



**MINISTRY OF
DEFENCE**

Manatū Kaupapa Waonga

Annual Report

for the year ended 30 June 2005

Presented to the House of Representatives
Pursuant to section 39 of the Public Finance Act 1989





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Contents

Part 1: Overview	1
Secretary of Defence's overview	2
Introduction	2
Policy and Planning	3
International Defence Relations	5
Acquisition	11
Evaluation	13
Corporate	14
Conclusion	14
Part 2: Statement of responsibility and audit report	15
Statement of responsibility	16
Audit report	17
Part 3: Departmental financial statements	19
Statement of objectives and service performance	20
Output Class – Policy advice	21
Output Class – Audit and assessment of performance	32
Output Class – Management of equipment procurement	35
Statement of accounting policies	58
Statement of financial performance	61
Statement of movements in taxpayers' funds	62
Statement of financial position	63
Statement of cash flows	64
Reconciliation of net operating surplus to net cash flow from operating activities	65
Statement of commitments	66
Statement of contingent assets and liabilities	66
Statement of unappropriated expenditure	66
Statement of departmental expenditure and appropriations	67
Notes to the financial statements	68

Part 4: Non-departmental schedules	75
Statement of non-departmental accounting policies	76
Schedule of non-departmental revenues and receipts	77
Schedule of non-departmental expenses	78
Schedule of non-departmental assets	79
Schedule of non-departmental liabilities	79
Schedule of non-departmental commitments	80
Schedule of non-departmental expenditure and appropriations	80
Schedule of non-departmental contingencies	81
Notes to the non-departmental schedules	82
Part 5: Other information	85
Equal employment opportunities	86
Management performance	86
E-government	86
Organisation chart	87
Financial performance	88
Summary of appropriations (GST exclusive)	88
Historical financial performance of significant items:	
Payments on behalf of the Crown	89
Historical financial performance of significant items:	
Receipts on behalf of the Crown	89

Part 1 : Overview



Secretary of Defence's overview

Introduction

The roles of the Ministry of Defence, which is founded on section 24 of the Defence Act 1990, are to:

- provide timely high quality advice to help the Government make well-informed decisions about the defence of New Zealand and its interests
- conduct audits and assessments of the New Zealand Defence Force and the acquisition activities of the Ministry of Defence
- arrange for the acquisition of significant items of military equipment needed to meet New Zealand Defence Force capability requirements.



The Ministry's high-level security goal, as outlined in the Statement of Intent for the period of this report, is **a secure New Zealand that contributes to international security**. The security of our territory and the Exclusive Economic Zone is a fundamental contributor to New Zealand's economic growth and social well-being. The ability of New Zealanders to enjoy safe and prosperous lives is also directly affected by physical threats to national security. In addition to defending New Zealand territory, and because the safety of New Zealand and New Zealanders is closely linked to international security, we also contribute to the security of other countries, and to global security efforts in general.

The Ministry also focuses on an intermediate-level goal, to assist in achievement of the high-level security goal. During the period under review this was that **Ministry of Defence advice and actions are credible and respected, and the Government's defence policy objectives are achieved**. The Government's defence policy objectives are paramount. These are set out in *The Defence Policy Framework* (June 2000). Other key policy guidance is in the:

- Government Defence Statement – *A Modern, Sustainable Defence Force Matched to New Zealand's Needs* (May 2001)
- 10-year *Defence Long-term Development Plan* (LTDP) (updated in November 2004).

During 2004/05 the Ministry played a key role in advancing plans to revitalise the Defence Force and enable it to meet the Government's policy requirements. The Defence Capability and Resourcing Review (DCARR), carried out during 2004, provided the stimulus for the Government's Defence Sustainability Initiative in May 2005. The initiative, which has been allocated operational funding of \$4.6 billion over the next 10 years, is designed to achieve a long-term sustainability for Defence. The Ministry will also receive increased funding to develop its policy and purchase advice functions.

An important focus for the Ministry is the advice it gives the Government on national security matters. Advice is provided on security risk management, deployment of Defence personnel, purchasing equipment, international defence relations, and achievement of the Government's defence policy objectives.

The uncertainty underpinning today's international security environment provides an ongoing policy challenge, especially in respect of Defence Force deployments. New Zealand forces are actively involved in peace monitoring, peace-keeping and post-conflict reconstruction, but as events in 2004 showed, they are also required to contribute forces at short notice to disaster relief efforts, such as Operation Sumatra, in the wake of the Boxing Day tsunami in the Indian Ocean.

A key focus of security efforts for both New Zealand and other developed nations has been the ongoing struggle against terrorism around the world. Recent terrorist attacks in the United States (September 2001), Bali (October 2002), Madrid (March 2004) and London (July 2005) illustrate that the reach of terrorist organisations is considerable, and that New Zealand interests and New Zealand citizens can be directly involved in the consequences of terrorist action. With this in mind, New Zealand trains its Defence Force to undertake a range of military tasks, including combat, and also uses its resources to shape and influence attitudes in our region and elsewhere.

The work of New Zealand's Provincial Reconstruction Team in Bamian Province, Afghanistan, is a prime example of how New Zealand Defence Force personnel can put their military skills into practical use, both in securing a troubled country in the aftermath of a harsh and undemocratic regime, and in helping to build the infrastructure and institutions of a viable Afghan nation. Nearly 200 defence personnel are stationed in Afghanistan, contributing to the reconstruction in Bamian and working to secure the country against insurgent threats. This work in building a safer Afghanistan underlines New Zealand's commitment to global security, and to stability in regions far from home.

Policy and Planning

The Secretary of Defence is the principal civilian adviser on defence matters to the Minister of Defence and to the Government. The Chief of Defence Force, who commands the New Zealand Defence Force, is the principal military adviser. Development of defence, security and defence capability policy advice is a core activity for the Ministry.

The Ministry of Defence and the New Zealand Defence Force cooperate and consult closely together. This coordination is facilitated through the Office of Chief Executives, which brings the Secretary of Defence and the Chief of Defence Force together to discuss policy issues of mutual interest; the Executive Capability Board, through which senior military and civilian officials provide guidance for major capital acquisition projects; and weekly meetings between the Vice Chief of Defence Force and the Ministry's Deputy Secretary (Policy and Planning) that are designed to exchange information and improve collaboration within the defence establishment.

The Ministry's Defence Policy and Planning Division is staffed by Ministry and New Zealand Defence Force personnel. It consists of the Strategic Policy Branch, the International Defence Relations Branch and the Strategy and Capability Analysis Branch. Its principal role is to provide consistent information and policy advice to both the Secretary of Defence and the Chief of Defence Force, and through them to the Minister of Defence and the Government.

Policy development

Reviewing Defence capability and resourcing

A key development during the year was the Defence Sustainability Initiative (DSI), announced in May 2005. The DSI had its genesis in the Defence Capability and Resourcing Review, which was a major review of Defence Force staffing, funding, infrastructure, and corporate systems needed to fulfil all the missions and tasks required to meet defence policy objectives. The Defence Capability and Resourcing Review identified the key issues that the New Zealand Defence Force and the Ministry of Defence face in delivering the capability outcomes required by the Government. It also identified options by which the New Zealand Defence Force's operations may be configured to deliver on the required capability and addressed, in broad terms, the additional resources that may be required.

Defence Sustainability Initiative

The Defence Sustainability Initiative is a 10-year defence funding package to enable the New Zealand Defence Force and the Ministry of Defence to rebuild capacity, and to fulfil the Government's goal of achieving a modern sustainable defence force matched to New Zealand's needs. A total of \$4.6 billion has been allocated by Government, to be directed towards:

- personnel issues, including additional recruitment, improving retention, conditions of service, allowances and developing special training (including trades training), in all three services
- implementing government capability plans in the *Defence Long-term Development Plan*
- reviewing the Army's configuration
- developing a real estate strategy, accommodation policy, and a policy on maintenance of the New Zealand Defence Force's property portfolio
- addressing the backlog in minor capital projects, for example, in infrastructure, equipment and IT
- expanding the Ministry of Defence's policy and purchase advice functions.

To manage this additional funding and the associated remedial work programme, the Government has directed the New Zealand Defence Force and the Ministry of Defence to enhance their management and organisational processes. A mid-term review will be commissioned to examine the Initiative's progress and determine, among other things, the appropriateness of the level of funding for the remainder of the funding period.

The *Defence Long-term Development Plan* update

First released on 11 June 2002, and updated annually, the *Defence Long-term Development Plan* is a planning tool to enable decisions on defence acquisitions to be assessed, prioritised and measured in the context of current defence policy and affordability. The Plan, which links defence policy objectives with capability requirements in the 2001 Defence Statement, contains a comprehensive list of major projects (projects over \$7 million).

In November 2004 the second update of the Plan was released, detailing an up-to-date and comprehensive list of projects and their associated preliminary costings, timings and priorities.

Other policy issues

The Ministry has provided background briefings to the Minister of Defence on a number of defence-related issues, such as the tsunami on Boxing Day 2004, and defence policies in Australia and Japan.

Capability development

The Defence Policy and Planning Division has provided policy advice on several capability development issues over the past 12 months, including:

- **C-130 Hercules and P-3 Orion upgrades:** Final Cabinet approval was obtained for projects that are revitalising the Air Force's C-130 Hercules transport aircraft and P-3 Orion maritime patrol aircraft. The upgrade to the five C-130s is designed to extend the life of the aircraft by replacing avionics and aircraft systems and undertaking structural refurbishment work. The upgrade to the six P-3s will improve the surveillance sensors and mission management systems. Communications and navigation systems are also being upgraded for both the Hercules and

the Orions, to address equipment obsolescence and to ensure compliance with evolving international air traffic regulations.

- **Replacement helicopter capability:** Cabinet has agreed to replace the Air Force's Iroquois helicopters with new NH90 medium utility helicopters from NH Industries. Aside from a considerably greater carrying capacity, the new helicopters will also be able to operate from the helicopter decks of the Navy's ANZAC class frigates, the new multi-role vessel and the offshore patrol vessels.
- **Improvised explosive device disposal:** Approval has been given to enhance the existing conventional improvised explosive device disposal capability and to establish a chemical and biological improvised explosive device disposal capability. In developing appropriate options, the Unit also assisted the Defence Force to define the need for a national radiological improvised explosive device (R-IEDD) capability.
- **Boeing 757 modification:** Final proposals were developed for the programme to modify the two Air Force Boeing 757 aircraft to a combined passenger/freight configuration. The modification programme will provide a main cabin cargo door and associated floor strengthening; ancillary modifications, including an increase in engine thrust, internal air stairs, interchangeable seating arrangements and an aeromedical evacuation capability; and a communications and navigation avionics equipment upgrade.
- **Joint Command and Control System:** The Policy and Planning Division provided advice to Cabinet to enable the project to be progressed. The project provides Defence Force commanders with the means to command and control their forces individually, in groups, within a combined force, and in coalition environments.

International Defence Relations

Closer Defence Relations with Australia

Our defence relationship with Australia is a uniquely close one. We share common regional security interests. We work together to safeguard and promote those interests. Both defence forces' rapid, collaborative response in support of the humanitarian relief effort following the Boxing Day 2004 tsunami in the Indian Ocean typified the ANZAC spirit and the close friendship and military links between our two countries. Regular discussions between officials ensure a deep understanding of each other's policies and strengthen the sinews of defence cooperation.

It is our joint objective to develop areas of collaboration and information sharing in logistics, communications and personnel. In addition, we both continue to identify and advance projects that support a high level of interoperability between our respective defence forces, such as modernising of our general service vehicle fleets and the Orion and Hercules upgrade programmes. The decision by both governments to acquire NH90 helicopters has opened up further collaborative opportunities that are being explored. To promote closer defence relations between our respective defence forces, New Zealand and Australian Defence Ministers ratified a Status of Forces Agreement in 2005.

At the operational level over the last year, both forces contributed to a range of exercises such as Predators Gallop, Tasmanex, Fincastle, and Ocean Protector. Such exercises are the prerequisite to maintaining the complementary skills and capabilities necessary to operate together in any emergency. We continue to work together in the Regional Assistance Mission to Solomon Islands and are now working more closely on coordinating our respective defence assistance programmes with our South Pacific neighbours and with Timor-Leste.

South Pacific

New Zealand is linked to the South Pacific by strong bonds of geography, history, and culture. We have a substantial interest in a safe and secure region, founded on good governance, professional defence and police forces, and respect for the rule of law. We have formal constitutional obligations for the defence of the Cook Islands, Niue and Tokelau, and a Treaty of Friendship with Samoa. In the wider Pacific region, we have additional international obligations, including assistance with maritime surveillance, disaster relief, maritime search and rescue, and peacekeeping.

We are seeking to improve our delivery of defence assistance to the South Pacific through the Mutual Assistance Programme. This includes working within the framework of the Government's Pacific Security Strategy and in partnership with other New Zealand agencies and especially the New Zealand Police. We are also working closely with other donors to avoid duplication and competition and to maximise the benefits of cooperation. Some of the major developments over the last 12 months in terms of New Zealand's defence relations with the South Pacific include the following:

Fiji

Mutual Assistance talks with the Republic of Fiji Military Forces were held in Suva in late November; the first since the suspension of bilateral defence ties in 2000. The meetings provided the opportunity to put in place a new training assistance programme. We also reached agreement on a targeted approach to our assistance, focused on professional development.

Papua New Guinea

The visit to New Zealand by the Acting Secretary of Defence for Papua New Guinea provided an opportunity to signal our willingness to provide continued support and assistance to the Papua New Guinea Defence Force, where practicable, especially through the Mutual Assistance Programme. We reaffirmed our support for efforts to downsize and reform the Papua New Guinea Defence Force and the Department of Defence.

Solomon Islands

The Regional Assistance Mission in Solomon Islands (RAMSI), now close to its second anniversary, has successfully met its initial goals. There is a strong and ongoing public support for the mission, but the long and difficult task of rebuilding the machinery of government lies ahead. The deployment of police and military personnel and civilian advisers has restored law and order and stabilised government finances.

With the restoration of law and order, the military presence in Solomon Islands, including that of New Zealand's contribution, has been scaled back. Along with Australia, Fiji, Papua New Guinea and Tonga, New Zealand now deploys a military platoon on a rotational basis. While we are confident that this is an appropriate level of ongoing support to RAMSI, the Government has signalled that it would consider sympathetically any request for additional military support should circumstances warrant it.

Cook Islands

We have constitutional responsibilities for the defence and security of the Cook Islands. Under the Mutual Assistance Programme we provide training for the Cook Islands Police, including support to the Pacific Patrol Boat programme. Other defence cooperation includes maritime surveillance support and disaster relief assistance. The Government and people of the Cook Islands appreciated the

New Zealand Defence Force's assistance in the wake of Cyclones Meena, Nancy, and Olaf, which caused extensive damage, particularly to the northern islands of Pukapuka and Nassau.

Southeast Asia

Five Power Defence Arrangements (FPDA)

The FPDA brings Defence Ministers, officials and defence forces from Malaysia, Singapore, New Zealand, Australia and the United Kingdom together to exercise, train and exchange views on defence issues of relevance to all the members. The FPDA continues to evolve to meet the challenges of the changing security environment.

New Zealand takes part in the full range of FPDA activities, with emphasis now being given to combating non-conventional threats, such as maritime terrorism, piracy and people smuggling. Scenarios based around such threats are being introduced into FPDA exercises. The Minister of Defence met with his FPDA counterparts following the International Institute for Strategic Studies (IISS) Asia Security Conference in Singapore in June 2005 to discuss these developments and prospects for strengthening maritime surveillance cooperation.

ASEAN Regional Forum (ARF)

The ARF, which brings together 24 countries and the European Union, is the only Asia-Pacific pan-regional body devoted to cooperation on security issues. New Zealand values the ARF and actively supports greater defence participation under its auspices. The first Security Policy Conference, a new meeting for senior defence officials, took place in China in November 2004, marking an important step for dialogue among defence officials. New Zealand was represented at this conference and at its successor in Laos in May 2005. New Zealand defence officials attended the Ministerial Meeting in Indonesia in July 2004, the Intersessional Group Meetings in Cambodia in November 2004, and in Germany in February 2005, and the Senior Officials' Meeting in Laos in May 2005. New Zealand also participates in a range of ARF confidence-building measures.

Singapore

New Zealand's extensive and long-standing defence links with Singapore are an integral part of the wider relationship between the two countries. We sustain active defence engagement through exercises, training and exchanges, and through an annual schedule of meetings. Our defence ties continue to grow, for example, through the introduction of new army-to-army activities and deepening defence industry links. The Minister of Defence held a bilateral meeting with his Singaporean counterpart, Rear Admiral Teo Chee Hean, at the IISS Asia Security Conference in Singapore in June 2005.

Malaysia

New Zealand has a long history of defence association with Malaysia. We share a constructive defence relationship, based on an annual programme of exercises, bilateral meetings, multilateral cooperation within the FPDA and training provided to the Malaysian Armed Forces through the Mutual Assistance Programme. Malaysia also offers training to the New Zealand Defence Force at its United Nations Peacekeeping School. The Minister of Defence met the Malaysian Deputy Prime Minister and Minister of Defence, Dato' Sri Mohammed Najib, for a bilateral meeting in Singapore in June 2005.

Philippines

New Zealand's defence relationship with the Philippines is centred on training provided to the Armed Forces of the Philippines through the Mutual Assistance Programme. In April 2005 the Secretary of National Defence of the Philippines, Avelino Cruz Jr, made an official visit to New Zealand to discuss our approach to capital acquisition and the formulation of defence policy with a view to applying some of the lessons learned to his reform programme for the Philippines Armed Forces.

Timor-Leste

The Security Council approved the establishment of a Special Political Mission (UNOTIL) to replace the United Nations Mission in Timor-Leste (UNMISET) when its mandate expired on 20 May 2005. UNOTIL will have a one-year mandate, as a transitional mechanism towards a standard UN development presence in Timor-Leste. New Zealand is providing one military liaison officer as part of this follow-on mission.

The Mutual Assistance Programme has been expanded to include Timor-Leste. New Zealand has been assisting in an advisory capacity with logistics, human resource support and small arms training since the fledgling force was established. The Mutual Assistance Programme, at least initially, will maintain that focus. The Minister of Defence discussed New Zealand's plans for this assistance when he met his Timor-Leste counterpart, Dr Roque Rodriguez, in Singapore in June 2005.

Other Southeast Asian Nations

New Zealand's defence relationship with Brunei is centred chiefly on the Mutual Assistance Programme and exercises in Brunei. The Commander of the Royal Brunei Armed Forces visited New Zealand in April 2005.

Defence links with Vietnam are growing, primarily through New Zealand Defence Force visits to Vietnam. We maintain regular defence contact with Thailand, the focus of which is the Mutual Assistance Programme. New Zealand and Thailand share a recent history of cooperation in peace support operations. We have considerable interaction with all South East Asian countries through the ARF defence dialogue process.

North Asia

The stability of Northeast Asia is central to the security of the entire Asia-Pacific region. It is a region where the economic and security interests of major powers converge and is particularly important to New Zealand's continued prosperity. Strategic realities, economic interests and regional connections compel New Zealand to deepen its defence and security understanding of, and engagement with, North Asia.

China

Notable developments in New Zealand-China defence relations over the past year include the visit to New Zealand by the People's Liberation Army Chief of General Staff, General Liang Guanglie, in November 2004. The Vice Chief of Defence Force, Air Vice Marshal David Bamfield travelled to China in June, and in November 2004 the Chief of Navy, Rear Admiral David Ledson, paid the first ever visit by a Royal New Zealand Navy Chief of Navy to China. HMNZS *Te Mana* and HMNZS *Endeavour* visited Shanghai in June 2005.

Republic of Korea

The New Zealand Defence Force remains connected to the security of the Republic of Korea (ROK) through bilateral military contacts and through continued participation in the multinational United Nations Command (UNC). Our commitment to the UNC has been underlined by the extension of the deployment of a New Zealand Defence Force officer to the UNC Military Armistice Commission (UNCMAC) through to 2006, and the additional deployment of two New Zealand Defence Force officers to the UNCMAC through to 2006.

In June 2005 the Minister (accompanied by the Secretary of Defence) travelled to Seoul and met with his South Korean counterpart, Mr Yoon Kwang Yoong. Chief of Defence Force, Air Marshal Bruce Ferguson visited the ROK in October 2004. In February 2005 United States General Leon J. LaPorte, Commander of the UNC, of the Combined Forces Command and of US Forces in Korea, visited New Zealand for talks on the Korean Peninsula.

We conduct bilateral exchanges with the ROK armed forces. In May 2005 a Royal New Zealand Air Force P-3 Orion conducted anti-submarine exercises with the ROK Navy and Korean special forces personnel trained in New Zealand in December. For the first time, a ROK officer is attending the New Zealand Defence Force Command and Staff College. A Korean National Defence University delegation made an inaugural visit to New Zealand in June 2005.

Japan

In April 2005, a New Zealand Defence Attaché post was established in Tokyo, reaffirming the value New Zealand places on its defence relations with Japan. As Japan seeks to enhance its role in multinational peacekeeping and military operations, the prospects for interaction with the New Zealand Defence Force will increase.

Following closely upon the Prime Minister's visit, the Minister of Defence (accompanied by the Secretary of Defence) visited Japan in June 2005, meeting Defence Minister Yoshinori Ohno in Tokyo. The Chief of Defence Force, Air Marshal Bruce Ferguson, visited Japan in October 2004 for the United States-Japan hosted Chiefs of Defence Conference.

United Kingdom

Our longstanding defence relationship with the United Kingdom plays a central role in the professional development of the New Zealand Defence Force. Cooperation extends across a range of activities, including training, exercises, individual and unit exchanges, and specialist training, particularly for Royal New Zealand Navy officers. New Zealand continues to contribute to British peace support operations in Bosnia.

The Minister of Defence met his United Kingdom counterpart, the Rt Hon Dr John Reid, in Singapore in June 2005. The First Sea Lord, Admiral Sir Alan West, travelled to New Zealand in February 2005 as a guest of the Chief of Navy.

North America

United States

New Zealand continues to work alongside the United States in a number of international operations in pursuit of shared interests. We remain one of a handful of countries contributing military forces to the stabilisation effort in Afghanistan. United States forces play an important role in providing logistic and *in extremis* support for our Provincial Reconstruction Team in Afghanistan.

Canada

Canada and New Zealand enjoy a warm defence relationship characterised by a significant sharing of interests and views. This is reflected in our extensive counter-terrorism commitments, our collaborative efforts in various multilateral forums, and in a small but important programme of exercises and exchanges. Our respective armed forces are also going through an important period of renewal and investment in new capabilities.

Peace Support Operations

New Zealand has been a consistent contributor to peacekeeping missions for half a century. The Asia-Pacific region remains New Zealand's first priority for peacekeeping contributions, but our commitment to collective security and the rule of law requires ongoing contributions well beyond our region. Our commitments are global in reach, with approximately 250 New Zealand Defence Force personnel carrying out peacekeeping or nation building activities in the Pacific, Middle East, Asia, Europe and Africa.

Afghanistan

New Zealand supports international efforts to help Afghanistan eliminate terrorist groups and develop its own capabilities through the deployment of Special Air Service personnel, contributions to the International Security Assistance Force, and training of the Afghan National Army. A Military Liaison Officer is working with the United Nations Assistance Mission in Afghanistan.

New Zealand is also providing a Provincial Reconstruction Team of over 120 personnel, a commitment that has been extended to September 2006. Working in Bamyan Province, this team aims to assist the Afghan authorities extend their influence beyond Kabul. The Provincial Reconstruction Team's focus is on improving the security environment, as well as assisting with providing humanitarian support and development assistance to the Afghan people.

Iraq

In December 2004 New Zealand deployed a Military Liaison Officer to the United Nations Assistance Mission in Iraq. His main tasks are to liaise with and co-ordinate the activities of the UN mission, the Multinational Force and the Iraqi security forces, and provide advice to the UN's Special Representative for Iraq on military matters. This deployment underlines New Zealand's support for the UN's involvement in Iraq at this critical juncture in the Iraqi political process. This officer will be in theatre through 2005.

Proliferation Security Initiative

Launched in 2003 and based on a series of multilateral activities, the primary purpose of the Proliferation Security Initiative is to take new and stronger actions to prevent the proliferation of weapons of mass destruction, their delivery systems and related materials. A set of Interdiction Principles consistent with national and international law and frameworks has been developed and New Zealand signed up to those principles at the Krakow meeting in May 2004. New Zealand defence officials have since attended several plenary and operational experts' meetings and the New Zealand Defence Force has contributed to an ongoing series of workshops and training exercises.

Acquisition

The Ministry is responsible for procuring all major items of capital equipment for the New Zealand Defence Force. The procurement process is often lengthy. It commences with the Government giving its approval in principle to an acquisition on the basis of a concept of operations and functional performance specifications determined principally by the Defence Force and external agencies. The Acquisition Division develops the necessary documentation for tender purposes, invites tenders, evaluates tender responses, undertakes risk assessments, and identifies preferred bidders. Once Government approval is given, the Division negotiates and manages the contract arrangements through to the delivery of the equipment to the New Zealand Defence Force.

Key projects over the last year have covered all three services.

Upgrading the Army

Vehicles

Light armoured vehicles (LAVs)

We have purchased 105 LAVs from General Dynamics Land Systems, Canada. One hundred and four vehicles are now in service with the Army. One vehicle will remain in Canada until 2007 for test fitting of add-on armour. Contracted training has been completed, and almost all of the ordered spare parts and special tools have been delivered.

Light operational vehicles (LOVs)

This project involves the acquisition of 321 LOVs in six variants to meet the Army's motorisation requirements. Deliveries commenced in October 2004 and 131 non-armoured LOVs were in service with the Army as at 30 June 2005.

Tactical communications

This project covers tactical communications for the Army and supporting Royal New Zealand Air Force units. The project has progressed as planned with deliveries of additional radios and associated equipment nearing completion. Final deliveries are expected in the fourth quarter of 2005.

Weapons

Very Low Level Air Defence

This project provides an alerting and cueing system for the Mistral very low level air defence system, which is already in service. A contract for the Identification of Friend or Foe system was signed in October 2004. Delivery of all equipment is expected by the third quarter of 2006.

Medium Range Anti-armour Weapon

This project is to procure a medium-range anti-armour weapon, the Javelin missile, manufactured by Raytheon/Lockheed Martin Joint Venture. The project is proceeding as a Foreign Military Sales procurement. Training equipment system is due in June 2006 to coincide with the delivery of missiles and launch units. Deliveries of the project should be completed by August 2006.

Upgrading the Navy

Following the Government's endorsement of the Maritime Forces Review, Project Protector was initiated to purchase new vessels for the Royal New Zealand Navy. A contract with Tenix Defence Systems was signed in July 2004, for one multi role vessel (MRV), two offshore patrol vessels (OPV) and four inshore patrol vessels (IPV). The first steel for the OPV was cut in February 2005 at Tenix, Williamstown Yard, Melbourne. Two OPV modules are under construction. The first steel was cut for the MRV in April 2005 and construction is underway. The first steel was cut for the first IPV in June 2005 at Tenix's Whangarei Facility. Construction is also underway on the first OPV superstructure module in that facility.

Upgrading the Air Force

C-130 Life Extension

A contract was signed with L-3 Communications Spar Aerospace in December 2004. Preliminary design reviews are underway prior to the commencement of work on the first C-130H in the last quarter of 2005.

Boeing 757 Purchase and Modifications

Detailed planning for the modification programme (cargo door, strengthened floor, air stairs and communications/navigation equipment upgrade) is complete. A Request for Tender was issued to the preferred contractors in April 2005. An evaluation of contractors' bids has been completed. Cabinet approval to proceed with the project will be sought in the third quarter of 2005. The modification programme is expected to start in the second quarter of 2006.

Replacement Helicopter Capability

Evaluation of the Medium Utility Helicopter Invitation to Register was completed in July 2004. Due diligence on selected responding companies was completed in November 2004. The Government approved NH Industries as the preferred tenderer in March 2005. The Ministry continues to engage with NH Industries for full costings for the NH90, and the Australian Department of Defence on matters of mutual interest and collaboration on the purchase and support of the NH90, which Australia has also contracted to acquire. Cabinet approval to proceed with the project will be sought in the fourth quarter of 2005.

An Invitation to Register was issued to industry in June 2005 for the Training/Light Utility Helicopter.

P-3 Orion

L-3 Communications Integrated Systems was invited to submit a best and final offer for the project to enable options to be presented to the Government in August 2004. A contract was signed with L-3 Communications Integrated Systems in October 2004. The first aircraft for early electro-optics installation arrived at Safe Air, Woodbourne, in late June 2005. Preliminary design reviews are underway prior to the commencement of work on the first P-3 in the last quarter of 2005.

A joint approach

Joint command and control system

The acquisition of a joint command and control system will provide New Zealand Defence Force commanders at strategic, operational, and tactical levels, with the means to execute, command and control their forces singly, jointly, within a combined force, and within a coalition environment. It will ensure a sustainable interoperable framework, including that with relevant, non-defence organisations.

The New Zealand Defence Force has considered the findings of the study and has developed the system specifications. Cabinet approval to progress the project was received in June 2005, and an Invitation to Register is expected in late 2005.

New Zealand industry involvement

New Zealand Defence Industry Association

The Ministry has continued to support local companies seeking to obtain defence work from major acquisition projects and through exports. The main conduit for this assistance has been through the local association of member defence companies, the New Zealand Defence Industry Association, as well as the Manawatu Defence Cluster, both of which have focused on defence work. During the year, the Ministry provided regular briefings at New Zealand Defence Industry Association meetings. Assistance was also provided to the New Zealand Defence Industry Association as sponsors of the annual Defence Industry Seminar, as well as organisational input for the annual two day seminar held at Te Papa Museum in Wellington in late October.

Defence Industry Committee of New Zealand (DICNZ)

The Ministry provided support for the DICNZ. This Ministerially-appointed committee provides industry feedback to Defence and briefs the Minister on industry issues.

The DICNZ sponsors the Defence Industry Committee Awards of Excellence, awarded annually to companies that have provided Defence with excellence in products or services. The awards have recently been restructured to allow recognition of smaller organisations that provide excellent service to the New Zealand Defence Force, as well as to those involved in larger procurement projects.

DICNZ commissioned the New Zealand Institute of Economic Research (NZIER) in 2004 to undertake research into the effects of government procurement policy on the defence industry. NZIER was also asked to consider how industry is affected by other government procurement policies such as the Growth and Innovation Framework. NZIER presented the final report on its research to DICNZ in February 2005.

Evaluation

Under section 24(2)(e) of the Defence Act 1990, the statutory role of the Evaluation Division is to carry out assessments and audits of any function, duty or project of the New Zealand Defence Force. The Division also conducts audits of the Ministry of Defence's activities relating to the procurement of major military capability.

These assessments and audits are undertaken when required by the Minister of Defence, or to a programme approved under authority delegated by the Minister to the Secretary of Defence and the Chief of Defence Force. Reports of completed audits are submitted to the responsible chief executive and the Minister.

The Secretary of Defence and the Chief of Defence Force, together with an external member, met twice during the year as the Defence Evaluation Board, to approve the programme of work for the Evaluation Division, receive reports on audits completed, and to monitor follow-up action on past audits. The Evaluation Division also undertakes internal audits of the Ministry for the Secretary of Defence.

In addition to undertaking audits to meet the Secretary's responsibilities under the Defence Act, the Evaluation Division undertakes audits under section 3(6) of the Hazardous Substances and New Organisms Act 1996. During the year the Division completed a report on the New Zealand Defence Force's controls on hazardous substances not contained in weapon systems.

Corporate

Corporate Division provides support services and policy advice in the areas of human resources, information management and technology, and legal. The Division is responsible for all aspects of Ministerial services and support, including the handling of Ministerial correspondence, requests under the Official Information Act 1982, and miscellaneous enquiries.

A major emphasis over the last year has been on progressing the new Defence building that will accommodate the two Defence organisations, which is scheduled for completion in 2007.

Alongside this, there has been work to develop an electronic collaborative working space that will allow the Ministry and the Defence Force to produce joint information.

Conclusion

It has been a challenging and rewarding year for the Ministry. As well as the continued focus on work associated with the Defence Force's many deployments and capability acquisition programmes, substantial efforts were devoted to the Defence Capability and Resourcing Review and the Defence Sustainability Initiative, which will shape the rebuilding of the Defence Force for the next ten years.

The Initiative will provide greater certainty for defence planning and guide the reconstruction of defence capability to meet the Government's policy objectives. The Ministry is working closely with the Defence Force to implement the Initiative.



Graham Fortune
Secretary of Defence
30 September 2005

Part 2 : Statement of responsibility and audit report



Statement of responsibility

In terms of sections 35 and 37 of the Public Finance Act 1989 (these section references apply as if those sections had not been amended by the Public Finance Amendment Act 2004 (PFAA)), in accordance with the transitional provisions in section 33 of the PFAA, I am responsible, as Chief Executive of the Ministry of Defence, for the preparation of the Ministry's financial statements and the judgements made in the process of producing those statements.

I have the responsibility of establishing and maintaining, and I have established and maintained, a system of internal control procedures that provide reasonable assurance as to the integrity and reliability of financial reporting.

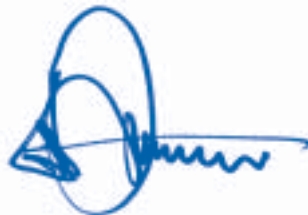
In my opinion, these financial statements fairly reflect the financial position and operations of the Ministry for the year ended 30 June 2005.

Signed by:

Countersigned by:



Graham Fortune
Secretary of Defence
30 September 2005



S J Patterson
Assistant Secretary of Defence (Finance)
30 September 2005



Audit New Zealand

AUDIT REPORT TO THE READERS OF MINISTRY OF DEFENCE'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

The Auditor-General is the auditor of Ministry of Defence (the Ministry). The Auditor-General has appointed me, C R Fabling, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements of the Ministry, on his behalf, for the year ended 30 June 2005.

Unqualified opinion

In our opinion the financial statements of the Ministry on pages 20 to 84:

- ▲ comply with generally accepted accounting practice in New Zealand; and
- ▲ fairly reflect:
 - the Ministry's financial position as at 30 June 2005;
 - the results of its operations and cash flows for the year ended on that date;
 - its service performance achievements measured against the performance targets adopted for the year ended on that date; and
 - the assets, liabilities, revenues, expenses, contingencies and commitments managed by the Ministry on behalf of the Crown for the year ended 30 June 2005.

The audit was completed on 30 September 2005, and is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Secretary of Defence and the Auditor, and explain our independence.

Basis of opinion

We carried out the audit in accordance with the Auditor-General's Auditing Standards, which incorporate the New Zealand Auditing Standards.

We planned and performed the audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements did not have material misstatements, whether caused by fraud or error.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

The audit involved performing procedures to test the information presented in the financial statements. We assessed the results of those procedures in forming our opinion.

Audit procedures generally include:

- ▲ determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- ▲ verifying samples of transactions and account balances;
- ▲ performing analyses to identify anomalies in the reported data;
- ▲ reviewing significant estimates and judgements made by the Secretary of Defence;
- ▲ confirming year-end balances;
- ▲ determining whether accounting policies are appropriate and consistently applied; and
- ▲ determining whether all financial statement disclosures are adequate.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements.

We evaluated the overall adequacy of the presentation of information in the financial statements. We obtained all the information and explanations we required to support our opinion above.

Responsibilities of the Secretary of Defence and the auditor

The Secretary of Defence is responsible for preparing financial statements in accordance with generally accepted accounting practice in New Zealand. Those financial statements must fairly reflect the financial position of the Ministry as at 30 June 2005. They must also fairly reflect the results of its operations and cash flows and service performance achievements for the year ended on that date. In addition, they must fairly reflect the assets, liabilities, revenues, expenses, contingencies and commitments managed by the Ministry on behalf of the Crown for the year ended 30 June 2005. The Secretary of Defence's responsibilities arise from the Public Finance Act 1989.

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001 and the Public Finance Act 1989.

Independence

When carrying out the audit we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the Institute of Chartered Accountants of New Zealand.

A staff member from the Office of the Controller and Auditor-General was seconded to the Ministry of Defence as Project Manager, Defence Capability and Resourcing Review from 20 January 2004 to 30 April 2005, following which the staff member was appointed to the permanent position of Director, Strategic Capability Analysis. In addition, we completed an assurance engagement in relation to a costing model. Other than the audit, the secondment and this engagement, we have no relationship with or interests in the Ministry.

C R Fabling
Audit New Zealand
On behalf of the Auditor-General
Wellington, New Zealand

Matters relating to the electronic presentation of the audited financial statements

This audit report relates to the financial statements of the Ministry of Defence for the year ended 30 June 2005 included on the Ministry of Defence's website. The Secretary of Defence is responsible for the maintenance and integrity of the Ministry of Defence's website. We have not been engaged to report on the integrity of the Ministry of Defence's web site. We accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

We have not been engaged to report on any other electronic versions of the Ministry of Defence's financial statements, and accept no responsibility for any changes that may have occurred to electronic versions of the financial statements published on other websites and/or published by other electronic means.

The audit report refers only to the financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and related audit report dated 30 September 2005 to confirm the information included in the audited financial statements presented on this web site.

Legislation in New Zealand governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Part 3 : Departmental financial statements



Statement of objectives and service performance

For the year ended 30 June 2005

Objectives

The Estimates of Appropriations and Output Plan formed the framework for the definition of objectives and performance indicators by divisions within the Ministry. These were reviewed and adapted where necessary in response to external change during the year. In addition, at the end of each quarter, divisions formally evaluated their performance against their objectives in order to compare actual results with priorities, resource allocations and targets set at the beginning of the year. A quarterly report was made to the Minister of Defence on the delivery of outputs to the Crown.

Quality assurance

The Ministry applied to all outputs quality assurance processes designed to maintain professional standards and quality of work. These processes included: the provision of appropriate training and skilling programmes and career development opportunities; annual evaluations and reviews of staff performance; and managerial oversight. The Ministry maintains the financial management systems necessary to ensure that classes of outputs are delivered within approved appropriation and in compliance with the provisions of the Public Finance Act. Regular monitoring of expenditure against output forecasts was undertaken. Systems are in place to ensure working capital is managed at an optimum level and foreign currency exposure is minimised.

Output class performance

Performance for each output class is reviewed in the following statements of service performance. Each section of the statements sets out the outputs under review, and reviews performance in terms of the appropriate measures.

Output Class – Policy advice

Description

Under this output class the Minister of Defence will purchase:

- advice on defence policy matters. This includes advice on:
 - strategies for achieving goals and outcomes
 - changes in the strategic environment with implications for defence policy
 - the defence and security policies of other countries
 - deployment of New Zealand Defence Force assets and personnel
 - the military capabilities required to meet defence policy goals, broad resource implications and the relative merits and risks associated with proposed capability options.
- management and enhancement of bilateral and multilateral defence relations
- responses to Ministerial and Parliamentary Questions, Official Information Act enquiries and Ombudsman correspondence.

Outcome

The outcome of this output class is to contribute, by the formulation of effective policies, to the protection of New Zealand and its external interests.

Service performance

Quantity and timeliness

Target	Delivered
1. Undertake analysis of significant issues that have an impact on the Government's defence policy and international defence relations including: <ul style="list-style-type: none"> • developments in the international security environment, especially in the Asia-Pacific region 	<ul style="list-style-type: none"> – The Ministry continues its contribution to the Seriously Asia Project. – The Ministry has provided regular briefings on Association of South East Asian Nations (ASEAN) Regional Forum intersessional issues. – The Ministry attended the Proliferation Security Initiative Operational Experts Working Group Meeting in Sydney and contributed to subsequent policy discussions and ministerial submissions. – The Ministry attended the Asia-Pacific roundtable meeting and Shangri-La dialogue in Singapore on 3–5 June.

Target	Delivered
	<ul style="list-style-type: none"> – The Ministry provided policy advice on options for defence engagement with Vietnam. – The Ministry provided policy advice on New Zealand’s objectives for non-conventional operations within Five Power Defence Arrangements exercises and activities. – The Ministry provided policy advice on engagement with the South African National Defence Force.
<ul style="list-style-type: none"> • changes in the defence and security policies of key countries such as Australia and the United States 	<ul style="list-style-type: none"> – The Ministry closely monitored the US Global Strategic Review and the comments of partners in the region. – The Ministry is exploring options with Canada for instituting regular political-military talks.
<ul style="list-style-type: none"> • developments in regional security relations 	<ul style="list-style-type: none"> – The Ministry contributed to the Pacific Security Strategy and Framework and successfully sought funding for the Pacific Defence and Security Seminar, held in Wellington on 10–24 March, from the Pacific Security Fund. – The Ministry participated in senior officials talks in Suva on the shape of defence re-engagement with Fiji and prepared a submission for Ministers recommending a way forward, including with respect to high level contact. – The Ministry attended the Pacific Islands Forum Security Committee in Auckland on 14–15 June. – The Ministry participated in trilateral discussions with Australia and France on maritime surveillance.
<ul style="list-style-type: none"> • deployments of New Zealand Defence Force assets and personnel on United Nations or other operations 	<ul style="list-style-type: none"> – The Ministry was actively involved in inter-agency policy discussions relating to the deployment of New Zealand Defence Force personnel and assets to Operation Enduring Freedom, including in Afghanistan.

Target	Delivered
	<ul style="list-style-type: none"> <li data-bbox="831 255 1402 1003">– The Ministry was involved in the preparation of Cabinet papers and agreements relating to the deployment of New Zealand Defence Force personnel to the UN Assistance Missions in Sierra Leone (UNAMSIL); the UN Mission in Sudan (UNMISUD); the UN Assistance Mission in Afghanistan (UNAMA); the UN Assistance Mission in Iraq (UNAMI); the UN Mission in Côte D'Ivoire; the UN Mission in Democratic Republic of Congo (MONUC); the UN Truce Supervision Organisation in the Middle East (UNTSO); the UN Stabilisation Mission in Haiti (MINUSTAH); the Stabilisation Force in Bosnia-Herzegovina (SFOR) and (EUFOR); the Mozambique Assistance Demining Programme (MADP); the UN Command in Korea (UNCMAC); and UN Mission in Kosovo (UNMIK). <li data-bbox="831 1025 1402 1160">– The Ministry was involved in the development and writing of the Cabinet submission on the Strategic Review of New Zealand's Peace Support Commitments. <li data-bbox="831 1182 1402 1283">– The Ministry is involved in the development of options for security at Rove Prison in Solomon Islands.
<ul style="list-style-type: none"> <li data-bbox="228 1350 671 1451">• the operation of the New Zealand Defence Force Mutual Assistance Programme 	<ul style="list-style-type: none"> <li data-bbox="831 1350 1402 1485">– The Ministry supplied policy advice on the allocation of activities and priorities for the 2004/05 Mutual Assistance Programme. <li data-bbox="831 1507 1402 1641">– The Ministry provided policy input to Mutual Assistance Programme talks in Fiji, Thailand, Malaysia, Tonga, Samoa, Philippines, Brunei, and the Cook Islands. <li data-bbox="831 1664 1402 1798">– The Ministry led the New Zealand/Australia Mutual Assistance Programme/Defence Cooperation Programme talks in Canberra in October. <li data-bbox="831 1821 1402 1926">– The Ministry provided policy advice on the development of a Mutual Assistance Programme with Timor-Leste.

Target	Delivered
<ul style="list-style-type: none"> • undertake capability reviews in cooperation with the New Zealand Defence Force to identify the options for achieving the Government's defence policy goals and the Ministry of Defence's outcomes, in particular capability reviews for projects from the <i>Defence Long-term Development Plan</i> that have been approved in principle by the Government and projects necessary to provide a well-equipped land force 	<ul style="list-style-type: none"> – Policy advice, guidance and resources were provided to the Defence Capability and Resourcing Review and the Defence Funding Package Implementation project. – The Ministry was involved in the development and writing of the Cabinet paper on the current status of projects on the <i>Defence Long-term Development Plan</i> and seeking approval for the release of the 2004 Public Update of the Plan. – The Ministry was involved in the development and writing of Cabinet papers on: updating Cabinet on the helicopter project; the Joint Command and Control capability; and on the New Zealand Defence Force Improvised Explosive Device Disposal (IEDD) capability. The Ministry has also been closely involved in the development of the follow-up IEDD paper due to Cabinet in July 2005. – The Ministry participated in the inter-agency process associated with developing the Cabinet paper that secured sea-floor survey and ocean research funding for the optimal utilisation of the Crown research vessels HMNZS <i>Resolution</i> and RV <i>Tangaroa</i>. – Policy advice continues to be provided on the Combat Service Support Vehicles project; and the Land Intelligence, Surveillance and Reconnaissance project. – The Ministry continues to work on a policy review of the New Zealand Defence Force's mobile surgical response assets. – The Ministry has been involved with the New Zealand Defence Force in developing a paper that analyses policy issues associated with a possible tactical airlift capability gap. – The Ministry continued to be involved in the provision of policy advice, and the development of Cabinet papers, relating to the consolidation of the Air Force at the Ohakea airbase.

Target	Delivered
<ul style="list-style-type: none"> • provide on-going advice during the acquisition phase of projects from the <i>Defence Long-term Development Plan</i> that have been approved by the Government, such as new maritime force vessels, the upgrade of the C-130H Hercules fleet, the acquisition and modification of second-hand Boeing 757 aircraft, the acquisition of the light armoured vehicles, and the upgrade of the mission systems for the P-3K Orion fleet 	<ul style="list-style-type: none"> – Policy advice has been provided on the training/light utility helicopter project; self protection for air capabilities, especially the P-3 Orion and C-130 Hercules aircraft; and the Direct Fire Support Weapon (Area) project. – The Ministry is analysing, in conjunction with the New Zealand Defence Force, all known capability projects for input into a revised 2005 <i>Defence Long-term Development Plan</i>. – The Ministry was involved in the development and writing of a Cabinet paper to seek approval to proceed with contract negotiations for the P-3 Orion Systems Upgrades projects. – Policy advice was provided on developing the Cabinet papers seeking approval to proceed with contract negotiations for the upgrading of the C-130 Hercules fleet; and approval of the final contract. – Policy advice was provided, and a Cabinet paper commenced, on finalisation of the contract for the modification of the Boeing 757 aircraft.
<ul style="list-style-type: none"> • interface with the New Zealand Defence Force and civilian agencies, for coordinated responses to defence policy and security issues. These will include: Antarctica, arms control and disarmament, maritime patrol and surveillance, and oceans policy 	<ul style="list-style-type: none"> – The Ministry was involved in ongoing discussions on regional security policy. – The Ministry provided advice to the Ministry of Foreign Affairs and Trade on arms control and disarmament issues, and particularly, on the Convention on Certain Weapons issues. – The Ministry provided advice to the Ministry of Foreign Affairs and Trade for the annual Landmine Monitor Report. – The Ministry had input to the development of a national position on supporting counter-narcotic activities in Afghanistan. – The Ministry has maintained a watching brief on oceans policy and Antarctic issues. – The Ministry continues to be involved in the development of options for meeting New Zealand's Short-Mid Range Air Patrol requirements, which is being led by the Ministry of Fisheries.

Target	Delivered
<ul style="list-style-type: none"> • manage defence relationships with Australia and other regional countries (including key bilateral meetings between Australian and New Zealand Defence Ministers, and Senior Officials' meetings), and participate in the regional multilateral security dialogues (including the Association of Southeast Asian Nations Regional Forum and Five Power Defence Arrangements Defence Ministers' Meeting.) 	<ul style="list-style-type: none"> – The Ministry, in conjunction with the Navy, was involved with other government agencies in developing a Total Oceans Survey Strategy that is to be implemented by 2020. This work was undertaken as a result of the decision taken by Cabinet in August 2004 on hydrography. – The Ministry participated in interdepartmental discussions on priorities for the Regional Assistance Mission in Solomon Islands. – The Ministry participated in the super-planning meeting for Regional Assistance Mission in Solomon Islands in Honiara. – The Ministry prepared background papers on the defence implications of the Aceh tsunami; Japanese defence and security policy, and Australian defence and security policy. – The Ministry commenced the drafting of a geopolitical environmental scan to inform other defence policy work. – The Ministry, in conjunction with the New Zealand Defence Force, is reviewing the <i>Capability Management Framework</i>. – The Ministry organised and participated in the Australia-New Zealand Coordinating Committee and Ministerial Meeting in Taupo in July 2004 and in Melbourne in May 2005. The Ministry coordinated and finalised the Australia-New Zealand Defence Coordinating Group report to Ministers. The Ministry prepared the six monthly report on Closer Defence Relations outcomes for the period 1 July–31 December 2004 for the Australian and New Zealand Defence Ministers after the second Defence Coordinating Group meeting in November 2004. – The Ministry participated in discussions with the new Director New Zealand and South Pacific Division of International Policy Branch of the Department of Defence, Australia. – The Ministry attended the Defence Coordinating Group Meeting in Singapore.

Target	Delivered
	<ul style="list-style-type: none"> <li data-bbox="831 264 1399 360">– The Ministry led New Zealand’s participation in the New Zealand-Japan Security Talks in Tokyo. <li data-bbox="831 387 1399 483">– The Ministry took part in the ASEAN Regional Forum inter-sessional Group meetings in Cambodia and Germany. <li data-bbox="831 510 1399 568">– The Ministry took part in the ASEAN Regional Forum Security Policy Conference in Beijing. <li data-bbox="831 595 1399 692">– The Ministry participated in the Malaysian Training Activities Committee Talks, and the Thailand Mutual Assistance Talks. <li data-bbox="831 719 1399 815">– The Ministry organised and hosted a visit by the Papua New Guinea Acting Secretary of Defence. <li data-bbox="831 842 1399 938">– The Ministry took part in the Defence Coordinating Group and Senior Executives’ Meeting in Malaysia in March. <li data-bbox="831 965 1399 1093">– The Ministry was involved in the organisation and hosting of a visit by the Philippines Secretary of National Defence in April. <li data-bbox="831 1120 1399 1216">– The Ministry attended the ASEAN Regional Forum Senior Officials’ meeting and Security Policy conference in May in Laos. <li data-bbox="831 1243 1399 1984">– The Ministry provided a briefing for the following defence diplomacy visits and meetings: <ul style="list-style-type: none"> <li data-bbox="871 1346 1399 1404">• The visit by the Minister of Defence to Solomon Islands. <li data-bbox="871 1431 1399 1489">• The visit by a multi-agency team to Fiji to discuss defence re-engagement. <li data-bbox="871 1516 1399 1590">• The attendance by the Chief of Defence Force at the Five Power Defence Chiefs’ Conference. <li data-bbox="871 1617 1399 1691">• The visit by the Chief of Defence Force to Japan (Chiefs and Heads of Defence Conference) and Korea. <li data-bbox="871 1718 1399 1792">• The attendance by the Chief of Defence Force at the Britain, Australia and New Zealand Conference (BRITANZ). <li data-bbox="871 1818 1399 1892">• The visit by the Vice Chief of Defence Force to the United Arab Emirates and Afghanistan. <li data-bbox="871 1919 1399 1977">• The visit by the Chief of Air Force to Australia, Japan and Guam.

Target	Delivered
	<ul style="list-style-type: none"> • The visit by the Chief of Navy to Papua New Guinea. • The visit by the Minister of Defence to Afghanistan. • The visit by the New Zealand Country Director, Office of the Secretary of Defence, United States. • The attendance of the Deputy Secretary (Policy and Planning) at the Tokyo Defence Forum. • The visit by the Chief of Navy to China. • The visit by the Chief of General Staff of the People's Liberation Army, China. • The visit by a People's Liberation Army logistics delegation. • The visit by Assistant Chief (Strategic Commitments) to Australia. • The visit by the Prime Minister to Singapore. • The visit by the Chief of Army to Thailand and Vietnam. • The visit by the Chief of Navy to Singapore for the Western Pacific Naval Symposium. • The visit by the Chief of Navy, Australia. • The visit by the Commander of UN and US forces in South Korea. • The visits by the Chief of Army and the Chief of Air Force to Australia. • The visit by the Chief of Navy, United Kingdom. • The visit by the Chief of Air Force, Canada. • The visit by the North Atlantic Treaty Organisation (NATO) Secretary General. • The appointment of a resident Defence Attaché to Tokyo. • The visit by the Commander of Joint Forces New Zealand to Solomon Islands. • The visit by the Prime Minister, Malaysia. • The visit by the Commander of the Royal Brunei Armed Forces. • The visit by the Minister of Foreign Affairs, Vanuatu.

Target	Delivered
	<ul style="list-style-type: none"> • The visit by the Minister of Foreign Affairs and Trade to New Caledonia, French Polynesia, and Easter Island. • The visit by the Chief of Navy, Singapore. • The visit by the Chief of Air Force to Thailand. • The visit by the Land Component Commander to Brunei and Thailand. • The visit by the President of Indonesia. • The visit by the Chief of Navy to Malaysia. • The visit by Commander of Joint Forces New Zealand to Hawaii. • The visit by Chief of Defence Force to Turkey. • The visit by Assistant Chief (Strategic Commitments) to New Caledonia. • The visit by the Minister of Defence to Singapore for the Shangri-La dialogue. • The visit by the Minister of Defence to Japan and South Korea. • The visit by the Director of National Defence General Staff, Greece. • The visit by the Vice Chief of Defence Force to Japan and China. • The visit by the Secretary of Foreign Affairs, Singapore. • The visit by the Prime Minister and the Minister for Foreign Affairs and Trade, Fiji. • The visit by the Prime Minister, Vietnam. • The visit by the Deputy Chief of Navy for the People's Liberation Army, China. • The visit by the Maritime Component Commander to Japan, Russia and China. • The visit by HMNZS <i>Te Mana</i> and HMNZS <i>Endeavour</i> to Japan, Russia, and China. • The visit by the Governor-General to Singapore.

Target	Delivered
	<ul style="list-style-type: none"> • The visit by the South Korea National Defence University. • The visit by the Chief of Air Force to Canada. • The visit by a member of the South Korea Unification and Foreign Affairs and Trade Committee. • The visit by the Governor-General to Vanuatu. • The visit by the Governor-General to the Cook Islands.
<p>2. Provide the following Ministerial services:</p> <ul style="list-style-type: none"> • responses to Ministerial correspondence <ul style="list-style-type: none"> – replies to Ministerial correspondence will be actioned within fourteen working days of receipt by the Ministry <p><i>planning 200–220 responses per annum</i></p> • responses to Parliamentary questions <ul style="list-style-type: none"> – Parliamentary questions will be actioned within time frames set by Standing Orders of the House of Representatives <p><i>planning 150–180 responses per annum</i></p> • responses to Official Information Act requests <ul style="list-style-type: none"> – Official Information Act enquiries will be actioned within statutory requirements <p><i>planning 15–20 responses per annum</i></p> 	<ul style="list-style-type: none"> – 24 Ministerial letters of reply were completed for the reporting year ended 30 June 2005. All responses were actioned within the required time frame. – 129 Parliamentary Questions were answered for the reporting year ended 30 June 2005. All were actioned within the required time frame. – 18 Official Information Act requests were responded to for the reporting year ended 30 June 2005. Of these, four were delayed awaiting external consultation.
<p>3. Publish policy documents and other information for the public based on an agreed programme.</p>	<ul style="list-style-type: none"> – The Ministry published the following documents during the reporting year ended 30 June 2005: <ul style="list-style-type: none"> • <i>Annual Report for the year ended 2004</i> • <i>Statement of Intent 2005</i> • <i>Defence Long-term Development Plan (update)</i>

Output Quality Measures and Standards

The 2005 Statement of Intent detailed the quality standards intended.

In addition:

- the Ministry will maintain quality control procedures to support the policy advice delivered under this output class

- the quality of policy advice will be assessed in terms of whether it is credible, respected, and contributes to the achievement of the Government's defence policy objectives by:
 - seeking the Minister's view
 - seeking the views of key stakeholders in policy advice.

- the Policy and Planning Division will implement recommendations agreed by the Ministry from audits or reviews.

Comment

- The Ministry has maintained quality control procedures to support the expectations for policy advice delivered under this output class.

- The quality and review processes of the Policy and Planning Division incorporate the quality requirements, and it is considered that these standards have been achieved in the years work.

- The quality of policy advice is discussed regularly with the Minister. The Minister has expressed satisfaction with the policy advice received from the Ministry.

- Recommendations from three audits are being implemented.

Cost of Output Class – Policy advice (GST exclusive)

For the year ended 30 June 2005

30/6/2004 Actual \$000		30/6/2005 Actual \$000	30/6/2005 Main estimates \$000	30/6/2005 Supp. estimates \$000
	Revenue			
2,931	Crown	3,025	3,025	3,025
47	Other	235	–	236
2,978	Total revenue	3,260	3,025	3,261
	Expenditure			
1,243	Personnel	1,462	1,224	1,248
487	Operating	585	554	766
1,165	Other	1,136	1,247	1,247
2,895	Total expenditure	3,183	3,025	3,261
83	Surplus	77	–	–

Output Class – Audit and assessment of performance

Description

Under this output class the Minister of Defence will purchase:

- audits and assessments of any function, duty, or project of the New Zealand Defence Force
- audits and assessments of the Ministry's procurement, replacement, or repair of major military equipment
- audits of the controls on hazardous substances under the control of the Minister of Defence, as required by the Hazardous Substances and New Organisms Act 1996.

Outcome

An effective and efficient New Zealand Defence Force capable of meeting New Zealand's defence objectives to protect New Zealand and its external interests.

Service performance

Quantity and timeliness

Target	Delivered
1. Complete satisfactorily an approved programme of audits and assessments that will lead to improvements in performance and accountability in the defence organisations.	<ul style="list-style-type: none"> • The following programmed evaluations were completed during the year: <ul style="list-style-type: none"> – 7/2004 Officer Career Management in the NZDF – 11/2004 Effectiveness of the ATLAS HR Information System – 12/2004 Effectiveness of Support Arrangements at Waiouru – 13/2004 The Purchase of two Boeing 757 Aircraft for the RNZAF – 15/2004 Development and Management of Doctrine – 16/2004 Personnel Retention in the NZDF – 17/2004 Management of Naval Housing – 18/2004 Redevelopment of RNZAF Base Ohakea – Review of Progress – 1/2005 Naval Territorial Forces

Target	Delivered
	<ul style="list-style-type: none"> <li data-bbox="895 259 1286 360">– 2/2005 Naval Personnel Planning for Post-Protector Fleet <li data-bbox="895 383 1214 450">– 3/2005 The Territorial Air Force <li data-bbox="895 472 1366 573">– 4/2005 Physical Security of NZDF Facilities Outside Wellington <li data-bbox="895 595 1321 696">– 5/2005 Management of NZDF Land and Facilities <li data-bbox="895 719 1278 786">– 6/2005 P-3K Orion Upgrade Project <li data-bbox="895 808 1366 909">– 7/2005 Controls on Hazardous Substances Not Contained in Weapons Systems <li data-bbox="895 931 1326 999">– 8/2005 Development of Trentham Camp <li data-bbox="895 1021 1366 1122">– 10/2005 Deployment of a Provincial Reconstruction Team to Afghanistan <li data-bbox="895 1144 1302 1211">– 11/2005 C-130H Life Extension Project <li data-bbox="895 1234 1262 1335">– 12/2005 Territorial Force of the New Zealand Army
2. Conduct other audits and assessments as and when directed.	<ul style="list-style-type: none"> <li data-bbox="842 1357 1399 1424">• The following unprogrammed audits have been completed during the year to date: <ul style="list-style-type: none"> <li data-bbox="895 1447 1399 1603">1. Requested by the Minister of Defence: <ul style="list-style-type: none"> <li data-bbox="932 1503 1350 1603">– 10/2004 Project Protector – Review of a Major Multi-agency Project <li data-bbox="932 1626 1399 1760">– 9/2005 New Zealand Defence Force Policies and Practices Relating to Physical, Sexual and Other Abuses <li data-bbox="895 1783 1358 1850">2. Requested by the Chief of Defence Force: <ul style="list-style-type: none"> <li data-bbox="932 1872 1318 1975">– 14/2004 Review of NZDF Chaplaincy Services

Output Quality Measures and Standards

	Comment
The 2005 Statement of Intent detailed the quality standards intended.	<ul style="list-style-type: none"> – Evaluations were conducted in accordance with the Ministry's Evaluation Manual. – Evaluations met the Defence Evaluation Board's expectations. – All reports were reviewed for accuracy and logic by auditees and management. – All reports were subjected to peer review. – Managerial review was maintained throughout the evaluation process.
In addition:	
<ul style="list-style-type: none"> • the quality of audit and assessment of performance will be assessed in terms of whether it is credible, respected, and contributes to the achievement of the Government's defence policy objectives by: <ul style="list-style-type: none"> – seeking the Minister's view – seeking the views of key stakeholders in audit and assessment of performance. • the Evaluation Division will implement recommendations agreed by the Ministry from audits and reviews. 	<ul style="list-style-type: none"> – The Minister has advised that the quality of audits and assessments of performance met the target requirements. – The Defence Evaluation Board agreed at its meetings in December 2004 and June 2005 that audits and assessments met its expectations as to quality and utility. – No recommendations from audits and reviews have had to be implemented during 2004/05.

Cost of Output Class – Audit and assessment of performance (GST exclusive)

For the year ended 30 June 2005

30/6/2004 Actual \$000		30/6/2005 Actual \$000	30/6/2005 Main estimates \$000	30/6/2005 Supp. estimates \$000
	Revenue			
1,655	Crown	1,748	1,748	1,748
2	Other	13	–	24
1,657	Total revenue	1,761	1,748	1,772
	Expenditure			
676	Personnel	715	640	664
60	Operating	28	146	146
897	Other	876	962	962
1,633	Total expenditure	1,619	1,748	1,772
24	Surplus	142	–	–

Output Class – Management of equipment procurement

Description

Under this output class the Minister of Defence will purchase the following:

- management of procurement, or refurbishment, on behalf of the Crown, of significant equipment contributing to a capability of the New Zealand Defence Force. This will involve management of procurement functions from the initial identification of a requirement through ministerial approval-in-principle and commitments; the subsequent acquisition process, including project investigation, risk assessment, quality assurance, equipment selection, negotiation and execution of contract arrangements up to the point when the equipment is delivered to the New Zealand Defence Force; advice on introduction into service and the management of any warranty provisions. It also covers investigation of associated financing arrangements and on-sale to the New Zealand Defence Force
- maintenance of an information base on industrial capability, and the provision of advice to industry on defence requirements.

Outcome

New Zealand armed forces equipped to the level appropriate for the protection of New Zealand and its external interests according to the Government's defence policy.

Service performance

Quantity, quality and timeliness

1. Acquisition of new maritime forces vessels for the Navy



Image of the multi-role vessel.

This project proposes the acquisition of patrol vessels to meet inshore and offshore requirements for maritime surface surveillance in New Zealand's Exclusive Economic Zone in the South Pacific. The Ministry is purchasing a multi-role vessel to replace HMNZS *Canterbury* to provide tactical sealift for the New Zealand Defence Force, support disaster relief and peace support operations, conduct resource protection patrols, provide diplomatic and military presence, and for training.

Target	Delivered
<ul style="list-style-type: none"> In 2004/05 the Ministry expects to negotiate a contract with a preferred supplier, or suppliers, with construction of the ships commencing late in the financial year. 	<ul style="list-style-type: none"> A contract with Tenix Defence Pty Ltd, Melbourne, Australia, was signed on 28 July 2004. First steel for the offshore patrol vessel (OPV) was cut at the Williamson Yard, Melbourne on 22 February 2005. Two modules are under construction. First steel for the multi-role vessel (MRV) was cut at the Merwede Shipyard, Netherlands on 11 April 2005. Construction is underway on eight block modules. First steel for the inshore patrol vessel (IPV) was cut at Tenix's facility, Whangarei on 24 June 2005. Construction is also underway at the Whangarei facility on the first offshore patrol vessel (OPV) superstructure.
<ul style="list-style-type: none"> Further project milestones will be known once a contract is awarded. 	<ul style="list-style-type: none"> Detailed design is being finalised at the same time as initial construction commences. Delivery of the two offshore patrol vessels (OPV) is planned for April 2007 and October 2007. Delivery of the four inshore patrol vessels (IPV) is planned between October 2006 and August 2007. Delivery of the multi-role vessel (MRV) is planned for December 2006.



Image of the inshore patrol vessel.

Financial summary of pre-acquisition costs charged to departmental output class – Management of equipment procurement in 2004/05 (GST exclusive)

	\$
Budget for pre-acquisition costs	147
Expenditure to 30 June 2005	<u>147</u>

Financial summary of project costs charged to non-departmental appropriations as at 30 June 2005 (GST inclusive)

	\$
Project approval	499,724,161
Foreign exchange variances to date and forecast to complete	(3,972,769)
GST	62,466,000
Total approved cost	<u>558,217,392</u>

GST exclusive

Expenditure to 30 June 2004	–
Expenditure 2004/05	114,034,511
Future commitments and forecasts	381,709,594
	<u>495,744,105</u>

GST

GST to 30 June 2004	–
Expenditure 2004/05	1,976,000
Future commitments and forecasts	60,490,001
	<u>62,466,001</u>
Total forecast cost to complete	<u>558,210,106</u>



Image of the offshore patrol vessel.

- Foreign exchange variances at 30 June 2005 are favourable by \$3.973 million due to the purchase rates for foreign currencies being better than the exchange rates used in the Cabinet paper for financial approval.

	Approval Rate	Forecast Average Rate
AUD	0.8821	0.8980
CAD	0.8210	0.8424
EUR	0.5059	0.5112
GBP	0.3464	0.3448
JPY	65.5436	70.9000
NOK	4.2444	4.3129
SEK	4.6683	4.8496
USD	0.6215	0.6496

- Commitments and forecasts are valued at an average exchange rate of forward contracts still to be settled, plus the actual exchange rates for currency in the bank. The exchange rates used to calculate commitments and forecasts at 30 June 2005 were:

AUD	0.8972	JPY	70.9000
CAD	0.8413	NOK	4.2654
EUR	0.5056	SEK	4.8496
GBP	0.3437	USD	0.6600

2. Replacement helicopter capability

This project proposes the replacement of the Iroquois utility helicopter and the Sioux training helicopter.

Target	Delivered
<ul style="list-style-type: none"> In 2004/05 it is planned to: <ul style="list-style-type: none"> prepare specifications issue tender documentation evaluate the responses undertake consultation 	<ul style="list-style-type: none"> An Invitation to Register for the medium utility helicopter was completed in July 2004. Due diligence was completed in November 2004. Government approved NH Industries as the preferred tenderer on 9 March 2005. The Ministry will continue to discuss details of the intended purchase and support with NH Industries for the NH90 helicopter. The Ministry is also discussing with the Australian Department of Defence matters of mutual interest as Australia has contracted to purchase the NH90. An Invitation to Register for the training helicopter was issued to industry on 18 June 2005.
<ul style="list-style-type: none"> The intention is to take costed proposals back to Government during 2005. 	<ul style="list-style-type: none"> Costed proposals for both the medium utility helicopter and the training helicopter are expected to be made to Government by December 2005.

Financial summary of pre-acquisition costs charged to departmental output class – Management of equipment procurement in 2004/05 (GST exclusive)

	\$
Budget for pre-acquisition costs	125,000
Expenditure to 30 June 2005	119,141

3. Acquisition of light operational vehicles for the Army



Photo of Pinzgauer general service variant.

This project provides the Army with a modern light operational military vehicle. They are the primary means of transport in peacekeeping operations, peace enforcement operations (including in support of the light armoured vehicle) and may provide support for evacuation operations in the South Pacific.

Target	Delivered
<ul style="list-style-type: none"> • The project milestones in 2004/05 are to: <ul style="list-style-type: none"> – complete the delivery of the first tranche of 188 vehicles by 30 June 2005 	<ul style="list-style-type: none"> – The first batch of eight Pinzgauer vehicles was handed over to the New Zealand Army on 7 October 2004 and 131 vehicles had been delivered at 30 June 2005. – The final vehicles from the first tranche are expected by September 2005. A retrofit to correct a transmission cooling problem delayed the introduction into service up to two months.

Target	Delivered
<ul style="list-style-type: none"> – enter into a contract for a second tranche of 133 vehicles (including 60 armoured) by 30 September 2004 	<ul style="list-style-type: none"> – A contract for the second tranche was signed on 25 June 2004.
<ul style="list-style-type: none"> – establish further project milestones once a contract is awarded. 	<ul style="list-style-type: none"> – Deliveries of the second tranche are expected to commence in September 2005 and continue to May 2006. There has been a two month delay in the planned delivery of these vehicles due to consideration of armour protection requirements. – All vehicles are expected to have entered service by September 2006.

Financial summary of project costs charged to non-departmental appropriations as at 30 June 2005 (GST inclusive)

	\$
Project approval	93,333,000
Foreign exchange variances to date and forecast to complete	1,191,099
GST	11,666,000
Total approved cost	<u>106,190,099</u>

GST exclusive

Expenditure to 30 June 2004	3,627,961
Expenditure 2004/05	54,072,184
Future commitments and forecasts	36,716,735
	<u>94,416,880</u>

GST

GST to 30 June 2004	11,473
Expenditure 2004/05	4,791,361
Future commitments and forecasts	6,911,079
	<u>11,713,913</u>
Total forecast cost to complete	<u>106,130,793</u>

- Foreign exchange variances at 30 June 2005 are unfavourable by \$1.191 million due to the purchase rates for GBP currency being less than the GBP exchange rates used in Cabinet papers to obtain financial approval.

Average GBP approval rate = 0.3556

GBP forecast average rate = 0.3513

- Commitments and forecasts are valued at an average of the exchange rates of forward contracts still to be settled, plus the actual exchange rates for currencies in the bank. The exchange rate used to calculate commitments and forecasts at 30 June 2005 was GBP = 0.3437.

4. Acquisition of medium range anti armour weapon for the Army

This weapon will provide land forces with a medium range capability against armoured vehicles and other targets.

Target	Delivered
<ul style="list-style-type: none"> A contract through the United States Foreign Military Sales programme for the missiles and launch units was entered into in December 2003, with deliveries expected to be complete by June 2006. 	<ul style="list-style-type: none"> The project remains on target for delivery in August 2006.

Financial summary of project costs charged to non-departmental appropriations as at 30 June 2005 (GST inclusive)

	\$
Project approval	23,856,000
Foreign exchange variances to date and forecast to complete	(1,750,424)
GST	2,982,000
Total approved cost	<u>25,087,576</u>

GST exclusive

Expenditure to 30 June 2004	2,136,233
Expenditure 2004/05	9,084,210
Future commitments and forecasts	10,707,742
	<u>21,928,185</u>

GST

GST to 30 June 2004	–
Expenditure 2004/05	125
Future commitments and forecasts	2,965,845
	<u>2,965,970</u>
Total forecast cost to complete	<u>24,894,155</u>

- Foreign exchange variances at 30 June 2005 are favourable by \$1.750 million due to the purchase rates of the USD currency being better than the USD exchange rates used in the Cabinet paper for financial approval.
USD approval rate = 0.5841
USD forecast average rate = 0.6436
- Commitments and forecasts are valued using an average exchange rate of forward contracts still to be settled, plus the actual exchange rates for currencies in the bank. The exchange rate used to calculate commitments and forecasts at 30 June 2005 was USD = 0.6600.

5. Acquisition of direct fire support weapon (area) for the Army

This weapon will provide land forces with the ability to engage targets at a range of up to two kilometres.

Target	Delivered
<ul style="list-style-type: none"> The intention is to enter into a contract for the acquisition of this equipment by 30 August 2004. 	<ul style="list-style-type: none"> Due diligence and evaluation of options to meet New Zealand requirements were completed in September 2004. A satisfactory combined weapon and sighting system is not available at this time and further consideration is necessary. A revised project strategy will be provided to Government in due course.
<ul style="list-style-type: none"> Further project milestones, including delivery, will be known once a contract is awarded. 	<ul style="list-style-type: none"> No contract has been awarded.

Financial summary of pre-acquisition costs charged to departmental output class – Management of equipment procurement in 2004/05 (GST exclusive)

	\$
Budget for pre-acquisition costs	75,000
Expenditure to 30 June 2005	<u>46,631</u>

6. Acquisition of very low level air defence radar for the Army

This project will purchase an alerting and cueing system to bring the Army Mistral air defence system up to an improved operational standard.

Target	Delivered
<ul style="list-style-type: none"> It is planned to enter into a contract for the acquisition of this equipment by 30 June 2004. 	<ul style="list-style-type: none"> A contract for the alerting and queing system was awarded on 28 May 2004. A contract for the identification of friend or foe system signed on 5 October 2004.
<ul style="list-style-type: none"> Further project milestones, including delivery, will be known once a contract is awarded. 	<ul style="list-style-type: none"> Delivery of all equipment is expected by September 2006.

Financial summary of project costs charged to non-departmental appropriations as at 30 June 2005 (GST inclusive)

	\$
Project approval	13,728,376
Foreign exchange variances to date and forecast to complete	335,333
GST	1,716,047
Total approved cost	<u>15,779,756</u>

	\$
GST exclusive	
Expenditure to 30 June 2004	1,630,655
Expenditure 2004/05	2,137,582
Future commitments and forecasts	10,295,472
	<u>14,063,709</u>
GST	
GST to 30 June 2004	6,918
Expenditure 2004/05	1,811
Future commitments and forecasts	1,707,318
	<u>1,716,047</u>
Total forecast cost to complete	<u>15,779,756</u>

- Foreign exchange variances at 30 June 2005 are unfavourable by \$0.335 million due to the purchase rates for the EUR currency being less than the EUR exchange rate used in the Cabinet paper for financial approval.
EUR approval rate = 0.5187
EUR forecast average rate = 0.5057
- Commitments and forecasts are valued at an average of the exchange rate of forward contracts still to be settled, plus the actual exchange rates for currencies in the bank. The exchange rate used to calculate commitments and forecasts at 30 June 2005 was EUR = 0.5056.

7. Upgrade and refurbishment of C-130H aircraft for the Air Force



Photo of C-130H Hercules aircraft in Antarctica.

This project will extend the life of the Royal New Zealand Air Force C-130H Hercules aircraft by upgrading the aircraft systems and undertaking some structural refurbishment work.

Target	Delivered
<ul style="list-style-type: none"> • The intention is to complete the evaluation of the Best and Final Offers from the four tenderers, and following consultation, make recommendations to the Government in late 2004. 	<ul style="list-style-type: none"> – An evaluation of a Best and Final Offer was completed in July 2004. – A preferred tenderer was announced on 6 August 2004 and Government approval to commence contract negotiations was obtained on 11 October 2004. A contract with Spar Aerospace Limited, Edmonton, Canada, was signed on 14 December 2004. – A contract was signed with the preferred tenderer on 14 December 2004.

Target	Delivered
	<ul style="list-style-type: none"> – The first preliminary design review (PDR) for the Fatigue Improvement Modification (FIM) element of the project was successfully completed in June 2005. – The preliminary design review (PDR) for Mechanical Systems and Structural was held in June 2005.

Financial summary of pre-acquisition costs charged to departmental output class – Management of equipment procurement in 2004/05 (GST exclusive)

	\$
Budget for pre-acquisition costs	130,000
Expenditure to 30 June 2005	<u>124,526</u>

Financial summary of project costs charged to non-departmental appropriations as at 30 June 2005 (GST inclusive)

	\$
Project approval	233,739,000
Foreign exchange variances to date and forecast to complete	(1,887,722)
GST	<u>29,217,000</u>
Total approved cost	<u>261,068,278</u>

GST exclusive

Expenditure to 30 June 2004	–
Expenditure 2004/05	43,962,237
Future commitments and forecasts	<u>187,888,645</u>
	<u>231,850,882</u>

GST

GST to 30 June 2004	–
Expenditure 2004/05	6,100
Future commitments and forecasts	<u>29,210,899</u>
	<u>29,216,999</u>
Total forecast cost to complete	<u>261,067,881</u>

- Foreign exchange variances at 30 June 2005 are favourable by \$1.888 million due to the purchase rate for the CAD currency being better than the CAD exchange rate used in the Cabinet paper for financial approval. The USD rate is slightly unfavourable.

CAD approval rate = 0.7857

CAD forecast average rate = 0.8435

USD approval rate = 0.6748

USD forecast average rate = 0.6680

- Commitments and forecasts are valued using an average exchange rate of forward contracts still to be settled, plus the actual exchange rates for currencies in the bank. The exchange rates used to calculate commitments and forecasts at 30 June were CAD = 0.8413 and USD = 0.6600.

8. Upgrade of P-3 mission systems for the Air Force



Photo of P-3 Orion aircraft.

This project will upgrade the sensors and mission management systems required for the Royal New Zealand Air Force P-3 Orion maritime patrol aircraft to conduct surface surveillance tasks.

Target	Delivered
<ul style="list-style-type: none"> The intention is to complete the evaluation of the Best and Final Offer from the preferred tenderer by 31 July 2004, and following consultation, make recommendations to the Government in the negotiating and awarding of a contract. 	<ul style="list-style-type: none"> A contract was signed with L3 Communications Integrated Systems on 5 October 2004. Preliminary Design Reviews for the Mission Planning System and Group B equipment were completed in May and June 2005. Some early system installations began on the first aircraft at Safe Air, Woodbourne in June 2005. This aircraft is due for acceptance in August 2005.

Financial summary of pre-acquisition costs charged to departmental output class – Management of equipment procurement in 2004/05 (GST exclusive)

	\$
Budget for pre-acquisition costs	163,172
Expenditure to 30 June 2005	<u>163,172</u>

Financial summary of project costs charged to non-departmental appropriations as at 30 June 2005 (GST inclusive)

	\$
Project approval	373,069,314
Foreign exchange variances to date and forecast to complete	(26,024,279)
GST	46,633,667
Total approved cost	<u>393,678,702</u>

	\$
GST exclusive	
Expenditure to 30 June 2004	–
Expenditure 2004/05	65,617,789
Future commitments and forecasts	280,869,126
	<u>346,486,915</u>
GST	
GST to 30 June 2004	–
Expenditure 2004/05	325,148
Future commitments and forecasts	46,441,712
	<u>46,766,860</u>
Total forecast cost to complete	<u>393,253,775</u>

- Foreign exchange variances at 30 June 2005 are favourable by \$26.024 million due to the purchase rates of the USD currency being better than the USD exchange rate used in the Cabinet paper for financial approval.
USD approval rate = 0.6107
USD forecast average rate = 0.6633
- Commitments and forecasts are valued using an average exchange rate of forward contracts still to be settled, plus the actual exchange rates for currencies in the bank. The exchange rate used to calculate commitments and forecasts at 30 June 2005 was USD = 0.6600.

9. Acquisition of a light armoured vehicle for the Army



Photo of light armoured vehicle.

These Army vehicles are intended to provide protected mobility for light infantry manoeuvre groups in combat or when undertaking peace support operations.

Target	Delivered
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- The project milestones in 2004/05 are to:
 - complete delivery of the light armoured vehicles and special tools and test equipment by November 2004
 - accept the final vehicles by January 2005
 - close the project by June 2005.
- 104 vehicles were in service with the New Zealand Army at 31 December 2004.
- 99% of spares and special tools were delivered by June 2005.
- A delay in deciding armour requirements will extend the closure date of this project to June 2006.

Financial summary of project costs charged to non-departmental appropriations as at 30 June 2005 (GST inclusive)

	\$
Project approval	580,296,353
Foreign exchange variances to date and forecast to complete	14,703,406
GST	72,537,044
Total approved cost	<u>667,536,803</u>

GST exclusive

Expenditure to 30 June 2004	563,503,741
Expenditure 2004/05	21,520,539
Future commitments and forecasts	9,231,262
	<u>594,255,542</u>

GST

GST to 30 June 2004	45,071,115
Expenditure 2004/05	7,167,154
Future commitments and forecasts	52,631
	<u>52,290,900</u>
Total forecast cost to complete	<u>646,546,442</u>

- Foreign exchange variances at 30 June 2005 are unfavourable by \$14.703 million due to the purchase rates for the CAD and USD currencies being less than the CAD and USD exchange rates used in the Cabinet paper for financial approval.
 - CAD approval rate = 0.6600
 - CAD forecast average rate = 0.6490
 - USD approval rate = 0.4400
 - USD forecast average rate = 0.4247
- Commitments and forecasts are valued using an average exchange rate of forward contracts still to be settled, plus the actual exchange rates for currencies in the bank. The exchange rates used to calculate commitments and forecasts at 30 June 2005 were CAD = 0.8413 and USD = 0.6600.

10. Replacement of Boeing 727 aircraft for the Air Force



Photo of Boeing 757 aircraft.

This project replaces the Boeing 727 aircraft with Boeing 757 aircraft to provide greater range and payload capacity.

Two aircraft have been purchased. The intention is to modify them to provide a dual passenger/freight capability.

Target	Delivered
<ul style="list-style-type: none"> • In 2004/05 it is planned to: <ul style="list-style-type: none"> – commence negotiations with identified suppliers to undertake the conversion. – enter into contracts and commence the conversion. 	<ul style="list-style-type: none"> – The modifications required to provide a combined passenger/freight capability were finalised in July 2004. – Mobile Aerospace Engineering and Boeing are approved as the preferred tenderers. – Due to the complexity of the programme the documentation took six months to finalise and was released to industry for final costing on 1 April 2005. Industry responded in late April. Final Cabinet approval for the conversion was being sought at 30 June 2005. – A revised start date for the modification programme is June 2006. – Subsequent to 30 June 2005 Cabinet approval was given to additional funding of \$45.675 million to meet the modification programme without making major tradeoffs. The increase in cost is due to an increased need for engineering analysis; additional costs for certification, data licences and documentation; inflation and foreign exchange movement.

Financial summary of project costs charged to non-departmental appropriations as at 30 June 2005 (GST inclusive) including approval for additional funding

	\$
Project approval	220,603,000
Foreign exchange variances to date and forecast to complete	(12,623,885)
GST	27,575,000
Total approved cost	235,554,115

GST exclusive

Expenditure to 30 June 2004	108,233,771
Expenditure 2004/05	236,460
Future commitments and forecasts	99,365,445
	207,835,676

GST

GST to 30 June 2004	13,048,133
Expenditure 2004/05	6,959
Future commitments and forecasts	14,520,002
	27,575,094
Total forecast cost to complete	235,410,770

- Foreign exchange variances at 30 June 2005 are favourable by \$12.624 million due to the purchase rates for USD currency being better than the USD exchange rate used in the Cabinet paper for financial approval.
USD approval rate = 0.54251
USD forecast average rate = 0.5901
- Commitments and forecasts are valued using an average exchange rate of forward contracts still to be settled, plus the actual exchange rates for currencies in the bank. The exchange rate used to calculate commitments and forecasts at 30 June 2005 was USD = 0.6600.

11. Replacement or upgrade of tactical communications for the Army

This project replaces and/or upgrades existing Army short range communications systems to provide high band width (higher capacity) digital theatre communication systems to support command and control requirements of the New Zealand Defence Force Battalion Group operations.

Target	Delivered
<ul style="list-style-type: none"> • The final delivery of radios is expected by September 2004. Ancillary equipment is expected to be complete by March 2005. 	<ul style="list-style-type: none"> – The delivery of radios is complete. – Ancillary equipment is still being purchased. Delays in supply and obtaining export licenses will extend the expected completion date to December 2005.

Financial summary of project costs charged to non-departmental appropriations as at 30 June 2005 (GST inclusive)

	\$
Project approval	119,223,000
Foreign exchange variances to date and forecast to complete	4,786,625
GST	14,903,000
Total approved cost	<u>138,912,625</u>

GST exclusive

Expenditure to 30 June 2004	118,801,182
Expenditure 2004/05	1,560,436
Future commitments and forecasts	3,456,544
	<u>123,818,162</u>

GST

GST to 30 June 2004	11,205,187
Expenditure 2004/05	304,275
Future commitments and forecasts	3,386,452
	<u>14,895,914</u>
Total forecast cost to complete	<u>138,714,076</u>

- Foreign exchange variances at 30 June 2005 are unfavourable by \$4.787 million due to the purchase rates for USD currency being less than the USD exchange rates used in Cabinet paper for financial approval.

USD approval rate = 0.4300

USD forecast average rate = 0.4126

- Commitments and forecasts are valued at an average of the exchange rate of forward contracts still to be settled, plus the actual exchange rates for currencies in the bank. The exchange rate used to calculate commitments and forecasts at 30 June 2005 was USD = 0.6600.

12. ANZAC Ships



Photo of HMNZS Te Kaha.

This project is to procure two ANZAC class frigates from the 10-ship build programme, to replace two existing surface combatants complete with spares and training facilities.

New Zealand ships, HMNZS *Te Kaha* and HMNZS *Te Mana* have been delivered and are in service.

Target	Delivered
<ul style="list-style-type: none"> In 2004/05 it is planned to discontinue New Zealand's involvement in this project and settle any outstanding obligations. 	<ul style="list-style-type: none"> The Ministry has requested the Australian Department of Defence to identify final Treaty obligations with a view to settlement by 30 June 2006. There are no other matters to report.

Financial summary of project costs charged to non-departmental appropriations as at 30 June 2005 (GST inclusive)

	\$
Approved contract at base rates	938,949,321
Approved escalations at base rates	252,391,118
Foreign exchange variances to date and forecast to complete	125,151,984
GST	153,808,491
Total approved cost	<u>1,470,300,914</u>

GST exclusive

Expenditure to 30 June 2004	1,241,795,590
Expenditure 2004/05	840,089
Future commitments and forecasts	500,000
	<u>1,243,135,679</u>

GST

GST to 30 June 2004	157,476,992
Expenditure 2004/05	1,589
Future commitments and forecasts	-
	<u>157,478,581</u>
Total forecast cost to complete	<u>1,400,614,260</u>

- The ANZAC Ship approval was stated in 1989 base exchange rates against a basket of currencies. A Treaty with Australia recognised contract escalation and currency variances, and agreed the methodologies for calculation.

Defence Industry

Target	Delivered
<ul style="list-style-type: none"> It will provide support for the Defence Industry Committee of New Zealand (DICNZ). 	<ul style="list-style-type: none"> The Ministry provided support to DICNZ meetings on: <ul style="list-style-type: none"> 12 August 2004 at Ministry of Defence, Wellington 1 February 2005 at Trentham Army Camp 12 May 2005 at Air New Zealand Engineering Services Limited, Auckland. The New Zealand Defence Industry Awards of Excellence for 2004 were presented by the Minister of Defence on 20 October 2004. Research by the New Zealand Institute of Economic Research into the effect of Government procurement policies on defence industry in New Zealand was completed in January 2005 and presented to the DICNZ Committee on 1 February 2005.
<ul style="list-style-type: none"> It will ensure that local, including domestic, suppliers are afforded opportunities to compete for work consistent with the government procurement policy set out in <i>Policy Guide for Purchasers</i> issued by the Ministry of Economic Development in July 2002. 	<ul style="list-style-type: none"> The Industry Capability Network (ICN) has assisted prime contractors to engage New Zealand industry in current defence business. Recent projects have created over \$166 million dollars of work for New Zealand industry. ICN in conjunction with Tenix Defence Systems briefed New Zealand suppliers on 30 June 2005.
<ul style="list-style-type: none"> It will complete material for the Australia and New Zealand Industry Defence Equipment and Capability Catalogue database and update databases on industrial capability. 	<ul style="list-style-type: none"> Updated industry briefs were submitted for inclusion in the Australia and New Zealand Industry Defence Equipment and Capability Catalogue 2005. Database templates are available on the Ministry of Defence website for ease of access to New Zealand business entities.
<ul style="list-style-type: none"> It will conduct industry briefing sessions on current defence projects and activities. 	<ul style="list-style-type: none"> Briefings on future industry liaison ideas were conducted at four meetings of the New Zealand Defence Industry Association (NZDIA).

Target	Delivered
<ul style="list-style-type: none"> • By using the Industry Capability Network as an agent, it will ensure that prospective overseas-based prime contractors are fully aware of the abilities of domestic industry to participate in the supply and support of capability being acquired through projects managed by the Ministry. 	<ul style="list-style-type: none"> – Assistance has been given to organise a 2005 forum in Wellington. – Worked with the NZDIA and ICN to ensure that New Zealand industry is afforded the best opportunity to show their capabilities to Tenix and other prime contractors. – Worked with NZDIA and New Zealand Trade and Enterprise on framework options for the Victoria Government programme for interfacing contracts with local industry. – Suppliers and prime contractors have been referred to the ICN database. – There is on-going dialogue with ICN to ensure that local industry is offered the appropriate assistance.

Output Quality Measures and Standards

	Comment
<ul style="list-style-type: none"> • New capabilities and major refurbishment will be acquired within approved budgets, to the quality standards negotiated for each project, and within the agreed delivery schedule. 	<ul style="list-style-type: none"> – The financial summaries of project costs include a valuation of future commitments and forecasts using an average exchange rate of forward contracts still to be settled, plus actual exchange rates for currencies in the bank. The Ministry is of the view that each project will be acquired within its approved budget. – The quality standards for each project are reviewed during the due diligence process and supply contracts are with companies that operate quality management systems. Equipment produced under contract is deemed to be subject to those quality management systems with acceptance being linked to milestone payments. – Any significant changes in time frames are discussed in preceding information about individual acquisition projects.

Target	Delivered
<ul style="list-style-type: none"> • All acquisitions and contracts will meet the Government's policy requirements. • All contracts will be negotiated in a timely manner, and payments will be made on time if the provider is meeting the terms of the contract. • Contract awards will be subject to considerations of through-life cost, quality and delivery schedules. • Prices agreed for projects will be based on a competitive tender process where possible. When tendering is not possible, prices will be based either on independent benchmarks, or on full cost disclosure by the provider. • Payments will be made at the agreed sum, to the correct supplier, and no payments will be made in excess of the agreed sum. • Any significant variations or potential risks will be identified, together with corrective actions required or taken. • Assumptions behind advice will be explicit, and argumentation will be logical and supported by facts. • Evidence will be given of adequate consultation with interested parties, and possible objections to proposals will be identified. • Problems of implementation, technical feasibility, timing, and consistency with other policies will be addressed. • Defence industry advice reports will clearly state their purpose and address any issues raised by the Minister. • The Defence Industry Committee of New Zealand will be asked to confirm annually that the Ministry and its agent, the Industry Capability Network, have appropriately promoted domestic suppliers' capabilities to prospective overseas-based prime contractors. 	<ul style="list-style-type: none"> – The Ministry has maintained quality control procedures to support the expectations for acquisition activities under this output class: <ul style="list-style-type: none"> ■ prices agreed for new projects approved by the Government during the financial year have been based on a competitive tender process, where applicable and contract awards have been subjected to consideration of through-life costs, quality, risk, delivery schedule and local industrial participation ■ potential risks for all projects have been identified together with corrective actions required or taken ■ all payments made have been at the contracted prices to the correct suppliers upon the achievement of agreed milestones ■ assumptions behind advice have been explicit, logical and supported by facts, adequate consultation has taken place with interested parties and objections to proposals identified ■ problems with implementation, technical feasibility and time have been addressed ■ ISO 9001 certification has been maintained. – Industrial Capability Network (ICN) has outlined the activities it conducted on projects during the financial year to ensure that competitive local industry was given full, fair and reasonable opportunity to compete for Ministry project work. This included ensuring local capability was a consideration in the bids of potential overseas prime contractors.

Target	Delivered
<ul style="list-style-type: none"> • The quality of management of equipment procurement will be assessed in terms of whether it is credible, respected, and contributes to the achievement of the Government's defence policy objectives by: <ul style="list-style-type: none"> – seeking the Minister's views – seeking the views of key stakeholders in management of equipment procurement. • The Acquisition Division will implement recommendations agreed by the Ministry from audits or reviews. 	<ul style="list-style-type: none"> – Process management issues are discussed regularly with the Minister. – The views of other stakeholders are obtained at Executive Capability Board and DICNZ meetings. – Recommendations from three audits are being implemented.

Cost of Output Class – Management of equipment procurement (GST exclusive)

For the year ended 30 June 2005

30/6/2004 Actual \$000		30/6/2005 Actual \$000	30/6/2005 Main estimates \$000	30/6/2005 Supp. estimates \$000
Revenue				
3,300	Crown	3,458	3,458	3,458
1,727	Other	594	–	630
5,027	Total revenue	4,052	3,458	4,088
Expenditure				
1,061	Personnel	1,139	1,053	1,077
2,025	Operating	715	358	964
1,866	Other	1,873	2,047	2,047
4,952	Total expenditure	3,727	3,458	4,088
75	Surplus/(deficit)	325	–	–

Project financial performance

For the year ended 30 June 2005

Project payments capitalised against Crown appropriations in 2004/05, and recoveries from the New Zealand Defence Force, were:

	Expenditure			Recoveries from NZ Defence Force	
	2004/05		30/6/2005	2004/05	30/6/2005
	Main estimates \$000	Supp. estimates \$000	Actual \$000	Supp. estimates \$000	Actual \$000
ANZAC ships	2,717	368	840	1,006	1,006
Maritime helicopter	–	8	9	861	861
P3 Orion autopilot	–	–	–	10,262	10,262
B-757 aircraft	22,687	10,179	236	–	–
Light armoured vehicles	16,065	25,540	21,521	123,229	123,230
Tactical communications	6,496	1,907	1,560	4,958	4,958
Light operational vehicles	28,920	75,915	54,072	42,900	42,899
Medium range anti-armour weapon	10,359	11,128	9,084	5,283	5,283
Air defence system	8,751	2,697	2,138	2,088	2,088
P-3K Orion systems upgrade	–	72,962	65,618	30,765	30,765
Project Protector vessels	–	137,530	114,035	60,996	61,005
C-130H Life extension	–	38,950	43,962	–	–
GST on imported goods and NZ payments	44,178	24,245	14,585	–	–
Total	140,173	401,429	327,660	282,348	282,357

(Figures are GST exclusive)

The appropriation (GST inclusive) for this output class was increased by \$709,000 for:

	\$(000) (GST incl)
P-3K Orion systems upgrade	
New provision for pre-acquisition costs in 2004/2005. Funded by recovery from New Zealand Defence Force as Revenue Other.	183
C-130H life extension	
New provision for pre-acquisition costs in 2004/05. Funded by recovery from New Zealand Defence Force as Revenue Other.	146
Automatic grenade launcher	
New provision for pre-acquisition costs in 2004/05. Funded by recovery from New Zealand Defence Force as Revenue Other.	84
Helicopter capability	
New provision for pre-acquisition costs in 2004/05. Funded by recovery from New Zealand Defence Force as Revenue Other.	141
Short-term workspace	
New provision for short-term workspace costs for project teams on pre-acquisition activities. Funded by recovery from New Zealand Defence Force as Revenue Other.	128
State Sector Retirement Savings Scheme	
New provision for implications arising from the take up of the State Sector Retirement Savings Scheme.	27
Total change for financial year	709

Statement of accounting policies

For the year ended 30 June 2005

The Ministry of Defence is a government department as defined by section 2 of the Public Finance Act 1989.

These are the financial statements of the Ministry of Defence prepared pursuant to section 35 of the Public Finance Act 1989, (as if that section had not been amended by the Public Finance Amendment Act 2004 (PFAA)), in accordance with section 33 of the PFAA and generally accepted accounting practice.

In addition, the Ministry has reported the Crown activities which it administers.

The following general accounting policies have been adopted in the preparation of these financial statements:

- the Ministry has accepted historical cost as a measurement base.

Accounting policies

The following particular accounting policies which materially affect the measurement of financial results and financial position have been applied:

Budget figures

The Budget Figures are those presented in the Budget Estimates (Main estimates) and those amended by the Supplementary Estimates (Supp. estimates) and any transfer made by Order in Council under section 5 of the Public Finance Act 1989.

Revenue recognition

The Ministry derives revenue through the provision of outputs to the Crown and for services to third parties. Such revenue is recognised when earned and is reported in the financial period to which it relates.

Interest income

Interest income is recognised in the period in which it is earned.

Receivables

Receivables are recorded at estimated realisable value, after providing for doubtful debts and uncollectable debts.

Cost allocation

The Ministry has derived the costs of outputs using a cost allocation system which is outlined below:

- Criteria for direct and indirect costs
 - “Direct costs” are those costs directly attributed to an output.
 - “Indirect costs” are those costs that cannot be identified in an economically feasible manner with a specific output.
- Direct costs assigned to outputs
 - Direct costs are assigned to outputs by charging payments to specific job numbers. Selection of a “general cost” job number within an output class will treat the expense as a direct cost to the output class even though a specific job within the output class has not been identified.

- For the year ended 30 June 2005, direct costs accounted for 71% of the Ministry's costs (30 June 2004= 69%).
- Basis for assigning indirect and corporate costs to outputs
 - Indirect costs are assigned to outputs by charging payments to a corporate job number. The accounting system is programmed to allocate corporate job costs to the three output classes on a predetermined percentage for each expense item. The percentage number is an assessment of services to be provided to each output class in the ensuing year. The percentage numbers remain constant for the financial year.
 - For the year ended 30 June 2005, indirect costs accounted for 29% of the Ministry's costs (30 June 2004 = 31%).

Expenses

Expenses are recognised when incurred and are reported in the financial period to which they relate.

Property, plant and equipment

All fixed assets costing more than \$5,000 are capitalised and recorded at cost. Any write-down of an item to its recoverable amount is recognised in the statement of financial performance.

Depreciation

Depreciation is provided on a straight line basis at a rate which will write off the cost (or valuation) of the assets to their estimated residual value over their useful lives.

The useful lives of major classes of assets have been estimated as follows:

Office equipment	3–10 years
Office furniture	5–10 years
Computer equipment	3 years
Information management systems	5 years

The cost of leasehold improvements is capitalised and depreciated over the estimated remaining useful life of the improvement, or the unexpired period of the lease, whichever is the shorter.

Employee entitlements

Provision is made in respect of the Ministry's liability for annual, long service and retirement leave and time off in lieu. Annual leave, time off in lieu and other entitlements that are expected to be settled within 12 months of reporting date, are measured at nominal values on an actual entitlement basis at current rates of pay.

Entitlements that are payable beyond 12 months, such as long service leave and retirement leave, have been calculated on an actuarial basis based on the present value of expected future entitlements.

Commitments

Future payments are disclosed as commitments at the point a contractual obligation arises, to the extent that there are equally unperformed obligations. Commitments relating to employment contracts are not disclosed.

Contingent liabilities

Contingent liabilities are disclosed at the point at which the contingency is evident.

Statement of cash flows

Cash means balances on hand and held in bank accounts.

Operating activities include cash received from all income sources of the Ministry and record the cash payments made for the supply of goods and services.

Investing activities are those activities relating to the acquisition and disposal of non-current assets.

Financing activities comprise capital injections by, or repayment of capital to, the Crown.

Foreign currencies

Foreign currency transactions are converted into New Zealand dollars at the exchange rate at the date of the transaction. Where a forward exchange contract has been used to establish the price of a transaction, the forward rate specified in that foreign exchange contract is used to convert that transaction to New Zealand dollars. Consequently, no exchange gain or loss resulting from the difference between the forward exchange contract rate and the spot exchange rate on date of settlement is recognised.

Monetary assets and liabilities are translated to New Zealand dollars at the closing exchange rate. The resulting unrealised exchange gain or loss is recognised in the statement of financial performance. Other exchange gains or losses, whether realised or unrealised, are recognised in the statement of financial performance in the period to which they relate.

Financial instruments

The Ministry is party to financial instruments as part of its normal operations. These financial instruments include bank accounts, short-term deposits, debtors, creditors and foreign currency forward contracts. The Ministry enters into foreign currency forward contracts to hedge currency transactions. Any exposure to gains or losses on those contracts is generally offset by a related loss or gain on the item being hedged. Apart from foreign currency forward contracts, all financial instruments are recognised in the statement of financial position and all revenues and expenses in relation to financial instruments are recognised in the statement of financial performance.

Except for those items covered by a separate accounting policy all financial instruments are shown at their estimated fair value.

Goods and services tax (GST)

The statement of unappropriated expenditure and the statement of departmental expenditure and appropriations are inclusive of GST. The statement of financial position is also exclusive of GST, except for creditors and payables and debtors and receivables which are GST inclusive. All other statements are GST exclusive.

The amount of GST owing to or from the Inland Revenue Department at balance date, being the difference between output GST and input GST, is included in creditors and payables or debtors and receivables as appropriate.

Taxation

Government departments are exempt from the payment of income tax in terms of the Income Tax Act 1994. Accordingly, no charge of income tax has been provided for.

Taxpayers' funds

This is the Crown's net investment in the Ministry.

Changes in accounting policies

There have been no changes in accounting policies since the date of the last audited financial statements.

Statement of financial performance

For the year ended 30 June 2005

30/6/2004 Actual		Note	30/6/2005 Actual	30/6/2005 Main estimates	30/6/2005 Supp. estimates
\$000			\$000	\$000	\$000
Revenue					
7,886	Crown	2	8,231	8,231	8,231
1,776	Other	3	842	–	890
2	Interest	4	–	–	–
9,664	Total revenue		9,073	8,231	9,121
Expenditure					
4,407	Personnel costs	5	4,756	4,506	4,545
4,655	Operating costs	6	3,325	3,310	4,158
286	Depreciation	7	324	291	294
132	Capital charge	8	124	124	124
9,480	Total expenses		8,529	8,231	9,121
184	Net operating surplus		544	–	–

The accompanying accounting policies and notes form part of these financial statements.

Statement of movements in taxpayers' funds

For the year ended 30 June 2005

30/6/2004 Actual \$000		30/6/2005 Actual \$000	30/6/2005 Main estimates \$000	30/6/2005 Supp. estimates \$000
	Taxpayers' funds brought forward as at 1 July	1,555	1,555	1,555
184	Net operating surplus/(deficit)	544	–	–
184	Total recognised revenues and expenses for the year	544	–	–
(184)	Provision for repayment of surplus to the Crown	(544)	–	–
1,555	Taxpayers' funds as at 30 June	1,555	1,555	1,555

The accompanying accounting policies and notes form part of these financial statements.

Statement of financial position

As at 30 June 2005

30/6/2004 Actual			30/6/2005 Actual	30/6/2005 Main estimates	30/6/2005 Supp. estimates
\$000	Note		\$000	\$000	\$000
		Taxpayers' funds			
1,555		Taxpayers' funds	1,555	1,555	1,555
1,555		Total taxpayers' funds	1,555	1,555	1,555
		Represented by:			
		Current assets			
1,569		Cash	1,906	1,790	1,354
31		Prepayments	82	14	14
209	9	Debtors and receivables	94	2	2
1,809		<i>Total current assets</i>	2,082	1,806	1,370
		Non-current assets			
677	10	Property, plant and equipment	746	407	843
677		<i>Total non-current assets</i>	746	407	843
2,486		Total assets	2,828	2,213	2,213
		Current liabilities			
326	11	Creditors and payables	199	335	335
184		Provision for repayment of surplus to the Crown	544	–	–
261	12	Provision for employee entitlements	287	200	200
771		<i>Total current liabilities</i>	1,030	535	535
		Non-current liabilities			
160	12	Provision for employee entitlements	243	123	123
931		Total liabilities	1,273	658	658
1,555		Net assets	1,555	1,555	1,555

The accompanying accounting policies and notes form part of these financial statements.

Statement of cash flows

For the year ended 30 June 2005

30/6/2004 Actual \$000		30/6/2005 Actual \$000	30/6/2005 Main estimates \$000	30/6/2005 Supp. estimates \$000
Cash flows – operating activities				
Cash provided from:				
7,886	Crown	8,231	8,231	8,231
3,356	Customers	842	–	890
4	Interest	–	–	–
11,246		9,073	8,231	9,121
Cash disbursed to:				
Produce outputs				
(4,347)	Personnel	(4,631)	(4,506)	(4,545)
(6,017)	Operating	(3,430)	(3,310)	(4,023)
(97)	Net GST paid	(41)	–	–
(132)	Capital charge	(124)	(124)	(124)
(10,593)		(8,226)	(7,940)	(8,692)
653	Operating activities net cash flows	847	291	429
Cash flows – investing activities				
Cash provided from:				
–	Sale of fixed assets	–	20	–
Cash disbursed for:				
(436)	Purchase of fixed assets	(326)	(250)	(460)
(436)	Investing activities net cash flows	(326)	(230)	(460)
Cash flows – financing activities				
Cash disbursed for:				
(664)	Repayment of surplus	(184)	–	(184)
(664)	Financing activities net cash flows	(184)	–	(184)
(447)	Net increase/(decrease) in cash held	337	61	(215)
2,016	Add opening cash and deposits	1,569	1,729	1,569
1,569	Closing cash and deposits	1,906	1,790	1,354

The accompanying accounting policies and notes form part of these financial statements.

Reconciliation of net operating surplus to net cash flow from operating activities

For the year ended 30 June 2005

30/6/2004 Actual \$000		30/6/2005 Actual \$000	30/6/2005 Main estimates \$000	30/6/2005 Supp. estimates \$000
184	Net operating surplus/(deficit)	544	–	–
	Add/(Less) non-cash items			
286	Depreciation	324	291	294
22	Inc/(Dec) in non-current employee entitlements	83	–	(37)
308	Total non-cash items	407	291	257
	Working capital movements			
1,601	(Inc)/Dec in debtors and receivables	115	–	207
(7)	(Inc)/Dec in prepayments	(51)	–	17
(1,471)	Inc/(Dec) in creditors and payables	(194)	–	9
38	Inc/(Dec) in current employee entitlements	26	–	(61)
161	Working capital movements – net	(104)	–	172
653	Net cash flow from operating activities	847	291	429

The accompanying accounting policies and notes form part of these financial statements.

Statement of commitments

As at 30 June 2005

The Ministry is relocating to a new Defence building, currently under construction on the corner of Aitken and Mulgrave Streets, Wellington. The New Zealand Defence Force, as head tenant, is managing the project. The Ministry has been given financial approval for \$2.118 million of capital expenditure for this relocation.

The Ministry has no commitments for future payments and expenditure to be incurred on operating contracts that have been entered into at balance date. (30 June 2004 = Nil.) At balance date no proposal had been received from New Zealand Defence Force on sub-tenant contractual obligations between New Zealand Defence Force and the Ministry of Defence in relation to the new Defence building. The Ministry has not entered into any operating commitments on the new Defence building at 30 June 2005.

Statement of contingent assets and liabilities

As at 30 June 2005

The Ministry does not have any contingent assets or liabilities as at 30 June 2005. (30 June 2004 = Nil.)

No guarantees and indemnities have been given outside the normal course of business. (30 June 2004 = Nil.)

There are no claims against the Ministry at balance date. (30 June 2004 = Nil.)

Statement of unappropriated expenditure

For the year ended 30 June 2005

No expenditure has been made or costs incurred in excess of or without appropriation by Parliament. (There was no unappropriated expenditure at 30 June 2004.)

The accompanying accounting policies and notes form part of these financial statements.

Statement of departmental expenditure and appropriations

For the year ended 30 June 2005

	30/6/2005 Expenditure actual \$000	30/6/2005 Appropriation voted \$000
Vote: Defence		
Appropriations for classes of outputs		
Policy advice	3,591	3,669
Audit and assessment of performance	1,839	1,994
Management of equipment procurement	4,234	4,599
Total	9,664	10,262

(Figures are GST exclusive)

The accompanying accounting policies and notes form part of these financial statements.

Notes to the financial statements

For the year ended 30 June 2005

Note 1: Budget composition

	Note	30/6/2005 Main estimates \$000	30/6/2005 Supp. estimates changes \$000	30/6/2005 Budget total \$000
Revenue				
Crown	2	8,231	–	8,231
Other	3	–	890	890
Total revenue		8,231	890	9,121
Expenditure				
Personnel costs	5	4,506	39	4,545
Operating costs	6	3,310	848	4,158
Depreciation	7	291	3	294
Capital charge	8	124	–	124
Total expenses		8,231	890	9,121
Net operating surplus		–	–	–

Note 2: Revenue – Crown

This is revenue earned for the supply of outputs to the Crown.

Note 3: Other revenue

30/6/2004 Actual \$000		30/6/2005 Actual \$000	30/6/2005 Main estimates \$000	30/6/2005 Supp. estimates \$000
44	Defence capability and resourcing review	212	–	212
9	Employer superannuation subsidy recovered	63	–	72
1,723	New Zealand Defence Force for initial project costs	567	–	606
1,776	Total other revenue	842	–	890

Note 4: Interest revenue

The Ministry invests foreign currency cash held prior to making payments with financial institutions that the Ministry deals with. All interest earned on short-term deposits is returned to the Crown.

Notes to the financial statements – continued

For the year ended 30 June 2005

Note 5: Personnel costs

30/6/2004 Actual		30/6/2005 Actual	30/6/2005 Main estimates	30/6/2005 Supp. estimates
\$000		\$000	\$000	\$000
4,374	Salaries and wages	4,673	4,468	4,507
33	Retirement and resigning leave	83	38	38
4,407	Total personnel costs	4,756	4,506	4,545

Note 6: Operating costs

30/6/2004 Actual		30/6/2005 Actual	30/6/2005 Main estimates	30/6/2005 Supp. estimates
\$000		\$000	\$000	\$000
136	Consultancy	306	362	362
64	Professional services	80	79	79
75	Audit fees for financial statements	74	75	75
12	Fees to auditors for other services	10	12	12
677	Share of New Zealand Defence Force costs for maintaining services	588	718	718
71	Grants and contributions	45	10	10
41	Inventory items	11	12	12
54	General maintenance and servicing	39	35	35
268	Travel and related costs	224	317	317
117	Courses, conferences and exhibitions	62	114	114
856	Rental of premises	802	870	870
64	Printing and stationery	58	17	17
176	Computer expenses	187	100	150
98	Electronic information, Acts and Regulations	102	100	100
215	Other operating costs Initial project costs	283	489	794
1,291	Projects now capitalised	–	–	–
175	P-3K Orion system upgrade	163	–	163
146	C-130H life extension	125	–	130
119	Helicopter replacement study	119	–	125
–	Automatic grenade launcher	47	–	75
4,655	Total operating costs	3,325	3,310	4,158

Notes to the financial statements – *continued*

For the year ended 30 June 2005

Note 7: Depreciation

30/6/2004 Actual \$000		30/6/2005 Actual \$000	30/6/2005 Main estimates \$000	30/6/2005 Supp. estimates \$000
84	Leasehold improvements	59	125	17
126	Office and computer equipment	189	116	209
76	Other assets	76	50	68
286	Total depreciation charge	324	291	294

Note 8: Capital charge

The Ministry pays a capital charge to the Crown on its average taxpayers' funds as at 30 June and 31 December each year. The capital charge rate for the year ended 30 June 2005 was 8 percent (30 June 2004 = 8.5 percent).

Note 9: Debtors and receivables

30/6/2004 Actual \$000		30/6/2005 Actual \$000
194	Sundry debtors – department	91
15	– non-department	3
209	Total debtors and receivables	94

Notes to the financial statements – continued

For the year ended 30 June 2005

Note 10: Property, plant and equipment

30/6/2004 Actual \$000		30/6/2005 Actual \$000
	Leasehold improvements	
511	At cost	511
(406)	Accumulated depreciation	(466)
105	Leasehold improvements – net book value	45
	Office and computer equipment	
1,272	At cost	1,425
(876)	Accumulated depreciation	(1,058)
396	Office and computer equipment – net book value	367
	Office furniture	
262	At cost	262
(262)	Accumulated depreciation	(262)
–	Office furniture – net book value	–
	Other assets	
925	At cost	997
(749)	Accumulated depreciation	(825)
176	Other assets – net book value	172
	Work in progress	
–	(a) Ministry share of costs of new Defence building	95
–	(b) New financial management information system in process of installation	67
	Total property, plant and equipment	
2,970	At cost	3,357
(2,293)	Accumulated depreciation	(2,611)
677	Total carrying amount of property, plant and equipment	746

Notes to the financial statements – *continued*

For the year ended 30 June 2005

Note 11: Creditors and payables

30/6/2004 Actual \$000		30/6/2005 Actual \$000
267	Trade creditors	66
17	Accrued expenses	64
42	GST payable	2
326	Creditors and payables for reconciliation of net operating surplus	132
–	Accrued expenses for property, plant and equipment	67
326	Total creditors and payables	199

Note 12: Provision for employee entitlements

30/6/2004 Actual \$000		30/6/2005 Actual \$000
	Current liabilities	
261	Annual leave	287
261	Total current portion	287
	Non-current liabilities	
160	Long service, retirement and resigning leave	243
160	Total non-current portion	243
421	Total provision for employee entitlements	530

Note 13: Financial instruments

The Ministry is party to financial instrument arrangements as part of its everyday operations. These include instruments such as bank balances, investments, accounts receivable, and accounts payable.

Credit risk

In the normal course of its business, the Ministry incurs credit risk from trade debtors, and transactions with financial institutions and the New Zealand Debt Management Office (NZDMO).

The Ministry does not require any collateral or security to support financial instruments with financial institutions that the Ministry deals with, or with the NZDMO, as these entities have high credit ratings. For its other financial instruments, the Ministry does not have significant concentrations of credit risk.

Notes to the financial statements – continued

For the year ended 30 June 2005

Fair value

The fair value of all financial instruments is equivalent to the carrying amount disclosed in the Statement of Financial Position.

Currency risk and interest rate risk

Currency risk is the risk that debtors and creditors due in foreign currency will fluctuate because of foreign exchange rates. The Ministry uses forward contracts to manage foreign exchange exposures.

The Ministry has no significant exposure to interest rate risk on its financial instruments.

All interest earned on short-term deposits are returned to the Crown as part of the surplus repayable to the Crown.

Foreign exchange contracts (departmental)

The Ministry had no departmental foreign exchange contracts as at 30 June 2005. (30 June 2004 = Nil.)

Note 14: Related party information

The Ministry is a wholly owned entity of the Crown. The Government significantly influences the roles of the Ministry as well as being its major source of revenue.

The Ministry enters into transactions with other Government departments, Crown agencies and state-owned enterprises on an arms length basis. Where these parties are acting in the course of normal dealings with the Ministry, related party disclosures have not been made for transactions of this nature.

New Zealand Defence Force

During the year the Ministry paid the New Zealand Defence Force \$0.682 million being \$0.588 million for services received, including a contribution to the cost of Defence Attachés, and \$0.095 million for initial capital costs on the new Defence Building in Aitken Street, Wellington.

The Ministry received \$0.779 million for the New Zealand Defence Force, being \$0.567 million for recovery of pre-acquisition costs incurred in the purchase of military equipment that do not meet the criteria for capitalisation and \$0.212 million toward costs of the Defence capability and resourcing review.

The Ministry received \$282.357 million (2004 \$462.298 million) for non-departmental expenses incurred in the purchase of military equipment. At 30 June 2005 the amount due for recovery in July 2005 from the New Zealand Defence Force was \$166.727 million (2004 \$136.009 million).

Notes to the financial statements – continued

For the year ended 30 June 2005

Note 15: Major budget variations

The major variations from the prospective financial information previously published in the 2004 Statement of Intent are:

Total vote

Vote Defence was increased by \$1,002,000 (GST inclusive) for:

	\$
• Defence Capability and Resourcing Review	239,000
• Pre-acquisition costs of new projects	682,000
• State Sector Retirement Savings Scheme	81,000
Total	<u>1,002,000</u>

Statement of financial performance

Revenue Other, and operating costs, were each increased \$890,000 (GST exclusive):

- Pre-acquisition costs recovered from New Zealand Defence Force.
The projects in 2004/2005 were:

	\$
– Direct fire support weapon	75,000
– Replacement helicopter study	125,000
– P-3K Orion systems upgrade	163,000
– C-130H life extension	130,000
– Short-term workspace rental	113,000
• Recoveries associated with the Defence Capability and Resourcing Review	212,000
• Recovery of State Sector Retirement Scheme employer subsidy	72,000
Total	<u>890,000</u>

Part 4 : Non-departmental schedules



Statement of non-departmental accounting policies

Measurement and recognition rules applied in the preparation of these non-departmental financial statements and schedules are consistent with generally accepted accounting practice and Crown accounting policies.

These non-departmental balances are consolidated into the Crown Financial Statements and therefore readers of these statements and schedules should also refer to the Crown Financial Statements for 2004/05.

The following accounting policies have been applied:

Budget figures

The budget figures are those presented in the budget estimates (main estimates) and those amended by the supplementary estimates (supplementary estimates) and any transfer made by Order in Council under section 5 of the Public Finance Act 1989.

Revenue recognition

Military equipment is sold at cost to New Zealand Defence Force in July and January each year. Revenue is recognised and reported in those months.

Interest income

Interest income is recognised in the period in which it is earned.

Goods and services tax (GST)

Input GST on the procurement or refurbishment of military equipment is expensed.

Work in progress

Work in progress comprises project expenditure to be recovered from the New Zealand Defence Force for the six months preceding balance date, plus accruals at balance date.

Foreign currency

Foreign currency transactions are converted into New Zealand dollars at the exchange rate at the date of the transaction. Where a forward exchange contract has been used to establish the price of a transaction, the forward rate specified in that foreign exchange contract is used to convert that transaction to New Zealand dollars. Consequently, no exchange gain or loss resulting from the difference between the forward exchange contract rate and the spot exchange rate on date of settlement is recognised.

Monetary assets and liabilities are translated to New Zealand dollars at the closing exchange rate. The resulting unrealised exchange gain or loss is recognised in the schedule of non-departmental expenses. Other exchange gains or losses, whether realised or unrealised, are recognised in the schedule of non-departmental expenses in the period to which they relate.

Schedule of non-departmental revenues and receipts

For the year ended 30 June 2005

Non-departmental revenues and receipts are administered by the Ministry on behalf of the Crown.

As these revenues and receipts are not established by the Ministry nor earned in the production of the Ministry's outputs, they are not reported in the Ministry's departmental financial statements.

30/6/2004 Actual		30/6/2005 Actual	30/6/2005 Main estimates	30/6/2005 Supp. estimates
\$000	Note	\$000	\$000	\$000
Administered on behalf of the Minister of Defence				
Sales of military equipment, at cost, to New Zealand Defence Force				
The individual projects are:				
3,067		861	–	861
28		–	–	–
20,910		1,006	1,967	1,006
7,706		4,958	9,810	4,958
331,782		123,230	139,344	123,229
–		30,765	–	30,765
–		61,005	–	60,996
–		42,899	19,201	42,900
–		2,088	7,255	2,088
98,071		10,262	37,708	10,262
679		5,283	4,670	5,283
55		–	–	–
462,298	Total sales to New Zealand Defence Force	282,357	219,955	282,348
290	Interest on foreign currency investments	C1 237	250	170
137	Other revenue	C2 –	–	–
462,725	Total revenues and receipts administered on behalf of the Minister of Defence	282,594	220,205	282,518

(Figures are GST exclusive)

Schedule of non-departmental expenses

For the year ended 30 June 2005

Non-departmental expenses are administered by the Ministry on behalf of the Crown.

As these expenses are not spent in the production of the Ministry's outputs, they are not reported in the Ministry's departmental financial statements.

This schedule includes both capital and operating expenses.

30/6/2004 Actual \$000		30/6/2005 Actual \$000	30/6/2005 Main estimates \$000	30/6/2005 Supp. estimates \$000
Administered on behalf of the Minister of Defence				
Purchase of military equipment				
The individual projects are:				
1,273	Maritime helicopters	9	–	8
6,611	ANZAC ships	840	2,717	368
262,766	Light armoured vehicles	21,521	16,065	25,540
3,628	Light operational vehicles	54,072	28,920	75,915
2,136	Medium range anti-armour weapon	9,084	10,359	11,128
1,631	Very low level air defence system	2,138	8,751	2,697
–	P-3K Orion systems upgrade	65,618	–	72,962
–	C-130H Life extension	43,962	–	38,950
–	Project Protector vessels	114,035	–	137,530
14,540	B-757 aircraft and modification	236	22,687	10,179
8,878	Tactical communications equipment	1,560	6,496	1,907
3	Other	–	–	–
301,466	Total purchases of military equipment	313,075	95,995	377,184
47,272	GST input tax expensed	14,585	44,178	24,245
(4,281)	Unrealised exchange losses/(gains)	4,129	–	–
344,457	Total expenses administered on behalf of the Minister of Defence	331,789	140,173	401,429

(Figures are GST exclusive)

Schedule of non-departmental assets

For the year ended 30 June 2005

Non-departmental assets are administered by the Ministry on behalf of the Crown.

As these assets are neither controlled by the Ministry nor used in the production of the Ministry's outputs, they are not reported in the Ministry's departmental statement of financial position.

30/6/2004 Actual \$000		30/6/2005 Actual \$000	30/6/2005 Main estimates \$000	30/6/2005 Supp. estimates \$000
Administered on behalf of the Minister of Defence				
26,116	Crown bank accounts	162,033	23,489	31,568
26	Debtors and receivables	42	–	–
136,009	Work in progress	166,727	46,526	230,845
162,151	Total assets administered on behalf of the Minister of Defence	328,802	70,015	262,413

(Figures are GST exclusive)

Schedule of non-departmental liabilities

For the year ended 30 June 2005

Non-departmental liabilities are administered by the Ministry on behalf of the Crown.

As these liabilities are neither controlled by the Ministry nor used in the production of the Ministry's outputs, they are not reported in the Ministry's departmental statement of financial position.

30/6/2004 Actual \$000		30/6/2005 Actual \$000	30/6/2005 Main estimates \$000	30/6/2005 Supp. estimates \$000
Administered on behalf of the Minister of Defence				
12,731	Creditors and payables	10,441	9,586	9,586
12,731	Total liabilities administered on behalf of the Minister of Defence	10,441	9,586	9,586

(Figures are GST exclusive)

Schedule of non-departmental commitments

For the year ended 30 June 2005

Non-departmental commitments are administered by the Ministry on behalf of the Crown.

As these commitments are not incurred in the production of the Ministry's outputs, they are not reported in the Ministry's departmental statement of commitments.

30/6/2004 Actual \$000		30/6/2005 Actual \$000
	Capital commitments	
57,621	Less than one year	455,776
11,804	One to two years	291,160
6,665	Two to five years	63,718
–	More than five years	–
76,090	Total non-departmental capital commitments	810,654

(Figures are GST exclusive)

These figures exclude the non-recoverable GST payable to the New Zealand Customs Service on the import of military equipment.

Schedule of non-departmental expenditure and appropriations

For the year ended 30 June 2005

The statement of expenditure and appropriations details expenditure incurred against appropriations. The Ministry administers these appropriations on behalf of the Crown.

30/6/2004 Actual \$000		30/6/2005 Actual \$000	30/6/2005 Main estimates \$000	30/6/2005 Supp. estimates \$000
	Vote Defence			
	<i>Purchase or development of capital assets by the Crown</i>			
301,466	Defence equipment	313,075	95,995	377,184
47,272	GST on defence equipment	14,585	44,178	24,245
348,738	Total purchase or development of capital assets by the Crown	327,660	140,173	401,429

(Figures are GST exclusive)

Schedule of non-departmental contingencies

For the year ended 30 June 2005

There are no non-departmental contingent assets or contingent liabilities at 30 June 2005. (30 June 2004 = Nil.)

In August 2004 the Ministry was advised in respect of legal proceedings against the Ministry by Schelde Marinebouw BV. These proceedings were struck out of Court in November 2004.

Notes to the non-departmental schedules

For the year ended 30 June 2005

Note C1: Interest revenue

The Ministry invests foreign currency cash held prior to making payments with financial institutions that the Ministry deals with. All interest earned on short-term deposits is returned to the Crown.

Note C2: Other revenue

30/6/2004 Actual \$000		30/6/2005 Actual \$000
135	Refunds from foreign military sales cases following the decision to exit the arrangement to lease F-16 aircraft.	–
2	Other	–
137	Total other revenue	–

Note C3: Budget composition

	30/6/2005 Main estimates \$000	30/6/2005 Supp. estimates changes \$000	30/6/2005 Budget total \$000
Current non-tax revenue			
Crown interest	250	(80)	170
Capital receipts			
Defence equipment	219,955	62,393	282,348
Expenditure			
Defence equipment	95,995	281,189	377,184
GST on defence equipment	44,178	(19,933)	24,245

Notes to the non-departmental schedules – *continued*

For the year ended 30 June 2005

Note C4: Major budget variations

Purchase or development of capital assets by the Crown – defence equipment

The appropriation was increased by \$281.189 million to recognise timing changes in existing contract payments, and new projects approved by Government during the financial year not provided for in Main Estimates. The projects involved were:

	\$(000)
Timing changes	
– ANZAC ships	(2,349)
– Light armoured vehicles	9,475
– Tactical communications	(4,589)
– Naval helicopters	8
– B-757 aircraft and modifications	(12,508)
– Light operational vehicles	46,995
– Medium range anti-armour weapon	769
– Very low level air defence system	(6,054)
New projects	
– C-130H Life extension	38,950
– P-3K Orion systems upgrade	72,962
– Project Protector vessels	137,530
	281,189

GST on defence equipment

The appropriation was decreased by \$19.933 million to meet timing changes in import GST charges not provided for in Main Estimates. The projects involved were:

	\$(000)
Timing changes	
– ANZAC ships	2
– Light armoured vehicles	(19,658)
– Tactical communications	(13)
– Naval helicopters	5
– B-757 aircraft and modifications	(8,088)
– Light operational vehicles	4,867
– Medium range anti-armour weapon	(58)
– Very low level air defence system	18
New projects	
– C-130H Life extension	864
– P-3K Orion systems upgrade	559
– Project Protector vessels	1,569
	(19,933)

Notes to the non-departmental schedules – *continued*

For the year ended 30 June 2005

Note C5: Financial instruments

Currency risk

The Ministry has a foreign exchange covering policy that minimises the currency risk. The policy has key parts:

- the Ministry is not required to arrange cover for foreign exchange transactions more than two years in the future, unless Cabinet decides to the contrary
- a maximum of net aggregate NZ\$2 million equivalent exposure at one time is allowed
- cover will occur within five working days of any exposure being identified. These exposures are identified contracts both formal and informal.

Foreign exchange contracts (Crown)

The Ministry had Crown foreign exchange contracts with a face value of \$521.508 million at 30 June 2005. (30 June 2004 = \$70.990 million.)

Part 5 : Other information



Equal employment opportunities

The Ministry has equal employment opportunity policy and procedures in place to ensure fairness and equity of opportunity for Ministry employees. The Ministry monitors its recruitment and retention of staff and progress made towards achieving equity is reported to the State Services Commission each year.

Management performance

Good employer practices and staff development

The Ministry reinforces to staff the value and importance of maintaining and refining an effective performance management system. The performance management system provides professional feedback and development opportunities for the continuous improvement of staff performance. This is to ensure that staff performance remains a critical success factor in the meeting the Government's defence goals.

Public service integrity

The Ministry provides instruction and guidance to employees about the ethical standards required of public servants. In addition, all employees are required to have current security clearances as a condition of their employment.

Quality

The Acquisition Division of the Ministry is ISO 9001 certified. This means that it implements continuous improvements to its management, policies and procedures.

Disability

The Ministry has a Disability Strategy Implementation Work Plan. This covers the 2004/05 year.

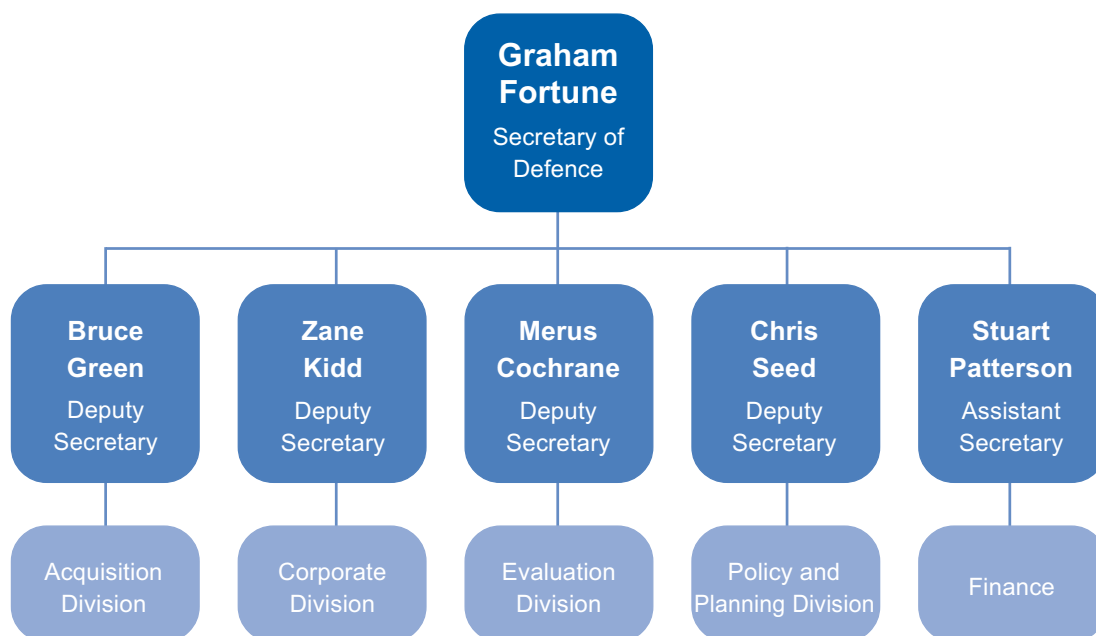
Govt³

The Ministry has signed up to this sustainable environment initiative.

E-government

The Ministry of Defence has incorporated the vision for electronic Government into its Information Management and Knowledge Management Strategy and the e-government requirements have been at the fore of planning for information management projects. The Ministry has actively contributed to the e-services project, provided feedback on planned initiatives and participated in the Agency Leaders and CIO Fora.

Organisation chart



Staff numbers at 30 June 2005 were 55 (excluding the Chief Executive).

Financial performance

	2004/05 Supp estimates \$000	2004/05 Estimated actual \$000	2004/05 Actual \$000
Departmental activities			
Revenue: crown	8,231	7,931	8,231
Revenue: other	890	890	842
Output expenses	9,121	8,821	8,529
Net operating surplus/(deficit)	–	–	544
Additions to physical assets	460	460	393
Disposals of physical assets	–	–	–
Taxpayers' funds	1,555	1,555	1,555
Net cash flows from operating, investing and financing activities	(215)	(215)	337
Non-departmental activities			
Purchase or development of capital assets on behalf of the crown	377,184	373,108	313,075
Total non-departmental revenue and receipts	282,518	282,518	282,594

Summary of appropriations (GST exclusive)

	Policy advice \$(000)	Audit and assessment of performance \$(000)	Management of equipment procurement \$(000)	Purchase or development of capital assets by the Crown \$(000)
Main estimates appropriation	3,025	1,748	3,458	95,995
Supplementary estimates change	236	24	630	281,189
Change by order in council under section 5 of the Public Finance Act 1989	–	–	–	–
Total amount appropriated for 2004/2005	3,261	1,772	4,088	377,184
Estimated actual outturn for 2004/2005 as reported in 2005/2006 estimates	3,084	1,763	3,974	373,108
Audited actual outturn for 2004/2005	3,183	1,619	3,727	313,075
Unappropriated expenditure, expenses or liabilities approved under section 12 of the Public Finance Act 1989	–	–	–	–
Unappropriated expenditure, expenses or liabilities requiring validating legislation	–	–	–	–

Historical financial performance of significant items: Payments on behalf of the Crown

(a) Defence equipment

	2004–05 \$(000)	2003–04 \$(000)	2002–03 \$(000)	2001–02 \$(000)	2000–01 \$(000)	1999–00 \$(000)
Voted in Estimates	377,184	335,870	405,812	177,361	342,488	248,534
Actual Expenditure	313,075	301,466	363,978	128,119	316,435	214,820
Variance	64,109	34,404	41,834	49,242	26,053	33,714

(b) GST on defence equipment

	2004–05 \$(000)	2003–04 \$(000)	2002–03 \$(000)	2001–02 \$(000)	2000–01 \$(000)	1999–00 \$(000)
Voted in Estimates	24,245	48,224	40,116	35,424	41,202	85,673
Actual Expenditure	14,585	47,272	19,881	34,350	25,234	83,487
Variance	9,660	952	20,235	1,074	15,968	2,186

Historical financial performance of significant items: Receipts on behalf of the Crown

Sales of equipment to New Zealand Defence Force (excluding GST)

	2004–05 \$(000)	2003–04 \$(000)	2002–03 \$(000)	2001–02 \$(000)	2000–01 \$(000)	1999–00 \$(000)
Planned	282,348	462,298	124,875	280,071	189,075	230,741
Actual	282,357	462,298	124,875	280,072	189,076	194,886
Variance	(9)	–	–	(1)	(1)	35,855



MINISTRY OF
DEFENCE

Manatū Kaupapa Waonga