



Cabinet Government Administration and Expenditure Review Committee

Minute of Decision

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

Defence Estate Regeneration Ohakea Infrastructure Programme

Portfolio Defence

On 7 May 2020, the Cabinet Government Administration and Expenditure Review Committee:

- 1 **noted** that in July 2018, Cabinet directed the Defence Estate Regeneration Programme to prioritise activities supporting the Air Surveillance Maritime Patrol capability (P-8A Poseidon) and Enhanced Maritime Awareness Capability [CAB-18-MIN-0305];
- 2 **noted** that in April 2019, Cabinet approved the Business Case to provide continued investment in the Defence Estate and invited the Minister of Defence to submit to GOV a paper seeking approval of a detailed business case for additional infrastructure loading at Base Ohakea for the Air Surveillance Maritime Patrol capability [CAB-19-MIN-0171.01];
- 3 **agreed** that the preferred option is “D – Viable, Adaptable and Resilient” (option D), as set out in the Ohakea Infrastructure Programme Business Case, attached as Appendix 1 under GOV-20-SUB-0011;
- 4 **noted** that option D has a capital cost of \$206.2 million and annual operating expenditure of s.9(2)(f)(iv) consisting of s.9(2)(f)(iv) for personnel and other direct operating costs and s.9(2)(f)(iv) in additional depreciation costs;
- 5 **approved** the Ohakea Infrastructure Programme Business Case attached as Appendix A under GOV-20-SUB-0011;
- 6 **agreed** that the New Zealand Defence Force can now undertake early market engagement for services over the next 12-18 months;
- 7 **agreed** to implement the Ohakea Infrastructure Programme in three tranches;
- 8 **invited** the Minister of Defence to report back to GOV for approval of:
 - 8.1 the Ohakea Infrastructure Programme Implementation Business Case Tranche 1 by s.9(2)(f)(iv) ;
 - 8.2 the Ohakea Infrastructure Programme Implementation Business Case Tranche 2 by s.9(2)(f)(iv) ; and
 - 8.3 the Ohakea Infrastructure Programme Implementation Business Case Tranche 3 by s.9(2)(f)(iv) ;

- 9 **noted** that early concept and planning for all projects in the Ohakea Infrastructure Programme will be completed at the start of the programme using s.9(2)(f)(iv) from Vote Defence Force baseline depreciation funding in Financial Year 2019/20;
- 10 **noted** that through the Tranche 1 Programme Implementation Business Case a capital expenditure uplift of s.9(2)(f)(iv) will be sought from Vote Defence Force baseline depreciation funding;
- 11 **noted** that through the Tranche 1 Programme Implementation Business Case depreciation and operating expenditure funding uplifts will be sought from the tagged contingency *Defence Capability Plan 2019 – Contingent Funding to Support the Introduction of New Capabilities* established as part of Budget 2020 [CAB-20-MIN-0155.10];
- 12 **noted** that the capital, operating, capital charge and depreciation funding for future Tranches of work will be submitted as part of future Budget bids.

Rachel Clarke
Committee Secretary

Present:

Rt Hon Winston Peters
Hon Kelvin Davis
Hon Grant Robertson
Hon Phil Twyford
Hon Chris Hipkins
Hon David Parker
Hon Nanaia Mahuta
Hon Stuart Nash
Hon Kris Faafoi
Hon Dr David Clark
Hon Peeni Henare
Hon Tracey Martin
Hon James Shaw

Officials present from:

Office of the Prime Minister
Officials Committee for GOV

Proactively Released by the Minister of Defence

Office of the Minister of Defence

Chair, Cabinet Government Administration and Expenditure Review Committee

DEFENCE ESTATE REGENERATION: OHAKEA INFRASTRUCTURE PROGRAMME

Proposal

- 1 This submission asks Cabinet to approve the Ohakea Infrastructure Programme (OIP) Business Case (attached) for works at RNZAF Base Ohakea (Base Ohakea) valued at \$206.2 million over the next six years (detailed in Enclosure 1 and 2).

Executive Summary

- 2 The OIP was identified as a programme within the Defence Estate Regeneration Portfolio Business Case 2019-2035 approved by Cabinet in April 2019 [CAB-19-MIN-0171.01 refers]. As clearly outlined in the Portfolio Business Case, there has been historic underinvestment in New Zealand's Defence Estate.
- 3 Investment is required to rectify longstanding problems with Base Ohakea's supporting infrastructure, which put at risk the Base's ongoing viability as an operational military airfield and base. Infrastructure across the Base has fallen into a state of disrepair, which is undermining the Base's ability to ^{s.6(a)} ensure wellbeing of personnel, and meet environmental and health and safety standards. These issues fall across a wide range of infrastructure areas and include water assets, fuelling and logistics assets, taxiways and aprons, accommodation, security, access and building assets.
- 4 Against a backdrop of falling infrastructure, demands on Base Ohakea are steadily increasing. Cabinet has directed [CAB-18-MIN-0305 refers] the NZDF to prioritise infrastructure investment in the Defence Estate to activities supporting the Air Surveillance Maritime Patrol (ASMP) capability (P-8A) and Enhanced Maritime Awareness Capability (EMAC). There are also increasing Air and Joint operations in support of the Pacific Reset, New Zealand Defence Force (NZDF) planned 2025 growth in Army requiring an increase in fixed wing air transport operations and other Government Agencies requiring increased support.
- 5 Given infrastructure at Base Ohakea is not meeting current needs, and demands on Base Ohakea are increasing, it is prudent to accelerate and bring forward the work already planned at Base Ohakea to remedy the supporting infrastructure issues in time for the arrival of the P-8A. Estate works for the P-8A were funded directly by the project. What is required now is due to secondary effects.
- 6 The preferred option (option D) for investment in the OIP Business Case presents the best value for money. It resolves critical compliance and safety issues, and addresses all anticipated high priority needs, including resilience. It builds in additional capacity and resilience beyond the Bases' current needs to provide flexibility to respond to changing requirements into the future

(estimated out to 2035). Any lesser option only deals with the here and now issues, resulting in work arounds that will be more costly in the long-run.

- 7 The delivery of the preferred option is in three tranches and Cabinet's agreement is sought for the overarching Programme Business Case (attached). For Tranche 1 of the OIP, approval will be sought from Cabinet in July 2020 through a Programme Implementation Business Case, with capital expenditure of s.9(2)(f)(iv) to be sought from Defence baseline depreciation funding. Depreciation and operating expenditure funding uplifts for Tranche 1 will be sought at that time from the tagged contingency *Defence Capability Plan 2019 – Contingent Funding to Support the Introduction of New Capabilities* established as part of Budget 2020. Funding uplifts for Tranches 2 and 3 will be submitted as part of future Budgets.
- 8 There will be nine projects in Tranche 1 that will address infrastructure challenges associated with water, additional storage and building for resilience. The total OIP involves a vital investment at Base Ohakea of \$206 million over the next six years to make Base Ohakea fit for purpose until at least 2035.

Background

- 9 The Coalition Government's Strategic Defence Policy Statement 2018 ([ERS-18-MIN-008] refers) affirms the priority the Government places on the NZDF's ability to operate, recognising the important role the NZDF 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 NZDF's contribution to global security and the maintenance of an international rules based order.
- 10 The Strategic Defence Policy Statement 2018 confirms an appropriate Estate is needed to provide operational capability with the necessary training, working, living environments, and vital infrastructure critical for generating and maintaining the NZDF's capabilities. The vision for the Estate is – a fit for purpose and sustainable Estate that enables the delivery of NZDF outputs.
- 11 Base Ohakea plays an essential role in maintaining New Zealand's national security. Since opening in 1939, it has been an essential staging point for NZDF operations. It acts as the principal air point of entry and departure for the RNZAF, and is used by the RNZN and NZ Army as a base for training and operational outputs. Base Ohakea is also often used as the point of entry for the armed forces of strategic partners (such as Australia, the United States or Singapore) arriving to train with the NZDF and has an important role in projecting an image of NZDF being a credible, trusted defence partner. The ability to cope with very significant surges of personnel and equipment is an important operational requirement of Base Ohakea.
- 12 As directed by Cabinet [CAB-18-MIN-0305 refers], the NZDF has prioritised infrastructure investment in the Defence Estate to activities to support ASMP and EMAC. ASMP capability will operate from RNZAF Base Ohakea from April 2023. Cabinet has approved all infrastructure funding required for the P-8A delivery (e.g. hangar, hardstand, simulator, technical operations centre). Close

collaboration with the delivery of the ASMP capability has ensured infrastructure costs have not been accounted for in both projects, and that development plans are aligned through coordinated activities. For example, a hangar is required for the P-8A, which has already been agreed through the ASMP approval.

- 13 The Defence Capability Plan 2019 forecasts space centred capabilities, enhanced cyber capabilities and long endurance unmanned aerial systems as likely key next generation technologies. All of these capabilities will likely have an impact on Base Ohakea. As these capabilities are undefined at present, having infrastructure that is adaptable and resilient will be key to adequately support any new capability when it arrives. While new capabilities may bring some unknown requirements, one feature that will be consistent into the future is the need for Base Ohakea's supporting infrastructure to handle surges of personnel and equipment.
- 14 All this points to the need in the Defence Estate Regeneration Portfolio Business Case [CAB-19-MIN-0171.01 refers], that projects planned to address long standing infrastructure issues at Base Ohakea must be brought forward to address infrastructure that is not meeting the current or future needs.
- 15 The issues at Base Ohakea are therefore summarised into three concise problem statements:
 - 15.1 Base Ohakea's current on-site services are inadequate to support future air surveillance (and other) capabilities;
 - 15.2 Base Ohakea's inability to operate efficiently and effectively is s.6(a) ; and
 - 15.3 Base Ohakea's inability to meet environmental and health and safety standards, and manage operational hazards will put people and operations at risk.
- 16 It is my view that investment can occur before completion of the First Principles Review of the Defence Estate Footprint [CAB-19-MIN-0171.01 refers]. Although a short list of options for the Future Estate Footprint have yet to be confirmed by Cabinet, all options being considered by officials confirm Base Ohakea's role as an operational military airfield into the future as being secure.

Ohakea Infrastructure Programme Business Case

- 17 The OIP addresses the required infrastructure to meet the current and expected future needs. The fixed timelines, project interdependencies, and site constraints necessitate a coordinated programme approach to ensure Defence achieves the desired benefits from capability and infrastructure investment, and can successfully deliver the necessary infrastructure to support the changing role on the Base now and in the future.
- 18 Resolving Base Ohakea's infrastructure problems and failures will deliver significant benefits to New Zealand. Implementation of the OIP will mean that:

- 18.1 Base Ohakea can safely and efficiently support current and future military operations vital to advancing New Zealand's national interests;
 - 18.2 NZDF and civilian personnel on Base Ohakea will be safer, more engaged and productive, and their wellbeing will be improved;
 - 18.3 New Zealand will have a resilient alternative airport capability in the Lower North Island¹, capable of supporting both airport operations and a sudden influx of people during a national emergency or disaster scenario; and
 - 18.4 Base Ohakea will be valued by the local community as a trusted partner organisation.
- 19 Conversely, a failure to act now will perpetuate the cycle of reactive maintenance and 'making do', and will mean Base Ohakea will remain inadequate in its role of enabling military capability and other essential emergency and civilian activities. Additionally, environmental and health and safety standards will not be met, and the wellbeing of Base personnel will be adversely impacted. It is not tenable for Base Ohakea to remain in its current condition, especially with the significant investment already made in facilities to support introduction into service of the P-8A.

Business Case Options

- 20 The Business Case looks at five options (with Options B, C and D shortlisted for cost assessment):
- 20.1 **Option A: Do Nothing (costs not assessed).** Under Option A, no construction works would be undertaken to resolve the infrastructure issues identified. Infrastructure deficiencies would be treated with temporary management solutions. This is inadequate and problematic for current operations, leaving the Base failing to meet its health, safety and environmental compliance obligations, operationally inefficient, not fit-for-purpose, with negative personnel wellbeing impacts, and unprepared for the P-8A and 5 Squadron arrival. It also impacts future infrastructure refreshes (e.g. living and working environments) and capability enhancements (e.g. EMAC) as pre-requisite core building blocks are not upgraded (e.g. potable water, sewage and storm water, fuel infrastructure, logistics, security, taxiways and aprons). With the "do nothing" option high risk issues remain, affecting the viability of current and future Base operations.
 - 20.2 **Option B: Constrained** s.9(2)(f)(iv) . Under Option B, construction works would be undertaken for 11 of the 14 problematic infrastructure areas identified, with the remainder of issues addressed by temporary management solutions. Option B would resolve critical compliance issues and some major safety issues, and would address some immediate high-priority needs. However, this option would leave

¹ Base Ohakea acts as the North Island emergency landing alternative airfield for long-haul commercial flights to Auckland International Airport.

the Base with significant problems relating to condition, capacity and operational efficiency. High risk issues would remain.

- 20.3 **Option C: Viable Short Term** s.9(2)(f)(iv) . Option C focusses on addressing immediate known needs only – it would not provide any additional capacity or resilience beyond 2025 thereby limiting future adaptability and flexibility. Under Option C, construction works would be undertaken for all of the 14 problematic infrastructure areas identified resolving critical compliance and safety issues and addressing immediate high priority needs on Base out to 2025. None of the core capacity and resilience issues impacting the Base’s medium and longer term viability are addressed by Option C. Option C requires additional investment at a later date and is therefore more disruptive for Base operations and significantly more costly due to: additional planning; redesign; contractor remobilisation and rising construction costs.
- 20.4 **Option D: Viable, Adaptable and Resilient** s.9(2)(f)(iv) . Option D addresses both immediate and longer term needs to enable and maintain ongoing Base operational viability. While it would undertake capital works on the same 14 problematic infrastructure areas as Option C, it would also develop additional capacity and resilience beyond the Bases’ current needs to provide flexibility to respond to changing requirements into the future (estimated out to 2035). This option resolves critical compliance and safety issues, and would address anticipated high priority needs, including resilience, resulting in a Base that continues to be viable in the medium and longer term.
- 20.5 **Option E: Do All (costs not assessed)**. Under Option E, all Base Ohakea projects identified in the Portfolio Business Case would be implemented, valued at over \$600 million. This would resolve identified safety and compliance issues, address all current requirements, anticipated needs, and provide additional capacity and resilience.

The Preferred Option – Option D – Viable, Adaptable and Resilient

- 21 The preferred approach is Option D in the business case. Specifically, Option D will:
- 21.1 Resolve critical compliance and safety issues;
 - 21.2 Resolve identified condition and fitness-for-purpose issues;
 - 21.3 Address identified infrastructure problem areas at Base Ohakea; and
 - 21.4 Deliver additional capacity and resilience to Base Ohakea beyond current needs (estimated out to 2035).
- 22 Option D represents better value for money than the alternatives. At a Net Present Value capital cost of s.9(2)(f)(iv) , this option will deliver the fullest achievement of the Investment Objectives and the benefits. Option D is as achievable as Option C from a critical success factor point of view. Planning, consenting and mobilisation of resources are similar for either option.

Therefore, from a feasibility perspective it is logical to elect Option D, as it delivers additional benefits. Overall Option D scored the best on the multi criteria analysis at 15.71 out of 20 (or 79%).

- 23 Within Option D, the programme of works is scheduled to be delivered over a 6-year period, being the financial years 2019/20 to 2025/26 as outlined below (detailed in Enclosure 1 and 2). The length of the OIP, coupled with the resilient infrastructure it delivers, makes Option D a compelling Preferred Option. On completion of the proposed construction programme, Base Ohakea will have a viable solution that addresses the planned capacity requirements until at least 2035. Option D avoids the need for substantial additional investment and further operational disruption caused by a second large scale construction programme; both of which would be the likely outcome of selecting Option B or C. In short, Option D enables viable, adaptable and resilient Base operations over the medium to longer term.
- 24 The Treasury's Living Standards Framework was also used to assess the Preferred Option. The results show that implementing the Preferred Option will improve wellbeing outcomes for personnel living and working at Base Ohakea and for the broader community.
- 25 The OIP will deliver the programme in tranches from a funding, contracting and management perspective.
- 26 Tranche 1 will be presented to Cabinet by July 2020 for approval via a Programme Implementation Business Case (PIBC), and will be of a total value of s.9(2)(f)(iv) or less. Tranche 1 will be made up of a subset of projects which have the highest priority and are most suitable for early implementation. Tranche 1 will also include development of early concepts and planning for all projects in the OIP to allow for: identification of project interdependencies in design and staging; cost and value management between projects; and the development of a programme-wide procurement strategy to ensure strong value-for-money outcomes.
- 27 The following projects have been nominated for inclusion in Tranche 1 (as outlined in the Programme Business Case):
 - Upgrade Existing Network and Waste Water Treatment Plant
 - Potable Water
 - Storm Water
 - Car Parking
 - Military Working Dogs Facility
 - Logistics Facilities
 - Fuels Offices and Workshops
 - Fuel Tanker Park

- Maintenance Support Squadron (MSS) and Ground Support Equipment (GSE)

28 Following the early concept and planning work, the projects included in Tranche 1 will be reconfirmed as part of the Initiation Phase. It is anticipated that a total of three tranches will be required to deliver the OIP projects. Further PIBCs will be presented Cabinet by s.9(2)(f)(iv) and by s.9(2)(f)(iv), requesting approval for the balance of the OIP up to the total value of \$206.2 million. The NZDF seeks approval to go to market to procure design consultants and construction services over the next 12-18 months. In financial year 2019/20 this will involve s.9(2)(f)(iv) expenditure as part of the initiation phase.

Interdependencies

- 29 There are interdependencies to the delivery of the OIP and these relate to the following projects:
- 29.1 As directed by Cabinet [CAB-18-MIN-0305 refers], the NZDF has prioritised infrastructure investment in the Defence Estate to activities to support ASMP and EMAC. This includes coinciding construction of facilities to support introduction into service of the P-8A;
- 29.2 Certain projects will require land acquisition prior to implementation;
- 29.3 Certain projects will require consenting prior to implementation;
- 29.4 Several projects are dependent on successful and efficient collaboration with other agencies, including but not limited to the NZ Transport Agency, Powerco, and Rangitikei and Manawatu District Councils; and
- 29.5 Several other NZDF initiatives, including the Accommodation Messing and Dining Modernisation Programme and the Housing Programme, are being developed concurrently with the OIP, and are linked through the Estate Regeneration Portfolio.
- 30 One project also supports related Government initiatives to address potential PFAS contamination resulting from historic use of firefighting foam at Base Ohakea. The upgrade of potable water supply involves joining with a potential Ohakea community water supply, the response to which is being led by the Minister for the Environment.
- 31 The NZDF has been working with the NZ Infrastructure Commission and Palmerston North City Council to develop the Manawatu Regional Infrastructure Plan. Information collected so far, from major asset owners in the Manawatu region, shows there is \$2.5 billion (approximately) worth of investment in the Manawatu region over the next 10 years. This may mean that there is a commercial risk to the OIP created by the lack of the necessary skilled workforce in the region. This early identification enables commercial risk faced by the OIP to be managed in a potentially constrained regional market. Work is in progress to mitigate this risk.

Independent Assurance

- 32 A Targeted Investment Review (Gateway 0/1) was completed over the OIP on 18 October 2019 and achieved an 'Amber' confidence assessment that stated:

The Gateway Review Team finds that the Ohakea Infrastructure Programme has progressed well towards the creation of a Programme Business Case for submission in November 2019. The Programme appears to be well structured, complements the infrastructure components being delivered by the ASMP Programme and is well positioned with the overarching Defence Estate Regeneration Portfolio.

Time is short, however, if Defence Estate and Infrastructure (DEI) Group is to complete the business case preparations and successfully achieve approval in order to deliver a compressed set of activities ahead of site works commencing in mid 2020. Additionally, it is important that OIP is sufficiently completed to minimise operational impact on the base, especially ahead of the first ASMP aircraft delivery. Timely business case approval is therefore critical to achieve optimal project scheduling.

In order to achieve business case approval, OIP needs to focus on making Base Ohakea fit for purpose and addressing decades of infrastructure degradation to position the base well as a strategic site for New Zealand...

Beyond business case approval, there is a need to develop a robust co-ordinated approach to make sure that all site infrastructure works across Base Ohakea are implemented coherently and cognisance is taken of operational impacts.

DEI needs to ensure that it is mobilised with the requisite skills and resources for delivery...

Risks

- 33 Several risks are outlined in Table 9 of the Programme Business Case (p 37-38). The risk that remains high is that construction timeframes are too compressed to be achievable given lead time and dependency considerations. The consequence of this risk is that programme delivery is delayed leading to reduced Base operational effectiveness, requiring careful programming and prioritisation of works to ensure operational effectiveness measures are in place. Mitigating this risk is a key focus of the Commercial Case (p 63) – including the DEI professional services alliance, early market engagement and pre-planning.

Financial Implications

- 34 The OIP total cost is set out below for the Preferred Option (Option D in the Business Case) at a summary level over a 25-year appraisal period.

| Programme Costs | Amount (\$ million) |
|---|---------------------|
| Capital Investment | s.9(2)(f)(iv) |
| Programme Contingency | s.9(2)(f)(iv) |
| Total including Contingency | 206.2 |
| Operating Expenditure | s.9(2)(f)(iv) |
| Whole of Life Cost | s.9(2)(f)(iv) |
| Net Present Value (discount at 6% pa over 25 years) | s.9(2)(f)(iv) |

Table 1. Programme Cost Summary

- 35 Contingency is included to reduce project risk of cost blow out. In accordance with construction management best practices, project and programme contingency is included to provide realistic estimates:
- 35.1 Project contingency provides for the uncertain nature of each project's cost estimates, due to the limited information available for accurate estimating. Individual project estimates are based on very rough order of costs (VROC) with s.9(2)(f)(iv) contingency added to each project based on the level of information that was available for project sizing and cost estimation. These estimates will be refined at the Project Implementation Business Case stage, when requirements are further clarified, and more detailed design and planning is undertaken; and
- 35.2 Programme contingency provides for known and unknown programme risks. The Monte Carlo simulation used to calculate the programme risk takes into account known unknowns, unknown unknowns and market forces e.g. uncertainty in design such as unforeseen environmental and ground conditions, reduced contractor availability and other supply constraints, impacts on construction activity due to the Base remaining operational throughout the programme, dependency on external partners and their mutual agreement for co-development. These are all factors that were not taken into account when individual project costs were estimated.

Capital Cost and Funding

- 36 The Preferred Option has been costed using quantity surveying and engineering assessments based on high-level design briefs. Pricing for project-level uncertainties has also been included in the individual project costings at s.9(2)(f)(iv) , and s.9(2)(f)(iv) of risk contingency has been included at the programme level.
- 37 Preferred Option D, has a forecast capital cost of \$206.2 million. Detailed costings will be presented through PIBCs for each Tranche. The OIP is forecast to be funded from:
- 37.1 s.9(2)(f)(iv) in 2019/2020 financial year for programme initiation planning from baseline depreciation funding;

37.2 baseline depreciation funding of s.9(2)(f)(iv) for 2020/21 financial year; and

37.3 s.9(2)(f)(iv) from capital injection for future tranches.

| Funding Tranches | Funding Source \$m | 2019/2020 | 2020/2021 | 2021/2022 | Total |
|---|------------------------------------|---------------|---------------|---------------|---------------|
| Initiation Phase - Early Concept and Planning | Depreciation funding from baseline | s.9(2)(f)(iv) | | | s.9(2)(f)(iv) |
| Tranche 1 | Depreciation funding from baseline | | s.9(2)(f)(iv) | | s.9(2)(f)(iv) |
| Subsequent Tranches | Capital Injection - Budget 2021 | | | s.9(2)(f)(iv) | s.9(2)(f)(iv) |
| | | s.9(2)(f)(iv) | s.9(2)(f)(iv) | s.9(2)(f)(iv) | 206.2 |

Table 2. Tranches and Recommended Approach to Capital Funding

38 Capital funding for future tranches of work will be submitted for Budget 2021 or a later budget.

Operating Cost, Personnel Cost and Funding

39 Once built, annual operating expenditure is expected to be approximately s.9(2)(f)(iv) per annum (being s.9(2)(f)(iv) of the capital cost). Operating costs will be further clarified through the PIBC and funding requested through Budgets.

| Operating Expenditure | \$m | 2019 /2020 | 2020 /2021 | 2021 /2022 | 2022 /2023 | 2023 /2024 | 2024 /2025 | 2025 /2026 | 2026 /2027 | 2027/28 - 2044/45 | Total | Steady State |
|-----------------------|-----|------------|------------|------------|---------------|---------------|---------------|---------------|---------------|-------------------|---------------|---------------|
| Tranche 1 - projects | | | | | s.9(2)(f)(iv) | s.9(2)(f)(iv) | s.9(2)(f)(iv) | s.9(2)(f)(iv) | s.9(2)(f)(iv) | s.9(2)(f)(iv) | s.9(2)(f)(iv) | s.9(2)(f)(iv) |
| Tranche 2 - projects | | | | | | s.9(2)(f)(iv) | s.9(2)(f)(iv) | s.9(2)(f)(iv) | s.9(2)(f)(iv) | s.9(2)(f)(iv) | s.9(2)(f)(iv) | s.9(2)(f)(iv) |
| Tranche 3 - projects | | | | | | | | s.9(2)(f)(iv) | s.9(2)(f)(iv) | s.9(2)(f)(iv) | s.9(2)(f)(iv) | s.9(2)(f)(iv) |
| Total | 0.0 | 0.0 | 0.0 | 0.0 | s.9(2)(f)(iv) | s.9(2)(f)(iv) | s.9(2)(f)(iv) | s.9(2)(f)(iv) | s.9(2)(f)(iv) | s.9(2)(f)(iv) | s.9(2)(f)(iv) | s.9(2)(f)(iv) |

Table 3. Operating Expenditure Breakdown

| Depreciation | \$m | 2019 /2020 | 2020 /2021 | 2021 /2022 | 2022 /2023 | 2023 /2024 | 2024 /2025 | 2025 /2026 | Steady State |
|----------------------|-----|------------|------------|------------|---------------|---------------|---------------|---------------|---------------|
| Tranche 1 - projects | | | | | s.9(2)(f)(iv) | s.9(2)(f)(iv) | s.9(2)(f)(iv) | s.9(2)(f)(iv) | s.9(2)(f)(iv) |
| Tranche 2 - projects | | | | | | s.9(2)(f)(iv) | s.9(2)(f)(iv) | s.9(2)(f)(iv) | s.9(2)(f)(iv) |
| Tranche 3 - projects | | | | | | | s.9(2)(f)(iv) | s.9(2)(f)(iv) | s.9(2)(f)(iv) |
| Total | 0.0 | 0.0 | 0.0 | | s.9(2)(f)(iv) | s.9(2)(f)(iv) | s.9(2)(f)(iv) | s.9(2)(f)(iv) | s.9(2)(f)(iv) |

Table 4. Forecast Depreciation for New Assets:

40 Operating expenditure and depreciation funding for Tranche 1 will be sought from the tagged contingency *Defence Capability Plan 2019 – Contingent*

² This is based on the % multiplier used for calculating Defence Estate maintenance and utilities costs for annual budgets

Funding to Support the Introduction of New Capabilities established as part of Budget 2020. Funding uplifts for Tranches 2 and 3 will be submitted as part of future Budgets.

Next Steps

- 41 Following approval of the OIP Business Case an Initiation Phase will be undertaken and will include the following activities:
 - 41.1 Produce concept designs across all projects within the Preferred Option;
 - 41.2 Undertake early market engagement and development of the procurement strategy and plan, as outlined in the Commercial Case;
 - 41.3 Confirm the projects identified for inclusion in Tranche 1;
 - 41.4 Further develop the project cost estimates and Operating Expenditure implications associated with Tranche 1 as per the Financial Case; and
 - 41.5 Develop PIBC 1 to seek Cabinet approval by s.9(2)(f)(iv) for Tranche 1 to progress to design and construction.
- 42 Development of subsequent PIBCs for the later tranches will be presented to Cabinet in s.9(2)(f)(iv) and s.9(2)(f)(iv) .

Consultation

- 43 This paper has been consulted with The Treasury, Department of Internal Affairs, State Services Commission, Office of the Auditor General, Ministry of Business, Innovation and Employment, NZ Infrastructure Commission and the Ministry for the Environment. The Department of Prime Minister and Cabinet has been informed.
- 44 The Ministry for the Environment confirms, on the basis of the “best endeavours approach” agreed by Cabinet, that the Climate Impact of Policy Assessment (CIPA) requirements do not apply.
- 45 Consultation has also occurred and will continue with local authorities, NZ Transport Agency, NZ Police, iwi, Automobile Association NZ and neighbours to Base Ohakea.

Other Implications

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

Proactive Release

- 47 This paper will be proactively released within 30 business days of final decisions subject to any appropriate redactions.

Publicity

48 No publicity is planned as a result of this approval.

Recommendations

49 I recommend that the Committee:

- 1 **note** that Cabinet has approved the Business Case to provide continued investment in the Defence Estate [CAB-10-MIN-0171.01 refers];
- 2 **note** the Cabinet directed the Defence Estate Regeneration Programme to prioritise activities supporting the Air Surveillance Maritime Patrol capability (P-8A Poseidon) and Enhanced Maritime Awareness Capability [CAB-18-MIN-0305 refers];
- 3 **agree** that the preferred option is “D – Viable, Adaptable and Resilient” in the Ohakea Infrastructure Programme Business Case;
- 4 **note** that option D has a capital cost of \$206.2 million and annual operating expenditure of s.9(2)(f)(iv) , consisting of s.9(2)(f)(iv) for personnel and other direct operating costs and s.9(2)(f)(iv) in additional depreciation costs;
- 5 **approve** the Ohakea Infrastructure Programme Business Case;
- 6 **agree** that the New Zealand Defence Force can now undertake early market engagement for services over the next 12-18 months;
- 7 **agree** to implement the Ohakea Infrastructure Programme in three tranches;
- 8 **invite** the Minister of Defence to report to the Cabinet Government Administration and Expenditure Review (GOV) Committee for approval of:
 - 8.1 the Ohakea Infrastructure Programme Implementation Business Case Tranche 1 by s.9(2)(f)(iv) ;
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 - 8.3 the Ohakea Infrastructure Programme Implementation Business Case Tranche 3 by s.9(2)(f)(iv) ;
- 9 **note** that early concept and planning for all projects in the Ohakea Infrastructure Programme will be completed at the start of the programme using s.9(2)(f)(iv) from Vote Defence Force baseline depreciation funding in FY 2019/20;
- 10 **note** that through the Tranche 1 Programme Implementation Business Case a capital expenditure uplift of s.9(2)(f)(iv) will be sought from Vote Defence Force baseline depreciation funding;
- 11 **note** that through the Tranche 1 Programme Implementation Business Case depreciation and operating expenditure funding uplifts will be sought from the

tagged contingency *Defence Capability Plan 2019 – Contingent Funding to Support the Introduction of New Capabilities* established as part of Budget 2020; and

- 12 **note** that the capital, operating, capital charge and depreciation funding for future Tranches of work will be submitted as part of future Budgets.

Authorised for lodgement

Hon Ron Mark
Minister of Defence

Proactively Released by the Minister of Defence

Enclosures:

1. Ohakea Infrastructure Programme – site map showing investment
2. Ohakea Infrastructure Programme – indicative programme timeline

Annexes:

- A. Ohakea Infrastructure Programme Business Case
- B. Ohakea Infrastructure Programme Business Case Appendices

[Annexes A and B are withheld under s.9(2)(b)(ii) and s.9(2)(j) of the OIA.]

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s.9(2)(b)(ii)

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| OIP Indicative Programme | | Legend: Early Planning & Concepts Planning Design Construction | | | | | | | | | | | | | | | | | | | | | | | | | | |
|--------------------------|------------------------------|--|-----|------|-----|-----|-----|------|-----|-----|-----|------|-----|-----|-----|------|-----|-----|-----|------|-----|-----|-----|------|-----|-----|-----|---------------------------|
| | | 2019 | | 2020 | | | | 2021 | | | | 2022 | | | | 2023 | | | | 2024 | | | | 2025 | | | | Capital Expenditure (\$M) |
| Tranche | Base Services | J-S | O-D | J-M | A-J | J-S | O-D | J-M | A-J | J-S | O-D | J-M | A-J | J-S | O-D | J-M | A-J | J-S | O-D | J-M | A-J | J-S | O-D | J-M | A-J | J-S | O-D | |
| T1 | Initiation Phase | | | | | | | | | | | | | | | | | | | | | | | | | | | s.9(2)(f)(iv) |
| T1 | Waste Water | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| T2 | Waste Water | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| T1 | Potable Water | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| T2 | Potable Water | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| T1 | Storm Water | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| T1 | Parking | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| T3 | Parking | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| T3 | Main Base Entrance | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| T1 | Power | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | People Services | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| T2 | Accommodation | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Airfield Services | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| T1 | Military Working Dogs | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| T1 | Logistics Warehouse | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| T1 | Tanker Park | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| T1 | Fuels/ GSE Workshop & Office | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| T2 | Bulk Fuels Storage | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| T1 | MSS GSE Storage | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| T3 | Explosive Store House | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| T2 | Airfield Phase 1 | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| T3 | Airfield Phase 2 | | | | | | | | | | | | | | | | | | | | | | | | | | | |

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