



MINISTRY OF  
DEFENCE

Manatū Kaupapa Waonga

# Annual Report

for the year ended 30 June 2013

Presented to the House of Representatives

Pursuant to section 44(1) of the *Public Finance Act 1989*





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# Contents

<b>Part 1: Overview</b> .....	1
Secretary of Defence's overview .....	2
<b>Part 2: Statement of responsibility and audit report</b> .....	5
Statement of responsibility .....	6
Auditor's Report .....	7
<b>Part 3: Statement of service performance</b> .....	11
Statement of objectives and service performance .....	12
Output Class - Policy advice and related outputs MCOA .....	15
Output Class - Audit and assessment of performance .....	20
Output Class - Management of equipment procurement .....	22
<b>Part 4: Departmental financial statements</b> .....	39
Statement of comprehensive income .....	40
Statement of financial position .....	41
Statement of changes in equity .....	42
Statement of cash flows .....	42
Statement of commitments .....	43
Statement of contingent liabilities and contingent assets .....	43
Statement of departmental output expenses and capital expenditure against appropriations .....	44
Statement of departmental unappropriated expenditure and capital expenditure .....	44
Notes to the financial statements .....	45
<b>Part 5: Non-departmental statements and schedules</b> .....	61
Schedule of non-departmental income .....	62
Schedule of non-departmental capital receipts .....	62
Schedule of non-departmental expenses .....	63
Schedule of non-departmental assets .....	63
Schedule of non-departmental liabilities .....	64
Schedule of non-departmental capital commitments .....	64
Schedule of non-departmental contingent liabilities and contingent assets .....	65

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Statement of non-departmental capital expenditure against appropriation .....	65
Statement of non-departmental unappropriated capital expenditure .....	65
Schedule of non-departmental capital expenditure .....	66
Notes to the non-departmental financial statements .....	67
<b>Part 6: Other information</b> .....	<b>77</b>
Equal employment opportunities .....	78
Management performance .....	78
Financial performance highlights .....	78
Summary of appropriations (GST exclusive) .....	79
Historical financial performance of significant items .....	79

# Part 1: Overview



## **Secretary of Defence's overview**

### **Introduction**

I was appointed Secretary of Defence in December 2012 as the Ministry of Defence entered a period of change. Over the next few years the Ministry must adapt to the challenges of a complex and uncertain international environment. An important task for the Ministry's leadership is making sure the Ministry is well run and resilient and well connected with the sector around us.

### **The Ministry's role**

The Ministry of Defence plays an important constitutional role: to give civilian advice on defence matters to enhance New Zealand's security. Our civilian perspective is what defines our organisation.

The 72 people employed by the Ministry carry out the following activities:

- looking outward at the international environment and ahead to New Zealand's military needs
- defining what capability is needed, acquiring that capability, and assessing its effectiveness and that of the military itself through our assessment and evaluation functions
- having primary responsibility for acquiring major military capability up to the point at which it is introduced
- shaping the international environment in the interests of New Zealand's security, through our management of New Zealand's international defence relationships and engagements, which we carry out in conjunction with the New Zealand Defence Force and the Ministry of Foreign Affairs and Trade.

### **The changing shape of the Ministry**

The *Defence White Paper 2010* set out a new approach to New Zealand's defence and security sector. The White Paper is driven by the need for New Zealand's defence capability to remain relevant internationally and to our own economic interests and the increased focus on what happens in our region.

The challenges for us in this environment include speed, collaboration and delivery. The 2012 Performance Improvement Framework (PIF) Review of the Ministry highlighted that we need to make a number of improvements to meet these challenges. During 2012/13 we completed the first part of a new organisation strategy to be implemented during 2013/14. This is focused on making the Ministry high performing and resilient, a well run institution and a valuable part of the defence and security sector.

The 2010 Defence White Paper also set out the basis for the Ministry and the New Zealand Defence Force to work in closer partnership on things where we have joint or inter-dependent responsibilities. Collaboration is an important part of how we work. While our civilian perspective sets us apart from the New Zealand Defence Force, the two organisations must work together to get things done.

The Ministry and the New Zealand Defence Force have established shared governance structures to carry out our joint functions in defining, acquiring, introducing and managing defence capability. This arrangement has continued to mature through the 2012/13 year, and during the year projects reached the acquisition phase that have now been governed in their entirety under the joint capability management framework.

## Supporting New Zealand Defence Force deployments

The Ministry has a lead role in advising government on the deployment of New Zealand military forces, and works to line up New Zealand's plans with those of its defence partners.

During the year the Ministry played a lead role in planning for the withdrawal of the Provincial Reconstruction Team (PRT) from Bamyan, Afghanistan and draw down of deployments in Timor-Leste and Solomon Islands. We had a lead role in providing advice on New Zealand's current commitments in Afghanistan and new deployments to multilateral counter-piracy efforts in the Gulf of Aden/Indian Ocean.

The most demanding of these was the work in respect of Afghanistan. But in all cases the requirement has been for changes to be well planned, to fit with arrangements made by partner forces, and for relationships to be maintained once forces have left.

## A sustainable military, fit for New Zealand's future needs

Our role includes looking out to New Zealand's future defence and security environment, and giving advice on how New Zealand can position itself so it can make the greatest contribution to its own and international security. This is often informed by the assessments we undertake of military capability and effectiveness through the Ministry's Evaluation Division.

A significant focus for us during 2012/13 has been the Defence Mid Point Rebalancing Review, which we are undertaking with the New Zealand Defence Force and Central Agencies. This exercise looks at how New Zealand, like a number of other countries, can manage the increasing cost of defence within a tight budget, while continuing to deliver the Government's defence policy. The over-riding objective is to ensure we have a capable, sustainable, deployable, and affordable defence force.

This is a significant exercise, and through it we have advanced the methods available to make complex defence funding decisions in future. The Review will be considered by Cabinet at the end of 2013.

## Managing international defence arrangements

We manage New Zealand's international defence relationships and engagements. This is a very active role and one where we help New Zealand's defence contributions to be visible and relevant for our partners. As part of this we work with the New Zealand Defence Force to identify the most beneficial engagement opportunities, and we manage New Zealand's involvement in the regional defence architecture.

Our defence relationships with a diverse range of partners continue to grow. These relationships make an important contribution to our security interests but also support our broader foreign policy objectives. The Ministry engages in an intense programme of bilateral, regional and multilateral defence consultations and other international defence engagements. For example, during 2012/13 Ministry officials co-chaired the ASEAN Defence Ministers' Meeting-Plus (ADMM-Plus) Expert Working Group on Peacekeeping Operations. New Zealand is well regarded by its partners and continuing to contribute to strong defence relationships is one of our core ongoing priorities.

## Acquiring and upgrading military capability

The Ministry continues to undertake major upgrades to New Zealand's C-130 Hercules and P3K-2 Orion fleets at Woodbourne Air Base in Blenheim. The work on the Hercules is led by Ministry staff and is the largest work ever undertaken on any aircraft in New Zealand.

This work continues to go well, with variation in the timing of delivery according to the condition of each aircraft, which can be up to 48 years old. In 2013/14 we will work on upgrades to the final two of five C-130 Hercules, and the final two of six P-3K2 Orions. These aircraft continue to be an essential part of our Defence Force. The C-130 Hercules were crucial to New Zealand's deployment in Afghanistan, and the P-3K2 Orions are well suited to the task of surveillance of New Zealand's territorial waters.

A major milestone for us during 2012/13 was the return of the *HMNZS Canterbury* to service after remedial work to address capability shortfalls and safety issues. The ship successfully participated in Pacific Partnership 2013 in Solomon Islands.

The Ministry continues to maintain a demanding programme of other acquisitions. In 2012/13 this included the approval to purchase 200 medium and heavy operating vehicles, and 10 Seasprite helicopters, two of which will be retained as spares. Both are right for New Zealand's needs, and the way they were purchased is an example of a more flexible approach to purchasing, particularly where that can make capability more affordable and reduce time to delivery.

A number of other projects continue, including upgrades to the Royal New Zealand Navy's frigates and delivery of NH90 Helicopters.

Thank you to all the Ministry staff for the commitment they bring to the work they do, and to those who work with them. I'm proud to see their efforts making New Zealand more secure.



Helene Quilter  
Secretary of Defence  
27 September 2013

## Part 2: Statement of responsibility and audit report



## Statement of responsibility

In terms of the Public Finance Act 1989, I am responsible, as Chief Executive of the Ministry of Defence, for the preparation of the Ministry's financial statements and statement of service performance, and for the judgements made in them.

I have the responsibility of establishing a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting.

In my opinion, the financial statements and statement of service performance fairly reflect the financial position of the Ministry as at 30 June 2013 and its operations for the year ended on that date.

Signed by:



Helene Quilter  
Secretary of Defence

27 September 2013

Countersigned by:



Bryan Westbury  
Deputy Secretary (Finance) and  
Chief Financial Officer  
27 September 2013

## Independent Auditor's Report

**To the readers of the  
Ministry of Defence's  
financial statements, non-financial performance information  
and schedules of non-departmental activities  
for the year ended 30 June 2013**

The Auditor-General is the auditor of the Ministry of Defence (the Ministry). The Auditor-General has appointed me, Stephen Lucy, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements, the non-financial performance information and the schedules of non-departmental activities of the Ministry on her behalf.

We have audited:

- the financial statements of the Ministry on pages 40 to 59, that comprise the statement of financial position, statement of commitments, statement of contingent liabilities and contingent assets as at 30 June 2013, the statement of comprehensive income, statement of changes in equity, statement of departmental output expenses and capital expenditure against appropriations, statement of departmental unappropriated expenditure and capital expenditure and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information;
- the non-financial performance information of the Ministry on pages 12 to 38, that comprises the statement of service performance, which includes outcomes; and
- the schedules of non-departmental activities of the Ministry on pages 62 to 75 that comprise the schedule of non-departmental assets, schedule of non-departmental liabilities, schedule of non-departmental capital commitments and schedule of non-departmental contingent liabilities and contingent assets as at 30 June 2013, the schedule of non-departmental expenses, statement of non-departmental capital expenditure against appropriation, statement of non-departmental unappropriated capital expenditure, and schedule of non-departmental income for the year ended on that date and the notes to the schedules that include accounting policies and other explanatory information.

### Opinion

In our opinion:

- the financial statements of the Ministry on pages 40 to 59:
  - comply with generally accepted accounting practice in New Zealand; and

- fairly reflect the Ministry's:
  - financial position as at 30 June 2013;
  - financial performance and cash flows for the year ended on that date;
  - expenses and capital expenditure incurred against each appropriation administered by the Ministry and each class of outputs included in each output expense appropriation for the year ended 30 June 2013; and
  - unappropriated expenses and capital expenditure for the year ended 30 June 2013.
- the non-financial performance information of the Ministry on pages 12 to 38:
  - complies with generally accepted accounting practice in New Zealand; and
  - fairly reflects the Ministry's service performance and outcomes for the year ended 30 June 2013, including for each class of outputs:
    - its service performance compared with the forecasts in the statement of forecast service performance at the start of the financial year; and
    - its actual revenue and output expenses compared with the forecasts in the statement of forecast service performance at the start of the financial year.
- the schedules of non-departmental activities of the Ministry on pages 62 to 75 fairly reflect, in accordance with the Treasury Instructions:
  - the assets, liabilities, contingencies, commitments and trust monies as at 30 June 2013 managed by the Ministry on behalf of the Crown; and
  - the revenues, expenses, expenditure and capital expenditure against appropriations and unappropriated expenditure and capital expenditure for the year ended on that date managed by the Ministry on behalf of the Crown.

Our audit was completed on 27 September 2013. This is the date at which our opinion is expressed.

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

### **Basis of opinion**

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements, the non-financial performance information and the schedules of non-departmental activities are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers' overall understanding of the financial statements, the non-financial performance information and the schedules of non-departmental activities. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements, the non-financial performance information and the schedules of non-departmental activities. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements, the non-financial performance information and the schedules of non-departmental activities, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Ministry's preparation of the financial statements, the non-financial performance information and the schedules of non-departmental activities that fairly reflect the matters to which they relate. We consider internal control in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Ministry's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Secretary of Defence;
- the appropriateness of the reported non-financial performance information within the Ministry's framework for reporting performance;
- the adequacy of all disclosures in the financial statements, the non-financial performance information and the schedules of non-departmental activities; and
- the overall presentation of the financial statements, the non-financial performance information and the schedules of non-departmental activities.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements, the non-financial performance information and the schedules of non-departmental activities. Also we did not evaluate the security and controls over the electronic publication of the financial statements, the non-financial performance information and the schedules of non-departmental activities.

We have obtained all the information and explanations we have required and we believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

## Responsibilities of the Secretary of Defence

The Secretary of Defence is responsible for preparing:

- financial statements and non-financial performance information that:
  - comply with generally accepted accounting practice in New Zealand;
  - fairly reflect the Ministry's financial position, financial performance, cash flows, expenses and capital expenditure incurred against each appropriation and its unappropriated expenses and capital expenditure; and
  - fairly reflect its service performance and outcomes; and
- schedules of non-departmental activities, in accordance with the Treasury Instructions, that fairly reflect those activities managed by the Ministry on behalf of the Crown.

The Secretary of Defence is also responsible for such internal control as is determined is necessary to enable the preparation of financial statements, the non-financial performance information and schedules of non-departmental activities that are free from material misstatement, whether due to fraud or error. The Secretary of Defence is also responsible for the publication of the financial statements, the non-financial performance information and schedules of non-departmental activities, whether in printed or electronic form.

The Secretary of Defence's responsibilities arise from the Public Finance Act 1989.

## Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements, the non-financial performance information and the schedules of non-departmental activities and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001 and the Public Finance Act 1989.

## Independence

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

Other than the audit, we have no relationship with or interests in the Ministry.



S B Lucy  
Audit New Zealand  
On behalf of the Auditor-General  
Wellington, New Zealand

## Part 3: Statement of service performance



## Statement of objectives and service performance

For the year ended 30 June 2013

### Objectives

The Estimates of Appropriations and the Statement of Intent formed the framework for defining objectives and performance indicators within the Ministry. Each quarter, divisions evaluated their performance against their objectives in order to compare results with priorities, resource allocations and targets set at the beginning of the year. Quarterly reports were made to the Minister of Defence on the delivery of the Ministry's outputs to the Crown.

### Quality assurance

The Ministry applied to all outputs quality assurance processes designed to maintain professional standards and quality of work. These processes included: the provision of appropriate training and skills programmes and career development opportunities; annual evaluations and reviews of staff performance; and managerial oversight. International Standards Organisation (ISO) 9001 accreditation has been maintained in the Acquisition Division. The Ministry maintains the financial management systems necessary to ensure that classes of outputs are delivered within approved appropriation and in compliance with the provisions of the Public Finance Act 1989. Regular monitoring and reporting of expenditure against output forecasts was undertaken. Systems are in place to ensure working capital is managed at an optimum level and foreign currency exposure is minimised.

### Measuring and improving our cost-effectiveness

The Ministry is very cognisant of the need to be both efficient and effective in its activities. It routinely seeks to keep a careful control over costs and to avoid unnecessary or low quality expenditure. This approach is ongoing and is applied transaction by transaction.

The Ministry is considering, following the September 2012 PIF, how to demonstrate cost-effectiveness – a term which means achieving the best value results for the least cost. This may not be possible through a direct measure because it is difficult to estimate the dollar value of the effects of military capabilities and interventions. It is equally difficult to quantify, in dollar terms, either the contributions that the Ministry makes to the NZDF's military effectiveness, or the contributions that the NZDF's military activities make to high level outcomes.

### Outcomes measures - Assessing current security and likely changes

The Ministry of Defence's Outcome Framework identifies two primary outcomes to which the Ministry contributes:

- **New Zealand is secure**
- **the security of other nations is enhanced by New Zealand's efforts.**

Assessing the state of a security environment, against a dynamic and unpredictable global backdrop, requires complex judgements. The Ministry has assessed the security environment at the end of period covered by this Annual Report. The Defence White Paper 2010's assumptions on the security outlook provided the starting point for considering developments during the period covered by this report.

High level assessments have been made in respect of five areas of interest:

- New Zealand and its Exclusive Economic Zone
- Australia
- South Pacific
- Asia-Pacific
- Global.

The assessments considered two aspects of security:

- the 'current security outlook status' - the likelihood that security will be compromised by use of destructive or deadly force, or hostile incursion. This was assessed according to the set of classifications *Very Low, Low, Moderate, Mixed, High, and Conflict*
- the apparent 'direction of change' - whether the evidence suggests that the security environment is getting better or worse. This was assessed according to the classifications *Improving, Stable, Deteriorating and Unclear*.

### Strategic context

The international developments that have most affected the overall security environment since the Defence White Paper 2010 are:

- the continuing, and longer than anticipated, effects of the global financial crisis
- the development of new political and security structures in the Asia-Pacific region, against the backdrop of a security environment characterised by both cooperation and competition
- the risk posed by nuclear proliferation
- conflict in Syria and other tensions in the Middle East.

### New Zealand and its Exclusive Economic Zone

The security outlook for New Zealand and its Exclusive Economic Zone is 'very low' with a 'stable' outlook.

A direct security threat to New Zealand and our Exclusive Economic Zone remains highly unlikely.

There have been no material changes to New Zealand's security outlook during the period of this report.

### Australia

The security outlook for Australia is 'low' with a 'stable' outlook and little change is foreseen to the factors bearing on Australia's security outlook, based on developments during the period of this report.

### South Pacific

The security outlook for the South Pacific on the whole is 'moderate' with a 'stable' outlook in respect of the direct threats to security.

Many Pacific Island states continue to face chronic social, economic, environmental and governance stresses. Such stresses have the potential to develop into situations where nations' security could be compromised. The overall security outlook for this region remains one of fragility.

### Asia-Pacific<sup>1</sup>

The security outlook for the Asia-Pacific region overall is 'moderate' with a 'stable' outlook, but within the region there is potential for the security environment to be threatened. Threat factors include heightened tensions over territorial disputes and ongoing concerns around proliferation and terrorism. These concerns are partly offset by positive developments in the region's security structures.

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<sup>1</sup> For the purposes of this assessment 'Asia-Pacific' is defined as North, East, and Southeast Asia and the Western Pacific Ocean.

## Global

The global security outlook is assessed as 'mixed' with both positive and negative trends. The assessed direction of change is 'unclear'.

The world continues to experience volatility and change. As outlined in the Ministry's Statement of Intent, ongoing security challenges include:

- challenges to rules-based international order
- the ability of international institutions to forge consensus on trans-boundary problems
- the emergence of new centres of economic strength that shift the balance of power
- new technologies that create new threats
- the risk of weapons proliferation
- terrorism continuing to challenge state authority.

## Ministry contribution

The Ministry contributes to the primary outcomes in three main ways.

First, it provides the Government with policy advice concerning defence and security issues, including the security environment, the military capabilities of the NZDF, the deployment of military forces and the conduct of international defence relations.

Secondly, it undertakes the acquisition of major platforms and items of military equipment for use by the NZDF in undertaking defence and security tasks.

Thirdly, it undertakes audits and assessments of the NZDF and the acquisition function of the Ministry to examine and help improve their efficiency and effectiveness.

## Output Class - Policy advice and related outputs MCOA

### Description

Under this Multi-Class Output Appropriation (MCOA) the Minister of Defence purchases:

- 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 NZDF assets and personnel
  - the military capabilities required to meet defence policy goals, broad resource implications and the relative merits and risks associated with proposed capability options
- management and enhancement of bilateral and multilateral defence relations
- responses to Ministerial and Parliamentary Questions, Official Information Act enquiries and Ombudsmen correspondence.

	2011/12	2012/13	
Performance Measures	Actual	Budget	Actual
<b>Prepare policy papers for the Minister, Including Cabinet papers</b>			
Quantity (number of items).	72	24-30	99 <sup>1</sup>
Quality as assessed by independent review of a sample of policy papers.	6% graded 1 19% graded 2 50% graded 3 19% graded 4 6% graded 5	>50% graded 1 <30% graded 2 <20% graded 3	0% graded 1 83% graded 2 13% graded 3 4% graded 4 0% graded 5
Timeliness, as assessed by the percentage of papers that were submitted by the directed deadline.	83%	> 95% of papers submitted by deadline	90% <sup>2</sup>
<b>Prepare ministerial correspondence for the Minister</b>			
Quantity (number of items).	28	35-55	42
Quality, as assessed by the percentage of first draft of all correspondence accepted by the Ministers.	68%	> 90%	100% <sup>3</sup>
Timeliness, as assessed by the percentage of draft replies that were not submitted by the directed deadline.	100%	> 95% of papers submitted by deadline	97%

	2011/12	2012/13	
Performance Measures	Actual	Budget	Actual
<b>Prepare answers to Parliamentary questions for the Minister</b>			
Quality, as assessed by the percentage of first drafts of all questions accepted by the Ministers.	99%	> 90% of papers submitted by deadline	100% <sup>3</sup>
Timeliness, as assessed by the percentage of draft replies that were submitted to the Minister within the time specified in Standing Orders.	100%	> 95% of papers submitted by deadline	100%
<b>Prepare answers to Select Committee questions for the Minister.</b>			
Quality ratings of a sample of select committee replies assessed by independent review.	48% graded 1 26% graded 2 20% graded 3 6% graded 4 0% graded 5	>50% graded 1 <30% graded 2 <20% graded 3	83% graded 1 17% graded 2 0% graded 3 0% graded 4 0% graded 5
Timeliness, as assessed by the percentage of draft replies that were not submitted by the deadline requested by the Select Committee.	100%	> 95% of papers submitted by deadline	100%
<b>Prepare responses to Official Information Act requests</b>			
Timeliness, as assessed by the percentage of replies that were completed within the time set by statutory requirement (20 working days).	93%	> 95% of papers submitted by deadline	96%
<b>Prepare information notes and submissions to the Minister and senior Defence officials</b>			
Quantity (number of items).	New measure for 2012/13	35-55	42 +430 briefs <sup>4</sup>
Quality as assessed by independent review of a sample of notes and submissions.	New measure for 2012/13	>50% graded 1 <30% graded 2 <20% graded 3	70% <sup>5</sup>
Timeliness, as assessed by the percentage of draft replies that were submitted by the directed deadline.	New measure for 2012/13	> 95% of papers submitted by deadline	90% <sup>6</sup>

	2011/12	2012/13	
Performance Measures	Actual	Budget	Actual
<b>Hosting international engagement meetings in New Zealand</b>			
Quantity (number of engagement meetings).	New measure for 2012/13	10-15	24 <sup>7</sup>
Quality, as assessed by formal feedback on selected meetings from senior Defence attendees (Sec Def, CDF, Dep Sec P&P and VCDF).	New measure for 2012/13	>50% graded 1 <30% graded 2 <20% graded 3	80% graded 1 20% graded 2 0% graded 3
<b>Participating in International engagement meetings overseas</b>			
Quantity (number of engagement meetings).	New measure for 2012/13	10-15	23 <sup>7</sup>
Quality, as assessed by formal feedback on selected meetings from senior Defence attendees (Sec Def, CDF, Dep Sec P&P and VCDF).	New measure for 2012/13	>50% graded 1 <30% graded 2 <20% graded 3	60% graded 1 40% graded 2 0% graded 3

**Notes on performance measures:**

1. The increase in the number of papers reflects a high level of activity in defence capability management and deployments.
2. Inferred from the Minister's assessment of 9/10 for the timeliness of policy advice.
3. The Ministry is unaware of any instances where the final drafts of correspondence or responses to Parliamentary questions were not accepted although data to inform the measures was not collected during the reporting year.
4. 430 briefing notes were prepared for hosting or participation in international engagement meetings. These briefing notes were not included within the budget performance measure.
5. Inferred from survey of the Minister's grade of 7/10 for technical quality.
6. Inferred from the Minister's grade of 9/10 for timeliness for policy support.
7. The increase reflects the high level of activity in international engagement.

**Deployments****Objective**

To undertake analysis and provide advice on the deployment of NZDF assets and personnel on United Nations (UN) or other operations.

**Performance**

Substantive progress was made in ensuring our major deployments were well managed in a way that maintained the confidence of our international partners and furthered New Zealand's security interests.

The Ministry, in partnership with the NZDF and MFAT, developed advice on the draw-downs from Afghanistan, Solomon Islands and Timor-Leste. The transition of security responsibilities from New Zealand to these nations' respective governments progressed smoothly.

Extensive advice has also been provided to Ministers on future deployments including to the Combined Maritime Taskforces in the Gulf of Aden/Indian Ocean to combat piracy.

## International relations

### Objective

To manage New Zealand international defence relationships to support enhanced national security.

### Performance

The Ministry had primary responsibility for managing New Zealand's international defence relationships. Defence engagement with traditional and emerging partners supported defence and wider foreign policy objectives.

The Ministry supported travel by the Minister of Defence on bilateral visits to the UK, France, Turkey, Australia, and participation in the NATO/ISAF Defence Ministers' Meeting, the South Pacific Defence Ministers' Meeting and the Shangri La Dialogue.

New Zealand's contribution to enhancing trust and confidence through regional security arrangements was demonstrated through our co-chairing of the ASEAN Defence Ministers' Meeting Plus Experts Working Group on Peacekeeping Operations with the Philippines.

Defence cooperation was promoted through the conclusion of defence agreements with the Republic of Korea, Tonga and France. The Ministry continued to lead the programme of bilateral defence consultations with a range of partner countries from across the region.

The Ministry supported a large number of high-level engagements including ministerial visits to New Zealand from Australia, Singapore, Germany, Belgium, Denmark, United Kingdom, Turkey, and Vietnam. The visit to New Zealand by United States Secretary of Defense Leon Panetta was the first such visit in 30 years.

## Capability development and acquisition

The Ministry provides advice during the capability development and acquisition phases of major capability projects. We undertake capability reviews in cooperation with the NZDF to identify the options for achieving the Government's defence policy goals and the Ministry of Defence's outcomes.

### Performance

The capabilities the Government may acquire, enhance or replace in order to support its White Paper policy objectives are set out in the Defence Capability Plan. The Ministry continued to implement the Plan, providing policy and technical advice on a number of land, air, and maritime capability projects:

- Land and Special Forces projects, including a land transport programme, new medium and heavy operational vehicles (trucks), a new special operations training facility, network enabled army, and new individual weapons.
- Maritime projects, including the ANZAC frigate systems upgrade, a maritime projection and sustainment capability to replace HMNZS *Endeavour*, and options for the replacement of the NZDF's diving, mine counter-measures, and hydrographic support capability.
- Air projects, including a new pilot training capability, a new interim advanced pilot training capability, replacement maritime helicopter, and an underwater surveillance capability.

The major deliverables for the Ministry to support government decision-making on defence capability are indicative, detailed, and implementation business cases, which are submitted to Cabinet.

This year, Cabinet approved an indicative business case for a maritime projection and sustainment capability; detailed business cases for a new pilot training capability, frigate systems upgrade, and new medium and heavy operational vehicles; and an implementation business case for the acquisition of maritime helicopters. The Ministry also provided advice to Joint Ministers (Finance and Defence) on the procurement of medium and heavy operational vehicles; and to the Minister of Defence on a phased programme for modernising the NZDF's land transport capability.

The Foreign Affairs, Defence and Trade Select Committee received the third Defence Major Projects Report in December 2012. The report provides a detailed analysis of the progress of each major defence acquisition project and is available on the Ministry's website.

## Shifting Resources

### Objective

To work with the NZDF to assist implementation of the savings plan, while ensuring the NZDF can deliver on the Government's operational expectations over the longer term.

### Performance

The Ministry developed the Terms of Reference (ToR) for the Defence Mid-point Rebalancing Review, which involved extensive consultation with the NZDF and Central Agencies. The ToR was approved by Cabinet, and the Ministry has been providing significant input into the review.

## Legislative change

### Objective

To provide advice on the detailed legislative amendments required to the Defence Act 1990. The changes are designed to ensure that organisational reform (within the NZDF and the Ministry) will meet the White Paper goals of improving accountability and leadership and the way the two organisations work together.

### Performance

The Foreign Affairs, Defence and Trade Select Committee reported back on the Bill on 3 July 2012. As at 30 June 2013 the Bill was awaiting its second reading.

## Cost of Output Class - Policy advice and related outputs MCOA (GST exclusive)

For the year ended 30 June 2013

Actual 2012 \$000	Actual 2013 \$000	Main estimates 2013 \$000	Supp estimates 2013 \$000
- Total revenue	5,629	5,970	5,629
<b>Expenses</b>			
- Policy advice	3,271	3,770	3,555
- Ministerial services	652	298	281
- Policy Support	1,511	1,902	1,793
- Total expenditure	5,434	5,970	5,629
- Net surplus	195	-	-

The 2012/13 multi-class output expense appropriation Policy advice and related outputs replaced the 2011/12 output Policy advice. In 2011/12 the output Policy advice had total expenditure of \$5.205 million.

## Output Class - Audit and assessment of performance

### Description

This output class is for the provision of audits and assessments of the NZDF and the Ministry of Defence.

### Objective

To satisfactorily complete an approved schedule of audits and assessments, and conduct other audits and assessments as required by the Minister of Defence.

	2011/12	2012/13	
Performance Measures	Actual	Budget	Actual
<p>Delivery to the Minister of reports of audits and assessments, as required by the Minister or to a programme approved by the Minister, in accordance with s.24(2)(e) of the Defence Act 1990 and s.3(6) of the Hazardous Substances and New Organisms Act 1996. Assessments and audits will cover the following areas:</p> <ul style="list-style-type: none"> <li>• evaluations of NZDF output delivery</li> <li>• reviews of management performance</li> <li>• audits of capability projects</li> <li>• audits of controls on hazardous substances under the control of the Minister of Defence.</li> </ul>	14	Target number of reports: 15-18	Five delivered to the Minister <sup>1</sup>
Audits and assessments will follow an appropriate methodology that reflects good practice for such audits and assessments.	New measure for 2012/13	The methodology used for audits and assessments will be assessed by periodic external review of a sample	Methodologies were assessed as appropriate using peer and internal review for all audits
Reports of audits and assessments will meet quality expectations in terms of the sufficiency of administrative and management context, report structure, presentation and format, and the reasonableness of conclusions and recommendations.	New measure for 2012/13	Positive management control and a minimum of two layers of quality assessment will be applied to every report.	Achieved
Key stakeholders (the Minister of Defence, the Secretary of Defence and the Chief of Defence Force) rate the quality and usefulness of reports of audits and assessments on a scale of 1-5. Aggregate assessments will be made at six-monthly intervals.	New measure for 2012/13	An overall score of 4 or better for each of quality and usefulness.	Stakeholder feedback on reports and new business model has been positive with reports considered to reflect government priorities and inform decisions

### Notes on performance measures:

1. The Ministry had an output performance target to produce between 15 and 18 audits and assessments in 2012/13. It was recognised early in the year that the Ministry would not meet the target due to focusing on longer and more strategic pieces of work. The Ministry has identified a new business model that will target and mitigate risk and conduct strategic assessments for the Minister of Defence, the Ministry and the NZDF. A performance measure with targets that track these new service outputs will be included in the 2013/14 Statement of Intent.

## Performance

The Ministry's Evaluation Division has implemented a new business model that will target and mitigate risk and conduct strategic assessments for the Minister of Defence, the Ministry and the NZDF. The establishment of the programme of work is to be based on the following principles:

- Derived from an overarching strategic evaluation framework set at Defence level
- Determined using input from the strategic risk assessment
- Aligned to the Ministry's and NZDF's risk management and internal audit priorities
- Reflecting Government priorities.

The annual evaluation work-plan will be used to support our strategic Defence goals, and ensure strategic risk assessment at Defence level is enhanced.

The Evaluation Division has completed five reports over the reporting period.

The Division is also undertaking four reviews which it expects to finalise shortly.

### **Cost of Output Class - Audit and assessment of performance (GST exclusive)**

For the year ended 30 June 2013

Actual 2012 \$000		Actual 2013 \$000	Main estimates 2013 \$000	Supp estimates 2013 \$000
1,673	Total revenue	2,070	1,927	2,070
1,665	Total expenditure	2,066	1,927	2,070
8	Net surplus	4	-	-

## Output Class - Management of equipment procurement

### Description

The Ministry will acquire major military equipment in a transparent and fair way, and in accordance with government procurement policies. 'Major' means equipment that will have more than NZ\$15 million whole-of-life cost. The Ministry of Defence is committed to providing competitive local (Australian, New Zealand, Brunei, Chilean and Singaporean) industries with the opportunity to support defence, and to ensuring that the Government and the taxpayer get value for money.

This output class involves:

- management of military equipment procurement functions on behalf of the Crown once equipment needs are determined and accepted by the Government. The acquisition process involves acquisition investigation, risk assessment, quality assurance, equipment selection, negotiation and execution of the contract arrangements, up to the point when the equipment, initial training and spares are delivered to the NZDF
- management of any warranty provisions beyond date of delivery
- management of financing commitments
- arrangement of on-sale to the NZDF
- the provision of advice to industry on defence requirements.

Performance Measures	2011/12	2012/13	
	Actual	Budget	Actual
<p><b>Cost:</b> Each new equipment procurement or refurbishment project will be managed within its approved budget.</p> <p>The term 'approved' budget means the contract price plus the project discretionary budget price. It includes (1) the original contract price and (2) approved variations of the original contract price and (3) approved variations to the original project budget.</p> <p>The measure is the % of all project-related expenditure incurred in the year that constitutes a cost over-run.</p>	No new projects commenced	0%	0%
<p><b>Quality of deliverable:</b> Each new equipment procurement or refurbishment project will be managed to the quality standards negotiated for each project in accordance with the agreed/contracted specifications and Statement of Compliance or equivalent issued on delivery of the capability. This is measured by test, trial, evaluation, demonstration, independent audit or certification, and measurements as prescribed in contractual documents. Delivery should not be accepted unless specifications in the agreed Statement of Compliance that are critical to acceptance have all been met.</p> <p>The measure is the number of accepted projects that do not meet all specifications that are critical to acceptance.</p>	No new projects commenced	0	0

Performance Measures	2011/12	2012/13	
	Actual	Budget	Actual
<p><b>Schedule:</b> Each new equipment procurement or refurbishment project will be managed without avoidable delay with the aim of reducing the average schedule over-run.</p> <p>The term 'avoidable delay' means delay occasioned by the Ministry. It does not include delay occasioned by the contractor or covered under the contract's 'excusable delay' clauses.</p> <p>The measure is the % of all contracts for which there has been an avoidable delay by the MoD.</p>	<p>No new projects commenced</p> <p>(Of the projects currently underway there are two projects which have been rescheduled to enable availability for operational purposes.)</p>	5%	0%

## Explanatory note on the project cost summaries included in this output class report

### Foreign exchange variances

The Ministry's foreign exchange policy requires the Ministry to manage currency risk arising from future transactions and recognised liabilities, by entering into foreign exchange forward contracts to hedge 100% of the foreign exchange exposure.

The approval by Cabinet to commit to total project costs uses foreign exchange rates prevailing at the time of seeking Cabinet approval. The subsequent recording of project expenditure in ledgers uses exchange rates prevailing at the date of the transaction (as required by New Zealand International Accounting Standard (NZ IAS) 21 – the effects of changes in foreign exchange rates) and creates a difference between the estimated costs included in the Cabinet approval and the amounts recorded in ledgers as project expenditure.

The project cost summaries that follow include a line to show the total foreign exchange variance between Cabinet approval and recorded expenditure as at 30 June 2013.

### Definitions

The following definitions apply to words used in the project cost summary tables:

#### **Prime contract**

Payments made by the Ministry to a contractor(s) manufacturing or supplying the major equipments.

#### **Ancillary contracts**

Payments made by the Ministry to suppliers of all other items not the responsibility of the prime contractor(s).

#### **Project management**

Costs incurred to support the management of the project. Includes travel, legal advice, risk assessment fees, consultants, costs of project staff located overseas (housing, utilities, allowances etc).

#### **Contingency**

A provision in a project costing to meet uncertain events that may arise.

The project cost summary tables show the balance remaining of the contingency provision. Amounts spent to date from the contingency provision are recorded against prime contract, ancillary contracts and project management, as appropriate.

#### **Commitments**

Contractual obligations to purchase goods and services that are unpaid at balance date.

**Forecasts**

Expenditure likely to be incurred, but not committed at balance date.

Commitments and forecasts denominated in foreign currency at 30 June 2013 have been translated to New Zealand dollars using Treasury fiscal reporting rates at balance date. The rates were:

AUD	0.84180	CAD	0.81600	EUR	0.59630	GBP	0.50990
JPY	76.73050	NOK	4.69820	SEK	5.24235	USD	0.77770

## **1. The Ministry has progressed the following projects, which have received government approval:**

### **1.1 Strategic Bearer Network**

This project to deliver global satellite communications services to the NZDF was approved by Cabinet in November 2011. The Ministry is responsible for the equipment and infrastructure acquisition phase of the project, with a total budget of \$18.3 million.

### **1.2 Maritime Helicopter**

This project to replace the Navy's Seasprite helicopters was approved by Cabinet in April 2013, with a total budget of \$242.2 million.

### **1.3 Medium and Heavy Operating Vehicles**

This project to replace the Army's medium and heavy operating vehicles was approved by Joint Ministers in March 2013 following authorisation from Cabinet in December 2012, with a total budget of \$108.9 million. As no expenditure was incurred by this project during 2012/13 it is not included in the section below.

## 2. The Ministry continued management of the following projects:

### 2.1 Gap Crossing System

This project is acquiring up to six sets of rapidly emplaced bridge crossing systems to support the mobility of the motorised land force.

Objective	Performance
<ul style="list-style-type: none"> <li>• In 2012/13 it was planned to:               <ul style="list-style-type: none"> <li>– Enter into an amendment to the Implementation Arrangement (IA) with the United Kingdom Ministry of Defence for the supply of a fourth Rapidly Emplaced Bridge (REB).</li> <li>– Enter into an amendment to the IA for the supply of a fourth HX77 vehicle.</li> <li>– Successful delivery of the fourth REB.</li> <li>– Successful Delivery of the fourth HX77 vehicle.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>– Signed July 2012.</li> <li>– Signed December 2012.</li> <li>– Delivered August 2012.</li> <li>– Delivery due August 2013.</li> </ul>

Project expenditure in 2012/13	Actual \$000
Primary work	1,323
Ancillary	-
Project Management	71
<b>Total project expenditure in 2012/13</b>	<b>1,394</b>

Total project cost summary As at 30 June 2013	Actual costs to 30 Jun 13 \$000	Future commitments & forecasts ** \$000	Estimated outturn 30 Jun 13 \$000
Primary work	9,087	39	9,126
Ancillary contracts	9	-	9
Project management	335	-	335
Contingency	-	-	-
<b>Project net expenditure</b>	<b>9,431</b>	<b>39</b>	<b>9,470</b>
Effect of foreign exchange movements against the foreign exchange rates in the Cabinet approval favourable/(unfavourable)			41
			<b>9,511</b>
Project costs approved by Cabinet			<b>10,093</b>

\*\* All future prime and ancillary contracts costs are considered commitments.

## 2.2 Replacement Helicopter Capability: Training/Light Utility Helicopter

This project has replaced the Sioux training helicopter with the AgustaWestland A109 Light Utility Helicopter providing a capability that meets the NZDF's contemporary needs. Five operational training/light utility helicopters and one attrition helicopter to be used for spares have been acquired. A flight training simulator has also been acquired.

<b>Objective</b>	<b>Performance</b>
<ul style="list-style-type: none"> <li>• In 2012/13 it was planned to:               <ul style="list-style-type: none"> <li>– Complete the 'final retrofit' of helicopters 1-5 to QR3 configuration.</li> <li>– Complete acceptance of the Flight Planning System (FPS) software.</li> <li>– Close the project.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>– The software delivered by AgustaWestland in December 2012 was found to be flawed during Crown testing. Aircraft were reverted to QR2 configuration whilst AgustaWestland remedied the problems identified with the QR3 software.</li> <li>– The FPS software failed its acceptance testing in September 2012 and further development was undertaken by AgustaWestland ahead of retesting in 2013/14.</li> <li>– The failure of the two major software deliverables during 2012/13 has delayed the closure of the project. The operational impact of the software failures has been limited.</li> </ul>

Project expenditure in 2012/13	Actual \$000
Prime contract	518
Ancillary contracts	493
Project management	242
<b>Total project expenditure in 2012/13</b>	<b>1,253</b>

Total project cost summary As at 30 June 2013	Actual costs to 30 Jun 13 \$000	Future commitments & forecasts ** \$000	Estimated outturn 30 Jun 13 \$000
Prime contract	114,219	5,044	119,263
Ancillary contracts	3,927	567	4,494
Project management	5,448	221	5,669
Contingency	-	3,000	3,000
<b>Project net expenditure</b>	<b>123,594</b>	<b>8,832</b>	<b>132,426</b>
Effect of foreign exchange movements against the foreign exchange rates used for the Cabinet approval favourable/(unfavourable)			4,617
			<b>137,043</b>
Project costs approved by Cabinet			<b>140,529</b>

\*\* All future prime and ancillary contracts costs are considered commitments.

### 2.3 Replacement Helicopter Capability: Medium Utility Helicopter

This project covers the acquisition of eight operational NH90 helicopters. These helicopters will be delivered to the NZDF between 2011 and 2014.

Objective	Performance
<ul style="list-style-type: none"> <li>• In 2012/13 it was planned to:               <ul style="list-style-type: none"> <li>– Deliver Day 1, Day 2 and Day 3 spares.</li> <li>– Accept the Ground Logistics Information Management System (GLIMS) in its final configuration.</li> <li>– Deliver helicopters 05, 06 and 07 in final configuration.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>– In excess of 97% delivered.</li> <li>– Acceptance testing completed.</li> <li>– Helicopters 05 and 06 delivered. Helicopter 07 to be delivered in November 2013.</li> </ul>

Project expenditure in 2012/13	Actual \$000
Prime contract	41,965
Ancillary contracts	2,774
Project management	1,259
<b>Total project expenditure in 2012/13</b>	<b>45,998</b>

Total project cost summary As at 30 June 2013	Actual costs to 30 Jun 13 \$000	Future commitments & forecasts ** \$000	Estimated outturn 30 Jun 13 \$000
Prime contract	578,711	57,799	636,510
Ancillary contracts	10,537	16,863	27,400
Project management	11,584	2,230	13,814
Contingency	-	3,785	3,785
<b>Project net expenditure</b>	<b>600,832</b>	<b>80,677</b>	<b>681,509</b>
Effect of foreign exchange movements against the foreign exchange rates in the Cabinet approval favourable/(unfavourable)			90,088
			<b>771,597</b>
Project costs approved by Cabinet			<b>771,710</b>

\*\* All future prime and ancillary contracts costs are considered commitments.

## 2.4 ANZAC Frigates' Platform Systems Upgrade

The Platform Systems Upgrade (PSU) consists of four separate elements divided into two phases each aimed at ensuring ongoing viability of the key platform systems in the ANZAC Frigates.

Phase I: Propulsion Upgrade, Stability Enhancements and Compartment enhancement elements have now been successfully integrated on both HMNZ ships *Te Kaha* and *Te Mana*. The ships returned to operational service on time and within approved budget.

Financial approval of \$24.250 million was given to undertake Phase I.

Phase II: Integrated Platform Management Systems (IPMS), and a Heating, Ventilation and Air Conditioning (HVAC) upgrade.

The approved cost of the project (Phase I and II) is NZ\$59.4 million. This includes an additional NZ\$1.8 million which was provided to assist with costs in project management, installation and contingency.

The Platform Systems Upgrade project was scheduled to be complete (taking the warranty provision into account) by mid-2014. Due to delays in installation and additional operational test and evaluation requirements the project is now scheduled to complete (including warranty provisions) in late-2016.

<b>Objective</b>	<b>Performance</b>
<ul style="list-style-type: none"> <li>• In 2012/13 it was planned to:</li> </ul>	
<b>HVAC</b>	
<ul style="list-style-type: none"> <li>– Complete all design reviews.</li> <li>– Undertake factory acceptance tests.</li> <li>– Deliver 1st system ready for integration.</li> </ul>	<ul style="list-style-type: none"> <li>– All reviews completed.</li> <li>– Factory acceptance test completed. The system passed with several issues relating to noise and shock vibration to be remedied.</li> <li>– 1st HVAC system has been delivered and installation is underway.</li> </ul>
<b>IPMS</b>	
<ul style="list-style-type: none"> <li>– Complete all design reviews.</li> <li>– Undertake factory acceptance tests.</li> <li>– Installation of 1st system</li> </ul>	<ul style="list-style-type: none"> <li>– Design reviews have been completed and all outstanding issues addressed.</li> <li>– Factory acceptance tests were completed in February 2013 with some issues outstanding and to be completed before installation.</li> <li>– Delivery is expected to commence in the second half of 2013.</li> </ul>
<b>Design Contract</b>	
<ul style="list-style-type: none"> <li>– Deliver detailed design work packages for both ships.</li> </ul>	<ul style="list-style-type: none"> <li>– All design work completed.</li> </ul>

Project expenditure in 2012/13	Actual \$000
Prime contract	8,733
Ancillary contracts	-
Project management	354
<b>Total project expenditure in 2012/13</b>	<b>9,087</b>

Total project cost summary As at 30 June 2013	Actual costs to 30 Jun 13 \$000	Future commitments & forecasts ** \$000	Estimated outturn 30 Jun 13 \$000
Prime contract	45,270	10,693	55,963
Ancillary contracts	-	-	-
Project management	1,679	(45)	1,634
Contingency	-	1,027	1,027
<b>Project net expenditure</b>	<b>46,949</b>	<b>11,675</b>	<b>58,624</b>
Effect of foreign exchange movements against the foreign exchange rates in the Cabinet approval favourable/(unfavourable)			754
			<b>59,378</b>
Project costs approved by Cabinet			<b>59,400</b>

\*\* All future prime and ancillary contracts costs are considered commitments.

## 2.5 Upgrade and refurbishment of C-130H aircraft for the Royal New Zealand Air Force

This project is extending the life of the RNZAF C-130H Hercules aircraft by upgrading the aircrafts' mechanical and electrical equipment, undertaking comprehensive structural refurbishment work and performing an extensive upgrade of the communication and navigation systems.

The first aircraft was scheduled to be completed in 2008, with the final aircraft originally scheduled to be completed in 2011. The programme is running more than two years late as a result of significant contractual and technical difficulties including the closedown of the original overseas prime contractor.

### Objective

- In 2012/13 it was planned to:

- Deliver the third (first Production) aircraft in the third quarter 2012.
- Deliver the fourth (second Production) aircraft in the second quarter 2014.
- Deliver the fifth (final Production) aircraft in the fourth quarter 2014.

### Performance

- Delivered in February 2013.
- Planned for delivery August 2014.
- Planned for delivery December 2014.

Project expenditure in 2012/13	Actual \$000
Prime contract	4,390
Production and Part Task Trainer	6,640
Ancillary contracts	(574)
Project management	255
<b>Total project expenditure in 2012/13</b>	<b>10,711</b>

Total project cost summary As at 30 June 2013	Actual costs to 30 Jun 13 \$000	Future commitments & forecasts ** \$000	Estimated outturn 30 Jun 13 \$000
Prime contract	215,151	554	215,705
Ancillary contracts	6,300	280	6,580
Production and Part Task Trainer	16,703	11,564	28,267
Project management	8,296	245	8,541
Contingency	-	2,359	2,359
<b>Project net expenditure</b>	<b>246,450</b>	<b>15,002</b>	<b>261,452</b>
Effect of foreign exchange movements against the foreign exchange rates in the Cabinet approval favourable/(unfavourable)			3,331
			<b>264,783</b>
Project costs approved by Cabinet			<b>264,789</b>

\*\* All future prime and ancillary contracts costs are considered commitments.

## 2.6 Upgrade of P-3K Orion mission systems for the Royal New Zealand Air Force

This project is upgrading the sensors, mission management systems, and communication/navigation system required for the Royal New Zealand Air Force's P-3K Orion maritime patrol aircraft to conduct surface surveillance tasks.

The first aircraft, originally scheduled to be delivered in June 2008, was provisionally accepted in April 2011. Significant delays to the first aircraft were caused by the late delivery of the radar, problems with the integration of individual sensors, software issues, and structural, aerodynamic and serviceability problems with the prototype aircraft.

Following the provisional acceptance of the prototype aircraft, Defence negotiated a six month extension to the upgrade of the last two aircraft to enable the Orion fleet to maintain capability until the upgraded aircraft can be introduced into service.

The second aircraft was upgraded in New Zealand and was delivered in March 2012. Two further aircraft were delivered in September 2012 and April 2013. The last two P-3s (the fifth and sixth aircraft in the programme) are currently undergoing upgrade, also in New Zealand. All ground systems associated with the upgrade project were delivered in 2011 and 2012.

Upgraded aircraft are now providing Search and Rescue and basic maritime surveillance tasks.

Objective	Performance
<ul style="list-style-type: none"> <li>• In 2012/13 it was planned to:               <ul style="list-style-type: none"> <li>– Deliver the third aircraft in mid 2012.</li> <li>– Deliver the fourth aircraft early 2013.</li> <li>– Induct the fifth aircraft in late 2012.</li> <li>– Induct the sixth aircraft in early 2013.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>– Delivered in September 2012.</li> <li>– Delivered in April 2013.</li> <li>– Inducted in October 2012 (linked to delivery of the third).</li> <li>– Inducted in April 2013 (linked to delivery of the fourth).</li> </ul>

Project expenditure in 2012/13	Actual \$000
Prime contract	15,430
Ancillary contracts	739
Project management	(256)
<b>Total project expenditure in 2012/13</b>	<b>15,913</b>

Total project cost summary As at 30 June 2013	Actual costs to 30 Jun 13 \$000	Future commitments & forecasts ** \$000	Estimated outturn 30 Jun 13 \$000
Prime contract	296,762	13,554	310,316
Ancillary contracts	11,637	678	12,315
Project management	8,308	984	9,292
Contingency	-	703	703
<b>Project net expenditure</b>	<b>316,707</b>	<b>15,919</b>	<b>332,626</b>
Effect of foreign exchange movements against the foreign exchange rates in the Cabinet approval favourable/(unfavourable)			44,028
			<b>376,654</b>
Project costs approved by Cabinet			<b>377,288</b>

\*\* All future prime and ancillary contracts costs are considered commitments.

## 2.7 Defence Command and Control System

The Defence Command and Control System (DC2S) will provide to the NZDF the common operating environment for enhanced access to data and collaboration tools, together with requisite hardware and infrastructure for planning and control of NZDF operations.

The core of the DC2S is based on the United States Global Command and Control System (GCCS). This is being procured through the United States Government Foreign Military Sales system.

- In 2012/13 it was planned to:

<b>Objective</b>	<b>Performance</b>
<ul style="list-style-type: none"> <li>– Complete the rollout of GCCS (Maritime) with Integrated Intelligence and Imagery (I3) on NZDF networks.</li> </ul>	<ul style="list-style-type: none"> <li>– Proof of Concept evaluations confirmed that the I3 component did not meet NZDF minimum requirements. The project has identified a more suitable, I3 integrated, variant of GCCS, GCCS (Joint). If confirmed, this could be implemented, apart from ships and deployable elements, by March 2014.</li> </ul>
<ul style="list-style-type: none"> <li>– Complete implementation of a cross-domain system between two NZDF networks.</li> </ul>	<ul style="list-style-type: none"> <li>– Delayed because of configuration changes to the main NZDF network under an unrelated project. Now scheduled for Phase 1 completion by November 2013.</li> </ul>
<ul style="list-style-type: none"> <li>– Complete implementation of GCCS-M onto RNZN ships.</li> </ul>	<ul style="list-style-type: none"> <li>– Initial trials exposed issues that delayed implementation. The trial ship has now been completed to a satisfactory level of performance and design for fitment to the applicable ships has commenced for completion by December 2014, depending on availability of ships.</li> </ul>

Project expenditure in 2012/13	Actual \$000
Prime contract	-
Ancillary contracts	152
Project management	179
<b>Total project expenditure in 2012/13</b>	<b>331</b>

Total project cost summary As at 30 June 2013	Actual costs to 30 Jun 13 \$000	Future commitments & forecasts ** \$000	Estimated outturn 30 Jun 13 \$000
Prime contract	2,883	5,576	8,459
Ancillary contracts	1,042	6,448	7,490
Project management	649	3,207	3,856
Contingency	-	3,420	3,420
<b>Project net expenditure</b>	<b>4,574</b>	<b>18,651</b>	<b>23,225</b>
Effect of foreign exchange movements against the foreign exchange rates in the Cabinet approval favourable/(unfavourable)			334
			<b>23,559</b>
Project costs approved by Cabinet			<b>23,559</b>

\*\* All future prime and ancillary contracts costs are considered commitments.

## 2.8 Protector Remediation Project

Project Protector delivered a Multi-Role Vessel (MRV), two Offshore and four Inshore Patrol Vessels (OPVs & IPVs). These vessels were acquired to perform a range of sealift and naval patrol tasks for the NZDF and civilian agencies. The ships were delivered with capability shortfalls and deficiencies that were subject to a mediation claim and settlement.

Through the Protector Remediation Project, Defence is remediating these capability shortfalls and deficiencies. Solutions are being implemented in a staged fashion around the ships' operational commitments and maintenance periods, thereby minimising overheads. Programme completion is projected to be in late 2015.

HMNZS *Canterbury* completed a Major Remediation Maintenance programme in May 2013 concentrating on remediating sea keeping issues.

Objective	Performance
<ul style="list-style-type: none"> <li>• In 2012/13 it was planned to:               <ul style="list-style-type: none"> <li>– Complete <i>Canterbury</i> major remediation programme.</li> <li>– Source mission systems equipment for Protector-wide installation in 2014/15.</li> <li>– Trial obstacle avoidance equipment for source selection and contract in 2013/14.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>– Project completed major work including relocation of the ships boats, remediation of the landing craft, outfitting of the surgical facility and ship changes for helicopter operations.</li> <li>– Radar detection system installed across Protector vessels</li> <li>– Contracts for the supply of replacement gun system and communication direction system placed.</li> <li>– Sensor manager solution selected.</li> <li>– Trial of wide area sub surface profile system completed.</li> <li>– System specification developed for production contract.</li> </ul>

Project expenditure in 2012/13	Actual \$000
Prime work	24,930
Project management	114
<b>Total project expenditure in 2012/13</b>	<b>25,044</b>

Total project cost summary As at 30 June 2013	Actual costs to 30 Jun 13 \$000	Future commitments & forecasts ** \$000	Estimated outturn 30 Jun 13 \$000
Primary work	36,927	21,318	58,245
Project management	120	-	120
Contingency	-	6,240	6,240
<b>Project net expenditure</b>	<b>37,047</b>	<b>27,558</b>	<b>64,605</b>
Project costs approved by Cabinet			<b>64,870</b>

\*\* All future prime and ancillary contracts costs are considered commitments.

## 2.9 Strategic Bearer Network

This project will deliver global reliable Satellite Communications (SATCOM) services to the NZDF. Provision of the satellite access service is provided by a Memorandum of Understanding (MoU) with the US Department of Defense (DoD) and is administered by the NZDF. The infrastructure (mobile land based terminals, maritime terminals and fixed anchor stations) required to access the satellites will be delivered by the SBN project managed by the Ministry.

The US DoD Wideband Global SATCOM constellation is the chosen supplier and the MoU was signed by NZDF in 2011. Budget appropriations to the Ministry for the infrastructure acquisition phase were approved for a start in 2012/13. Funding for additional terminals in 2022 has yet to be appropriated.

<b>Objective</b>	<b>Performance</b>
<ul style="list-style-type: none"> <li>• In 2012/13 it was planned to:               <ul style="list-style-type: none"> <li>– Process the first MoU milestone payment.</li> <li>– Deliver early access to the NZDF for introduction into service of a limited capability.</li> <li>– Contract for the first fixed anchor station.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>– This was done in August 2012.</li> <li>– Now forecast for August and September 2013.</li> <li>– The contract was signed in June 2013.</li> </ul>

Project expenditure in 2012/13	Actual \$000
Prime contract	4,316
Ancillary contracts	-
Project management	270
<b>Total project expenditure in 2012/13</b>	<b>4,586</b>

Total project cost summary As at 30 June 2013	Actual costs to 30 Jun 13 \$000	Future commitments & forecasts ** \$000	Estimated outturn 30 Jun 13 \$000
Prime contract	4,316	11,118	15,434
Ancillary contracts	-	700	700
Project management	270	1,090	1,360
Contingency	-	-	-
<b>Project net expenditure</b>	<b>4,586</b>	<b>12,908</b>	<b>17,494</b>
Effect of foreign exchange movements against the foreign exchange rates in the Cabinet approval favourable/(unfavourable)			810
			<b>18,304</b>
Project costs approved by Cabinet			<b>18,310</b>

\*\* All future prime and ancillary contracts costs are considered commitments.

## 2.10 Maritime Helicopter

This project is providing an upgraded fleet of naval helicopters for the Royal New Zealand Navy. Eight SH-2G(I) Seasprite helicopters are being acquired from Kaman Aerospace with associated spares, training aids and a full-motion flight training simulator. Two additional helicopters are part of the package. These will be stored for use as attrition airframes and for spare parts.

### Objective

- In 2012/13 it was planned to:
  - Obtain Cabinet approval and commence the project

### Performance

- Cabinet approval received in April 2013 and the contract with Kaman was signed in early May.

Project expenditure in 2012/13	Actual \$000
Prime contract	17,363
Ancillary contracts	-
Project management	92
<b>Total project expenditure in 2012/13</b>	<b>17,455</b>

Total project cost summary As at 30 June 2013	Actual costs to 30 Jun 13 \$000	Future commitments & forecasts ** \$000	Estimated outturn 30 Jun 13 \$000
Prime contract	17,363	137,022	154,385
Ancillary contracts	-	66,807	66,807
Project management	92	8,965	9,057
Contingency	-	21,030	21,030
<b>Project net expenditure</b>	<b>17,455</b>	<b>233,824</b>	<b>251,279</b>
Effect of foreign exchange movements against the foreign exchange rates in the Cabinet approval favourable/(unfavourable)			(9,079)
			<b>242,200</b>
Project costs approved by Cabinet			<b>242,200</b>

\*\* All future prime and ancillary contracts costs are considered commitments.

## Defence industry

### Objective

The Ministry of Defence will:

- continue to facilitate effective communication between Defence and New Zealand industries to provide appropriate goods and services as required
- provide support for the New Zealand Defence Industry Advisory Council (NZDIAC) (formerly known as the Defence Industry Committee of New Zealand (DICNZ))
- ensure that local, including domestic, suppliers are afforded opportunities to compete for work consistent with the government procurement policy as set out in the Office of the Controller and Auditor-General's publication *Procurement guidance for public entities*, the Ministry of Economic Development publication *Government Procurement in New Zealand - Policy Guidance for Purchasers*, and the Government's *Mandatory Rules for Procurement by Government Departments*
- conduct industry briefing sessions on current defence projects and activities.

### Performance

The Ministry of Defence presented the current status of projects at the Defence Industry Conference held in Wellington in October 2012.

Support was provided for the NZDIAC at meetings held in 2012/13.

The following requests for tenders, proposals and information were issued to industry during the reporting period:

- Network Enabled Army - Request for Information
- Strategic Bearer Network - Request for Tender
- Pilot Training Capability - Request for Tender
- Underwater Intelligence Surveillance and Reconnaissance - Request for Information
- ANZAC Frigate Systems Upgrade Combat Systems Integrator - Request for Tender
- ANZAC Frigate Systems Upgrade Anti Ship Missile Defence decoys or sub-systems - Request for Tender
- ANZAC Frigate Systems Upgrade Electronic Support Measures - Request for Tender
- ANZAC Frigate Systems Upgrade Underwater Systems - Request for Tender
- Maritime Projection and Sustainment Capability - Request for Information.

## Quality measures and standards

### Objective

To ensure that 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, and that 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.

Delivery of this output will be subject to the following quality standards in accordance with good practice:

- 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
- 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 arguments will be logical and supported by facts
- evidence will be provided about 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 NZDIAC will be asked to confirm annually that the Ministry and its agent, the Industry Capability Network, have appropriately notified 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, effective, respected and contributes to the achievement of the Government's defence and security policy objectives by:

- seeking the Minister's views
- seeking the views of key stakeholders in management of equipment procurement
- maintaining ISO 9001 accreditation.

## Performance

The Ministry maintains quality control procedures throughout the acquisition process. Advice is clear and supported by facts and consultation. Prices agreed for projects are based on a competitive tender process where possible and contract awards are subject to considerations of through-life cost, quality and delivery schedules. Contracts are negotiated in a timely manner once the Government's approval is received. Payments to suppliers are made following achievement of agreed contract milestones at the contracted price but are partially or completely withheld when delays or specification shortfalls occur.

The financial summaries of project costs include a valuation of future commitments and forecasts using the exchange rates as at 30 June 2013. The financial summary for each project indicates that each project will be acquired within approved budget.

Delivery schedules are agreed at contract and may be varied from time to time in accordance with the contract.

Risk profiles of projects are continually updated so that potential risks and corrective actions can be identified and any problems with implementation, technical feasibility or timeframes can be addressed.

The NZDIAC confirms with the Industry Capability Network that it has promoted domestic suppliers to overseas-based prime contractors. Where the NZDIAC undertakes defence industry research, outcomes are summarised and raised with the Minister.

Process management issues are discussed regularly with the Minister and the views of other stakeholders are obtained at Capability Management Board and NZDIAC meetings to ensure that the management of equipment procurement is credible, effective, respected and contributes to the achievement of the Government's defence and security policy objectives.

### **Cost of Output Class - Management of equipment procurement (GST exclusive)**

For the year ended 30 June 2013

Actual		Actual	Main estimates	Supp estimates
2012		2013	2013	2013
\$000		\$000	\$000	\$000
4,270	Total revenue	5,821	3,969	6,039
4,249	Total expenditure	5,787	3,969	6,039
21	Net surplus	34	-	-

### **Non-departmental project financial performance**

For the year ended 30 June 2013

Actual		Actual	Main estimates	Supp estimates
2012		2013	2013	2013
\$000		\$000	\$000	\$000
	<b>Vote: Defence</b>			
	Capital receipts			
154,331	Sale of defence equipment to NZDF	176,315	172,306	96,613
<b>154,331</b>		<b>176,315</b>	<b>172,306</b>	<b>96,613</b>
	Capital expenditure			
102,359	Purchase of defence equipment	132,789	160,230	149,914
<b>102,359</b>		<b>132,789</b>	<b>160,230</b>	<b>149,914</b>

## Part 4: Departmental financial statements



## Statement of comprehensive income

For the year ended 30 June 2013

Actual 2012 \$000		Note	Actual 2013 \$000	Main estimates 2013 \$000	Supp estimates 2013 \$000
	<b>Income</b>				
10,729	Revenue Crown		11,366	11,866	11,366
442	Revenue other	2	2,154	-	2,372
11,171	<i>Total income</i>		13,520	11,866	13,738
	<b>Expenditure</b>				
6,803	Personnel expenses	3	7,681	8,334	8,247
3,690	Operating expenses	5	5,025	2,847	4,806
353	Depreciation and amortisation expense	7,8	308	412	412
273	Capital charge	4	273	273	273
11,119	<i>Total expenditure</i>		13,287	11,866	13,738
52	<b>Total comprehensive income</b>		233	-	-

*The accompanying notes form part of these financial statements.*

*Explanations of major variances against the Main and Supplementary Estimates are shown in note 18.*

## Statement of financial position

As at 30 June 2013

Actual 2012 \$000		Note	Actual 2013 \$000	Main estimates 2013 \$000	Supp estimates 2013 \$000
	<b>Assets</b>				
	<b>Current assets</b>				
3,196	Cash and cash equivalents		3,763	2,641	2,840
22	Debtors and other receivables	6	808	49	-
-	Prepayments		8	-	-
3,218	<i>Total current assets</i>		4,579	2,690	2,840
	<b>Non-current assets</b>				
1,829	Property, plant and equipment	7	1,596	1,694	1,667
116	Intangible assets	8	86	224	265
1,945	<i>Total non-current assets</i>		1,682	1,918	1,932
<b>5,163</b>	<b>Total assets</b>		<b>6,261</b>	<b>4,608</b>	<b>4,772</b>
	<b>Liabilities</b>				
	<b>Current liabilities</b>				
861	Creditors and other payables	9	1,591	367	523
52	Repayment of surplus	10	233	-	-
565	Employee entitlements	11	678	468	486
1,478	<i>Total current liabilities</i>		2,502	835	1,009
	<b>Non-current liabilities</b>				
269	Employee entitlements	11	343	357	347
269	<i>Total non-current liabilities</i>		343	357	347
<b>1,747</b>	<b>Total liabilities</b>		<b>2,845</b>	<b>1,192</b>	<b>1,356</b>
<b>3,416</b>	<b>Net assets</b>		<b>3,416</b>	<b>3,416</b>	<b>3,416</b>
	<b>Equity</b>				
3,416	General funds	12	3,416	3,416	3,416
<b>3,416</b>	<b>Total equity funds</b>		<b>3,416</b>	<b>3,416</b>	<b>3,416</b>

The accompanying notes form part of these financial statements.

Explanations of major variances against the Main and Supplementary Estimates are shown in note 18.

## Statement of changes in equity

For the year ended 30 June 2013

Actual		Note	Actual	Main estimates	Supp estimates
2012			2013	2013	2013
\$000			\$000	\$000	\$000
3,416	Balance at 1 July		3,416	3,416	3,416
52	Total comprehensive income		233	-	-
(52)	Return of surplus to the Crown	10	(233)	-	-
-	Capital injection		-	-	-
-	Capital withdrawals		-	-	-
3,416	Balance at 30 June	12	3,416	3,416	3,416

## Statement of cash flows

For the year ended 30 June 2013

Actual		Note	Actual	Main estimates	Supp estimates
2012			2013	2013	2013
\$000			\$000	\$000	\$000
	<b>Cash flows from operating activities</b>				
10,729	Receipts from Crown		11,366	11,866	11,366
475	Receipts from revenue other		1,479	-	2,394
(6,695)	Payments to employees		(7,475)	(8,188)	(8,068)
(3,579)	Payments to suppliers		(4,581)	(2,993)	(5,348)
(273)	Payments for capital charge		(273)	(273)	(273)
(10)	Goods and services tax (net)		148	-	25
647	<i>Net cash flow from operating activities</i>	13	664	412	96
	<b>Cash flows from investing activities</b>				
-	Receipts from sale of property, plant and equipment		-	-	-
(76)	Purchase of property, plant and equipment		(19)	(110)	(147)
(27)	Purchase of intangible assets		(26)	(190)	(253)
(103)	<i>Net cash flow from investing activities</i>		(45)	(300)	(400)
	<b>Cash flows from financing activities</b>				
-	Capital contribution		-	-	-
(810)	Repayment of surplus		(52)	-	(52)
(810)	<i>Net cash flow from financing activities</i>		(52)	-	(52)
(266)	<b>Net increase/(decrease) in cash</b>		567	112	(356)
3,462	Cash at the beginning of the year		3,196	2,529	3,196
3,196	Cash at the end of the year		3,763	2,641	2,840

The Goods and Services Tax (net) component of operating activities reflects the net GST paid and received with the Inland Revenue Department. This is presented on a net basis, as the gross amounts do not provide meaningful information for financial statement purposes.

*The accompanying notes form part of these financial statements.*

*Explanations of major variances against the Main and Supplementary Estimates are shown in note 18.*

## **Statement of commitments**

As at 30 June 2013

### **Capital commitments**

Capital commitments are the aggregate amount of capital expenditure contracted for the acquisition of property, plant and equipment and intangible assets that have not been paid for or not recognised as a liability at the balance sheet date.

The Ministry has no capital commitments (2012 - Nil).

### **Non-cancellable operating lease commitments**

The Ministry leases property, plant and equipment in the normal course of its business. The lease of premises in Defence House has a non-cancellable leasing period of around 12 years remaining.

Actual 2012 \$000		Actual 2013 \$000
	<b>Non-cancellable operating lease commitments</b>	
457	Not later than one year	512
457	Later than one year and not later than two years	512
1,370	Later than two years and not later than five years	1,536
3,501	Later than five years	3,413
5,785	<i>Total non-cancellable operating lease commitments</i>	5,973
5,785	<b>Total commitments</b>	5,973

## **Statement of contingent liabilities and contingent assets**

As at 30 June 2013

### **Contingent liabilities**

The Ministry has no contingent liabilities (2012 - Nil).

### **Contingent assets**

The Ministry has no contingent assets (2012 - Nil).

### **Guarantees and indemnities**

No guarantees and indemnities have been given outside the normal course of business (2012 - Nil).

*The accompanying notes form part of these financial statements.*

## Statement of departmental output expenses and capital expenditure against appropriations

For the year ended 30 June 2013

Actual 2012 \$000		Actual 2013 \$000	Main estimates 2013 \$000	Supp estimates 2013 \$000
	Vote: Defence			
	Appropriations for output expenses			
	Policy advice and related outputs MCOA			
-	Policy advice	3,271	3,770	3,555
-	Ministerial services	652	298	281
-	Policy support	1,511	1,902	1,793
-	Total policy advice and related outputs MCOA	5,434	5,970	5,629
5,205	Policy advice	-	-	-
1,665	Audit and assessment of performance	2,066	1,927	2,070
4,249	Management of equipment procurement	5,787	3,969	6,039
<b>11,119</b>	<b>Total appropriations for output expenses</b>	<b>13,287</b>	<b>11,866</b>	<b>13,738</b>
	Appropriations for capital expenditure			
104	Capital expenditure	45	300	100
<b>104</b>	<b>Total appropriations for capital expenditure</b>	<b>45</b>	<b>300</b>	<b>100</b>

The policy advice output was changed in 2012/13 to the multi-class output expense appropriation policy advice and related outputs following a review of the structure and cost attributes of the policy advice output expenses.

## Statement of departmental unappropriated expenditure and capital expenditure

For the year ended 30 June 2013

The Ministry has no instances of departmental unappropriated expenditure and no breaches of projected departmental net asset schedules (2012 - Nil).

*The accompanying notes form part of these financial statements.*

## **Notes to the financial statements**

For the year ended 30 June 2013

### **Note 1: Statement of accounting policies**

#### **Reporting entity**

The Ministry of Defence (the Ministry) is a government department as defined by section 2 of the *Public Finance Act 1989* and is domiciled in New Zealand.

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

The primary objective of the Ministry is to provide services to the public rather than making a financial return. Accordingly, the Ministry has designated itself as a public benefit entity for the purpose of applying New Zealand equivalents to International Financial Reporting Standards (NZ IFRS).

The financial statements of the Ministry are for the year ended 30 June 2013. The financial statements were authorised for issue by the Chief Executive of the Ministry on 27 September 2013.

#### **Basis of preparation**

##### **Statement of compliance**

The financial statements of the Ministry have been prepared in accordance with the requirements of the *Public Finance Act 1989*, which includes the requirement to comply with New Zealand generally accepted accounting practice (NZ GAAP) and Treasury Instructions.

These financial statements have been prepared in accordance with NZ GAAP. They comply with NZ IFRS and other applicable financial reporting standards as appropriate for public benefit entities.

##### **Measurement base**

The financial statements have been prepared on a historical cost basis, modified by the revaluation of derivative financial instruments to fair value.

##### **Functional and presentation currency**

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars (\$000). The functional currency of the Ministry is New Zealand dollars.

##### **Changes in accounting policies**

There have been no changes in accounting policies during the financial year.

Standards, amendments, and interpretations issued that are not yet effective and have not been early adopted, and which are relevant to the Ministry, are:

NZ IFRS 9 *Financial Instruments* will eventually replace NZ IAS 39 *Financial Instruments: Recognition and Measurement*. NZ IAS 39 is being replaced through the following three main phases: Phase 1 Classification and Measurement, Phase 2 Impairment Methodology, and Phase 3 Hedge Accounting. Phase 1 has been completed and has been published in the new financial instrument standard NZ IFRS 9. NZ IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in NZ IAS 39. The approach in NZ IFRS 9 is based on how an entity manages its financial assets (its business model) and the contractual cash flow characteristics of the financial assets. The financial liability requirements are the same as those of NZ IAS 39, except for when an entity elects to designate a financial liability at fair value through the surplus or deficit. The new standard is required to be adopted for the year ended 30 June 2016. However, as a new Accounting Standards

Framework will apply before this date, there is no certainty when an equivalent standard to NZ IFRS 9 will be applied by public benefit entities.

The Minister of Commerce has approved a new Accounting Standards Framework (incorporating a Tier Strategy) developed by the External Reporting Board (XRB). Under this Accounting Standards Framework, the Ministry is classified as a Tier 1 reporting entity and it will be required to apply full Public Benefit Entity Accounting Standards (PAS). These standards are being developed by the XRB based on current International Public Sector Accounting Standards. The effective date for the new standards for public sector entities is expected to be for reporting periods beginning on or after 1 July 2014. This means the Ministry expects to transition to the new standards in preparing 30 June 2015 financial statements. As the PAS are still under development, the Ministry is unable to assess the implications of the new Accounting Standards Framework at this time.

Due to the change in the Accounting Standards Framework for public benefit entities, it is expected that all new NZ IFRS amendments to existing NZ IFRS will not be applicable to public benefit entities. Therefore, the XRB has effectively frozen the financial reporting requirements for public benefit entities up until the new Accounting Standard Framework is effective. Accordingly, no disclosure has been made about new or amended NZ IFRS that exclude public benefit entities from their scope.

## **Significant accounting policies**

### **Revenue**

Revenue is measured at the fair value of consideration received or receivable.

#### ***Revenue Crown***

Revenue earned from the supply of outputs to the Crown is recognised as revenue when earned.

#### ***Interest***

Interest income is recognised using the effective interest method.

### **Capital charge**

The capital charge is recognised as an expense in the period to which the charge relates.

### **Foreign currency transactions**

Foreign currency transactions (including those for which forward foreign exchange contracts are held) are translated into New Zealand dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the surplus or deficit.

### **Operating leases**

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset. Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term.

### **Financial instruments**

Financial assets and financial liabilities are initially measured at fair value plus transaction costs unless they are carried at fair value through surplus or deficit in which case the transaction costs are recognised in the surplus or deficit.

### **Cash and cash equivalents**

Cash and cash equivalents includes cash on hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less.

### **Debtors and other receivables**

Debtors and other receivables are initially measured at their face value, less any provision for impairment.

Impairment of a receivable is established when there is objective evidence that the Ministry will not be able to collect amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy, receivership or liquidation, and default in payments are considered indicators that the debtor is impaired. The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the original effective interest rate. The carrying amount of the asset is reduced through the use of a provision for impairment account, and the amount of the loss is recognised in the surplus or deficit. Overdue receivables that are renegotiated are reclassified as current (that is, not past due).

### **Property, plant and equipment**

Property, plant and equipment consists of leasehold improvements, furniture and office equipment.

Property, plant and equipment is measured at cost, less accumulated depreciation and impairment losses.

Individual assets, or groups of assets, are capitalised if their cost is greater than \$5,000. The value of an individual asset that is less than \$5,000 and is part of a group of similar assets is capitalised.

#### **Additions**

The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to the Ministry and the cost of the item can be measured reliably.

Work in progress is recognised at cost less impairment and is not depreciated.

In most instances, an item of property, plant and equipment is recognised at its cost. Where an asset is acquired at no cost, or for a nominal cost, it is recognised at fair value as at the date of acquisition.

#### **Disposals**

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are included in the statement of financial performance.

#### **Subsequent costs**

Costs incurred subsequent to initial acquisition are capitalised only when it is probable that future economic benefits or service potential associated with the item will flow to the Ministry and the cost of the item can be measured reliably.

#### **Depreciation**

Depreciation is provided on a straight-line basis on all property, plant and equipment at rates that will write off the cost of the assets to their estimated residual values over their useful lives. The useful lives and associated depreciation rates of major classes of assets have been estimated as follows:

Leasehold improvements	5-18 years
Furniture	3-10 years
Office equipment	5-10 years
Computer equipment	3-5 years

Leasehold improvements are depreciated over the unexpired period of the lease or the estimated remaining useful lives of the improvements, whichever is the shorter.

The residual value and useful life of an asset is reviewed, and adjusted if applicable, at each financial year-end.

## **Intangible assets**

### ***Software acquisition***

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Staff training costs are recognised as an expense when incurred.

Costs associated with maintaining computer software are recognised as an expense when incurred.

### ***Amortisation***

The carrying value of an intangible asset with a finite life is amortised on a straight-line basis over its useful life. Amortisation begins when the asset is available for use and ceases at the date that the asset is derecognised. The amortisation charge for each period is recognised in the surplus or deficit.

The useful lives and associated amortisation rates of major classes of intangible assets have been estimated as follows:

Acquired computer software	3-5 years
----------------------------	-----------

## **Impairment of property, plant and equipment and intangible assets**

Intangible assets that have an indefinite useful life, or are not yet available for use, are tested annually for impairment.

Property, plant and equipment and intangible assets that have a finite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Value in use is depreciated replacement cost for an asset where the future economic benefits or service potential of the asset are not primarily dependent on the asset's ability to generate net cash inflows and where the Ministry would, if deprived of the asset, replace its remaining future economic benefits or service potential.

If an asset's carrying amount exceeds its recoverable amount, the asset is impaired and the carrying amount is written down to the recoverable amount.

Any impairment loss is recognised in the surplus or deficit. The reversal of an impairment loss is recognised in the surplus or deficit.

## **Creditors and other payables**

Short-term creditors and other payables are recorded at their face value.

## **Employee entitlements**

### ***Short-term employee entitlements***

Entitlements expected to be settled within twelve months of balance date are measured at nominal values based on accrued entitlements at current rates of pay. These include salaries and wages accrued up to balance date, annual leave earned but not yet taken at balance date, retiring and long service leave entitlements expected to be settled within twelve months, and sick leave.

A liability is recognised to the extent that absences in the coming year are expected to be greater than the sick leave entitlements earned in the coming year. The amount is calculated based on the unused sick leave entitlement that can be carried forward at balance date, to the extent that it will be used by staff to cover those future absences.

### **Long-term employee entitlements**

Employee entitlements that are due to be settled beyond twelve months after the end of the reporting period in which the employee renders the related service, such as long service leave and retiring leave, are calculated on an actuarial basis. The calculations are based on:

- likely future entitlements accruing to staff, based on years of service, years to entitlement, contractual entitlement information and the likelihood that staff will reach the point of entitlement
- the present value of the estimated future cash flows.

Expected future payments are discounted using market yields on government bonds at balance date with terms to maturity that match, as closely as possible, the estimated future cash outflows for entitlements. The inflation factor is based on the expected long-term increase in remuneration for employees.

### **Presentation of employee entitlements**

Sick leave, annual leave, vested long service leave, and non-vested long service leave and retirement gratuities expected to be settled within twelve months of balance date are classified as a current liability. All other employee entitlements are classified as a non-current liability.

### **Superannuation schemes**

Obligations for contributions to the State Sector Retirement Savings Scheme, Kiwisaver and the Government Superannuation Fund are accounted for as defined contribution schemes and are recognised as an expense in the surplus or deficit as incurred.

### **Provisions**

A provision is recognised for future expenditure of uncertain amount or timing when there is a present obligation (either legal or constructive) as a result of a past event, it is probable that an outflow of future economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as a finance cost.

### **Equity**

Equity is the Crown's investment in the Ministry and is measured as the difference between total assets and total liabilities. Equity is disaggregated and classified as taxpayers' funds.

### **Goods and Services Tax (GST)**

All items in the financial statements, including appropriation statements, are stated exclusive of goods and services tax (GST), except for receivables and payables, which are stated on a GST inclusive basis. Where GST is not recoverable as input tax, then it is recognised as part of the related asset or expense.

The net amount of GST recoverable from, or payable to, the Inland Revenue Department (IRD) is included as part of receivables or payables in the statement of financial position.

The net GST paid or received from the IRD, including the GST relating to investing and financing activities, is classified as an operating cash flow in the statement of cash flows.

Commitments and contingencies are disclosed exclusive of GST.

### **Income tax**

Government departments are exempt from income tax as public authorities. Accordingly, no charge for income tax has been provided for.

### **Budget figures**

The budget figures are those included in the Information Supporting the Estimates of Appropriations for the Government of New Zealand for the year ending 30 June 2013, which are consistent with the financial information in the Main Estimates. In addition, the financial statements also present the updated budget information from the Supplementary Estimates. The budget figures have been prepared in accordance with NZ GAAP, using accounting policies that are consistent with those adopted in preparing these financial statements.

### **Statement of cost accounting policies**

The Ministry has determined the cost of outputs using the cost allocation system outlined below:

- Criteria for direct and indirect costs
  - "Direct costs" are those costs directly attributed to an output.
  - "Indirect costs" are those costs that cannot be identified in an economically feasible manner with a specific output.
- Direct costs assigned to outputs
  - Direct costs are assigned to outputs by charging payments to specific job numbers. Selection of a "general cost" job number within an output class will treat the expense as a direct cost to the output class even though a specific job within the output class has not been identified.
  - For the year ended 30 June 2013, direct costs accounted for 68% of the Ministry's costs (30 June 2012 - 61%).
- Basis for assigning indirect and corporate costs to outputs
  - Indirect costs are assigned to outputs by charging payments to a corporate job number. The accounting system is programmed to allocate corporate job costs to the three output classes on a predetermined percentage for each expense item. The percentage number is an assessment of services to be provided to each output class in the ensuing year. The percentage numbers remain constant for the financial year.
  - For the year ended 30 June 2013, indirect costs accounted for 32% of the Ministry's costs (30 June 2012 - 39%).

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

### **Critical accounting estimates and assumptions**

In preparing these financial statements, estimates and assumptions have been made concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are referred to below:

#### ***Retirement and long service leave***

An analysis of the exposure in relation to estimates and uncertainties surrounding retirement and long service leave is disclosed in note 11.

### **Critical judgements in applying the Ministry's accounting policies**

Management has not exercised any critical judgements in applying the Ministry's accounting policies for the period ended 30 June 2013.

**Note 2: Other revenue**

Actual 2012 \$000		Actual 2013 \$000
137	State Sector Retirement Saving Scheme recovery	-
250	Pre-acquisition project costs from NZ Defence Force	2,143
55	Other	11
442	<b>Total other revenue</b>	<b>2,154</b>

**Note 3: Personnel expenses**

Actual 2012 \$000		Actual 2013 \$000
6,511	Salaries and wages	7,204
242	Employer contributions to defined contribution plans	290
50	Increase/(decrease) in employee entitlements	187
6,803	<b>Total personnel expenses</b>	<b>7,681</b>

Employer contributions to defined contribution plans include contributions to the State Sector Retirement Savings Scheme, Kiwisaver and Government Superannuation Fund.

**Note 4: Capital charge**

The Ministry pays a capital charge to the Crown on its equity as at 30 June and 31 December each year. The capital charge rate for the year ended 30 June 2012 was 8% (2012 - 8%).

**Note 5: Operating expenses**

Actual 2012 \$000		Actual 2013 \$000
95	Audit fees for financial statements	95
1,034	Consultancy	919
298	Professional services	1,413
497	Share of NZDF costs for maintaining services	176
115	Grants and contributions	108
36	Subscriptions	34
19	General maintenance and servicing	15
343	Travel and related costs	454
202	Courses, conferences and exhibitions	125
462	Rental of premises	705
57	Legal	513
25	Printing and stationery	17
289	Computer expenses	173
16	Electronic information, Acts and Regulations	14
202	Other operating costs	264
<b>3,690</b>	<b>Total operating expenses</b>	<b>5,025</b>

**Note 6: Debtors and other receivables**

Actual 2012 \$000		Actual 2013 \$000
22	Debtors	808
-	- Less provision for impairment	-
22	Net debtors	808
-	- GST receivable	-
<b>22</b>	<b>Total debtors and other receivables</b>	<b>808</b>

The carrying value of debtors and other receivables approximates their fair value.

As at 30 June 2013 and 2012, all overdue receivables were assessed for impairment and appropriate provisions applied, as detailed below:

	2012			2013		
	Gross \$000	Impairment \$000	Net \$000	Gross \$000	Impairment \$000	Net \$000
Not past due	22	-	22	808	-	808
Past due 1-30 days	-	-	-	-	-	-
Past due 31-60 days	-	-	-	-	-	-
Past due 61-90 days	-	-	-	-	-	-
Past due > 91 days	-	-	-	-	-	-
<b>Total</b>	<b>22</b>	<b>-</b>	<b>22</b>	<b>808</b>	<b>-</b>	<b>808</b>

### Note 7: Property, plant and equipment

	Leasehold improvements \$000	Office furniture \$000	Office and computer equipment \$000	Total \$000
<b>Cost or valuation</b>				
Balance at 1 July 2011	2,574	104	1,258	3,936
Additions	-	7	69	76
Disposals	-	-	-	-
<b>Balance at 30 June 2012</b>	<b>2,574</b>	<b>111</b>	<b>1,327</b>	<b>4,012</b>
Balance at 1 July 2012	2,574	111	1,327	4,012
Additions	-	12	6	18
Disposals	-	-	(189)	(189)
<b>Balance at 30 June 2013</b>	<b>2,574</b>	<b>123</b>	<b>1,144</b>	<b>3,841</b>
<b>Accumulated depreciation and impairment losses</b>				
Balance at 1 July 2011	763	39	1,084	1,886
Depreciation expense	188	7	102	297
Eliminate on disposal	-	-	-	-
<b>Balance at 30 June 2012</b>	<b>951</b>	<b>46</b>	<b>1,186</b>	<b>2,183</b>
Balance at 1 July 2012	951	46	1,186	2,183
Depreciation expense	188	7	56	251
Eliminate on disposal	-	-	(189)	(189)
<b>Balance at 30 June 2013</b>	<b>1,139</b>	<b>53</b>	<b>1,053</b>	<b>2,245</b>
<b>Carrying amounts</b>				
At 30 June and 1 July 2012	1,623	65	141	1,829
At 30 June 2013	1,435	70	91	1,596

**Note 8: Intangible assets**

	Acquired software \$000	Total \$000
<b>Cost</b>		
Balance at 1 July 2011	914	914
Additions	28	28
Disposals	-	-
<b>Balance at 30 June 2012</b>	<b>942</b>	<b>942</b>
Balance at 1 July 2012	942	942
Additions	27	27
Disposals	-	-
<b>Balance at 30 June 2013</b>	<b>969</b>	<b>969</b>
<b>Accumulated amortisation and impairment losses</b>		
Balance at 1 July 2012	770	770
Amortisation expense	56	56
Disposals	-	-
<b>Balance at 30 June 2013</b>	<b>826</b>	<b>826</b>
Balance at 1 July 2012	826	826
Amortisation expense	57	57
Disposals	-	-
<b>Balance at 30 June 2013</b>	<b>883</b>	<b>883</b>
<b>Carrying amounts</b>		
At 30 June and 1 July 2012	116	116
At 30 June 2013	86	86

There are no restrictions over the title of the Ministry's intangible assets, nor are any intangible assets pledged as security for liabilities.

**Note 9: Creditors and other payables**

Actual 2012 \$000		Actual 2013 \$000
223	Creditors	912
613	Accrued expenses	454
25	GST payable	225
<b>861</b>	<b>Total creditors and other payables</b>	<b>1,591</b>

Creditors and other payables are non-interest bearing and are normally settled on 30-day terms, therefore the carrying value of creditors and other payables approximates their fair value.

**Note 10: Return of operating surplus**

Actual 2012 \$000		Actual 2013 \$000
52	Net surplus/(deficit)	233
52	Total repayment of surplus	233

The repayment of surplus is required to be paid by the 31st October of each year.

**Note 11: Employee entitlements**

Actual 2012 \$000		Actual 2013 \$000
	Current provisions are represented by:	
491	Annual leave	642
2	Sick leave	4
72	Retirement and long service leave	32
565	<i>Total current provision</i>	678
	Non-current employee entitlements are represented by:	
269	Retirement and long service leave	343
834	Total employee entitlements	1,021

**Note 12: Equity**

Actual 2012 \$000		Actual 2013 \$000
	<b>Taxpayers' funds</b>	
3,416	Balance at 1 July	3,416
52	Net surplus/(deficit)	233
-	Capital contribution from the Crown	-
(52)	Provision for repayment of surplus to the Crown	(233)
3,416	<b>Taxpayers' funds at 30 June</b>	<b>3,416</b>

### Note 13: Reconciliation of net surplus/(deficit) to net cash from operating activities

Actual 2012 \$000		Actual 2013 \$000
52	Net Surplus/(deficit)	233
	Add/(less) non-cash items:	
353	Depreciation and amortisation expense	308
10	Increase/(Decrease) in non current employee entitlements	74
363	Total non-cash items	382
	Add/(less) movements in working capital items:	
34	(Increase)/Decrease in debtors and other receivables	(786)
4	(Increase)/Decrease in prepayments	(8)
154	Increase/(Decrease) in creditors and other payables	730
40	Increase/(Decrease) in current employee entitlements	113
232	Net movements in working capital items	49
647	Net cash from operating activities	664

### Note 14: Related party transactions and key management personnel

#### Related party transactions

All related party transactions have been entered into on an arms' length basis.

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

#### Significant transactions with government-related entities

The Ministry has received funding from the Crown of \$11.366 million (2012 - \$10.729 million) to provide services to the public for the year ended 30 June 2013.

The Ministry received funding from the NZDF of \$2.143 million (2012 - \$0.250 million) to reimburse costs incurred in advancing acquisition projects to the contract stage (pre-acquisition costs).

#### Collectively, but not individually significant transactions with government-related entities

In conducting its activities, the Ministry is required to pay various taxes and levies (such as GST, FBT, PAYE, and ACC levies) to the Crown and entities related to the Crown. The payment of these taxes and levies, other than income tax, is based on the standard terms and conditions that apply to all tax and levy payers. The Ministry is exempt from paying income tax.

The Ministry also purchases goods and services from entities controlled, significantly influenced, or jointly controlled by the Crown. Purchases from these government-related entities for the year ended 30 June 2013 totalled \$1.684 million (2012 - \$1.375 million). These purchases included the purchase of air travel from Air New Zealand, legal services from Crown Law Office, accommodation and international defence relations from the NZDF and postal services from New Zealand Post.

**Key management personnel compensation**

Actual 2012 \$000		Actual 2013 \$000
1,492	Salaries and other short-term employee benefits	1,502
26	Post employment benefits	50
-	- Other long term benefits	-
-	- Termination benefits	-
1,518	<b>Total key management personnel compensation</b>	<b>1,552</b>

Key management personnel include the Chief Executive and the six members (2012 – five) of the Senior Management Group (Deputy Secretaries and the Director of Strategy and Governance).

The above key management personnel compensation excludes the remuneration and other benefits the Minister of Defence receives. The Minister's remuneration and other benefits are not received only for his role as a member of key management personnel of the Ministry. The Minister's remuneration and other benefits are set by the Remuneration Authority under the Civil List Act 1979 and are paid under Permanent Legislative Authority, and not paid by the Ministry of Defence.

**Note 15: Events after balance date**

There have been no significant events after balance date.

**Note 16: Financial instruments****Note 16A: Financial instrument categories**

The carrying amounts of financial assets and financial liabilities in each of the NZ IAS 39 categories are as follows:

Actual 2012 \$000		Actual 2013 \$000
	<b>Loans and receivables</b>	
3,196	Cash and cash equivalents	3,763
22	Debtors and other receivables	808
-	Prepayments	8
3,218	<b>Total loans and receivables</b>	<b>4,579</b>
	<b>Financial liabilities measured at amortised cost</b>	
861	Creditors and other payables	1,591

## **Note 16B: Financial instrument risks**

The Ministry's activities expose it to a variety of financial instrument risks, including market risk, credit risk and liquidity risk. The Ministry has a series of policies to manage the risks associated with financial instruments and seeks to minimise exposure from financial instruments. These policies do not allow any transactions that are speculative in nature to be entered into.

### **Market risk**

#### ***Currency risk***

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Ministry purchases capital equipment internationally and is exposed to currency risk arising from various currency exposures, primarily with respect to the United States, Canadian and Australian dollars and Euro. Currency risk arises from future capital purchases and recognised liabilities, which are denominated in a foreign currency.

The Ministry's Foreign Exchange Management Policy requires the Ministry to manage currency risk arising from future transactions and recognised liabilities by entering into foreign exchange forward contracts to hedge the entire foreign currency risk exposure. The Ministry's policy has been approved by the Treasury and is in accordance with the requirements of the Treasury Guidelines for the Management of Crown and Departmental Foreign-Exchange Exposure.

#### ***Interest rate risk***

Interest rate risk is the risk that the fair value of a financial instrument will fluctuate or, the cash flows from a financial instrument will fluctuate, due to changes in market interest rates.

The Ministry has no exposure to interest rate risk because it has no interest-bearing financial instruments.

### **Credit risk**

Credit risk is the risk that a third party will default on its obligation to the Ministry, causing the Ministry to incur a loss.

In the normal course of its business, credit risk arises from debtors, deposits with banks and derivative financial instrument assets.

The Ministry is only permitted to deposit funds and enter into foreign exchange forward contracts with approved counterparties. These entities have high credit ratings. For its other financial instruments, the Ministry does not have significant concentrations of credit risk.

The Ministry's maximum credit exposure for each class of financial instrument is represented by the total carrying amount of cash and cash equivalents, net debtors (note 6), and derivative financial instrument assets. There is no collateral held as security against these financial instruments, including those instruments that are overdue or impaired.

### **Liquidity risk**

Liquidity risk is the risk that the Ministry will encounter difficulty raising liquid funds to meet commitments as they fall due.

In meeting its liquidity requirements, the Ministry closely monitors its forecast cash requirements with expected cash draw downs from the New Zealand Debt Management Office. The Ministry maintains a target level of available cash to meet liquidity requirements.

The table below analyses the Ministry's financial assets and liabilities into relevant maturity groupings based on the remaining period at balance date to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows.

	Less than 6 months \$000	6-12 months \$000	1-5 years \$000	Over 5 years \$000	Total \$000
<b>Assets</b>					
<b>Current assets</b>					
Cash and cash equivalents	3,763	-	-	-	3,763
Debtors and other receivables	808	-	-	-	808
Prepayments	8	-	-	-	8
<i>Total current assets</i>	4,579	-	-	-	4,579
<b>Total assets</b>	4,579	-	-	-	4,579
<b>Liabilities</b>					
<b>Current liabilities</b>					
Creditors and other payables	1,591	-	-	-	1,591
<i>Total current liabilities</i>	1,591	-	-	-	1,591
<b>Total liabilities</b>	1,591	-	-	-	1,591
<b>Net liquidity of continuing operations</b>	<b>2,988</b>	-	-	-	<b>2,988</b>

## Note 17: Capital management

The Ministry's capital is its equity which comprises general funds only. Equity is represented by net assets.

The Ministry manages its revenues, expenses, assets, liabilities, and general financial dealings prudently. The Ministry's equity is largely managed as a by-product of managing income, expenses, assets, liabilities, and compliance with the Government Budget processes, Treasury Instructions and the Public Finance Act 1989.

The objective of managing the Ministry's equity is to ensure the Ministry effectively achieves its goals and objectives for which it has been established, whilst remaining a going concern.

## Note 18: Explanation of major variances against budget

The major variances from the Main and Supplementary Estimates are as follows:

- Personnel expenses
  - Personnel expenses are lower than both Main and Supplementary estimates due to delays in recruiting staff to fill vacancies.
- Operating expenses
  - The increase in operating expenses from the Main Estimates is primarily due to the Ministry advancing additional acquisition projects to the contract stage (pre-acquisition costs) than initially included in the Main Estimates. These pre-acquisition costs are reimbursed by the NZDF, as shown in note 2.
- Cashflow
  - The increase in cash from operating activities and the year-end cash balance from the Main and Supplementary Estimates is due to a higher than expected year-end creditors balance.



## Part 5: Non-departmental statements and schedules

The following non-departmental statements and schedules record the income, expenses, assets, liabilities, commitments, contingent liabilities and contingent assets that the Ministry manages on behalf of the Crown.



## Schedule of non-departmental income

For the year ended 30 June 2013

Actual		Note	Actual	Main estimates	Supp estimates
2012			2013	2013	2013
\$000			\$000	\$000	\$000
3,315	Realised foreign exchange gains		7,107	-	1,984
408	Realised gains on derivatives		6	-	6
14	Unrealised gains on derivatives		19,146	-	8
-	Unrealised foreign exchange gains		67	-	-
455	Interest		273	100	114
<b>4,192</b>	<b>Total non-departmental income</b>	<b>4</b>	<b>26,599</b>	<b>100</b>	<b>2,112</b>

## Schedule of non-departmental capital receipts

For the year ended 30 June 2013

Sales of defence equipment to the New Zealand Defence Force in 2012/13 were:

Actual		Note	Actual	Main estimates	Supp estimates
2012			2013	2013	2013
\$000			\$000	\$000	\$000
964	Defence command and control system		443	7,858	338
-	Strategic bearer network		4,586	-	103
25,573	P-3K Orion systems upgrade		32,149	26,662	22,933
355	B-757 aircraft modification		544	585	-
8,736	C-130H life extension		16,084	18,480	7,828
62,030	Medium utility helicopter		54,277	66,580	35,647
28,255	Training/light utility helicopter		1,920	12,610	1,614
-	Maritime helicopter		17,455	-	-
2,138	Project Protector vessels		863	20	817
2,086	Close-in weapon system		18	505	5
13,572	Platform systems upgrade		11,572	14,680	4,677
6,096	Protector remediation		30,951	16,923	18,255
1	Light armoured vehicles		-	-	-
303	Medium range anti-armour weapon		245	1,292	245
-	Light operational vehicles		-	215	-
4,222	Army engineering gap crossing system		5,208	5,896	4,151
<b>154,331</b>	<b>Total non-departmental capital receipts</b>	<b>4</b>	<b>176,315</b>	<b>172,306</b>	<b>96,613</b>

The accompanying notes form part of these financial statements.

Explanations of major variances against the Main and Supplementary Estimates are shown in note 4.

For a full understanding of the Crown's financial position and the results of its operations for the period, reference should be made to the consolidated Financial Statements of the Government for the year ended 30 June 2013.

## Schedule of non-departmental expenses

For the year ended 30 June 2013

Actual 2012 \$000		Note	Actual 2013 \$000	Main estimates 2013 \$000	Supp estimates 2013 \$000
14,340	Realised foreign exchange losses		823	-	1,526
389	Realised losses on derivatives		34	-	15
356	Unrealised foreign exchange losses		-	-	2
-	Unrealised losses on derivatives		348	-	-
35,614	GST input expense		22,924	50,264	39,260
<b>50,699</b>	<b>Total non-departmental expenditure</b>	<b>4</b>	<b>24,129</b>	<b>50,264</b>	<b>40,803</b>

## Schedule of non-departmental assets

As at 30 June 2013

Actual 2012 \$000		Note	Actual 2013 \$000	Main estimates 2013 \$000	Supp estimates 2013 \$000
	<b>Assets</b>				
	<b>Current assets</b>				
308,809	Cash and cash equivalents	4	180,143	50,695	118,173
58	Debtors and other receivables	2,4	91,839	-	-
43,526	Inventory – work in progress	4	-	83,987	96,827
11	Derivatives in gain		16,064	-	8
<b>352,404</b>	<b>Total current assets</b>		<b>288,046</b>	<b>134,682</b>	<b>215,008</b>
	<b>Non-current assets</b>				
3	Derivatives in gain		3,081	-	-
<b>3</b>	<b>Total non-current assets</b>		<b>3,081</b>	<b>-</b>	<b>-</b>
<b>352,407</b>	<b>Total non-departmental assets</b>		<b>291,127</b>	<b>134,682</b>	<b>215,008</b>

The accompanying notes form part of these financial statements.

Explanations of major variances against the Main and Supplementary Estimates are shown in note 4.

For a full understanding of the Crown's financial position and the results of its operations for the period, reference should be made to the consolidated Financial Statements of the Government for the year ended 30 June 2013.

## Schedule of non-departmental liabilities

As at 30 June 2013

Actual 2012 \$000		Note	Actual 2013 \$000	Main estimates 2013 \$000	Supp estimates 2013 \$000
	<b>Liabilities</b>				
	<b>Current Liabilities</b>				
1,987	Creditors and other payables	3,4	34,776	15,054	-
-	Derivatives in loss		214	-	2
1,987	<i>Total current liabilities</i>		34,990	15,054	2
	<b>Non-current liabilities</b>				
-	Derivatives in loss		131	-	-
-	<i>Total non-current liabilities</i>		131	-	-
1,987	<b>Total non-departmental liabilities</b>		35,121	15,054	2

## Schedule of non-departmental capital commitments

As at 30 June 2013

### Non-cancellable capital commitments

The schedule sets out the level of capital commitments made against out-year appropriations and funding baselines for non-departmental capital expenditure. The Ministry on behalf of the Crown has entered into non-cancellable contracts for the purchase of defence equipment.

Actual 2012 \$000		Actual 2013 \$000
	<b>Non-cancellable capital commitments</b>	
149,910	Not later than one year	242,066
65,392	Later than one year and not later than two years	180,672
2,622	Later than two years and not later than five years	47,120
-	Later than five years	-
217,924	<b>Total non-cancellable capital commitments</b>	<b>469,858</b>

*The accompanying notes form part of these financial statements.*

*Explanations of major variances against the Main and Supplementary Estimates are shown in note 4.*

*For a full understanding of the Crown's financial position and the results of its operations for the period, reference should be made to the consolidated Financial Statements of the Government for the year ended 30 June 2013.*

## **Schedule of non-departmental contingent liabilities and contingent assets**

As at 30 June 2013

### **Contingent liabilities**

The Ministry on behalf of the Crown has no contingent liabilities (2012 - Nil).

### **Contingent assets**

The Ministry on behalf of the Crown has no contingent assets (2012 – Nil).

## **Statement of non-departmental capital expenditure against appropriation**

For the year ended 30 June 2013

Actual 2012 \$000		Actual 2013 \$000	Main estimates 2013 \$000	Supp estimates 2013 \$000
	Vote Defence			
	Appropriations for non-departmental capital expenditure			
102,359	Purchase of defence equipment	132,789	160,230	149,914
102,359	Total appropriation for non-departmental capital expenditure	132,789	160,230	149,914

## **Statement of non-departmental unappropriated capital expenditure**

For the year ended 30 June 2013

There has been no unappropriated expenditure for the year ended 30 June 2013 (2012 - Nil).

*The accompanying notes form part of these financial statements.*

*For a full understanding of the Crown's financial position and the results of its operations for the period, reference should be made to the consolidated Financial Statements of the Government for the year ended 30 June 2013.*

## Schedule of non-departmental capital expenditure

For the year ended 30 June 2013

Project payments made in 2012/13 were:

Actual 2012 \$000	Project	Actual 2013 \$000	Main estimates 2013 \$000	Supp estimates 2013 \$000
985	Defence command and control system	331	7,426	4,813
-	Strategic bearer network	4,586	-	3,441
19,626	P-3K Orion systems upgrade	15,913	12,553	15,673
61	B-757 aircraft modification	544	-	600
9,725	C-130H life extension	10,711	13,108	11,457
39,512	Medium utility helicopter	45,998	84,043	57,496
7,177	Training/light utility helicopter	1,253	8,664	2,260
-	Maritime helicopter	17,455	-	20,000
1,209	Project Protector vessels	320	837	283
302	Close-in weapon system	14	-	105
7,950	Platform systems upgrade	9,087	8,421	11,980
7,665	Protector remediation	25,044	24,225	20,077
111	Medium range anti-armour weapon	139	42	189
8,036	Army engineering gap crossing system	1,394	911	1,540
<b>102,359</b>	<b>Total non-departmental capital expenditure</b>	<b>132,789</b>	<b>160,230</b>	<b>149,914</b>

(Figures are GST exclusive)

*The accompanying notes form part of these financial statements.*

*For a full understanding of the Crown's financial position and the results of its operations for the period, reference should be made to the consolidated Financial Statements of the Government for the year ended 30 June 2013.*

## **Notes to the non-departmental financial statements**

### **Note 1: Statement of accounting policies**

#### **Reporting entity**

These non-departmental schedules and statements present financial information on public funds managed by the Ministry on behalf of the Crown.

These non-departmental balances are consolidated into the Financial Statements of the Government for the year ended 30 June 2013. For a full understanding of the Crown's financial position, results of operations and cash flows for the year, reference should also be made to the Financial Statements of the Government.

#### **Basis of preparation**

The non-departmental schedules and statements have been prepared in accordance with the accounting policies of the Financial Statements of the Government, Treasury Instructions, and Treasury Circulars.

Measurement and recognition rules applied in the preparation of these non-departmental schedules and statements are consistent with New Zealand generally accepted accounting practice as appropriate for public benefit entities.

#### **Changes in accounting policies**

There have been no changes in accounting policies during the financial year.

Standards, amendments, and interpretations issued but not yet effective that have not been early adopted, and which are relevant to the Ministry, are:

NZ IFRS 9 *Financial Instruments* will eventually replace NZ IAS 39 *Financial Instruments: Recognition and Measurement*. NZ IAS 39 is being replaced through the following three main phases: Phase 1 Classification and Measurement, Phase 2 Impairment Methodology, and Phase 3 Hedge Accounting. Phase 1 has been completed and has been published in the new financial instrument standard NZ IFRS 9. NZ IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in NZ IAS 39. The approach in NZ IFRS 9 is based on how an entity manages its financial assets (its business model) and the contractual cash flow characteristics of the financial assets. The financial liability requirements are the same as those of NZ IAS 39, except for when an entity elects to designate a financial liability at fair value through the surplus or deficit. The new standard is required to be adopted for the year ended 30 June 2016. However, as a new Accounting Standards Framework will apply before this date, there is no certainty when an equivalent standard to NZ IFRS 9 will be applied by public benefit entities.

The Minister of Commerce has approved a new Accounting Standards Framework (incorporating a Tier Strategy) developed by the External Reporting Board (XRB). Under this Accounting Standards Framework, the Ministry is classified as a Tier 1 reporting entity and it will be required to apply full Public Benefit Entity Accounting Standards (PAS). These standards are being developed by the XRB based on current International Public Sector Accounting Standards. The effective date for the new standards for public sector entities is expected to be for reporting periods beginning on or after 1 July 2014. This means the Ministry expects to transition to the new standards in preparing 30 June 2015 financial statements. As the PAS are still under development, the Ministry is unable to assess the implications of the new Accounting Standards Framework at this time.

Due to the change in the Accounting Standards Framework for public benefit entities, it is expected that all new NZ IFRS amendments to existing NZ IFRS will not be applicable to public benefit entities. Therefore, the XRB has effectively frozen the financial reporting requirements for public benefit entities up until the new Accounting Standard Framework is effective. Accordingly, no disclosure has been made about new or amended NZ IFRS that exclude public benefit entities from their scope.

## Significant accounting policies

### Revenue

#### *Interest*

Interest income is recognised using the effective interest method.

#### **Foreign currency transactions**

Foreign currency transactions (including those for which forward foreign exchange contracts are held) are translated into New Zealand dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the schedule of non-departmental income or expenses.

#### **Goods and services tax**

All items in the financial statements, including appropriation statements, are stated exclusive of goods and services tax (GST), except for receivables and payables, which are stated on a GST inclusive basis. In accordance with Treasury instructions, GST is returned on revenue received on behalf of the Crown, where applicable. However, an input tax deduction is not claimed on non-departmental expenditure. Instead, the amount of GST applicable to non-departmental expenditure is recognised as a separate expense and eliminated against GST revenue on consolidation of the Financial Statements of the Government.

#### **Debtors and other receivables**

Short-term debtors and other receivables are recorded at their face value, less any provision for impairment.

Impairment of a receivable is established when there is objective evidence that the Ministry will not be able to collect amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy, receivership or liquidation, and default in payments are considered indicators that the debtor is impaired. The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the original effective interest rate. The carrying amount of the asset is reduced through the use of a provision for impairment account, and the amount of the loss is recognised in the schedule of non-departmental expenses. Overdue receivables that are renegotiated are reclassified as current (that is, not past due).

#### **Derivative financial instruments**

The Ministry uses derivative financial instruments to hedge its exposure to foreign exchange movements. In accordance with its Foreign Exchange Management policy, the Ministry does not hold or issue derivative financial instruments for trading purposes. The Ministry has not adopted hedge accounting.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value at each balance date. Movements in the fair value of derivative financial instruments are recognised in the schedule of non-departmental income or schedule of non-departmental expenses.

The full fair value of a foreign exchange derivative is classified as current if the contract is due for settlement within twelve months of balance date. Otherwise, foreign exchange derivatives are classified as non-current.

## Commitments

Expenses yet to be incurred on non-cancellable contracts that have been entered into on or before balance date are disclosed as commitments to the extent that there are equally unperformed obligations.

Cancellable commitments that have penalty or exit costs explicit in the agreement on exercising that option to cancel are included in the statement of commitments at the value of that penalty or exit cost.

## Note 2: Debtors and other receivables

Actual 2012 \$000	Actual 2013 \$000
58 Debtors	91,839
- Additional provisions made during the year	-
- Receivables written off during period	-
<b>58 Total debtors and other receivables</b>	<b>91,839</b>

The carrying value of debtors and other receivables approximates their fair value.

	2012			2013		
	Gross \$000	Impairment \$000	Net \$000	Gross \$000	Impairment \$000	Net \$000
Not past due	58	-	58	91,839	-	91,839
Past due 1-30 days	-	-	-	-	-	-
Past due 31-60 days	-	-	-	-	-	-
Past due 61-90 days	-	-	-	-	-	-
Past due > 91 days	-	-	-	-	-	-
<b>Total</b>	<b>58</b>	<b>-</b>	<b>58</b>	<b>91,839</b>	<b>-</b>	<b>91,839</b>

## Note 3: Creditors and other payables

Actual 2012 \$000	Actual 2013 \$000
1,987 Creditors	33,543
- Monies received in advance	1,233
<b>1,987 Total creditors and other payables</b>	<b>34,776</b>

Creditors and other payables are non-interest bearing and are normally settled on 30-day terms, therefore the carrying value of creditors and other payables approximates their fair value.

## Note 4: Explanation of major variances against budget

The major variances from the Main and Supplementary Estimates are as follows:

### Non-departmental income and expenses

- Foreign exchange impact
  - The gains or losses from movements in foreign exchange rates are not budgeted.
- GST input expense
  - GST input expense was lower than forecast in the Main Estimates due to the deferment to July 2013 of the importation into New Zealand, and resultant GST liability, of two medium utility helicopters.

### Non-departmental capital receipts

The Ministry invoices NZDF on a six-monthly basis for non-departmental capital expenditure. In previous years expenditure over the January to June period was charged in July of the following financial year. Both of the Estimates were prepared on this basis and assumed that the capital expenditure from January to June 2013 would be held as inventory (work in progress) in the schedule of assets at 30 June 2013. In late 2012/13 NZDF requested that this be invoiced on 30 June 2013. Consequently the 2012/13 capital receipts amount represents the invoicing of capital expenditure incurred over the 18 months from January 2012 to June 2013.

If this change of invoicing date had not occurred, the Ministry's non-departmental capital receipts would have equalled the Supplementary Estimates. The reduction from the Main to Supplementary Estimates is due to delays in acquisition projects.

### Non-departmental assets

- Cash and cash equivalents
  - The cash holdings are higher than budget due to the delay in making forecast milestone payments as described in the non-departmental capital expenditure section below.
- Debtors
  - The large debtors balance at 30 June 2013 is due to the invoicing of capital expenditure to NZDF on 30 June 2013 as described in the non-departmental capital receipts section above.
- Inventory
  - The inventory balance at 30 June 2013 is nil due to the invoicing of capital expenditure on 30 June 2013 as described in the non-departmental capital receipts section above.

### Non-departmental capital expenditure

The delays in achieving some project milestones have resulted in lower than budgeted payments. These delays have also had a detrimental impact on completion dates within some of the projects. Several projects have also renegotiated future milestone payments with no impact on final completion dates.

### Non-departmental liabilities

- Creditors
  - The large creditors balance at 30 June 2013 is due to the GST liability resulting from invoicing of capital expenditure to NZDF on 30 June 2013 as described in the non-departmental capital receipts section above and work completed by project contractors but unbilled at year-end.

## Note 5: Financial instruments

### Note 5A: Financial instrument categories

The carrying amounts of financial assets and financial liabilities in each of the NZ IAS 39 categories are as follows:

Actual 2012 \$000		Actual 2013 \$000
	<b>Loans and receivables</b>	
308,809	Cash and cash equivalents	180,143
58	Debtors and other receivables	91,839
308,867	<b>Total loans and receivables</b>	271,982
	<b>Fair value through profit and loss – designated as such upon initial recognition</b>	
14	Derivative financial instrument assets	19,145
-	Derivative financial instrument liabilities	345
	<b>Financial liabilities measured at amortised cost</b>	
1,987	Creditors and other payables	34,776

The notional principal amount of outstanding forward exchange contract derivatives at 30 June 2013 is NZD 255,029,376 (2012 - NZD 1,015,397). The contracts consist of the purchase of:

Actual 2012 \$000		Actual 2013 \$000
-	Australian dollars	11,420
-	British pounds	5,025
825	Canadian dollars	225
-	Euros	53,550
-	Norwegian krone	109,400
-	United States dollars	103,080

### Note 5B: Fair value hierarchy disclosures

For those instruments recognised at fair value in the statement of financial position, fair values are determined according to the following hierarchy:

- Quoted market price (level 1) – Financial instruments with quoted prices for identical instruments in active markets.
- Valuation technique using observable inputs (level 2) – Financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.
- Valuation techniques with significant non-observable inputs (level 3) – Financial instruments valued using models where one or more significant inputs are not observable.

The following table analyses the basis of the valuation of classes of financial instruments measured at fair value in the statement of financial position.

	Valuation technique			
	Total	Quoted market price	Observable inputs	Significant non-observable inputs
	\$000	\$000	\$000	\$000
<b>2012</b>				
<b>Financial assets</b>				
Foreign exchange derivatives	14	-	14	-
<b>Financial liabilities</b>				
Foreign exchange derivatives	-	-	-	-
<b>2013</b>				
<b>Financial assets</b>				
Foreign exchange derivatives	19,145	-	19,145	-
<b>Financial liabilities</b>				
Foreign exchange derivatives	345	-	345	-

There were no transfers between the different levels of the fair value hierarchy.

### Note 5C: Financial instrument risks

The Ministry's activities expose it to a variety of financial instrument risks, including market risk, credit risk and liquidity risk. The Ministry has a series of policies to manage the risks associated with financial instruments and seeks to minimise exposure from financial instruments. These policies do not allow any transactions that are speculative in nature to be entered into.

#### Market risk

##### Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Ministry purchases capital equipment internationally and is exposed to currency risk arising from various currency exposures, primarily with respect to the United States, Canadian and Australian dollars, British pounds and Euro. Currency risk arises from future capital purchases and recognised liabilities, which are denominated in a foreign currency.

The Ministry's Foreign Exchange Management Policy requires the Ministry to manage currency risk arising from future transactions and recognised liabilities by entering into foreign exchange forward contracts to hedge the entire foreign currency risk exposure. The Ministry's policy has been approved by the Treasury and is in accordance with the requirements of the Treasury Guidelines for the Management of Crown and Departmental Foreign Exchange Exposure.

##### Interest rate risk

Interest rate risk is the risk that the fair value of a financial instrument will fluctuate, or the cash flows from a financial instrument will fluctuate, due to changes in market interest rates.

The Ministry has no exposure to interest rate risk because it has no interest-bearing financial instruments.

### Credit risk

Credit risk is the risk that a third party will default on its obligation to the Ministry, causing the Ministry to incur a loss. In the normal course of its business, credit risk arises from debtors, deposits with banks and derivative financial instrument assets.

The Ministry is only permitted to deposit funds and enter into foreign exchange forward contracts with approved counterparties. These entities have high credit ratings. For its other financial instruments, the Ministry does not have significant concentrations of credit risk.

The Ministry's maximum credit exposure for each class of financial instrument is represented by the total carrying amount of cash and cash equivalents, net debtors (note 2), and derivative financial instrument assets. There is no collateral held as security against these financial instruments, including those instruments that are overdue or impaired.

### Liquidity risk

Liquidity risk is the risk that the Ministry will encounter difficulty raising liquid funds to meet commitments as they fall due.

In meeting its liquidity requirements, the Ministry closely monitors its forecast cash requirements with expected cash draw downs from the New Zealand Debt Management Office. The Ministry maintains a target level of available cash to meet liquidity requirements.

The table below analyses the Ministry's financial assets and liabilities into relevant maturity groupings based on the remaining period at balance date to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows.

<b>At 30 June 2013</b>	Less than 6 months \$000	6-12 months \$000	1-5 years \$000	Over 5 years \$000	Total \$000
<b>Assets</b>					
<b>Current assets</b>					
Cash and cash equivalents	180,143	-	-	-	180,143
Debtors and other receivables	91,839	-	-	-	91,839
Derivative financial instruments	4,259	11,805			16,064
<i>Total current assets</i>	276,241	11,805	-	-	288,046
<b>Non-current assets</b>					
Derivative financial instruments	-	-	3,081	-	3,081
<i>Total non-current assets</i>	-	-	3,081	-	3,081
<b>Total assets</b>	<b>276,241</b>	<b>11,805</b>	<b>3,081</b>	<b>-</b>	<b>291,127</b>
<b>Liabilities</b>					
<b>Current liabilities</b>					
Creditors and other payables	34,776	-	-	-	34,776
Derivative financial instruments	35	179	-	-	214
<i>Total current liabilities</i>	34,811	179	-	-	34,990
<b>Non-current liabilities</b>					
Derivative financial instruments	-	-	131	-	131
<i>Total non-current liabilities</i>	-	-	131	-	131
<b>Total liabilities</b>	<b>34,811</b>	<b>179</b>	<b>131</b>	<b>-</b>	<b>35,121</b>
<b>Net liquidity of continuing operations</b>	<b>241,430</b>	<b>11,626</b>	<b>2,950</b>	<b>-</b>	<b>256,006</b>

<b>At 30 June 2012</b>	Less than 6 months \$000	6-12 months \$000	1-5 years \$000	Over 5 years \$000	Total \$000
<b>Assets</b>					
<b>Current assets</b>					
Cash and cash equivalents	308,909	-	-	-	308,909
Debtors and other receivables	58	-	-	-	58
Derivative financial instruments	-	11	3	-	14
<i>Total current assets</i>	308,867	11	3	-	308,881
<b>Total assets</b>	<b>308,867</b>	<b>11</b>	<b>3</b>	<b>-</b>	<b>308,881</b>
<b>Liabilities</b>					
<b>Current liabilities</b>					
Creditors and other payables	1,987	-	-	-	1,987
<i>Total current liabilities</i>	1,987	-	-	-	1,987
<b>Total liabilities</b>	<b>1,987</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,987</b>
<b>Net liquidity of continuing operations</b>	<b>306,880</b>	<b>11</b>	<b>3</b>	<b>-</b>	<b>306,894</b>

#### **Contractual maturity analysis of derivative financial instrument liabilities**

The table below analyses the Ministry's forward exchange contract derivatives into relevant maturity groupings based on the remaining period at balance date to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows.

	Liability carrying amount \$000	Asset carrying amount \$000	Contractual cash flows NZ\$ \$000	Less than 6 months NZ\$ \$000	6-12 months NZ\$ \$000	1-2 years NZ\$ \$000	2-5 years NZ\$ \$000
<b>2012</b>							
Gross settled forward foreign exchange contracts	-	14					
- outflow			1,016	-	735	281	-
- inflow			1,015	-	738	277	-
<b>2013</b>							
Gross settled forward foreign exchange contracts	345	19,145					
- outflow			255,029	46,705	152,088	27,692	28,544
- inflow			269,451	50,918	160,923	28,896	28,714

### Sensitivity analysis

The table below shows the net effect on the reported gains and losses from movements in exchange rates and derivative values if the New Zealand dollar had been either 5% stronger or weaker at balance date.

	2012			2013		
	Cash and cash equivalents	Derivatives	Net gain/(loss)	Cash and cash equivalents	Derivatives	Net gain/(loss)
	\$000	\$000	\$000	\$000	\$000	\$000
<b>Effect on surplus if NZ dollar strengthened by 5%</b>						
AUD	(237)	-	(237)	(188)	(619)	(807)
CAD	(263)	(48)	(311)	(236)	(13)	(249)
EUR	(6,334)	-	(6,334)	(3,713)	(4,272)	(7,985)
GBP	(45)	-	(45)	(5)	(468)	(473)
NOK	-	-	-	-	(1,083)	(1,083)
USD	(1,787)	-	(1,787)	(2,268)	(6,284)	(8,552)
<b>Total</b>	<b>(8,666)</b>	<b>(48)</b>	<b>(8,714)</b>	<b>(6,410)</b>	<b>(12,739)</b>	<b>(19,149)</b>
<b>Effect on surplus if NZ dollar weakened by 5%</b>						
AUD	263	-	263	208	684	892
CAD	290	53	343	261	14	275
EUR	7,001	-	7,001	4,104	4,721	8,825
GBP	49	-	49	6	517	523
NOK	-	-	-	-	1,197	1,197
USD	1,975	-	1,975	2,507	6,946	9,453
<b>Total</b>	<b>9,578</b>	<b>53</b>	<b>9,631</b>	<b>7,086</b>	<b>14,079</b>	<b>21,165</b>



## Part 6: Other information



## **Equal employment opportunities**

The Ministry has equal employment opportunity policy and procedures in place to ensure fairness and equity of opportunity for Ministry employees. The Ministry monitors its equal employment indicators to ensure employees are treated equitably. Equity metrics are also reported to the State Services Commission each year.

## **Management performance**

### **Good employer practices and staff development**

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

### **Public service integrity**

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

### **Quality**

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

## **New Zealand Government Procurement Reform Programme**

The Ministry has indicated its commitment to the Programme.

## **Financial performance highlights**

	2012/13 Supp estimates \$000	2012/13 Main estimates \$000	2012/13 Actual \$000
<b>Departmental activities</b>			
Revenue: Crown	11,366	11,866	11,366
Revenue: other	2,372	-	2,154
Output expenses	13,738	11,866	13,287
Net operating surplus/(deficit)	-	-	233
Additions to physical assets & intangibles	100	300	45
Disposals of physical assets & intangibles	-	-	-
Equity	3,416	3,416	3,416
Net cash flows from operating activities	96	412	664
<b>Non-departmental activities</b>			
Capital expenditure - defence equipment	149,914	160,230	132,789
Total Crown capital receipts	96,613	172,306	176,315

## Summary of appropriations (GST exclusive)

	Departmental			Non-departmental
	Policy advice and related outputs MCOA \$000	Audit and assessment of performance \$000	Management of equipment procurement \$000	Capital expenditure: defence equipment \$000
Main estimates appropriation	5,970	1,927	3,969	160,230
Supplementary estimates change	(341)	143	2,070	(10,316)
Change by order in council under section 26A of the <i>Public Finance Act 1989</i>	-	-	-	-
Total amount appropriated for 2012/13	5,629	2,070	6,039	149,914
Estimated actual outturn for 2012/13 as reported in 2013/14 estimates	5,629	2,070	6,039	149,914
Audited actual outturn for 2012/13	5,434	2,066	5,787	132,789
Unappropriated expenditure, expenses or liabilities approved under section 26B of the <i>Public Finance Act 1989</i>	-	-	-	-
Unappropriated expenditure, expenses or liabilities requiring validating legislation	-	-	-	-

## Historical financial performance of significant items

### (a) Payments on behalf of the Crown - Defence equipment

	2012/13 \$000	2011/12 \$000	2010/11 \$000	2009/10 \$000	2008/09 \$000	2007/08 \$000
Voted in Estimates	149,914	154,897	228,753	369,004	190,275	290,275
Actual Expenditure	132,789	102,359	144,506	160,094	181,120	279,757
Variance	17,125	69,200	84,247	208,910	9,155	10,518

### (b) Capital receipts - Sales of equipment to NZDF (GST excl)

	2012/13 \$000	2011/12 \$000	2010/11 \$000	2009/10 \$000	2008/09 \$000	2007/08 \$000
Voted in Estimates	96,613	154,331	135,797	174,118	228,583	253,230
Actual Receipts	176,315	154,331	135,797	174,118	228,583	253,230
Variance	79,702*	-	-	-	-	-

\* Variance arose from invoicing NZDF for capital expenditure incurred over the period January to June 2013 in the 2012/13 financial year, when the estimates assumed this would occur the following financial year. Refer to note 4 of the non-departmental statements and schedules for further information.



MINISTRY OF  
**DEFENCE**

Manatū Kaupapa Waonga