

Key Questions and Answers on the LTDP

How much will be spent on capital acquisitions over the next ten years?

It is expected that more than NZ\$3 billion will be spent on capital acquisitions over the next ten years. This includes around \$2 billion on major new projects, as well as expenditure on those projects already approved, such as the Seasprite helicopters, Light Armoured Vehicles and Tactical Mobile Radios.

Are the projects included in the LTDP affordable within the government's funding parameters?

Yes, these projects are sustainable within the government's funding parameters. The current project costs are based on the best information available, and the plan represents a reference point against which any subsequent changes can be measured, both in terms of affordability and capability.

Are the individual costings included in the Plan absolute minimums and maximums?

No. The LTDP is a planning tool and provides an indication of the likely costs of each project. The cost ranges included in the plan are based on the best information currently available. Each project will be considered within the overall context of total planned acquisitions. For each project, the amount of funding provided will be subject to government approval.

What are the timing determinants for the projects?

Timing determinants vary according to the nature of the individual project. Factors to be taken into account include the state of existing equipment, the availability of new technology, industry's ability to deliver, personnel issues, cash flow considerations and government priorities. The timing indications included in the plan are indicative only and are subject to change.

What exchange rates have been used in calculating costings?

Conservative exchange rate assumptions, provided by The Treasury, have been used. For the US dollar, the following exchange rates have been used in calculating cost estimates: FY 02/03, 0.44 cents, FY 03/04, 0.49 cents, FY 04/05 and thereafter, 0.51 cents.

Is there any allowance for inflation?

The NZDF is required to manage any inflationary pressure until 05/06. Most of the capital requirement programme is expected to happen within this period. Inflationary and other pressures post 05/06 will need to be identified and options will then be explored to ensure the plan remains affordable as a whole.

What is being done to improve the robustness of cost forecasting?

The NZDF and MOD jointly are currently updating existing costing methodologies to better manage the impact of risks, such as inflation, in order to improve the robustness of costings for acquisition projects. The NZDF's "whole of life" costing methodology for individual projects is also being updated.

What opportunities will there be for local industry?

MOD is working with MED and Treasury on acquisition procedures that will promote competitive input from NZ companies.

Will alternatives to traditional procurement methods be explored?

Yes. The Government has agreed that leasing options may be considered where there is a neutral trade-off between capital and operating expenditure.

Is the planned Orion upgrade Project Sirius in another form?

No. For a start, the anticipated cost is substantially lower. The Orion upgrade proposal started with a clean sheet of paper and a whole-of-government approach based on the findings of the Maritime Patrol Review and subsequent Cabinet decisions. Options for upgrading the Orion are being developed by the MOD and NZDF, in consultation with relevant civilian agencies.

Why has the Orion cockpit update been separated out?

The cockpit update, to meet international aviation requirements, is not required until later in the decade. There are potential cost savings to be achieved by conducting the cockpit update in conjunction with a similar update for the Hercules, and coinciding with probable large-scale fleet upgrades by other defence forces.

What is the next step in implementing the Long Term Development Plan?

Work is already underway on a number of the projects to determine operational requirements and develop options. Once these requirements and options have been developed and sound cost estimates obtained, each project will be brought forward to Cabinet for approval to proceed with the acquisition process. Work on some of the priority projects is well advanced. For example, the light operational vehicle will go to tender within the next two weeks, work is nearing completion identifying the operational requirements for the new naval vessels, and a study is in progress to determine the extent of work needed to upgrade our C-130 fleet.