate Regeneration (consistent with the 2016 Plan) including establishing baseline Key Results Areas and streamlining procurement.
- Developing a culture change programme to strengthen DEI's internal culture.

In addition, work is ongoing to improve information management capability.

There has been on-going organisational and business process changes within the DEI organisation which has resulted in the development of the Estate and Infrastructure Operating Model – Strategy Roadmap

("Roadmap"). The Estate and Infrastructure Operating Model – Strategy Roadmap provides the direction for how the business unit will organise its resources, make decisions and operate to deliver on the expectations and vision, goals and priorities for the Estate (Appendix H refers).

A Sustainability Framework is under development with the intent to be rolled out across DEI to inform future capital and operational investment (Appendix I refers).

DEI structural changes have also been made to support the above improvements (Section 6.4 refers).

6.4. Structure of the DEI Portfolio

DEI's current structure, resources and activities have been based on delivering smaller scale property outcomes, largely built on a reactive operating model. Implementation of the full DPG Operating Model Review required to deliver the 2016 Plan including organisational redesign and recruitment, had not been completed when the DEI organisation was established in April 2017.

DEI has recognised the need to function differently to manage a major capital delivery programme of this nature. To achieve this change, DEI will be structured into the functional areas of:

1. Estate Strategy;
2. Estate Performance;
3. Estate Delivery;
4. Asset Management (under development); and
5. Strategic Partnership (Alliance) Project (under development).

6.4.1. Estate Strategy

The Estate Strategy unit sets the strategy, planning, policy, design principles and standards for DEI and manages the relationships with government, Defence Force portfolios and industry. The Estate Strategy area acts as the interface between DEI and the commercial market. It is also responsible for DEI people and capability and tenure strategies.

6.4.2. Estate Performance

The Estate Performance unit provides the tools, frameworks, advice and improvement strategies for measuring and monitoring performance and delivery of the Estate. The area is responsible for:

- Delivering and coordinating the portfolio/programme/project approach for DEI;
- Delivering DEI's information management approach; and
- Developing and implementing DEI's ongoing business improvement programme, business excellence and innovation.

The DEI Portfolio and supporting delivery methods and processes are founded on the Defence Capability Portfolio's new Portfolio, Programme, Project Management (P3M) systems and processes, known as the Capability Management System (CMS) and the Capability Management Framework (CMF). DEI is improving its systems and processes to meet its needs and the nature of construction activities while retaining consistency with the Defence Capability Portfolio where appropriate. The improvements DEI have made to base processes and tools may be usefully rolled back into the originating CMF. Some changes, such as the redesign of the Planview PPM tool's risk management capability has directly improved usability and has had a direct impact on the integrity and accuracy of content.

The DEI Portfolio has some notable differences and advantages from the Defence Capability Portfolio in that programmes and projects are more homogenous and are typically delivered with outsource partners such as design and build and engineering consultants. The nature of the initiatives means that much of the planning and management activities are repeatable and can be codified and applied consistently with minimal variability.

DEI Portfolio and Programme Governance

DEI has a tiered governance model across the portfolio, programme and project levels, referred to as P3M governance.

The P3M governance is in place to direct the delivery of the vision for the Estate of “a fit for purpose and sustainable Estate that enables the delivery of Defence outputs”. To achieve this, a ‘joined-up’ governance and management structure is required. DEI has in place a tiered governance model to support delivery across the portfolio, programme and project levels (Figure 34 refers).

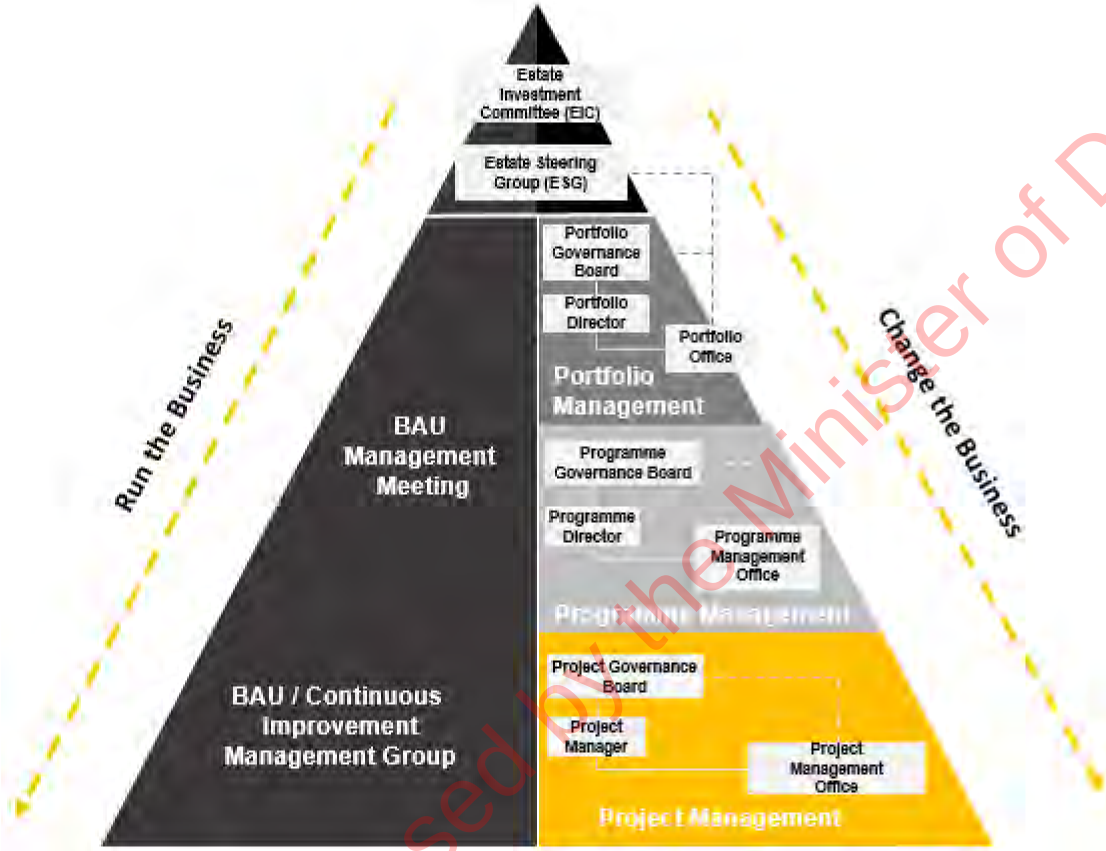


Figure 34: DEI portfolio governance hierarchy

DEI has two governance groups: the Estate Investment Committee (EIC) and the Estate Steering Group (ESG).

The EIC is responsible for:

- Overseeing capital and operating investment in the Defence Estate.
- Ensuring continued alignment with Defence Force priorities and capabilities, directing any changes in priorities and monitoring performance.
- Reporting to the Executive Committee.

The flow of information between EIC and other Defence Force committees is provided at Appendix J.

The ESG is responsible for:

- Overseeing implementation of the Estate Regeneration Plan and capital investment for the short and medium term (Tranche 1 capital investment).
- Reporting to the EIC.

The following provides the focus for each level of governance:

- **Strategy Level:** Making the right investment decisions to achieve strategic objectives and balancing portfolio capacity to be able deliver.
- **Portfolio Management:** Ensuring all in-flight programmes and projects in the portfolio are delivered to plan and adequately supported. Identifies and addresses systemic issues / risks across the portfolio.
- **Programme Management:** Focus on achieving programme outcomes / benefits and helping to manage dependencies and risks/issues that are impacting projects.
- **Project Management:** Successful project delivery within time / cost / quality.

Portfolio monitoring, reporting and control requirements

The Estate is complex and requires clear direction, leadership and management, and skilled personnel, supported by quality information, processes and systems to develop and manage it. DEI is committed to building skills and expertise and to developing a responsive organisational structure able to draw on resources (skills and expertise) either internally or externally as required. A key management focus is to ensure business processes are fit for purpose. Estate management decision making will be timely and include information for planning, strategic direction and the maintenance/disposal/renewal/life cycle of assets.

Through the development and delivery of the Estate, best practice systems are adopted. For example, adoption of ICT systems that support and enable better business processes and intelligence for portfolio management (P3M), whole of life costing, ISO standards and benefits realisation monitoring.

DEI has adopted a continuous improvement and innovative approach to systems and processes including to governance, leadership and management to work towards organisational excellence. The following sections outline the development of internal and external monitoring and stakeholder engagement and communications.

Internal monitoring

DEI's new operating model promotes a strengthened Portfolio Management Office (PfMO) that undertakes the role of monitoring (including quality assurance monitoring) evaluation and reporting. The PfMO is implementing and continuously improving the collection of appropriate monitoring and measurement data with up to date information and reporting this to DEI Governance and Defence Governance in a timely manner. The Portfolio report is a standing item at all ESG meetings on a monthly basis and is presented to EIC bi-monthly. This reporting information (including benefits realisation, project progress and programmes risks) ensures all affected and interested parties are kept fully informed and able to provide feedback as appropriate.

Issues that require key strategic decisions will be made by the Estate Programme Steering Committee, then the EIC, and escalated where appropriate to the Executive Committee for consideration.

External monitoring

The assurance programme is managed by the PfMO and includes independent quality assurance provided by independent entities and central agencies.

A Gateway '0' review was held for the 2016 Plan on 9–13 May 2016. A Gateway 0/1 was held on 12-16 November 2018 for this 2019 Plan. The Gateway process is designed to provide independent guidance to Senior Responsible Owners (SROs) and indirectly to programme/project teams on how best to ensure that their programmes/projects are successful. Gateway reviews provide Ministers with the assurance that at key points in a high-risk project, the SRO has been provided with peer-level independent advice to help improve the initiative's change. The Gateway Unit based in Treasury, supports this role by arranging the Gateway Review of projects at defined stages to determine whether the right processes are in place to ensure successful delivery.

Independent quality assurance reviews have occurred for each programme business case that sits under this Portfolio Business Case (for example, independent quality assurance reviews have occurred for

Accommodation, Messing and Dining Modernisation Programme Business Case and the Defence Housing Programme Business Case).

This is the first of the three-yearly reviews of the Plan to give the opportunity for Cabinet scrutiny over the successful delivery of the Portfolio, programmes and projects and the business change process.

Stakeholder Engagement and Communications

The following are the key stakeholders, or people with the greatest interest or influence over Estate portfolio work and results:

- Ministers and their advisors;
- Defence Force leadership;
- DEI leadership;
- Ministry of Defence leadership;
- Central agency officials; and
- Senior executives in the wider public sector.

The Senior Stakeholder Alignment Plan has been adopted by DEI's Estate Performance unit to support the successful execution of the portfolio and by the Strategic Partnership team. The Senior Stakeholder Alignment Plan outlines senior stakeholders and their influence and how relationships with these stakeholders can be managed effectively from the start.

Stakeholder Management is important for the Portfolio. The Investor Confidence Rating (ICR) review in August 2018 found a consistent level of process, capability and consistency in DEI's stakeholder management. The ICR review found that the DEI Portfolio is well defined and well established when managing stakeholders upwards to governance boards, to the executive, and beyond to Ministers and Cabinet. Internal stakeholder management within DEI is reasonably simple as DEI is a relatively small and self-contained unit. Change management is not typically a core function for DEI due to business or cultural change programmes outside of its own unit; most of DEI's work involves delivering a building or infrastructure to a project or business unit that is responsible for business change.

Benefits Management is a lesser focus for many of the initiatives delivered by DEI as DEI are enablers for commissioning units or Capability Portfolio projects. The DEI Portfolio contributes to the achievement of benefits, but will not deliver direct benefits.

6.4.3. Estate Delivery

The Estate Delivery area is responsible for the construction and through-life maintenance of the Defence Force's Estate and infrastructure assets. Specifically, the Estate Delivery unit is responsible for:

- Programme/project development and construction delivery, including user requirement analysis option development, design, cost planning and execution;
- Specialist environmental advice, policy and delivery of services including resource consents, outline plans, management of contaminated sites, and heritage places;
- Estate Health and Safety and compliance activities;
- Asset management, condition assessment and planning; and
- Facilities management including oversight and coordination of all base and camp maintenance activities, soft service and energy management.

Project Delivery

The objective of the Project Delivery function is to efficiently meet end user and ongoing operational management requirements within the quality, cost, time and resource constraints outlined in the approved business case for each Estate and infrastructure capital project (including high value operating expenses and environmental projects).

The Project Delivery function implements key processes and documents developed by the Portfolio Management Office ("PfMO") within the Estate Performance unit, to provide consistent quality across all projects.

Some light construction projects (such as timber frame construction) which are not time-critical in nature, can be delivered by the Army Engineers to provide trade training opportunities. These projects will be monitored by DEI, who will provide coaching, oversight and Quality Assurance ("QA") plans that are managed by the PfMO.

Project Delivery scope comprises of functions and services which are all interlinked or co-dependent to some extent, and are all mandated by, and require to conform (where applicable) to, the approved business case for each project. The delivery function comprises of:

- Deliver planned maintenance;
- Manage capital work;
- Forward works planning; and
- Facilities Management.

Current constraints

The Portfolio requires considerable capacity and capability to deliver. Current constraints in CIS Branch are known. With the exception of thirteen current 'in delivery' infrastructure projects, all estate delivery projects will be rationalised and delivered based on on-boarding of new project management and commercial support resources. Delivery will be maintained throughout the transition on a best effort basis—prioritised to support DEI investments and operational demands. Where appropriate, regretful spend will be minimised by early migration to assist delivery options. Notwithstanding this intent, and noting the existing backlog of seventy six projects, CIS Branch will have limited capacity to meet extant, yet alone new, building and infrastructure work until July 2019. FHQ, Project BATTEN (JFHQ), and the imminent relocation of CIS Branch will be prioritised in this mix.

Refer section 6.5 for the changes to the delivery function with the on-boarding of the Strategic Partnership (Alliance).

6.4.4. Asset Management

A proposed future function of DEI is the Asset Management function. DEI reviews in 2017 and 2018 highlighted and recommended DEI to have a proactive and data driven response to the strategy, systems, governance, management, monitoring and maintenance of their assets. This function is under development in consultation with other Defence Force portfolio's and Defence Capability. It is recommended that the Asset Management function include[19]:

- Asset management;
- Planning;
- Condition assessments;
- Project commissioning;
- Setting service levels;

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[19] Morrison Low, (2018). *Assessment of Estate and Infrastructure Strategic Asset Management, June 2018.*

- Risk management;
- Prioritisation; and
- Asset disposal and renewal decisions.

6.4.5. Strategic Partnership (Alliance)

As the Commercial Case (Section 4) refers, DEI analysis from 2017 identified the need for a Strategic Partnership (Alliance) model to bring together the broad range of industry skills and processes necessary to deliver the whole asset lifecycle. More specifically, industry feedback has indicated that a Strategic Partnership (Alliance) model or similar is preferable given the likely inability of any one provider to deliver all the outcomes the Defence Force requires.

The Strategic Partnership (Alliance) is to build capability and capacity and drive best practice and innovation in the performance of a range of functions for the effective management of the Estate. The intent is to align subject matters experts (SMEs) from current DEI roles alongside industry experts across multiple fields to create a team with a structure and function that will represent a significant uplift from any capability currently available in New Zealand to future proof delivery of the Estate (Figure 35 refers).

Within a Strategic Partnership (Alliance), all partners are required to work together in good faith, acting with integrity to make best-for-project decisions. This means working as an integrated, collaborative team, who are able to make unanimous decisions on all key project delivery issues. The strategic partnership structure capitalises on the relationships between the partners, removing organisational barriers and encouraging effective integration with the Defence Force and its staff.

Based on past assessment and discussions with industry, it is evident that the facilities management industry in New Zealand would unlikely be able to provide the breadth or depth of skill-set and scale that DEI requires. However, a Strategic Partnership (Alliance) with capital development and facilities maintenance managed within a partnership, and which included DEI personnel input, would provide more integrated and strategic asset management and consideration of whole of life costs.

A Strategic Partnership (Alliance) model will:

- Provide the scale, flexibility, and access to skills required to deliver 'whole of life' financial and qualitative benefits which other options cannot;
- Provide better integration between project delivery and ongoing management of new facilities; and
- Incentivise all parties to achieve shared outcomes.

In addition there are a number of other aspects to be considered, including:

- The capability of DEI to organisationally adapt to support transition. While significant change has already occurred, it will be important to time the introduction of Strategic Partnership (Alliance) arrangements with internal human resources (HR), structural and business changes.
- Defence security classifications.
- The timing and transfer of any services around the Defence Force's existing contractual arrangements, both with respect to facilities management and maintenance arrangements with current service providers, as well as existing regeneration contracts.
- The need to be implemented in a manner that is affordable within the Estate Regeneration budget.
- The need to have a model that includes the Strategic Partnership (Alliance) as part of the Defence Force. While it will have separate governance, it will still be subject to the same rules and be incorporated into the organisation as a 'business unit' of the Defence Force. This will need to be further developed during the procuring of the strategic partner(s).

These aspects of a Strategic Partnership (Alliance) approach will be phased and trialed by DEI before agreeing on its partner(s).

Figure 35: Elements of DEI

6.5. Transition to a Strategic Partnership (Alliance) model

In planning the on-boarding of a strategic partner(s), the existing DEI organisation will need to configure itself to manage both current issues as well as support transition to the new Strategic Partnership (Alliance) model. This is already underway through the Estate Transformation Programme, with work progressing in five key areas:

1. Business Partnering;
2. Organisational Design and Culture Change;
3. Governance and Portfolio Management;
4. Business Improvement; and
5. Information Management.

Culture change continues to be a significant component of the transformation work with specific initiatives underway. These include culture workshops for DEI staff, examining new and improved ways of working, supported by robust communications regarding the changes and expectations for the future.

It is anticipated the DEI operating model will change after a Strategic Partnership (Alliance) is implemented (Figure 36 refers). The Estate Strategy and Estate Performance units are anticipated to stay relatively unchanged, but there is expected to be greater ramp-up in the delivery space. In addition to any changes in these four performance teams, the entire capability and capacity of DEI is expected to increase (indicated by the arrows in orange and to the edge of the existing DEI circular design in Figure 36 below).

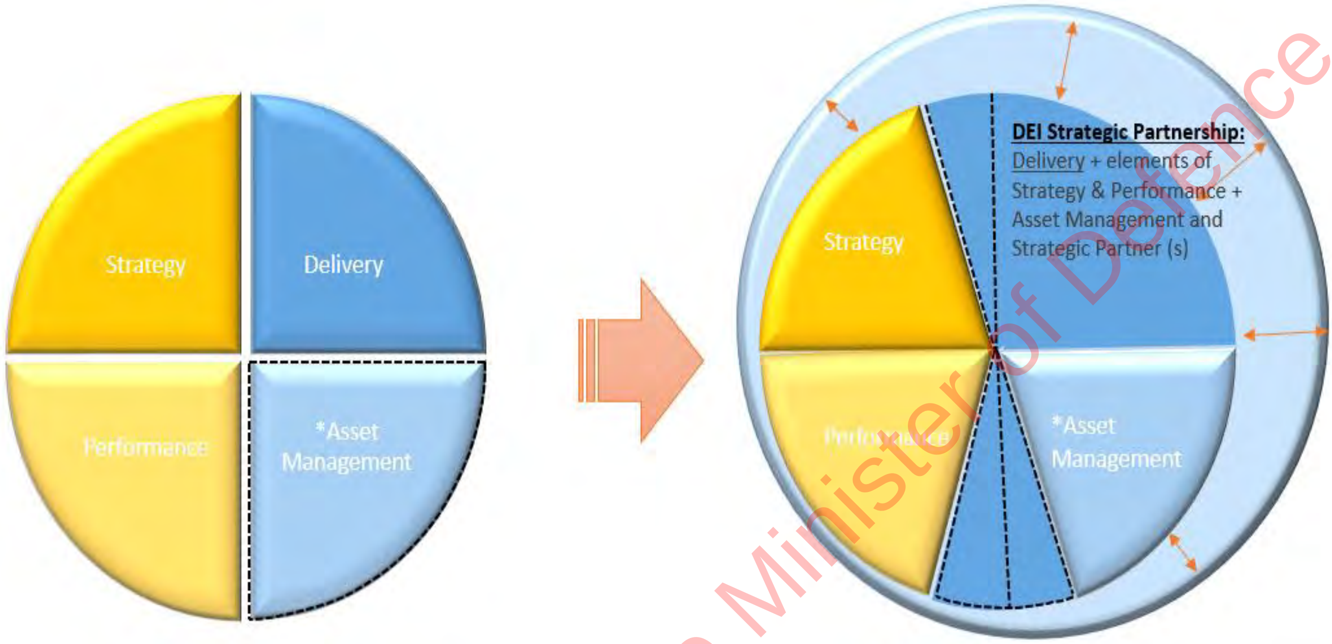


Figure 36: Strategic Partnership change to DEI elements (note the Asset Management function is a future provision and not yet implemented)

6.6. Industry resources

The rapid pace of global innovation across the range of estate asset types makes it increasingly difficult for DEI to rely on in-house expertise. In order for DEI to maintain the required expertise in-house, it needs to create an environment that people want to work in. National labour force shortages make it difficult to attract and retain talent. Therefore, DEI will continue to face challenges retaining and developing world class sector knowledge and skills.

In contrast, industry is better positioned to attract and retain talent and maintain deep specialisation and experience in areas relevant to the Estate. This is primarily because of the scale and depth of their operations which offers broader experience and reward, and a more defined career path. Experience overseas shows that in mature strategic partnering arrangements, industry are able to work closely with clients to proactively bring specialist skills and insight on a flexible, as-needed basis, providing surge capacity to support fluctuations in a work programme.

7. Appendices

Appendix A Guiding Principles

The following principles were set by Cabinet in 2014 for the Defence Force's approach to managing the Estate [SEC Min (14) 14/3] and were reconfirmed through the Defence White Paper 2016:

i. The Defence Force will maintain a substantial presence in its current major locations, including training areas;

ii. Operational units and support functions will be located or re-located to be in the best place for the Defence Force as a whole;

iii. Investment will primarily be in core operational locations where the Defence Force accommodates its deployable forces;

iv. Opportunities to rationalise the Estate to improve its efficiency and effectiveness will be pursued at all locations, e.g. by co-locating military training schools alongside operational units;

v. Opportunities for all-of-government and/or private sector asset development, supply (including ownership) and management will be pursued where this is most efficient;

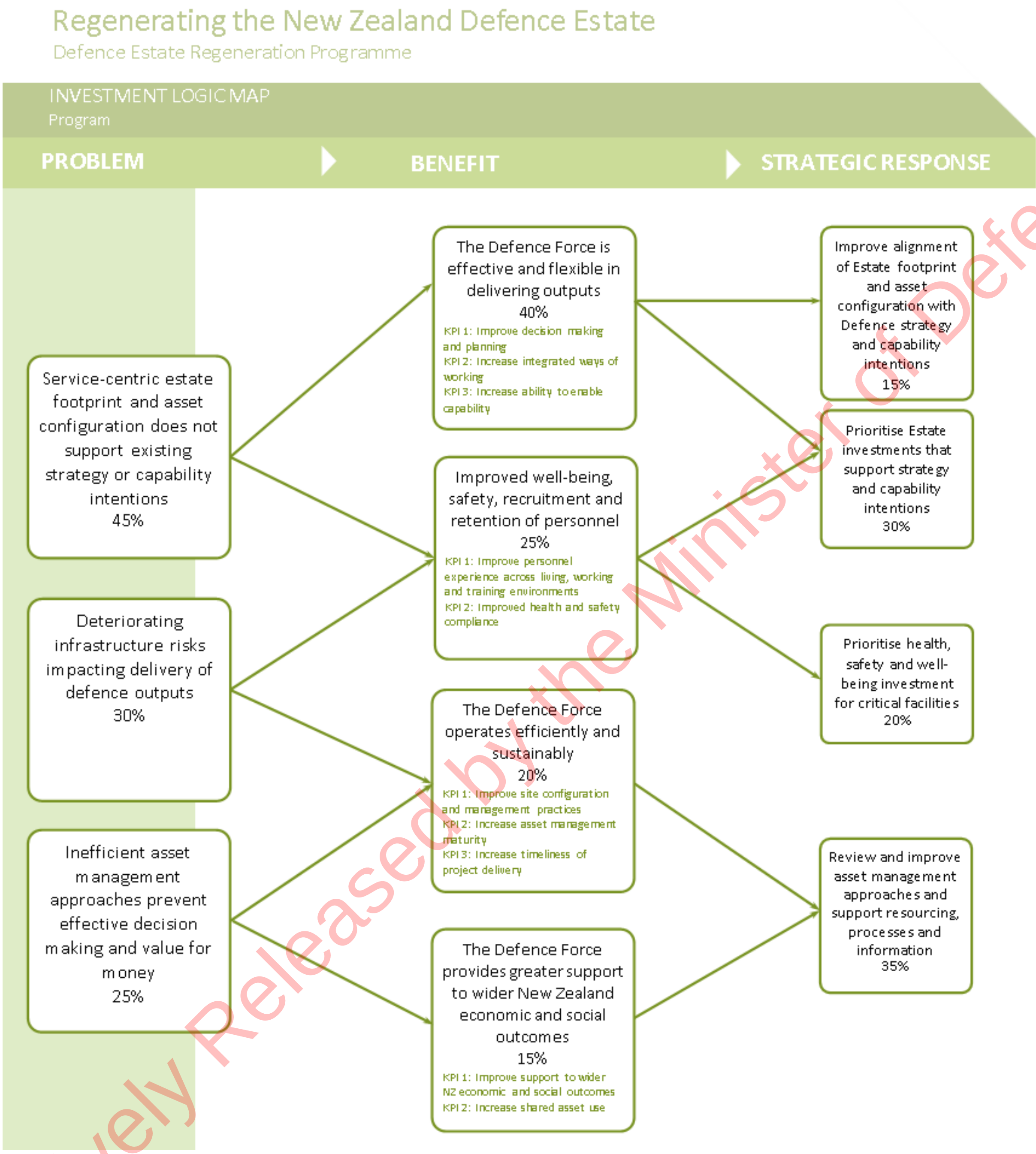
vi. Obsolete and inefficient infrastructure will be replaced and asset utilisation efficiencies and quality improvements will be generated over time;

vii. Infrastructure will be disposed of once there is no longer a current or foreseeable need;

viii. Management of the Estate will take full advantage of mandated all-of-government capital expenditure processes; and

ix. The funding allocated to the Estate Recapitalisation Programme, as set out in the Defence Capital Plan, will not be reallocated within Vote Defence Force without Cabinet agreement.

Appendix B **Investment Logic Map**



Appendix C Detailed long-list (2016)

#	Option	Description	A. Scope Option	B. Service Solution Option	C. Service Delivery Option	D. Implementation Option	E. Financing Option
0	Status Quo	No additional funding and investment for regeneration	Recapitalise based on depreciation funding streams	Status quo. Asset- based	Status quo	Small-scale projects	Depreciation and current Opex funding
1	Short-Term Remediation	Absolute minimum amount of work required to ensure compliance and output support requirements. Focused on addressing most urgent short-term issues at minimal cost	Recapitalise to address immediate needs and assets in poor condition	Retain asset-based approach to service support – Defence Force owned assets	Insource all possible services	• Slow burn implementation – implement over a longer period of time (beyond 2030) • Prioritise based on asset condition	Defence White Paper 2016 funding envelope approved for recapitalisation
2	Estate-Driven Regeneration	Regeneration of the Estate, as described in the Estate Development Plan (EDP) and Estate Strategic Framework (ESF)	Regenerate camps and bases, as articulated in Cabinet papers, Defence White Paper and Defence Force strategy documents	Retain asset-based approach to service support	Status quo and re-grow internal capability for asset management	• Prioritise based on EDP MCDA • Smooth implementation over 15-year timeframe • Defence White Paper envelope consistent	Defence White Paper 2016 funding envelope approved for recapitalisation
3	Value-and-Effect-Driven Regeneration	Focused on a balanced effect and value-driven regeneration of Estate assets, considering use of alternative ownership and delivery models for support services	Optimised regeneration – build and locate assets to maximise effect	Ownership based on asset classes (e.g. accommodation)	• Partnership – turn-key operation • Partnership – build and run assets	• Prioritise based on industry capacity to deliver (e.g. sequence post-earthquake rebuild) • Prioritise based on geographic clusters • Prioritise investment in camps receiving additional functions and troops • Ramp-up implementation over 15-year period	• Cross-government funding for Estate Regeneration • Asset divestment/ disposal • Third party income generation • Blended Capex/ Opex model
4	People/Amenity	Adopts an amenity-driven approach to the programme (delivering	• First priority is still to produce outputs	• Ownership based on asset classes (e.g. accommodation)	Vary based on asset classes and issue being addressed	• Prioritise based on asset classes – e.g.	Mixed approach including:

#	Option	Description	A. Scope Option	B. Service Solution Option	C. Service Delivery Option	D. Implementation Option	E. Financing Option
		the programme based on maximising amenity value)	• Optimised regeneration – focus on where people want to work (amenity focus)	• Driven by issues / resolving issues		accommodation, workshops, offices • Prioritise based on asset condition	• Defence White Paper 2016 funding envelope approved for recapitalisation • Blended Capex/ Opex model
5	Capability-Driven Regeneration	Adopts an output-driven approach to the programme based on Future 35 / Defence White Paper	• Location focused where risk of not meeting outputs as per Future 35 / Defence White Paper • Locations where integrated delivery is required • Prioritise net new investments in future to enable Future 35 / Defence White Paper	Service-based, except where there are specific reasons for NZDF ownership	Case by case, range of options as mix of location and capability	• Prioritise based on maximising effect and capability • Timings driven by Future 35 / Defence White Paper	• Some capability funding available (where effectively net new) • Defence White Paper 2016 funding envelope approved for recapitalisation
6	Location	Using location needs to drive decisions with scope decided on a base by base basis	• Choose winners / invest in core operational locations • Optimised regeneration looking at short- and long-term options • Consolidation onto fewer locations with deeper investment	Own strategic sites, sell and lease others	Location-specific approach, may be based on the availability of service providers	• Prioritise based on geographic clusters • Priorities also need to reflect new capability	• Defence White Paper 2016 funding envelope approved for recapitalisation • Blended Capex/ Opex model • Asset divestment/ disposal
7	Integrated option	Assets and units relocated where there is a strong military and economic case to do so. Effective delivery of military capabilities and achievement of the Defence Force's objectives from a	• Optimised configuration and consolidation from a base- specific and a nationwide basis	• Alternative ownership model based on asset classes, considering strategic and financial implications	• NZDF outsources design, construction and maintenance tailored to local conditions	• Priorities reflect Defence Force need (incl. capability in integrated Defence Force) • Prioritise based on industry capacity to deliver • Prioritise based on geographic clusters	• Defence White Paper 2016 funding envelope • Proceeds from disposal/divestment

#	Option	Description	A. Scope Option	B. Service Solution Option	C. Service Delivery Option	D. Implementation Option	E. Financing Option
		base-specific and nationwide basis					
8	Maximise benefit	Adopts a total benefit-driven approach to the programme	• Net-new locations – invest in additional estate where aligned to NZDF objectives • Optimised regeneration – build and locate assets to maximise effect	• Use leasing models to manage temporary shifts of troops and capabilities • NZDF as owner of last resort – service-oriented support • Service-based, except where there are specific reasons for NZDF ownership (e.g. firing ranges)	• Partnership – build and run asset classes • Outsource all possible services	• Prioritise based on maximising effect and capability	• Asset divestment/ disposal • Third party income generation • Blended Capex/ Opex model • Reduced cost of services through third party use of assets
9	Full Estate transformation	Estate transformation, proposing acquisition and closure of bases, radical asset ownership and delivery models, and compressed implementation timeframes	Net-new locations – invest in additional estate where aligned to NZDF objectives	NZDF as owner of last resort – service-oriented support	Outsource all possible services	• Prioritise based on maximising effect and capability • Compressed implementation – regeneration complete within 5 years	• Defence White Paper 2016 funding envelope approved for recapitalisation • Cross-government funding for Estate Regeneration • Asset divestment/ disposal • Third party income generation • Blended Capex/ Opex model

Appendix D **Longlist options against investment objectives and critical success factors**

		0. Status Quo	1. Short-Term Remediation	2. Estate Driven Regeneration	3. Value and Effect Driven	4. People/Amenity	5. Capability Driven	6. Location	7. Integrated Option	8. Maximise Benefit	9. Full Estate Transformation
Investment Objectives											
1	To improve the ability to sustainably accommodate future military capabilities in an uncertain global environment	NO	NO	YES	YES	YES	YES	YES	YES	YES	YES
2	To improve the Defence Force's ability to meet demands to use and deploy military capabilities	NO	NO	YES	YES	YES	YES	YES	YES	YES	YES
3	To improve service performance, operational efficiency and ease of use through more optimised configuration	NO	NO	YES	YES	YES	YES	YES	YES	YES	YES
4	To improve the working, training and living environments for personnel and their families to promote well-being, recruitment and retention of personnel	NO	NO	YES	YES	YES	YES	YES	YES	YES	YES
5	To meet legislative and government regulatory standards	NO	YES	YES	YES	YES	YES	YES	YES	YES	YES
6	To optimise asset investment decision making	NO	NO	YES	YES	YES	YES	YES	YES	YES	YES
7	To drive an increase in value over the life of investments	NO	NO	YES	YES	YES	YES	YES	YES	YES	YES
Critical Success Factors											
1	Alignment to strategy and Defence Force outputs	NO	NO	YES	YES	YES	YES	YES	YES	YES	NO
2	Compliance	NO	YES	YES	YES	YES	YES	YES	YES	YES	YES
3	Potential value for money	NO	NO	YES	YES	YES	YES	YES	YES	NO	NO
4	Supplier capacity and capability	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
5	Potential achievability	YES	YES	YES	YES	YES	YES	YES	YES	NO	NO

Appendix E **Estate Strategic Programmes**

Approval Status	Programme Name	Description	Estimated Nominal Costs ($m) to 2030
Approved	Approved Projects ★	Tranches 1a – 1c (partial); Infrastructure Investment Programme	$271m
Approved	Approved Air Surveillance Maritime Patrol and Ohakea loading ★	Hangar and additional Ohakea loading per P-8A Business Case	$170m
Linked to Approved Projects	Consolidated Logistics Project	Infrastructure to support Consolidated Logistics Project of $169 million – approved amount of $40 million plus $129 million of additional requirements	$40m + $129m cost pressure
Linked to Approved Projects	Approved Projects – Cost pressure	$72 - $151m cost pressure identified on the approved projects ★	$72m – $151m
Linked to Approved Projects	Additional Ohakea loading	Other known infrastructure identified to support the introduction of the P-8As ★	$118m
Planned	Accommodation, Messing and Dining	Strategic barrack and messing upgrades – through the PBC development	$161m
Planned	Housing	Capital and operating solutions to deliver NZDF Housing through the PBC. DBC development is underway	$61m
Planned	Regional Facilities	Facilities not included within camp and base Master Plans (e.g. Buckle Street)	$ -
Planned	Horizontal Infrastructure	Pipes, Water and Electricity networks at camps/bases	$115m
Planned	Programme Ruru: Consolidated Learning	Investment in Defence learning	$205m
Planned	Estate Development Plan (OSPD)	Planned estate projects, prioritised used the OSPD sequencing tool	$360m ($45m p.a.)
Planned	Estate Development Plan (OSPD) – anchored to capabilities	Specific planned estate projects where construction completion is anchored to timing of capability implementation	$190m

Approval Status	Programme Name	Description	Estimated Nominal Costs ($m) to 2030
Planned	Rolling Replacement Programmes	• Minor Capital Projects Programme (capitalised PMP) • Annual Security Fire Panel Replacement Programme • Rolling Plant Replacement • Obsolete Security Access Systems Upgrade and New • National HVAC Consolidated Programme • Fume and Extract Remediation	$69m ($5m p.a. from FY21)

Appendix F **Summary of partnership models identified and evaluated through market engagement**

Industry Capability Review: Feasibility and Design of a Strategic Business partner to support the Defence Estate outcomes.

Partnership model	Description of model	Evaluation summary
Prime Consultant **Not Recommended**	• Engagement of single partner that provides technical resource. Can include projects (planning, and administration of PMO) as well as specific tasks around facilities management delivery contracts. • Mostly focused on project planning skills. • In general excludes detailed design and delivery.	A Prime Consultant model was not strongly favoured through the industry engagement. While it would provide access to some skills and capability, and be reasonably expedient; the net effect would be underwhelming. The drawbacks are: • Harder to provide the full scale, scope and flexibility that the NZDF requires • Poorer alignment to outcomes, as a consultant may have less motivation to deliver results than a partner with a more committed relationship • Less access to the consultant's skills, systems and innovation than from a more committed relationship While this is also the lowest complexity (and risk) in terms of implementation, procurement etc. the limited scope would not address the Estate outcomes sought.
Alliance Team (Alliance) **Preferred**	• Engagement of one or more partners that provide technical resource in a long-term alliance across the full range of NZDF needs including asset management. • May include gates that enable the partners to provide additional services. • Compared to prime consultant, is a 'step-up' in terms of a broader scope of services, more integrated, more flexible, high order of governance, and output focus.	This option was favourably supported through the industry engagement. It provides for the ability to select one or more partners that would work collaboratively with the NZDF, blending the talent pool of the parties to fully meet the scope of services required by the NZDF. It provides for the scale, flexibility, and access to skills. It is a 'step-up' from a prime-consultant in terms of its engagement and governance. The Alliance would focus on tangible Key Result Areas such as: • Enabling and delivery support for the construction programme. This would also include identifying the optimal methods for projects and locations. • Delivery of the planned works programme. • Delivering improved asset information to support decision-making and planning. • Improving facilities management, including developing better specification, assurance mechanisms, and procurement strategies to optimise facilities management. This was regarded as the most favourable model to manage both the surge in investment and in delivering tangible improvements in the delivery of facilities management through the access to resources as required.

Partnership model	Description of model	Evaluation summary
Alliance including delivery **Possible**	• Engagement of not just technical resource but 'doing' resource as well. • Compared to the previous option, includes capabilities in facilities management expertise, and potentially construction expertise that can provide 'real-world' experience, greater integration of asset management etc.	• This option was also favourably supported through the industry engagement. In addition to the 'brain power' offered by a Partner Alliance there is a variation of including one or more delivery partners that could include construction or facilities management. The advantage of this would be to increase the skills and capability to deliver the programmes of work – with contractor input to the solution. Conversely, it could see limited opportunities for sub-contractor involvement in delivery functions with the consequential impact on competition within the market, particularly in some of the smaller regional markets in which NZDF facilities are located. • However, the industry engagement did identify that that this type of Alliance, while common for complex horizontal assets (AMA, SCIRT) etc. had not been implemented for vertical assets (including their ongoing maintenance). • This would also be challenging in terms of identifying the appropriate 'delivery' partners. Creating a new scope and untangling current obligations from the current facilities management contracts and/or putting together an appropriate bundle of construction works would be very challenging in the short term. • This is a possible option that could be an extension from the Alliance Partner model. With improvements in integrated planning and asset management, and a clear procurement scope for facilities management and planned works 'delivery' partners could be added in. This could be done on a national scale – or forming
Total Managed Facilities Manager **Not Recommended**	• Engagement of a single facilities management Manager that already has capability to manage an existing supply chain of facilities management providers. • Could include direct provision of full asset management, programme, project services and help desk. Facilities management supply chain delivered through sub-contractors. • Possible some capacity to engage construction contracts (possibly more in the planned maintenance space).	• The industry engagement did not support a view that the facilities management industry could step-up to be a strategic partner. While in theory, a more limited 'facilities management Manager' service would be more feasible, there is limited market experience and capacity to support a single national managed facilities management service that can manage a portfolio of this complexity. • The focus of a facilities manager would inevitably focus on the day-to-day facilities management and subcontract performance, at the expense of focusing on programming, planning and improving decision-making. Asset management would be problematic to address. • The risk profile for this would be high with limited fall-back potential.

Partnership model	Description of model	Evaluation summary
Total Integrated Facilities Manager **Not Recommended**	• Engagement of a single facilities management provider that may both manage and deliver facilities management Services (which could be a mix of in-house or subcontracts for specialist trades). • Essentially a step up from current facilities management contracts to one nationally, that includes some more AM and projects capability.	• The industry engagement did not support a view that the facilities management industry could step-up to be a strategic partner. There is a widespread concern about the maturity of the facilities management market, including the ability to attract credible and low risk providers to the NZ market. There was consistent industry feedback that the NZ facilities management industry would not be able to step up to provide the planning and decision-making support capability. • From an internal perspective, the NZDF has challenges with its current regional contracts so there would certainly be a question as how 'bigger' could be better. There is not enough evidence of success from the NZDF directly, overseas examples, or within NZ of the facilities management industry a) providing enough capacity to deliver facilities management; and b) lacking the skills to improve decision making. This option would also likely fail to apply sufficient technical skill to asset management. • Like managed facilities management the focus would be even more on the day-to-day facilities management, at the expense of focusing on programming, planning and improving decision-making. • This option would also be complex to procure and implement as current arrangements would need to be unwound.
Total Financed Solution **Not Recommended**	• Assets are built, financed, and managed under long term arrangements. The alignment of facilities management is by including in a long-term deal, usually based off the lead construction contractor. • Effectively this is some form of DBO, asset transfer, long term lease or PPP type model.	Industry engagement indicated a role for a total financed solution for specific service solutions - but not as a total Estate Management solution. It would have the following drawbacks: • Fails to address the planning and decision-making requirements of the NZDF in the short to medium term. • Not suitable for an emerging scope of work. • A lack of flexibility. These deals last typically around 25 years and can be inflexible for changing needs (although suitable for some solutions). • Commercial complexity and limited options of 'fall-back' if they do not work. • New Zealand is still an immature market for these types of solutions (although developing in in certain areas). • There are perception and political risks associated with a loss of control. Note that this may still be an option for specific estate solutions such as the current consideration for hospitality services but is not recommended as the single estate management model.

Appendix G Key modelling assumptions

Key assumptions for capital investment

Key assumptions include:

Assessment period

- The project start date for financial modelling purposes is assumed to be 1 July 2019.
- The financial model accounts for capital expenditure through to 2035, with $2.1 billion indicative funding through to 2030.

Escalation

- The rate of 4.3% has been applied on all capital investment costs.
- All costs in the Financial Case are expressed in future dollar terms and include inflation, with the exception of Approved projects as escalation was built into approved project budgets. Separate rates have not been used for different regions over the assessment period.

Other assumptions

- New infrastructure relating to Defence Capability decisions is excluded from the Estate Regeneration Plan. These costs are capture through the project PRICIE model.

Key operating and personnel assumptions

Cost assumptions

- Expenditure on maintenance and utilities are 3.35% of the forecast value of the Estate Portfolio per annum. 85% of this operating cost rate relates to maintenance and the remaining 15% relates to utilities.
- Consultancy services costs are 2% of capital investment.
- Other operating costs are driven by FY19 budget and escalated over the model period.
- Professional services costs are $20 million per annum with operating escalation applied.
- The Housing programme has a greater proportion of operating expenditure compared to other Strategic Programmes, as the Housing programme presents a shift from a property ownership-centric model towards a lease-based model. Operating costs relating to Housing have been accounted for separately and are provided through the Housing programme business case.
- Capital expenditure, depreciation and disposals drive the change in the value of the Estate Portfolio over the model period. This financial model uses an assumed disposals profile based on forecast asset replacements and depreciation profile driven by the forecast Estate Portfolio value.
- The Estate Regeneration requires an increase in Defence Estate personnel to 210 FTE from FY20. Strategic Partner costs to support the increase ramp up in investment are offset by the intended reduction in professional services cost to DEI.
- Defence Force personnel costs are based on the total average salary assessment of $102,000.

Escalation

- The rate of 2.3% has been applied to all operating costs.
- All personal expenditure has been escalated at 3.0% per annum

Supporting Financial Tables

Escalated Capital Expenditure

$m escalated	Total FY13-FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34	FY35	Total to FY30	Total to FY35
Strategic Programmes																			
Approved DEI Projects	146	79	75	85	33	4												422	422
Air Surveillance Maritime Patrol		4	35	114	110	25												288	288
Consolidated Logistics Project		17	11	13	20	49	48	11										169	169
Horizontal Infrastructure					12	13	13	14	15	15	16	17	17	18	19	20	20	115	209
Accommodation, Messing and Dining Modernisation								41	43	38	39							161	161
Rolling Replacement Programmes			6	6	6	6	7	7	7	8	8	8	9	9	9	10	10	69	116
Estate Development Plan Projects					45	45	45	45	45	45	45	45	93	109	114	85	81	360	842
Defence Capability Projects		21	16	50	39	10	4	4	16	9	3	17	28	11	5	33	35	190	301
Housing			14	15	16	16												61	61
Consolidated Learning Programme (Ruru)				8	39	55	54	44	5									205	205
Regional Facilities																			
Total captial expenditure	**146**	**121**	**157**	**291**	**320**	**223**	**171**	**166**	**130**	**115**	**111**	**87**	**147**	**147**	**147**	**147**	**147**	**2,039**	**2,774**

Unescalated Capital Expenditure

$m unescalated	Total FY13-FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34	FY35	Total to FY30	Total to FY35
Strategic Programmes																			
Approved DEI Projects	146	79	75	85	33	4												422	276
Air Surveillance Maritime Patrol		4	30	96	89	20												239	239
Consolidated Logistics Project		16	10	11	16	38	36	8										134	134
Horizontal Infrastructure					10	10	10	10	10	10	10	10	10	10	10	10	10	80	130
Accommodation, Messing and Dining Modernisation								29	29	25	25							108	108
Rolling Replacement Programmes			5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	50	75
Estate Development Plan Projects					36	35	34	32	31	30	28	27	54	61	60	43	40	253	511
Defence Capability Projects		19	14	42	31	8	3	3	11	6	2	10	16	6	3	17	17	150	209
Housing			13	13	13	13												51	51
Consolidated Learning Programme (Ruru)				7	32	42	40	31	3									156	156
Regional Facilities																			
Total captial expenditure	**146**	**118**	**147**	**259**	**265**	**174**	**128**	**118**	**89**	**75**	**70**	**53**	**85**	**82**	**78**	**75**	**72**	**1,643**	**1,889**

Historic capital expenditure

$m escalated	Total FY13-FY19	FY13	FY14	FY15	FY16	FY17	FY18	FY19F
Approved projects	146			10	16	18	37	50

Escalated Operating Expenditure

$m escalated	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34	FY35	Total FY20 - FY30	Total FY20 - FY35
FY 19 Baseline (Forecast)	165	168	172	176	180	184	189	193	197	202	207	211	216	221	226	231	**2,033**	**3,139**
FY20 Cost Pressures	32	29	31	32	-	-	-	-	-	-	-	-	-	-	-	-	**124**	**124**
Strategic Programmes & Other Cost Increases																		
Housing Programme		25	25	29	37	42	50	55	58	62	64	64	67	69	64	66	**447**	**776**
Professional Services Increase		8	9	9	9	9	9	10	10	10	10	10	11	11	11	11	**92**	**147**
Total Baseline and Opex Uplift	**196**	**231**	**236**	**246**	**226**	**236**	**248**	**257**	**265**	**274**	**280**	**286**	**293**	**301**	**301**	**309**	**2,695**	**4,186**

Modelled Escalated Operating Expenditure

$m escalated	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34	FY35	Total FY20 - FY30	Total FY20 - FY35
Maintenance	90	93	101	112	117	121	124	126	127	127	127	129	131	133	137	141	**1,265**	**1,935**
Utilities	16	16	18	20	21	21	22	22	22	22	22	23	23	23	24	25	223	341
Housing programme operating costs	26	25	25	29	37	42	50	55	58	62	64	64	67	69	64	66	473	803
Other operating costs	31	31	32	33	34	34	35	36	37	38	39	39	40	41	42	43	380	587
Consultancy & Professional Services	25	26	30	33	30	29	28	28	28	29	29	31	32	33	36	37	315	483
Total Operating Costs	**187**	**192**	**207**	**226**	**238**	**249**	**260**	**267**	**272**	**278**	**281**	**287**	**292**	**299**	**303**	**311**	**2,656**	**4,148**
Personnel expenditure	22	23	24	25	26	26	27	28	29	30	31	31	32	33	34	35	290	457
Total Operating & Personnel Costs	**209**	**215**	**231**	**251**	**264**	**275**	**287**	**295**	**301**	**307**	**312**	**318**	**325**	**332**	**337**	**347**	**2,946**	**4,605**
FY 19 Baseline (Forecast)	165	168	172	176	180	184	189	193	197	202	207	211	216	221	226	231	2,033	3,139
FY20 Cost Pressures	32	29	31	32	-	-	-	-	-	-	-	-	-	-	-	-	124	124
Total Operating Costs	196	198	203	208	180	184	189	193	197	202	207	211	216	221	226	231	2,156	3,262
2016 Personnel Funding	8	8	9	9	9	10	10	10	11	11	11	12	12	12	13	13	105	167
Personnel DEI Transformation	9	11	11	11	12	12	13	13	13	14	14	15	15	16	16	17	133	211
Personnel Business Case Uplift	4	4	4	5	5	5	5	5	5	5	5	5	5	5	6	6	52	79
Total Funding	**218**	**221**	**227**	**233**	**206**	**211**	**216**	**221**	**226**	**232**	**237**	**243**	**249**	**254**	**261**	**267**	2,446	3,719
Net Funding [Shortfall]	9	6	(4)	(18)	(58)	(64)	(71)	(74)	(75)	(76)	(75)	(76)	(76)	(78)	(76)	(80)	(500)	(886)
Strategic Programmes & Other Cost Increases																		
Housing Programme		25	25	29	37	42	50	55	58	62	64	64	67	69	64	66	447	776
Professional Services Increase	-	8	9	9	9	9	9	10	10	10	10	10	11	11	11	11	92	147
Net Funding [Shortfall] including increases	9	40	30	20	(13)	(13)	(12)	(10)	(7)	(4)	(1)	(1)	1	2	(1)	(3)	40	38

Total Operating Expenditure	**187**	**192**	**207**	**226**	**238**	**249**	**260**	**267**	**272**	**278**	**281**	**287**	**292**	**299**	**303**	**311**	**2,656**	**4,148**
Rentals and Recoveries Income	(25)	(26)	(26)	(27)	(27)	(28)	(29)	(29)	(30)	(31)	(31)	(32)	(33)	(34)	(34)	(35)	(310)	(478)
Net Operating Expenditure	**162**	**166**	**180**	**199**	**211**	**220**	**231**	**238**	**242**	**247**	**250**	**255**	**259**	**265**	**268**	**276**	**2,346**	**3,670**

$m escalated	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34	FY35	Total FY20 - FY30	Total FY20 - FY35
Depreciation on existing assets	59	59	58	58	57	57	57	56	55	53	52	49	47	46	43	43	620	848
Depreciation on new or replacement assets	4	7	13	21	26	30	33	36	38	39	41	44	46	49	53	57	288	536

$m escalated	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34	FY35	Total FY20 - FY30	Total FY20 - FY35
Capital charge on capital injections	-	1	8	19	32	39	46	51	55	58	60	62	67	72	77	81	370	729

2019 Plan Funding

$m unescalated	Total FY13-FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34	FY35	Total to FY30	Total to FY35
Depreciation - Approved Projects	65	58	8	8	1													140	140
Capital Injections - Approved Projects	81	43	76	55	9													264	264
Depreciation - Planned Projects		21	57	107	92	88	68	57	67	68	69	70	67	65	66	66	70	764	1,099
Capital Injections - Planned Projects			16	120	218	135	103	109	63	47	43	17	82	83	82	81	76	871	1,275
Total Funding	**146**	**121**	**157**	**291**	**320**	**223**	**171**	**166**	**130**	**115**	**111**	**87**	**149**	**148**	**148**	**147**	**146**	**2,039**	**2,777**

Estate Regeneration Capital Profile

$m escalated	Total FY13-FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34	FY35	Total to FY30	Total to FY35
2016 Plan Capital Profile	245	74	96	145	165	177	194	179	78	65	60	106	112	107	117	98	95	1,583	2,112
2019 Plan Capital Profile	146	121	157	291	320	223	171	166	130	115	111	87	147	147	147	147	147	2,039	2,774

Estate Regneration Opex Profile

$m escalated	Total FY13-FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34	FY35	Total to FY30	Total to FY35
2016 Plan Operating Profile	819	149	148	151	153	156	157	162	168	165	171	178	187	190	198	206	208	2,577	3,566
2019 Plan Operating Profile	819	196	197	201	206	213	217	222	227	231	236	241	246	251	256	261	266	3,205	4,484

Estate Regeneration Personnel Profile

$m	Total FY13-FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34	FY35	Total to FY30	Total to FY35
2016 Plan Personnel Profile	43	8	8	9	9	9	10	10	10	11	11	11	12	12	12	13	13	148	209
2019 Plan Personnel Profile		22	23	24	25	26	26	27	28	29	30	31	31	32	33	34	35	290	457

Appendix H Estate and Infrastructure Operating Model – Strategy Roadmap

Through proactive stewardship and services focused on customer needs → Underpinned by the capability of our people and partners

A fit for purpose and sustainable estate that enables the delivery of Defence outputs

MISSION:
We deliver intelligent estate and infrastructure solutions for the New Zealand Defence Force

CUSTOMERS

Goal: *We provide our customers with the estate platform they need for output delivery*

Business change outcomes [we will have]:

- Close working relationships with our customers to understand their (and user) needs
- Consistent, timely, transparent delivery of trusted advice and services
- Greatly improved customer and end user satisfaction
- Positive government and senior executive feedback
- Positive customer / user feedback

OVERSIGHT & EXECUTION

Goal: *We deliver best practice estate and infrastructure services*

Business change outcomes [we will have]:

- Evidence-based decisions driven by a strategic long-term investment plan and made at the lowest competent level
- Responsibilities executed in a timely, justified and transparent manner, with clear accountabilities and oversight
- Improved information management maturity, automation and performance reporting
- Improved governance board confidence
- P3M3 target ratings that are exceeded
- Greatly improved follow-up Gateway results

ASSET STEWARDSHIP

Goal: *We are proactive and future focused in our asset, risk, and resource management*

Business change outcomes [we will have]:

- Demonstrable achievement of Estate Regeneration Programme investment objectives
- Compliance with legislative and government standards
- A demonstrable move to integrated asset management bringing together people, information, assets and finances so that informed decisions can be made
- End to end integrated information management through standardised ICT
- Advanced estate and environmental stewardship

PEOPLE

Goal: *We are a collaborative, committed and diverse workforce with outstanding skills, experience and leadership*

Business change outcomes [we will have]:

- Strong organisational health
- Higher levels of engagement
- Higher levels of diversity
- A succession plan / reduced key person risk
- Effective staff performance processes
- Higher skill levels in key areas
- A safe and healthy work environment

INTEGRATION

Goal: *We integrate our people and services across NZDF*

Business change outcomes [we will have]:

- Plans that directly support Defence's strategy roadmap that have estate and infrastructure implications
- Rigorous benefits mapping and realisation
- Full membership of integrated project teams for all initiatives
- Enabling resources (e.g. procurement, HR) delivering timely and accurate results to us

PARTNERSHIPS

Goal: *We leverage mature third-party and all-of-government relationships*

Business change outcomes [we will have]:

- Greater speed and quality of capital and operating project delivery
- Optimised expenditure in asset management and maintenance
- Better access to subject matter experts and industry insights
- Improved service performance
- Enhanced organisation capacity and capability
- Close working relationships with other government agencies
- An advanced 'intelligent customer' capability

...and shared values

COURAGE
COMMITMENT
COMRADESHIP

A FORCE FOR NEW ZEALAND

GOAL REFERENCE	KEY ACTIONS / INITIATIVES ['WE WILL':]
CUSTOMERS	• Actively engage with customer requirements through closer relationships • Improve communications following an approved plan • Sequence and advocate for customer needs • Prioritise investment in operational requirements • Monitor customer satisfaction as a basis for continuous improvement • Ensure rigorous benefits mapping and realisation • Develop a customer culture at all levels
OVERSIGHT & EXECUTION	• Map and improve key business processes • Develop and implement new governance arrangements • Define information requirements to enable transparent, evidence-based decisions that leverage organisational capabilities • Develop and execute a targeted plan to meet investor confidence rating maturity targets • Increase utilisation of automated ICT integrated across the NZDF
ASSET STEWARDSHIP	• Advance strategic estate asset management and information management practices • Improve financial forecasting and management to optimise option development and decision making • Actively understand and manage risk • Develop mature data transferable into information to support decisions • Commit to continuous improvement
PEOPLE	• Actively engage and lead our people • Deliver an approved people-capability plan to provide enhanced people management outcomes in key areas such as career development, resource planning (in or out sourced), flexible work practices, targeted leadership and technical development • Ensure line of sight between NZDF strategy and meaningful KPIs, including them in plans and staff performance goals and reviews
INTEGRATION	• Integrate required support services (e.g. CIS, HR, procurement, legal) to ensure service delivery • Deliver an integrated plan to execute the business strategy and the operating model design/delivery • Ensure estate input to integrated programme/ project teams to deliver related work streams • Ensure rigorous benefits mapping and realisation
PARTNERSHIPS	• Develop a business case for PPP opportunities identified in the Estate Regeneration programme • Deliver better value and outputs from existing contracts • Develop and execute a procurement strategy • Move to strategic and other business partnering that allows us to focus on our strategic and governance role, differentiated from portfolio management and operational delivery • Actively engage with the wider public sector

KEY RISKS AND RESPONSES

1. **Risk:** If programme resources are insufficient or are given an inadequate timeframe there could be negative impacts on the timeline, quality and results. **Response:** suitable and timely dedicated resources and back-filling any allocation of internal capability; engagement of appropriate external skills; agreed and achievable deliverables and timelines
2. **Risk:** if the programme disrupts "BaU" commitments there could be a loss of stakeholder confidence in the programme and/or the NZDF. **Response:** the programme is accountable for understanding its impact on BaU activities; extra resources are allocated to at-risk BaU activities; activities are clearly prioritised
3. **Risk:** If staff lack confidence in the programme outcomes and seek other employment opportunities this could limit capability and increase delivery risk. **Response:** implementing a proactive communications plan about programme benefits and opportunities; having dedicated and experienced change management resources; actively supporting staff; realising early change benefits
4. **Risk:** If decision-making is not timely and clear, delays could result and reduce stakeholder credibility. **Response:** Timely engagement with governance bodies; advance planning for decisions
5. **Risk:** If senior stakeholders are insufficiently engaged the new model may not have their support or confidence. **Response:** the programme must build and maintain stakeholder confidence and demonstrate performance improvements
6. **Risk:** If the market has insufficient capacity, capability or business interest the business partnering concept will not be achievable. **Response:** thorough and timely industry engagement; co-design of partnering relationships with industry representatives; bundled work to make it attractive for investment
7. **Risk:** If the programme is not aligned with NZDF strategy the operating model and outputs may not directly support it. **Response:** understand and integrate NZDF strategy into the operating model; work through the governance bodies to ensure active support for NZDF strategy linkages; incorporate "confirmation of strategic alignment" as a factor in decision-making processes

ASSUMPTIONS

1. The NZDF will require third-party partnerships to ensure it has the delivery capacity and capability for estate regeneration
2. Estate regeneration plans will continue to be approved and funded by the government
3. Dedicated resources and information will be available to design in detail and implement a new operating model to an agreed timeframe
4. Senior stakeholder sponsorship and support will continue
5. "Customers" are distinct from "end users" and are the NZDF senior leaders and portfolio owners

A FORCE FOR NEW ZEALAND

Appendix I Sustainability Framework

THE START OF OUR JOURNEY TO A SUSTAINABLE DEFENCE ESTATE

New Zealand DEFENCE FORCE

Natural – Taiao | Financial – Ahumoni | Manufactured – Hangaia | Intellectual – Mātauranga | Social – Pāpori | Human – Tangata

VISION

TUKU IHO

Our living legacy is the enhancement and protection of Defence estate's natural, financial, manufactured, intellectual, social and human capital

Sustainability programme (Priority 1)

Sustainability is embedded within business-as-usual

MATURITY →

A	B	C
Establish policy/strategy to support each focus area – including metrics, risks, benefits, plan and reporting.	Initiatives across four focus areas – measured through an annual survey, hui and reporting.	Integration into DEI Strategy and Operating Model, the sustainability lens is owned by all personnel.

Ka muri ka mua
Walking backwards into the future

KOTAHITANGA

UNITY, CONSENSUS, PARTICIPATION

Sustainable buildings (Priority 4)

Our buildings are fit-for-purpose and sustainable

MATURITY →

A	B	C
Baseline development of metrics and targets for sustainable building design and delivery.	Post occupancy evaluations informing future design to establish science-based targets.	Linkage of design to all other opportunity areas for integrated reporting on metrics and targets.

Heritage and bi-culturalism (Priority 12)

Our past, present and future is part of who we are

MATURITY →

A	B	C
Baseline our diversity, opportunities to integrate te reo Māori, acknowledge our heritage and resourcing needs.	Support all to champion our heritage and bi-culturalism, te reo Māori is present in our conversations.	Bi-culturalism is part of who we are as an organisation.

Awareness and culture (Priority 13)

All personnel apply an informed sustainability lens

MATURITY →

A	B	C
Education programme around Sustainability Framework and importance of sustainability.	Ambassadors programme to establish systemic ownership, linked to Sustainability Committees on each camp and base.	Sustainability lens and actions are business-as-usual for all personnel.

He waka eke noa
A canoe which we are all in with no exception

KAITIAKITANGA

ENVIRONMENTAL STEWARDSHIP

Waste, reuse and recycling (Priority 2)

We understand and minimise our waste impacts

MATURITY →

A	B	C
Audit waste types, quantities, facilities, impacts and responsibilities.	Nationwide targets for bin placement, bin labelling, minimisation and reporting.	Ongoing reporting of waste and targets and integration within strategic planning and procurement.

Climate change (Priority 6)

Climate impacts to/by the Defence estate are mitigated

MATURITY →

A	B	C
Understand baseline greenhouse gas emissions and climate change impact risk to Defence estate.	Set science-based metrics and targets for mitigation and begin understanding opportunities for adaptation.	Ongoing reporting of emissions, risk, targets and linkage of adaptation to design and strategic planning.

Technology and innovation (Priority 11)

Smart ideas are shared, adapted and adopted for better outcomes

MATURITY →

A	B/C
Understand where barriers are for raising ideas and implementing technology and/ or innovations.	Work with our NZDF partners to ensure there is a safe place to test new ideas.

Ko au te whenua, ko te whenua ko au
I am the land and the land is me

PUAWAITANGA

CONTINUAL GROWTH

Integrated project delivery (Priority 3)

Together we improve our productivity in the delivery of assets

MATURITY →

A	B	C
Planning process and capability for integrated project delivery and soft landings framework.	All large capital and maintenance projects delivered through integrated approach – produce lessons learned.	Integrated approach is business-as-usual and is continuously improved through post-project evaluations.

Asset and utilities management (Priority 5)

We are responsible and efficient with our energy and water resources

MATURITY →

A	B	C
Plan for meters on new and existing assets as well as data capture, analytics and utilities responsibilities and targets.	Use of data analytics to inform utilities decisions, facilities maintenance and reporting on performance and targets.	Linkage of asset and utilities to all other opportunity areas for integrated reporting on metrics and targets.

Resilience and self-sufficiency (Priority 7)

The macro-picture of our vulnerabilities prepares us

MATURITY →

A	B	C
Macro-picture assessment of lifelines vulnerabilities and burdens.	Linkages of vulnerabilities to business continuity and emergency management plans.	Incorporation of findings into asset and utilities management, design benchmarks and strategic planning.

I ōrea te tuātara ka patu ki waho
A problem is solved by continuing to find solutions

RANGATIRATANGA

LEADERSHIP AND COMMUNITY ROLE MODEL

Partnerships (Priority 8)

We work with our partners to share in great outcomes

MATURITY →

A	B	C
Identify our strategic partners (i.e. iwi, council, etc.) and co-develop metrics for reputation, trust and value.	Educate and empower all personnel to form collaborative and enduring relationships with partners.	Continuous learning about our partners and bringing new ideas to our enduring partnerships.

Procurement and supply chain (Priority 9)

Our sustainability goals are clear to all we work with

MATURITY →

A	B/C
Establish strategic objectives for procurement, based on priority, scope to improve and market response.	Phased approach to implement objectives into procurement, based on size and maturity of market – this is integrated with other opportunity areas to be reported against.

Transport (Priority 10)

Safe and healthy transportation is supported

MATURITY →

A	B	C
Options assessment for electric vehicle charging stations and linkages with utilities and strategic planning.	Set targets for vehicle trips, distance, fuel purchased and transport modes used across NZDF.	Ongoing reporting and continuous improvement of mobility and health, safety and wellbeing.

Pūraho māku, kei ngaure o mahi
Let others acknowledge your strength

Pathway   A – Formalise baseline and metrics   B – Implementation and reporting   C – Integration and business-as-usual

Appendix J Information Flows between EIC and Defence Force Governance committees