



ANNUAL REPORT

for the year ended 30 June 2004

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

Acts Administered

The Ministry of Defence administers the Defence Act 1990.

The latest Ministry of Defence publications are available from our website:

www.defence.govt.nz

If you prefer to obtain your publication from the website and no longer need a paper copy, please let us know so we can remove your name from our mailing list. Please advise by email to information@defence.govt.nz

This information is protected by Crown copyright or the copyright of third parties. For permission to reproduce this information please contact the Deputy Secretary of Defence (Corporate).

ISSN: 0545-7327

Published in September 2004 by
The Ministry of Defence
Defence House
18–21 Stout St
Wellington
New Zealand

www.defence.govt.nz

Printed by Printlink, Petone, New Zealand

Contents

Part 1: Overview	1
Secretary of Defence's overview	2
Introduction	2
Policy and Planning	3
Acquisition	14
Evaluation	18
Corporate	19
Part 2: Statement of responsibility and audit report	21
Statement of responsibility	22
Audit Report	23
Part 3: Departmental financial statements	27
Statement of objectives and service performance	28
Output Class D1 – Policy advice	29
Output Class D2 – Audit and assessment of performance	44
Output Class D3 – Management of equipment procurement	48
Statement of accounting policies	73
Statement of financial performance	78
Statement of movements in taxpayers' funds	79
Statement of financial position	80
Statement of cash flows	81
Reconciliation of net operating surplus to net cash flow from operating activities	82
Statement of commitments	83
Statement of contingent assets and liabilities	83
Statement of unappropriated expenditure	83
Statement of departmental expenditure and appropriations	84
Notes to the financial statements	85

Part 4: Non-departmental schedules	93
Statement of non-departmental accounting policies	94
Schedule of non-departmental revenues and receipts	96
Schedule of non-departmental expenses	97
Schedule of non-departmental assets	98
Schedule of non-departmental liabilities	99
Schedule of non-departmental commitments	100
Schedule of non-departmental expenditure and appropriations	101
Schedule of non-departmental contingencies	101
Notes to the non-departmental schedules	102
Part 5: Other information	105
Equal employment opportunities	106
Management performance	106
E-government	106
Organisation chart	107
Financial performance	108
Summary of appropriations	109
Historical financial performance of significant items:	
Payments on behalf of the Crown	110
Historical financial performance of significant items:	
Receipts on behalf of the Crown	111

Part 1 : Overview



Secretary of Defence's overview

Introduction

The Ministry of Defence has three roles, which are founded on section 24 of the Defence Act 1990. These roles are:

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

These roles are reflected in the Ministry's Statement of Intent. They contribute to the Ministry's high level outcome: a secure New Zealand that contributes to international security.

This high level outcome, which is shared with other key government agencies, is based on a fundamental principle: a secure New Zealand is a critical precondition to economic growth and social wellbeing. New Zealand's security is directly affected by the security of other countries, so our present and future prosperity is predicated on a peaceful and stable international and regional environment. New Zealand contributes to regional and international security to ensure its own security.

How well we do in meeting the high-level outcome is measured against an intermediate outcome: Ministry of Defence advice and actions are credible and respected, and help achievement of the Government's defence policy objectives.

The Government's defence policy objectives are set out in *The Government's Defence Policy Framework* (June 2000) and the Government Defence Statement – *A Modern, Sustainable Defence Force Matched to New Zealand's Needs* (8 May 2001). The objectives also underpin the *Long-term Development Plan* (LTDP), which is updated annually. The LTDP is an important planning tool for future decisions on defence capability acquisitions.

Defence policy making is an uncertain business. It involves planning to meet unknowable challenges in unforeseeable locations. It is about

understanding the unpredictable nature of our strategic environment and how it affects New Zealand's defence and security interests. These are key challenges for the Ministry if it is to meet its responsibilities as an adviser to the Government on national security matters.

The strategic environment has become more complex and uncertain following the 11 September 2001 attacks on the United States. The international system is now dominated by non-conventional threats for which there are no easy solutions. The ongoing struggle against global terrorism is likely to remain at the forefront of international attention for the foreseeable future; the attacks in Madrid, Riyadh, and Ankara during the past year only confirm this. The United Nations has faced unprecedented challenges, old alliances have become strained, and relationships have undergone fundamental change. On top of this, the proliferation of weapons of mass destruction continues relatively unchecked.

None of these events leave New Zealand untouched and each, in its own way, relates directly to our national interests. New Zealand's challenge, therefore, is to navigate a way through this difficult phase in international relations. As a small and independent nation, we also have a strong interest in the building of a more just and peaceful world, and a very direct interest in translating this into our own South Pacific region. The Ministry has an integral role in advising the Government on how to manage these issues.

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 policy advice in relation to defence, security and defence capability issues is a core activity for the Ministry.

To facilitate a greater sense of "jointness" between the Ministry of Defence and the New Zealand Defence Force, both organisations cooperate and consult closely. This coordination is effected 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, which oversees 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 increase communication, cooperation and visibility within the defence establishment.

An important point of consultation and ongoing cooperation between the two defence organisations is the Defence Policy and Planning Unit. The Unit is an integrated Ministry and New Zealand Defence Force policy unit. Its principal role is to provide a single stream of information and policy advice to the Chief of Defence Force and to the Secretary of Defence, and through them to the Minister of Defence and the Government. The Defence Policy and Planning Unit consists of the International Defence Relations Branch and the Strategic Policy Branch and is staffed by civilian personnel from both organisations.

Capability development

Key capability development issues involving the Unit over the past twelve months included: Project Protector; a review of the Government's ocean-based research vessel needs; consolidation of Air Force operations at Ohakea; modification of the Boeing 757 aircraft; and a review of mobile medical services.

Project Protector

Under this project, the Government is acquiring a multi-role vessel, two offshore patrol vessels and four inshore patrol vessels. While the ships will be operated by the Royal New Zealand Navy, a number of government agencies will utilise the vessels, including New Zealand Customs, the Department of Conservation, Ministry of Agriculture and Forestry, Ministry of Foreign Affairs and Trade, Ministry of Fisheries, Maritime Safety Authority of New Zealand and New Zealand Police. The Unit was responsible for undertaking external consultation with agencies on the tender outcome and the options to be considered by the Government.

Hydrography Review and Review of Ocean-Based Needs and Research Vessel Utilisation

In November 2003, the Minister for Crown Research Institutes and the Ministers of Defence and Land Information agreed that the New Zealand Defence Force contract with Land Information New Zealand for the supply of hydrographic services by the Royal New Zealand Navy should be renewed. The Ministers also decided that the Ministry of Defence and the Crown Company Monitoring Advisory Unit should lead a review to identify the extent and nature of the Crown's long-term ocean-based research, scientific, hydrographic/bathymetric surveying and related needs to protect the nation's defence, scientific and economic interests

(“ocean-based needs”) and to assess issues related to the utilisation, capability and capacity of vessels to meet such needs. The review was substantially completed before being incorporated into a Cabinet paper reporting on the wider issue of meeting Government’s hydrography, bathymetry and ocean-based research needs.

Ohakea Consolidation Project

A joint New Zealand Defence Force/Ministry team, together with consultants, has been working on the development of a business case and a range of options for consolidating Royal New Zealand Air Force operations at Ohakea Airbase. These options will be presented to the Government.

Boeing 757 Modification Programme

Together with the New Zealand Defence Force, the Ministry provided advice to the Government on the programme to modify the two RNZAF Boeing 757 aircraft to a combined passenger/freight configuration. The two aircraft, which were acquired to perform a strategic airlift role in support of the Government’s defence policy, have been in service since mid-2003.

Mobile Medical Review

Over the past year the Unit has led a review of the New Zealand Defence Force’s deployable mobile medical and surgical facilities. The review is also considering future capability options.

Other Projects

The Unit provided advice on options for disposing of Whenuapai Airbase and several *Long-term Development Plan* Army projects.

The Capability Management Framework

A key development in the past year has been the introduction of the Capability Management Framework, a joint project of the Ministry and the New Zealand Defence Force. The Capability Management Framework provides guidance on management and governance for defence capability work. It focusses on management systems for both operational and financial risks, to ensure that long-term investments in defence capabilities provide value for money and meet New Zealand’s defence needs. The Capability Management Framework will help ensure that the capabilities acquired by the New Zealand Defence Force are consistent with the Government’s defence policy as well as being affordable and sustainable.

Long-term Development Plan

First released on 11 June 2002, and updated annually, the *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), with preliminary costings, timings, and priorities.

The Government has directed that the *Long-term Development Plan* be managed within three financial parameters:

- up to \$1 billion, in nominal terms, in capital injections over the next 10 years, which, with retained depreciation, will provide at least \$2 billion for new acquisitions;
- any inflationary pressure to be managed within these constraints until 2005/06;
- leasing options may be considered where there is a neutral trade-off between capital and operating expenditure.

The *Long-term Development Plan* does not give Defence authority to proceed with any of the projects set out in the Plan. Each project is brought forward for approval and is judged in the context of the Government's defence policy, and its priority and affordability in the *Long-term Development Plan*.

Key projects developed in the past year include Project Protector naval vessels; medium-range anti-armour weapon; radar, automatic cueing and identification friend-or-foe systems for the existing very low-level air defence system; light operational vehicles; utility helicopters; new equipment for the New Zealand Special Air Service; engineering equipment for the New Zealand Army; and the P-3 Orion upgrade project.

Implementation of the *Long-term Development Plan* will continue to be an important part of the Strategic Policy Branch's work in the coming year. This will include work on projects such as improved helicopter capability. The Plan will be reviewed and updated in August 2004.

Arms control and disarmament, Antarctica and Oceans policy

Arms control and disarmament continues to be of interest to Defence. The Unit worked with the Ministry of Foreign Affairs and Trade on small

arms, the Certain Conventional Weapons Convention, and export controls. It was also involved in Officials' Antarctic Committee meetings and continues to be engaged in the inter-agency Oceans Policy process.

The Defence Capability and Resourcing Review

Unit staff have contributed to the Defence Capability and Resourcing Review, which commenced in January 2004.

The objective of the Review is to examine the New Zealand Defence Force's current capability and resourcing situation, to identify outputs the New Zealand Defence Force will need to deliver over the next decade, and to assess the optimum future configuration for the Defence Force. The Review will also consider the Ministry's capability to support the Government policy process. The Review is scheduled to be reported to Ministers in October 2004.

Closer Defence Relations with Australia

No strategic partnership in our region, and possibly beyond, is closer than that between Australia and New Zealand. A close defence relationship with Australia, in support of common interests for a secure and peaceful region, is a key policy objective in *The Government's Defence Policy Framework*. Both countries share a strong commitment to the security and stability of the Asia-Pacific region, as reflected in our combined efforts in Bougainville, Timor Leste and, more recently, Solomon Islands. In 2003, the two Defence Ministers agreed to a new joint statement on Closer Defence Relations that set an agenda to give greater substance to cooperative activities.

Significant bilateral cooperation has occurred in a number of areas of capability development, including the P-3 Orion maritime surveillance aircraft, Army equipment, and ANZAC frigate upgrade projects. The two defence forces continue to consult on their respective programmes for the replacement of troop-lift helicopters. New Zealand Defence Force officers are being placed in Australian Army and Navy project offices.

Collaborative work continues on the development of command and control systems which will enhance interoperability in combined operations. Arrangements for cooperation with strategic airlift and sealift between the Australian and New Zealand defence forces are also nearing completion. Planning for Exercise Joint Kiwi to be held in early 2005, which will be the first joint and combined exercise to be conducted by New Zealand Joint Force Headquarters since its establishment in 2001,

is also underway. These activities are important for maintaining and deepening trans-Tasman operational proficiency.

South Pacific

New Zealand's national security interests include both responsibilities for and risks arising from the Pacific region. We have formal constitutional obligations for the defence of the Cook Islands, Niue and Tokelau. The Treaty of Friendship with Samoa brings a responsibility to consider sympathetically any request for defence assistance by the Samoan Government. We are also committed to consulting regularly with our island neighbours on defence and security issues, including advice on potential security risks. New Zealand also has international obligations, including providing assistance with surveillance of Pacific exclusive economic zones, maritime search and rescue, disaster relief and peacekeeping.

Pacific island countries, particularly in Melanesia, face a growing number of security challenges. These are linked not to conventional areas of interstate conflict or military action, but to cumulative stresses arising from population growth, ethnic tensions, governance failures, fragile economies and the impact of global trends. A heightened sense of vulnerability to transnational crime has obliged countries in the region to rethink questions of Pacific security and to broaden engagement strategies. In June last year, members of the Pacific Islands Forum agreed that the breakdown of law and order in Solomon Islands, and its potential exposure to transnational crime, called for a concerted regional response.

One of New Zealand's mechanisms for defence engagement with the Pacific is the Mutual Assistance Programme. A principal objective of the programme is to increase the professionalism of the region's disciplined forces through the provision of training and technical support. In August 2003, the Government endorsed a more proactive engagement with Pacific island countries in combating transnational crime, including terrorism. The Mutual Assistance Programme is being recalibrated to help in preventing those conditions that allow transnational crime to prosper.

Papua New Guinea

During the year, the Minister of Defence hosted a visit by his Papua New Guinea counterpart. The visit provided an opportunity to confirm our willingness, where practicable, to provide continued support and assistance to the Papua New Guinea Defence Force, especially through

the Mutual Assistance Programme. It also provided an opportunity to reaffirm our support for efforts to reshape and reform the Papua New Guinea Defence Force, and to explore how we might assist this process.

Solomon Islands

In April last year the Solomon Islands Prime Minister asked Australia for assistance in restoring law and order. Australia responded positively, and sought participation from New Zealand and other regional partners. Our contribution, at its peak in August 2003, comprised 226 personnel and four Iroquois helicopters.

The first phase of this multinational operation, the Regional Assistance Mission, has been an undoubted success: law and order has been returned to Solomon Islands. Now, with this improvement in the security situation the overall military presence is being reduced. For the next two years a small number of New Zealand military personnel on a rotational basis with Australia, Fiji, Papua New Guinea, and Tonga, will support a platoon in Solomon Islands.

Fiji

The Mutual Assistance Programme with Fiji was suspended following the overthrow of the elected government in May 2000. The New Zealand Defence Force continues to provide support in maritime surveillance as well as search and rescue. Limited peacekeeping predeployment training has also been given to Republic of Fiji Military Forces personnel serving in Timor Leste, Bougainville, and Solomon Islands. In March, Ministers agreed to the gradual resumption of bilateral defence cooperation with Fiji. Talks with Fiji officials on reengagement priorities will take place shortly.

Samoa

Defence relations with Samoa, while not substantial, are close and enduring. Under the Mutual Assistance Programme we provide training for the Samoan Police, including support to the Pacific Patrol Boat programme and for the deployment of Samoan officers to United Nations operations in Timor Leste and Liberia. The reestablishment in June of a Royal New Zealand Navy Technical Advisor (Communications) position was part of our commitment to increase the professionalism of the Samoan Police. Other defence support includes maritime surveillance.

Southeast Asia

Five Power Defence Arrangements

The Five Power Defence Arrangements, involving Singapore, Malaysia, Australia, New Zealand and the United Kingdom, make a significant contribution to regional security. The New Zealand Defence Force participates regularly in Five Power Defence Arrangements exercises, meetings and other activities. In June 2004, the Minister of Defence attended the Informal Defence Ministers' Meeting in Singapore, where Ministers endorsed a set of proposals for greater cooperation in tackling non-conventional security threats, such as maritime terrorism, piracy and people smuggling.

ASEAN Regional Forum

The ASEAN Regional Forum, with its broad regional membership, has become a valuable forum for discussion and cooperation on security issues. It is the only pan-regional forum devoted to such issues. New Zealand has taken an active part in Forum meetings and working groups and in developing the many confidence-building measures that have resulted. We have also actively encouraged efforts to enhance defence participation in ASEAN Regional Forum processes and, along with Singapore and China, helped develop the concept of an annual security conference for senior defence officials. The first such meeting will take place later this year. New Zealand defence officials attended the Intersessional Group meetings on confidence-building measures in China in November 2003 and in Myanmar in April 2004, and also the Senior Officials' Meeting in Indonesia in May 2004.

Singapore

New Zealand and Singapore share an active defence relationship. We maintain extensive defence interaction, with regular exercises, training and exchanges, and through close cooperation on peacekeeping. The Minister of Defence made a bilateral visit to Singapore in June, when he was hosted by his counterpart, Rear Admiral Teo Chee Hean, and also held discussions with the Coordinating Minister for Security and Defence, Dr Tony Tan.

Malaysia

The defence relationship with Malaysia has a long and rich history. Close links have been forged and maintained with our Malaysian counterparts through bilateral meetings, exercises and exchanges, multilateral engagement under the Five Power Defence Arrangements, and training

provided under the Mutual Assistance Programme. The Minister of Defence met the Malaysian Defence Minister, Dato' Sri Mohammed Najib, in Singapore in June 2004.

Thailand

New Zealand's defence relationship with Thailand is focussed on training provided under the Mutual Assistance Programme and an increasing association in peace support operations. We are considering how to enhance cooperation in areas such as pre-deployment training for peace support operations.

Timor Leste

Because the security environment in Timor Leste remains fragile, the United Nations Security Council has extended the United Nations Mission in East Timor (UNMISET) for a further 12 months. The extended mission has been scaled down, and been given a modified mandate to sustain, strengthen and build upon the gains made to date assisting Timor Leste to attain self-sufficiency. We are providing three personnel to the downsized mission.

New Zealand also strongly supports the Timor Leste Government's efforts to improve its own defence and security capabilities. We have up to three personnel providing bilateral training and advisory support to the Timor Leste Defence Force.

Other Southeast Asian Nations

New Zealand maintains modest defence relations with Brunei and the Philippines, primarily through the Mutual Assistance Programme, and periodic exercises in Brunei. New Zealand continues to support the demining process in Cambodia through resident New Zealand Defence Force Technical Advisers. There is also periodic defence contact with Vietnam.

North Asia

China

Over the past twelve months, senior People's Liberation Army visitors to New Zealand included General Ge Zhenfeng, Deputy Chief of the General Staff and Lt Gen Xu Genchu, Vice President of the People's Liberation Army Academy of Military Sciences. In return, the Chief of Defence Force visited China. The fourth regular bilateral security dialogue, which took place in Beijing in April, provided another opportunity to discuss defence policies and priorities, defence linkages and regional developments.

Republic of Korea

The New Zealand Defence Force is connected to the Republic of Korea through bilateral military contacts and through continued participation in the multinational United Nations Command. To further this support for the United Nations Command, a New Zealand Defence Force officer began a six-month tour of duty in the Military Armistice Commission operations section in June 2004.

The Minister of Defence visited the Republic of Korea in April. New Zealand hosted the fifth round of political-military discussions in April and also hosted two Korean observers attending a tactical air force exercise the same month. The New Zealand Defence Force Command and Staff College visited Korea in September, and Korea sent three training ships to visit Wellington in December.

Japan

New Zealand and Japan have many common bilateral, regional and international defence interests. These include a shared commitment to regional stability and security, as demonstrated by our cooperation in Timor Leste, and the international campaign against terrorism. Japan re-established its refuelling arrangements for the Royal New Zealand Navy frigate operating in support of the maritime interdiction operation in the Arabian Sea. As Japan seeks to enhance its role as a coalition member in future multinational peacekeeping and military operations, the prospects for interaction with the New Zealand Defence Force will increase.

Following the third round of ad hoc security talks held in Wellington last December, it was agreed to formalise these consultations, giving them annual Defence Talks status. In February, the Japan Defense Agency decided to cross-accredit its Defence Attachè based in Canberra to Wellington. Consideration is being given to raising New Zealand's profile in Tokyo by establishing a resident Defence Attachè. The Minister of Defence visited Japan in August. The New Zealand Defence Force Command and Staff College returned to Japan for a study tour in September 2003.

The United Kingdom and North America

United Kingdom

Our longstanding defence relationship with the United Kingdom is important to the development of the New Zealand Defence Force. Cooperation extends across a wide range of activities, including the

commitment of a light engineering group to the reconstruction effort in Iraq (which operates alongside British forces in Basra). Exercises, individual and unit exchanges, and specialist training, particularly Royal New Zealand Navy officers gaining experience with the Royal Navy, are all elements of our close relationship. New Zealand also contributes to British peace support operations in Bosnia and Sierra Leone.

United States

A key component of the bilateral defence relationship with the United States is related to counterterrorism. New Zealand remains one of a handful of countries contributing military forces to the stabilisation effort in Afghanistan and the maritime interdiction operation in the Arabian Sea. We are also contributing to the reconstruction of Iraq.

Canada

The New Zealand and Canadian defence forces work alongside each other in a number of ways. These include cooperation in Timor Leste, Bosnia, Afghanistan, and the Arabian Sea; exercises and exchanges; and active participation in the five-nation standardisation and technology sharing arrangements. In addition, the acquisition by the New Zealand Defence Force of 105 light armoured vehicles from Canada has increased contacts and interoperability between our two defence forces.

Afghanistan and Iraq

Afghanistan

New Zealand supports international efforts to help Afghanistan eliminate terrorist groups and develop its own capabilities through the deployment of Special Air Services personnel, contributions to the International Security Assistance Force, and training of the Afghan National Army. New Zealand is also providing a 100-strong Provincial Reconstruction Team, which was recently extended for a further 12 months to September 2005. Working in Bamian province, this team aims to assist the Afghan Transitional Authority extend its influence beyond Kabul. Its focus is on enhancing the security environment, as well as assisting in the provision of humanitarian support and development assistance to the Afghan people.

Iraq

Iraq has continued to dominate the international agenda over the last 12 months. New Zealand responded quickly to the humanitarian needs of the Iraqi people in the post-war period. Initially, two New Zealand Defence

Force personnel were deployed to Iraq as part of the United Nations Mine Action Service operations. Since United Nations Security Council Resolution 1483 was passed on 22 May 2003, New Zealand has contributed 61 New Zealand Defence Force engineers and support staff to work alongside British forces in southern Iraq.

This light engineer group is restoring and establishing core services. The main focus is the provision of potable water in Basra. The group is constructing eight reverse osmosis water plants to supply drinking water. Other projects include bridge maintenance and school refurbishment.

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 the region. Currently, our commitments are global in reach, with personnel carrying out peacekeeping, demining or nation-building activities in the Pacific, Middle East, Asia, Europe, and Africa. In total, approximately 500 New Zealand Defence Force personnel are presently deployed on various missions.

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 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. The Acquisition Division is certified to the AS/NZ ISO 9001:2000 Standard for "defence acquisitions of major military equipment and design of management systems to support these activities". This certification is audited and certified by BVQI New Zealand.

Upgrading the Army

Vehicles

Light armoured vehicles

We are purchasing 105 light armoured vehicles from General Dynamics Land Systems, Canada. Vehicle production in Canada is complete and the Ministry's project manager has returned to New Zealand. Ninety-one vehicles are now in New Zealand. Thirteen of the remaining vehicles will be shipped out in August 2004. One vehicle will remain in Canada for test fitting of add-on armour. Contracted training has been completed, and 90% of ordered spare parts have been delivered.

Light operational vehicles

This project involves the acquisition of 321 light operational vehicles in six variants to meet the New Zealand Army's motorisation requirements. Cabinet decided in December 2003 to purchase 175 non-armoured and 13 special operations Pinzgauer vehicles from Automotive Technik Ltd of the United Kingdom. Following successful armour testing of the Pinzgauer vehicles by the manufacturer, Cabinet decided in June 2004 to purchase a second tranche of 133 vehicles from ATL, including 60 armoured vehicles. The existing Landrover fleet will be progressively withdrawn from service as the light operational vehicles enter service commencing later this year.

Tactical communications

This project covers tactical communications for the Army and supporting RNZAF units. The project has progressed as planned with deliveries of most of the radios occurring in the past twelve months.

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. Delivery of the alerting and cueing system is expected in mid 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 (FMS) procurement. Deliveries should be completed by July 2006.

Direct Fire Support Weapon: Area

This project involves the procurement of 40mm automatic grenade launchers complete with tactical fire control units, plus supporting systems. A request for proposal (for the supply of the automatic grenade launchers, two years stock of ammunition, sets of quick action sights, targeting fire control units, and hand-held observation devices) was launched in May 2003. Evaluation of proposals is currently underway. The project is expected to be completed by June 2006.

New naval vessels

Following the Government's endorsement of the Maritime Forces Review, Project Protector was initiated to purchase new vessels for the Royal New Zealand Navy. Six companies, selected from a registration of interest process, received the request for proposal in May 2003 and responses were required in October 2003. An evaluation of the proposals from the six short-listed companies was completed in March 2004, and the preferred tenderer, Tenix Defence Systems, was announced in April 2004. Contract negotiations are progressing with the preferred tenderer.

Fixed wing transport

C-130 Life Extension

After a registration of interest, five companies were selected to tender for the C-130 life extension project and provided with tender documentation in July 2003. Four companies were invited to respond to a best and final offer which closed in May 2004. These offers are being evaluated.

Boeing 757 Purchase and Modifications

Detailed planning for the modification programme (cargo door, strengthened floor, air stairs and communications/navigation equipment upgrade) is almost complete. Cabinet approval to proceed with the project will be sought later in the year.

Maritime surveillance aircraft

P-3 Orion

In December 2002, the Government approved initiation of a project to upgrade the mission systems and the communication and navigation systems on the P-3 Orion aircraft. A registration of interest process identified four companies with the required experience to undertake this

project. Tender documentation was released to these companies in June 2003 and tenders closed in October 2003. An evaluation of these tenders identified L-3 Communications Integrated Systems of the United States as the preferred tenderer. L-3 Communications Integrated Systems has been invited to submit a best and final offer for the project to enable options to be presented to the Government in August 2004.

Maritime helicopters

The fifth aircraft (NZ3605) was delivered to the New Zealand Defence Force in early 2003. This project is now complete, with project closure activities underway.

A joint approach

Joint command and control system

The acquisition of a joint command and control system (JCCS) 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 interoperability framework, including with relevant non-defence organisations.

The first phase of the JCCS project, a project definition study to determine the NZDF's requirements for command and control, was undertaken by Booz Allen Hamilton (Australia Ltd) and completed in October 2003. The New Zealand Defence Force is considering the findings of the study and will develop the system specifications. Cabinet approval to progress the project will be sought in late 2004.

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, which has a focus 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

The Ministry provided support for the Defence Industry Committee of New Zealand. This Ministerial appointed committee provides industry feedback to Defence and briefs the Minister on issues relating to industry.

The Defence Industry Committee of New Zealand sponsors the Defence Industry Committee Awards of Excellence. These are 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 in the provision of excellent service to the New Zealand Defence Force as well as to those involved in larger procurement projects.

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 to 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 s3(6) of the Hazardous Substances and New Organisms Act 1996. During the year the Division completed reports on the New Zealand Defence Force's implementation of systems for controlling hazardous substances not contained in weapon systems, and the New Zealand Defence Force's controls on hazardous substances contained in weapon systems.

Corporate

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

Review of accountabilities and structural arrangements between the Ministry of Defence and the New Zealand Defence Force

In March 2003 the Government considered the review into the accountabilities and structural arrangements between the Ministry and the New Zealand Defence Force. The Government agreed that the objective is to achieve a greater degree of “jointness” within the New Zealand Defence Force and between the New Zealand Defence Force and the Ministry.

The Government has directed that greater “jointness” be achieved by reinforcing and cementing in place existing initiatives designed to support cooperation and collaboration between the two defence organisations. Over the past twelve months, the focus has been on progressing new accommodation in Wellington for the two organisations which will contribute to meeting the Review’s objectives.



Graham Fortune
Secretary of Defence
22 September 2004

Part 2 : Statement of responsibility and audit report



Statement of responsibility

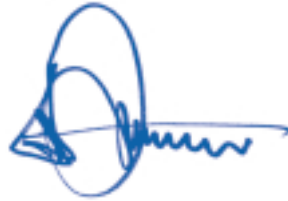
In terms of sections 35 and 37 of the Public Finance Act 1989, I am responsible, as Chief Executive of the Ministry of Defence, for the preparation of the Ministry's financial statements and the judgements made in the process of producing those statements.

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 2004.

Signed by:

Countersigned by:



Graham Fortune
Secretary of Defence

S J Patterson
Assistant Secretary of Defence
(Finance)

22 September 2004

22 September 2004



Audit New Zealand

AUDIT REPORT

TO THE READERS OF

THE MINISTRY OF DEFENCE'S

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004

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 2004.

Unqualified opinion

In our opinion the financial statements of the Ministry on pages 28 to 104:

- ▲ comply with generally accepted accounting practice in New Zealand; and
- ▲ fairly reflect:
 - the Ministry's financial position as at 30 June 2004;
 - 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 2004.

The audit was completed on 22 September 2004, and is the date at which our opinion is expressed.

The basis of the 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 our 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 the opinion.

Our 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 the 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 2004. 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 2004. 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 section 38(1) of 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 of the Office of the Controller and Auditor-General is currently seconded to the Ministry of Defence as Project Manager: Defence Capability and Resourcing Review for the period from 20 January 2004 until 24 December 2004. In addition to the audit we have carried out an assignment in the area of tender process assurance, which is compatible with those independence requirements. Other than the audit, the secondment and this assignment, 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 Ministry of Defence for the year ended 30 June 2004 included on 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 22 September 2004 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 2004

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 minimal.

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 D1 – 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, Ombudsman correspondence and public affairs advice.

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"> • The Ministry provided an update of New Zealand's defence policy and international defence relations for the 2004 edition of the New Zealand Yearbook.

Target	Delivered
<ul style="list-style-type: none"> • developments in the international security environment, especially in the Asia-Pacific region 	<ul style="list-style-type: none"> – A scoping paper on the possible conduct of a review of defence and security issues in Asia has been circulated for comment. – The Ministry participated in the Seriously Asia Project. – The Ministry provided policy advice to the Minister of Defence on the appointment of the New Zealand Defence Attachè to Seoul to the position of Rotating Member of the United Nations Command Military Armistice Commission. – The Ministry has provided regular briefings on ASEAN Regional Forum inter-sessional issues.
<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"> – A briefing paper was prepared for the Minister of Defence on the key points arising from the Australian Foreign Affairs, Defence and Trade Committee report on its 2003 visit to New Zealand. – The Ministry provided policy advice to the Minister of Defence which identified key issues for the Australia-New Zealand Ministers Meeting held in July.
<ul style="list-style-type: none"> • developments in regional security relations 	<ul style="list-style-type: none"> – The Pacific Defence and Security Policy Review was submitted to Ministers in August 2003. – Pacific issues were covered in the Pacific Defence and Security Policy Review. – The Ministry contributed to the Pacific Security Strategy and Framework.

Target	Delivered
<ul style="list-style-type: none"> • deployments of New Zealand Defence Force assets and personnel on UN or other operations 	<ul style="list-style-type: none"> – The Ministry participated in talks in Canberra on the shape of the military contribution to the Regional Assistance Mission in Solomon Islands post-July. – The Ministry provided policy advice to the Minister of Defence on the composition of New Zealand's military contribution to the Regional Assistance Mission in Solomon Islands post-July. – The Ministry provided policy advice to the Minister of Defence on the forthcoming visit to Fiji by the New Zealand Defence Force Command and Staff College. – The Ministry was actively involved in the development of Cabinet papers and inter-agency policy discussions relating to the deployment of New Zealand Defence Force personnel to Solomon Islands as part of the Regional Assistance Mission in Solomon Islands, and the preparation of a subsequent review paper. – The Ministry was actively involved in the development of Cabinet papers and inter-agency policy discussions relating to the deployment of New Zealand Defence Force personnel and assets to Iraq and Afghanistan.

Target	Delivered
<ul style="list-style-type: none"> • the operation of the New Zealand Defence Force Mutual Assistance Programme 	<ul style="list-style-type: none"> – 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 Mission in Sierra Leone (UNAMSIL), the UN Truce Supervision Organisation (UNTSO), the Sinai Multinational Force and Observers (MFO), the Stabilisation Force in Bosnia-Herzegovina (SFOR), and the UN Mission in Kosovo (UNMIK). – The Ministry was actively involved in the development of advice and a Cabinet paper on options for Operation Enduring Freedom for 2004/05. – The Ministry provided policy advice to the Prime Minister on New Zealand's involvement in United Nations and other peacekeeping missions. – The Ministry was actively involved in the development of Cabinet papers on the composition of New Zealand's military contribution to the Regional Assistance Mission in Solomon Islands post-July. – In 2003, Mutual Assistance Programme talks were held with Singapore, Thailand, Malaysia, Philippines, Brunei, and Cook Islands. Mutual Assistance Programme talks with Tonga and Papua New Guinea were held in early 2004.

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>Long-term Development Plan</i> that have been approved in principle by the Government such as the New Zealand Defence Force helicopter capability 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. – The Ministry was involved in the development and writing of the Cabinet papers on options for the replacement of the Air Force's Iroquois and Sioux helicopters; and the following Army projects: Light Operational Vehicles (LOVs), Very Low-Level Air Defence (VLLAD), the Medium Range Anti-Armour Weapon (MRAAW), Special Operations Equipment, and Army Engineering Equipment. – The Ministry participated in the inter-agency process for a final report back to Cabinet on the Hydrographic Survey Review undertaken by Mr Ross Tanner in 2002. This process included a review of the options for the utilisation of HMNZS <i>Resolution</i> and the National Institute of Water and Atmospheric Research's <i>Tangaroa</i>. – The Capability Management Framework became operational and policy advice and support was provided to the governance bodies provided for under the Framework. The Framework is a process of management and governance in respect of the long-term investment in New Zealand Defence Force capabilities.

Target	Delivered
<ul style="list-style-type: none"> • provide on-going advice during the acquisition phase of projects from the Defence <i>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-3 Orion fleet 	<ul style="list-style-type: none"> – Policy advice continues to be provided on the Combat Service Support (CSS) vehicles project; the Joint Command and Control Project; and the 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 was involved in the development of Cabinet papers relating to the disposal of Whenuapai Airbase and the Consolidation of the Air Force at the Ohakea airbase. Policy advice continues to be provided to the Ohakea Project Team of which the Ministry is a member. – The Ministry provided policy advice on changes to the B757 modification programme and was involved in the development and writing of the associated Cabinet paper and note to Joint Ministers. – The Ministry provided policy advice on the development of the options for Cabinet concerning the P3 Orion Project, coordinated the interdepartmental consultation, and was involved in the development and writing of the Cabinet paper.

Target	Delivered
<ul style="list-style-type: none"> • provide the policy basis for deployment scenarios for current and new New Zealand Defence Force capabilities • 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 coordinated an extensive consultation programme with agencies on the outcome of Project Protector (1 multi-role vessel, 2 offshore patrol vessels and 4 inshore patrol vessels) and was involved in the development and writing of several Cabinet papers and ministerial notes. – Initial work was commenced but held over pending the Defence Capability and Resourcing Review. – The Ministry was involved in ongoing inter-agency discussions on regional security policy. – The Ministry provided advice and feedback on the Customs paper on the possible acquisition of Customs vessels. – The Ministry provided advice to Minister of Foreign Affairs and Trade on arms control and disarmament issues, and particularly on Certain Conventional Weapons issues. – The Ministry 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 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 participated in the Australia-New Zealand Defence Co-ordinating Group in Canberra in November and Wellington in April, and coordinated and finalised the Australia-New Zealand Defence Co-ordinating Group report to Ministers. The Ministry also hosted the MAP/ Defence Cooperation Programme Talks in Wellington in November. – The Ministry provided briefings for the following: <ul style="list-style-type: none"> ■ the visit by the Minister of Defence to Japan ■ the visit by the Prime Minister and Minister of Defence to Vanuatu and Solomon Islands ■ the visit by the Prime Minister and Chief of Navy to Korea for Armistice Commemorations ■ the visit by the Prime Minister to Singapore and Vietnam ■ the visit by the Chief of Air Force to the United Kingdom and the Middle East ■ the visit by the Chief of Defence Force to the South Pacific (Tonga, Samoa, Cook Islands and Niue) ■ the visit by the Chief of Army to Korea ■ the visit by the Chief of Air Force to Singapore, Malaysia and the Philippines ■ the visit by the Minister of Defence to the United Kingdom

Target	Delivered
	<ul style="list-style-type: none"> <li data-bbox="620 238 972 329">■ the visit by the Chief of Army to the United Kingdom, Ireland and Bosnia <li data-bbox="620 353 972 414">■ the visit by the Chief of Air Force to the United States <li data-bbox="620 438 972 529">■ the visit of the Command and Staff College to Tonga, Korea and Japan <li data-bbox="620 553 972 644">■ the visit by the Chief of Defence Force to Italy and Malta <li data-bbox="620 667 972 729">■ the New Zealand-China Pol/Mil Talks <li data-bbox="620 753 972 880">■ the visit by the Deputy Secretary (Policy and Planning) to Singapore and Jakarta <li data-bbox="620 904 972 995">■ the visit by the Deputy Secretary (Policy and Planning) to Australia <li data-bbox="620 1019 972 1146">■ the visit by the Deputy Secretary (Policy and Planning) to Washington, New York, and Ottawa <li data-bbox="620 1170 972 1232">■ the visit by the Chief of Navy to the UK and Normandy <li data-bbox="620 1255 972 1408">■ the visit by the Deputy Secretary (Policy and Planning) to Nadi for the Pacific Islands Forum Security meeting <li data-bbox="620 1432 972 1494">■ the visit by the Minister of Defence to Solomon Islands <li data-bbox="620 1517 972 1603">■ the visit by the Chief of Defence Force to Afghanistan and Iraq

Target	Delivered
	<ul style="list-style-type: none"> ■ the visit by the Commander Joint Forces New Zealand to New York ■ the visit by the Minister of Defence to Singapore for the International Institute of Strategic Studies dialogue and the Five Power Defence Arrangements Ministers' meeting ■ the visit by the Chief of Air Force to the Cook Islands for ANZAC Day ■ the visit by the Minister of Foreign Affairs and Trade to Palau, Marshall Islands, and Solomon Islands ■ the visit by the Chief of Army to Singapore and Australia.
	<ul style="list-style-type: none"> – The Ministry provided briefings for and participated in visits by: <ul style="list-style-type: none"> ■ the Armed Forces Supreme Commander of Thailand ■ a Vietnamese Parliamentary delegation ■ Mr Paul Ellis, Geneva International Centre for Humanitarian Demining ■ the United Nations Secretary General's Special Representative to Timor Leste ■ Two Peoples Liberation Army generals (General Xu Genchu and Lt Gen Ge Zhenfeng) ■ a Peoples Liberation Army naval training delegation ■ Republic of Korea naval ships

Target	Delivered
	<ul style="list-style-type: none"> ■ the Indian National Defence College ■ the Thai National Defence College ■ the South African Chief of Defence Staff ■ the United Kingdom Chief of General Staff ■ the Prime Minister of Fiji ■ the Commander of the Republic of Fiji Military Forces ■ the New Zealand-France Pol/Mil Talks ■ the Minister of Defence for Papua New Guinea ■ the RAMSI Special Coordinator and other Principals ■ the Superintendent of the Philippines Military Academy.
	<ul style="list-style-type: none"> – The Ministry prepared and hosted the Defence Co-ordinating Group meetings with Malaysia and Singapore, and arranged the Senior Executives' meeting with Malaysia.
	<ul style="list-style-type: none"> – The Ministry hosted and provided briefing for the visit by Mr Horie, Director General for International Affairs, Japan Defence agency.
	<ul style="list-style-type: none"> – The Ministry provided policy advice on the possibility of establishing a Defence Attachè in Japan.

Target	Delivered
	<ul style="list-style-type: none"> <li data-bbox="560 238 969 396">– The Ministry provided input into the Cabinet Paper on the normalisation of relations with Fiji and provided advice on Defence re-engagement. <li data-bbox="560 420 969 547">– The Ministry provided advice to the Minister of Defence on developments in Vanuatu and Bougainville. <li data-bbox="560 571 969 662">– The Ministry participated in the holding of Exercise Wyvern Primo 2003. <li data-bbox="560 686 969 777">– The Ministry drafted an arrangement with Brunei for Exercise Veilutaki. <li data-bbox="560 800 969 928">– The Ministry provided briefing for the November 2003 ASEAN Regional Forum Inter-Sessional Group meeting in Beijing. <li data-bbox="560 951 969 1142">– The Ministry authored a New Zealand think-piece paper on the inclusion of non-conventional threats into the Five Power Defence Arrangements scenarios exercise. <li data-bbox="560 1166 969 1294">– The Ministry was actively involved in the talks on the development of the Five Power Defence Arrangements concept paper. <li data-bbox="560 1317 969 1510">– The Ministry provided briefings for, and participated in, the International Institute of Strategic Studies dialogue and the Five Power Defence Arrangements Ministers' meeting.

Target	Delivered
<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"> – 85 Ministerial letters of reply were completed for the reporting year ended 30 June 2004. All responses were actioned within the required time frame. – 185 Parliamentary Questions were answered for the reporting year ended 30 June 2004. All answers were actioned within the required time frame. – 28 Official Information Act requests were responded to for the reporting year ended 30 June 2004. Two replies were delayed through consulting external agencies. – 8 replies were completed in relation to enquiries from the Office of the Ombudsman. All were actioned within the required time frame.
<p>3. Publish policy documents and other information for the public based on an agreed programme.</p>	<ul style="list-style-type: none"> – 11 issues of <i>Defence Update</i> were published.

Output Quality Measures and Standards

The 2004 Statement of Intent detailed the quality standards intended.

In addition:

Comment

- the Ministry will maintain quality control procedures to support the policy advice delivered under this output class
 - 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 Defence 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 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.
 - Recommendations from three audits are being implemented.
-

Cost of Output Class D1: Policy advice (GST exclusive)

For the year ended 30 June 2004

30/6/2003 Actual		30/6/2004 Actual	30/6/2004 Main estimates	30/6/2004 Supp. estimates
\$000		\$000	\$000	\$000
Revenue				
2,782	Crown	2,931	2,936	3,156
–	Other	47	–	356
2,782	Total revenue	2,978	2,936	3,512
Expenditure				
1,015	Personnel	1,243	1,311	1,311
349	Operating	487	453	942
1,200	Other	1,165	1,172	1,259
2,564	Total expenditure	2,895	2,936	3,512
218	Surplus	83	–	–

Output Class D2 – 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"> – 5/2003 Implementation of HSNO in the NZDF – 8/2003 Cabinet Papers – review of quality and compliance with process – 9/2003 Review of RNZAF statement of personnel requirements – 10/2003 NZDF Output D14 – Rotary Wing Transport Forces

Target	Delivered
	<ul style="list-style-type: none"> – 11/2003 NZDF IT business continuity planning – 12/2003 Management of the NZDF Minor Capital Programme – 1/2004 NZDF Recruiting – 2/2004 The Defence Technology Agency – 3/2004 Naval Deployments to Operation Enduring Freedom – 4/2004 Controls on hazardous substances contained in weapons systems – 5/2004 Air deployments to Operation Enduring Freedom – 6/2004 RNZAF Engineering Officer resources – 8/2004 Acquisition processes: Conformance to C&AG guidance – 9/2004 Land Force defence weapons procurement projects.
2. Conduct other audits and assessments as and when directed.	<ul style="list-style-type: none"> • The following unprogrammed audits requested by the Minister of Defence have been completed in the year: <ul style="list-style-type: none"> – 6/2003 NZDF Mobile Medical Response Assets – 7/2003 Review of arrangements for repair of Seasprite helicopter NZ 3604

Output Quality Measures and Standards

	Comment
<p>The 2004 Statement of Intent detailed the quality standards intended.</p>	<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.– Managerial review was maintained throughout the evaluation process.
<p>In addition:</p> <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 or reviews.	<ul style="list-style-type: none">– The Minister has advised that the quality of audits and assessments of performance meet the target requirements.– The Defence Evaluation Board agreed at its meetings in December 2003 and June 2004 that audits and assessments met its expectations. Members indicated their confidence in reports and regarded the audits and assessments as constructive and of utility.– No recommendations from audits or reviews have had to be implemented during 2003/04.

Cost of Output Class D2: Audit and assessment of performance (GST exclusive)

For the year ended 30 June 2004

30/6/2003 Actual		30/6/2004 Actual	30/6/2004 Main estimates	30/6/2004 Supp. estimates
\$000		\$000	\$000	\$000
	Revenue			
1,740	Crown	1,655	1,748	1,661
-	Other	2	-	-
1,740	Total revenue	1,657	1,748	1,661
	Expenditure			
606	Personnel	676	641	641
75	Operating	60	146	59
925	Other	897	961	961
1,606	Total expenditure	1,633	1,748	1,661
134	Surplus	24	-	-

Output Class D3 – 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 light operational vehicles (LOV) for the Army

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
Subject to Government approval, the intention is to:	
<ul style="list-style-type: none"> • negotiate a contract for purchase by 30 September 2003 • further project milestones – including the time of delivery of the vehicles – will be known once the contract has been awarded. 	<ul style="list-style-type: none"> – The total fleet of 321 vehicles was split into a first tranche of 188 non-armoured vehicles because of the urgency of providing new vehicles for the Army, and a second tranche of 133 armoured vehicles and their non-armoured equivalents. – Contract negotiations followed due process and direction. A contract for the first tranche was agreed in March 2004. Delivery and acceptance is expected to be completed by June 2005. – A contract for the second tranche was agreed in June 2004. Delivery and acceptance is expected to be completed by March 2006.

(a) Financial summary of pre-acquisition costs charged to Departmental Output Class – Management of Equipment Procurement as at 30 June 2004 (GST Inclusive)

	\$
Budget for pre-acquisition costs	157,500
Expenditure to 30 June 2004	<u>234,105</u>

Additional costs were incurred in legal fees because of the split to two tranches and in consultancy fees for risk analysis on armour protection levels.

(b) Financial summary of project costs charged to Non-Departmental Appropriations as at 30 June 2004 (GST inclusive)

<u>Tranche One for 188 vehicles</u>	\$
Project approval	46,289,000
Foreign exchange variances to date and forecast to complete	1,360,820
GST	5,786,000
Total Approved Cost	<u>53,435,820</u>
GST Exclusive	
Total expenditure to 30 June 2003	–
Expenditure 2003/04	3,571,905
Future commitments and forecasts	<u>42,591,871</u>
	<u>46,163,776</u>
GST	
GST to 30 June 2003	–
Expenditure 2003/04	11,473
Future commitments and forecasts	<u>5,772,514</u>
	<u>5,783,987</u>
Total forecast cost to complete	<u>51,947,763</u>
<u>Tranche Two for 133 vehicles</u>	\$
Project approval	47,044,000
Foreign exchange variances	(1,218,906)
GST	5,880,000
Total Approved Cost	<u>51,705,094</u>
GST Exclusive	
Total expenditure to 30 June 2003	–
Expenditure 2003/04	56,020
Future commitments and forecasts	<u>45,824,569</u>
	<u>45,880,589</u>
GST	
GST to 30 June 2003	–
Expenditure 2003/04	–
Future commitments and forecasts	<u>5,880,000</u>
	<u>5,880,000</u>
Total forecast cost to complete	<u>51,760,589</u>

(c) Total project

	\$
Approved cost	105,140,914
Expenditure to 30 June 2004	3,639,398
Future commitments and forecasts	100,068,954
Total forecast cost to complete	<u>103,708,352</u>

- Foreign exchange variances on actual expenditure to 30 June 2004 for Tranche One is unfavourable by \$79,962 due to the purchase rates for the GBP currency being less than the GBP exchange rate used in the Cabinet paper to obtain financial approval.
GBP approval rate = 0.36621
GBP average rate achieved = 0.3576
- Foreign exchange variances on actual expenditure to 30 June 2004 is nil for Tranche Two as there has been no foreign currency payments.
- Due to a change in forward rates for future commitments and forecasts from the exchange rates used in the Cabinet approval for both Tranches, Tranche One is expected to achieve an unfavourable foreign exchange variance of approximately \$1,360,820 and Tranche Two is expected to achieve a favourable foreign exchange variance of approximately \$1,218,906.
- Commitments 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.
- Forecasts are valued at a current market exchange rate.
GBP approval rate = 0.36621 (Tranche One)
GBP approval rate = 0.34517 (Tranche Two)
GBP forecast average rate = 0.3548

2. Acquisition of new maritime forces vessels for the Navy

This project proposes the acquisition of two Offshore Patrol Vessels (OPV) and four Inshore Patrol Vessels (IPV) 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 (MRV) 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
Subject to Government approval, the intention is to:	
<ul style="list-style-type: none"> • subject to the range and scope of responses to the Request For Proposal, further definition of milestones will be decided at a later date. 	<ul style="list-style-type: none"> – An evaluation of the proposals received from six short listed companies was completed in March 2004. – A preferred tenderer was announced in April 2004, and current activity is focused on progressing the project in conjunction with the preferred tenderer.

Financial summary of pre-acquisition costs charged to Departmental Output Class – Management of Equipment Procurement as at 30 June 2004 (GST Inclusive)

	\$
Budget for pre-acquisition costs	1,885,500
Expenditure to 30 June 2004	<u>1,497,798</u>

3. 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. The weapon selected is the Javelin missile.

Target	Delivered
Subject to Government approval, the intention is to:	
<ul style="list-style-type: none"> • enter into a contract through the US foreign military sales programme by 30 September 2003 • further project milestones, including delivery, will be known once the letter of offer and acceptance from the US Government has been finalised. 	<ul style="list-style-type: none"> – Procurement is from the United States Government and the missiles are supplied under the Foreign Military Sales (FMS) programme. Discussions with the United States Government took longer than expected because of US operational commitments. A Letter of Offer was accepted in December 2003. – A second Letter of Offer for training equipment was accepted in June 2004.

(a) Financial summary of pre-acquisition costs charged to Departmental Output Class – Management of Equipment Procurement as at 30 June 2004 (GST Inclusive)

	\$
Budget for pre-acquisition costs	281,250
Expenditure to 30 June 2004	<u>37,617</u>

(b) Financial summary of project costs charged to Non-Departmental Appropriations as at 30 June 2004 (GST inclusive)

	\$
Project approval	23,856,000
Foreign exchange variances to date and forecast to complete	(818,429)
GST	<u>2,982,000</u>
Total Approved Cost	<u>26,019,571</u>

GST Exclusive

Expenditure to 30 June 2003	–
Expenditure 2003/04	2,136,233
Future commitments and forecasts	<u>20,901,338</u>
	<u>23,037,571</u>

GST

GST to 30 June 2003	–
Expenditure 2003/04	–
Future commitments and forecasts	<u>2,965,970</u>
	<u>2,965,970</u>
Total forecast cost to complete	<u>26,003,541</u>

- Foreign exchange variances on actual expenditure to 30 June 2004 is unfavourable by \$31,478 due to the purchase rates for the USD currency being less than the USD exchange rate used in the Cabinet paper to obtain financial approval.

USD approval rate = 0.58408

USD average rate achieved = 0.5755

- Due to better forward rates for future commitments and forecasts than the exchange rates used in the Cabinet approval, the project is expected to achieve a favourable foreign exchange variance of approximately \$818,429.

- Commitments 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.
- Forecasts are valued at a current market exchange rate.

USD approval rate = 0.58408

USD forecast average rate = 0.6148

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

The procurement of automatic grenade launchers will provide land forces with the ability to engage targets at a range of up to two kilometres.

Target	Delivered
Subject to Government approval, the intention is to:	
<ul style="list-style-type: none"> • enter into a contract for the acquisition of this equipment by 31 December 2003 • further project milestones, including delivery, will be known once a contract is awarded. 	<ul style="list-style-type: none"> – A Request for Proposal was conducted in April 2003, and evaluation of the received proposals has identified a preferred contractor subject to due diligence. – The due diligence process has been delayed twelve months at the request of the United States. A contract has still to be awarded.

Financial summary of pre-acquisition costs charged to Departmental Output Class – Management of Equipment Procurement as at 30 June 2004 (GST Inclusive)

	\$
Budget for pre-acquisition costs	225,000
Expenditure to 30 June 2004	–

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

This project will purchase an alerting and cueing system (VACS) for the Army Mistral very low level air defence system which is already in service.

Target	Delivered
Subject to Government approval, the intention is to:	
<ul style="list-style-type: none"> • enter into a contract for the acquisition of this equipment by 31 December 2003 • further project milestones, including delivery, will be known once a contract is awarded. 	<ul style="list-style-type: none"> – Following due process and direction, contract negotiations were concluded in February 2004 and a contract signed by the Minister of Defence in May 2004. – Delivery of the alerting and cueing system, consisting of radars, command post and weapon terminals will occur in July 2006. – Delivery of the interrogators to be mounted on the Mistral launchers is expected in December 2005.

(a) Financial Summary of Pre-acquisition Costs Charged to Departmental Output Class – Management of Equipment Procurement as at 30 June 2004 (GST Inclusive)

	\$
Budget for pre-acquisition costs	130,500
Expenditure to 30 June 2004	<u>56,003</u>

(b) Financial summary of project costs charged to Non-Departmental Appropriations as at 30 June 2004 (GST inclusive)

	\$
Project approval	13,728,375
Foreign exchange variances to date and forecast to complete	565,074
GST	<u>1,716,047</u>
Total Approved Cost	<u>16,009,496</u>

GST Exclusive

Expenditure to 30 June 2003	–
Expenditure 2003/04	1,630,655
Future commitments and forecasts	<u>12,647,117</u>
	<u>14,277,772</u>

GST	\$
GST to 30 June 2003	–
Expenditure 2003/04	6,918
Future commitments and forecasts	1,711,593
	<u>1,718,511</u>
Total forecast cost to complete	<u>15,996,283</u>

- Foreign exchange variances on actual expenditure to 30 June 2004 is unfavourable by \$9,129 due to the purchase rates for the EUR currency being less than the EUR exchange rate used in the Cabinet paper to obtain financial approval.
EUR approval rate = 0.51873
EUR average rate achieved = 0.51570
- Due to worse forward rates for future commitments and forecasts than the exchange rates used in the Cabinet approval, the project is expected to achieve an unfavourable foreign exchange variance of approximately \$565,074.
- Commitments 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.
- Forecasts are valued at a current market exchange rate.
EUR approval rate = 0.51873
EUR forecast average rate = 0.49397

6. Upgrade and refurbishment of C-130H aircraft (Project Pegasus) for the Air Force

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
Subject to Government approval, the intention is to:	
• complete evaluation of tenders by 31 March 2004	– A Request For Tender closed in October 2003.
• following a submission to Government to negotiate and award a contract, further project milestones will be known.	– In March 2004 four companies were invited to a Best and Final Offer, which closed in May 2004, and current activity is focused on the evaluation of these offers. This work has taken longer than originally planned.

Financial summary of pre-acquisition costs charged to Departmental Output Class – Management of Equipment Procurement as at 30 June 2004 (GST inclusive)

	\$
Budget for pre-acquisition costs	416,250
Expenditure to 30 June 2004	<u>202,665</u>

7. Upgrade of P3 mission systems (Project Guardian) for the Air Force

This project will upgrade the mission systems and the communication and navigation systems on the P-3 Orion maritime patrol aircraft.

Target

Delivered

Subject to Government approval, the intention is to:

- | | |
|--|--|
| <ul style="list-style-type: none"> • complete evaluation of tenders by 31 March 2004 • following a submission to Government to negotiate and award a contract, further project milestones will be known. | <ul style="list-style-type: none"> – Tender documentation was released to companies in June 2003 and tenders closed in October 2003. An evaluation of these tenders was completed in March 2004 and the preferred tenderer, L-3 Communications Integrated Systems, invited to submit a best and final offer. – Options will be presented to the Government late in 2004. |
|--|--|

Financial summary of pre-acquisition costs charged to Departmental Output Class – Management of Equipment Procurement as at 30 June 2004 (GST Inclusive)

	\$
Budget for pre-acquisition costs	416,250
Expenditure to 30 June 2004	<u>269,571</u>

8. Utility and training helicopter replacement

There is a need to replace the Iroquois utility helicopters and Sioux training helicopters.

Target	Delivered
Subject to Government approval, the intention is to:	
<ul style="list-style-type: none"> • seek information from potential suppliers on the capability, availability, price and supply of helicopters. 	<ul style="list-style-type: none"> – An invitation to register was released in March 2004 and evaluation of the responses was completed in June 2004.

Financial summary of pre-acquisition costs charged to Departmental Output Class – Management of Equipment Procurement as at 30 June 2004 (GST Inclusive)

	\$
Budget for pre-acquisition costs	198,000
Expenditure to 30 June 2004	<u>133,351</u>

9. Continue Implementation of joint command and control system (JCCS) for the Headquarters Joint Forces New Zealand

This project is a programme to implement an automated command and control system for the New Zealand Defence Force. Joint command and control enables elements from all three services to work together efficiently and effectively by enhancing the decision making process.

Target	Delivered
<ul style="list-style-type: none"> • The intention is to complete the project definition study by 30 September 2003. 	<ul style="list-style-type: none"> – The project definition study was undertaken by Booz Allen Hamilton (Australia Ltd) and was completed in October 2003.
<ul style="list-style-type: none"> • The deliverables of the project definition study will enable the New Zealand Defence Force to determine what its proposed joint command and control requirements are. Any decision to proceed with the acquisition of these requirements will be made in due course. 	<ul style="list-style-type: none"> – The acquisition phase of the project is not expected to commence until late 2004.

Financial summary of pre-acquisition costs charged to Departmental Output Class – Management of Equipment Procurement as at 30 June 2004 (GST Inclusive)

	\$
Budget for pre-acquisition costs	2,159,583
Expenditure to 30 June 2004	<u>2,003,157</u>

10. Continue Acquisition of a light armoured vehicle (LAV) for the Army

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

Target

- The intention is to have the first batch of vehicles handed over to the New Zealand Defence Force by 31 December 2003, and to have the remainder delivered by November 2004.

Delivered

- The first batch of vehicles were delivered to New Zealand in August 2003 and offered to the Army for acceptance in September 2003. The first vehicle was accepted on 24 October 2003.
- Of the 105 vehicles that were ordered, 91 are in New Zealand. Of the vehicles remaining in Canada (14), 13 are due to be shipped out in August 2004, whilst one vehicle will remain in Canada for test fitting of add-on armour.
- Of the spare parts and special tools, 90% have been delivered to the Army.
- The final vehicles are due for acceptance into service in November 2004.

Financial summary of project costs charged to Non-Departmental Appropriations as at 30 June 2004 (GST inclusive)

	\$
Project approval	580,296,353
Foreign exchange variances to date and forecast to complete	15,078,294
GST	<u>72,537,044</u>
Total Approved Cost	<u>667,911,691</u>

GST Exclusive

Expenditure to 30 June 2003	300,737,246
Expenditure 2003/04	262,766,495
Future commitments and forecasts	<u>31,511,091</u>
	<u>595,014,832</u>

GST

GST to 30 June 2003	2,515,467
Expenditure 2003/04	42,555,648
Future commitments and forecasts	<u>25,973,222</u>
	<u>71,044,337</u>
Total forecast cost to complete	<u>666,059,169</u>

- Foreign exchange variances on actual expenditure to 30 June 2004 are unfavourable by \$19.659 million due to the purchase rates for CAD and USD currencies being less than the CAD and USD exchange rates used in the Cabinet paper to obtain financial approval.

CAD approval rate = 0.6600

CAD average rate achieved = 0.64206

USD approval rate = 0.4400

USD average rate achieved = 0.42072

- Due to better forward rates for future commitments and forecasts than the exchange rates used in the Cabinet approval, the project is expected to achieve a lesser unfavourable foreign exchange variance of approximately \$15.078 million.
- Commitments 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.

- Forecasts are valued at a current market exchange rate.
 CAD approval rate = 0.6600
 CAD forecast average rate = 0.8471
 USD approval rate = 0.4400
 USD forecast average rate = 0.6148

11. Continue replacement of Boeing 727 aircraft (Project Waka) for the Air Force

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

Target	Delivered
<ul style="list-style-type: none"> • The intention is to modify the aircraft by 30 June 2004, subject to equipment availability. 	<ul style="list-style-type: none"> – Detailed planning for the modification programme (cargo door, strengthened floor, air stairs and communications/navigation equipment upgrade) is almost complete. – A delay in the manufacture of the cargo door and door surround structure, and the availability of a suitable time slot to carry out the work, will cause a delay in the project of approximately eighteen months. Conversion work is planned to commence in 2005.

Financial summary of project costs charged to Non-Departmental Appropriations as at 30 June 2004 (GST inclusive)

	\$
Project approval	174,928,000
Foreign exchange variances to date and forecast to complete	(9,612,562)
GST	21,866,000
Total Approved Cost	<u>187,181,438</u>

GST Exclusive

Expenditure to 30 June 2003	93,693,469
Expenditure 2003/04	14,540,303
Future commitments and forecasts	57,043,356
	<u>165,277,128</u>

GST	\$
GST to 30 June 2003	11,136,475
Expenditure 2003/04	1,911,658
Future commitments and forecasts	8,798,499
	<u>21,846,632</u>
Total forecast cost to complete	<u>187,123,760</u>

- Foreign exchange variances on actual expenditure to 30 June 2004 are favourable by \$4.020 million due to the purchase rates for USD currency being better than the USD exchange rate used in the Cabinet paper to obtain financial approval.

USD approval rate = 0.54251

USD average rate achieved = 0.56343

- Due to better foreign exchange forward rates than the rates used in the Cabinet approval, the project is expected to achieve a final favourable foreign exchange variance of approximately \$9.598 million.
 - Commitments are valued at the average of the exchange rates of forward contracts still to be settled, plus the actual exchange rates for currencies in the bank.
 - Forecasts are valued at a current market rate.
- USD approval rate = 0.54251
USD forecast average rate = 0.6148

12. Complete acquisition of naval helicopter

Target	Delivered
<ul style="list-style-type: none"> The intention is to complete the project within the Cabinet approval of \$380.8 million (inclusive of GST), after allowing for foreign exchange variances, by 30 September 2003. 	<ul style="list-style-type: none"> This project has been completed under budget and will be closed once final commitments are settled. A revised delivery schedule caused an approximate twelve month delay in completion of the project.

Financial summary of project costs charged to Non-Departmental Appropriations as at 30 June 2004 (GST inclusive)

	\$
Project approval	338,020,000
Foreign exchange variances to date and forecast to complete	58,152,654
GST	42,290,000
Total Approved Cost	<u>438,462,654</u>
 GST Exclusive	
Expenditure to 30 June 2003	376,741,333
Expenditure 2003/04	1,273,177
Future commitments and forecasts	1,177,659
	<u>379,192,169</u>
 GST	
GST to 30 June 2003	47,494,465
Expenditure 2003/04	2,202,319
Future commitments and forecasts	–
	<u>49,696,784</u>
Total forecast cost to complete	<u>428,888,953</u>

- Foreign exchange variances on actual expenditure to 30 June 2004 are unfavourable by \$58.530 million due to the purchase rates of the USD currency being less than the USD exchange rate used in the Cabinet paper to obtain financial approval.

USD approval rate = 0.66631

USD average rate achieved = 0.55774

13. Complete replacement or upgrade of tactical communications for the Army

This project proposes to replace and/or upgrade existing Army short-range communications systems to provide a high bandwidth (higher capacity) digital theatre communication system to support command and control requirements of the New Zealand Defence Force Battalion Group operations.

Target	Delivered
<ul style="list-style-type: none"> • The intention is to ensure that all radios approved by Government are delivered by September 2004; and to complete the project within the Cabinet approval of \$134.2 million (inclusive of GST), after allowing for foreign exchange variances. 	<ul style="list-style-type: none"> – Most of the radios have now been delivered. Orders for ancillary equipment such as batteries, chargers, specialist headsets and test equipment were completed in June 2004. Final shipments are expected in December 2004. – A revised completion date is 30 June 2005.

Financial summary of project costs charged to Non-Departmental Appropriations as at 30 June 2004 (GST inclusive)

	\$
Project approval	119,223,000
Foreign exchange variances to date and forecast to complete	5,232,288
GST	14,903,000
Total Approved Cost	<u>139,358,288</u>

GST Exclusive

Expenditure to 30 June 2003	109,922,899
Expenditure 2003/04	8,878,282
Future commitments and forecasts	5,658,459
	<u>124,459,640</u>

GST

GST to 30 June 2003	10,626,990
Expenditure 2003/04	578,197
Future commitments and forecasts	3,690,656
	<u>14,895,843</u>
Total forecast cost to complete	<u>139,355,483</u>

- Foreign exchange variances on actual expenditure to 30 June 2004 are unfavourable by \$5.507 million due to the purchase rates of the USD currency being less than the USD exchange rate used in the Cabinet paper for financial approval.
 USD approval rate = 0.4300
 USD average rate achieved = 0.40970

- Due to better foreign exchange forward rates for future commitments and forecasts than the exchange rates used in the Cabinet approval, the project is expected to achieve a lesser unfavourable foreign exchange variance of approximately \$5.232 million.
- Commitments are valued using an average exchange rate of forward contracts still to be settled, plus the actual exchange rates for currency in the bank.
- Forecasts are valued at a current market exchange rate.
USD approval rate = 0.4300
USD forecast average rate = 0.61479

14. Continue management of the Anzac ship project

Target	Delivered
<ul style="list-style-type: none"> • Due to Anzac ship treaty arrangements the Ministry continues to maintain an interest in this project and is contributing financially in accordance with the contract and treaty arrangements. 	<ul style="list-style-type: none"> – Payments in accordance with treaty obligations were made during the year. – It is planned to discontinue New Zealand's involvement in this project and settle any outstanding obligations.

Financial summary of project costs charged to Non-Departmental Appropriations as at 30 June 2004 (GST inclusive)

	\$
Approved baseline	938,949,321
Cost escalation to date and forecast to complete	252,391,118
Foreign exchange variances to date and forecast to complete	125,161,974
GST	153,808,491
Total Approved Cost	<u>1,470,310,904</u>

GST Exclusive

Expenditure to 30 June 2003	1,235,184,501
Expenditure 2003/04	6,611,089
Future commitments and forecasts	16,089,677
	<u>1,257,885,267</u>

GST	\$
GST to 30 June 2003	157,471,229
Expenditure 2003/04	5,763
Future commitments and forecasts	–
	<u>157,476,992</u>
Total forecast cost to complete	<u>1,415,362,259</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.
 - The currencies with the greatest movement from the base rates are AUD (26%), DEM (28%) and USD (37%).
-

Defence Industry

Target	Delivered
<ul style="list-style-type: none"> • It will provide support for the Defence Industry Committee of New Zealand. 	<ul style="list-style-type: none"> – Meetings of the Defence Industry Committee of New Zealand (DICNZ) were held on 4 September 2003, 29 January 2004 and 4 May 2004. – The Ministry also supported the Defence Industry Committee Awards of Excellence in November 2003.
<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"> – Government policy on procurement, published by the Ministry of Economic Development, is applied to Defence procurement. This policy requires that Defence give “full and fair” opportunity for local suppliers to participate in Defence projects. – The Ministry has engaged with Industry Capability Network to ensure domestic industry capabilities are promoted to the major international companies under consideration for the supply of equipment.
<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"> – The Ministry of Defence and New Zealand Defence Force have added 180 companies to the database and continue to promote the database as a respected catalogue of industrial capability.
<ul style="list-style-type: none"> • It will conduct industry-briefing sessions on current defence projects and activities. 	<ul style="list-style-type: none"> – The Ministry provided regular briefings at New Zealand Defence Industry Association meetings. – Assistance was also provided to the New Zealand Industry Association as sponsors of the Annual Defence Industry Seminar as well as organisational input for the annual 2 day Defence Forum usually held at Te Papa in Wellington in late October.

Target

- 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.

Delivered

- Suppliers and prime contractors have been referred to the Industry Capability Network database.

Output Quality Measures and Standards**Comment**

- The 2004 Statement of Intent detailed the quality standards intended.
 - The Ministry has maintained quality control procedures to support the expectations for acquisition activities under this output class.
 - prices agreed for new projects approved by the Government during the financial year have been based on a competitive tender process, and contract awards have been subjected to consideration of through-life costs, quality, 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.

In addition:

- 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
 - Industry Capability Network (ICN) has outlined the activities it conducted on four major 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.
 - ICN advises that a good working relationship exists.
- 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:
 - 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.
 - 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 one review are being implemented.

Cost of Output Class D3: Management of equipment procurement (GST exclusive)

For the year ended 30 June 2004

30/6/2003 Actual		30/6/2004 Actual	30/6/2004 Main estimates	30/6/2004 Supp. estimates
\$000		\$000	\$000	\$000
	Revenue			
3,375	Crown	3,300	3,369	3,369
4,338	Other	1,727	1,866	2,921
7,713	Total revenue	5,027	5,235	6,290
	Expenditure			
882	Personnel	1,061	964	964
4,605	Operating	2,025	2,224	3,279
1,954	Other	1,866	2,047	2,047
7,441	Total expenditure	4,952	5,235	6,290
272	Surplus/(deficit)	75	-	-

Project financial performance

For the year ended 30 June 2004

Project payments capitalised against Crown appropriations in 2003/04, and recoveries from New Zealand Defence Force, were:

	Expenditure			Recoveries from NZ Defence Force	
	2003/04		30/6/2004	2003/04	30/6/2004
	Main estimates \$000	Supp. estimates \$000	Actual \$000	Supp. estimates \$000	Actual \$000
Anzac ships	11,231	9,883	6,611	20,910	20,910
Maritime helicopter	–	422	1,273	3,067	3,067
P3 Orion autopilot	–	–	–	28	28
B-757 aircraft	44,055	28,974	14,540	98,071	98,071
Light armoured vehicles	291,112	277,542	262,766	331,782	331,782
Tactical communications	–	8,711	8,878	7,706	7,706
Light operational vehicles	–	5,660	3,628	–	–
Medium range anti-armour weapon	–	1,731	2,136	679	679
Air defence system	–	2,947	1,631	–	–
Other projects	–	–	3	55	55
GST on imported goods and NZ payments	63,656	48,224	47,272	–	–
Total	410,054	384,094	348,738	462,298	462,298

(Figures are GST exclusive)

The appropriation (GST inclusive) for this output class was increased by \$1,187,000 for:

	\$(000) (GST incl)
Light operational vehicles	
New provision for pre-acquisition costs in 2003/2004. Funded by recovery from New Zealand Defence Force as Revenue Other.	157
Joint command and control systems	
Study complete. Budget under spent.	(428)
Automatic grenade launcher	
New provision for pre-acquisition costs in 2003/04. Funded by recovery from New Zealand Defence Force as Revenue Other.	64
New Naval ships – Project Protector	
Additional provision for pre-acquisition costs in 2003/2004. Funded by recovery from New Zealand Defence Force as Revenue Other.	761
C-130 Hercules aircraft-life extension programme	
Additional provision for pre-acquisition costs in 2003/04. Funded by recovery from New Zealand Defence Force as Revenue Other.	169
P-3 Orion aircraft upgrade	
Additional provision for pre-acquisition costs in 2003/04. Funded by recovery from New Zealand Defence Force as Revenue Other.	135
Identification, alerting and cueing systems	
New provision for pre-acquisition costs in 2003/04. Funded by recovery from New Zealand Defence Force as Revenue Other.	131
Helicopter capability	
New provision for pre-acquisition costs in 2003/04. Funded by recovery from New Zealand Defence Force as Revenue Other.	198
Total change for financial year	1,187

Statement of accounting policies

For the year ended 30 June 2004

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

The Ministry's financial statements have been prepared in accordance with section 35 of the Public Finance Act 1989, 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 2004, direct costs accounted for 69% of the Ministry’s costs (30 June 2003= 65%).
- 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 2004, indirect costs accounted for 31% of the Ministry’s costs (30 June 2003= 35%).

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.

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 financial performance, statement of movements in taxpayers' funds and statement of cash flows, are exclusive of GST. The statement of financial position is also exclusive of GST except for 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 payables and provisions or receivables and advances 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 2004

30/6/2003 Actual		Note	30/6/2004 Actual	30/6/2004 Main estimates	30/6/2004 Supp. estimates
\$000			\$000	\$000	\$000
Revenue					
7,897	Crown	2	7,886	8,053	8,186
4,338	Other	3	1,776	1,866	3,277
40	Interest	4	2	–	–
12,275	Total revenue		9,664	9,919	11,463
Expenditure					
3,947	Personnel costs	5	4,407	4,347	4,521
7,301	Operating costs	6	4,655	5,200	6,519
231	Depreciation	7	286	240	291
132	Capital charge	8	132	132	132
11,611	Total expenses		9,480	9,919	11,463
664	Net operating surplus		184	–	–

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

Statement of movements in taxpayers' funds

For the year ended 30 June 2004

30/6/2003 Actual \$000		30/6/2004 Actual \$000	30/6/2004 Main estimates \$000	30/6/2004 Supp. estimates \$000
1,555	Taxpayers' funds brought forward as at 1 July	1,555	1,555	1,555
664	Net operating surplus/(deficit)	184	-	-
664	Total recognised revenues and expenses for the year	184	-	-
(664)	Provision for repayment of surplus to the Crown	(184)	-	-
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 2004

30/6/2003 Actual		Note	30/6/2004 Actual	30/6/2004 Main estimates	30/6/2004 Supp. estimates
\$000			\$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					
2,016	Cash		1,569	1,631	1,729
24	Prepayments		31	14	14
1,808	Debtors and receivables	9	209	2	2
3,848	<i>Total current assets</i>		1,809	1,647	1,745
Non-current assets					
529	Property, plant and equipment	10	677	566	468
529	<i>Total non-current assets</i>		677	566	468
4,377	Total assets		2,486	2,213	2,213
Current liabilities					
1,797	Creditors and payables	11	326	335	335
664	Provision for repayment of surplus to the Crown		184	–	–
223	Provision for employee entitlements	12	261	200	200
2,684	<i>Total current liabilities</i>		771	535	535
Non-current liabilities					
138	Provision for employee entitlements	12	160	123	123
2,822	Total liabilities		931	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 2004

30/6/2003 Actual		30/6/2004 Actual	30/6/2004 Main estimates	30/6/2004 Supp. estimates
\$000		\$000	\$000	\$000
Cash flows – operating activities				
Cash provided from:				
7,897	Crown	7,886	8,053	8,186
3,628	Customers	3,356	1,866	3,277
38	Interest	4	–	–
11,563		11,246	9,919	11,463
Cash disbursed to:				
Produce outputs				
(3,917)	Personnel	(4,347)	(4,347)	(4,521)
(6,282)	Operating	(6,017)	(5,200)	(6,203)
(75)	Net GST paid	(97)	–	–
(132)	Capital charge	(132)	(132)	(132)
(10,406)		(10,593)	(9,679)	(10,856)
1,157	Operating activities net cash flows	653	240	607
Cash flows – investing activities				
Cash provided from:				
–	Sale of fixed assets	–	20	20
Cash disbursed for:				
(94)	Purchase of fixed assets	(436)	(250)	(250)
(94)	Investing activities net cash flows	(436)	(230)	(230)
Cash flows – financing activities				
Cash disbursed for:				
(758)	Repayment of surplus	(664)	(35)	(664)
(758)	Financing activities net cash flows	(664)	(35)	(664)
305	Net increase/(decrease) in cash held	(447)	(25)	(287)
1,711	Add opening cash and deposits	2,016	1,656	2,016
2,016	Closing cash and deposits	1,569	1,631	1,729

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 2004

30/6/2003 Actual \$000		30/6/2004 Actual \$000	30/6/2004 Main estimates \$000	30/6/2004 Supp. estimates \$000
664	Net operating surplus/(deficit)	184	–	–
	Add/(Less) non-cash items			
231	Depreciation	286	240	291
(28)	Inc/(Dec) in non-current employee entitlements	22	–	(15)
203	Total non-cash items	308	240	276
	Working capital movements			
(522)	(Inc)/Dec in debtors and receivables	1,601	–	1,806
13	(Inc)/Dec in prepayments	(7)	–	10
763	Inc/(Dec) in creditors and payables	(1,471)	–	(1,462)
36	Inc/(Dec) in current employee entitlements	38	–	(23)
290	Working capital movements – net	161	–	331
1,157	Net cash flow from operating activities	653	240	607

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

Statement of commitments

As at 30 June 2004

The Ministry has no commitments for future payments and expenditure to be incurred on contracts that have been entered into at balance date. (30 June 2003 = \$1.424 million.)

Statement of contingent assets and liabilities

As at 30 June 2004

The Ministry does not have any contingent assets as at 30 June 2004. (30 June 2003 = Nil.)

No guarantees and indemnities have been given outside the normal course of business. (30 June 2003 = Nil.)

There are no claims against the Ministry at balance date. (30 June 2003 = Nil.)

Statement of unappropriated expenditure

For the year ended 30 June 2004

No expenditure has been made or costs incurred in excess of or without appropriation by Parliament. (There was no unappropriated expenditure at 30 June 2003.)

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

Statement of departmental expenditure and appropriations

For the year ended 30 June 2004

	30/6/2004 Expenditure actual \$000	30/6/2004 Appropriation voted \$000
Vote: Defence		
Appropriations for classes of outputs		
D1 – Policy advice	3,267	3,951
D2 – Audit and assessment of performance	1,840	1,870
D3 – Management of equipment procurement	5,580	7,076
Total	10,687	12,897

(Figures are GST inclusive)

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

Notes to the financial statements

For the year ended 30 June 2004

Note 1: Budget composition

	30/6/2004 Main estimates Note	30/6/2004 Supp. estimates changes \$000	30/6/2004 Budget total \$000
Revenue			
Crown	2	8,053	133
Other	3	1,866	1,411
Total revenue		9,919	1,544
Expenditure			
Personnel costs	5	4,347	174
Operating costs	6	5,200	1,319
Depreciation	7	240	51
Capital charge	8	132	–
Total expenses		9,919	1,544
Net operating surplus		–	–

Note 2: Revenue – Crown

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

Notes to the financial statements – *continued*

Note 3: Other revenue

30/6/2003 Actual		30/6/2004 Actual	30/6/2004 Main estimates	30/6/2004 Supp. estimates
\$000		\$000	\$000	\$000
	– Defence capability and resourcing review	44	–	356
	– Employer superannuation subsidy recovered	9	–	–
4,338	New Zealand Defence Force for initial project costs	1,723	1,866	2,921
4,338	Total other revenue	1,776	1,866	3,277

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.

Note 5: Personnel costs

30/6/2003 Actual		30/6/2004 Actual	30/6/2004 Main estimates	30/6/2004 Supp. estimates
\$000		\$000	\$000	\$000
3,921	Salaries and wages	4,374	4,309	4,483
26	Retirement and resigning leave	33	38	38
3,947	Total personnel costs	4,407	4,347	4,521

Notes to the financial statements – continued

Note 6: Operating costs

30/6/2003 Actual \$000	30/6/2004 Actual \$000	30/6/2004 Main estimates \$000	30/6/2004 Supp. estimates \$000
–	136	185	185
20	64	177	177
70	75	70	70
30	12	5	5
595	677	681	681
76	71	116	116
142	41	60	60
102	54	127	127
305	268	444	444
98	117	121	121
722	856	860	819
1,428	–	–	–
1,260	532	945	565
199	208	–	140
856	457	551	1,227
64	175	185	305
34	146	185	335
682	11	–	–
–	50	–	116
–	119	–	176
–	33	–	–
–	–	–	57
618	553	488	793
7,301	4,655	5,200	6,519

Notes to the financial statements – *continued*

Note 7: Depreciation

30/6/2003 Actual \$000		30/6/2004 Actual \$000	30/6/2004 Main estimates \$000	30/6/2004 Supp. estimates \$000
89	Leasehold improvements	84	90	90
67	Office and computer equipment	126	–	51
75	Other assets	76	150	150
231	Total depreciation charge	286	240	291

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 2004 was 8.5 percent (30 June 2003 = 8.5 percent).

Note 9: Debtors and receivables

30/6/2003 Actual \$000		30/6/2004 Actual \$000
1,789	Sundry debtors – department	194
19	– non department	15
1,808	Total debtors and receivables	209

Notes to the financial statements – continued

Note 10: Property, plant and equipment

30/6/2003 Actual \$000	30/6/2004 Actual \$000
Leasehold improvements	
511 At cost	511
(322) Accumulated depreciation	(406)
189 Leasehold improvements – net book value	105
Office and computer equipment	
837 At cost	1,272
(749) Accumulated depreciation	(876)
88 Office and computer equipment – net book value	396
Office furniture	
262 At cost	262
(262) Accumulated depreciation	(262)
– Office furniture – net book value	–
Other assets	
925 At cost	925
(673) Accumulated depreciation	(749)
252 Other assets – net book value	176
Total property, plant and equipment	
2,535 At cost	2,970
(2,006) Accumulated depreciation	(2,293)
529 Total carrying amount of property, plant and equipment	677

Notes to the financial statements – *continued*

Note 11: Creditors and payables

30/6/2003 Actual \$000		30/6/2004 Actual \$000
1,080	Trade creditors	267
578	Accrued expenses	17
139	GST payable	42
1,797	Total creditors and payables	326

Note 12: Provision for employee entitlements

30/6/2003 Actual \$000		30/6/2004 Actual \$000
	Current liabilities	
223	Annual leave	261
223	Total current portion	261
	Non current liabilities	
138	Long service, retirement and resigning leave	160
138	Total non-current portion	160
361	Total provision for employee entitlements	421

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).

Notes to the financial statements – *continued*

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.

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 2004. (30 June 2003 = 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.

Notes to the financial statements – continued

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 \$1,544,000 for:	
• Defence Capability and Resourcing Review	489,000
• Pre-Acquisition costs of new projects	1,055,000
	<u>1,544,000</u>

Statement of financial performance

- Operating costs were increased \$1,319,000 of which \$1,055,000 was to meet pre-acquisition costs of new projects being developed. These pre-acquisition costs are recovered from New Zealand Defence Force through Revenue Other and are fiscally neutral to Vote Defence. The projects in 2003/2004 were:
 - Joint command and control system
 - Replacement helicopter capability
 - New naval ships
 - P-3 Orion aircraft mission system upgrade
 - Direct fire support weapon
 - C-130 Hercules aircraft mission system upgrade
 - Light operational vehicles
 - Air defence system
- Revenue Other was increased \$1,411,000 of which \$1,055,000 was for pre-acquisition costs from New Zealand Defence Force. The balance of \$356,000 was for recoveries associated with the Defence Capability and Resourcing Review.

Statement of financial position (and cash flows)

- Debtors and receivables were higher than forecast because of initial project costs unpaid by New Zealand Defence Force at balance date.

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 2003/04.

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 forecast 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 2004

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.

30/6/2003 Actual		30/6/2004 Actual	30/6/2004 Main estimates	30/6/2004 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:				
35,001	Maritime helicopters	3,067	20,310	3,067
2,333	Orion autopilot	28	221	28
37,235	Anzac ships	20,910	13,224	20,910
19,077	Tactical communications equipment	7,706	17,894	7,706
31,142	Light armoured vehicles	331,782	326,582	331,782
–	Boeing 757 modification	98,071	145,499	98,071
–	Medium range anti-armour weapon	679	–	679
87	Other projects	55	–	55
124,875	Total sales to New Zealand Defence Force	462,298	523,730	462,298
392	Interest on foreign currency investments	C1 290	250	250
–	Other revenue	C2 137	–	–
125,267	Total revenues and receipts administered on behalf of the Minister of Defence	462,725	523,980	462,548

(Figures are GST exclusive)

Schedule of non-departmental expenses

For the year ended 30 June 2004

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.

30/6/2003 Actual		30/6/2004 Actual	30/6/2004 Main estimates	30/6/2004 Supp. estimates
\$000		\$000	\$000	\$000
Administered on behalf of the Minister of Defence				
	Purchase of military equipment			
	The individual projects are:			
15,745	Maritime helicopters	1,273	–	422
1,177	Orion autopilot	–	–	–
35,453	Anzac ships	6,611	11,231	9,883
210,522	Light armoured vehicles	262,766	291,112	277,542
–	Light operational vehicles	3,628	–	5,660
–	Medium range anti-armour weapon	2,136	–	1,731
–	Air defence system	1,631	–	2,947
93,694	Boeing 757 modification	14,540	44,055	28,974
7,306	Tactical communications equipment	8,878	–	8,711
81	Other	3	–	–
363,978	Total purchases of military equipment	301,466	346,398	335,870
19,881	GST input tax expensed	47,272	63,656	48,224
3	Other operating expenses	–	–	–
1,652	Unrealised exchange losses/(gains)	(4,281)	–	–
385,514	Total expenses administered on behalf of the Minister of Defence	344,457	410,054	384,094

(Figures are GST exclusive)

Schedule of non-departmental assets

For the year ended 30 June 2004

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.

30/6/2003 Actual \$000		30/6/2004 Actual \$000	30/6/2004 Main estimates \$000	30/6/2004 Supp. estimates \$000
Administered on behalf of the Minister of Defence				
49,321	Crown bank accounts	26,116	70,704	23,361
116	Debtors and receivables	26	–	–
296,841	Work in progress	136,009	161,343	170,413
346,278	Total assets administered on behalf of the Minister of Defence	162,151	232,047	193,774

(Figures are GST exclusive)

Schedule of non-departmental liabilities

For the year ended 30 June 2004

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.

30/6/2003 Actual		30/6/2004 Actual	30/6/2004 Main estimates	30/6/2004 Supp. estimates
\$000		\$000	\$000	\$000
Administered on behalf of the Minister of Defence				
11,568	Creditors and payables	12,731	9,586	9,586
11,568	Total liabilities administered on behalf of the Minister of Defence	12,731	9,586	9,586

(Figures are GST inclusive)

Schedule of non-departmental commitments

For the year ended 30 June 2004

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.

30/6/2003 Actual \$000		30/6/2004 Actual \$000
	Capital commitments	
281,370	Less than one year	57,621
6,033	One to two years	11,804
–	– Two to five years	6,665
–	– More than five years	–
287,403	Total non-departmental capital commitments	76,090

(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 2004

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

30/6/2003 Actual		30/6/2004 Actual	30/6/2004 Main estimates	30/6/2004 Supp. estimates
\$000		\$000	\$000	\$000
Vote Defence				
<i>Purchase or development of capital assets by the Crown</i>				
363,978	Defence equipment	301,466	346,398	335,870
19,881	GST on defence equipment	47,272	63,656	48,224
383,859	Total purchase or development of capital assets by the Crown	348,738	410,054	384,094

(Figures are GST exclusive)

Schedule of non-departmental contingencies

For the year ended 30 June 2004

There are no non-departmental contingent assets or contingent liabilities at 30 June 2004. (30 June 2003 = Nil.)

Non-Adjusting Event After Balance Date

The Ministry of Defence was advised on 2 August 2004 that the Crown Law Office had been served with legal proceedings against the Ministry by Schelde Marinebouw BV.

Schelde, an unsuccessful respondent to the Project Protector Request For Proposal, is suing for damages arising out of its failure to secure the contract for the supply of Project Protector ships for the Royal New Zealand Navy. An estimate of its financial effect is unable to be made.

Notes to the non-departmental schedules

For the year ended 30 June 2004

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

30/6/2003 Actual \$000	30/6/2004 Actual \$000
– Refunds from foreign military sales cases following the decision to exit the arrangement to lease F-16 aircraft.	135
– Other	2
– Total other revenue	137

Note C3: Budget composition

	30/6/2004 Main estimates \$000	30/6/2004 Supp. estimates changes \$000	30/6/2004 Budget total \$000
Current non tax revenue			
Crown interest	250	–	250
Capital receipts			
Defence equipment	523,730	(61,432)	462,298
Expenditure			
Defence equipment	346,398	(10,528)	335,870
GST on defence equipment	63,656	(15,432)	48,224

Notes to the non-departmental schedules– *continued*

Note C4: Major budget variations

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

The appropriation was decreased by \$10.528 million to recognise timing changes in existing contract payments, and new projects approved by Government during the financial year, not provided for in approved baselines. The projects involved were:

	\$(000)
Timing changes	
– Anzac ships	(1,348)
– Light armoured vehicles	(13,570)
– Tactical communications	8,711
– Naval helicopters	422
– Boeing 757 aircraft	(15,081)
New projects	
– Light operational vehicles	5,660
– Medium range anti-armour weapon	1,731
– Air defence system	2,947
	(10,528)

GST on defence equipment

The appropriation was decreased by \$15.432 million to meet timing changes in import GST charges not provided for in approved baselines. The projects involved were:

	\$(000)
Timing changes	
– Anzac ships	41
– Light armoured vehicles	(16,322)
– Naval helicopters	2,099
– Tactical communications	573
– Boeing 757 aircraft	(1,904)
New projects	
– Light operational vehicles	24
– Medium range anti-armour weapon	34
– Air defence system	23
	(15,432)

Notes to the non-departmental schedules– *continued*

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 5 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 \$70.990 million at 30 June 2004. (30 June 2003 = \$224.295 million.)

Part 5 : Other information



Equal employment opportunities

The Ministry has an 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.

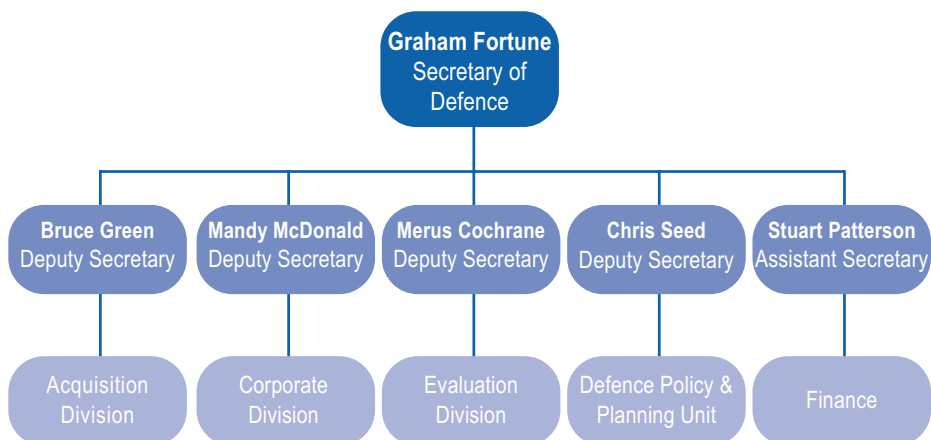
Disability

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

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 2004 were 57 (excluding the Chief Executive).

Financial performance

	2003/04 Supp. estimates \$000	2003/04 Estimated actual \$000	2003/04 Actual \$000
Departmental activities			
Revenue: crown	8,186	7,886	7,886
Revenue: other	3,277	2,777	1,776
Output expenses	11,463	10,663	9,480
Net operating surplus/(deficit)	–	–	184
Receipts from the sale of property, plant and equipment	20	20	–
Expenditure on property, plant and equipment	250	250	436
Taxpayers' funds	1,555	1,555	1,555
Net cash flows from operating, investing and financing activities	(287)	(287)	(447)
Non-departmental activities			
Purchase or development of capital assets on behalf of the crown	384,094	378,770	348,738
Total non-departmental revenue and receipts	462,548	462,598	462,725

Summary of appropriations

	Policy advice	Audit and assessment of performance	Management of equipment procurement	Purchase or development of capital assets by the Crown	GST on defence equipment
	\$(000)	\$(000)	\$(000)	\$(000)	\$(000)
Main estimates appropriation	3,303	1,967	5,889	346,398	63,656
Supplementary estimates change	648	(97)	1,187	(10,528)	(15,432)
Change by order in council under section 5 of the Public Finance Act 1989	–	–	–	–	–
Total amount appropriated for 2003/2004	3,951	1,870	7,076	335,870	48,224
Estimated actual outturn for 2003/2004 as reported in 2004/2005 estimates	3,794	1,846	6,356	330,870	47,900
Audited actual outturn for 2003/2004	3,267	1,840	5,580	301,466	47,272
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

	2003-04 \$(000)	2002-03 \$(000)	2001-02 \$(000)	2000-01 \$(000)	1999-00 \$(000)	1998-99 \$(000)
Voted in Estimates	335,870	405,812	177,361	342,488	248,534	222,128
Actual Expenditure	301,466	363,978	128,119	316,435	214,820	197,388
Variance	34,404	41,834	49,242	26,053	33,714	24,740

(b) GST on defence equipment

	2003-04 \$(000)	2002-03 \$(000)	2001-02 \$(000)	2000-01 \$(000)	1999-00 \$(000)	1998-99 \$(000)
Voted in Estimates	48,224	40,116	35,424	41,202	85,673	8,850
Actual Expenditure	47,272	19,881	34,350	25,234	83,487	7,794
Variance	952	20,235	1,074	15,968	2,186	1,056

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

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

	2003-04 \$(000)	2002-03 \$(000)	2001-02 \$(000)	2000-01 \$(000)	1999-00 \$(000)	1998-99 \$(000)
Planned	462,298	124,875	280,071	189,075	230,741	196,028
Actual	462,298	124,875	280,072	189,076	194,886	196,007
Variance	-	-	(1)	(1)	35,855	21