



New Zealand  
**MINISTRY  
OF DEFENCE**  
Manatū Kaupapa Waonga

G.4

# ANNUAL REPORT

## Te Pūrongo-ā-tau 2020



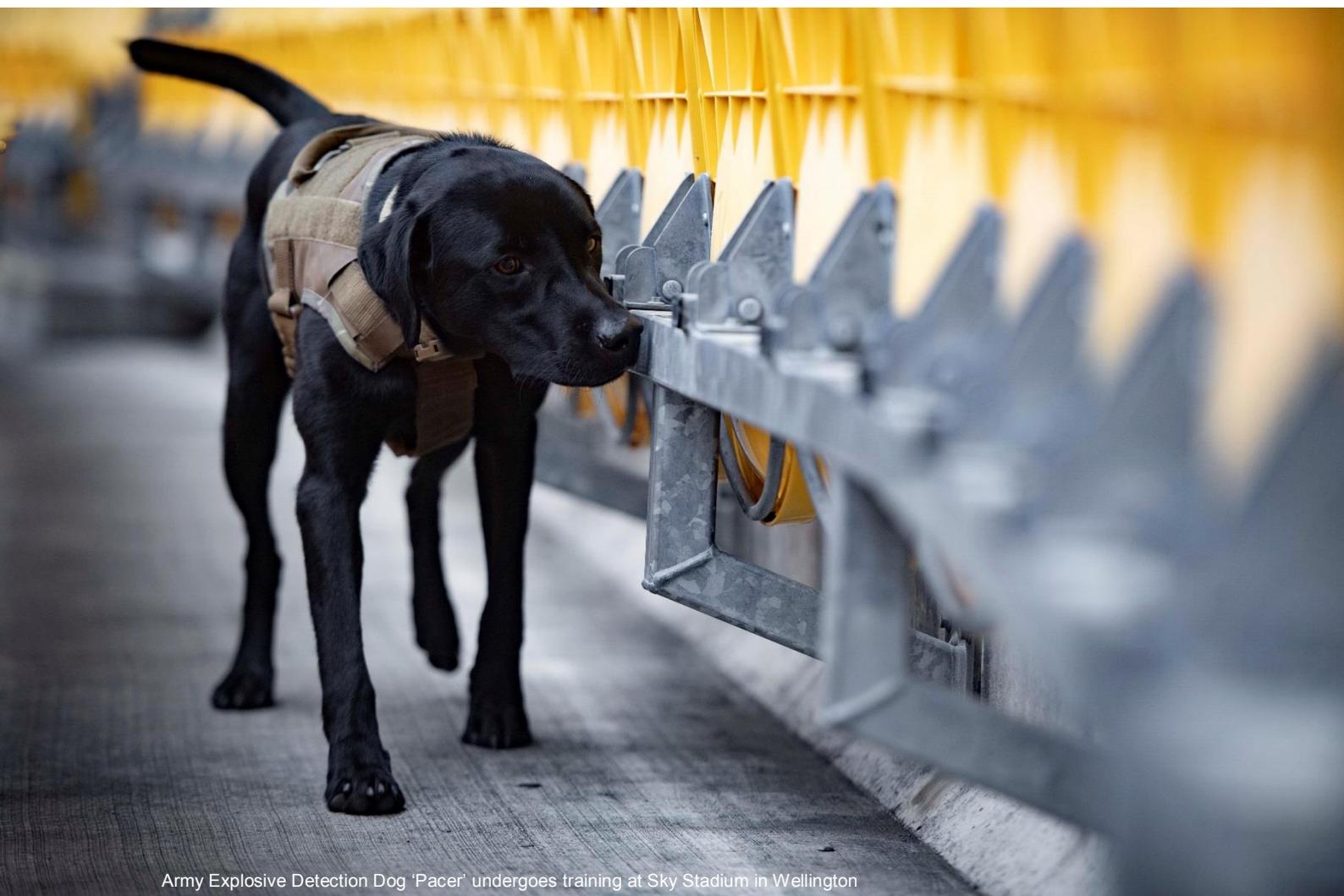
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Army Explosive Detection Dog 'Pacer' undergoes training at Sky Stadium in Wellington

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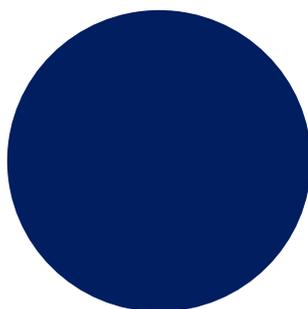
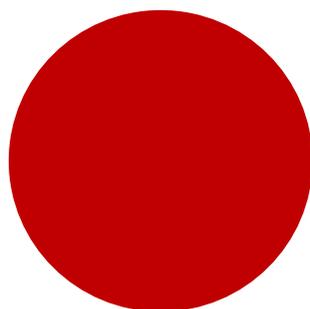


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Cover page: HMNZS *Manawanui* at sea in August 2020 for Exercise Rim of the Pacific (RIMPAC)

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# OVERVIEW

## Te Tirohanga Whānui



## OVERVIEW BY THE SECRETARY OF DEFENCE

### TE TIROHANGA WHĀNUI KI TĀ TE TUMU WHAKARAE MŌ TE WAONGA

The Ministry of Defence is the Government's lead civilian advisor on defence policy, the defence strategic environment and defence capability acquisitions. Its role is set out in the Defence Act 1990 and its functions are executed in accordance with that legislation.

This annual report sets out how the Ministry has delivered on its responsibilities in the 2019/20 year.

The Ministry advises the Government on the strategic defence environment through defence assessments. The Ministry analyses the international and domestic environment that we operate in, and signals to Government not only what this means in terms of protecting New Zealand's interests, but also the role of Defence in addressing challenges, threats and indeed taking advantage of opportunities that arise.

Building on the *Strategic Defence Policy Statement 2018*, in 2019 we released the *Advancing Pacific Partnerships* report. This sets out how Defence will invest in Pacific regional security architecture, delivering on the Government's broader Pacific Reset policy. The report highlighted that New Zealand's approach to the Pacific centres on our longstanding emphasis on partnership, responsiveness, and people to people ties. This is in line with our values and is the most effective platform for working together with Pacific countries to realise our shared security interests.

The follow-up report on Climate Change, *Responding to the Climate Crisis: An Implementation Plan* released in December 2019, puts actions against the recommendations from the 2018 *Climate Crisis* defence assessment. It highlights Defence's current efforts and commitments relating to climate change and look to raise our ambition over time. It also identifies next steps Defence will take to ensure we are even more prepared for the challenges climate change will bring over the next decade.

Because of significant developments to the strategic environment since the *Strategic Defence Policy Statement*, I commenced a formal defence assessment that will be presented to the Minister in early 2021.

In the area of capability, the Ministry has delivered significant new capabilities for the Defence Force during the year.

This includes the Navy's largest ever ship, HMNZS *Aotearoa*. Arriving in June, the new tanker will provide New Zealanders with a ship with greater endurance during operations that span from Antarctica to the Equator and beyond. The vessel will also enhance our national resilience, as well as our ability to support our friends and neighbours. The delivery of this vessel to New Zealand during the COVID-19 pandemic was a testament to the dedication of Defence staff, the prime contractor, Hyundai Heavy Industries, and a number of other government agencies.

Further progress has also been made with the horizontal works at Base Ōhakea supporting the arrival of the new P-8A Poseidon maritime patrol aircraft in 2023. Significant milestones have also been achieved for the Aircrew Training Capability project, Dive and Hydrographic vessel, Counter-Explosive Hazards, and Network Enabled Army projects.

Detailed advice was prepared to support Cabinet take decisions on a number of capabilities for the Defence Force.

The most significant of these was the purchase of five C-130J-30 Super Hercules aircraft, a full flight simulator and other supporting infrastructure. These new aircraft will ensure the Defence Force can continue to support New Zealand's community resilience, our national security, our contribution to our Pacific neighbours and the wider global community.

Forty-three new Bushmaster vehicles will provide better protection for personnel and improved carrying capacity. As the Army operates in a range of diverse and challenging environments the new vehicles will ensure that the Defence Force is able to support communities after a natural disaster, and contribute to supporting vital peacekeeping operations with other global partners.

We marked a key milestone with the completion of the five year Defence Capability Change Action Programme. The Ministry and the Defence Force partnered to develop and embed a new end to end

Capability Management System which provides assurance to government that Defence has the expertise to successfully manage a multi-billion dollar portfolio.

This year we provided Government with advice on all our major overseas deployments in the Middle East and Africa. In April, the last of the Defence Force personnel deployed to the Building Partner Capacity mission at Taji, Iraq, returned to New Zealand following the successful conclusion of the mission. The conclusion of the mission reflects New Zealand's broader contribution since 2015 to the Defeat-ISIS Coalition.

To promote the visibility and implementation of the global Women, Peace and Security agenda in the Pacific region, the Ministry, co-hosted with the Samoan Ministry of Foreign Affairs and Trade, the inaugural Women, Peace and Security Summit in Apia in August 2019. This event was attended by 150 participants from 24 countries, including 16 Pacific Island countries, as well as representatives from the United Nations, the Pacific Islands Forum Secretariat and the Pacific Community.

The COVID-19 pandemic has meant that we and our defence partners have adapted our international

defence relationships and engagements. We now rely on video-conferencing, rather than face to face meetings to ensure we maintain both bilateral and multilateral engagement.

The pandemic has also impacted on Ministry staff who showed great resilience and commitment, delivering across our work programme, even when working from home during lockdown. Ministry staff were also seconded to other government agencies in support of the Government's response to COVID-19.

I would like to acknowledge and thank the staff of the Ministry for their contribution to what has been a challenging and exceptional year.



Andrew Bridgman  
**Secretary of Defence**  
**Te Tumu Whakarae mō te Waonga**



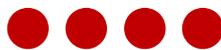
The Secretary of Defence visiting the Middle East in October 2019





# THE MINISTRY'S PERFORMANCE AND OPERATIONS

Ko ngā mahi a te Manatū



## ABOUT THE MINISTRY OF DEFENCE

*Ko mātou ngā kaitohutohu matua ki te kāwanatanga mo ngā kaupapa waonga.  
Nā mātou hoki, ngā taputapu nunui i hoko, hei āheitanga i roto i ngā ringa o ngā tāne  
me ngā wahine o Te Ope Kātua o Aotearoa.*

The Ministry of Defence is the Government's lead civilian advisor on defence. Our purpose is to give civilian advice on defence matters to enhance the security and interests of New Zealand and its people. We also purchase major equipment which becomes a capability when it is used by service men and women of the Defence Force.

To carry out our role, the Ministry:

- provides analysis and advice on New Zealand's national security and defence interests and challenges, across both the short and long terms
- advises the Government on how our Defence Force can meet current challenges (such as potential deployments) and possible future challenges
- purchases major defence equipment for use by the Defence Force as a defence capability<sup>1</sup>
- builds and maintains strong defence relationships internationally
- advises on Defence's performance and effectiveness as a system.

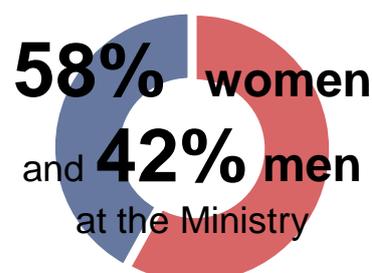
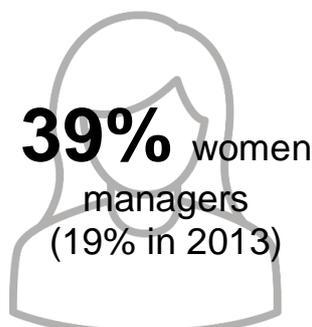
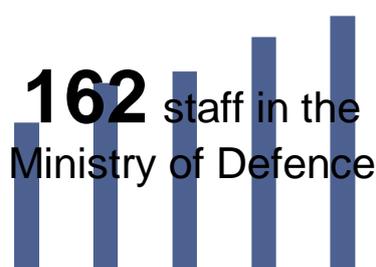
The Ministry works closely with the New Zealand Defence Force and other agencies to carry out these activities. It also builds and maintains strong defence connections through defence diplomacy with other governments throughout the world, including our ally Australia, so that New Zealand can contribute to the security of the Pacific region, and play our part in addressing defence and security challenges internationally.

Under the Defence Act 1990, the Secretary of Defence is the lead civilian advisor on defence matters and the Chief of Defence Force is the lead military advisor and senior military officer. Together, the Defence agencies deliver on the Minister of Defence's priorities for the defence portfolio.

The separation between the two agencies is part of New Zealand's constitutional arrangements.

The Ministry and Defence Force – collectively 'Defence' – work very closely together; drawing on their strong, separate civilian and military perspectives.

Defence delivers a range of activities that promote the overall wellbeing and resilience of New Zealand, our communities and the world. The Ministry's work can have immediate impact, such as our advice to deploy Defence Force personnel, or long-term implications by determining and delivering the military capabilities the Defence Force will operate to deliver on the Government's expectations well into the future. The Ministry also has a role in shaping how New Zealand understands and approaches defence and security matters. Over the last year we have embedded issues such as climate change and Women, Peace and Security as important aspects of New Zealand defence and security policy.



<sup>1</sup> In the Defence context, 'capability' refers to the personnel, equipment, platforms, and/or other resources that affect the capacity to undertake military operations.

The Ministry delivers its work through three departmental appropriations, and operates a Crown capital appropriation on behalf of the Minister of Defence for its work procuring major military capabilities.

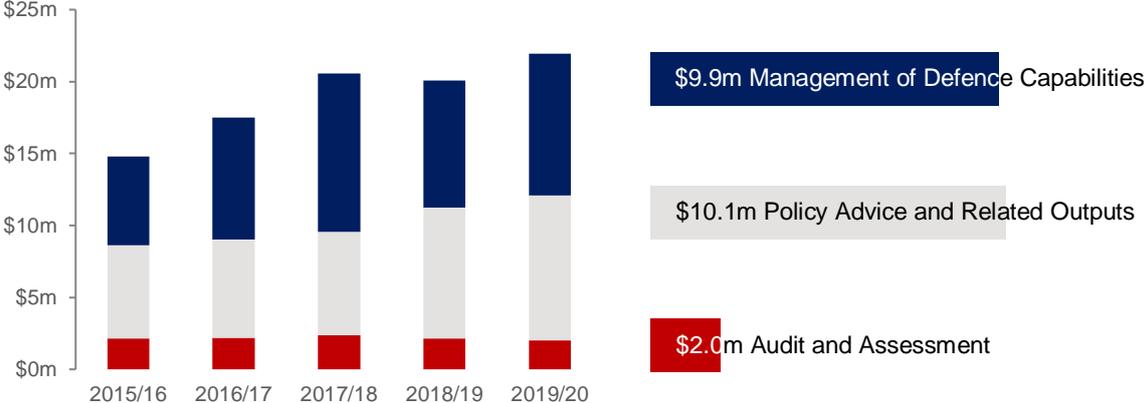


Figure 1: The Ministry's expenditure across its three departmental appropriations

## THE SECURITY ENVIRONMENT

Defence is a key part of the broader New Zealand security system, and works alongside other government agencies to protect and advance New Zealand's security interests.

Defence provides value to the Community, Nation and World:

|  |  |  |
|--|--|--|
| <p><b>Community:</b> Defence supports New Zealand's community and environmental wellbeing and resilience</p> | <p><b>Nation:</b> Defence promotes a safe and resilient New Zealand, including on its borders and approaches</p> | <p><b>Nation:</b> Defence contributes to maintaining New Zealand's prosperity via secure air, sea and electronic lines of communication, and secure access to space-based services</p> |
| <p><b>World:</b> Defence contributes to New Zealand's network of strong international relationships</p>      | <p><b>World:</b> Defence contributes to the maintenance of the international rules-based order</p>               |  |

The Ministry contributes to the achievement of these outcomes by:

- providing the Government with policy advice concerning defence and security issues, including the security environment, the military capabilities of the Defence Force, the deployment of military forces and the conduct of international defence relations
- delivering major platforms and items of military equipment for use by the Defence Force when undertaking defence and security tasks
- undertaking audits and assessments to examine and help improve Defence efficiency and effectiveness.

## NEW ZEALAND'S STRATEGIC ENVIRONMENT

New Zealand continues to navigate an increasingly complex and dynamic international security environment. The rapid onset and global spread of the COVID-19 pandemic has resulted in further strain on the international rules-based order, which is the foundation of our security.

The pandemic is intensifying existing geopolitical trends and exacerbating a range of security challenges. Although the full impact and implications for global security will only become clear over time, the spread of COVID-19 has accentuated geopolitical shifts, tested the robustness of democratic governance, and increased social inequalities. The World Bank is forecasting the worst global recession since World War II and global unemployment is expected to rise to its highest level since 1965.

The pandemic has reinforced the assessment in the *Strategic Defence Policy Statement 2018* that New Zealand's security outlook may be shaped most powerfully by a combination of forces increasing pressure on the international rules-based order.

The three key forces, and their dynamic intersections, pressuring the order are:

- states pursuing greater influence in ways that challenge international norms and at times the sovereignty of small states;
- challenges to open societies that threaten those states' willingness to champion the rules-based order, and

- complex disruptors – including an array of impacts from climate change, technologies changing the nature of conflict, extremist ideologies, national and regional tensions, and transnational organised crime – that disproportionately affect open societies and small or weak states, and are forces for disorder.

Pacific Island countries, in particular, are confronting the effects of the combination of complex disruptors, and are at the front line of the intensifying impacts of climate change. Working in partnership with our Pacific neighbours to enhance security and resilience will remain of paramount importance. The region is likely to require more humanitarian assistance and disaster relief, stability operations, and search and rescue missions in the next decade.

Further afield, supporting stability in the Indo-Pacific, from countering violent extremism in Southeast Asia to the de-nuclearisation of the Democratic People's Republic of Korea remains important to upholding regional security.

As challenges to the international rules-based order intensify it will remain in New Zealand's vital interest to act in support of this order. While we will conduct some missions on our own, most New Zealand Defence Force deployments will be undertaken alongside other government agencies and our international partners.

New Zealand has a strong international reputation as a valued, credible defence partner. Our international partnerships, and the defence capability we bring to those partnerships, are vital to enabling the realisation of our interests, the promotion of our values and the safeguarding of our sovereignty in a complex and changing world.

# DELIVERING ON THE MINISTRY'S STRATEGIC INTENTIONS

The Ministry's *Statement of Intent 1 July 2019 – 30 June 2023* sets out five strategic priorities for the Ministry. The following sections describe progress made against each priority over the year to 30 June 2020, including the associated critical success factors.



An NZDF NH-90 and an Australian Defence Force MRH-90 (behind) fly over the outlying islands of Solomon Islands as part of the logistical support offered leading up to the National Government Elections

1.  
Defence anticipates the dynamic security environment and contributes to a stronger national security sector

2.  
Our defence engagement and support for deployments enhances New Zealand's security and national interests

3.  
Defence advice balances policy, capability and funding

4.  
Defence successfully delivers and sustains systemic improvement

5.  
Defence is open, transparent, accessible and trusted

# 1

## DEFENCE ANTICIPATES THE DYNAMIC SECURITY ENVIRONMENT AND CONTRIBUTES TO A STRONGER NATIONAL SECURITY SECTOR

In 2019-2023, the Ministry seeks to deliver the following:

- the Government's defence policy is articulated and effectively implemented
- high quality assessments of the strategic environment and policy advice across Defence's contributions to the community, nation and world
- assessments that inform and influence the work of the broader national security sector
- collaboration with the sector on national security policies
- a formal comprehensive assessment of defence policy.

### High quality assessments contribute to the community, nation and world

The Ministry has continued to focus on implementing policy as set out in the Government's *Strategic Defence Policy Statement 2018* and advancing its Assessment Programme. In October 2019, the Ministry released an assessment titled *Advancing Pacific Partnerships* that outlines a series of ways in which Defence will contribute to the implementation of the Government's Pacific Reset.

In December 2019, the Ministry published *Responding to the Climate Crisis*, a plan that outlines actions to implement the recommendations of *The Climate Crisis* assessment released in 2018.

### Assessments that inform and influence

The Ministry has commenced a substantive assessment into gender and security. This proposes how Defence will contribute to the Government's programme on implementing the United Nations' resolutions on Women, Peace and Security. The Ministry also conducted assessments detailing how Defence supports fire and emergency responses, and the impact of biological hazards and threats.

Since the publication of the *Strategic Defence Policy Statement 2018*, there have been significant developments that impact New Zealand's strategic outlook. In particular, COVID-19 and the impacts of climate change in intensifying geostrategic competition continue to influence New Zealand's policy context and the broader international strategic environment. This places greater pressure on Defence to balance resourcing, policy and capabilities to ensure the Defence Force is sized and equipped to deliver on the Government's defence priorities.

As a result, the Secretary of Defence directed the Ministry to commence work on a defence assessment. This assessment will provide a comprehensive review of New Zealand's strategic environment and the implications for defence policy settings and Defence Force roles and tasks to provide a basis for future analysis and decisions on force structure.

The Ministry has continued to collaborate actively with sector agencies on national security policies on matters such as counter terrorism, Southern Ocean fisheries, space, cyber, climate change, irregular migration, biosecurity and emergency response.

**4.6 / 5**

**Assessing Defence Policy Advice:** The Ministry surveys the Minister of Defence on the quality of the Ministry's policy advice, using a questionnaire set by the Department of the Prime Minister and Cabinet. This surveys advice on the security environment, as well as for international deployments (priority 2) and Defence major capability projects (priority 3).

The Minister rated the Ministry's policy advice 4.6 out of 5 for the 2019/20 year.

## Case Study: Advancing Pacific Partnerships

*Released by the Minister of Defence in October 2019, the Advancing Pacific Partnerships Defence Assessment is the result of nearly a year of listening, learning, observation and analysis. The assessment reflects Pacific insights, gained from Defence's regional engagement, including through our cooperation with partners at the regional level in forums such as the South Pacific Defence Ministers' meeting.*

The product is an assessment of our approach in the Pacific – how we engage – based on our values and identity, to address shared regional security challenges. In addition to aligning and implementing Defence engagement with the Government's broader Pacific Reset, the assessment also reflects and aligns with the Boe Declaration, including its broader concept of security.



The *Advancing Pacific Partnerships* assessment articulates both our and Pacific countries' mutual aspiration for the region – a secure, stable and resilient Pacific regional community, in which:

- Pacific states are resilient in the face of complex disruptors – from climate change to cyber threats, corruption to external interference
- strong and effective regional architectures capably address security issues of concern and prevent coercion
- partners are constructively engaged and coordinated, and the activities are more transparent and in line with Pacific interests

- Pacific sovereignty and unhindered access to safe, open waterways and marine resources are preserved, in line with the international rules-based order
- New Zealand Defence is a reliable and valued defence and security partner.

The assessment supports Defence in:

**Enhancing our approach to partnerships.** We seek to build valued, sustainable partnerships across Pacific communities and Pacific nations, and support Pacific collective empowerment and its contributions to the world. Through reflection on past engagements and shared cultural traditions, Defence has distilled a series of actions important to building reliable, valued partnerships, and has concluded that they only form a whole when they are woven together. Defence will operationalise these elements through Ministry engagements, Strategic Military Engagement Plans, and Defence partnering programmes.

**Enhancing our approach to regional architecture.** Regional architecture is a key part of the rules-based order. Transnational security challenges, including resource protection, climate change, and transnational crime all require regional approaches. Where it operates effectively, it can preserve regional autonomy for countries to collectively chart their futures. The assessment articulates the complexity of current security arrangements. This is an important consideration as the pace of engagement in the region increases. We want to encourage all partners to take into account capacities to absorb engagement.

**Setting priorities for Defence** – our policies, structures, and activities to be able to deliver on this approach.

Each section of the assessment offers a tool and recommendations, and has been viewed as a model that other government agencies can draw on to articulate their approach to the region in line with the Government's Pacific Reset policy. The assessment has been positively received by Pacific counterparts and New Zealand agencies.

## 2

### OUR DEFENCE ENGAGEMENT AND SUPPORT FOR DEPLOYMENTS ENHANCES NEW ZEALAND'S SECURITY AND OTHER INTERESTS

In 2019-2023, the Ministry seeks to deliver the following:

- international defence engagement activities that support broader defence, security and foreign policy objectives, and maximise the value to New Zealand
- advice to Government on the deployment of New Zealand's defence personnel and assets that supports broader defence, security and foreign policy objectives, and maximises the value to New Zealand.

#### Implementing the International Defence Engagement Strategy

Defence's approach to international defence engagement is guided by the *International Defence Engagement Strategy*. The Strategy prioritises New Zealand's international defence relationships and determines the key initiatives to maintain and develop our defence engagement.

The conduct of physical international defence engagement has been significantly impacted by the COVID-19 pandemic, and has forced New Zealand and our defence partners to adapt. Virtual engagements have been widely adopted to ensure continued engagement – both for bilateral and multilateral engagements. Defence engagement initiatives have been reviewed to ensure they are flexible, resilient and sustainable, and meet the evolving nature of each country's pandemic situation and response.

95%

**Assessing Defence Policy Support:** The Ministry surveys the Minister of Defence on the quality of the Ministry's policy support. A key part of this is briefings to the Minister to support his international engagements.

The Minister rated the Ministry's policy support 95% for the 2019/20 year.

#### International engagement supports objectives, and maximises value to New Zealand

The Ministry supported travel and virtual engagement by the Minister of Defence during the year including:

- bilateral visits to the United States, Canada, Singapore and China
- attendance at the 20<sup>th</sup> Anniversary of the International Force East Timor (INTERFET) in Timor Leste
- multilateral meetings in Singapore for the Shangri-La Dialogue and in Thailand for the ASEAN Defence Ministers' Meeting-Plus and

- virtual engagements with a range of ministerial counterparts as well as virtual Five Eyes and South Pacific Defence Ministers' meetings.

Prior to the COVID-19 pandemic, the Ministry also supported the Minister to host a visit to New Zealand by his counterpart from the US, Secretary of Defense Esper, as well as supporting the Minister's engagement with visits of the NATO Secretary-General Stoltenberg and the United Nations Under-Secretary General Lowcock.

The Ministry worked closely with the Defence Force to host and attend bilateral defence talks – a key method for strengthening defence relationships with our partners, sharing New Zealand's perspectives on security issues and our defence priorities, and advancing bilateral defence initiatives outlined in the *International Defence Engagement Strategy*.

The Ministry continues to be an active supporter of regional security architecture, including the South Pacific Defence Ministers' Meeting, the Five Power Defence Arrangements and the ASEAN Defence Ministers' Meeting-Plus. This architecture plays a critical role in fostering stability, peace and security in the region by promoting understanding,

entrenching habits of dialogue and facilitating practical cooperation.

These engagements are a critical way to advance New Zealand's defence interests internationally and enhance our international defence relationships.



Video conferencing for the 2020 ASEAN Regional Forum Security Policy Conference

## Case Study: International Engagement – Women, Peace and Security Summit

*The New Zealand Ministry of Defence and Samoa's Ministry of Foreign Affairs and Trade co-hosted the inaugural Women, Peace and Security Summit in Apia, Samoa, from 22-23 August 2019.*

The Summit was convened to support the promotion and implementation of UNSC Resolution 1325 and complementary resolutions, as well as action under the Boe Declaration on Regional Security, endorsed by Pacific Islands Forum Leaders in 2018.

The Summit opened with key note addresses from co-hosts, Samoan Prime Minister Hon Tuilaepa Sailele Malielegaoi and Hon Carmel Sepuloni, New Zealand Minister for Social Development and Disability Issues and Associate Minister for Pacific Peoples and Arts, Culture and Heritage, on behalf of the Minister of Defence. Approximately 150 participants attended, representing 24 countries, including 16 Pacific Island countries.

The United Nations, the Pacific Islands Forum Secretariat and the Pacific Community were also represented. The participants were a diverse group of political and community leaders, civilians, police and military personnel, civil society organisations and youth representatives.

Discussions canvassed the four pillars of the Women, Peace and Security agenda: (1) prevention, (2) protection, (3) participation and (4) relief and recovery within traditional and non-traditional security contexts in the region.

A key outcome of the Summit was a commitment from the Pacific Islands Forum Secretary General

Dame Meg Taylor to refresh the *Regional Action Plan on Women, Peace and Security*, which expired in 2015. This work is now underway and will inform the development of Pacific Island countries' National Action Plans.

There was also a wealth of information on successful initiatives; lessons learnt; continuing challenges and recommendations for addressing these.

The Summit identified eight focus areas that will guide future action in the region. In September 2019, New Zealand and Samoa released a report from the Summit that includes broad recommendations to promote the Women, Peace and Security agenda and the rights of women and girls, particularly in post-conflict situations. The Summit Report can be found on the Ministry website.

New Zealand Defence also launched the Pacific Defence Gender Network during the event. The Network promotes the meaningful participation of women in Pacific defence forces through annual seminars and increased collaboration; and gender equality in regional Defence Forces while encouraging men to become champions and advocates.



Group photo of the Women, Peace, and Security Summit hosted by Samoa and New Zealand

## Deployment advice supports broader defence, security and foreign policy objectives, and maximises the value to New Zealand

The Ministry provided advice to the Government on a range of deployments of Defence Force personnel and assets, collaborating closely with the Defence

Force and the Ministry of Foreign Affairs and Trade, and in consultation with other government agencies.

This advice outlines the strategic rationale for New Zealand's participation in each deployment, including how it contributes to New Zealand's security, national or international strategic intentions and foreign policy goals. The advice also sets out risks to Defence Force personnel and how these would be managed.



Air Force C-130H Hercules aircraft transports vital emergency supplies to Fiji and Vanuatu following Tropical Cyclone Harold

On the basis of proposals prepared jointly by the Ministry, Defence Force and Ministry of Foreign Affairs and Trade, the Government approved a series of deployments in support of New Zealand's international defence engagement objectives. These included Cabinet decisions to:

- continue New Zealand's contributions to the United Nations Command and its Military Armistice Commission in the Republic of Korea, and to the Combined Task Force 150 in Bahrain (supporting maritime security in the Middle East/East Africa region)
- appoint Major General Evan Williams as Force Commander of the Multinational Force and Observers mission in the Sinai Peninsula, Egypt, out to September 2022
- reaffirm its commitment to the Defeat-ISIS Coalition, through extending the contribution of nine personnel deployed in Iraq, Kuwait and Qatar out to June 2022. This decision was made in the context of the successful completion of New Zealand's Building Partner Capacity mission in Iraq, with all associated Defence Force personnel returned to New Zealand by early April 2020
- continue a range of Defence Force deployments in the Middle East and Africa: Maritime Security in the Middle East, the Multinational Force and Observers, the United Nations Mission in South Sudan, and the United Nations Truce Supervision Organisation.

The advice provided by the Ministry supported Government decision-making on a range of deployments that reflect New Zealand’s ongoing commitment to the international rules-based order and the value of multilateralism, as well as our willingness to play our part in addressing regional and global issues.

The COVID-19 pandemic does have impacts on Defence Force deployments, including challenges

involved in physically deploying personnel overseas, and constraints that the pandemic can create for some of the international missions to which New Zealand contributes. Despite these impacts, the broad approach to Defence Force deployments remains unchanged, and all deployment advice produced by the Ministry includes an element of flexibility that enables the Defence Force to respond and adjust to restrictions and mitigate risk.

**3.4 / 5** **Assessing Defence Policy Advice:** The Ministry commissions an annual assessment of Defence policy advice by the New Zealand Institute of Economic Research. A majority of policy advice items submitted to the Minister of Defence relate to deployment activities.

In 2019/20, the Ministry scored an average of 3.4 for a random selection of its policy advice, against the Department of the Prime Minister and Cabinet’s *Policy Quality Framework*.

A rating of 4.5 was awarded for the submission *Proposal to renew the mandate for New Zealand’s contribution to the United Nations Truce Supervision Organisation*, which was described as a “well-crafted proposal”.

Current deployments



Figure 2: Defence Force deployments as at early July 2020. This map also includes Defence’s Antarctica logistics support and capacity-building Mutual Assistance Programme work in the Pacific and Southeast Asia

## NATO Resolute Support Mission – Afghanistan



New Zealand's deployment in Afghanistan supports the NATO Resolute Support Mission's efforts to train, advise, and assist the Government of Afghanistan's security forces. This advances our security interests by supporting counter-terrorism efforts in Afghanistan and, as a small part of the overall international military presence in Afghanistan, bolsters prospects for meaningful peace negotiations between the Government of Afghanistan and the Taliban. The Defence Force deploys mentors at the Afghanistan National Army Officer Academy, a planner in Resolute Support Mission Headquarters, and since 2019, two gender advisors work with the Government of Afghanistan's Ministries of Interior and Defence to support efforts to implement Women, Peace and Security-related initiatives. This is in accordance with New Zealand's National Action Plan on Women, Peace and Security. Deployed personnel benefit professionally and gain unique and valuable experience from operating in a Coalition environment.

## Defeat ISIS Coalition – Iraq, Kuwait, Qatar



The deployment to the Defeat ISIS Coalition counters a direct threat to New Zealand and New Zealanders, national and globally. Through participation in the Coalition, New Zealand works alongside international partners to advance broader national and international security interests in the campaign against ISIS and terrorism more broadly. New Zealand's participation also contributes to the Defence Force's capabilities and provides valuable experience in a multinational military coalition. The skills learned, people to people links forged and the information received due to our Coalition membership also helped to inform New Zealand's ability to respond to events at our home and in our near region. Personnel are located in Iraq, Kuwait and Qatar.

## Maritime Security – Middle East



New Zealand has a programme of personnel commitments to collective security efforts in the Middle East maritime environment, an area which contains some of the largest chokepoints and busiest sea trade routes in the world. As a maritime trading nation New Zealand has direct security and economic interest in safeguarding these vital shipping lanes from transnational threats including piracy, narcotic, arms and people trafficking – activities that are used to fund terrorist networks and undermine regional stability. New Zealand's continued support demonstrates a commitment to maintaining freedom of commerce and navigation, while providing valuable operational experience to Defence Force personnel in a complex maritime domain.

## Multinational Force and Observers – Egypt



New Zealand was a founding member of the Multinational Force and Observers mission in the Sinai Peninsula, Egypt, in 1982. The deployment bolsters interoperability with our partners, delivers significant insight into regional issues (including the spread of violent extremism) and contributes to our international relationships, particularly those within the Middle East and Africa. The mission offers a wealth of opportunities for junior and non-commissioned officers across all three services to gain operational experience, and provides significant leadership opportunities. New Zealand currently holds the role of Force Commander, until March 2022.

## Operation Gallant Phoenix – Jordan



Strong information sharing networks with international partners help reinforce New Zealand's national security, and the deployment to Operation Gallant Phoenix in Jordan is one of the best examples of this. The deployment enhances New Zealand's ability to understand and respond to current, evolving and future terrorist and violent extremism threats through the sharing of information and intelligence relating to global violent extremism. Participation supports and expedites the growth of several valuable capabilities for New Zealand.

## Support of United Nations Security Council sanctions against North Korea – North Asia



The New Zealand deployments of P-3K2 maritime patrol aircraft support the implementation of Security Council sanctions against North Korea. Pursuing the complete, verifiable and irreversible denuclearisation of North Korea is an important part of New Zealand's approach as a strong proponent of nuclear non-proliferation, and as an active contributor to addressing security challenges in our Indo-Pacific region. The deployments are highly beneficial to the Defence Force, allowing personnel to operate in environments not achievable within exercises, and enhancing interoperability with partners and allies. These deployments are based at Kadena Air Base, Japan.

## United Nations Command and its Military Armistice Commission in the Republic of Korea – Republic of Korea



New Zealand's deployment to the Republic of Korea helps to support the maintenance of peace on the Korean Peninsula, and in doing so, promotes the ongoing stability of our Indo-Pacific region. Defence Force personnel help to administer the Korean Armistice Agreement, and support the planning and coordination in the United Nations Command Headquarters. Deployed personnel play an important and visible role, particularly those operating in the Demilitarised Zone. The contribution also ensures that New Zealand remains well-connected to developments in the security situation on the Korean Peninsula.

## United Nations Mission in South Sudan – Republic of South Sudan



New Zealand's commitment to the United Nations Mission in South Sudan advances our national security interests, and reinforces international partnerships and foreign policy objectives. It contributes to the promotion of peace and stability, and the protection of civilians, in one of the world's most challenging environments. Participation also provides operational benefits to the Defence Force, such as planning, delivery and monitoring of activities focused on humanitarian assistance and nation rebuilding. New Zealand's contribution is a modest demonstration of our willingness to play our part in support of international peacekeeping.

## United Nations Truce Supervision Organisation – Golan Heights, Lebanon



For nearly 70 years New Zealand has provided support to the United Nations Truce Supervision Organisation, which spans some of the world's most contentious borders, civil wars and embedded conflicts, and upholds the fragile truce between Israel and its neighbours. This deployment is New Zealand's longest-standing, and our largest consistent contribution to United Nations' collective security efforts.

## Case Study: Deployment Advice

*In September 2019, the Ministry – in close collaboration with the Defence Force and the Ministry of Foreign Affairs and in consultation with other Government agencies – provided advice to the Government on deployments in support of United Nations Security Council sanctions against the Democratic People’s Republic of Korea (DPRK).<sup>2</sup>*

In September 2019, Cabinet took the decision to deploy a P-3K2 Orion maritime patrol aircraft to support the implementation of United Nations Security Council sanctions against the DPRK in October-November 2019. The P-3K2 detachment was based at Kadena Air Base, Japan, and undertook maritime surveillance above international waters in North Asia, in response to the DPRK’s programme of Security Council sanctions evasion. The deployment was part of a coordinated approach to implementing Security Council sanctions against the DPRK in the maritime domain that also involves the United States, Japan, the Republic of Korea, Australia, Canada, the United Kingdom and France.

The advice provided by the Ministry acknowledged that the DPRK continued to be the most pressing security issue facing the Indo-Pacific region. Its nuclear weapons and ballistic missiles (some of which are assessed as capable of reaching New Zealand) impact key New Zealand political, security and economic interests, and present a

proliferation risk for nuclear weaponry and technology.

The Ministry’s advice considered the importance of supporting international efforts to peacefully work towards the denuclearisation of the DPRK within multilateral frameworks. The deployment was also noted as advancing New Zealand’s commitment to the effective implementation of, and adherence to, Security Council resolutions – a central part of the international rules-based order. The sanctions resolutions, passed unanimously by Security Council permanent members between 2006 and 2017, are intended to persuade the DPRK to denuclearise and abandon its ballistic missiles and other weapons programmes.

The Ministry’s advice on Defence Force deployments in support of Security Council sanctions against the DPRK resulted in operational activities that support peace and security within our Indo-Pacific region, and contribute to the advancement of New Zealand’s defence and security interests.



A P-3K2 deployed to support UNSC sanctions

<sup>2</sup> A copy of the Cabinet paper on this deployment is available from the Ministry’s website at [www.defence.govt.nz/publications](http://www.defence.govt.nz/publications).

# 3

## DEFENCE ADVICE BALANCES POLICY, CAPABILITY AND FUNDING

In 2019-2023, the Ministry seeks to deliver the following:

- advice to Government on capability investment options in accordance with the agreed Defence Capability Plan
- major capability projects
- enhanced portfolio, programme and project management.

### Joint management of Defence capability

The Ministry and Defence Force jointly operate a contemporary and fully integrated end-to-end Capability Management System that enables the cost-effective design, delivery, maintenance and eventual disposal of military capability. The system has the following lifecycle phases:



**Capability Definition**

**Advice on capability investment options**

The Ministry and Defence Force work together to define the future Defence capabilities that are required, and then prepare business cases to enable Government to make an investment decision.

Using the Government's Better Business Case model, projects progress through the stages of the

investment process, supported by business cases at each stage:

1. initial thinking in the indicative business case
2. a decision to go to market through the detailed business case or single stage business case, and then
3. the final decision on the capability through the project implementation business case.

Over the reporting period the Ministry prepared business cases on the following projects, which led to investment decisions by Cabinet:<sup>3</sup>

- Network Enabled Army Programme Tranche Two single stage business case (July 2019)

<sup>3</sup> Copies of the Cabinet papers supporting final decisions on a project – through a project implementation business case or single stage business case – are available from the Ministry's website at [www.defence.govt.nz/publications](http://www.defence.govt.nz/publications).

- Frigate Sustainment Phase One – Communications single stage business case (November 2019)
- Future Air Mobility Capability project implementation business case (May 2020)
- Operational and Regulatory Aviation Compliance Sustainment Phase One – NH90 project implementation business case (May 2020)
- Consolidated Logistics Project detailed business case (June 2020)

- Protected Mobility Vehicle Medium project implementation business case (June 2020).

In line with the agreed delegated level of authority, the Minister of Defence approved the Fixed High Frequency Radio Refresh project implementation business case during the period. Joint Defence Chief Executives approved the single stage business case for the HMNZS *Canterbury*/Offshore Patrol Vessels Communications project and the Secretary of Defence approved the project implementation business case for Garrison and Training Support Vehicles Phase 1A.

**Assessing Defence Policy Advice:** The Ministry commissions an annual assessment of Defence policy advice by the New Zealand Institute of Economic Research.

**3.4 / 5**

In 2019/20, the Ministry scored an average of 3.4 for a random selection of its policy advice, against the Department of the Prime Minister and Cabinet's *Policy Quality Framework*.

A **4.5** rating was awarded for the Cabinet paper *Frigate Sustainment Phase 1 – Communications*.



Groundworks construction for the P-8A hangar at Base Ōhakea

## Case Study: Future Air Mobility

*In June 2020, the Government approved the acquisition of five Lockheed Martin C-130J-30 Super Hercules tactical transport aircraft to replace the existing fleet of C-130H Hercules.*

The \$1.521 billion investment will deliver the five aircraft with satellite communications and electro-optical/infra-red camera, a full mission simulator, and supporting infrastructure. The first aircraft are planned to arrive in New Zealand in 2024 with interim operational release expected in 2025.

To achieve this outcome the Ministry undertook the following key steps:

- assessing user requirements and undertaking consultation within Defence and a wide range of New Zealand government agencies
- industry engagement to canvass the market for potential air mobility options
- a workshop involving subject matter experts to evaluate all potential longlist options against the project's investment objectives and critical success factors
- a multi criteria decision analysis process, involving stakeholders from across Defence and other government agencies, to facilitate a robust assessment of fleet mix benefits, costs and risks
- development of an Indicative Business Case that refined the longlist options into a range of short list options. The Indicative Business Case was approved by Government in July 2017
- development of a Detailed Business Case that was approved by Government in June 2019. This business case determined that the best option for New Zealand's tactical air mobility requirements was a fleet of medium military aircraft, that within this category only the C-130J-30 Super Hercules would meet New Zealand's requirements while minimising cost and risk, and that the best procurement model for the C-130J was sole source via the United States Foreign Military Sales system
- undertaking risk reduction activities and contractual negotiations with the United States Government
- development of the Project Implementation Case that was approved by Government in June 2020, allowing Defence to enter into contracts with the United States Government to acquire the aircraft, simulator, and supporting infrastructure
- development of a seven year sustainment package that the Defence Force contracted into with the United States Government via the Foreign Military Sales process.



The Future Air Mobility Project visiting the Lockheed Martin Aeronautics Company

## Enhancing capability portfolio management

The 2019 review of the Defence Capability Plan drew heavily on Defence's portfolio management tools to develop a range of options for Government around the structure, scope and sequencing of investments. The result was a long term plan that better reflects dependencies between capabilities, the impact of the timing of investments to the Defence Force, and a variety of constraints on the delivery of investments including human resources, and broader Government budgetary priorities.

The Ministry has strengthened capability portfolio management through a redesign of the architecture for this function across three levels:

- maximising the overall efficiency of delivery of investments
- prioritising the progression of planned investments
- ensuring alignment of investments to the Government's policy objectives.

Over the last year Defence has continued to mature its portfolio management toolset to deal with the impact of a large, highly dynamic investment portfolio. These tools include:

- a Portfolio Integrated Investment Tool – allowing more efficient and rapid portfolio reprioritisation based on changing needs or Government priorities
- portfolio analytics development – allowing Defence to measure portfolio performance and taking lessons from the past to improve forecasting and to inform good investment decisions
- continuous improvement initiatives – pursuing initiatives that seek to minimise risk to Defence and align with Government budget strategies,

while optimising delivery and investment decisions. These initiatives involve exploring more effective and efficient ways of applying contingency, monitoring dependencies, hedging, achieving more robust cost estimation and better aligning investment with the budget process.

Defence's capability portfolio management is an important link between the planned investments and those projects that are already in delivery, as it ensures that new investment decisions are made without compromising on the performance of those that have progressed to delivery.



## Delivering capabilities

Integrated Project Teams are established for major capability projects. They are led by Ministry staff and

bring together professional project specialists and subject matter experts from the Ministry and Defence Force. IPTs are designed to deliver excellence in capability delivery. They enable a collaborative way of working on major projects across the capability management system and drive end to end thinking at the project level and across the capability portfolio.

The Ministry's policy advice expertise is funded through the Vote Defence departmental funding for policy, and acquisition expertise is funded through an appropriation for the management of Defence capabilities. At the point that Cabinet choose to invest in a capability, funding is established within the Crown capital appropriation for delivering defence capabilities.

Expenditure within the Crown capital appropriation varies from year to year, depending on the costs arising in relation to the projects in delivery phase.

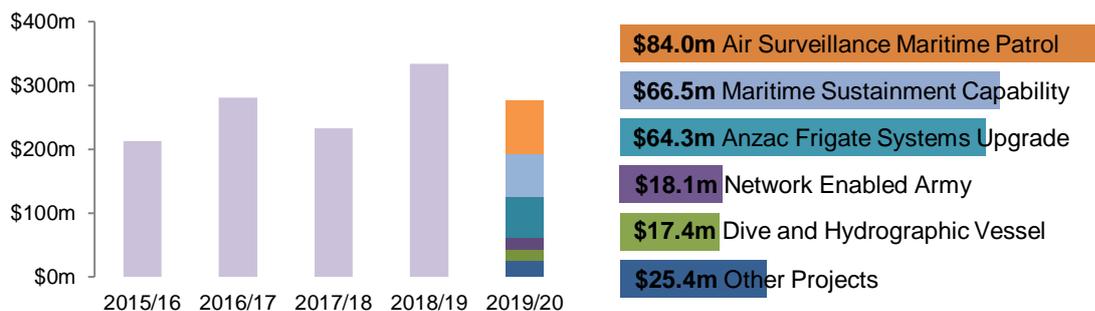


Figure 3: Breakdown of the Ministry's Crown Capital expenditure in 2019/20, and compared to previous years

The below major capability projects are in delivery phase, with a total value of \$5.605 billion.

Detailed reports are provided on the following pages regarding purpose, progress and spend for projects. These also include details about the impact of COVID-19 on each project.

All projects are to budget and requirements. Five projects have experienced delays to schedule, some as a result of the COVID-19 pandemic. These are marked with an \*.

Further details are provided in the following project pages.

The proportion of spend to date and forecast expenditure for each project is depicted around the image, according to the following key.

- Spend in prior years
- 2019/20 spend
- Forecast Ministry spend
- Forecast NZDF spend



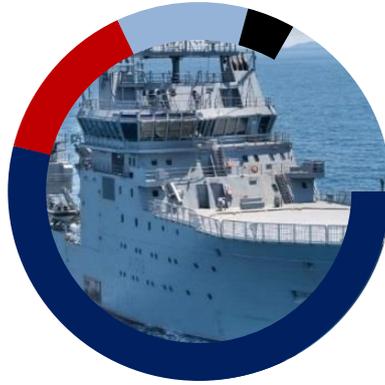
81mm Mortar



Air Surveillance Maritime Patrol



Anzac Frigate Systems Upgrade\*



Dive and Hydrographic Vessel\*



Fixed High Frequency Radio Refresh



Future Air Mobility Capability – Tactical



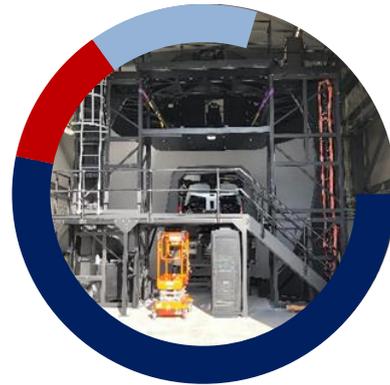
Garrison and Training Support Vehicles: Phase One\*



Maritime Sustainment Capability



Network Enabled Army: C4



NH90 Flight Simulator\*



Operational and Regulatory Aviation Compliance Sustainment: Phase One\*



Protected Mobility: Phase One

Detailed reports are not provided for the following projects that moved from capability definition to capability delivery following Cabinet decisions in 2019/20. They will be included in future annual reports:

- Frigate Sustainment Phase One – Communications
- HMNZS *Canterbury*/Offshore Patrol Vessels Communications Upgrade.

In addition to the above projects managed by the Ministry under Vote Defence, the Ministry is managing the following projects on behalf of the Defence Force, funded from Vote Defence Force:

- Counter Explosive Hazards
- Cyber Security and Support
- Joint Intelligence Project.

The following projects have been substantially delivered by the Ministry and are awaiting project closure. No significant activity occurred within 2019/20 to be reported:

- Individual Weapons Replacement
- Special Operations Vehicles
- Strategic Bearer Network

The following projects were closed during the year:

- C-130H Life Extension
- Underwater Intelligence, Surveillance and Reconnaissance.

## Managing foreign exchange risks

The Ministry purchases specialist equipment from across the world, which are settled in multiple currencies. This can create a risk of overspend for the project from unfavourable foreign exchange movements.

To mitigate the risk of foreign exchange movements, after budget approval the Ministry enters into foreign exchange forward contracts to gain certainty over the New Zealand dollar cost of the project.

New Zealand's accounting rules require payments in foreign currency to be recorded at exchange rates at the date of the transaction ("spot rates"), rather than the hedged rate. This forms the total reported project cost. The tables for each project show the difference in project cost when measured at spot rates, compared to the project's hedged rates. This notional expenditure is described as "effect of foreign exchange movements".

Forecast expenditure is recorded using the forward exchange rates at the end of the financial year.

## Projects in Delivery phase

|   | 2019 2020   |                            |  |                                    | 2020 2021                             |                            |                            |                             |
|---|---|----------------------------|--|------------------------------------|---------------------------------------|----------------------------|----------------------------|-----------------------------|
|   | Jul-Sep   | Oct-Dec                    | Jan-Mar                                    | Apr-Jun                            | Jul-Sep                               | Oct-Dec                    | Jan-Mar                    | Apr-Jun                     |
| 81mm Mortar                             | Acquisition and delivery of capability                                    |                            |  |                                    |                                       |                            |                            | Interim Operational Release |
| Air Surveillance Maritime Patrol        | Infrastructure delivery<br>Acquisition of capability<br>Air crew training |                            |  |                                    |                                       |                            |                            |                             |
| Anzac Frigate Systems Upgrade           | Delivery and testing of capability  |                            |  |                                    |                                       |                            |                            |                             |
| Dive and Hydrographic Vessel            | Modifications to vessel   | Introduction of capability |  |                                    |                                       |                            | Operational Release        |                             |
| Fixed High Frequency Radio Refresh      | Engaging with Industry  |                            | Acquisition and implementation of solution |                                    |                                       |                            |                            |                             |
| Future Air Mobility Capability          | Foreign Military Sales process  |                            |  | Decision to buy                    | Acquisition of capability             |                            |                            |                             |
| Garrison and Training Support Vehicles  | Engaging with Industry  |                            |  | Acquisition of capability          |                                       |                            | Introduction of capability |                             |
| Maritime Sustainment Capability         | Testing and delivery of capability  |                            |  |                                    | Military customisation in New Zealand | Introduction of capability |                            |                             |
| Network Enabled Army C4                 | Acquisition and testing of capability                                     |                            |  |                                    |                                       |                            |                            |                             |
| Network Enabled Army ISR                | Engaging with Industry  |                            |  |                                    |                                       | Delivery phase commences   |                            |                             |
| NH90 Simulator                          | Build and testing (Canada)  |                            |  | Delivery, installation and testing |                                       |                            |                            | Ready for training          |
| ORACS Phase One                         | Acquisition of equipment  |                            |  |                                    |                                       | Introduction of capability |                            |                             |
| Protected Mobility Capability Phase One | High Mobility Light: Delivery of capability                               |                            |  | Introduction of capability         |                                       |                            |                            |                             |
|   | Protected Vehicle Medium: Engaging with Industry                          |                            |  | Decision                           | Acquisition of capability             |                            |                            |                             |

## 81mm Mortar Replacement

### Purpose

The Army's existing 81mm medium mortar capability has been in use since the 1980s and is coming to the end of its operational life and this project will replace and enhance the capability.

Three components are being acquired: the new medium mortars, sighting systems and weapons locating radar.

### Benefits

Combined, the new components will improve the reliability, accuracy, effectiveness and mobility of the mortar capability, and improve detection of enemy weapons.

### Delivering the capability

Following the Minister's approval of the single stage business case in 2017, the project began the process of acquiring the three components. Initially, all were expected to be acquired through sole source procurement; the 81mm mortars and radars via separate US Government Foreign Military Sales cases, and the sighting systems through a direct commercial sales contract. A higher than provisioned price for the mortars resulted in a request to the market to explore alternatives and a request for quotation being issued in January 2019.

The contracts and expected delivery points are:

- Sights: with Hall & Watts Defence Optics (UK), signed in October 2017. The first tranche was delivered in April 2018 and the second was delivered in December 2019.

- Radars: FMS Letter of Offer and Acceptance signed in July 2018. Delivery is expected to be completed by March 2021.

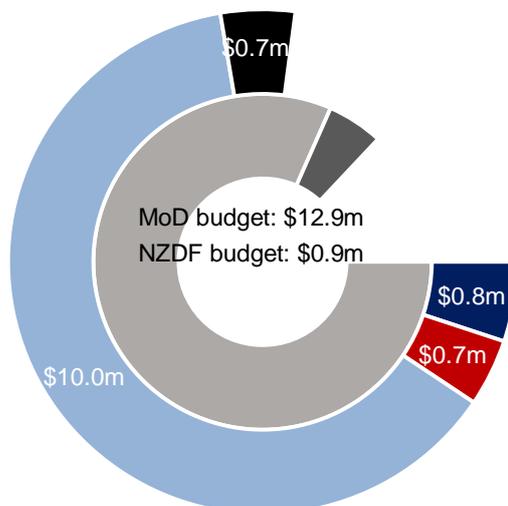


- Mortars: signed in May 2019 with New Zealand-based company Hirtenberger Defence Technology Ltd. The mortars are expected to be delivered by March 2021.

### The impact of COVID-19

Delivery of the mortars was expected to take place in the first half of 2020, following Factory Acceptance Testing. The move to Alert Level 4 and lockdown resulted in a delay to and rescheduling of this process. Factory Acceptance Testing is expected to take place early in the 2020/21 financial year.

The new capability will be delivered before the current capability reaches its end of operational life.



- Spend in prior years
- 2019/20 spend
- Forecast Ministry spend
- Forecast NZDF spend
- Ministry budget
- NZDF budget

At 30 June 2020 expected 81mm Mortar Replacement project costs were:

|                 | Ministry                                 | NZDF   | Consolidated project |        |
|-----------------|--|--------|----------------------|--------|
|                 | \$000                                    | \$000  | \$000                |        |
| <b>Budget</b>   | Current approved project budget          | 12,919 | 850                  | 13,769 |
|                 | Allowance for foreign exchange movements | 769    | -                    | 769    |
|                 | Original approved project budget         | 12,150 | 850                  | 13,000 |
| <b>Forecast</b> | Forecast total project cost              | 11,454 | 749                  | 12,203 |
|                 | Effect of foreign exchange movements     | 624    | -                    | 624    |
|                 | Forecast cost using hedged rate          | 10,830 | 749                  | 11,579 |
|                 | Forecast project variance                | 1,320  | 101                  | 1,421  |

## Air Surveillance Maritime Patrol (P8A Poseidon maritime patrol aircraft)<sup>4</sup>

### Purpose

This project will provide the Government with effective airborne intelligence, surveillance and reconnaissance. Starting in early 2023, the existing P-3K2 Orion aircraft fleet will be replaced with the P-8A Poseidon maritime patrol aircraft. The project is also delivering infrastructure at Base Ōhakea, along with training programmes for crew and maintenance personnel, and a full mission flight simulator.

### Benefits

The new capability will provide meaningful and valued contributions to maritime, joint, coalition and/or interagency operations. It will enable the Government to fulfil policy and sovereignty responsibilities within the New Zealand maritime environment, and the Defence Force will be able to continue to contribute to search and rescue and intelligence, surveillance and reconnaissance mission tasks over a broad area.

### Delivering the capability

The aircraft and flight simulator, which are being acquired through the United States Government's Foreign Military Sales process, remain on schedule for delivery. The infrastructure component of the project remains on schedule to be completed prior to the first aircraft delivery.

### 2019/20

Horizontal infrastructure works began at the end of November 2019 with a site blessing and ground breaking event at Ōhakea. Fulton Hogan was

awarded the contract for these works, which includes construction of airside apron pavements and services, as well as

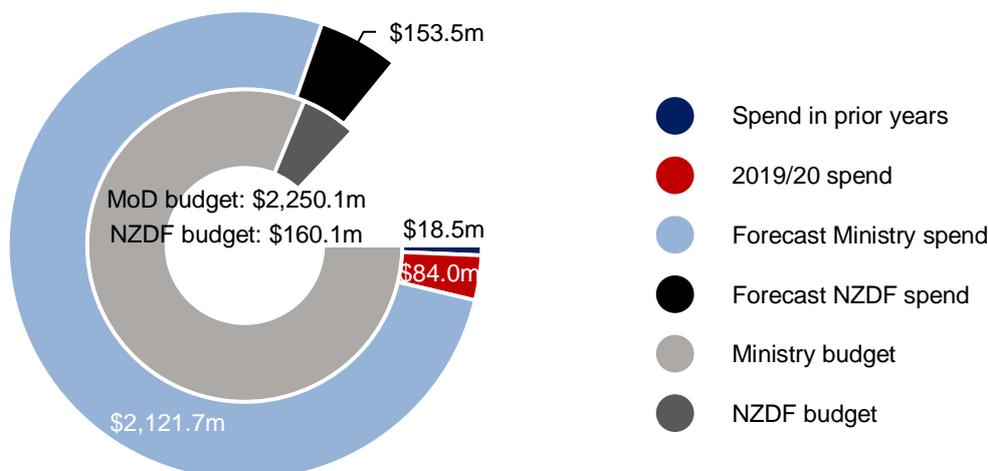


landside civil infrastructure, following a tender process held in the first half of the financial year.

In September 2019 industry were invited to register interest in the project's vertical works, comprised of buildings and building foundations needed to support the capability at Ōhakea. With security clearance requirements for this component of the project, a shortlist of qualifying providers were invited to submit a tender in the first half of 2020, with the deadline for submissions extended following the declaration of Alert Level 4.

### The impact of COVID-19

No specific impact on the delivery of the project's Foreign Military Sales components have been identified as at 30 June 2020. While the project has extended the vertical works tender period, any adjustments to the project's infrastructure schedule is not expected to affect delivery of the project's overall benefits.



<sup>4</sup> Previously 'Future Air Surveillance – Maritime Patrol'

At 30 June 2020 expected Air Surveillance Maritime Patrol project costs were:

|                 |  | Ministry  | NZDF    | Consolidated project |
|-----------------|--|-----------|---------|----------------------|
|                 |  | \$000     | \$000   | \$000                |
| <b>Budget</b>   | Current approved project budget          | 2,250,051 | 160,087 | 2,410,138            |
|                 | Allowance for foreign exchange movements | 125,140   | -       | 125,140              |
|                 | Original approved project budget         | 2,124,911 | 160,087 | 2,284,998            |
| <b>Forecast</b> | Forecast total project cost              | 2,225,482 | 153,457 | 2,378,939            |
|                 | Effect of foreign exchange movements     | 100,624   | -       | 100,624              |
|                 | Forecast cost using hedged rate          | 2,124,859 | 153,457 | 2,278,316            |
|                 | Forecast project variance                | 52        | 6,630   | 6,682                |



## Anzac Frigate Systems Upgrade

### Purpose

This project is the largest of five upgrades that, combined, will ensure the frigates HMNZS' *Te Kaha* and *Te Mana* can maintain their effectiveness and continue to operate into the mid-2030s, in medium and high threat environments.<sup>5</sup>

### Benefits

This project will maintain the frigates' surveillance, combat and self-defence capabilities through to their end of life, and improve support to amphibious forces, increasing the ability to combat emerging threats and delivering improved efficiency.

### Delivering the capability

At the beginning of the financial year the project was on schedule for completion of refit work on the second ship, *Te Mana*, in the third quarter of 2020, with the ship's return to New Zealand in the second quarter of 2021.

Prior to the COVID-19 pandemic, the Ministry was advised by Lockheed Martin Canada (LMC), the prime systems integrator for this project, that completion of work on the first ship *Te Kaha* would be delayed by several months to the last quarter of 2019. The ship was expected to return to New Zealand in the fourth quarter of 2020.

The ongoing impact of COVID-19 internationally means that a delay to completion of both upgrades is expected, but as at 30 June 2020, the extent of this delay cannot be confirmed.

### 2019/20

At the start of the year both masts of *Te Mana* were being removed and fabrication of the replacement masts had begun. The frigate's old equipment was removed as well, ahead of the start of the work

programme to install new cabling, equipment and systems.

By the end of the financial year all new equipment

was in place including the new masts, all cables have been installed, and the significant task of connecting cables and systems is underway.

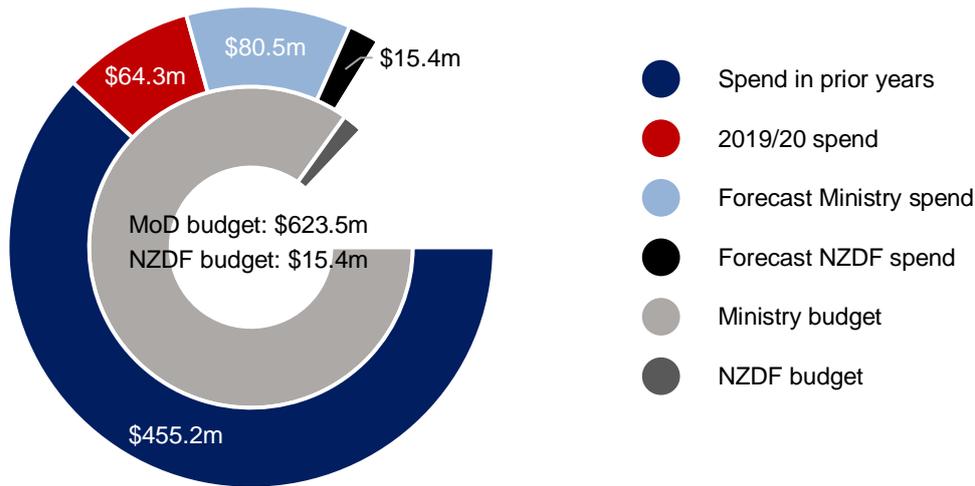
In November 2019 the Crown took custody of *Te Kaha*. The ship was moved from Victoria Shipyards Ltd (VSL) to the Canadian Forces Base's Fleet Maintenance Facility at Cape Breton. Reactivation and set to work activities began in relation to legacy and combat systems ahead of *Te Kaha* undergoing her Sea Trials programme from September 2020.

### The impact of COVID-19

The VSL and Fleet Maintenance Facility operations were affected by operating restrictions as a result of the pandemic. A number of the crew of *Te Kaha* were repatriated to New Zealand in March 2020 as work was scaled back, however they were able to return in June to support the trials programme. As VSL's shipyard has been able to remain open throughout the pandemic, *Te Mana's* upgrade has continued, although at reduced efficiency.



<sup>5</sup> The Close-in Weapon System Upgrade; Platform Systems Upgrade; and Maritime Helicopter Replacement projects are complete. The Frigate Sustainment Phase 1 (Communications) project has commenced.



At 30 June 2020 expected Anzac Frigate Systems Upgrade project costs were:

|                 | Ministry<br>\$000                        | NZDF<br>\$000 | Consolidated<br>project<br>\$000 |         |
|-----------------|--|---------------|----------------------------------|---------|
| <b>Budget</b>   | Current approved project budget          | 623,537       | 15,408                           | 638,945 |
|                 | Allowance for foreign exchange movements | 44,752        | -                                | 44,752  |
|                 | Original approved project budget         | 578,785       | 15,408                           | 594,193 |
| <b>Forecast</b> | Forecast total project cost              | 599,991       | 15,408                           | 615,399 |
|                 | Effect of foreign exchange movements     | 21,449        | -                                | 21,449  |
|                 | Forecast cost using hedged rate          | 578,542       | 15,408                           | 593,950 |
|                 | Forecast project variance                | 243           | -                                | 243     |

## Dive and Hydrographic Vessel (HMNZS *Manawanui*)

### Purpose

HMNZS *Manawanui* has been commissioned to replace the former Navy ships *Manawanui* (dive) and *Resolution* (hydrographic).

### Benefits

This project will provide the Defence Force the ability to deliver underwater dive and hydrographic operations, both domestically and in support of regional partners.

### Delivering the capability

The vessel and Phase 1 modifications were delivered on schedule. Phase 2 modifications are well-advanced and sea trials are underway.

### 2019/20

The tender process for the Phase 2 modifications for *Manawanui* took place in the first half of the financial year and in November 2019 installation of military systems and equipment began.

Along with work on the ship and systems, a master plan for a test and evaluation process was approved in September 2019, and *Manawanui* went to sea for the first time under Navy command on 17 February 2020. This formed part of the Operational Test and Evaluation Phase to enable assessment of both general seamanship and specific systems testing results, and Interim Operational Release was approved at the end of February 2020.

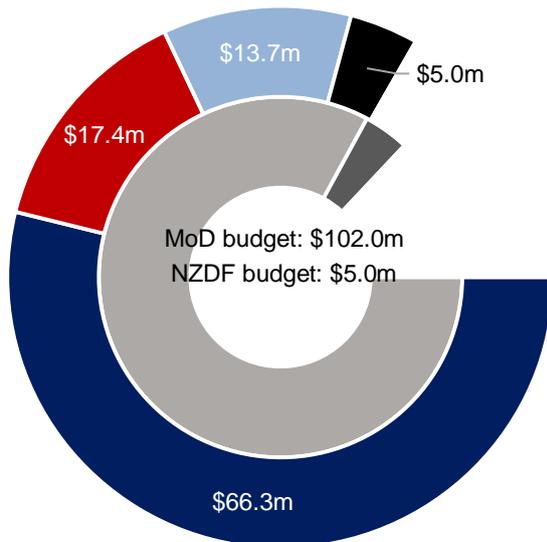
The key contract for services during this year was for a range of installation work (communications and military) under

Stage 2 modification work covered by the contract signed with Babcock New Zealand in August 2019.

### The impact of COVID-19

The new *Manawanui* was removed from dry-dock as Alert Level 4 was declared and prepared for possible deployment as part of the All of Government response. As such, no work was completed on the ship, although work recommenced during Level 3, with appropriate restrictions in place.

The capability integration plan was able to be re-scheduled internally to accommodate some of the delay from Alert Level 2 and 3 restrictions. An extension to the Operational Release milestone to reflect the seven week lockdown period is being sought. For some systems, the equipment's manufacturers require inspections, testing and/or training by a specialist technician.



- Spend in prior years
- 2019/20 spend
- Forecast Ministry spend
- Forecast NZDF spend
- Ministry budget
- NZDF budget

At 30 June 2020 expected Dive and Hydrographic Vessel project costs were:

|                 | Ministry                                 | NZDF    | Consolidated project |         |
|-----------------|--|---------|----------------------|---------|
|                 | \$000                                    | \$000   | \$000                |         |
| <b>Budget</b>   | Current approved project budget          | 101,976 | 5,000                | 106,976 |
|                 | Allowance for foreign exchange movements | 2,770   | -                    | 2,770   |
|                 | Original approved project budget         | 99,206  | 5,000                | 104,206 |
| <b>Forecast</b> | Forecast total project cost              | 97,390  | 5,000                | 102,390 |
|                 | Effect of foreign exchange movements     | (396)   | -                    | (396)   |
|                 | Forecast cost using hedged rate          | 97,786  | 5,000                | 102,786 |
|                 | Forecast project variance                | 1,420   | -                    | 1,420   |

## Fixed High Frequency Radio Refresh

### Purpose

Fixed high frequency (HF) radio is an important part of the Defence Force's communications network. It is used to communicate across long distances, as a backup to satellite communications and to enable deployed forces to remain in contact if they are not equipped with satellite communications capability. It is also an alternative communications capability for other agencies, and our partners. The system is now 40 years old and is being updated and upgraded.

This project is rationalising, consolidating and upgrading all fixed, owned or leased Defence Force high frequency communications installations, facilities and stations. It will also replace the system that controls all high frequency equipment.

### Benefits

By delivering improved and updated HF radio communication systems, the safety and success of operations will be improved. A modern HF communication system will also provide improved capabilities (such as enhanced data transmission) and greater system availability.

### Delivering the capability

The Minister of Defence approved the project implementation business case in February 2020. The project will be delivered by Babcock New Zealand and will be based around the Babcock UK Automated Control and Management System to control and manage the HF assets.

### 2019/20

Along with the preparation of the implementation business case, negotiations were completed

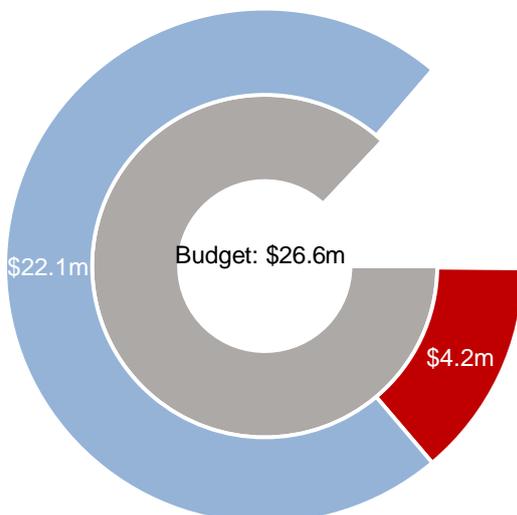


with the preferred tenderer, and the contract was signed in February 2020 (pictured above).

Babcock New Zealand has implemented the project and commenced its design activity. Physical surveys of the proposed HF sites in New Zealand have been completed to identify and scope all of the works to be carried out. The government-furnished equipment (HF radio equipment) has been delivered to the United Kingdom for use by Babcock for the design and testing of the new system.

### The impact of COVID-19

The impact of the pandemic, specifically lockdown in both New Zealand and the United Kingdom, is being assessed, particularly in relation to the project's schedule. An immediate effect was a delay in shipping equipment to the United Kingdom. The primary impact will be on Babcock's ability to progress the system design and establish a System Integration laboratory. The resulting schedule delay is able to be accommodated within the project's schedule contingency and is not expected to impact the delivery of the capability.



- Spend in prior years
- 2019/20 spend
- Forecast Ministry spend
- Ministry budget

At 30 June 2020 expected Fixed High Frequency Radio Refresh project costs were:

|                 | Ministry                                 | NZDF   | Consolidated project |        |
|-----------------|--|--------|----------------------|--------|
|                 | \$000                                    | \$000  | \$000                |        |
| <b>Budget</b>   | Current approved project budget          | 26,580 | -                    | 26,580 |
|                 | Allowance for foreign exchange movements | -      | -                    | -      |
|                 | Original approved project budget         | 26,580 | -                    | 26,580 |
| <b>Forecast</b> | Forecast total project cost              | 26,351 | -                    | 26,351 |
|                 | Effect of foreign exchange movements     | (127)  | -                    | (127)  |
|                 | Forecast cost using hedged rate          | 26,477 | -                    | 26,477 |
|                 | Forecast project variance                | 103    | -                    | 103    |

## Future Air Mobility Capability – Tactical (C-130J-30 Super Hercules)

### Purpose

This project is replacing the Defence Force’s tactical air transport capabilities, which currently comprise five C-130H Hercules. The ability to transport people and equipment by air is essential for a broad range of military and government tasks, including military operations in distant locations, responses to security events and natural disasters in New Zealand, humanitarian and disaster relief missions abroad, search and rescue operations, and VIP transport missions.

### Benefits

By replacing the Hercules fleet with the C-130J-30 Super Hercules the Defence Force will have an enhanced tactical air transport capability that is capable of supporting military and non-military operations, such as humanitarian and disaster relief.

### Delivering the capability

The Hercules have been operating for decades and the rising cost of maintenance, decreasing aircraft availability and increasing issues of obsolescence means their future operational life is limited.

Aircraft manufacturing timelines, combined with the time required to introduce, integrate and release the new capability into service, means that delivery of these aircraft is expected to commence at the end

of 2024, and that the full fleet of five Super Hercules will be operational from 2025.



### 2019/20

Letters of Request

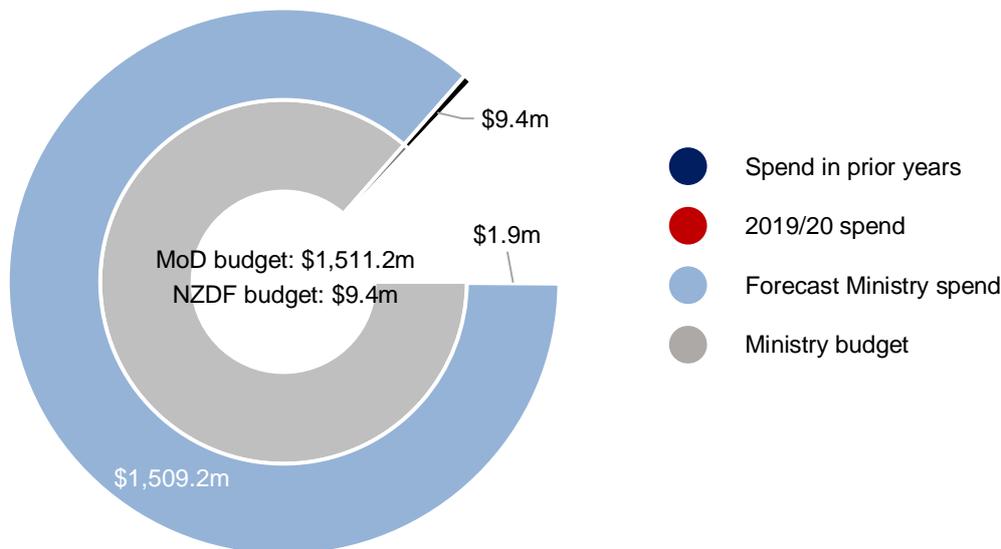
seeking details on cost for the aircraft, a full flight simulator, training and sustainment support were submitted under the US Government Foreign Military Sales, following the Government’s announcement in June 2019 that the Super Hercules was the preferred platform

The final Letters of Offer and Acceptance were received in early 2020 and the Government approved the business case for the purchase of five Super Hercules, the simulator, training and sustainment and infrastructure costs to deliver the new tactical airlift capability.

The Super Hercules is built by Lockheed Martin.

### The impact of COVID-19

None.



At 30 June 2020 expected Future Air Mobility Capability – Tactical project costs were:

|                 |  | Ministry  | NZDF  | Consolidated project |
|-----------------|--|-----------|-------|----------------------|
|                 |  | \$000     | \$000 | \$000                |
| <b>Budget</b>   | Current approved project budget          | 1,511,233 | 9,392 | 1,520,625            |
|                 | Allowance for foreign exchange movements | -         | -     | -                    |
|                 | Original approved project budget         | 1,511,233 | 9,392 | 1,520,625            |
| <b>Forecast</b> | Forecast total project cost              | 1,511,154 | 9,392 | 1,520,546            |
|                 | Effect of foreign exchange movements     | -         | -     | -                    |
|                 | Forecast cost using hedged rate          | 1,511,154 | 9,392 | 1,520,546            |
|                 | Forecast project variance                | 79        | -     | 79                   |

## Garrison and Training Support Vehicles: Phase One

### Purpose

Garrison and Training Support capability covers the Defence Force's domestic operational and training support vehicle fleets, such as fire appliances and aircraft refuelling vehicles.

This first phase is addressing those vehicles with issues of vehicle obsolescence. It will relieve the immediate pressure that is caused through the unavailability of vehicles because of their age and increasing unreliability, or issues such as access to parts for repairs and maintenance.

### Benefits

This project aims to deliver improved availability and reliability of the vehicle fleets in question, increasing the operating safety, efficiency and costs of overheads.

### Delivering the capability

Phase 1 is focused on domestic fire appliances, rural fire appliances, airfield response appliances, medical response vehicles (MRVs) and mobile bulk aviation fuelling capability that are used for refuelling large aircraft such as the Hercules, Orions, and B757 at Ōhakea and Whenuapai.

Vehicles in this phase are expected to be delivered over a period of time commencing in late 2020 and out to 2023.



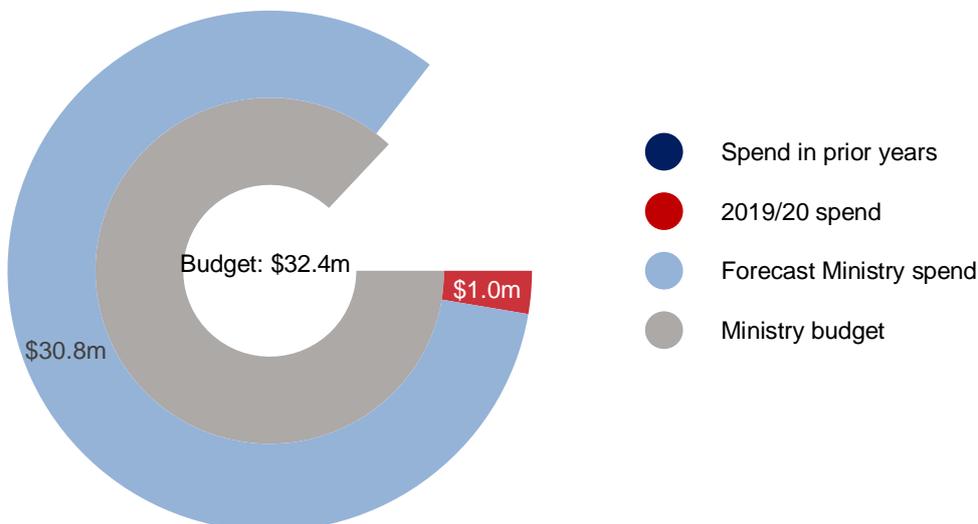
### 2019/20

The project engaged with industry and prepared for the release of tender documentation, which took place at the end of 2019. In early 2020 a contract was signed with Hamilton-based Action Manufacturing for a fleet of six MRVs to replace the 30 year old Unimog-based medical vehicles that are operated by all three military services. Delivery of the first two vehicles is expected to take place before the end of 2020.

Decisions in relation to other vehicle fleets are expected in the 2020/21 financial year.

### The impact of COVID-19

No impacts were reported by the project.



At 30 June 2020 expected Garrison and Training Support Vehicles: Phase One project costs were:

|                 | Ministry                                 | NZDF   | Consolidated project |        |
|-----------------|--|--------|----------------------|--------|
|                 | \$000                                    | \$000  | \$000                |        |
| <b>Budget</b>   | Current approved project budget          | 32,382 | -                    | 32,838 |
|                 | Allowance for foreign exchange movements | -      | -                    | -      |
|                 | Original approved project budget         | 32,382 | -                    | 32,838 |
| <b>Forecast</b> | Forecast total project cost              | 31,820 | -                    | 32,276 |
|                 | Effect of foreign exchange movements     | -      | -                    | -      |
|                 | Forecast cost using hedged rate          | 31,820 | -                    | 32,276 |
|                 | Forecast project variance                | 562    | -                    | 562    |

## Maritime Sustainment Capability (HMNZS *Aotearoa*)

### Purpose

The project is delivering the Defence Force a maritime replenishment capability; a vessel that can sustain maritime, air and land forces with fuel, fresh water, ammunition, equipment, and non-perishable stores. The new ship, HMNZS *Aotearoa*, incorporates ice-strengthening and winterisation features that will enable it to support New Zealand's presence in Antarctica through a contribution to the Joint Logistics Pool with the United States. It will be able to deliver specialised Antarctic fuel, and transport containerised scientific material and supplies to McMurdo Sound.

### Benefits

The new vessel will provide an independent and complementary maritime sustainment capability to New Zealand and its security partners, improve the ability to respond and react to events in New Zealand and throughout the South Pacific and Southern Ocean, improve the flexibility of response options of threats and emergencies, as well as supporting civilian work in Antarctica.

### Delivering the capability

Provisional acceptance of the ship took place on 8 June 2020 and the delivery voyage to New Zealand commenced two days later. *Aotearoa* was welcomed at Devonport Naval Base on 26 June 2020. Hyundai Heavy Industries (HHI) will complete some remaining work in New Zealand, which is expected to be concluded in October 2020.

### 2019/20

Following launch at the end of the last financial year, outfitting and system installation continued throughout the first half of this year. The successful

main engine first start took place ahead of schedule in August 2019 and by the end of September all engines had been started. The ship moved

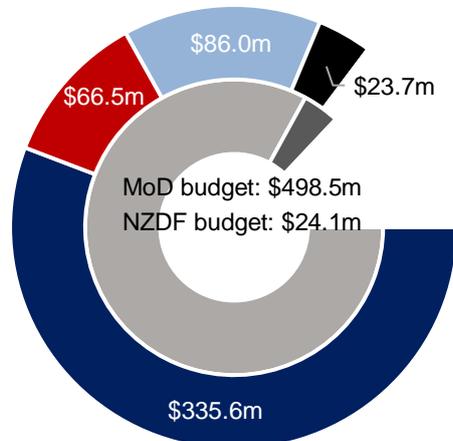


to a new berth for the continued handover of systems and commissioning by the HHI production team. The ship's naming ceremony took place on 25 October 2019 attended by the ship's sponsor, the Governor-General Her Excellency Dame Patsy Reddy GNZM QSO, and Prime Minister of the Republic of Korea Mr Lee Nak-yeon.

Harbour acceptance trials were underway in the last quarter of 2019, along with sea trials through much of the first half of 2020, while in New Zealand the upgrade to the Calliope East Wharf at Devonport Naval Base was completed, including an extension, new fenders and an up-rated transformer for shore power, ahead of the ship's arrival.

### The impact of COVID-19

*Aotearoa* set sail for New Zealand on 10 June 2020, following confirmation that the Korean delivery crew and New Zealand personnel had tested negative for COVID-19. After 16 days on board, another negative test allowed the ship to come alongside at Devonport Naval Base. The ship was commissioned HMNZS *Aotearoa* at the end of July 2020.



- Spend in prior years
- 2019/20 spend
- Forecast Ministry spend
- Forecast NZDF spend
- Ministry budget
- NZDF budget

At 30 June 2020 expected Maritime Sustainment Capability project costs were:

|                 |  | Ministry | NZDF   | Consolidated project |
|-----------------|--|----------|--------|----------------------|
|                 |  | \$000    | \$000  | \$000                |
| <b>Budget</b>   | Current approved project budget          | 498,512  | 24,095 | 522,607              |
|                 | Allowance for foreign exchange movements | 26,832   | -      | 26,832               |
|                 | Original approved project budget         | 471,680  | 24,095 | 495,775              |
| <b>Forecast</b> | Forecast total project cost              | 488,370  | 23,715 | 512,085              |
|                 | Effect of foreign exchange movements     | 16,692   | -      | 16,692               |
|                 | Forecast cost using hedged rate          | 471,677  | 23,715 | 495,392              |
|                 | Forecast project variance                | 3        | 380    | 383                  |

## Case Study: Enhanced replacements

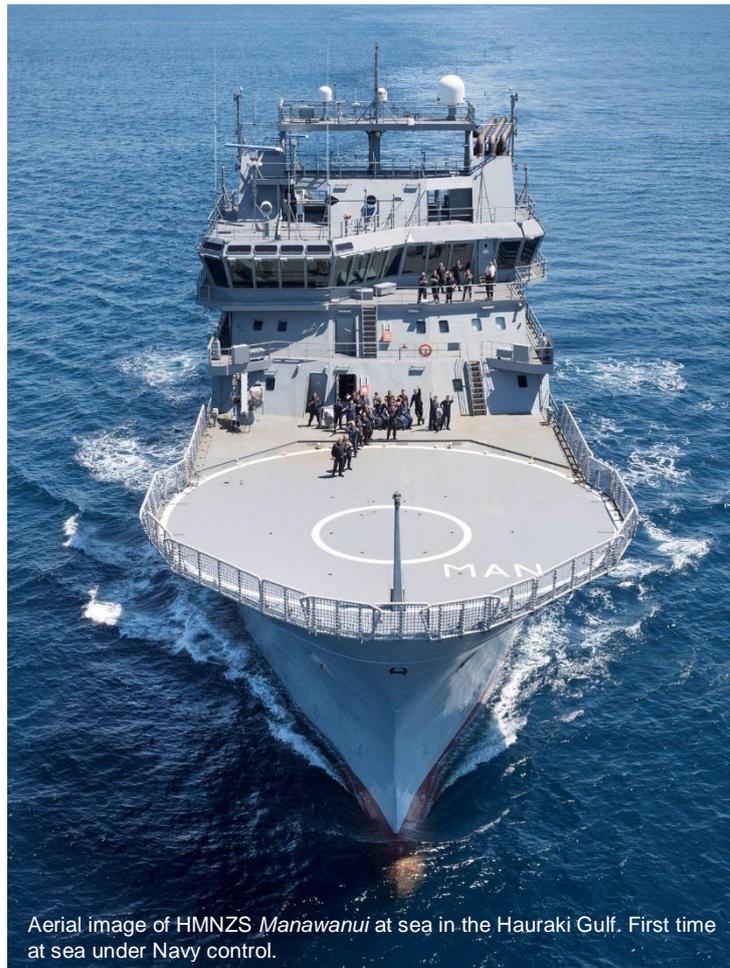
*Many of the investment decisions signalled in the Defence Capability Plan will replace platforms currently in-service with the Defence Force or recently retired. The transition to the next generation of military capability is substantial and will deliver significant enhancements to Defence Force capability.*

For example, the new dive and hydrographic vessel, HMNZS *Manawanui*, is twice the size of her predecessor. The new ship supports a dynamic positioning system, a deep diving capability to 60 meters, an underwater remotely piloted capability and contemporary hydrographic sensors. It also has a transit speed of 14 knots compared to her predecessor's seven knots, a flight deck and can carry and launch a Littoral Manoeuvre Craft of up to nine tonnes.

The new Maritime Sustainment Capability, HMNZS *Aotearoa*, represents an even greater step up in capability from her predecessor, *Endeavour*. Reflecting the sustainment needs of a larger and more capable Defence Force, *Aotearoa* carries more fuel, including 1500 tonnes of aviation fuel

compared to *Endeavour's* 135 tonnes. The new ship has four times the bulk storage capacity, including the ability to carry ammunition, and can produce 100 tonnes of fresh water per day. *Aotearoa* can also embark an NH90 helicopter and has been winterised for Southern Ocean operations.

Currently in the early delivery phase, the acquisition of the P-8A Poseidon maritime patrol aircraft, the C-130J-30 Super Hercules, and the Bushmaster protected mobility vehicle continue this uplift. Collectively, these investments will enhance the capability, reach, endurance and interoperability of the Defence Force across the full range of roles, from humanitarian and disaster relief to peace enforcement.



Aerial image of HMNZS *Manawanui* at sea in the Hauraki Gulf. First time at sea under Navy control.

## Network Enabled Army

The Network Enabled Army (NEA) Programme is moving the Army's planning, intelligence, and communications functions to modern, interoperable, digital-based systems.

The programme is being rolled out through four tranches to 2025-26. The first two funding tranches have been approved, and there are two Ministry-led projects underway: NEA C4 and NEA ISR.

### *NEA Command, Control, Communications and Computers (C4)*

#### **Purpose**

NEA C4 is providing the Defence Force's land forces with systems, technology and infrastructure. This has included establishing the basic network for the future NEA programme; a combination of hardware (servers, routers, long distance communications links) and software (such as a battle management system that enables all functions across the network), along with industry specialist support. The project has established a testing, experimentation and evaluation facility to assess hardware and software prior to making an investment decision. This will reduce risk and ensure the systems acquired can be integrated with other Defence Force systems and are compatible with partners.

#### **Benefits**

This project is delivering improved interoperability of systems and equipment, improved common operating picture and information management, an increased ability to pass data, and an improved situational awareness.

#### **Delivering the capability**

NEA C4 is funded by the Tranche One funding (approved in April 2015) and a proportion of Tranche Two funding (approved July 2019).<sup>6</sup> The project is delivering six sets of capability.<sup>7</sup>

Operational release of the NEA C4 Tranche One capability is scheduled to take place late-2021. Tranche Two capabilities will be delivered in 2022.

#### **2019/20**

At the start of the year, approval of NEA Tranche Two extended the communications networks

being delivered by NEA C4, and continued delivery of Tranche One capability. With the basic network and the initial facility for testing, experimentation and evaluation operating, the fundamental systems are in place and digital communications and other systems are being procured to equip individual soldiers and command elements.

This year the project worked with two key vendors; L3 Harris Australia for the supply of the Army core radios, and GATR Technology for the tactical network. Work to deliver radios and associated equipment and software for the Mobile Tactical Command System continued, with design and testing of these components during the year. The project also focused on development of Communications Access Nodes, also supplied by GATR Technology.

Infrastructure at Linton Military Camp is being built for the Capability Integration Centre. The Centre will provide lecture and training facilities to support NEA's delivery of capability to Army. The facility also provides accommodation and engineering space for 1 Communications Support Regiment. A similar Centre was established at Trentham Military camp in September 2018.

A key component of the Common Command Post Operating Environment capability is the general services trailer design. This was approved by the Defence Force and successful field testing of the prototype trailer in 2019 means the trailers will form part of a mobile modular command post. Orders were placed with New Zealand-based company, Tidd Ross Todd, for General Services Trailers.



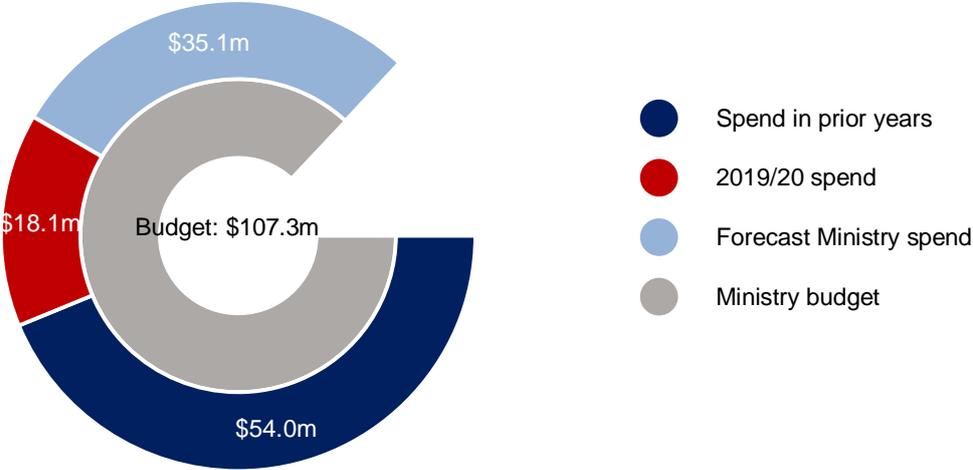
<sup>6</sup> The remaining Tranche Two funding funds the NEA ISR project that is in definition phase, engaging with industry and ahead of completion of its business case.

<sup>7</sup> For more detailed information see the Major Projects Report on the Ministry's website: [www.defence.govt.nz/what-we-do/delivering-defence-capability/major-projects-reports/](http://www.defence.govt.nz/what-we-do/delivering-defence-capability/major-projects-reports/).

Contracts have also been established with Australian company Eniqest for the supply of generators that meet military specifications to support Command Post environments.

**The Impact of COVID-19**

The lockdown and pandemic responses resulted in some delays which may continue if vendors are not able to find suitable options for conducting design and delivery activities in New Zealand.



At 30 June 2020 expected Network Enabled Army project costs were:

|                 | Ministry<br>\$000                        | NZDF<br>\$000 | Consolidated project<br>\$000 |         |
|-----------------|--|---------------|-------------------------------|---------|
| <b>Budget</b>   | Current approved project budget          | 107,253       | -                             | 107,253 |
|                 | Allowance for foreign exchange movements | 1,253         | -                             | 1,253   |
|                 | Original approved project budget         | 106,000       | -                             | 106,000 |
| <b>Forecast</b> | Forecast total project cost              | 107,192       | -                             | 107,192 |
|                 | Effect of foreign exchange movements     | 1,197         | -                             | 1,197   |
|                 | Forecast cost using hedged rate          | 105,995       | -                             | 105,995 |
|                 | Forecast project variance                | 5             | -                             | 5       |

*Network Enabled Army Intelligence, Surveillance & Reconnaissance (ISR)*

While Tranche One was underway, the NEA Programme commenced the definition phase for Tranche Two. The Government approved the second tranche of funding in August 2019,

expanding the focus to intelligence, surveillance and reconnaissance (ISR) capabilities.

NEA ISR will support improved decision-making by delivering a range of systems to the Army to support ISR tasks, improving situational awareness and supporting deployed commanders' decision-making at all levels.

## NH90 Flight Simulator<sup>8</sup>

### Purpose

The Air Force has operated NH90 medium utility helicopters since 2012, providing logistical support including troop transport and sustainment. Training to generate and maintain crews for all eight aircraft has proved challenging. Since the capability's introduction, a combination of New Zealand-based flight hours and offshore training in Germany and Australia has been used, as the market for NH90 simulators had not matured to provide affordable devices. As NH90 simulators have subsequently become commercially viable, this project was initiated to deliver the simulator, training and maintenance support, and infrastructure at Base Ōhakea to house it.

### Benefits

The new simulator will ensure the Defence Force can produce and sustain a sufficient number of NH90 pilots, increase availability of the NH90 helicopters for operations and tasking, and ensure simulator-based pilot training is resource-efficient both in relation to crew availability and cost.

### Delivering the capability

At the start of the year, the simulator's Ready for Training date was forecast as May 2020, slightly ahead of the July 2020 date at the time the project was approved. A combination of delays with in-house acceptance testing in Canada where the simulator was being built and the impact of the COVID-19 pandemic had, by the end of the year, led to a delay in the training date to the second quarter of 2021, dependent on continuing COVID-19 travel restrictions. However the simulator will be available for critical selected pilot simulation training from October 2020.

### 2019/20

The project focused on working with the simulator's builder, CAE in Montreal, Canada to ensure the build was completed ahead of testing the device.

Successful completion of testing was a pre-requisite for powering down the simulator ahead of shipping for installation at Ōhakea.

A range of issues identified at the start of in-house acceptance testing resulted in completion of testing being delayed until February 2020.

The simulator was accepted for delivery to New Zealand, although, as expected, a number of minor software development issues remained outstanding and CAE continued to progress these.

In New Zealand, the infrastructure development to house the NH90 simulator and training facility was completed at Ōhakea by November 2019.

The contract for the build and delivery of the simulator:

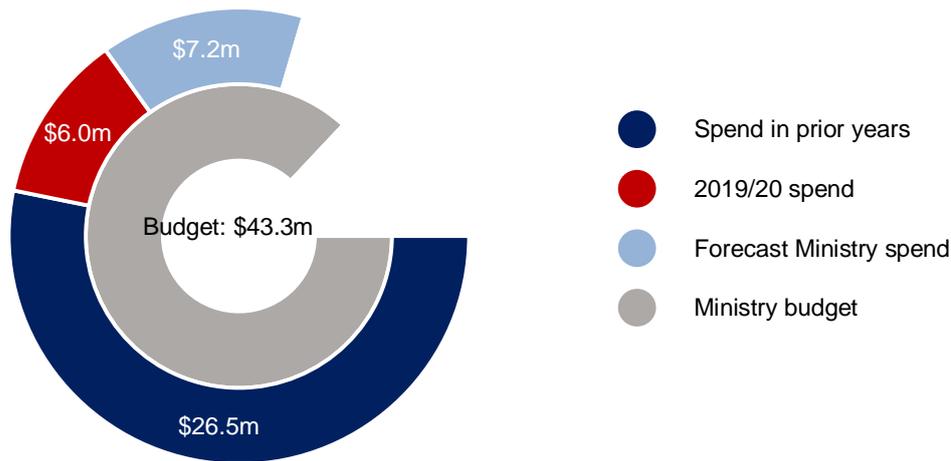
- CAE Ltd are based in Montreal, Canada and have built the simulator and New Zealand-based staff will provide through life support at Ōhakea.
- The infrastructure contract was with Watts and Hughs.

### The impact of COVID-19

COVID-19 travel restrictions affects the ability of key personnel to complete the software development, testing and qualification activities. CAE staff and qualification specialists are available to conduct these tasks prior to final acceptance of the simulator.



<sup>8</sup> Also referred to as the NH90 Flight Training Device.



At 30 June 2020 expected NH90 Flight Simulator project costs were:

|                 | Ministry<br>\$000                        | NZDF<br>\$000 | Consolidated<br>project<br>\$000 |        |
|-----------------|--|---------------|----------------------------------|--------|
| <b>Budget</b>   | Current approved project budget          | 43,344        | -                                | 43,344 |
|                 | Allowance for foreign exchange movements | 608           | -                                | 608    |
|                 | Original approved project budget         | 42,736        | -                                | 42,736 |
| <b>Forecast</b> | Forecast total project cost              | 39,637        | -                                | 39,637 |
|                 | Effect of foreign exchange movements     | 381           | -                                | 381    |
|                 | Forecast cost using hedged rate          | 39,255        | -                                | 39,255 |
|                 | Forecast project variance                | 3,481         | -                                | 3,481  |

## Case Study: Thinking ‘outside the box’ when delivering military capability

*The NH90 Simulator project seeks to increase the availability and sustainability of NH90 aircraft and crews for operational tasking by shifting as much training as possible to an easily accessible simulator at Base Ōhakea.*

Built by CAE Canada, the Simulator passed its factory acceptance test in Montreal in February 2020. This was the last major milestone prior to being shipped to Ōhakea for assembly, installation and certification. COVID-19 and the resulting border and state restrictions on the movements of freight and people posed a significant risk to installation of the simulator, and to the Air Force’s ability to safely train NH90 crews.



Transporting the Simulator, which consisted of eight standard shipping containers, from Montreal to New Zealand via the United States during lockdown was challenging. More challenging, however, was the assembly and installation of the Simulator without the specialist expertise and engineering support personnel who were unable to travel from Montreal to Ōhakea due to border closures.

The Simulator arrived at the Port of Tauranga on 1 May 2020, only a short delay from the schedule. It has been assembled and installed in a purpose-built facility at Ōhakea using a small team of locally-based CAE employees and Air Force technicians. A significant advantage of this approach is that CAE New Zealand has gained invaluable training, which will be beneficial in their ongoing work of providing through-life support for the Simulator throughout the contract. The assembly and testing is being monitored by virtual engineering support from CAE Canada.



In addition to the core team, a range of New Zealand companies and individuals, including local tradespeople in the Manawatū region and special effects company, Weta Workshop, were able to quickly pivot and provide specialist support which would have otherwise come from overseas.

Ongoing border restrictions prevent Air Force NH90 pilots and crews from traveling to Australia and/or Germany for simulation-based training. However, the approach taken by the Project Team and CAE will provide a New Zealand-based interim capability that is able to support recurrent emergency and scenario based training of NH90 pilots by October 2020. This will prevent any gap in the operation of the Medium Utility Helicopter capability.

## Operational and Regulatory Aviation Compliance Sustainment: Phase One

### Purpose

This project will equip Defence Force aircraft fleets with updated communications, navigation, air traffic management and identification systems, which must be updated due to changes in aviation regulations, and technological upgrades that improve safety and security.

By completing this project, Defence Force aircraft will be able to sustain effective, safe and secure operations. This includes the civil systems Automatic Dependent Surveillance – Broadcast Out (ADS-B) and Performance Based Navigation.

### Benefits

The upgraded systems will enable the Defence Force to continue to conduct air operations in both military and civil airspace.

### Delivering the capability

It is expected that Phase One, which was approved in April 2019 and encompasses the upgrade of most Defence Force aircraft fleets, will be completed by the end of 2023.

### 2019/20

A plan was developed for installing the new systems into the range of Defence Force aircraft, and

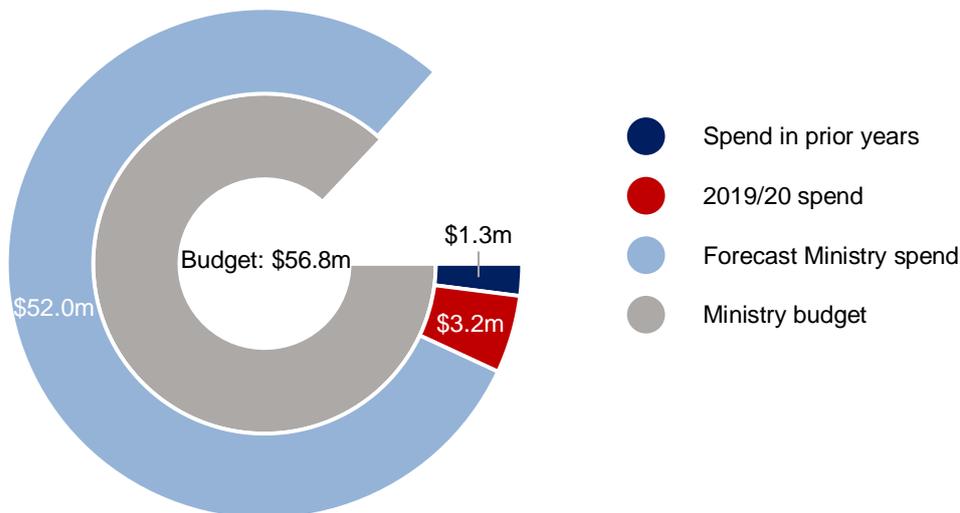
modifications to the Hercules and Boeing 757s commenced in Auckland. The Defence Force led the installation of the ADS-B system and certification was planned to take place in April 2020.



### The impact of COVID-19

The flight testing for certification of modifications to the C-130H was planned to take place offshore, but was delayed, although a plan was developed to complete the certification process for ADS-B in New Zealand and was completed successfully on 1 July 2020.

The project was engaged with a range of industry providers for design and costings for the upgrades of other aircraft when the COVID-19 pandemic began to affect operations around the world.



At 30 June 2020 expected Operational and Regulatory Aviation Compliance Sustainment: Phase One project costs were:

|                 | Ministry                                 | NZDF   | Consolidated project |        |
|-----------------|--|--------|----------------------|--------|
|                 | \$000                                    | \$000  | \$000                |        |
| <b>Budget</b>   | Current approved project budget          | 56,832 | -                    | 56,832 |
|                 | Allowance for foreign exchange movements | -      | -                    | -      |
|                 | Original approved project budget         | 56,832 | -                    | 56,832 |
| <b>Forecast</b> | Forecast total project cost              | 56,540 | -                    | 56,540 |
|                 | Effect of foreign exchange movements     | (183)  | -                    | (183)  |
|                 | Forecast cost using hedged rate          | 56,723 | -                    | 56,723 |
|                 | Forecast project variance                | 109    | -                    | 109    |

## Protected Mobility Capability: Phase One

### Purpose

As the Army operates across diverse environments, a range of vehicles are needed to support their operations, including those with high levels of ballistic and blast protection, and highly mobile vehicles that can operate in rugged and hostile terrain.

Phase One of the Protected Mobility Capability project is replacing the capability of the armoured Pinzgauer and operational Unimog fleets, and introducing Polaris MRZR vehicles as the High Mobility – Light fleet. Phase One commenced in 2017 and runs to 2025.

From 2024/25 onwards, Phase Two of the Project will replace or upgrade the Light Armoured Vehicle fleet.

### Benefits

Replacing or upgrading existing fleets will maintain the effectiveness of the protected land mobility capability, improve the ability to offer a range of military response options, and increase the Defence Force's ability to protect and meet its duty of care commitments to military personnel.

### Delivering the capability

Following Cabinet approval of the detailed business case in April 2019, the project engaged with Polaris, the company that was selected as preferred provider of the High Mobility – Light vehicles component of this project. A contract was signed in December 2019 for delivery of six D-MRZR vehicles, spares, specialist tools and test equipment, which arrived in New Zealand in May 2020. These side by side off road vehicles are

replacing quad bikes and other small vehicles used by the Army.

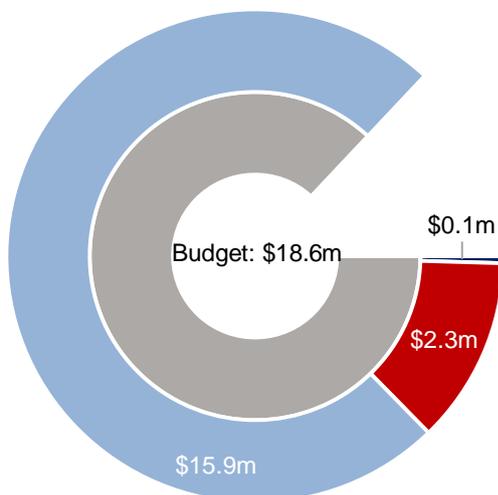


During the year options were considered for replacing the armoured Pinzgauer fleet. The Australian-designed and built Bushmaster NZ5.5 armoured vehicle was selected as the preferred vehicle as it has a combination of size and performance that was considered to best match the needs of the Defence Force. It is also a proven vehicle, used by a close partner, and future developments in relation to the vehicle's design and performance standards can be shared. The new fleet of 43 Bushmasters will be comprised of troop carriers, protected ambulances, command and control, logistics and maintenance variants.

### The impact of COVID-19

The D-MRZR vehicles arrived in New Zealand during the COVID-19 lockdown period and were approved for transport to Trentham Military Camp when the country moved to Alert Level 3.

The introduction into service of the D-MRZR vehicles was altered to take into account the effect of the pandemic and New Zealand's alert level requirements such as travel restrictions. This has required rescheduling of initial training and assessment of vehicles during exercises.



- Spend in prior years
- 2019/20 spend
- Forecast Ministry spend
- Ministry budget

At 30 June 2020 expected Protected Mobility Capability: Phase One project costs were:

|                 |  | Ministry | NZDF  | Consolidated project |
|-----------------|--|----------|-------|----------------------|
|                 |  | \$000    | \$000 | \$000                |
| <b>Budget</b>   | Current approved project budget          | 18,592   | -     | 18,592               |
|                 | Allowance for foreign exchange movements | -        | -     | -                    |
|                 | Original approved project budget         | 18,592   | -     | 18,592               |
| <b>Forecast</b> | Forecast total project cost              | 18,592   | -     | 18,592               |
|                 | Effect of foreign exchange movements     | -        | -     | -                    |
|                 | Forecast cost using hedged rate          | 18,592   | -     | 18,592               |
|                 | Forecast project variance                | -        | -     | -                    |

# 4

## DEFENCE SUCCESSFULLY DELIVERS AND SUSTAINS SYSTEMIC IMPROVEMENT

In 2019-2023, the Ministry seeks to deliver the following:

- partnership with the New Zealand Defence Force delivers improved outcomes for both agencies, and improved services to Government
- sustainable operations with contemporary organisational practices, systems and policies, with a highly engaged and participative culture
- an organisation that develops its people and offers them a career in a national security workforce
- a relevant and targeted programme of assessments and audits that has impact.

### EMBEDDING AND OPTIMISING CAPABILITY MANAGEMENT

The five year Defence Capability Change Action Programme concluded this year. The Ministry and the Defence Force partnered to develop and embed a new end to end joint Defence Capability Management System (CMS) which provides assurance to government that Defence has the expertise to successfully manage a multi-billion dollar portfolio.

The CMS has been designed to reduce risk and enhance the success of Defence capability projects. It provides assurance that capability projects continue to follow best practices tailored to the Defence environment and sets the standards which governance apply to successfully deliver the expected outcomes and benefits.

Key elements of the CMS are the Integrated Project Team concept; a fit for purpose governance structure; and guidance, tools, practices and policies. Enhancements have continued to be made during the year, including tailored commercial practice guidance, consistent with the new Government Procurement Rules. This guidance ensures taxpayer money is spent in a fair, proper and cost effective manner when Defence acquires capability.

Training to develop Ministry and Defence Force staff working within the CMS is integral to embedding and optimising the system. The continued enhancement of CMS training modules ensures that they are effective and remain current.

The following chart summarises risk ratings by percentage of projects for each of the last three years. It is based on portfolio reporting to the Capability Governance Board:

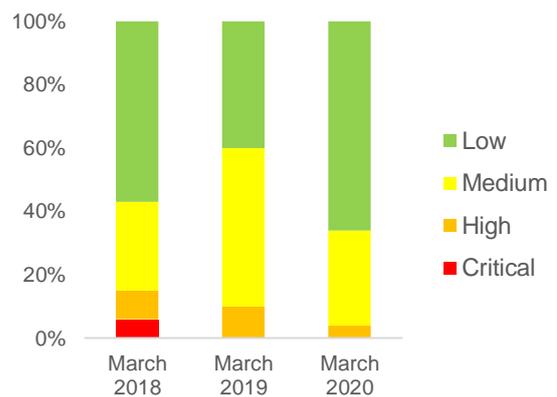


Figure 4: Risk raising for projects. Colours indicate the level of risk to delivery against the approved baselines

### A CULTURE OF HIGH PERFORMANCE, INNOVATION AND CONTINUOUS IMPROVEMENT

Commencing in February 2020 and to promote a safe and inclusive workplace the Ministry held a series of 'Above the Line' workshops for all Ministry staff. As a result of the COVID-19 lockdown, workshops for the remaining staff will be held in 2020/21.

A range of policies have been updated and include latest practise and thinking to ensure that we encourage high performance and an engaged workforce. This included revision of the Ministry's

Flexible Working policy in December 2019, which ensured that every role at the Ministry (both managers and staff) is 'flexible by default'. This means flexible working is an option for every person in the Ministry.

## A SUSTAINABLE AND CONTEMPORARY MINISTRY

At the Ministry, each staff member has an individual development plan as part of their ongoing performance discussions. The Ministry explores development opportunities for each individual to ensure they have the skills they need to be successful in their role. At the Ministry we use the 70:20:10 approach to learning and development. This means that 70% of learning is on the job, 20% is learning through others and 10% is formal training.

The Ministry has a comprehensive two-day induction programme for new staff. Each new staff member also has a tailored ongoing programme of induction meetings which allows an understanding of other teams and where their work intercepts. The Ministry has also developed a self-driven 'Foundation Programme' aimed at those who are new to the public service, or new to working in the defence and security sector. A three month check-in meeting is held with each new staff member to ensure they have settled in and have been supported in their first few months in the Ministry. We regularly run programmes for our staff on a range of topics including Machinery of Government, Networking and Influencing Skills, Presentation Skills, Unconscious Bias, First Aid and Mental Health First Aid training.

The Ministry continues to offer a range of development opportunities for its leaders, and those aspiring to be leaders. Some of these are accessed through the Leadership Development Centre (part of Te Kawa Mataaho – the Public Service Commission), including the New People Leader Development programme and Leadership in Practice. We also send senior staff on programmes run by Defence Force's Institute for Leader Development, and on occasion use external coaches for our senior people.

During the COVID-19 Lockdown period all staff were able to utilise self-directed learning from resources regularly shared by the Human Resources team.

## ASSESSMENTS AND AUDITS THAT ASSIST IMPROVEMENTS ACROSS KEY AREAS OF DEFENCE

The Ministry arranges audits and assessments of the Defence system and identifies opportunities for improvement across key strategic areas.

During 2019/20, a review was conducted of the Defence Force's progress against its action plan for Operation Respect. It looked at the progress in creating a culture of dignity and respect in the Defence Force through implementation of its Operation Respect Action Plan.

The *Summary Report on Military Justice: Review of the Summary Trial System* was published on the Ministry website in December 2019. The review was the first of its kind since significant changes were made to the Military Justice system in 2009.



# 5

## DEFENCE IS OPEN, TRANSPARENT, ACCESSIBLE AND TRUSTED

In 2019-2023, the Ministry seeks to deliver the following:

- An open, transparent, high-integrity environment
- Communication with the public on Defence activities that is proactive and in plain English
- A coordinated programme of outreach to universities, industry and interest groups

### Transparency of Defence decisions

The Ministry's website [www.defence.govt.nz](http://www.defence.govt.nz) is the main channel to communicate information on Ministry activities. In addition to providing access to major defence policy documents such as the *Defence Capability Plan 2019*, we provide details defence capability projects and defence deployments.

The Ministry continues a significant programme of work to proactively release Defence Cabinet papers and minutes of decisions on the deployment of Defence Force personnel and assets overseas, and major defence capability projects. The Ministry leads work with the Defence Force and other partner agencies in New Zealand and overseas to publish this key information – recognising that the matters involve ongoing sensitivities regarding national security, international relations and commercial sensitivities.

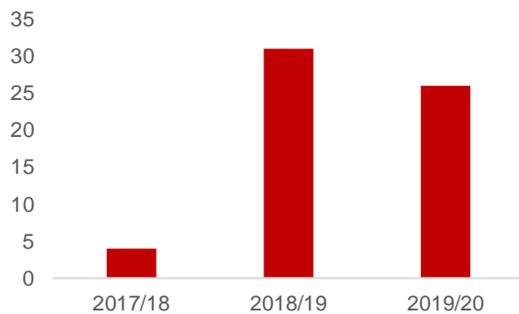


Figure 5: Number of Defence Cabinet papers published on the Ministry's website<sup>9</sup>

The Ministry has provided support to the Operation Burnham Inquiry, including for the release of documentation. The Ministry will support the implementation of decisions taken by Government on the recommendations in the Inquiry Report that was published in August 2020.

### Operating in a high-integrity environment

The Ministry regularly communicates with staff on the importance of always acting ethically, with integrity and honesty, and in accordance with expectations of the public service. Staff are required to demonstrate probity and good judgement when committing funds.

The requirement to behave in accordance with the Ministry and public service Codes of Conduct has been incorporated into the Ministry's annual individual performance agreements. This raises awareness of the requirement to act with integrity and also provides an avenue to hold staff and managers to account, should behaviour not meet the required standards.

The Leadership Team provides governance of the policies and actions that comprise the internal control and fraud control frameworks. Policies are regularly reviewed to ensure they are based on contemporary practice.

The Ministry undertakes a targeted programme of training on financial controls. It covers the importance of the Ministry's internal controls and the key topics that underpin it, including conflicts of interest, delegations and sensitive expenditure. A workshop was run in early March 2020; another

<sup>9</sup> Some 2019/20 Cabinet papers that arose during the COVID-19 lockdown were released after the end of the financial year

planned for mid-March was deferred due to the COVID-19 lockdown.

The Ministry engages with external agencies and partners to develop better practice in fraud and corruption control. New Zealand is currently chair of the Five Country Defence Fraud and Anti-Corruption Network and was due to host the annual meeting in April but this has been deferred due to travel restrictions arising from COVID-19.

## Engagement and feedback opportunities

For the past two years the Ministry, in conjunction with the Defence Force, has undertaken an industry satisfaction survey. In 2018, feedback received from suppliers was incorporated into the Ministry's industry engagement programme and procurement policy. This included improving opportunities for companies to partner with overseas primes and/or other New Zealand suppliers, improvements to the feedback process for tenders, and more information on upcoming projects. The satisfaction survey was normally sent to industry following the Defence Industry Forum. This event did not occur in 2019 giving Defence the opportunity to consider changes to the survey format and distribution.

A number of recent engagements with Industry have been postponed due to COVID-19. This included the annual Defence Chief Executive and Industry Leaders meeting, and a workshop scheduled with the New Zealand Defence Industry Advisory Council to discuss recent changes to Government Procurement Rules and next steps in strengthening the Defence and industry relationship. While COVID-19 meant these activities could not proceed as planned, the disruption to Defence supply chains caused by travel and social distancing restrictions underlined their importance. Defence officials remain committed to finding new ways to regularly engage with industry during the COVID response and provided an update on 30 July 2020 to industry of the likely impact to capital projects.

## Outreach

Our Defence Assessment programme has provided a useful mechanism for deepening and broadening the Ministry's engagement with a range of academics with expertise relevant to New Zealand's defence and security policy. This engagement helps to ensure we access a broad set of perspectives, and the Ministry will continue to seek opportunities

to engage with academia, including via initiatives such as the Massey University-led Multi-Agency Research Network and by presenting at academic meetings and to students. The Ministry's climate change work has provided an opportunity to engage with a wide range of environmental and Pacific specialists and to develop new links with the environmental science academics in New Zealand.

## Working with Industry

The *Defence Capability Plan 2019* identified the following priorities for the Ministry as we work with industry to implement the Plan: early engagement, transparency and ease of business, a focus on New Zealand industry, and system integration. In late 2019, the Ministry hosted a number of industry days, including for the Garrison and Training Support, Southern Ocean Patrol Vessel, and Frigate Sustainment Phase 1 (Communications) projects. The latter included an on-site ship visit in Canada in early 2020 for interested suppliers.

A focus of these engagements has been to work with industry to reduce project uncertainty and help manage risk. An example of this focus is the approach taken for the HMNZS *Canterbury* and Offshore Patrol Vessels Communications Upgrade project, which includes a preliminary design phase prior to seeking an investment decision. This involved the down-selecting to two tenderers in March 2020, following a competitive tender process to undertake preliminary design based on their technical solution. A preferred tender will be selected at the completion of this phase based on their offer of a full system solution and a fixed firm price, including for installation. This approach reflects a significant lesson learnt from previous ship upgrade projects where ship installation costs were uncertain. It will ensure the decision to invest is supported by good information, both in terms of a fixed firm price and a realistic delivery schedule.

Engagement with industry on implementing the Defence Capability Plan continued during lockdown. The Ministry worked closely with suppliers on their COVID-19 safety plans. These plans allowed vital infrastructure work to recommence under Alert Level 3. Opportunities were also created for New Zealand suppliers to step up and fill the gaps created by the border restrictions and Ministry's inability to fully access overseas based experts.

Under Alert Level 1, the Ministry resumed domestic industry engagement, as well as virtual engagements to reach international suppliers. With the ongoing COVID-19 border restrictions, the Ministry will continue to work closely with the New Zealand Defence Industry Association to host

virtual industry events, including an Information Domain Forum.

## Recognising industry excellence

The Ministry continues to support the New Zealand Defence Industry Advisory Council. While the New Zealand Defence Industry Association represents the commercial interests of its members, the Council is appointed by the Minister of Defence, and is an importance source of advice on issues and opportunities in the national and international defence sectors. The Council also oversees the annual Minister of Defence Awards of Excellence to Industry. Established in 1998, the Awards highlight and reward the contribution made by industry to Defence. Being nominated for an award is highly praised by Industry; winning an award is a significant achievement. The 2019 category winners were:

- *Provision of a service to Defence less than \$15 million:* Silverstripe for the re-design and modernisation the Veterans' Affairs website.
- *Provision of a product to Defence less than \$15 million:* EPE Trusted to Protect Ltd for the supply of equipment and training in support of the Defence Force's Counter-Explosive Hazards Capability.
- *Provision of a service or project to Defence greater less than \$15 million:* Østensjø Rederi for the supply, phase 1 modifications, and delivery of the new dive and hydrographic vessel.

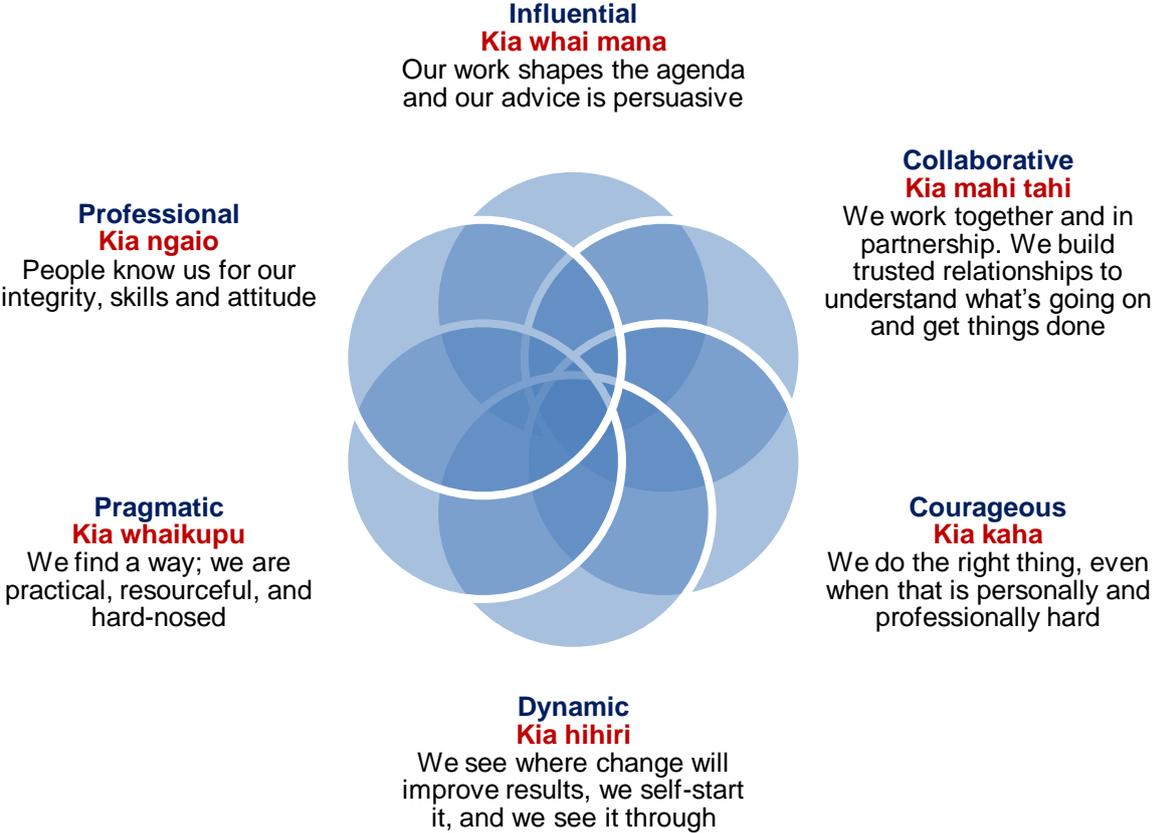
Given the level of investment forecast in the Defence Capability Plan, activities where the Ministry can engage with industry, build relationships, and recognise excellence in capability service delivery are vital. Hosted in Parliament in 2019, the annual Minister of Defence Awards of Excellence to Industry provide this opportunity.



Visit to Loop Technologies in Hamilton, which specialises in restoration, maintenance, replacement and manufacturing of bespoke circuitry and other electrical equipment for Defence

# ORGANISATIONAL HEALTH AND CAPABILITY

The Ministry's values are:



Over the past year staff numbers increased from 149 to 162, predominantly in the Capability Delivery Division. The two largest divisions, which reflect our major functions, are Capability Delivery and Policy and Planning. The majority of the Ministry's departmental costs are personnel costs.

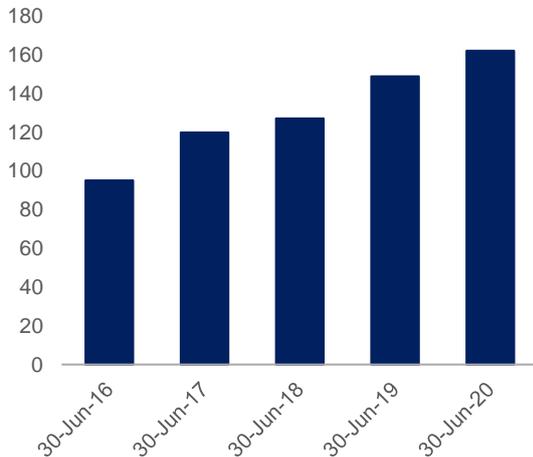


Figure 6: Growth of the Ministry's staff numbers

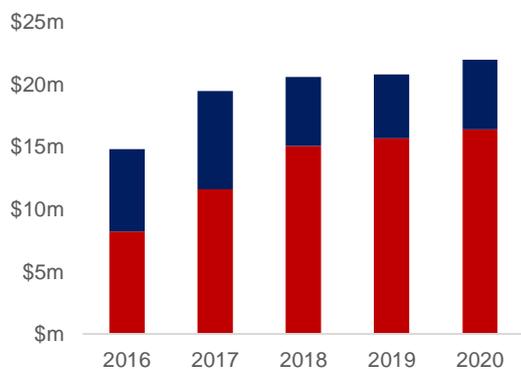
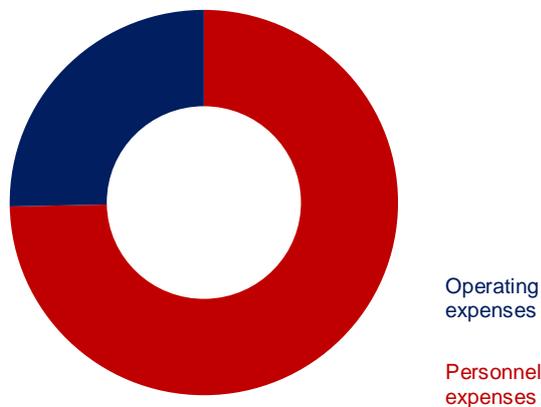


Figure 7: Departmental expenditure by category in 2019/20 (above) and over five years (below)

## COVID-19 RESPONSE

During the COVID-19 lockdown in early 2020, the Ministry's initial focus was the wellbeing of staff and supporting them to work from home.

The Ministry developed a manager-led, staff-centric approach. The Secretary of Defence and the Leadership Team, along with central support teams, ensured a steady flow of information to managers and staff. Regular newsletters were sent to managers with tips to help them support their teams, and provide guidance on setting up a home office space. We surveyed staff to gauge how they were managing.

The Ministry's position was to maintain our critical work, but also to contribute to the All of Government COVID-19 response. Many staff with transferable skills offered to help out. Staff were deployed to work in the National Crisis Management Centre; the COVID-19 Operations Command Centre; the Government Call Centre Reserve and the Ministry of Health.

## DIVERSITY AND INCLUSION

The Ministry contributes to a common set of system-wide (public service) commitments in the diversity and inclusion space. The five Papa Pounamu priority commitments are:

- addressing bias and discrimination
- strengthening cultural competence
- building inclusive leadership
- developing relationships that are responsive to diversity
- supporting and engaging with employee-led networks.

From 2021 the Ministry will report on how it contributes to these priorities.

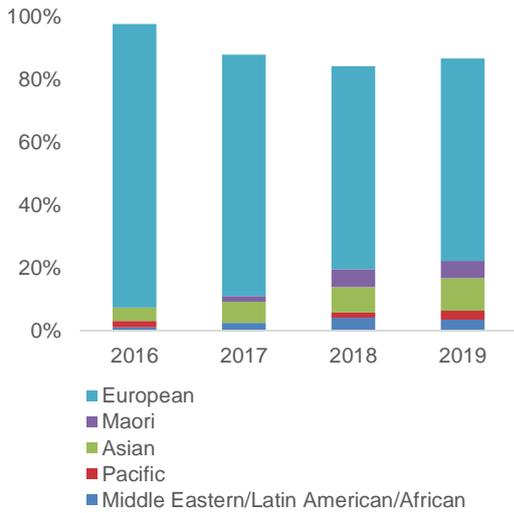


Figure 8: Top five ethnicity clusters reported by Ministry staff each year, at 30 June

## Gender pay

The Ministry operates under the gender pay principle 'transparency and accessibility'. Our *Gender Pay Gap Action Plan* for 2020 is published on the Ministry's website.<sup>10</sup>

In 2016 the Ministry's pay gap was 46%. This has been reduced to 32% at June 2020. The Ministry has a long term plan to reduce the gender pay gap and acknowledges this will not be a quick fix but we are highly committed.

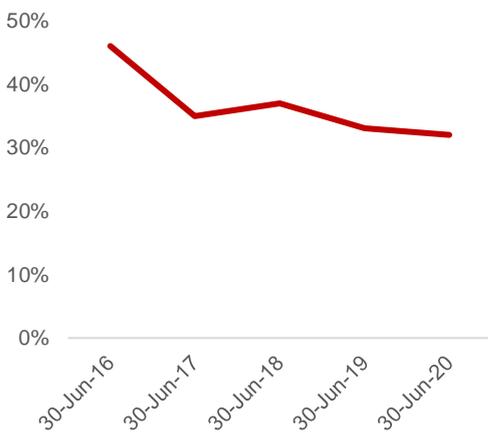


Figure 9: The Ministry's gender pay gap

The most important point is that our gender pay gap is not driven by gaps in the same roles ("like for like") but by occupational or seniority differences in the male and female workforces overall. This is commonly referred to as vertical segregation.

<sup>10</sup> The Ministry's *Gender Pay Gap Action Plan* is available from [www.defence.govt.nz/publications](http://www.defence.govt.nz/publications)

We pay males and females with the same skills and experience the same amount for the same role. Starting salaries for entry level positions are the same for both males and females.

Our gender pay gap is caused by two major factors:

- our most senior project management leadership roles are predominantly held by males, and
- females hold more junior roles.

Five years ago only 36% of our staff were females. At June 2020 this is around 58%. However, as we employ more females into graduate roles our gender pay gap actually widens. Hiring more females into entry level roles is a long-term strategy and we know the gap will reduce as this group of females rise in seniority.

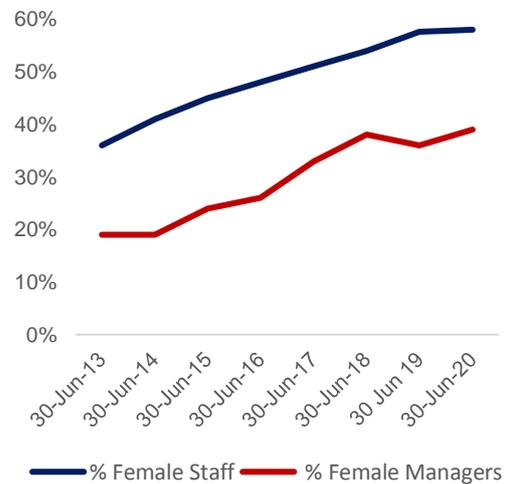


Figure 10: Proportion of female staff and managers

A significant part of the Ministry's workforce is made up of project management professionals, who work in and lead large-scale project teams that purchase major military capabilities for the Defence Force. In 2017 our first female project manager joined the Ministry. We now have nearly 20 female project managers. We are proud of our improvements in this area in particular, and our ability to attract females to work in and lead some of our major projects.

To work towards closing our gender pay gap, we have set the following targets:

1. To ensure that the gender makeup of the Ministry operates on a 40-40-20 basis (that is 40% males, 40% females, and the balance of 20% comprised of any group).  
*Progress: At June 2020, 58% of staff were female.*
2. To increase the percentage of female managers in the Ministry to a minimum of 40% over the next five years.  
*Progress: At June 2020, 38% of managers were female.*
3. That 50% of appointments made to the Capability Delivery division each year over the next five years will be female.  
*Progress: In the year to 30 June 2020, 71% of appointments into Capability Delivery were female.*

## HEALTH AND SAFETY

The Ministry remains committed to providing a safe and healthy working environment for its staff, contractors and visitors; and continues to participate in a range of government-wide health and safety initiatives.

The Ministry's Health and Safety Committee regularly meets to review the most significant health and safety risks including:

- driver fatigue
- psychological harm
- working alone or at home, and
- preparedness for civil defence emergencies.

Health and safety information is shared with staff through dedicated noticeboards, the intranet and regular communications. This was extensive during the period of COVID-19 lockdown with a particular focus on working safely from home.

Key health and safety matters are considered by the Leadership Team, and the obligation of officers is executed under the Ministry's Health and Safety Policy, and Project Safety and Environmental Assurance Framework, in accordance with the Health and Safety at Work Act 2015.

Development opportunities continue to be offered to staff on a regular basis. During 2019/20 this included Mental Health First Aid training. "Above the Line" workshops were also offered to all staff and were developed to embed Te Kawa Mataaho's *Model Standards on Positive and Safe Workplaces*.



## IMPLEMENTING THE NEW ZEALAND BUSINESS NUMBER

The Ministry has implemented the New Zealand Business Number into its processes.

## DEFENCE HEADQUARTERS

In October 2019, the Ministry moved from the Freyberg Building to new Defence headquarters in the former Bowen State Building, now named Defence House. Most Ministry staff are located on one floor of the building, together with the Defence Force Capability Branch.

The Ministry receives property services from the Defence Force, who is the primary tenant of the building. The Ministry also receives communications, ICT and some security services from the Defence Force. This enables the Ministry to leverage economies of scale and supports collaboration in developing advice on Defence policy and deployments and delivery military capability.

The Ministry utilises a range of all of Government tools provided by the government's functional leads,

including the use of the common web platform for the Ministry's website, the Government Electronic Tender Service and benefits from all of government procurement contracts.



## VOTE DEFENCE PERFORMANCE BY APPROPRIATION

Below are details of the appropriations under Vote Defence that fund the delivering of the Ministry's work. Further details about the performance of the appropriations are addressed against each Strategic Priority in the earlier sections.

### DEPARTMENTAL APPROPRIATIONS

#### Multi-category appropriation: Policy Advice and Related Outputs

This appropriation is intended to achieve the provision of civilian advice on defence policy matters and development of international defence relations.

Under this Multi-Category Appropriation (MCA), 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 New Zealand Defence Force assets and personnel
  - the military capabilities required to meet defence policy goals, broad resource implications and the relative merits and risks associated with proposed capability options
- management and enhancement of bilateral and multilateral defence relations
- responses to Ministerial requests and Parliamentary Questions, Official Information Act enquiries and Ombudsmen correspondence.

| Performance Measures   | 2018/19                             | 2019/20          |                                    |
|--|-------------------------------------|------------------|------------------------------------|
|  | Actual                              | Budget           | Actual                             |
| <i>Overarching Measure for Multi-Category Appropriation</i>  |                                     |                  |                                    |
| The performance of the MCA as a whole will be assessed by the average performance success of the below measures (Note 1)                           | +9.8%                               | >0%              | 10.6%                              |
| <b>Ministerial Services</b>  |                                     |                  |                                    |
| <i>This category is intended to achieve the provision of quality and timely Ministerial support to the Minister</i>                                |                                     |                  |                                    |
| Quality, as assessed by the percentage of first draft of all correspondence accepted by the Minister   | 96%<br>(127 of 132 items unchanged) | ≥90%             | 93%<br>(95 of 102 items unchanged) |
| Timeliness, as assessed by the percentage of papers that were submitted by the timeframe set in legislation, or otherwise agreed with the Minister | 95%<br>(125 of 132 items to time)   | ≥95%             | 100%<br>(102 of 102 items to time) |
| <b>Policy Advice</b>   |                                     |                  |                                    |
| <i>This category is intended to achieve the provision of accurate, timely and responsive policy advice</i>   |                                     |                  |                                    |
| Technical quality of policy advice, as assessed by an independent review of a sample of policy papers  | 73%                                 | 3.5 <sup>2</sup> | 3.4                                |

| Performance Measures   | 2018/19 | 2019/20          |        |
|--|---------|------------------|--------|
|  | Actual  | Budget           | Actual |
| Minister's satisfaction with the quality of policy advice, as assessed by survey                               | 90%     | 3.5 <sup>3</sup> | 4.6    |
| <b>Policy Support</b>  |         |                  |        |
| <i>This category is intended to achieve the provision of quality and timely policy support to the Minister</i> |         |                  |        |
| Minister's satisfaction with the quality of policy support, as assessed by survey                              | 90%     | ≥70%             | 95%    |

Note 1: Measured by the difference between actual results and the budget standard of all percentage-based measures within the MCA categories. From 2019/20, the policy advice budget and scores are out of 5 and are converted to a percentage for the purposes of this result: 68% for the independent review and 92% for the Ministerial satisfaction survey, against Budgets of 70%.

Note 2: From 2019/20 the independent review has changed to use the Department of the Prime Minister and Cabinet's Policy Quality Framework, which involves a 1-5 scoring approach.

Note 3: From 2019/20 a new policy advice Ministerial satisfaction survey has been set by the Department of the Prime Minister and Cabinet. This includes new questions and a new rating system that involves scores of 1-5.

#### Expenditure for the year ended 30 June 2020:

| Actual 2019 \$000 | Appropriation                                  | Actual 2020 \$000 | Supp estimates 2020 \$000 | Main estimates 2020 \$000 |
|-------------------|--|-------------------|---------------------------|---------------------------|
| 5,443             | Policy advice                                  | 6,069             | 6,154                     | 5,590                     |
| 1,085             | Ministerial services                           | 1,210             | 1,227                     | 1,115                     |
| 2,567             | Policy support                                 | 2,803             | 3,091                     | 2,580                     |
| <b>9,095</b>      | <b>Total Policy advice and related outputs</b> | <b>10,082</b>     | <b>10,472</b>             | <b>9,285</b>              |

### Departmental output expense: Audit and Assessment

This appropriation is limited to audits and assessments of the New Zealand Defence Force and the Ministry.

| Performance Measures   | 2018/19                | 2019/20 |                  |
|--|------------------------|---------|------------------|
|  | Actual                 | Budget  | Actual           |
| <b>Timeliness:</b> Assessed by the percentage of reports that are submitted by the timeframe set in the approved terms of reference. | New measure in 2019/20 | ≥75%    | 85%              |
| <b>Ministerial satisfaction:</b> Minister's satisfaction with the quality of reports, as assessed by survey.                         | New measure in 2019/20 | ≥70%    | 65% <sup>1</sup> |
| <b>Quality – process:</b> All audits and assessments meet the Ministry's pre-determined quality criteria.                            | 100%                   | 100%    | 100%             |

| Performance Measures  | 2018/19 | 2019/20 |        |
|---|---------|---------|--------|
|   | Actual  | Budget  | Actual |
| <p><b>Quality – external review:</b> All major audits and assessments completed by the Ministry are externally quality assured.</p> <p>Small, simple reviews may be peer reviewed by qualified Ministry of Defence staff from outside the Division. All major reviews are reviewed by qualified persons external to the Ministry.</p> | 100%    | 100%    | 100%   |

Note 1: New arrangements to optimise the delivery of the audit and assessment function have been determined, with effect from August 2020.

**Expenditure for the year ended 30 June 2020:**

| Actual | Appropriation        | Actual | Supp estimates | Main estimates |
|--------|----------------------|--------|----------------|----------------|
| 2019   |                      | 2020   | 2020           | 2020           |
| \$000  |                      | \$000  | \$000          | \$000          |
| 1,946  | Audit and assessment | 1,991  | 2,091          | 2,378          |

## Departmental output expense: Management of Defence Capabilities

This appropriation is limited to the management of procurement, refurbishment and delivery of defence capabilities, on behalf of the Crown, for the New Zealand Defence Force.

| Performance Measures  | 2018/19 | 2019/20 |        |
|---|---------|---------|--------|
|   | Actual  | Budget  | Actual |
| <p><b>Quality of Deliverable:</b> Options to be presented to the Minister for each refurbishment or procurement project up to the preferred tenderer stage will meet the high-level user requirements and will be affordable within the Defence Capital Plan.</p> | 100%    | 100%    | 100%   |
| <p><b>Schedule:</b> Each refurbishment or procurement project up to the identification of the preferred tenderer will be managed to the agreed schedule, except when there are circumstances beyond the control of the Ministry.</p>                              | 100%    | 100%    | 100%   |

**Expenditure for the year ended 30 June 2020:**

| Actual | Appropriation                      | Actual | Supp estimates | Main estimates |
|--------|------------------------------------|--------|----------------|----------------|
| 2019   |                                    | 2020   | 2020           | 2020           |
| \$000  |                                    | \$000  | \$000          | \$000          |
| 9,732  | Management of Defence Capabilities | 9,881  | 11,145         | 9,658          |

## Departmental capital: Ministry of Defence – Capital Expenditure permanent legislative authority

This appropriation is limited to the purchase or development of assets by and for the use of the Ministry of Defence, as authorised by section 24(1) of the Public Finance Act 1989.

| Performance Measures                       | 2018/19             | 2019/20             |                     |
|--|---------------------|---------------------|---------------------|
|  | Actual              | Budget              | Actual              |
| Capital expenditure is within Capital Plan | Within Capital Plan | Within Capital Plan | Within Capital Plan |

### Expenditure for the year ended 30 June 2020:

| Actual | Appropriation                             | Actual | Supp estimates | Main estimates |
|--------|---|--------|----------------|----------------|
| 2019   |   | 2020   | 2020           | 2020           |
| \$000  |   | \$000  | \$000          | \$000          |
| 13     | Ministry of Defence – capital expenditure | 233    | 350            | 350            |

## NON-DEPARTMENTAL CAPITAL EXPENDITURE: DEFENCE CAPABILITIES

This appropriation is limited to the purchase, modification or refurbishment of defence capabilities for the New Zealand Defence Force.

| Performance Measures  | 2018/19                                | 2019/20 |  |
|---|--|---------|--|
|   | Actual                                 | Budget  | Actual   |
| <p><b>Cost:</b> Each procurement or refurbishment project will be managed within its approved budget, inclusive of approved variations to the contract price and project budget.</p> <p>Measured by the percentage of all projects that have project-related capital expenditure incurred in the year within the approved project expenditure budget.</p> | 100%                                   | 100%    | 100%   |
| <p><b>Quality of deliverable:</b> Each procurement or refurbishment project will achieve on delivery the agreed/contracted specifications that are critical to acceptance.</p> <p>Measured by the percentage of all projects in the delivery phase that meet all specifications that are critical to acceptance.</p>                                      | 100%                                   | 100%    | 100%   |
| <p><b>Schedule:</b> Each procurement or refurbishment project will be managed to schedule, without avoidable schedule over-run.</p> <p>Measured by the percentage of all projects in the delivery phase progressed within agreed schedule.</p>  | 83%<br>(10 of 12 projects to schedule) | 85%     | 62%<br>(8 of 13 projects to schedule) <sup>1</sup> |

| Performance Measures  | 2018/19                |                            | 2019/20   |
|---|------------------------|----------------------------|---|
|   | Actual                 | Budget                     | Actual  |
| <b>Benefits realisation:</b> The aggregate percentage of planned benefits expected to have been realised by quarter, as set out in approved project benefits realisation plans. | New measure in 2019/20 | >=80%                      | 80%   |
| <b>Cost forecasting:</b> The aggregate actual capital expenditure on procurement or refurbishment projects compared to the forecast capital expenditure.                        | New measure in 2019/20 | Within +/- 10% of forecast | Revised method: -48% <sup>2,3</sup><br>Original method: -6% |

Note 1: The Anzac Frigate Systems Upgrade, NH90 Simulator, Dive and Hydrographic Vessel, Garrison and Training Support Vehicles, and Operational and Regulatory Aviation Compliance Sustainment: Phase One projects are outside their approved schedule baseline, with some driven by the impact of COVID-19. Further details are provided on each project page under Strategic Priority 3.

Note 2: The methodology for capital expenditure under the Foreign Military Sales agreement with the US Government changed subsequent to the forecast to be in line with alternate information provided by the supplier that is compliant with international accounting standards. Without this change, aggregate actual capital expenditure would have been 6% under budget and within the performance measure.

Note 3: Calculated from the Vote Defence appropriation only, at hedged exchange rates.

#### Expenditure for the year ended 30 June 2020:

| Actual  | Appropriation        | Actual  | Supp estimates | Main estimates |
|---------|----------------------|---------|----------------|----------------|
| 2019    |                      | 2020    | 2020           | 2020           |
| \$000   |                      | \$000   | \$000          | \$000          |
| 333,586 | Defence Capabilities | 275,671 | 667,248        | 744,376        |

Actual spend on Defence Capabilities was below the main estimates budget by \$468.7 million driven by:

- A variance of \$321.8 million for Future Air Surveillance Capability (Boeing P-8A Poseidon) due to the estimates being based on the contractual cash payments under the Foreign Military Sales agreement rather than the accounting value of the work delivered. Timing of recognition of these payments as capital expenditure for accounting purposes is dependent on the activities undertaken by third party suppliers and can vary significantly dependent on the nature and timing of activity completed. There is no change to the timeframe or cash payments for the expected delivery of the aircraft.
- An underspend of \$61.9 million for Maritime Sustainment Capability (replacement of the HMNZS *Endeavour* naval tanker with a new ice-strengthened and winterised tanker) from delays in customised equipment due to COVID-19 and the purchasing of spares due to a change in procurement approach. This expenditure will now be incurred in 2020/21.
- Other projects underspend by \$57.3 million due to availability of vendors, timing of signing procurement contracts, and COVID-19 impacting production and travel schedules.
- Appropriation headroom for foreign currency movements. All foreign currency exposure is hedged by the Ministry. New Zealand's accounting rules require payments in foreign currency to be recorded at exchange rates at the date of the transaction, rather than the hedged rate. To avoid a technical breach of appropriation due to this recognition requirement the Ministry maintains headroom in the appropriation to allow for the potential fluctuation in reported spend due to changes in currency values.





# STATEMENT OF RESPONSIBILITY AND AUDIT REPORT

Te Tauākī Takohanga me te Ripoata Arotake



## STATEMENT OF RESPONSIBILITY

I am responsible, as Chief Executive of the Ministry of Defence (the Ministry), for:

- the preparation of the Ministry's financial statements, and statements of expenses and capital expenditure, and for the judgements expressed in them
- having in place a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting
- ensuring that end-of-year performance information on each appropriation administered by the Ministry is provided in accordance with sections 19A to 19C of the Public Finance Act 1989, whether or not that information is included in this Annual Report and
- the accuracy of any end-of-year performance information prepared by the Ministry, whether or not that information is included in the Annual Report.

In my opinion:

- the financial statements fairly reflect the financial position of the Ministry as at 30 June 2020 and its operations for the year ended on that date and
- the forecast financial statements fairly reflect the forecast financial position of the Ministry as at 30 June 2021 and its operations for the year ending on that date.

Signed by:



Andrew Bridgman  
**Secretary of Defence**  
**Te Tumu Whakarae mō te Waonga**

20 November 2020

Countersigned by:



Pasanka Wickremasinghe  
**Chief Financial Officer**

20 November 2020

# INDEPENDENT AUDITOR'S REPORT

## To the readers of the Ministry of Defence's Annual Report for the year ended 30 June 2020

AUDIT NEW ZEALAND  
Mana Arotake Aotearoa

The Auditor-General is the auditor of the Ministry of Defence (the Ministry). The Auditor-General has appointed me, Karen Young, using the staff and resources of Audit New Zealand, to carry out, on his behalf, the audit of:

- the financial statements of the Ministry on pages 86 to 103, that comprise the statement of financial position, statement of commitments, statement of contingent liabilities and contingent assets as at 30 June 2020, the statement of comprehensive revenue and expense, statement of changes in equity, 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 performance information prepared by the Ministry for the year ended 30 June 2020 on pages 13 to 58 and 69 to 73;
- the statements of expenses and capital expenditure of the Ministry for the year ended 30 June 2020 on pages 82 and 83; and
- the schedules of non-departmental activities which are managed by the Ministry on behalf of the Crown on pages 106 to 118 that comprise:
  - the schedules of assets; liabilities; capital commitments; and contingent liabilities and contingent assets as at 30 June 2020;
  - the schedules of expenses, revenue, capital receipts and capital expenditure for the year ended 30 June 2020; 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 86 to 103:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2020; and
    - its financial performance and cash flows for the year ended on that date; and
  - comply with generally accepted accounting practice in New Zealand in accordance with the Public Benefit Entity Standards Reduced Disclosure Regime.
- The performance information of the Ministry on pages 13 to 58 and 69 to 73:
  - presents fairly, in all material respects, for the year ended 30 June 2020:
    - what has been achieved with the appropriation; and
    - the actual expenses or capital expenditure incurred compared with the appropriated or forecast expenses or capital expenditure; and
  - complies with generally accepted accounting practice in New Zealand.
- The statements of expenses and capital expenditure of the Ministry on pages 82 and 83 are presented fairly, in all material respects, in accordance with the requirements of section 45A of the Public Finance Act 1989.

- The schedules of non-departmental activities which are managed by the Ministry on behalf of the Crown on pages 106 to 118 present fairly, in all material respects, in accordance with the Treasury Instructions 2019:
  - the assets; liabilities; capital commitments; and contingent liabilities and contingent assets as at 30 June 2020; and
  - schedule of expenses, revenue, capital receipts and capital expenditure for the year ended 30 June 2020.

Our audit was completed on 20 November 2020. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Secretary of Defence and our responsibilities relating to the information to be audited, we comment on other information, and we explain our independence.

### **Emphasis of matter – Impact of Covid-19**

Without modifying our opinion, we draw attention to the disclosures about the impact of Covid-19 on the Ministry as set out on pages 32, 34, 37, 39, 41, 43, 45, 47, 51 to 52, 55 and 57 of the performance information and page 83 of the appropriation statement.

### **Basis for our opinion**

We carried out our audit in accordance with the Auditor-General’s Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General’s Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Responsibilities of the Secretary of Defence for the information to be audited**

The Secretary of Defence is responsible on behalf of the Ministry for preparing:

- financial statements that present fairly the Ministry’s financial position, financial performance, and its cash flows, and that comply with generally accepted accounting practice in New Zealand;
- performance information that presents fairly what has been achieved with each appropriation, the expenditure incurred as compared with expenditure expected to be incurred, and that complies with generally accepted accounting practice in New Zealand;
- statements of expenses and capital expenditure of the Ministry, that are presented fairly, in accordance with the requirements of the Public Finance Act 1989; and
- schedules of non-departmental activities, in accordance with the Treasury Instructions, that present fairly those activities managed by the Ministry on behalf of the Crown.

The Secretary of Defence is responsible for such internal control as is determined is necessary to enable the preparation of the information to be audited that is free from material misstatement, whether due to fraud or error.

In preparing the information to be audited, the Secretary of Defence is responsible on behalf of the Ministry for assessing the Ministry’s ability to continue as a going concern. The Secretary of Defence is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to merge or to terminate the activities of the Ministry, or there is no realistic alternative but to do so.

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

## Responsibilities of the auditor for the information to be audited

Our objectives are to obtain reasonable assurance about whether the information we audited, as a whole, is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists.

Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error.

Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers, taken on the basis of the information we audited.

For the budget information reported in the information we audited, our procedures were limited to checking that the information agreed to the Ministry's 2018-2022 Statement of Intent, Estimates and Supplementary Estimates of Appropriation 2019/20 for Vote Defence, and the 2019/20 forecast financial figures included in the Ministry's 2018/19 annual report.

We did not evaluate the security and controls over the electronic publication of the information we audited.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the information we audited, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit 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.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Secretary of Defence.
- We evaluate the appropriateness of the reported performance information within the Ministry's framework for reporting its performance.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Secretary of Defence and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Ministry's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the information we audited or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Ministry to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the information we audited, including the disclosures, and whether the information we audited represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Secretary of Defence regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

## Other information

The Secretary of Defence is responsible for the other information. The other information comprises the information included on pages 3 to 118, but does not include the information we audited, and our auditor's report thereon.

Our opinion on the information we audited does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

Our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the information we audited or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Independence

We are independent of the Ministry in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board.

In addition to this audit, Audit New Zealand has carried out an assurance review of the Major Projects Report 2019 prepared by the Ministry of Defence and the New Zealand Defence Force.

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

*Karen Young*

Karen Young

### **Audit New Zealand**

On behalf of the Auditor-General

Wellington, New Zealand



# APPROPRIATION STATEMENTS

## Te Tauākī Rohenga Pūtea



## STATEMENT OF EXPENSES AND CAPITAL EXPENDITURE AGAINST APPROPRIATIONS

For the year ended 30 June 2020

| Actual                                     |  | Forecast       | Main estimates | Supp estimates | Actual         | Forecast       |
|--|--|----------------|----------------|----------------|----------------|----------------|
|  |  | not audited    | not audited    | not audited    |                | not audited    |
| 2019                                       |  | 2020           | 2020           | 2020           | 2020           | 2021           |
| \$000                                      |  | \$000          | \$000          | \$000          | \$000          | \$000          |
| <b>Vote: Defence</b>                       |  |                |                |                |                |                |
| <b>Departmental Appropriations</b>         |  |                |                |                |                |                |
| <b>Appropriations for output expenses</b>  |  |                |                |                |                |                |
| 1,946                                      | Audit and assessment   | 2,378          | 2,378          | 2,091          | 1,991          | 2,398          |
| 9,732                                      | Management of defence capabilities   | 9,658          | 9,658          | 11,145         | 9,881          | 10,983         |
| <b>11,678</b>                              | <b>Total appropriations for output expenses</b>                            | <b>12,036</b>  | <b>12,036</b>  | <b>13,236</b>  | <b>11,872</b>  | <b>13,381</b>  |
| <b>Multi-category appropriations (MCA)</b> |  |                |                |                |                |                |
| Policy advice and related outputs MCA      |  |                |                |                |                |                |
| 5,443                                      | Policy advice  | 5,590          | 5,590          | 6,154          | 6,069          | 5,871          |
| 1,085                                      | Ministerial services   | 1,115          | 1,115          | 1,227          | 1,210          | 1,171          |
| 2,567                                      | Policy support   | 2,580          | 2,580          | 3,091          | 2,803          | 2,841          |
| <b>9,095</b>                               | <b>Total multi-category appropriations for output expenses</b>             | <b>9,285</b>   | <b>9,285</b>   | <b>10,472</b>  | <b>10,082</b>  | <b>9,883</b>   |
| <b>Departmental capital expenditure</b>    |  |                |                |                |                |                |
| 13   | Ministry of Defence – capital expenditure (note 1)                         | 350            | 350            | 350            | 233            | 350            |
| <b>20,786</b>                              | <b>Total Departmental appropriations</b>                                   | <b>21,671</b>  | <b>21,671</b>  | <b>24,058</b>  | <b>22,187</b>  | <b>23,614</b>  |
| <b>Non-Departmental Appropriations</b>     |  |                |                |                |                |                |
| <b>Capital expenditure</b>                 |  |                |                |                |                |                |
| 333,586                                    | Defence capabilities (note 2)  | 744,376        | 744,376        | 667,248        | 275,671        | 625,389        |
| <b>333,586</b>                             | <b>Total Non-Departmental appropriations</b>                               | <b>744,376</b> | <b>744,376</b> | <b>667,248</b> | <b>275,671</b> | <b>625,389</b> |
| <b>354,372</b>                             | <b>Total annual appropriations administered by the Ministry of Defence</b> | <b>766,047</b> | <b>766,047</b> | <b>691,306</b> | <b>297,858</b> | <b>649,003</b> |

Note 1: The departmental capital expenditure appropriation is given by permanent legislative authority (PLA) under section 24(1) of the Public Finance Act 1989.

Note 2: For comparability, the non-departmental capital expenditure appropriation for 2019 has been restated from the amount published in the 2019 Annual Report. Refer Note 5 of the non-departmental statements and schedules.

## **STATEMENT OF EXPENSES AND CAPITAL EXPENDITURE INCURRED WITHOUT, OR IN EXCESS OF, APPROPRIATION OR OTHER AUTHORITY**

For the year ended 30 June 2020

The Ministry incurred costs of \$1.354 million on capital infrastructure projects during the COVID-19 pandemic lockdown period. The costs that were incurred during the lockdown period where work was unable to be carried out are required to be accounted as an expense rather than capitalised as part of the project. The Ministry did not have an appropriation to allow for this expenditure (2019 – Nil).

## **STATEMENT OF DEPARTMENTAL CAPITAL INJECTIONS WITHOUT, OR IN EXCESS OF, AUTHORITY**

For the year ended 30 June 2020

The Ministry has not received any capital injections during the year without, or in excess of, authority (2019 – Nil).

## **TRANSFERS UNDER SECTION 26A OF THE PUBLIC FINANCE ACT 1989**

For the year ended 30 June 2020

The Ministry has not made any transfers under Section 26A of the Public Finance Act 1989 (2019 – Nil).

## **PERFORMANCE INFORMATION**

Performance information for all departmental appropriations are reported in this Annual Report.

Performance information for non-departmental capital expenditure is reported on page 72 in this Annual Report.





# DEPARTMENTAL FINANCIAL STATEMENTS

Te Tauākī Pūtea ā-Tari



## STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE

For the year ended 30 June 2020

| Actual          |  | Note | Forecast<br>not audited | Actual       | Forecast<br>not audited |
|-----------------|--|------|-------------------------|--------------|-------------------------|
| 2019            |  |      | 2020                    | 2020         | 2021                    |
| \$000           |  |      | \$000                   | \$000        | \$000                   |
| <b>Revenue</b>  |  |      |                         |              |                         |
| 20,092          | Revenue Crown                                      | 2    | 21,321                  | 20,338       | 23,264                  |
| 1,068           | Other revenue                                      | 2    | -                       | 4,229        | -                       |
| 21,160          | Total revenue                                      |      | 21,321                  | 24,567       | 23,264                  |
| <b>Expenses</b> |  |      |                         |              |                         |
| 15,642          | Personnel expenses                                 | 3    | 16,292                  | 16,353       | 17,089                  |
| 4,820           | Operating expenses                                 | 4    | 4,734                   | 5,420        | 5,986                   |
| 194             | Depreciation and amortisation<br>expense           | 7,8  | 154                     | 90           | 48                      |
| 117             | Capital charge                                     | 5    | 141                     | 91           | 141                     |
| 20,773          | Total expenses                                     |      | 21,321                  | 21,954       | 23,264                  |
| <b>387</b>      | <b>Surplus</b>                                     |      | -                       | <b>2,613</b> | -                       |
| -               | Other comprehensive revenue and<br>expense         |      | -                       | -            | -                       |
| <b>387</b>      | <b>Total comprehensive revenue and<br/>expense</b> |      | -                       | <b>2,613</b> | -                       |

The accompanying notes form part of these financial statements. Explanations of major variances against the 2020 forecast financial statements are shown in note 16.

## STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

| Actual                         |                                | Note | Forecast<br>not audited | Actual       | Forecast<br>not audited |
|--------------------------------|--------------------------------|------|-------------------------|--------------|-------------------------|
| 2019                           |                                |      | 2020                    | 2020         | 2021                    |
| \$000                          |                                |      | \$000                   | \$000        | \$000                   |
| <b>Assets</b>                  |                                |      |                         |              |                         |
| <b>Current assets</b>          |                                |      |                         |              |                         |
| 4,356                          | Cash and cash equivalents      |      | 3,487                   | 7,317        | 4,975                   |
| 359                            | Receivables                    | 6    | 341                     | 15           | 394                     |
| 16                             | Prepayments                    |      | 7                       | 4            | 18                      |
| 4,731                          | Total current assets           |      | 3,835                   | 7,336        | 5,387                   |
| <b>Non-current assets</b>      |                                |      |                         |              |                         |
| 54                             | Property, plant and equipment  | 7    | 31                      | 205          | 80                      |
| 17                             | Intangible assets              | 8    | 2                       | 10           | -                       |
| 71                             | Total non-current assets       |      | 33                      | 215          | 80                      |
| <b>4,802</b>                   | <b>Total assets</b>            |      | <b>3,868</b>            | <b>7,551</b> | <b>5,467</b>            |
| <b>Liabilities</b>             |                                |      |                         |              |                         |
| <b>Current liabilities</b>     |                                |      |                         |              |                         |
| 1,045                          | Creditors and other payables   | 9    | 644                     | 2,218        | 2,034                   |
| 387                            | Return of surplus to the Crown | 10   | -                       | 1,550        | -                       |
| -                              | Provision for restructuring    | 11   | -                       | 128          | -                       |
| 881                            | Employee entitlements          | 12   | 726                     | 1,130        | 860                     |
| 2,313                          | Total current liabilities      |      | 1,370                   | 5,026        | 2,894                   |
| <b>Non-current liabilities</b> |                                |      |                         |              |                         |
| 136                            | Employee entitlements          | 12   | 145                     | 172          | 220                     |
| 136                            | Total non-current liabilities  |      | 145                     | 172          | 220                     |
| <b>2,449</b>                   | <b>Total liabilities</b>       |      | <b>1,515</b>            | <b>5,198</b> | <b>3,114</b>            |
| <b>2,353</b>                   | <b>Net assets</b>              |      | <b>2,353</b>            | <b>2,353</b> | <b>2,353</b>            |
| <b>Equity</b>                  |                                |      |                         |              |                         |
| 2,353                          | Taxpayers' funds               | 13   | 2,353                   | 2,353        | 2,353                   |
| <b>2,353</b>                   | <b>Total equity</b>            |      | <b>2,353</b>            | <b>2,353</b> | <b>2,353</b>            |

The accompanying notes form part of these financial statements. Explanations of major variances against the 2020 forecast financial statements are shown in note 16.

## STATEMENT OF CASH FLOWS

For the year ended 30 June 2020

| <b>Actual</b>                               |   | <b>Forecast<br/>not audited</b> | <b>Actual</b> | <b>Forecast<br/>not audited</b> |
|---|---|---------------------------------|---------------|---------------------------------|
| <b>2019</b>                                 |   | <b>2020</b>                     | <b>2020</b>   | <b>2021</b>                     |
| <b>\$000</b>                                |   | <b>\$000</b>                    | <b>\$000</b>  | <b>\$000</b>                    |
| <b>Cash flows from operating activities</b> |   |                                 |               |                                 |
| 20,092                                      | Receipts from Revenue Crown                         | 21,321                          | 20,338        | 23,264                          |
| 1,108                                       | Receipts from other revenue                         | -                               | 4,494         | -                               |
| (15,651)                                    | Payments to employees                               | (16,204)                        | (15,939)      | (17,067)                        |
| (5,067)                                     | Payments to suppliers                               | (4,822)                         | (5,028)       | (6,008)                         |
| (117)                                       | Payments for capital charge                         | (141)                           | (91)          | (141)                           |
| 80  | Goods and services tax (net)                        | -                               | (273)         | -                               |
| 445   | Net cash flow from operating activities             | 154                             | 3,501         | 48                              |
| <b>Cash flows from investing activities</b> |   |                                 |               |                                 |
| -   | Receipts from sale of property, plant and equipment | -                               | 79            | -                               |
| (12)  | Purchase of property, plant and equipment           | (128)                           | (233)         | (60)                            |
| -   | Purchase of intangible assets                       | -                               | -             | -                               |
| (12)  | Net cash flow from investing activities             | (128)                           | (154)         | (60)                            |
| <b>Cash flows from financing activities</b> |   |                                 |               |                                 |
| (138)                                       | Return of operating surplus                         | (650)                           | (386)         | (595)                           |
| (138)                                       | Net cash flow from financing activities             | (650)                           | (386)         | (595)                           |
| <b>295</b>                                  | <b>Net increase/(decrease) in cash</b>              | <b>(624)</b>                    | <b>2,961</b>  | <b>(607)</b>                    |
| 4,061                                       | Cash at the beginning of the year                   | 4,111                           | 4,356         | 5,582                           |
| <b>4,356</b>                                | <b>Cash at the end of the year</b>                  | <b>3,487</b>                    | <b>7,317</b>  | <b>4,975</b>                    |

The accompanying notes form part of these financial statements. Explanations of major variances against the 2020 forecast financial statements are shown in note 16.

## STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2020

| Actual        | Note                                     | Forecast<br>not audited | Actual        | Forecast<br>not audited |
|---------------|--|-------------------------|---------------|-------------------------|
| 2019<br>\$000 |  | 2020<br>\$000           | 2020<br>\$000 | 2021<br>\$000           |
| 2,353         | <b>Balance at 1 July</b>                 | 2,353                   | 2,353         | 2,353                   |
| 387           | Total comprehensive revenue and expense  | -                       | 2,613         | -                       |
| (387)         | Return of operating surplus to the Crown | 10                      | (1,550)       | -                       |
| -             | Approved retention of surplus            | 13                      | 1,063         | -                       |
| -             | Voluntary return of funds                | 13                      | (1,063)       | -                       |
| <b>2,353</b>  | <b>Balance at 30 June</b>                | <b>2,353</b>            | <b>2,353</b>  | <b>2,353</b>            |

## STATEMENT OF CONTINGENT LIABILITIES AND CONTINGENT ASSETS

As at 30 June 2020

### Contingent Liabilities

The Ministry has no quantifiable or unquantifiable contingent liabilities (2019 – Nil).

### Legal proceedings and disputes

The Ministry has no pending legal proceedings and disputes (2019 – Nil).

### Contingent Assets

The Ministry has no contingent assets (2019 – one).

During 2019/20 the Ministry accepted an Offer of Settlement for \$2.0 million relating to its insurance claims for damage and other costs incurred due to the November 2016 Kaikoura earthquake. This outstanding insurance claim was recorded as a contingent asset at 30 June 2019.

*The accompanying notes form part of these financial statements. Explanations of major variances against the 2020 forecast financial statements are shown in note 16.*

## STATEMENT OF COMMITMENTS

As at 30 June 2020

### 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 date.

The Ministry has no capital commitments (2019 – Nil).

### Non-cancellable Operating Lease Commitments

The Ministry leases property, plant and equipment in the normal course of its business. In October 2019 the Ministry moved to its long-term accommodation in the new Defence headquarters in the former Bowen State Building. The sublease from the New Zealand Defence Force has a non-cancellable leasing period of around 17 years remaining. Previously the Ministry was occupying temporary premises in Freyberg Building under a neighbourhood agreement with the prime lessee, the Defence Force and had no non-cancellable operating lease commitments.

| <b>Actual<br/>2019<br/>\$000</b>                           | <b>Actual<br/>2020<br/>\$000</b> |
|--|----------------------------------|
| <b>Non-cancellable operating lease commitments</b>         |                                  |
| - Not later than one year                                  | 2,163                            |
| - Later than one year and not later than two years         | 2,181                            |
| - Later than two years and not later than five years       | 6,652                            |
| - Later than five years                                    | 27,468                           |
| <b>- Total non-cancellable operating lease commitments</b> | <b>38,464</b>                    |

*The accompanying notes form part of these financial statements. Explanations of major variances against the 2020 forecast financial statements are shown in note 16.*

# NOTES TO THE FINANCIAL STATEMENTS

## 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 and operates in New Zealand. The relevant legislation governing the Ministry's operations includes the Public Finance Act 1989 and the Defence Act 1990. The Ministry's ultimate parent is the New Zealand Crown.

In addition, the Ministry has reported on Crown activities that it administers in the non-departmental statements and schedules on pages 106 to 118.

The Ministry's primary objective is to provide services to the New Zealand public. The Ministry does not operate to make a financial return. The Ministry has designated itself as a public benefit entity (PBE) for the purposes of complying with generally accepted accounting practice.

The financial statements of the Ministry are for the year ended 30 June 2020 and were approved for issue by the Secretary of Defence of the Ministry on 20 November 2020.

### Basis of preparation

The financial statements have been prepared on a going-concern basis, and the accounting policies have been applied consistently throughout the year.

### 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.

The financial statements have been prepared in accordance and comply with Tier 2 PBE accounting standards. The Ministry meets the requirements of Tier 2 and is eligible for reduced disclosure reporting as its expenses are less than \$30 million and does not have public accountability.

### Presentation currency and rounding

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

PBE IPSAS 34-38 replaced the previous standards for interests in other entities (PBE IPSAS 6-8). There was no effect as a result of this change. There have been no other changes in the Ministry's accounting policies since the date of last audited financial statements.

### Standards issued and not yet effective and not early adopted

Financial accounting standards and amendments issues but not yet effective that have not been early adopted are:

#### *Amendment to PBE IPSAS 2 Statement of Cash Flows*

This amendment requires entities to provide disclosures that enable users of the financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. This amendment is effective for annual periods beginning on or after 1 January 2021, with early application permitted. No effect is expected as a result of this change.

#### *PBE IPSAS 41 Financial Instruments*

This standard was issued by the XRB in March 2019 and supersedes PBE IFRS 9 *Financial Instruments*, which was issued as an interim standard. It is effective for reporting periods beginning on or after 1 January 2022. The Ministry does not expect any significant changes as the requirements are similar to PBE IFRS 9.

#### *PBE FRS 48 Service Performance Reporting*

PBE FRS 48 replaces the service performance reporting requirements of PBE IPSAS 1 and is effective for reporting periods beginning on or after 1 January 2022. The Ministry has not yet determined how application of this standard will affect its service performance reporting.

## Summary of significant accounting policies

Significant accounting policies are included in the notes to which they relate.

Significant accounting policies that do not relate to a specific note are outlined below.

### 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.

### 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. 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.

### Income tax

The Ministry is a public authority and consequently is exempt from income tax. Accordingly, no provision has been made for income tax.

### Forecast figures

The 2020 forecast figures are for the year ended 30 June 2020 and were published in the 2018/19 Annual Report. They are consistent with the Ministry's best estimate financial forecast information submitted to the Treasury for the Budget Economic and Fiscal Update (BEFU) for the year ending 2019/20.

The 2021 forecast figures are for the year ending 30 June 2021, which are consistent with the best estimate financial forecast information submitted to the Treasury for the BEFU for the 2020/21 financial year.

The forecast financial statements have been prepared as required by the Public Finance Act 1989 to communicate forecast financial information for accountability purposes. Forecast figures are unaudited and have been prepared using the accounting policies adopted in preparing these financial statements.

The 2021 forecast financial statements ("Forecast") are prepared in accordance with and comply with PBE FRS 42 Prospective Financial Statements.

The forecast financial statements were authorised for issue by the Secretary of Defence of the Ministry on 30 March 2020.

While the Ministry regularly updates its forecasts, updated forecast financial statements for the year ended 30 June 2021 will not be published.

The significant assumptions underlying the forecast financial statements are:

- the functions performed and the appropriations administered by the Ministry will not change over the forecast period
- the Ministry will not receive any additional funding beyond that voted in the Estimates of Appropriations during the forecast period.

The actual financial results achieved for 30 June 2021 are likely to vary from the forecast information, and the variations may be material.

## Cost allocation policies

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

Direct costs are those costs directly attributable to an output. Indirect costs are those costs that cannot be attributed to a specific output in an economically feasible manner.

Direct costs are charged directly to outputs. Indirect costs are charged to outputs based on a predetermined ratio. This ratio is assessed annually based on the services expected to be provided for each output over the ensuing year.

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. There are no estimates or assumptions that are considered to have a significant risk of causing a

material adjustment to the carrying amounts of assets and liabilities within the next financial year.

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

The Ministry has not exercised any critical judgements in applying the Ministry's accounting policies for the year ended 30 June 2020.

## Comparative information

Comparatives have been restated where necessary to maintain consistency with current year amounts.

## NOTE 2: REVENUE

### Accounting policy

#### Revenue Crown

Revenue from the Crown is measured based on the Ministry's funding entitlement for the reporting period. The funding entitlement is established by Parliament when it passes the Appropriation Acts for the financial year. The amount of revenue recognised takes into account any amendments to appropriations approved in the Appropriation (Supplementary Estimates) Act for the year and certain other unconditional funding adjustments formally approved prior to balance date.

There are no conditions attached to the funding from the Crown. However, the Ministry may only incur expenses within the scope and limits of its appropriations.

The fair value of Revenue Crown has been determined to be equivalent to the funding entitlement.

#### Other revenue

Costs incurred by the Ministry in the pre-acquisition stages of acquisition projects are recovered from the Defence Force. This is classified as an exchange transaction.

Other cost recoveries relate to contributions from other government agencies to reimburse costs incurred by the Ministry for activities contributing to both agencies.

### Breakdown of other revenue

| Actual<br>2019<br>\$000 |   | Actual<br>2020<br>\$000 |
|-------------------------|---|-------------------------|
| 1,017                   | Project costs recovered from NZDF               | 1,698                   |
| 51                      | Other cost recoveries                           | 440                     |
| -                       | - Proceeds from insurance claims                | 2,012                   |
| -                       | - Gain on sale of property, plant and equipment | 79                      |
| <b>1,068</b>            | <b>Total other revenue</b>                      | <b>4,229</b>            |

## NOTE 3: PERSONNEL EXPENSES

### Accounting policy

#### Salaries and wages

Salaries and wages are recognised as an expense as employees provide services.

#### Superannuation schemes

Employee contributions to the State Sector Retirement Savings Scheme, KiwiSaver, and the Government Superannuation Fund are accounted for as defined contribution superannuation schemes and are expensed in the surplus or deficit as incurred.

| Actual<br>2019<br>\$000 |  | Actual<br>2020<br>\$000 |
|-------------------------|--|-------------------------|
| 14,952                  | Salaries and wages                                   | 15,497                  |
| 491                     | Employer contributions to defined contribution plans | 482                     |
| 199                     | Increase/(decrease) in employee entitlements         | 374                     |
| <b>15,642</b>           | <b>Total personnel expenses</b>                      | <b>16,353</b>           |

## NOTE 4: OPERATING EXPENSES

### Accounting policy

Operating expenses are recognised when goods and services are received.

| Actual<br>2019<br>\$000 |   | Forecast<br>not audited<br>2020<br>\$000 | Actual<br>2020<br>\$000 | Forecast<br>not audited<br>2021<br>\$000 |
|-------------------------|---|--|-------------------------|--|
| 150                     | Audit fees for financial statements               | 150                                      | 149                     | 155                                      |
| -                       | Fees paid to Audit New Zealand for other services | -  | 65                      | -  |
| 1,355                   | Consultants and contractors                       | 740                                      | 1,200                   | 702                                      |
| 133                     | Professional services                             | 1  | 54                      | 10                                       |
| 993                     | Travel and related costs                          | 766                                      | 722                     | 975                                      |
| 204                     | Courses, conferences and exhibitions              | 195                                      | 172                     | 208                                      |
| 398                     | Rental of premises                                | 2,025                                    | 1,362                   | 2,273                                    |
| 188                     | Legal   | 53                                       | 328                     | 95                                       |
| 347                     | Grants and contributions                          | 92                                       | 158                     | 184                                      |
| 1,052                   | Other operating costs                             | 712                                      | 1,210                   | 1,384                                    |
| <b>4,820</b>            | <b>Total operating expenses</b>                   | <b>4,734</b>                             | <b>5,420</b>            | <b>5,986</b>                             |

Fees paid to Audit New Zealand for other services related to the carrying out of an assurance review of the Major Projects Report 2019 prepared jointly by the Ministry and the Defence Force. In 2019 the review of the *Major Projects Report 2018* was carried out by Audit New Zealand, on behalf of the Auditor-General, at no charge.

## NOTE 5: CAPITAL CHARGE

### Accounting policy

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

### Further information

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 2020 was 6.0% (2019 6.0%).

## NOTE 6: RECEIVABLES

### Accounting policy

Short-term receivables are recorded at the amount due, less an allowance for credit losses. The Ministry applies the simplified expected credit loss model of recognising expected credit losses for receivables.

In measuring expected credit losses, short-term receivables have been assessed on a collective basis where they possess shared credit risk characteristics.

Short-term receivables are written-off when there is no reasonable expectation of recovery.

| <b>Actual<br/>2019<br/>\$000</b> |   | <b>Actual<br/>2020<br/>\$000</b> |
|----------------------------------|---|----------------------------------|
|                                  | <b>Receivables from exchange transactions</b>       |                                  |
| 359                              | Debtors   | 15                               |
| -                                | Less allowance for credit losses                    | -                                |
| 359                              | Net debtors   | 15                               |
| <b>359</b>                       | <b>Total receivables from exchange transactions</b> | <b>15</b>                        |
| -                                | Receivables from non-exchange transactions          | -                                |
| <b>359</b>                       | <b>Total receivables</b>                            | <b>15</b>                        |

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

**NOTE 7: PROPERTY, PLANT AND EQUIPMENT**

**Accounting policy**

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.

**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.

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.

In most instances, an item of property, plant and equipment is recognised at its cost.

**Disposals**

Gains and losses on disposals are determined by comparing the net disposal proceeds with the carrying amount of the asset. Gains and losses on disposals are included in the surplus/deficit.

**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:

|                    |             |
|--------------------|-------------|
| Furniture          | 2½-10 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.

**Impairment**

The Ministry does not hold any cash-generating assets. Assets are considered cash-generating where their primary objective is to generate a commercial return.

Property, plant and equipment and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

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

## Restrictions on title

There are no restrictions over the title of the Ministry's property, plant and equipment, nor is any property, plant and equipment pledged as security for liabilities.

|   | Actual                             |                              |  | Total<br>\$000 |
|---|------------------------------------|------------------------------|--|----------------|
|   | Leasehold<br>improvements<br>\$000 | Office<br>furniture<br>\$000 | Office and<br>computer<br>equipment<br>\$000 |                |
| <b>Cost or valuation</b>                              |                                    |                              |  |                |
| Balance at 1 July 2018                                | 504                                | 103                          | 957  | 1,564          |
| Additions   | -                                  | -                            | 13   | 13             |
| Disposals   | -                                  | -                            | -  | -              |
| <b>Balance at 30 June 2019</b>                        | <b>504</b>                         | <b>103</b>                   | <b>970</b>                                   | <b>1,577</b>   |
| Balance at 1 July 2019                                | 504                                | 103                          | 970  | 1,577          |
| Additions   | -                                  | -                            | 234  | 234            |
| Disposals   | (504)                              | (103)                        | (890)  | (1,497)        |
| <b>Balance at 30 June 2020</b>                        | <b>-</b>                           | <b>-</b>                     | <b>314</b>                                   | <b>314</b>     |
| <b>Accumulated depreciation and impairment losses</b> |                                    |                              |  |                |
| Balance at 1 July 2018                                | 422                                | 72                           | 842  | 1,336          |
| Depreciation expense                                  | 82                                 | 31                           | 74   | 187            |
| Eliminate on disposal                                 | -                                  | -                            | -  | -              |
| <b>Balance at 30 June 2019</b>                        | <b>504</b>                         | <b>103</b>                   | <b>916</b>                                   | <b>1,523</b>   |
| Balance at 1 July 2019                                | 504                                | 103                          | 916  | 1,523          |
| Depreciation expense                                  | -                                  | -                            | 83   | 83             |
| Eliminate on disposal                                 | (504)                              | (103)                        | (890)  | (1,497)        |
| <b>Balance at 30 June 2020</b>                        | <b>-</b>                           | <b>-</b>                     | <b>109</b>                                   | <b>109</b>     |
| <b>Carrying amounts</b>                               |                                    |                              |  |                |
| At 30 June and 1 July 2019                            | -                                  | -                            | 54   | 54             |
| <b>At 30 June 2020</b>                                | <b>-</b>                           | <b>-</b>                     | <b>205</b>                                   | <b>205</b>     |

In October 2019 the Ministry relocated to its long-term accommodation in the new Defence headquarters in the former Bowen State Building. The sublease from the Defence Force includes all required building fit-out and furniture. On relocation the Ministry disposed of all owned office furniture. At 30 June 2020 the Ministry did not own any leasehold improvements or furniture.

## NOTE 8: INTANGIBLE ASSETS

### Accounting policy

#### Additions

Software development costs, including licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

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:

|                   |           |
|-------------------|-----------|
| Computer software | 3-5 years |
|-------------------|-----------|

#### Impairment

Refer to the policy for impairment of property, plant, and equipment in Note 7. The same policy applies to the impairment of intangible assets.

### Critical accounting estimates and assumptions

#### Useful lives of software

The useful life of software is determined at the time the software is acquired and brought into use and is reviewed at each reporting date for appropriateness. For computer software licences, the useful life represents management's view of the expected period over which the Ministry will receive benefits from the software, but not exceeding the licence term.

## Restrictions on title

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

|   | Actual            |                |
|---|-------------------|----------------|
|   | Software<br>\$000 | Total<br>\$000 |
| <b>Cost</b>   |                   |                |
| Balance at 1 July 2018                                | 991               | 991            |
| Additions   | -                 | -              |
| Disposals   | -                 | -              |
| <b>Balance at 30 June 2019</b>                        | <b>991</b>        | <b>991</b>     |
| Balance at 1 July 2019                                | 991               | 991            |
| Additions   | -                 | -              |
| Disposals   | (391)             | (391)          |
| <b>Balance at 30 June 2020</b>                        | <b>600</b>        | <b>600</b>     |
| <b>Accumulated amortisation and impairment losses</b> |                   |                |
| Balance at 1 July 2018                                | 967               | 967            |
| Amortisation expense                                  | 7                 | 7              |
| Disposals   | -                 | -              |
| <b>Balance at 30 June 2019</b>                        | <b>974</b>        | <b>974</b>     |
| Balance at 1 July 2019                                | 974               | 974            |
| Amortisation expense                                  | 7                 | 7              |
| Disposals   | (391)             | (391)          |
| <b>Balance at 30 June 2020</b>                        | <b>590</b>        | <b>590</b>     |
| <b>Carrying amounts</b>                               |                   |                |
| At 30 June and 1 July 2019                            | 17                | 17             |
| <b>At 30 June 2020</b>                                | <b>10</b>         | <b>10</b>      |

## NOTE 9: CREDITORS AND OTHER PAYABLES

### Accounting policy

Short-term creditors are recorded at the amount payable.

| Actual<br>2019<br>\$000                         | Actual<br>2020<br>\$000 |
|---|-------------------------|
| 340 Creditors                                   | 1,475                   |
| 342 Accrued expenses                            | 653                     |
| 363 GST payable                                 | 90                      |
| <b>1,045 Total creditors and other payables</b> | <b>2,218</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<br>2019<br>\$000                      | Actual<br>2020<br>\$000 |
|--|-------------------------|
| 387 Net surplus                              | 2,613                   |
| - Approved retention of surplus              | (1,063)                 |
| <b>387 Total return of operating surplus</b> | <b>1,550</b>            |

The return of operating surplus to the Crown is required to be paid by 31 October of each year.

## NOTE 11: PROVISION FOR RESTRUCTURING

| Actual<br>2019<br>\$000              | Actual<br>2020<br>\$000 |
|--------------------------------------|-------------------------|
| - Provision at start of period       | -                       |
| - Additional provision made          | 128                     |
| - Provision used                     | -                       |
| - <b>Provision for restructuring</b> | <b>128</b>              |

In June 2020 the Ministry announced a proposal to implement a new structure to optimise the delivery of the audit and assessment function. The provision reflects the expected cost of redundancy payments arising from the restructure. The new structure was implemented on 24 August 2020.

## NOTE 12: EMPLOYEE ENTITLEMENTS

### Accounting policy

#### 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.

## 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.

## Critical accounting estimates and assumptions

### Long service leave and retirement gratuities

The measurement of the long service leave and retirement gratuities obligations depend on a number of factors that are determined on an actuarial basis using a number of assumptions. Two key assumptions used in calculating this liability include the discount rate and the salary inflation factor. Any changes in these assumptions will affect the carrying amount of the liability.

Expected future payments are discounted using a weighted average discount rate of 1.52% (2019 2.15%) and an inflation factor of 2.51% (2019 2.85%) based on Treasury discount rates.

If either the discount rate or the salary inflation factor were to change by 1% from the Treasury's discount rates, with all other factors held constant, the carrying amount of the liability and the surplus/deficit would change by less than \$16,000 (2019 less than \$12,500).

| Actual<br>2019<br>\$000 |  | Actual<br>2020<br>\$000 |
|-------------------------|--|-------------------------|
|                         | <b>Current provisions are represented by:</b>                |                         |
| 769                     | Annual leave   | 1,017                   |
| 28                      | Sick leave   | 21                      |
| 84                      | Retirement and long service leave                            | 92                      |
| <b>881</b>              | <b>Total current provision</b>                               | <b>1,130</b>            |
|                         | <b>Non-current employee entitlements are represented by:</b> |                         |
| 136                     | Retirement and long service leave                            | 172                     |
| <b>1,017</b>            | <b>Total employee entitlements</b>                           | <b>1,302</b>            |

## NOTE 13: EQUITY

| Actual<br>2019<br>\$000 |   | Actual<br>2020<br>\$000 |
|-------------------------|---|-------------------------|
|                         | <b>Taxpayers' funds</b>                         |                         |
| 2,353                   | Balance at 1 July                               | 2,353                   |
| 387                     | Net surplus/(deficit)                           | 2,613                   |
|                         | - Capital contribution from the Crown           | -                       |
| (387)                   | Provision for repayment of surplus to the Crown | (1,550)                 |
|                         | - Approved retention of surplus                 | 1,063                   |
|                         | - Voluntary return of funds                     | (1,063)                 |
| <b>2,353</b>            | <b>Taxpayers' funds at 30 June</b>              | <b>2,353</b>            |

During 2019/20 the Ministry was approved to retain \$1.063 million of the proceeds received from insurance claims arising from the November 2016 Kaikoura earthquake, being the amount expensed in 2016/17. These retained funds were voluntarily returned to the Crown in a capital to operating swap with the Ministry's baseline funding having a corresponding increase in 2021/22 and 2022/23.

## NOTE 14: RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT PERSONNEL

The Ministry is a wholly-owned entity of the Crown.

All transactions with related parties have been undertaken either:

- within a supplier/client relationship on terms and conditions no more or less favourable than those it is reasonable to expect of the Ministry would have adopted in dealing with the party on an arm's length basis, and/or
- with other government agencies consistent with the usual operating arrangements between the Ministry and those agencies.

### Key management personnel compensation

| Actual<br>2019<br>\$000                                    |                            | Actual<br>2020<br>\$000 |
|--|----------------------------|-------------------------|
| <b>Leadership team, including the Secretary of Defence</b> |                            |                         |
| 1,920  | Remuneration               | 2,087                   |
| 6  | Full-time equivalent staff | 6                       |

Key management personnel include the Secretary of Defence and the five members (2019 – five) of the Leadership Team.

The above key management personnel compensation excludes the remuneration and other benefits received by the Minister of Defence. 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 Members of Parliament (Remuneration and Services) Act 2013 and are paid under Permanent Legislative Authority, and not paid by the Ministry of Defence.

## NOTE 15: FINANCIAL INSTRUMENTS

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

| Actual<br>2019<br>\$000                                 |   | Actual<br>2020<br>\$000 |
|---|---|-------------------------|
| <b>Financial assets measured at amortised cost</b>      |   |                         |
| 4,356   | Cash and cash equivalents                   | 7,317                   |
| 359   | Debtors and other receivables               | 15                      |
| 16  | Prepayments                                 | 4                       |
| 4,731   | Financial assets measured at amortised cost | 7,336                   |
| <b>Financial liabilities measured at amortised cost</b> |   |                         |
| 1,045   | Creditors and other payables                | 2,219                   |

## NOTE 16: EXPLANATION OF MAJOR VARIANCES AGAINST FORECAST

Explanations for major variances from the forecast financial statements for 2019/20 are as follows:

### Statement of comprehensive revenue and expense

#### Revenue Crown

The decrease in Revenue Crown primarily results from an expense transfer from 2019/20 to 2020/21 – 2022/23. This arose due to the timing of projects within the capability cycle. The Ministry's departmental baseline assumes a constant annual expenditure on projects in the definition and pre-acquisition stages. In 2019/20 a higher proportion of staff were working on projects in the capital stage, resulting in lower departmental expenditure. This is expected to reverse in future years as projects are completed and staff cycle onto new projects in definition and pre-acquisition stages.

#### Other revenue

The increase in Other Revenue primarily results from the proceeds from insurance claims received during 2019/20 relating to the November 2016 Kaikoura earthquake. In addition, costs incurred in the definition and pre-acquisition stages of acquisition projects were reimbursed by the Defence Force.

#### Operating expenses

Overall Operating expenses were higher than forecast due to additional costs arising from acquisition projects in the definition and pre-acquisition stage and related costs which were funded by Other Revenue. These increased recoverable costs were partially offset by lower baseline costs.

### Statement of financial position

#### Cash and cash equivalents

The value of Cash and cash equivalents is higher than forecast due to lower baseline Operating Expense costs, as described above in Operating Expenses, and the unbudgeted receipt of insurance proceeds, as described above in Other Revenue.

#### Property, plant and equipment

The value of Property, plant and equipment is higher than forecast due to the Ministry purchasing a higher level of assets, instead of leasing, than originally forecast for the Ministry's new permanent premises in Defence House.

#### Creditors and other payables

The value of Creditors and other payables is higher than forecast due to the liability to return equity to the Crown resulting from the capital-to-operating swap.

### Statement of cash flows

Variances in cashflows largely reflect the above explanations. Further variances arise from the timing of payment following invoicing as reflected by variances in the debtors and creditors balances.

## NOTE 17: EVENTS AFTER BALANCE DATE

There are no events after balance date (2019 – one event).



# 6

## NON-DEPARTMENTAL STATEMENTS AND SCHEDULES

Te Tauākī me ngā Hōtaka Ehara nā te Tari



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

## SCHEDULE OF NON-DEPARTMENTAL REVENUE

For the year ended 30 June 2020

| <b>Actual<br/>2019<br/>\$000</b> |                                       | <b>Actual<br/>2020<br/>\$000</b> |
|----------------------------------|---------------------------------------|----------------------------------|
| 5,216                            | Realised foreign exchange gains       | 5,919                            |
| 8,380                            | Realised gains on derivatives         | 34,760                           |
| 13,477                           | Unrealised gains on derivatives       | 60,482                           |
| 3,055                            | Interest                              | 2,315                            |
| <b>30,128</b>                    | <b>Total non-departmental revenue</b> | <b>103,476</b>                   |

## SCHEDULE OF NON-DEPARTMENTAL EXPENSES

For the year ended 30 June 2020

| <b>Actual<br/>2019<br/>\$000</b> |  | <b>Actual<br/>2020<br/>\$000</b> |
|----------------------------------|--|----------------------------------|
| 1,434                            | Realised foreign exchange losses       | 3,121                            |
| 1,590                            | Realised losses on derivatives         | -                                |
| -                                | Unrealised losses on derivatives       | 35,537                           |
| -                                | Other expenses                         | 1,354                            |
| 16,402                           | GST input expense                      | 73,656                           |
| <b>19,426</b>                    | <b>Total non-departmental expenses</b> | <b>113,668</b>                   |

*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 2020.*

## SCHEDULE OF NON-DEPARTMENTAL ASSETS

As at 30 June 2020

| Actual<br>2019<br>\$000   |  | Note | Actual<br>2020<br>\$000 |
|---------------------------|--|------|-------------------------|
| <b>Current assets</b>     |  |      |                         |
| 237,777                   | Cash and cash equivalents              |      | 271,260                 |
| 161,106                   | Receivables from exchange transactions | 2, 5 | 695                     |
| 80,248                    | Prepayments                            | 5    | 443,013                 |
| 3,675                     | Derivative financial instruments       | 4    | 33,867                  |
| 482,806                   | Total current assets                   |      | 748,835                 |
| <b>Non-current assets</b> |  |      |                         |
| 9,580                     | Derivative financial instruments       | 4    | 36,195                  |
| 9,580                     | Total non-current assets               |      | 36,195                  |
| <b>492,386</b>            | <b>Total non-departmental assets</b>   |      | <b>785,030</b>          |

## SCHEDULE OF NON-DEPARTMENTAL LIABILITIES

As at 30 June 2020

| Actual<br>2019<br>\$000        |   | Note | Actual<br>2020<br>\$000 |
|--------------------------------|---|------|-------------------------|
| <b>Current liabilities</b>     |   |      |                         |
| 51,016                         | Creditors and other payables              | 3    | 122,935                 |
| 81                             | Derivative financial instruments          | 4    | 1,283                   |
| 51,097                         | Total current liabilities                 |      | 124,218                 |
| <b>Non-current liabilities</b> |   |      |                         |
| -                              | Derivative financial instruments          | 4    | 34,254                  |
| -                              | Total non-current liabilities             |      | 24,254                  |
| <b>51,097</b>                  | <b>Total non-departmental liabilities</b> |      | <b>158,472</b>          |

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 2020.

## SCHEDULE OF NON-DEPARTMENTAL CAPITAL RECEIPTS

For the year ended 30 June 2020

| Actual<br>2019<br>\$000 |  | Actual<br>2020<br>\$000 |
|-------------------------|--|-------------------------|
| 70,308                  | Anzac Frigate Systems Upgrade                              | 64,331                  |
| 57                      | C-130 Hercules Life Extension                              | 9                       |
| 5                       | Defence Command and Control System                         | -                       |
| 66,028                  | Dive and Hydrographic Vessel                               | 17,387                  |
| 4,100                   | Individual Weapons Replacement                             | (12)                    |
| 43                      | Fixed High Frequency Radio Refresh                         | 4,184                   |
| -                       | Future Air Mobility Capability - Tactical                  | 1,917                   |
| 98,728                  | Air Surveillance Maritime Patrol *                         | 3,735                   |
| -                       | Garrison and Training Support Vehicles: phase one          | 992                     |
| 124,029                 | Maritime Sustainment Capability                            | 66,455                  |
| 80                      | Medium-Heavy Operational Vehicles                          | -                       |
| 18,145                  | Network Enabled Army - tranche one                         | 18,091                  |
| -                       | Network Enabled Army - tranche two                         | 5,487                   |
| 26,204                  | NH90 Simulator   | 5,958                   |
| 1,322                   | Operational and Regulatory Aviation Compliance Sustainment | 3,217                   |
| 100                     | Protected Mobility   | 2,281                   |
| 416                     | Special Operations Vehicles                                | 599                     |
| 1,491                   | Strategic Bearer Network                                   | 113                     |
| 2,538                   | Underwater Intelligence, Surveillance and Reconnaissance   | (3)                     |
| 240                     | 81mm Mortar Replacement                                    | 682                     |
| <b>413,834</b>          | <b>Total non-departmental capital receipts</b>             | <b>195,423</b>          |

\* Previously 'Future Air Surveillance – Maritime Patrol'

*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 2020.*

## SCHEDULE OF NON-DEPARTMENTAL CAPITAL EXPENDITURE

For the year ended 30 June 2020

| Actual<br>2019<br>\$000 |  | Note     | Actual<br>2020<br>\$000 |
|-------------------------|--|----------|-------------------------|
| 70,308                  | Anzac Frigate Systems Upgrade                              |          | 64,331                  |
| 57                      | C-130 Hercules Life Extension                              |          | 9                       |
| 5                       | Defence Command and Control System                         |          | -                       |
| 66,028                  | Dive and Hydrographic Vessel                               |          | 17,387                  |
| 4,100                   | Individual Weapons Replacement                             |          | (12)                    |
| 43                      | Fixed High Frequency Radio Refresh                         |          | 4,184                   |
| -                       | Future Air Mobility Capability - Tactical                  |          | 1,917                   |
| 18,480                  | Air Surveillance Maritime Patrol *                         | 5        | 83,983                  |
| -                       | Garrison and Training Support Vehicles: phase one          |          | 992                     |
| 124,029                 | Maritime Sustainment Capability                            |          | 66,455                  |
| 80                      | Medium-Heavy Operational Vehicles                          |          | -                       |
| 18,145                  | Network Enabled Army – tranche one                         |          | 18,091                  |
| -                       | Network Enabled Army – tranche two                         |          | 5,487                   |
| 26,204                  | NH90 Simulator   |          | 5,958                   |
| 1,322                   | Operational and Regulatory Aviation Compliance Sustainment |          | 3,217                   |
| 100                     | Protected Mobility   |          | 2,281                   |
| 416                     | Special Operations Vehicles                                |          | 599                     |
| 1,491                   | Strategic Bearer Network                                   |          | 113                     |
| 2,538                   | Underwater Intelligence, Surveillance and Reconnaissance   |          | (3)                     |
| 240                     | 81mm Mortar Replacement                                    |          | 682                     |
| <b>333,586</b>          | <b>Total non-departmental capital expenditure</b>          | <b>5</b> | <b>275,671</b>          |

\* Previously 'Future Air Surveillance – Maritime Patrol'

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 2020.

## SCHEDULE OF NON-DEPARTMENTAL CAPITAL COMMITMENTS

As at 30 June 2020

| <b>Actual<br/>2019<br/>\$000</b> |  | <b>Actual<br/>2020<br/>\$000</b> |
|----------------------------------|--|----------------------------------|
|                                  | <b>Non-cancellable capital commitments</b>         |                                  |
| 525,373                          | Not later than one year                            | 726,129                          |
| 593,596                          | Later than one year and not later than two years   | 647,405                          |
| 613,528                          | Later than two years and not later than five years | 1,095,177                        |
| 6,259                            | Later than five years                              | 160,304                          |
| <b>1,738,756</b>                 | <b>Total non-cancellable capital commitments</b>   | <b>2,629,015</b>                 |

## SCHEDULE OF NON-DEPARTMENTAL CONTINGENT LIABILITIES AND CONTINGENT ASSETS

As at 30 June 2020

### Contingent Liabilities

The Ministry on behalf of the Crown has no contingent liabilities (2019 – Nil).

### Contingent Assets

The Ministry on behalf of the Crown has no contingent assets (2019 – 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 2020.*

# NOTES TO THE NON-DEPARTMENTAL SCHEDULES

## NOTE 1: STATEMENT OF ACCOUNTING POLICIES

### Reporting entity

These non-departmental statements and schedules 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 2020. 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 for the year ended 30 June 2020.

### Basis of preparation

The non-departmental statements and schedules 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 statements and schedules are consistent with New Zealand generally accepted accounting practice (Tier 1 Public Sector Public Benefit Entity Accounting Standards) as appropriate for public benefit entities.

### Changes in accounting policies

PBE IPSAS 34-38 replaced the previous standards for interests in other entities (PBE IPSAS 6-8). There was no effect as a result of this change. There have been no other changes in the Ministry's accounting policies since the date of last audited financial statements.

### Standards issued and not yet effective and not early adopted

Financial accounting standards and amendments issues but not yet effective that have not been early adopted are:

*Amendment to PBE IPSAS 2 Statement of Cash Flows*

This amendment requires entities to provide disclosures that enable users of the financial

statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. This amendment is effective for annual periods beginning on or after 1 January 2021, with early application permitted. No effect is expected as a result of this change.

### *PBE IPSAS 41 Financial Instruments*

This standard was issued by the XRB in March 2019 and supersedes PBE IFRS 9 *Financial Instruments*, which was issued as an interim standard. It is effective for reporting periods beginning on or after 1 January 2022. The Ministry does not expect any significant changes as the requirements are similar to PBE IFRS 9.

### *PBE FRS 48 Service Performance Reporting*

PBE FRS 48 replaces the service performance reporting requirements of PBE IPSAS 1 and is effective for reporting periods beginning on or after 1 January 2021. The Ministry has not yet determined how application of this standard will affect its service performance reporting.

## Summary of significant accounting policies

Significant accounting policies are included in the notes to which they relate.

Significant accounting policies that do not relate to a specific note are outlined below.

### Revenue

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.

## 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.

## Comparative information

Comparatives have been restated where necessary to maintain consistency with current year amounts.

## NOTE 2: RECEIVABLES

### Accounting policy

Short-term receivables are recorded at the amount due, less an allowance for credit losses. The Ministry applies the simplified expected credit loss model of recognising expected credit losses for receivables.

In measuring expected credit losses, short-term receivables have been assessed on a collective basis where they possess shared credit risk characteristics.

Short-term receivables are written-off when there is no reasonable expectation of recovery.

| Actual<br>2019<br>\$000 |   | Actual<br>2020<br>\$000 |
|-------------------------|---|-------------------------|
|                         | <b>Receivables from exchange transactions</b>       |                         |
| 161,106                 | Debtors   | 695                     |
| -                       | Less allowance for credit losses                    | -                       |
| 161,106                 | Net debtors   | 695                     |
| <b>161,106</b>          | <b>Total receivables from exchange transactions</b> | <b>695</b>              |
| -                       | Receivables from non-exchange transactions          | -                       |
| <b>161,106</b>          | <b>Total receivables</b>                            | <b>695</b>              |

The carrying value of receivables approximates their fair value.

At 30 June 2020 the Ministry had no past due debtors (2019 – Nil). Due to the credit quality of debtors no allowance for credit losses was made at balance date (2019 – Nil).

### NOTE 3: CREDITORS AND OTHER PAYABLES

| Actual<br>2019<br>\$000 |   | Actual<br>2020<br>\$000 |
|-------------------------|---|-------------------------|
| 488                     | Creditors                                 | 102,972                 |
| 50,528                  | Accrued expenses                          | 19,963                  |
| <b>51,016</b>           | <b>Total creditors and other payables</b> | <b>122,935</b>          |

### NOTE 4: FINANCIAL INSTRUMENTS

#### Accounting policy

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 re-measured 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 12 months of balance date. Otherwise, foreign exchange derivatives are classified as non-current.

#### Financial instrument categories

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

| Actual<br>2019<br>\$000  |   | Actual<br>2020<br>\$000 |
|--|---|-------------------------|
| <b>Financial assets measured at amortised cost</b>   |   |                         |
| 237,777  | Cash and cash equivalents                   | 271,260                 |
| 161,106  | Debtors and other receivables               | 695                     |
| 398,883  | Financial assets measured at amortised cost | 271,955                 |
| <b>Fair value through surplus or deficit – designated as such upon initial recognition</b> |   |                         |
| 13,255   | Derivative financial instrument assets      | 70,062                  |
| 81   | Derivative financial instrument liabilities | 35,537                  |
| <b>Financial liabilities measured at amortised cost</b>                                    |   |                         |
| 51,016   | Creditors and other payables                | 122,935                 |

The notional principal amount of outstanding forward exchange contract derivatives at 30 June 2020 is NZD 2,610.7 million (2019 – NZD 1,640.4 million). The contracts consist of the purchase of (amounts in foreign currency):

| Actual<br>2019<br>fx 000        | Actual<br>2020<br>fx 000 |
|---------------------------------|--------------------------|
| - Australian dollars            | 10,500                   |
| 33,014 Canadian dollars         | 600                      |
| - Great British pounds          | 77                       |
| - Euros                         | 6,115                    |
| 1,087,830 United States dollars | 1,674,957                |

### 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.

|                                  | Total  | Valuation technique       |                      |   |
|----------------------------------|--------|---------------------------|----------------------|---|
|                                  |        | Quoted<br>market<br>price | Observable<br>inputs | Significant<br>non-<br>observable<br>inputs |
|                                  | \$000  | \$000                     | \$000                | \$000                                       |
| <b>2020</b>                      |        |                           |                      |   |
| <b>Financial assets</b>          |        |                           |                      |   |
| Derivative financial instruments | 70,062 | -                         | 70,062               | -   |
| <b>Financial liabilities</b>     |        |                           |                      |   |
| Derivative financial instruments | 35,537 | -                         | 35,537               | -   |
| <b>2019</b>                      |        |                           |                      |   |
| <b>Financial assets</b>          |        |                           |                      |   |
| Derivative financial instruments | 13,255 | -                         | 13,255               | -   |
| <b>Financial liabilities</b>     |        |                           |                      |   |
| Derivative financial instruments | 81     | -                         | 81                   | -   |

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

## 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*.

#### 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.

### Contractual maturity of financial liabilities, excluding derivatives

The table below analyses the Ministry's financial liabilities (excluding 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.

| At 30 June 2020              | Less than<br>6 months<br>\$000 | 6-12<br>months<br>\$000 | 1-5<br>years<br>\$000 | Over<br>5 years<br>\$000 | Total<br>\$000 |
|------------------------------|--------------------------------|-------------------------|-----------------------|--------------------------|----------------|
| <b>2020</b>                  |                                |                         |                       |                          |                |
| Creditors and other payables | 121,581                        | -                       | -                     | -                        | 121,581        |
| <b>2019</b>                  |                                |                         |                       |                          |                |
| Creditors and other payables | 51,016                         | -                       | -                     | -                        | 51,016         |

### Contractual maturity analysis of derivative financial instrument liabilities

The table below analyses the Ministry's forward foreign 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.

|   | Carrying<br>amount<br>\$000 | Contractual<br>cash flows<br>NZ \$000 | Less than<br>6 months<br>NZ \$000 | 6-12<br>months<br>NZ \$000 | 1-2<br>years<br>NZ \$000 | 2-5<br>years<br>NZ \$000 | Over 5<br>years<br>NZ \$000 |
|---|-----------------------------|---------------------------------------|-----------------------------------|----------------------------|--------------------------|--------------------------|-----------------------------|
| Gross settled forward foreign exchange contracts: |                             |                                       |                                   |                            |                          |                          |                             |
| <b>2020</b>                                       |                             |                                       |                                   |                            |                          |                          |                             |
| Asset value                                       | 70,062                      |                                       |                                   |                            |                          |                          |                             |
| Liability value                                   | 35,537                      |                                       |                                   |                            |                          |                          |                             |
| - outflow   |                             | 2,610,727                             | 371,498                           | 319,863                    | 623,805                  | 1,214,035                | 81,526                      |
| - inflow  |                             | 2,629,922                             | 387,097                           | 336,494                    | 649,640                  | 1,178,864                | 77,827                      |
| <b>2019</b>                                       |                             |                                       |                                   |                            |                          |                          |                             |
| Asset value                                       | 13,255                      |                                       |                                   |                            |                          |                          |                             |
| Liability value                                   | 81                          |                                       |                                   |                            |                          |                          |                             |
| - outflow   |                             | 1,640,408                             | 192,839                           | 223,711                    | 596,852                  | 627,006                  | -                           |
| - inflow  |                             | 1,660,874                             | 194,471                           | 226,764                    | 604,884                  | 634,755                  | -                           |

## 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.

|   | 2019                      |                 |                 | 2020                      |                  |                  |
|---|---------------------------|-----------------|-----------------|---------------------------|------------------|------------------|
|   | Cash and cash equivalents | Derivatives     | Net gain/(loss) | Cash and cash equivalents | Derivatives      | Net gain/(loss)  |
|   | \$000                     | \$000           | \$000           | \$000                     | \$000            | \$000            |
| Effect on surplus if NZ dollar strengthened by 5% |                           |                 |                 |                           |                  |                  |
| AUD   | (943)                     | -               | (943)           | (571)                     | (536)            | (1,107)          |
| CAD   | (3,954)                   | (1,780)         | (5,734)         | (2,419)                   | (33)             | (2,452)          |
| EUR   | (139)                     | -               | (139)           | (328)                     | (514)            | (842)            |
| GBP   | (488)                     | -               | (488)           | (576)                     | (7)              | (583)            |
| KRW   | (1)                       | -               | (1)             | -                         | -                | -                |
| NOK   | (8)                       | -               | (8)             | (3)                       | -                | (3)              |
| USD   | (4,493)                   | (74,894)        | (79,387)        | (896)                     | (123,338)        | (124,234)        |
| <b>Total</b>                                      | <b>(10,026)</b>           | <b>(76,674)</b> | <b>(86,700)</b> | <b>(4,793)</b>            | <b>(124,428)</b> | <b>(129,221)</b> |
| Effect on surplus if NZ dollar weakened by 5%     |                           |                 |                 |                           |                  |                  |
| AUD   | 1,042                     | -               | 1,042           | 631                       | 592              | 1,223            |
| CAD   | 4,371                     | 1,967           | 6,338           | 2,674                     | 36               | 2,710            |
| EUR   | 154                       | -               | 154             | 363                       | 568              | 931              |
| GBP   | 539                       | -               | 539             | 637                       | 8                | 645              |
| KRW   | 1                         | -               | 1               | -                         | -                | -                |
| NOK   | 9                         | -               | 9               | 4                         | -                | 4                |
| USD   | 4,965                     | 82,778          | 87,743          | 991                       | 136,321          | 137,312          |
| <b>Total</b>                                      | <b>11,081</b>             | <b>84,745</b>   | <b>95,826</b>   | <b>5,300</b>              | <b>137,525</b>   | <b>142,825</b>   |

## NOTE 5: RESTATEMENT OF COMPARATIVES

In 2018/19, based on the information provided, contractual payments made under the United States Foreign Military Sales programme had been recognised as capital expenditure where work will be performed by the supplier in future reporting periods. At 30 June 2020 these payments have been recognised as prepayments and the 30 June 2019 comparatives have been restated. The effect of the restatement on the 2018/19 financial statements is summarised below.

|   | 2018/19 Financial Statements |                           |                      |
|---|------------------------------|---------------------------|----------------------|
|   | Published<br>\$000           | Reclassification<br>\$000 | Comparative<br>\$000 |
| <b>Schedule of Non-Departmental Assets</b>              |                              |                           |                      |
| Prepayments   | -                            | 80,248                    | 80,248               |
| Receivables from exchange transactions                  | 241,354                      | (80,248)                  | 161,106              |
| <b>Schedule of Non-Departmental Capital Expenditure</b> |                              |                           |                      |
| Air Surveillance Maritime Patrol                        | 98,728                       | (80,248)                  | 18,480               |
| Total non-departmental capital expenditure              | 413,834                      | (80,248)                  | 333,586              |

## NOTE 6: EVENTS AFTER BALANCE DATE

There have been no significant events after balance date (2019 – no events).