

# Statement of Intent

1 July 2003–30 June 2004

*Presented to the House of Representatives  
Pursuant to section 34A of the Public Finance Act 1989*



MINISTRY OF  
DEFENCE

MANATU KAUPAPA WAONGA

## ***Acts Administered***

The Ministry of Defence administers the Defence Act 1990.

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## Chief Executive's introduction

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This is the first Statement of Intent produced by the Ministry of Defence. It explains the Ministry's strategic, outcome-focused approach to planning, management and reporting, and its accountability for the delivery of outputs.

Part 1, *Strategic framework*, describes what the Ministry does and why. It describes our high-level and intermediate outcomes, and how we measure our progress towards those outcomes. It also describes our capability and structure, and how we will improve our ability to deliver our outputs.

This part looks forward over the next three to five years, although some of the planned activities will not be completed until after that time period.

Part 2, *Departmental forecast report*, shows how we use our financial resources to deliver our departmental outputs.

Part 3, *Non-departmental forecast report*, reports on the revenues, expenses, assets and liabilities which the Ministry manages on behalf of the Crown.

A handwritten signature in blue ink that reads "Graham Fortune". The signature is written in a cursive, flowing style.

Graham Fortune  
Secretary of Defence

## Part 1 : Strategic framework

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## Introduction

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The Ministry of Defence works closely with the New Zealand Defence Force to promote and improve New Zealand's security and defence interests. We also work closely with other government agencies that deal with external security, such as the Ministry of Foreign Affairs and Trade and the Department of Prime Minister and Cabinet. We take a 'whole of government' approach to security issues.

We have developed this statement of intent in consultation with the New Zealand Defence Force, the Ministry of Foreign Affairs and Trade, the Department of Prime Minister and Cabinet, the Office of the Auditor-General, Audit New Zealand, the Treasury and the State Services Commission.

We participate in regional partnerships to promote defence and security in the Asia-Pacific region.

A focus of our work over the next three to five years is to improve the capability of the New Zealand Defence Force by implementing the Defence *Long-term Development Plan*.

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

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

Our roles are reflected in our three output classes, which are described in detail in Part 2 of this statement of intent:

- policy advice
- audit and assessment of performance
- management of equipment procurement.

## High-level and intermediate outcomes

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The Ministry of Defence has developed a high-level security outcome that guides our work in every area.

Our high-level outcome is: **a secure New Zealand that contributes to international security.**

A secure New Zealand is a critical precondition to economic growth and social well-being. For the people who live in New Zealand to be able to achieve their aspirations they need to live free from physical threat from external parties. New Zealand's security is directly affected by the security of other countries, and we must, therefore, contribute to international security also. Our high-level outcome contains both these elements: New Zealand's security and our contribution to international security.

We have also developed an intermediate outcome that will allow us to measure our progress towards our high-level security outcome.

Our intermediate outcome is: **Ministry of Defence advice and action are credible and respected, and the Government's defence policy objectives are achieved.**

Our intermediate outcome reflects the fact that the Ministry achieves the high-level outcome through the actions of others. For example, military deployments are undertaken by the New Zealand Defence Force, not the Ministry. So our advice and action must be credible. Other agencies must be prepared to act on it. We need to operate through persuasion and influence. Our credibility is critical to our effectiveness. The Ministry cannot work in a vacuum to respond to security challenges. We work closely with Ministry of Foreign Affairs and Trade, the Department of Prime Minister and Cabinet (specifically the External Assessments Bureau and the Domestic and External Security Secretariat), Government Communications Security Bureau, New Zealand Security Intelligence Service, Police and others.

But to be credible and respected is not enough – we are focussed on contributing to the specific outcomes sought by the Government, currently expressed in the defence policy objectives.

The Government's defence policy objectives are set out in the *Government's Defence Policy Framework*, issued in June 2000. The Framework sets out five objectives for New Zealand's defence policy:

- to defend New Zealand and to protect its people, land, territorial waters, Exclusive Economic Zone, natural resources and critical infrastructure
- to meet New Zealand's alliance commitments to Australia by maintaining a close defence partnership in pursuit of common security interests

- to assist in the maintenance of security in the South Pacific and to provide assistance to New Zealand's Pacific neighbours
- to play an appropriate role in the maintenance of security in the Asia-Pacific region, including meeting New Zealand's obligations as a member of the Five Power Defence Arrangements
- to contribute to global security and peacekeeping through participation in the full range of United Nations and other appropriate multilateral peace support and humanitarian relief operations.

We have created a number of interventions that will enable us to achieve our intermediate outcome. These interventions provide the link between our output classes and our outcomes. They are set out below.

1. In consultation with the New Zealand Defence Force, the Ministry will:
  - incorporate changes in the strategic environment, and their implications, into the development of New Zealand's defence and security policy;
  - meet defence policy objectives through the implementation of the *Long-term Development Plan*;
  - maintain effective bilateral and multilateral defence relationships.
2. The Ministry will acquire significant military equipment in a transparent and fair way, and in accordance with government procurement policies. 'Significant' means equipment that will usually cost more than NZ\$7 million. The Ministry of Defence is committed to providing competitive local (Australian, New Zealand, and Singaporean) industries with the opportunity to support defence, and to ensuring that the Government and the taxpayer get value for money.
3. The Ministry's Evaluation Division will audit and assess the New Zealand Defence Force and the Ministry of Defence.

The audits and assessments will be independent, strategic, and risk-based. The Defence Evaluation Board will assess the Evaluation Division's advice and actions, and ensure that the Ministry of Defence and the New Zealand Defence Force make the recommended improvements in performance and accountability. It is through these improvements in performance and accountability that the Evaluation Division contributes to the achievement of the Ministry's outcomes.

We will seek the views of the Minister of Defence, the New Zealand Defence Force, and other related government agencies to measure and assess our progress towards our intermediate outcome. We will review the way we measure our progress.

Figure 1 shows how our output classes, interventions, and intermediate and high-level outcomes work together.

It shows that our interventions can achieve the intermediate outcome because our policy advice, acquisition actions, and audits and assessments contribute directly to the intermediate outcome. The intermediate outcome will impact on the major outcome.

We will test the outcomes and interventions we have described and in particular the intervention logic we have identified. We will gather baseline information about the effectiveness of our policy advice in order to measure progress over time.

Figure 1 : Outcome Framework



# The Defence *Long-term Development Plan*

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A strong focus of our work over the next three to five years will be implementing the *Long-term Development Plan* with the New Zealand Defence Force. Issued in June 2002, the *Long-term Development Plan* sets out the capability projects required to modernise and improve the New Zealand Defence Force.

The capability projects in the *Long-term Development Plan* fall into five categories: projects approved in principle by the Government; projects necessary to avoid failure to achieve policy objectives; projects necessary to provide a well equipped land force; projects necessary to avoid significant risks to policy; and projects judged as having benefit but which are less critical to achieving policy objectives.

Many of the capability projects in the *Long-term Development Plan* are now underway, following decisions made by the Government. They will have a significant impact on the ability of the New Zealand Defence Force to meet the roles and tasks prescribed by the Government.

The *Long-term Development Plan* is also a planning document that will assist the Government to make decisions about defence capability over a ten year period. We will regularly review the *Long-term Development Plan* in association with the New Zealand Defence Force, to ensure it is achieving its purpose.

## **The Government's priorities for the New Zealand Defence Force**

The Government's priorities for rebuilding the New Zealand Defence Force are set out in *The Government Defence Statement-A Modern, Sustainable Defence Force Matched to New Zealand's Needs*, issued in May 2001. The Defence Statement sets out the priorities for the Defence Force as follows:

- a joint approach to structure and operational orientation
- a modernised Army
- a practical Navy fleet matched to New Zealand's wider security needs
- a refocused and updated Air Force
- a funding commitment to provide financial certainty.

## The Ministry's international role

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New Zealand is strongly committed to playing a meaningful role in maintaining regional peace and security. Defence and foreign policy work in partnership to secure territorial, economic, social and cultural interests, and to meet collective and global responsibilities.

Security in the Asia-Pacific region is of key importance to New Zealand. With the United States engaged in Afghanistan and the Middle East, developments in global security relationships will influence states in the Asia-Pacific region and beyond.

Australia is New Zealand's most important and valued defence partner. Maintaining a strong strategic relationship with Australia is a key goal for the Ministry and for the New Zealand Defence Force.

The Pacific presents unique security challenges in New Zealand's immediate neighbourhood. New Zealand shares security concerns with many Pacific nations, having complementary objectives, shared responsibilities, and similar security challenges. The closeness of the Pacific will require New Zealand to become more focused and active in the region.

A security community is developing among Southeast Asian countries, despite differences in approaches to security issues such as terrorism. New Zealand is part of the Association of Southeast Asian Nations Regional Forum process, and has important defence and security relationships such as the Five Power Defence Arrangements between New Zealand, Australia, Singapore, Malaysia and the United Kingdom.

The relationship between the United States, China, and Japan is one of the principal determinants of the political, economic and strategic landscape in the Asia-Pacific region. In the wake of the terrorist attacks of 11 September 2001 the United States is now viewing international security through an anti-terrorism prism that has resulted in increased levels of dialogue and cooperation across the Asia-Pacific region. Strategic realities, uncertainties, and market opportunities mean that New Zealand will expand its engagement with countries in the Northeast Asia region.

# Capability within the Ministry

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The Ministry of Defence aims to have top-quality people, relationships, and processes that will enable us to achieve our intermediate and high-level outcomes.

We have areas of strong capability, and areas where capability is improving. We also have areas that need further improvement, and will continue to test us.

## People

The Ministry of Defence aims to attract and retain:

- high-quality defence analysts
- experts who can manage military equipment procurement
- evaluation analysts who can assess and audit defence activities and functions.

### *Policy analysts*

Defence, international relations and strategic studies are growing in popularity at universities. Students are studying a range of relevant courses locally and internationally. We attract highly qualified graduates with a real interest in defence.

Our challenge is to provide, in a very small organisation, sufficient career opportunities to retain analysts for adequate lengths of time. Our turnover rate is very low, but we are not complacent about our ability to retain staff. We ensure that we have the right human resources policies to recruit, develop, train, and retain high-quality policy analysts.

### *Acquisition experts*

We require people with expertise in the acquisition of military capability. This is a highly specialised area, and needs people who operate to public service standards in a highly competitive commercial environment, sometimes in another culture. Project managers may be required to live overseas for extended periods to supervise an acquisition project. The Ministry is too small and specialised to train and retain people in the full range of skills required, so we must recruit people who have already developed the necessary skills and experience.

### *Evaluation analysts*

In our Evaluation team we seek to maintain a broad range of skills, disciplines and backgrounds.

## **Relationships**

The Ministry of Defence intends to develop its reputation as the prime source of credible and impartial defence advice. As well as having the right people to provide that advice, we must make sure that our advice is accessible to others.

We must ensure that we promote good understanding of defence policy issues with other relevant public sector agencies, for example, the Treasury, the Ministry of Foreign Affairs and Trade, the Department of the Prime Minister and Cabinet, and the Audit Office.

Our advice will be most effective when it is built on a foundation of cooperation, trust and respect. We will continue to improve our consultative processes and working relationship with the New Zealand Defence Force.

## **Processes**

The Ministry of Defence maintains, and continually seeks to improve, rigorous processes for:

- acquiring military capability for the New Zealand Defence Force
- undertaking audits and assessments
- analysing and managing risks.

### *Acquiring military capability*

We intend to develop our capability management system to ensure that the acquisition of military capability for the New Zealand Defence Force is on time and within budget. We also aim to ensure that each acquisition is clearly aligned with and contributes to the Government's defence policy and objectives.

In collaboration with the New Zealand Defence Force, we will implement improved procurement processes, from identification, through acquisition, to introduction into service. These processes will ensure that both organisations use appropriate levels of governance, accountability, and transparency.

### *Undertaking audit and assessment*

The Evaluation Division will undertake audits and assessments to provide assurance to the Minister that the Ministry of Defence and the New Zealand Defence Force are delivering what they should deliver.

We expect that our audits and assessments will result in better performance and accountability in both organisations. The programme of audit and assessment will be relevant, will focus on the significant, and will examine functions, duties, and projects as they develop. The Defence Evaluation Board will monitor the results of the Division's work, to ensure that it is making a difference.

### *Analysing and managing risks*

We have reviewed our operating environment and the risks we must manage. In doing so, we have identified the strategic risks that we face, within individual divisions and as an organisation.

Our corporate areas of risk are well managed. In the Acquisition Division, individual acquisition projects undergo comprehensive risk analysis, mitigation, and management. We are developing a risk management regime for the capability definition process.

We maintain ISO 9001 certification for our quality management.

### **Capability improvement**

Our capability to persuade and influence, to ensure that we are credible and respected, must continue to improve. We will assess whether our capability development is delivering the outcome we need.

## Structure of the Ministry

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The Defence Act 1990 created two new organisations from the then Ministry of Defence: the Ministry of Defence and the New Zealand Defence Force.

Under section 24 of the Defence Act 1990, the Secretary of Defence is chief executive of the Ministry of Defence, and has specific responsibilities toward the Ministry, the New Zealand Defence Force, and New Zealand's defence and security.

In full, section 24 states that:

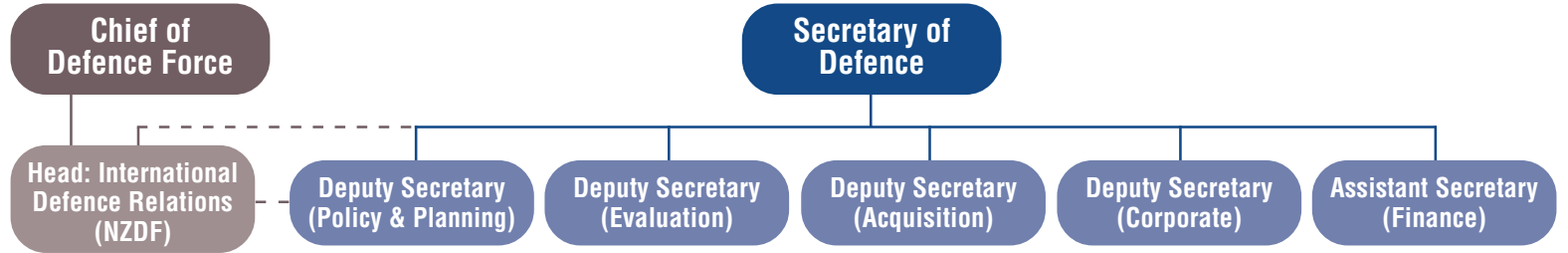
- “(1) The chief executive of the Ministry of Defence shall be known as the Secretary of Defence.*
- (2) In addition to the functions imposed on the Secretary of Defence by or under this Act or the State Sector Act 1988 or any other enactment, the Secretary shall have the following functions:*
- (a) To be the principal civilian adviser to the Minister and other Ministers:*
  - (b) To formulate advice, in consultation with the Chief of Defence Force, on defence policy:*
  - (c) To prepare, in consultation with the Chief of Defence Force, and submit to the Minister from time to time a defence assessment, including a review of different options capable of achieving the Government's policy goals:*
  - (d) To procure, replace, or repair ships, vehicles, aircraft, and equipment used or intended for use by the Defence Force, where that procurement, replacement, or repair has major significance to military capability; and to deliver or return such ships, vehicles, aircraft, and equipment to the Defence Force:*
  - (e) To arrange for the assessment and audit of the Defence Force in relation to any function, duty, or project, and of the Ministry of Defence in relation to any function described in paragraph (d) of this subsection, as and when required by the Minister, or in accordance with a programme of audit and assessment approved by the Minister, and in accordance with the following provisions:*
    - (i) The findings of the audit and assessment shall be set out in a report in the name of that person in charge of the audit and assessment, and that person shall give the report to the Secretary of Defence for submission to the Minister:*
    - (ii) On giving the report to the Secretary of Defence, the person in charge of the audit and assessment shall give a copy of the report to the Chief of Defence Force:*

- (iii) If the Secretary of Defence disagrees with any of the contents of the report, the Secretary shall advise the Minister of the particulars with which the Secretary disagrees:*
- (iv) The Chief of Defence Force may report to the Minister on any of the contents of the report.”*

Section 3 of the Hazardous Substances and New Organisms Act 1996 requires the Secretary of Defence to audit the controls on hazardous substances under the control of the Minister of Defence and report the results to the Minister for the Environment and the Minister of Defence.

Figure 2 illustrates the structure and roles of the Ministry of Defence, and its links with the New Zealand Defence Force.

## Figure 2 : The Organisation



In consultation with the New Zealand Defence Force, provide advice on defence policy matters, including:

- Changes in the strategic environment.
- Defence and security policies.
- Military capabilities required to meet defence policy goals, broad resource implications and relative merits and risks associated with proposed capability options.
- Management of bilateral and multilateral defence relations.

- Complete an agreed programme of evaluations.
- Conduct other assessments and audits of the New Zealand Defence Force as and when directed.

- Progress new acquisition projects approved by the Government.
- Continue management of current projects to completion.

- Provide advice and support to the Ministry in the areas of organisational strategy, human resources, information management, communications and legal.
- Coordinate the provision of responses to Ministerial correspondence, Parliamentary Questions and Official Information Act requests.
- Maintain quality assurance procedures.

- Provide financial services and advice, including cash and foreign currency management for the Ministry and the coordination of financial planning, budget management and preparation of the Estimates.

## Next steps

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We are presently focussed on implementing the decisions the Government made as a result of the review undertaken by Mr Don Hunn into accountabilities and structural arrangements between the Ministry of Defence and the New Zealand Defence Force.

The Government wants greater “jointness” within the New Zealand Defence Force and between the New Zealand Defence Force and the Ministry of Defence. It is also seeking greater cooperation and collaboration between the Ministry of Defence and the New Zealand Defence Force. This will be achieved by allocating accountabilities to the Secretary of Defence and the Chief of Defence Force on a sole, prime and shared basis, and directing how those accountabilities are expected to be exercised. The Secretary of Defence and the Chief of Defence Force will further develop the role of the Office of Chief Executives, so that the office: ensures that the chief executives share policy and operational information on a regular basis and make sure each are well informed; supports the provision of joint military/civilian strategic advice; supports the development of an integrated culture; and requires the chief executives to give full effect and support to the statutory role and independence of the evaluation function of the Ministry.

The Government notes that it is critical that strategic defence advice is considered within a coordinated context, including New Zealand’s broader security and foreign policy responsibilities. Close consultation is required to continue with other relevant government agencies and within agency structures for coordination.

The Ministry is committed to achieving these improvements during 2003/04.



## Part 2 : Departmental forecast report

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

### Statement of responsibility

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The forecast financial statements for the Ministry of Defence for the year ending 30 June 2004 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 2004 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 2004 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 2004 that are being laid before the House of Representatives under section 9 of the Public Finance Act 1989.

Signed:



Graham Berkeley  
Chief Executive  
28 April 2003

Countersigned:



S J Patterson  
Chief Financial Officer  
28 April 2003

## Financial highlights

	2002/03		2003/04
	Budgeted \$000	Estimated actual \$000	Budget \$000
Revenue: Crown	8,297	7,897	8,053
Revenue: Other	3,990	3,990	1,866
Interest	–	35	–
Output expenses	12,287	11,887	9,919
Net surplus	–	35	–
Taxpayers' funds	1,555	1,555	1,555
Net cash flows from operating, investing and financing activities	(170)	(55)	(25)

- Revenue: Crown is forecast to decrease by \$0.244 million due to time-limited funding for Light Operational Vehicle tender phase costs being removed.
- Revenue: Other and output expenses are forecast to decrease due to changes in initial project costs incurred by the Ministry and recovered from New Zealand Defence Force.

Details of what the appropriations will be spent on appear in Parts B1, C and E of Vote Defence in the 2003/04 Estimates.

# Statement of significant underlying assumptions

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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 34A 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 is assumed to be a going concern.
- The Ministry has accepted historical cost as a measurement base.
- Revenues earned and expenses incurred are matched using the principles of accrual accounting.

These statements have been compiled on the basis of government policies and the Ministry's agreement with the Minister of Defence at the time the statements were finalised.

# Statement of significant accounting policies

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## **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 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 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.

- ***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 a subjective assessment of services to be provided to each output class in the ensuing year. The percentage numbers remain constant for the financial year.

### ***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.

### *Statement of Cash Flows*

*Cash* means balances on hand, 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 forecast financial performance, statement of forecast movements in taxpayers' funds and statement of forecast 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**

The accounting policy for Employee Entitlements payable beyond 12 months was changed in 2002/03 from a nominal basis to a present value basis.

All other accounting policies are expected to remain unchanged during the forecast period.

# Forecast financial statements

## Statement of forecast financial performance

For the year ending 30 June 2004

	2002/03		2003/04
	Budgeted \$000	Estimated actual \$000	Budget \$000
<b>Revenue</b>			
Crown	8,297	7,897	8,053
Other	3,990	3,990	1,866
Interest	–	35	–
<b>Total revenue</b>	<b>12,287</b>	<b>11,922</b>	<b>9,919</b>
<b>Expenses</b>			
<i>Output Expenses:</i>			
Personnel	4,347	4,147	4,347
Operating	7,568	7,368	5,200
Depreciation	240	240	240
Capital charge	132	132	132
<b>Total output expenses</b>	<b>12,287</b>	<b>11,887</b>	<b>9,919</b>
<b>Net surplus</b>	<b>–</b>	<b>35</b>	<b>–</b>

## Statement of forecast movements in taxpayers' funds

For the year ending 30 June 2004

	Estimated Position as at 30 June 2003 \$000	Forecast Position as at 30 June 2004 \$000
<b>Taxpayers' funds at start of period</b>	<b>1,555</b>	<b>1,555</b>
<b>Movements during the year</b> (other than flows to and from the Crown)		
Add net surplus	35	–
<i>Total recognised revenues and expenses for the period</i>	35	–
<b>Adjustments for flows to and from the Crown</b>		
Provision for payment of surplus to the Crown	(35)	–
<b>Taxpayers' funds at the end of the period</b>	<b>1,555</b>	<b>1,555</b>

## Statement of estimated financial position

as at 30 June 2003

## and forecast financial position

as at 30 June 2004

	Actual Financial Position as at 30 June 2002 \$000	Estimated Financial Position as at 30 June 2003 \$000	Forecast Financial Position as at 30 June 2004 \$000
<b>Taxpayers' funds</b>			
General funds	1,555	1,555	1,555
<b>Total taxpayers' funds</b>	<b>1,555</b>	<b>1,555</b>	<b>1,555</b>
<b>Represented by:</b>			
<b>Current assets</b>			
Cash and bank balances	1,711	1,656	1,631
Prepayments	37	14	14
Receivables and advances	1,286	2	2
<i>Total current assets</i>	3,034	1,672	1,647
<b>Non-current assets</b>			
Property, plant and equipment	666	576	566
<i>Total non-current assets</i>	666	576	566
<b>Total assets</b>	<b>3,700</b>	<b>2,248</b>	<b>2,213</b>
<b>Current liabilities</b>			
Payables and provisions	1,034	335	335
Provision for payment of surplus	758	35	–
Provision for employee entitlements	187	200	200
<i>Total current liabilities</i>	1,979	570	535
<b>Non-current liabilities</b>			
Provision for employee entitlements	166	123	123
<b>Total liabilities</b>	<b>2,145</b>	<b>693</b>	<b>658</b>
<b>Net assets</b>	<b>1,555</b>	<b>1,555</b>	<b>1,555</b>

## Statement of forecast cash flows

For the year ending 30 June 2004

	2002/03		2003/04
	Budgeted \$000	Estimated actual \$000	Budget \$000
<b>Cash flows from operating activities</b>			
<i>Cash provided from:</i>			
Supply of outputs to:			
Crown	8,297	7,897	8,053
Other	3,990	3,990	1,866
Interest	–	35	–
<i>Cash disbursed to:</i>			
Cost of producing outputs:			
Output expenses	(11,337)	(10,937)	(9,547)
Capital charge	(132)	(132)	(132)
<b>Net cash flows from operating activities</b>	<b>818</b>	<b>853</b>	<b>240</b>
<b>Cash flows from investing activities</b>			
<i>Cash provided from:</i>			
Sale of property, plant and equipment	20	–	20
<i>Cash disbursed to:</i>			
Purchase of property, plant and equipment	(250)	(150)	(250)
<b>Net cash flows from investing activities</b>	<b>(230)</b>	<b>(150)</b>	<b>(230)</b>
<b>Cash flows from financing activities</b>			
<i>Cash disbursed to:</i>			
Payment of surplus to the Crown	(758)	(758)	(35)
<b>Net cash flows from financing activities</b>	<b>(758)</b>	<b>(758)</b>	<b>(35)</b>
Net increase/(decrease) in cash held	(170)	(55)	(25)
Opening total cash balances at 1 July	1,711	1,711	1,656
<b>Closing total cash balances</b>			
<b>at 30 June projected</b>	<b>1,541</b>	<b>1,656</b>	<b>1,631</b>

## Reconciliation of forecast net cash flows from operating activities to net surplus/(deficit) in the statement of forecast financial performance

For the year ending 30 June 2004

	2002/03		2003/04
	Budgeted \$000	Estimated actual \$000	Budget \$000
<b>Net surplus</b>	–	<b>35</b>	–
<b>Add/(deduct) non-cash expenses/(revenues) from statement of forecast financial performance</b>			
Depreciation	240	240	240
<b>Add/(deduct) non-cash working capital reductions/(increases) from statement of forecast financial position</b>			
(Increase)/decrease in receivables and advances	1,284	1,284	–
(Increase)/decrease in prepayments	23	23	–
Increase/(decrease) in accruals, payables and provisions	(699)	(699)	–
Increase/(decrease) in provision for employee entitlements	(30)	(30)	–
<b>Items classified as investing activities</b>			
Net (gain)/loss on sale of property, plant and equipment	–	–	–
<b>Net cash flows from operating activities</b>	<b>818</b>	<b>853</b>	<b>240</b>

## Forecast details of property, plant and equipment by category

For the year ending 30 June 2004

	30 June 2003	30 June 2004 Forecast Position		
	Estimated Actual Position \$000	Cost \$000	Accumulated Depreciation \$000	Net Book Value \$000
Furniture and fittings	–	262	262	–
Plant and equipment	91	928	772	156
Leasehold improvements	252	616	389	227
Information management systems	233	925	742	183
<b>Total</b>	<b>576</b>	<b>2,731</b>	<b>2,165</b>	<b>566</b>

# Statement of objectives – forecast financial performance indicators 2002/03 and 2003/04

	Unit	2002/03		2003/04
		Budgeted	Estimated actual	Budget
<b>Operating results</b>				
Interest	\$000	–	35	–
Output expenses	\$000	12,287	11,887	9,919
Operating surplus before capital charge	\$000	132	167	132
Net surplus/(deficit)	\$000	–	35	–
<b>Working capital</b>				
Net current assets	\$000	1,022	1,102	1,112
Working capital ratio	Ratio	2.91:1	2.93:1	3.08:1
Quick asset ratio	Ratio	2.91:1	2.93:1	3.08:1
Average creditors outstanding	Days	16	16	23
<b>Resource utilisation</b>				
Property, plant and equipment:				
Total property, plant and equipment at year end	\$000	656	576	566
Additions as % of property, plant and equipment	%	38	26	44
Taxpayers' funds:				
Level at year end	\$000	1,555	1,555	1,555
<b>Forecast net cash flows</b>				
Surplus/(deficit) operating activities	\$000	818	853	240
Surplus/(deficit) investing activities	\$000	(230)	(150)	(230)
Surplus/(deficit) financing activities	\$000	(758)	(758)	(35)
Net increase/(decrease) in cash held	\$000	(170)	(55)	(25)
<b>Human resources</b>				
Estimated total staff (as at 30 June)	No.	58	58	58

## Statement of objectives – output performance

The Ministry of Defence has committed to provide three output classes in 2003/04 which meet the requirements of the Vote Minister for specification, timeliness, quality and cost.

### Output operating statements: 2003/04

Departmental Output Class	Description	Revenue: Crown \$000	Revenue: Other \$000	Total Expenses \$000	Surplus/ (deficit) \$000
D1 Policy advice	Policy advice, management of international defence relations and services to the Minister.	2,936	–	2,936	–
D2 Audit and assessment of performance	Audits and assessments of the New Zealand Defence Force and the Ministry's Crown procurement activities. Audits as required by section 3 of the Hazardous Substances and New Organisms Act 1996.	1,748	–	1,748	–
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.	3,369	1,866	5,235	–
<b>Total</b>		<b>8,053</b>	<b>1,866</b>	<b>9,919</b>	<b>–</b>

# Output class performance statements 2003/04

## 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 resources 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.

### Quantity, quality, timeliness and cost

The Ministry will:

- undertake analysis of significant issues that have an impact on the Government's defence policy and international defence relations including:
  - developments in the international security environment, especially in the Asia-Pacific region
  - changes in the defence and security policies of key countries such as Australia and the United States
  - developments in regional security relations
  - deployments of New Zealand Defence Force assets and personnel on UN or other operations
  - the operation of the New Zealand Defence Force Mutual Assistance Programme.
- 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)

- 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 *Long-term Development Plan* 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
- provide on-going advice during the acquisition phase of projects from the Defence *Long-term Development Plan* 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 secondhand Boeing 757 aircraft, the acquisition of the light armoured vehicles, and the upgrade of the mission systems for the P-3 Orion fleet
- 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
- provide the following Ministerial services:
  - responses to Ministerial correspondence, to be actioned within fourteen working days of receipt by the Ministry
  - responses to Parliamentary Questions, to be actioned within the timeframes set by the Standing Orders of the House of Representatives
  - responses to Official Information Act requests, to be actioned within statutory requirements
- publish policy documents and other information for the public based on an agreed programme.

Advice will meet the following quality standards:

- Reports will address the issues raised by the Minister in relation to the issues listed above.
- Assumptions will be explicit and arguments will be logical and supported by facts.
- Forecasts will be supported through analysis.
- A range of options will be presented where appropriate and assessed for benefits, costs, and consequences.

- Consultation will be undertaken with the New Zealand Defence Force and other parties, and any objections 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 timeframes, and will be based on agreed or established formats (such as set down by the Cabinet Office).
- Budgetary implications will be identified.
- 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.

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 views
- seeking the views of key stakeholders in policy advice.

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

This output class will be provided within the appropriated sum of \$3.303 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
2003/04	3,303	2,936	2,936	2,936	–
2002/03	3,303	2,936	2,936	2,936	–

## 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.

### Quantity, quality, timeliness and cost

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

- complete satisfactorily an approved programme of audits and assessments that will lead to improvements in performance and accountability in the defence organisations
- conduct other audits and assessments as and when directed.

Audits and assessments will have the following characteristics:

- the programme of audits and assessments will be determined through risk assessment
- audits and assessments will be relevant and timely
- audits and assessments will be conducted in accordance with the Ministry's Evaluation Manual
- audits and assessments will meet Defence Evaluation Board expectations
- all reports will be reviewed for accuracy and logic by auditees and management
- all reports will be subjected to peer review
- managerial review will be maintained throughout each audit or assessment.

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:

- seeking the Minister's views
- seeking the views of key stakeholders in audit and assessment of performance.

In addition, the Evaluation Division will implement recommendations agreed by the Ministry from audits or reviews.

This output class will be provided within the appropriated sum of \$1.967 million (inclusive of GST).

Year	Cost		Total revenue: GST excl. \$000	Revenue:	Revenue:
	GST incl. \$000	GST excl. \$000		Crown GST excl. \$000	other GST excl. \$000
2003/04	1,967	1,748	1,748	1,748	–
2002/03	1,967	1,748	1,748	1,748	–

## 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.

### Quantity, quality, timeliness and cost

The Ministry will meet the following requirements:

- It will progress some or all of the following projects, subject to appropriate Government approval for each:

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*Acquisition of new maritime forces vessels for the Navy*

This project proposes the acquisition of patrol vessels to meet inshore and offshore requirements for maritime surface surveillance in New Zealand's Exclusive Economic Zone in the South Pacific.

The Ministry is purchasing a multi-role vessel to replace HMNZS *Canterbury* to provide tactical sealift for the New Zealand Defence Force, support disaster relief and peace support operations, conduct resource protection patrols, provide diplomatic and military presence, and for training.

Subject to the range and scope of responses to the Request For Proposal further definition of milestones will be decided at a later date.

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*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.

The intention is to 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.

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*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 intention is to 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.

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

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

The intention is to 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.

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*Acquisition of very low level air defence radar for the Army*

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

The intention is to 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.

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*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.

The intention is to 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.

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

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

The intention is to 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.

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- It will continue management of the following projects:
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*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.

The intention is to complete the project definition study by 30 September 2003.

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.

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*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.

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.

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*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.

The intention is to modify the aircraft by 30 June 2004, subject to equipment availability.

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- It will complete the following projects:

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<i>Acquisition of naval helicopter for the Navy</i>	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.
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<i>Replacement or upgrade of tactical communications for the Army</i>	This project proposes to replace and/or upgrade existing Army short range communications systems to provide a high band width (higher capacity) digital theatre communication system to support command and control requirements of the New Zealand Defence Force Battalion Group operations.
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The intention is to ensure that the additional 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.

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- It will provide support for the Defence Industry Committee of New Zealand.
- It will ensure that local, including domestic, suppliers are afforded opportunities to compete for work consistent with the government procurement policy set out in *Policy Guide for Purchasers* issued by the Ministry of Economic Development in July 2002.
- It will complete material for the Australia and New Zealand Industry Defence Equipment and Capability Catalogue database and update databases on industrial capability.
- It will conduct industry briefing sessions on current defence projects and activities.
- By using the Industrial Supplies Office 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.

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

- 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.
- All acquisitions and contracts will meet the Government's policy requirements.
- All contracts will be negotiated in a timely manner, and payments will be made on time if the provider is meeting the terms of the contract.

- Contract awards will be subject to considerations of through-life cost, quality and delivery schedules.
- Prices agreed for projects will be based on a competitive tender process where possible. When tendering is not possible, prices will be based either on independent benchmarks, or on full cost disclosure by the provider.
- Payments will be made at the agreed sum, to the correct supplier, and no payments will be made in excess of the agreed sum.
- Any significant variations or potential risks will be identified, together with corrective actions required or taken.
- Assumptions behind advice will be explicit, and argumentation will be logical and supported by facts.
- Evidence will be given of adequate consultation with interested parties, and possible objections to proposals will be identified.
- Problems of implementation, technical feasibility, timing, and consistency with other policies will be addressed.
- Defence industry advice reports will clearly state their purpose and address any issues raised by the Minister.
- The Defence Industry Committee of New Zealand will be asked to confirm annually that the Ministry and its agent, the Industrial Supplies Office, have appropriately promoted domestic suppliers' capabilities to prospective overseas-based prime contractors.

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.

In addition, the Acquisition Division will implement recommendations agreed by the Ministry from audits or reviews.

This output class will be provided within the appropriated sum of \$5.889 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
2003/04	5,889	5,235	5,235	3,369	1,866
2002/03	8,553	7,603	7,603	3,613	3,990

## GST status of departmental output classes

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. Therefore:

- *The GST-exclusive* amounts for each departmental output class correspond to “total expenses” for 2003/04 appearing in the output operating statements appearing on page 34 of this report, while the aggregate amount for all three output classes corresponds to “total output expenses” for 2003/04 in the statement of forecast financial performance on page 27 of this report.
- *The GST-inclusive* amounts for each departmental output class correspond to the bolded annual appropriations for 2003/04 appearing in Part B1 of Vote Defence in the Estimates of Appropriation (B.5).

The difference is shown in the table below:

Departmental Output classes	GST – Excl. (SOI) \$000	GST \$000	GST – Incl. (Vote) \$000
D1 Policy advice	2,936	367	3,303
D2 Audit and assessment of performance	1,748	219	1,967
D3 Management of equipment procurement	5,235	654	5,889
<b>Total Departmental Output Classes</b>	<b>9,919</b>	<b>1,240</b>	<b>11,159</b>



## Part 3 : Non-Departmental forecast report

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## *Introduction*

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 summarised in the following non-departmental schedules.

# Schedule of non-departmental forecast revenues

For the year ending 30 June 2004

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

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

Type	Measurement Basis	2002/03		2003/04
		Budgeted \$000	Estimated actual \$000	Budget \$000
<b>Administered on behalf of the Minister of Defence</b>				
Sales of military equipment, at cost, to New Zealand Defence Force (Note 1)	Historical cost	124,875	124,875	523,730
GST on sales to New Zealand Defence Force	Historical cost	15,609	15,609	65,466
Interest on foreign currency investments	Historical cost	350	350	250
<b>Total revenues administered on behalf of the Minister of Defence</b>		<b>140,834</b>	<b>140,834</b>	<b>589,446</b>

<b>Note 1</b>	2002/03		2003/04
	Budgeted	Estimated actual	Budget
	\$000	\$000	\$000
<b>The individual projects are:</b>			
Maritime helicopters	35,001	35,001	20,310
Orion autopilot	2,333	2,333	221
Anzac ships	37,235	37,235	13,224
Tactical communications equipment	19,077	19,077	17,894
Light armoured vehicles	31,142	31,142	326,582
B-757 aircraft	–	–	145,499
Other projects	87	87	–
<b>Total</b>	<b>124,875</b>	<b>124,875</b>	<b>523,730</b>

# Schedule of non-departmental forecast expenses

For the year ending 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 forecast financial statements.

Type	Measurement Basis	2002/03		2003/04
		Budgeted \$000	Estimated actual \$000	Budget \$000
<b>Administered on behalf of the Minister of Defence</b>				
Purchase of military equipment (Note 1)	Historical cost	405,812	405,812	346,398
GST input tax expensed	Historical cost	40,116	40,116	63,656
<b>Total expenses administered on behalf of the Minister of Defence</b>		<b>445,928</b>	<b>445,928</b>	<b>410,054</b>

<b>Note 1</b>	2002/03		2003/04
	Budgeted \$000	Estimated actual \$000	Budget \$000
<b>The individual projects are:</b>			
Maritime helicopters	33,409	33,409	–
Orion autopilot	1,370	1,370	–
Anzac ships	29,992	29,992	11,231
Light armoured vehicles	196,778	196,778	291,112
B-757 aircraft	121,373	121,373	44,055
Tactical communications equipment	22,890	22,890	–
<b>Total</b>	<b>405,812</b>	<b>405,812</b>	<b>346,398</b>

# Schedule of non-departmental forecast assets

For the year ending 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 statement of forecast financial position.

Type	Measurement Basis	2002/03		2003/04
		Budgeted \$000	Estimated actual \$000	Budget \$000
<b>Administered on behalf of the Minister of Defence</b>				
Crown bank accounts	Historical cost	70,704	70,704	70,704
Debtors and receivables	Net realisable value	–	–	–
Work in progress	Net realisable value	338,675	338,675	161,343
<b>Total assets administered on behalf of the Minister of Defence</b>		<b>409,379</b>	<b>409,379</b>	<b>232,047</b>

## Schedule of non-departmental forecast liabilities

For the year ending 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 statement of forecast financial position.

Type	Measurement Basis	2002/03		2003/04
		Budgeted	Estimated actual	Budget
		\$000	\$000	\$000
<b>Administered on behalf of the Minister of Defence</b>				
Creditors and payables	Historical cost	9,586	9,586	9,586
<b>Total liabilities administered on behalf of the Minister of Defence</b>		<b>9,586</b>	<b>9,586</b>	<b>9,586</b>

# Statement of non-departmental accounting policies

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Generally Accepted Accounting Practice (GAAP) rules for recognition and measurement have been applied in the preparation of the Non-Departmental Forecast Schedules.

The following accounting policies have been applied:

## *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 forecast expenses in the period to which they relate.

## **Changes in Non-Departmental Accounting Policies**

No changes in accounting policies are expected to be made during the period.

