



24 September 2019

G A Tvrdeich
fyi-request-11155-9db5fd67@requests.fyi.org.nz

Dear G A Tvrdeich

OFFICIAL INFORMATION ACT REQUEST: INDICATIVE CAPITAL COSTS

Thank you for your email of 6 September in which you requested under the Official Information Act the following information in regards to the *Defence Capability Plan*:

Is the term 'capital cost' referencing only the one-time cost to acquire the asset or does it include through-life costs?

Inquiring as the 'more than \$1bn' indicative capital cost for Enhanced Sealift Capability seems excessive for the purchase of a single LPD-like vessel.

The indicative capital costs in the Plan are a guide to the anticipated acquisition cost of a capability. They are not the whole of life costs of the capability as they do not include operating costs.

The capital costs in the *Defence Capability Plan* are indicative only as the actual cost will depend on what capability is selected. There are a wide range of size and capabilities in sea lift vessels, and the characteristics needed by New Zealand are yet to be determined. As the Plan notes, indicative capabilities and costs will be subject to robust scrutiny prior to government consideration of individual business cases.

As you identify, when establishing cost we also have to consider the future potential costs. Defence is five years away from tendering, and up to 10 years away from a vessel entering service. During that time the market and costs may change from those at present.

It is extremely difficult to extrapolate costs from published information, especially with military ships. Quoted capital costs often seem modest, but it is not always clear exactly what is included in the price. An amphibious ship may not be fitted with expensive weapons systems but will still need a high level of communications and surveillance capability to support military operations. It will need to support helicopters and unmanned aviation. Many of these facets of a ship may not be included in publicly available price information.

When the business cases for specific capabilities are developed, all costs are analysed and estimated. This includes capital, operating, support, through life and other costs. The analysis also considers the impact on other areas of capability, including personnel and training. As you can appreciate, an amphibious capability involves all three Services and so the benefits and consequences need to be carefully considered.

Under section 28(3) of the Act, you have the right to request the Ombudsman review and investigate this response.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Carol Douglass', with a stylized flourish at the end.

Carol Douglass
Deputy Secretary Governance, People and Executive Services