



Departmental Forecast Report

**Ministry of
Defence**

for the year ending 30 June 2001

*Presented to the House of Representatives pursuant
to Section 34A of the Public Finance Act 1989*

ISSN: 1173-4914

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Statement of Responsibility

The forecast financial statements for the Ministry of Defence for the year ending 30 June 2001 contained in this report have been prepared in accordance with section 34A of the Public Finance Act 1989.

The Chief Executive of the Ministry of Defence acknowledges, in signing this statement, that he is responsible for the forecast financial statements contained in this report.

The financial performance forecast to be achieved by the Ministry for the year ending 30 June 2001 that is specified in the statement of objectives is as agreed with the Minister of Defence who is the Minister responsible for the financial performance of the Ministry of Defence.

The performance for each class of outputs forecast to be achieved by the Ministry for the year ending 30 June 2001 that is specified in the statement of objectives is as agreed with the Minister of Defence who is responsible for the Vote administered by the Ministry.


We certify that the information contained in this report is consistent with the appropriations contained in the Estimates for the year ending 30 June 2001 that are being laid before the House of Representatives under section 9 of the Public Finance Act 1989.

Signed:



G C Fortune
Chief Executive
29 May 2000

Countersigned:



S J Patterson
Chief Financial Officer
29 May 2000

Part A

Introduction and Highlights

The Minister of Defence is the Responsible Minister for the Ministry of Defence

PURPOSE

The purpose of the Ministry of Defence is to provide high quality advice to enable the Government to make well-informed judgements on the defence of New Zealand and its interests; to acquire significant items of military equipment needed to meet capability requirements; and to audit the New Zealand Defence Force. In carrying out these tasks the Ministry works closely with the New Zealand Defence Force.

FORECAST FINANCIAL STATEMENTS

These statements include:

- a statement of responsibility signed by the Secretary of Defence and the Chief Financial Officer in respect of the statements contained in this report;
- a forecast statement of financial performance for the Ministry of Defence for the year ending 30 June 2001;
- a forecast statement of financial position for the Ministry of Defence as at 30 June 2001;
- a statement of cash flows for the year ending 30 June 2001;
- two reconciliation statements, providing information on the movement in taxpayers' funds, and analysis of significant differences between net surplus/ (deficit) in the operating statement and operating cash flows in the cash flow statement;
- a statement of objectives covering financial and output performance, including key financial measures, and quantity, quality, timeliness and cost information for the output classes to be supplied by the Ministry of Defence; and
- a statement of significant accounting policies.

FINANCIAL HIGHLIGHTS

	1999/00		2000/01 Budget \$000
	Budgeted \$000	Estimated actual \$000	
Revenue: Crown	8,069	8,069	8,069
Revenue: Other	30	20	30
Output expenses	8,099	7,949	8,099
Net surplus	30	180	30
Taxpayers' funds	1,555	1,555	1,555
Net cash flows from operating, investing and financing activities	77	206	(141)
Purchase or development of capital assets	334,207	317,025	185,533
Total Crown revenue and receipts	231,441	195,771	192,297

Part B

Departmental Forecast Financial Statements

STATEMENT OF FORECAST FINANCIAL PERFORMANCE

for the Year Ending 30 June 2001

	1999/00 Budgeted \$000	1999/00 Estimated actual \$000	2000/01 Budget \$000
Revenue			
Crown	8,069	8,069	8,069
Other	30	20	30
Interest	30	40	30
Total Revenue	8,129	8,129	8,129
Expenses			
<i>Output Expenses:</i>			
Personnel	4,270	4,170	4,371
Operating	3,192	3,142	3,091
Depreciation	481	481	481
Capital charge	156	156	156
Total Output Expenses	8,099	7,949	8,099
Net Surplus/(Deficit)	30	180	30

STATEMENT OF ESTIMATED FINANCIAL POSITION

as at 30 June 2000 and Forecast Financial Position as at 30 June 2001

	Actual Financial Position as at 30 June 1999 \$000	Estimated Financial Position as at 30 June 2000 \$000	Forecast Financial Position as at 30 June 2001 \$000
Assets			
<i>Current Assets</i>			
Cash and bank balances	419	225	184
Short-term deposits with the Crown	900	1,300	1,200
Prepayments	121	84	84
Receivables and advances	60	2	2
<i>Total Current Assets</i>	1,500	1,611	1,470
<i>Non-current Assets</i>			
Physical assets	1,141	934	925
<i>Total Non-Current Assets</i>	1,141	934	925
Total Assets	2,641	2,545	2,395
Liabilities			
<i>Current Liabilities</i>			
Payables and provisions	402	335	335
Provision for payment of surplus	206	180	30
Provision for employee entitlements	223	220	220
<i>Total Current Liabilities</i>	831	735	585
<i>Term Liabilities</i>			
Other term liabilities	255	255	255
<i>Total Term Liabilities</i>	255	255	255
Total Liabilities	1,086	990	840
Taxpayers' Funds			
General funds	1,555	1,555	1,555
Total Taxpayers' Funds	1,555	1,555	1,555
Total Liabilities and Taxpayers' Funds	2,641	2,545	2,395

STATEMENT OF CASH FLOWS
for the Year Ending 30 June 2001

	1999/00 Budgeted \$000	Estimated actual \$000	2000/01 Budget \$000
Cash Flows from Operating Activities			
<i>Cash provided from:</i>			
Supply of outputs to:			
Crown	8,069	8,069	8,069
Other	30	20	30
Interest	30	40	30
<i>Cash disbursed to:</i>			
Cost of producing outputs:			
Output expenses	(7,435)	(7,287)	(7,462)
Capital charge	(156)	(156)	(156)
Net Cash Flows from Operating Activities	538	686	511
Cash Flows from Investing Activities			
<i>Cash provided from:</i>			
Sale of physical assets	45	61	28
<i>Cash disbursed to:</i>			
Purchase of physical assets	(300)	(335)	(500)
Net Cash Flows from Investing Activities	(255)	(274)	(472)
Cash Flows from Financing Activities			
<i>Cash disbursed to:</i>			
Payment of surplus to the Crown	(206)	(206)	(180)
Capital repayments	–	–	–
Net Cash Flows from Financing Activities	(206)	(206)	(180)
Net Increase/(Decrease) in Cash Held	77	206	(141)
Opening total cash balances at 1 July	1,319	1,319	1,525
Closing Total Cash Balances at 30 June projected	1,396	1,525	1,384

**RECONCILIATION OF NET CASH FLOWS
FROM OPERATING ACTIVITIES TO
NET SURPLUS/(DEFICIT) IN THE STATEMENT
OF FINANCIAL PERFORMANCE**

for the Year Ending 30 June 2001

	Budgeted \$000	1999/00 Estimated actual \$000	2000/01 Budget \$000
Operating Surplus/(Deficit)	30	180	30
<i>Add/(deduct) non-cash expenses/(revenues) from Statement of Financial Performance</i>			
Depreciation	481	481	481
<i>Add/(deduct) non-cash working capital reductions/(increases) from Statement of Financial Position</i>			
(Increase)/decrease in receivables and advances	58	58	–
(Increase)/decrease in prepayments	37	37	–
Increase/(decrease) in payables and provisions	(70)	(70)	–
Other items	2	–	–
<i>Items classified as investing activities</i>			
Net (gain)/loss on sale of physical assets	–	–	–
Net Cash Flows from Operating Activities	538	686	511

STATEMENT OF MOVEMENTS IN TAXPAYERS' FUNDS (EQUITY)

as at 30 June 2001

	Estimated Position as at 30 June 2000 \$000	Forecast Position as at 30 June 2001 \$000
Taxpayers' funds at start of period	1,555	1,555
Movements during the year (other than flows to and from the Crown)		
Add net surplus	180	30
<i>Total recognised revenues and expenses for the period</i>	180	30
(Deduct) distributions to the Crown during the period		
Provision for payment of surplus to the Crown	(180)	(30)
Taxpayers' Funds at the end of the period	1,555	1,555

FORECAST DETAILS OF FIXED ASSETS BY CATEGORY

as at 30 June 2001

	30 June 2000 Estimated actual Position \$000	Cost \$000	30 June 2001 Projected Position Accumulated Depreciation \$000	Net Book Value \$000
Furniture and Fittings	19	1,145	1,111	34
Plant and Equipment	255	1,571	1,304	267
Motor Vehicles	79	118	39	79
Leasehold Improvements	344	512	88	424
Financial and Management Information Systems	237	540	419	121
Total	934	3,886	2,961	925

FINANCIAL PERFORMANCE FORECAST

for the Year Ending 30 June 2001

	Unit	Budgeted	1999/00 Estimated Actual	2000/01 Budget
Operating Results				
Revenue: other	\$000	30	20	30
Revenue: interest	\$000	30	40	30
Output expenses	\$000	8,099	7,949	8,099
Operating surplus before capital charge	\$000	186	336	186
Net surplus (deficit)	\$000	30	180	30
Working Capital				
Net current assets	\$000	897	876	885
Current ratio	Ratio	2.53:1	2.19:1	2.51:1
Liquid ratio	Ratio	4.17:1	4.55:1	4.13:1
Average creditors outstanding	Days	37	36	38
Resource Utilisation				
Physical assets:				
Total physical assets at year end	\$000	913	934	925
Additions as % of physical assets	%	33	36	54
Taxpayers' funds:				
Level at year end	\$000	1,555	1,555	1,555
Forecast Net Cash Flows				
Surplus/(deficit) operating activities	\$000	538	686	511
Surplus/(deficit) investing activities	\$000	(255)	(274)	(472)
Surplus/(deficit) financing activities	\$000	(206)	(206)	(180)
Net increase/(decrease) in cash held	\$000	77	206	(141)
Human Resources				
Total staff (as at 30 June)	No.	70	70	70

STATEMENT OF OBJECTIVES –

Specifying the performance forecast for each class of outputs for the Year Ending 30 June 2001

The Ministry of Defence has committed to provide output classes in 2000/2001 which meet the requirements of the Vote Minister for timeliness, quality specification and cost.

Summary of Departmental Output Classes

Departmental output classes to be delivered by the Ministry, and associated revenue, expenses and surplus or deficit, are:

OUTPUT OPERATING STATEMENTS: 2000/2001

Departmental Output Class	Description	Revenue: Crown \$000	Revenue: Depts \$000	Revenue: Other \$000	Total Expenses \$000	Surplus/ (deficit) \$000
D1 – Policy Advice	Policy advice, strategic planning and the management of international defence relationships	3,120	–	30	3,150	–
D2 – Audit and Assessment of Performance	Evaluation of the delivery of New Zealand Defence Force outputs, reviews of New Zealand Defence Force management systems and resource utilisation and internal audits of the Ministry.	2,000	–	–	2,000	–
D3 – Management of Equipment Procurement	Management of procurement or refurbishment of items of equipment contributing to a capability of the New Zealand Defence Force, and liaison with the defence industry.	2,949	–	–	2,949	–

GST STATUS OF DEPARTMENTAL OUTPUT CLASSES

2000/2001

Departmental Output classes	GST – Excl (DFR) \$000	GST \$000	GST – Incl (Vote) \$000
D1 – Policy Advice	3,150	393	3,543
D2 – Audit and Assessment of Performance	2,000	250	2,250
D3 – Management of Equipment Procurement	2,949	369	3,318
Total Departmental Output Classes	8,099	1,012	9,111

Explanatory Notes: The forecast financial statements in this report present expenses (and revenue) exclusive of GST, in accordance with generally accepted accounting practice. When appropriated by Parliament these expenses are inclusive of GST, in accordance with legislation. Thus:

- *the GST-exclusive* amounts for each departmental output class correspond to “total expenses” for 2000/2001 appearing in the Output Operating Statements appearing on page 12 of this report, while the aggregate amount for all three output classes corresponds to “total output expenses” for 2000/2001 in the Statement of Forecast Financial Performance on page 6 of this report; and
- *the GST-inclusive* amounts for each departmental output class correspond to the bolded annual appropriations for 2000/2001 appearing in Part B1 of Vote Defence in the Estimates of Appropriations (B.5).

Vote Defence

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:
 - changes in the strategic environment;
 - defence and security policies;
 - goals and outcomes, together with strategies for achievement;
 - the military capabilities required to meet defence policy goals, broad resource implications and the relative merits and risks associated with proposed capability options;
- management of bilateral and multilateral defence relations;
- responses to ministerial and parliamentary questions, Official Information Act inquiries, Ombudsman correspondence and public affairs advice.

Quantity and Timeliness

The Ministry will:

- undertake a review of different options for achieving the Government's defence policy goals;
- manage defence relationships with Australia and other regional countries;
- participate in the regional multilateral security dialogue;
- host the biennial symposium of military operational research specialists in the Asia – Pacific region;
- respond to the following Ministerial servicing products:
 - Ministerial correspondence

Replies to ministerial correspondence will be actioned within fourteen working days of receipt by the Ministry. In 1999/2000, 56 replies were provided.

- Parliamentary questions

Parliamentary questions will be actioned within time frames set by Standing Orders of the House of Representatives. In 1999/2000, 92 replies were provided.

- Official Information Act requests

Official Information Act enquiries will be actioned within statutory requirements. In 1999/2000, 8 replies were provided.

- produce publications in accordance with an agreed programme.

Quality

Advice will meet the following quality standards:

- reports will state their purpose and address issues raised by the Minister;
- assumptions will be explicit, argument will be logical and supported by facts;
- forecasts will be supported by thorough analysis;
- a range of options will be presented and assessed for benefits, costs and consequences;
- consultation will be undertaken with interested parties, and objections to proposals will be identified;
- issues of implementation, technical feasibility, timing and consistency with other policies will be considered;
- reports and oral advice will be delivered within agreed or statutory time-frames.

Written and oral advice tendered to the Minister of Defence will accurately reflect revenue and expense implications (quantified where possible); and administrative implications and costs (quantified where possible).

The Ministry of Defence will maintain quality control procedures to support the policy advice delivered under this output.

Cost

This output class will be provided within the appropriated sum of \$3.543 million (inclusive of GST).

Year	Cost GST incl \$000	Cost GST excl \$000	Total revenue: GST excl \$000	Revenue Crown GST excl \$000	Revenue other GST excl \$000
2000/01	3,543	3,150	3,150	3,120	30
1999/00	3,528	3,136	3,136	3,106	30

Output Class D2 – Audit and Assessment of Performance

Under this output class the Minister of Defence will purchase;

- independent evaluations of delivery of New Zealand Defence Force outputs;
- independent reviews of the efficiency and effectiveness of New Zealand Defence Force management systems and resource utilisation;
- internal audits and reviews of the Ministry’s acquisition, policy and corporate activities;
- 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.

Quantity and Timeliness

During the year the Minister of Defence expects the Ministry to:

- complete to his satisfaction at least 15 evaluations against an agreed programme set by the Defence Evaluation Board.

Quality

The evaluations will have the following characteristics:

- evaluations will be conducted in accordance with prescribed practice;
- reports will be accurate and all material facts will be included;
- findings and recommendations will be a logical derivation from the circumstances found;
- managerial review will be maintained throughout the evaluation process.

Cost

This output class will be provided within the appropriated sum of \$2.250 million (inclusive of GST).

Year	Cost GST incl \$000	Cost GST excl \$000	Total revenue: GST excl \$000	Revenue Crown GST excl \$000	Revenue other GST excl \$000
2000/01	2,250	2,000	2,000	2,000	–
1999/00	2,262	2,011	2,011	2,011	–

Output Class D3 – Management of Equipment Procurement

Under this output class the Minister of Defence will purchase:

- management of procurement, or refurbishment, on behalf of the Crown, of significant equipment contributing to a capability of the New Zealand Defence Force. This involves 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; 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.

Quantity

The Ministry will:

- subject to individual Government approval, progress some or all of the following projects:
 - light operational vehicles for the Army
 - direct fire support (area) weapons for the Army
 - medium range anti-armour weapons for the Army
 - special operations communications systems
 - tactical communications for the Army
 - P3 Orion mission equipment for the Air Force
 - armoured vehicles for the Army
 - maritime helicopters for the Navy
 - conversion of HMNZS *Charles Upham* for the Navy
 - very low level air defence alerting and cueing system for the Army
 - joint command and control system
- complete the following projects:
 - direct fire support weapons (heavy machine guns) for the Army
 - bridge simulator for the Navy

- Orion autopilot for the Air Force
- replace the wings and horizontal stabilisers on P-3 Orion surveillance aircraft for the Air Force
- surveillance, target acquisition and night observation equipment for the Army
- complete HMNZS *Te Mana* warranty period;
- maintain close links with New Zealand's industry and provide support for the Defence Industry Committee of New Zealand;
- ensure that New Zealand companies are given maximum opportunity to compete for work from projects managed by the Ministry;
- complete material for the Australia and New Zealand Industry Defence Equipment and Capability Catalogue database and update databases on industrial capability;
- conduct industry briefing sessions on current defence projects and activities.

Quality and Timeliness

Delivery of this output will be subject to the following quality standards:

- **relevance** – all contracts will meet the Government's requirements;
- **best price** – prices agreed for projects will be based on a competitive tender process, or where tendering is not possible, will be based on either independent benchmarks, or full cost disclosure by the provider;
- **risk management** – any significant variations or potential risks will be identified, together with corrective actions required or taken;
- **accuracy** – payments will be made at the agreed sum to the correct supplier and no payments will be made in excess of the agreed sum;
- **timely** – all contracts will be negotiated in a timely manner and payments will be made on time if the provider is meeting the terms of the contract.
- new capabilities and major refurbishment will be acquired within approved budgets, to the quality standards negotiated for each project and within the agreed delivery schedule;
- contract awards will be subject to considerations of through-life cost, quality, delivery schedule and local industrial participation;
- initiatives will be undertaken to harmonise and implement joint industrial policy with the Australian Department of Defence;
- defence industry advice reports will clearly state their purpose and address any issues raised by the Minister;

- assumptions behind advice will be explicit; argumentation will be logical and supported by facts;
- evidence will be given of adequate consultation with interested parties, where applicable, and possible objections to proposals will be identified;
- problems of implementation, technical feasibility, timing and consistency with other policies will be considered.

The Ministry is also responsible for providing general defence industry advice. The principal forum for providing this advice is the Tradenz Joint Action Group, which will be asked to confirm annually that the Ministry has provided adequate industry advice in support of Tradenz export activity.

Cost

This output class will be provided within the appropriated sum of \$3.318 million (inclusive of GST).

Year	Cost GST incl \$000	Cost GST excl \$000	Total revenue: GST excl \$000	Revenue Crown GST excl \$000	Revenue other GST excl \$000
2000/01	3,318	2,949	2,949	2,949	–
1999/00	3,321	2,952	2,952	2,952	–

Statement of significant accounting policies

The forecast financial statements comply with the Public Finance Act 1989

SPECIFIC ACCOUNTING POLICIES

Revenue Recognition

Crown 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.

Expenses

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

Depreciation

Depreciation of fixed assets is provided on a straight line basis so as to allocate cost of the assets, less any estimated residual value, over their useful lives. Revalued fixed assets are depreciated on their revalued amount on a straight line basis over their remaining useful lives. The estimated economic useful lives are:

office equipment	3-10 years
office furniture	5-10 years
computer equipment	3 years
motor vehicles	3 years
financial and management information systems	5 years

The cost of leasehold improvements is capitalised and amortised over the estimated useful lives of the improvements.

Foreign Currencies

Foreign currency transactions are converted at the New Zealand dollar 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 forward 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.

Receivables

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

Fixed Assets

The initial cost of a fixed asset is the value of the consideration given to acquire or create the asset and any directly attributable costs of bringing the asset to working condition for its intended use.

All fixed assets costing more than \$2000 are capitalised and recorded at historical cost.

Taxation

Government Departments are exempt from the payment of income tax in terms of the Income Tax Act 1976. Accordingly, no charge of income tax has been provided for.

Goods and Services Tax (GST)

The Statement of Financial Performance, Statement of Movements in Equity, 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).

Provision for Employee Entitlements

Annual, long service, resigning, and retirement leave are recognised as they accrue to employees.

Cost Accounting

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 charged directly to outputs. Depreciation and capital charge are charged on the basis of asset utilisation. Personnel costs are charged by a predetermined percentage of time to be incurred. Property and other premises costs are charged on the basis of floor area occupied for the production of each output.

Basis for Assigning Indirect and Corporate Costs to Outputs

Indirect costs are assigned to outputs based on a predetermined budgetary percentage fixed for the year for each output.

Changes in Accounting Policies

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

Part C

Additional information

CROWN FORECAST FINANCIAL STATEMENTS

The Ministry procures and refurbishes, on behalf of the Crown, items of equipment contributing to a capability of the New Zealand Defence Force. This activity is recorded in the following Crown Forecast Financial Statements.

CROWN STATEMENT OF FORECAST FINANCIAL PERFORMANCE

for the Year Ending 30 June 2001

	1999/00 Budgeted \$000	Estimated Actual \$000	2000/01 Budget \$000
Crown Revenue			
Interest	700	885	400
Realised exchange gains	–	20,595	1,738
Total Crown revenue	700	21,480	2,138
Crown Expenditure			
GST input tax expensed	85,673	85,673	40,449
Unrealised exchange losses/(gains)	–	4,263	–
Credits to work in progress	–	20,595	1,738
Total Crown expenses	85,673	110,531	42,187
Net operating surplus/(deficit)	(84,973)	(89,051)	(40,049)
– Crown Operations			

CROWN STATEMENT OF ESTIMATED FINANCIAL POSITION

as at 30 June 2000 and Forecast Financial Position as at 30 June 2001

	Actual Financial Position as at 30 June 1999 \$000	Estimated Financial Position as at 30 June 2000 \$000	Forecast Financial Position as at 30 June 2001 \$000
Crown Funds			
Opening balance at 1 July	220,859	261,583	163,141
Net operating surplus/(deficit) – Crown operations	(4,297)	(89,051)	(40,049)
Funds received from NZ Debt Management Office	243,000	243,000	186,000
Funds paid to NZ Debt Management Office	(197,979)	(252,391)	(158,010)
Total Crown Funds	261,583	163,141	151,082
Represented by:			
Current Assets			
Cash and bank balances	175,901	89,843	89,038
Debtors and receivables	421	119	–
Work in progress	102,744	118,818	71,630
<i>Total Current Assets</i>	279,066	208,780	160,668
Total Assets	279,066	208,780	160,668
Liabilities			
<i>Current Liabilities</i>			
Creditors and payables	17,483	45,639	9,586
Total Current Liabilities	17,483	45,639	9,586
Net Assets – Crown	261,583	163,141	151,082

CROWN STATEMENT OF CASH FLOWS***for the Year Ending 30 June 2001***

	1999/00 Budgeted \$000	Estimated Actual \$000	2000/01 Budget \$000
Cash Flows from Operating Activities			
Cash provided from:			
Interest	700	885	400
Realised foreign exchange gains	–	20,595	1,738
Cash disbursed to:			
GST input tax expensed	(85,673)	(85,673)	(40,449)
Net Cash Flows from Operating Activities	(84,973)	(64,193)	(38,311)
Cash Flows from Investing Activities			
Cash provided from:			
Sale of military equipment	230,741	230,911	155,872
GST on sales	28,843	28,843	19,484
Cash disbursed for:			
Purchase of military equipment	(256,010)	(239,122)	(146,356)
GST paid to IRD	(28,843)	(28,843)	(19,484)
Net Cash Flows from Investing Activities	(25,269)	(8,211)	9,516
Cash Flows from Financing Activities			
Cash provided from:			
New Zealand Debt Management Office for funding purchase or development of military equipment	243,000	243,000	186,000
Cash disbursed for:			
Payments to New Zealand Debt Management Office	(231,862)	(252,391)	(158,010)
Net Cash Flows from Financing Activities	11,138	(9,391)	27,990
Net increase (decrease) in cash held	(99,104)	(81,795)	(805)
Add opening cash and deposits	175,901	175,901	89,843
Unrealised foreign exchange gain/(loss)	–	(4,263)	–
Closing Total Cash Balances at 30 June projected	76,797	89,843	89,038

CROWN RECONCILIATION OF NET CASH FLOWS FROM OPERATING ACTIVITIES TO NET SURPLUS/(DEFICIT) IN THE STATEMENT OF FINANCIAL PERFORMANCE

for the Year Ending 30 June 2001

	1999/00 Budgeted \$000	Estimated \$000	2000/01 Budget Actual \$000
Net Operating Surplus/(Deficit)	(84,973)	(89,051)	(40,049)
<i>Add/(deduct) non-cash working capital reductions/(increases) from Statement of Financial Position</i>			
(Increase)/decrease in inventories	(17,793)	(16,074)	47,188
(Increase)/decrease in receivables and advances	421	302	119
Increase/(decrease) in payables and provisions	(7,897)	28,156	(36,053)
Other items	25,269	12,474	(9,516)
Net Cash Flows from Operating Activities	(84,973)	(64,193)	(38,311)

Statement of significant Crown accounting policies

The Crown forecast financial statements comply with the Public Finance Act 1989.

SPECIFIC ACCOUNTING POLICIES

The accounting policies which appear on pages 20 to 22 for the departmental forecast financial statements, also apply to Crown activities. The following additional policies apply.

Crown Activities

The management of procurement or refurbishment of military equipment are reflected through the Crown Statement of Cash Flows. These activities are not reflected in the Crown Statement of Financial Performance because the military equipment procured or refurbished is not traded but passed at cost to the New Zealand Defence Force.

Goods and Services Tax (GST)

The GST inputs arising on the procurement or refurbishment of military equipment are not recoverable. Accordingly these costs have been expensed in the Crown Statement of Financial Performance.

Crown Work in Progress

Invoices for progress payments, and other add-on costs incurred in the procurement or refurbishment of various items of equipment on behalf of the Crown, are recognised at the time the liability arises.

Foreign Currency

Foreign currency transactions are converted at the New Zealand dollar 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 forward 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 mid-point exchange rate. The resulting unrealised exchange gain or loss is recognised in the Crown Statement of Financial Performance. Other exchange gains or losses, whether realised or unrealised, are recognised in the Crown Statement of Financial Performance in the period to which they relate.

CHANGES IN CROWN ACCOUNTING POLICIES

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

PROCUREMENT MATTERS

Australia and New Zealand have a common defence industry base established by the ANZAC Ship Treaty. To ensure that defence industry policy is harmonised to the greatest extent possible and to maximise the potential for joint or collaborative procurement, the Deputy Secretary (Acquisition), New Zealand Ministry of Defence and the Chief of Defence Acquisition of the Australian Department of Defence will meet once each year. In addition, Ministry of Defence procurement staff will participate in the Australian Defence Procurement Conference and meet with their Australian counterparts.

The 2000/2001 appropriation is for the following significant projects:

	\$000
Continuation of ANZAC ship project	61,601
Orion aircraft life extension project	5,383
Maritime helicopters	61,352
Orion aircraft auto pilot	1,894
Very low-level air defence	3,243
Other projects	11,611
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	145,084
GST on defence equipment	40,449
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Total	185,533
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The Ministry will maintain ISO 9001 certification.