



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

New Zealand Government

MINISTRY OF DEFENCE
Manatū Kaupapa Waonga

ANNUAL REPORT 2019

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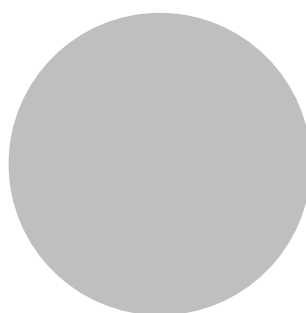
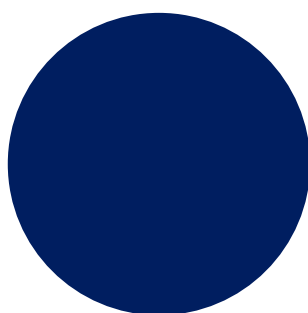
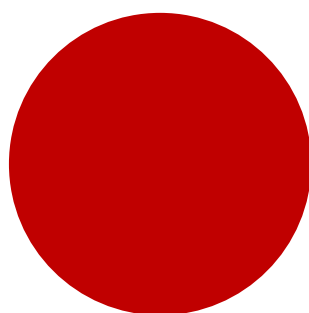
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This page: Troops from Timor Leste and Papua New Guinea file into a Royal New Zealand Air Force C-130 Hercules on their way to New Zealand for exercise Southern Katipo

Coverpage: The painting of the MV *Edda Fonn* as she becomes the HMNZS *Manawanui*

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OVERVIEW



OVERVIEW BY THE SECRETARY OF DEFENCE



The work of Defence in New Zealand is a cornerstone of what makes us a vibrant and free society. Protecting our interests at home and abroad ensures the way of life we treasure endures.

The role of the Ministry of Defence is to provide advice to government on the strategic environment, defence deployments and capabilities, support international defence engagements, and deliver a significant capability programme.

The Ministry supported the Government to develop the *Strategic Defence Policy Statement 2018*. The Statement sets out the role Defence plays in promoting the overall wellbeing and resilience of New Zealand, its communities and environment. Through the framework of *Community, Nation and World* we describe how Defence contributes to supporting regional and global security and maintaining the international rules-based order.

The Ministry has led the development of a rolling, thematic approach to the Defence Assessment programme. Through this, the Ministry is responding and providing policy advice on new and emerging issues. The *Climate Crisis: Defence Readiness and Responsibilities* assessment examines the security implications and Defence's role in preparing for the impacts of climate change. This assessment was undertaken alongside our partners, academics and civil society from across New Zealand and the Pacific region. An assessment on Advancing the Pacific Partnership is well advanced and will be released later this year.

We have provided advice to the Government on a range of deployments. This includes the decision to withdraw New Zealand Defence Force personnel from Camp Taji in Iraq by June 2020. The Government has also refocused our deployment in Afghanistan, with a shift towards women, peace and security roles within the NATO-led mission.

The *Defence Capability Plan 2019* launched in June outlines the key investments in Defence capabilities that are required out to 2030, as well as signalling investments out to 2035. The Plan aligns the direction of future defence capability with the strategic policy settings outlined in the 2018 Policy Statement.

During the launch, the Minister of Defence announced the preferred replacement of the C-130H Hercules aircraft, with the C-130J-30 Super Hercules. Detailed advice is being developed for Cabinet to make a decision on this in 2020.

The

Capability

Plan maintains \$20 billion in capital investment out to 2030. This includes \$5.8 billion invested since 2014, with \$2.4 billion committed last year to procure four P-8A Poseidon maritime patrol aircraft.

Good progress is being made with this project which will provide an enhanced ability to patrol New Zealand's vast maritime territory, the South Pacific and beyond. The P-8As will be delivered and enter into service from 2023.

With the selection of a strategic partner for the infrastructure component of this project, work will commence at Ohakea Air Force Base in November 2019 for the main hangers and supporting workshops for this capability.

The Network Enabled Army Test, Reference and Evaluation Capability Engineering Centre, a state of the art engineering facility, was opened in September 2018 and will support the design, building, test and evaluation of military communication systems and networks.

The Maritime Sustainment Capability project also reached a significant milestone with the launch of the new tanker in April 2019 and delivery to New Zealand scheduled for early 2020. HMNZS *Aotearoa* will support New Zealand's presence in Antarctica and the Southern Ocean with its ice-strengthened hull.

The new Dive and Hydrographic Vessel, HMNZS *Manawanui*, was delivered in May 2019, only nine months after signing the contract. Further modifications in New Zealand will take place before the ship enters into service next year with the Royal New Zealand Navy.

The Ministry commissioned a follow up *Review of Defence Procurement Policies and Practices for Major Capability Projects* in April 2019. This reconfirmed the robustness of the capability management system. These independent reviews, and the A rating by Treasury's Investor Confidence Rating index, provide assurance to Government that

Defence will be able to effectively deliver the Capability Plan.

Our Tū Aromatawai Independent Review Division conducted a review of the Limited Service Volunteer programme the Defence Force operates alongside the Ministry of Social Development. This Review was commissioned by the Minister of Defence, and the findings were released at the end of August 2019.

The Ministry has continued to grow during the year as we have recruited new staff to respond to the increased portfolio of capability projects under our management. A focus on gender diversity is demonstrated by 54 percent of Ministry staff and 36 percent of managers now being female.

I would like to acknowledge my predecessor, Helene Quilter, for her outstanding leadership at the Ministry over the last seven years and for the energy and commitment that she brought to the role. Her stewardship of the Ministry during a significant period of change and the enhanced Defence Capability Management System leaves a strong legacy.

I would like to take this opportunity to acknowledge the staff of the Ministry for their hard work over the past 12 months. Their dedication, innovative thinking and commitment to a very complex area of public policy and government capability procurement is admirable.

I look forward to working with our strategic partner the New Zealand Defence Force in the years ahead and continuing to support the Government's priorities for Defence.



Andrew Bridgman
Secretary of Defence



THE MINISTRY'S PERFORMANCE AND OPERATIONS



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. Its purpose is to give civilian advice on defence matters to enhance the security and interests of New Zealand and its people. The Ministry also purchases major items of defence equipment that becomes a capability when it is used by the service men and women of the New Zealand Defence Force (NZDF).¹

Defence is made up of two agencies: the Ministry of Defence and the NZDF. The agencies work very closely together; drawing on their strong, separate civilian and military perspectives. The separation between the two agencies is part of New Zealand's constitutional arrangements. 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.

The Ministry is responsible for the development of defence policy, international defence relationships and engagements, deployments, systemic reviews on behalf of the Minister of Defence, and the development and delivery of major capability projects.

To carry out these functions, the Ministry works closely with the NZDF and other agencies. The Ministry also builds and maintains strong defence connections with other governments, including our ally Australia, so New Zealand can contribute to the security of the Asia-Pacific region, as well as

understand and respond to defence and security challenges internationally.

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 the capabilities the Defence Force will have to deliver on the Government's expectations well into the future.

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.

\$9.7m Management of Equipment Procurement

\$9.1m Policy Advice and Related Outputs

\$1.9m Audit and Assessment

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

The Ministry's baseline has increased since 2015, primarily to fund additional specialist roles to deliver an increased portfolio of major defence capability projects.

Approximately
150 staff in the
Ministry of Defence

36% women
managers
(17% in 2013)

54% women
and **46%** men
at the Ministry

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

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:



HOW DOES THE MINISTRY CONTRIBUTE TO THE ACHIEVEMENT OF THESE OUTCOMES?

The Ministry contributes 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
- delivery of major platforms and items of military equipment for use by the Defence Force undertaking defence and security tasks
- undertaking audits and assessments to examine and help improve Defence efficiency and effectiveness.

NEW ZEALAND'S STRATEGIC ENVIRONMENT

The *Strategic Defence Policy Statement 2018* set out an assessment of New Zealand's strategic environment.

New Zealand is navigating an increasingly complex and dynamic international security environment. We will face compounding challenges of a scope and magnitude not previously imagined in our neighbourhood, in particular in the South Pacific. While there may be noteworthy effects on New Zealand's interests from singular developments, New Zealand's security outlook may be shaped most powerfully by a combination of forces increasing pressure on the international rules-based order, which will play out in newly potent ways close to home.

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

- the increasing importance of spheres of influence, with states pursuing greater influence in ways that, at times, challenge international norms

- challenges to open societies, driven by increasing disillusionment with existing arrangements within these societies, that threaten to reduce those states' willingness to champion the rules-based order, and
- a collection of complex disruptors – including an array of impacts from climate change, new technologies changing the nature of conflict, extremist ideologies, national and regional tensions, and transnational organised crime. These may disproportionately affect open societies and weak states, and are forces for disorder.

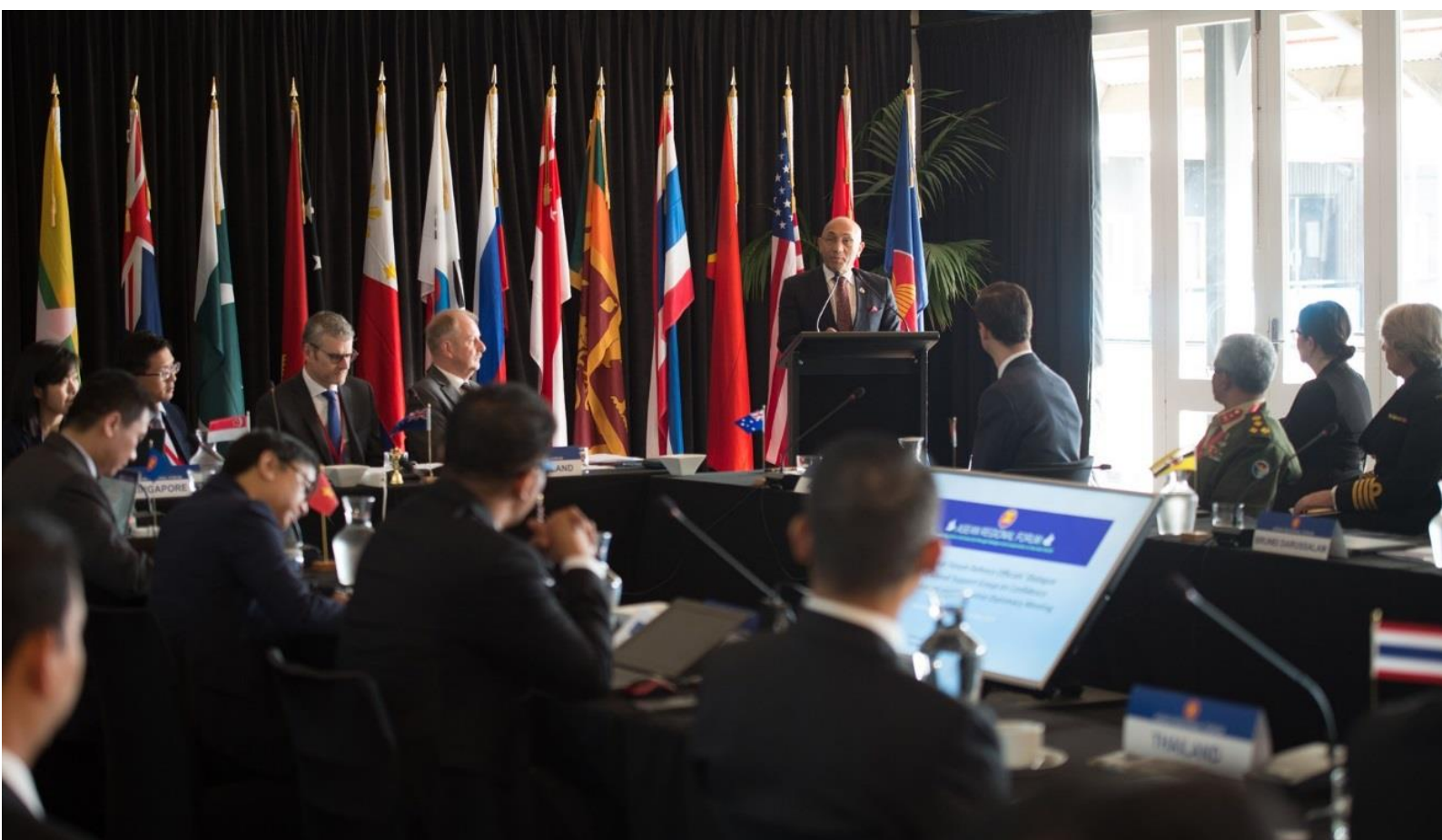
New Zealand will face intensifying disruptors closer to home. Climate change, transnational organised crime, resource competition, together with the increasing influence and presence of non-traditional partners, will disrupt our neighbourhood, including our extensive maritime area, in complex and compounding ways.

Supporting stability in the Asia-Pacific region will increase in importance, with Pacific Island countries likely to require increasing levels of assistance, beyond humanitarian assistance and disaster relief.

It is in New Zealand's vital interest to act in support of international order. While the New Zealand Defence Force will conduct some missions on its own, most deployments will be undertaken alongside other government agencies and international partners. The Defence Force must therefore maintain and develop capabilities that support effectively operating with others.

The domains of cyber and space bring both vulnerabilities and opportunities. The Defence Force will need to be prepared to respond to increased threats manifesting in and through both space and cyber space.

Defence will have to act in new ways and at new levels to protect New Zealand's values and interests.

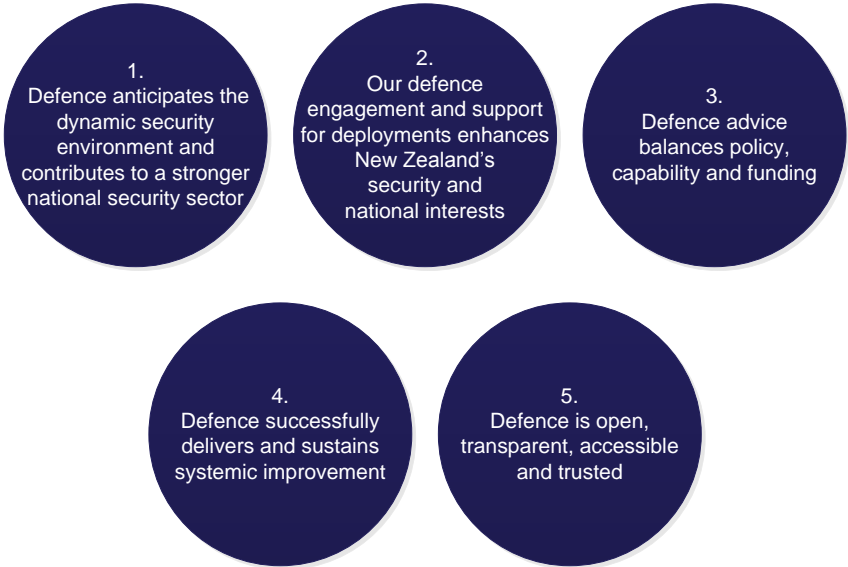


DELIVERING ON THE MINISTRY'S STRATEGIC INTENTIONS

The Ministry's *Statement of Intent 1 July 2018 – 30 June 2022* identifies a greatest imaginable challenge for the Ministry that:²

"Defence has the people, relationships, policies and combat capabilities to respond to concurrent and diverse security challenges."

The Statement sets out the Ministry's five strategic priorities.



The following sections describe progress made against each priority over the year to 30 June 2019, including the associated critical success factors.

² The Ministry's Statement of Intent is available from its website at www.defence.govt.nz/publications.

1

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

Our goals in 2018-2022 are:

- Government's Defence policy is implemented
- Defence assessments on the strategic outlook and advice on changes in the security environment inform and influence the work of the broader national security sector agencies
- Collaboration with the sector on national security policies



The Policy Statement framed the Ministry's work programme

The Minister of Defence released the *Strategic Defence Policy Statement 2018* in July 2018, updating New Zealand's Defence policy settings to reflect the Government's priorities. Implementing the direction set by the Policy Statement has been a strong focus for the Ministry this year, across a wide spectrum of activities.

The Ministry's sector-leading strategic policy capability has delivered a work programme advancing key Government priorities around community and environmental wellbeing, climate change and New Zealand's identity as a Pacific nation.

The Ministry has, with the Defence Force, undertaken an extensive programme of domestic and international engagements to explain and promote New Zealand's updated Defence policy settings, and contribute to New Zealand and international strategic thinking and policy development.

Importantly, the Policy Statement provided the policy basis for the *Defence Capability Plan 2019*.

The Defence Assessment programme further explored policy issues in the Policy Statement

Over 2018-2019, the Ministry continued to progress the enhanced Defence Assessment programme directed by the *Defence White Paper 2016*, including in relation to thematic areas that were identified in the Policy Statement as pressuring New Zealand's strategic environment.

This programme has provided the Minister with an effective set of tools for engaging with his Ministerial colleagues and international partners. Significantly, in December 2018 the Minister of Defence, with the Minister for Climate Change, publicly launched *The Climate Crisis: Defence Readiness and Responsibilities*. This Defence Assessment explored the impacts of climate change on New Zealand's security and the consequent implications for the Defence Force. Aligning with the Government's broader Pacific Reset, this assessment focussed on the South Pacific to ensure the Defence Force will be prepared to support New Zealand's Pacific Island partners to respond to the impacts of climate change. Other assessment work completed during the period included a defence-specific approach to advancing partnerships in the Pacific, due to be launched later in 2019.

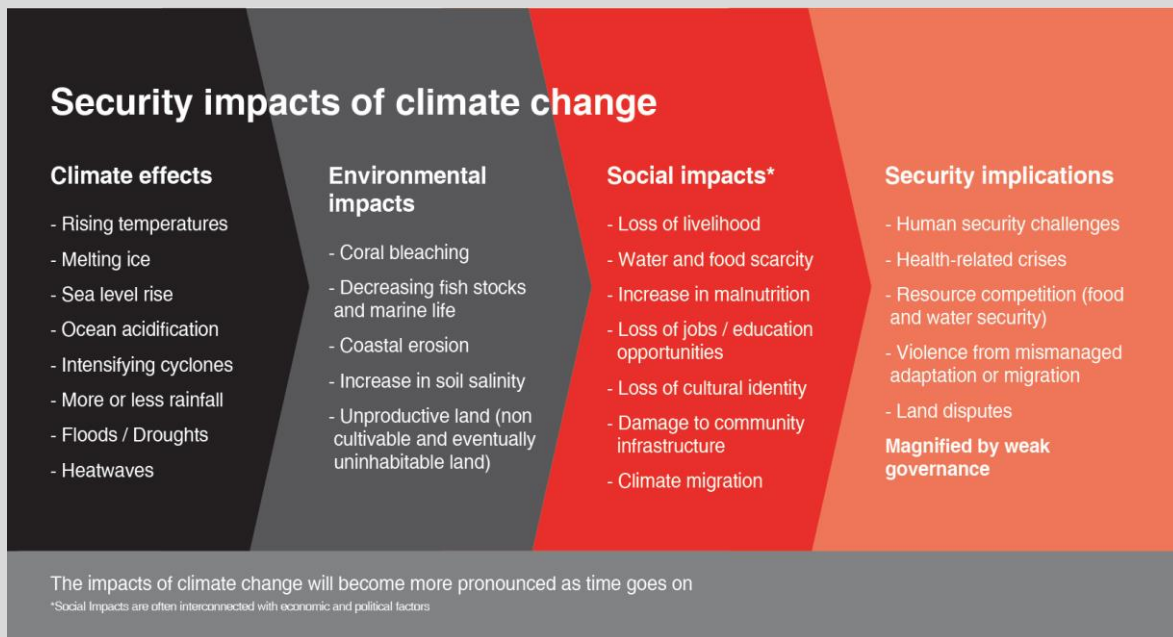
The Climate Crisis: Defence Readiness and Responsibilities

The Ministry leads Defence Assessments, with support from the Defence Force and other agencies. The Defence Assessment process enables Defence to identify changes in the international strategic environment and consider their possible implications for New Zealand's Defence policy, capability and ultimately funding.

The Climate Crisis: Defence Readiness and Responsibilities, released in December 2018, has had, and continues to have, a powerful impact. Although climate change has long been recognised in the Pacific as an existential threat, the uniquely comprehensive and all-encompassing nature of *The Climate Crisis* was well-covered by media, and increased understanding and awareness in New Zealand's domestic Government agencies, the Pacific region, and the wider global Defence community. The conceptual idea of linking climate change, security concerns, and the operational ramifications these have on defence forces has highlighted the interest in this topic within the Pacific and around the world.

The Ministry engaged with Pacific Island communities on the effects of climate change through Talanoa dialogues. This is the Pacific custom of sharing views and discussions in a safe, supportive and non-judgemental space. Defence heard how climate change was affecting communities, which informed the Climate Crisis assessment.

The *Strategic Defence Policy Statement 2018* and subsequent in-depth assessment in *The Climate Crisis* have aligned Defence policy with Government priorities around community and environmental wellbeing, climate change and New Zealand's identity as a Pacific nation. This work has significantly shaped the national security sector's view of New Zealand's strategic environment and the public's appetite for discussion on security issues. It has enhanced New Zealand's international reputation, placing it at the forefront of a small group of nations leading in the area of climate change and its security implications.



The *Climate Crisis* assessment recognises that climate change will be one of the greatest security challenges in the coming decades. It identifies temperature changes, increasing severity of weather events, and rising sea levels as key issues that will confront the Pacific region. With the increasingly severe impacts of climate change, the New Zealand Defence Force may be faced with more frequent and concurrent operational commitments, which will stretch resources and may reduce readiness for other requirements. The Defence Force is an indispensable partner when crisis strikes, as after Cyclone Winston in the Pacific in 2016. Over time there will be an increased requirement for our Defence Force and other defence forces to respond with humanitarian assistance and disaster relief, more search and rescue missions, and potentially stability operations.

The *Defence Capability Plan 2019* was developed with full recognition of the challenges outlined in the Climate Crisis assessment. The improved capacity provided through planned sealift and airlift capabilities as well as the increase in size of the New Zealand Army to 6,000 personnel will ensure the Defence Force is prepared to respond as required. Further, improved aerial surveillance and maritime domain awareness will ensure that New Zealand is better informed about the implications of climate change.

The Ministry delivered a set of Defence Capability Planning Scenarios

In close consultation with the Defence Force, the Ministry has delivered a set of capability planning scenarios covering a range of operational contingencies that are consistent with the 2018 Policy Statement.

This suite of future-focussed planning scenarios, covering a range of domestic, regional and global events, has been used in various combinations in the development of individual capability projects, and were a critical input to the development of the *Defence Capability Plan 2019*.

The scenario analysis underlined the proposed force structure for the Defence Force as broadly able to meet the demands of the scenarios and thus deliver the roles and tasks of the Policy Statement. The analysis also identified a number of risks and challenges which we had the opportunity to address through the review of the Defence Capability Plan. Evaluation of possible alternative investment options also indicated capabilities that provide the greatest value for money in achieving policy goals.

Engaging with the wider national security sector, as well as academia

The Ministry has continued to work closely and collaboratively with a range of government agencies, particularly those in the wider national security sector, to contribute to broader policy development work. The policy development that led to the Policy Statement – and that continues in the Defence Assessments programme – has significantly shaped the national security sector's view of New Zealand's strategic environment and the public's appetite for discussion of security issues.

Work on the strategic environment and climate change in particular has enhanced New Zealand's reputation as a leader in these areas of policy making. As a consequence, the Ministry is sought after for policy advice and support by others in the sector, locally and internationally.

While the assessments have been a clear highlight, the Ministry has engaged in a range of other defence and national security policy work. Our work on cyber and space issues in particular is actively engaged with by sector agencies and international partners.

The Ministry has also deepened its engagement with domestic and international academics and think-tanks to test our understanding of the strategic environment, contribute to our policy thinking, and contribute to broader policy development.

2

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

Our goals in 2018-2022 are:

- Collaboration with other agencies to manage New Zealand's international defence engagement based on an agreed strategy to maximise the value to New Zealand
- Timely, robust and influential policy advice relating to the deployment of New Zealand's defence personnel and assets is accepted by Government



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 Ministry, in conjunction with the Defence Force, completed a refresh of the Strategy in 2019 to reflect a number of significant policy developments, including the *Strategic Defence Policy Statement 2018* and the Pacific Reset.

International defence engagement

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

- a bilateral visit to Australia;
- attendance at the South Pacific Defence Ministers' Meeting in Fiji;
- multilateral meetings in Singapore for the Shangri-La Dialogue and the ASEAN Defence Ministers' Meeting-Plus; and
- operational visits to the United Arab Emirates, Egypt, Israel, and South Sudan.

The Ministry also supported the Minister of Defence to host visits to New Zealand by his counterparts,

including those from Viet Nam, Singapore and Japan.

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

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 continued 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.

Working with the Defence Force, the Ministry coordinated New Zealand's role as co-chair, with the Philippines, of the ASEAN Defence Ministers' Meeting-Plus Experts' Working Group on Cyber Security. This included hosting an Experts' Working Group meeting on standard operating procedures for operational cyber security to be used while on

ASEAN Defence Ministers' Meeting-Plus exercises, a key deliverable for the Experts' Working Group work plan.

The Ministry provided support to the Defence Force as they hosted the annual International Association of Peacekeeping Training Centres conference, in

partnership with New Zealand Police and the Ministry of Foreign Affairs and Trade. Hosting this event helped raise New Zealand's international profile on peacekeeping and to engage substantively with international partners on peacekeeping issues.

Singapore Government proposal to base F-15 Fighter Jets at Ohakea

In 2016, Singapore asked New Zealand to consider the possibility of the Republic of Singapore Air Force engaging in fighter jet training in New Zealand at Ohakea Air Force Base on a long-term basis.

The Ministry and Defence Force led a cross-agency programme of work to assess the benefits and impacts of the proposal, including an Economic, Environmental and Social Impact Study, that considered the potential impacts on the New Zealand Defence Force, and a strategic assessment. This programme included input from the Ministry of Business, Innovation and Employment and the Ministry for the Environment.

Officials determined that, while the proposal was found to be strongly in favour on foreign policy grounds, locating Singaporean F-15s specifically at Ohakea on a long-term basis was not feasible without significant investment to alleviate the strain operations would place on the capacity of the airfield and the airspace above it.

In December 2018, Cabinet noted the specific Singaporean proposal to base F-15s at Ohakea on a long-term basis had reached a mutual conclusion, and the assessment had in particular highlighted air base capacity constraints faced by the Royal New Zealand Air Force. These capacity constraints are now being considered as part of the First Principles Review of the Defence Estate Footprint. The bilateral relationship between Singapore and New Zealand remains incredibly strong. Cabinet has directed officials to explore options with Singapore for future regular short-term aircraft detachments to New Zealand, and to structure New Zealand's training schedules so that base capacity, safety and New Zealand Air Force outputs are not affected during periods the Singaporean Air Force may train here.

Deployment of New Zealand's defence personnel and assets

The Ministry provided advice to the Government on the deployment of a range of Defence assets, collaborating closely with other government agencies, particularly with the Defence Force and the Ministry of Foreign Affairs and Trade.

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.

On the basis of proposals jointly prepared by the Ministry, Defence Force and Ministry of Foreign Affairs and Trade, the Government approved a series of deployments in support of our international defence engagement objectives – both continuing

existing engagements and undertaking one-off short-term deployments in support of our partners.

In September 2018, Cabinet announced extensions to the training deployments in Iraq and Afghanistan and a renewal of three peacekeeping missions in the Middle East and Africa.

The renewals continue peacekeeping missions where New Zealand has an established presence and proven track record – to the UN Mission in South Sudan (UNMISS), the UN Truce Supervision Organisation (UNTSO) in the Golan Heights and Lebanon, and the Multinational Force and Observers (MFO) mission in the Sinai Peninsula, Egypt.

The extensions for the Iraq and Afghanistan deployments into 2019 allowed the Government to undertake reviews in early 2019 to consider options for future contributions to these missions.

The review of the Iraq deployment assessed New Zealand's options for contributing to stability in

Iraq beyond June 2019 – assessing how Iraq’s training needs had evolved and evaluating New Zealand’s ongoing commitments. As a result of the review, in June 2019 Cabinet decided to conclude the Defence Force contribution to the Building Partner Capacity mission at the Taji military complex by June 2020, when full responsibility for basic training will be handed over to the Iraqi Security Forces.

September 2018 decisions on peacekeeping deployments in the Middle East and Africa

1954

New Zealand has contributed to UNTSO since 1954 – making it our longest-standing peacekeeping deployment

1982

New Zealand first joined MFO as a founding member in 1982

2012

New Zealand has contributed to UNMISS since 2012, and prior to South Sudan’s independence contributed to the UN Mission in Sudan from 2005-2011

The strategic reassessment of New Zealand’s contribution of military trainers to mentor, train and support Afghan Army officers looked at the contribution to peace and stability in Afghanistan since 2001. It assessed New Zealand’s longer-term presence there, including alternative military and civilian contributions. In June 2019, Cabinet agreed to continue and diversify the contribution in Afghanistan for 18 months out to 31 December 2020, including up to three personnel supporting Women, Peace and Security, and reconciliation and reintegration work within the Resolute Support Mission.

As part of deployment decisions, the Government also confirmed New Zealand’s ongoing participation in the multinational information sharing and intelligence mission Operation Gallant Phoenix, based in Jordan. The Government agreed to extend New Zealand’s mandate of a small number of personnel to the operation for 18 months, until December 2020. New Zealand began participating in the Operation in late 2014 in support of efforts to uncover information relating to the location of a New Zealander taken hostage by ISIS. The Operation comprises a large number of countries, and a variety of agencies including law enforcement along with military and civilian personnel.

The Ministry also worked with officials to develop submissions supporting Government decisions on the following one-off deployments in the period:

- A Defence Force P-3K Orion maritime patrol aircraft deployed to North East Asia for 30 days to support United Nations Security Council resolutions sanctioning international trade with the Democratic People’s Republic of Korea. These sanctions are a key element of the global effort to peacefully encourage the Democratic People’s Republic of Korea to move away from its nuclear and missile development programme. The deployment, which was based out of Japan, was part of a coordinated effort involving the United States, United Kingdom, Australia, Canada, Japan, the Republic of Korea and France.
- The Defence Force deployed assets to Papua New Guinea (PNG) to assist with security at the APEC Leaders’ Week in November 2018. New Zealand sent the Offshore Patrol Vessel HMNZS *Otago* to assist with maritime security, a P-3K Orion detachment to provide aerial surveillance, and up to 30 Special Operation Forces personnel to provide support to the PNG security forces on the ground in Port Moresby. This deployment was the culmination of ongoing planning with the PNG Defence Force and Australian Defence Force.
- In March and April 2019 the Defence Force provided logistics support for the 2019 Solomon Islands General Election. This included the deployment of two NH90 helicopters and 55 Defence Force personnel serving as part of the Australian Defence Force-led Combined Task Force.

Defence Policymakers' Course

In May 2019, the Ministry hosted 10 defence policy practitioners from South East Asia for the inaugural Defence Policymakers' Course for South East Asian partners. This followed the successful conduct of a similar course for Fiji, Papua New Guinea and the United Arab Emirates in February 2018.

The aim of the week-long course was to improve participants' understanding of, and ability to contribute to, defence policymaking in the contemporary security environment. The course also emphasised the importance of good governance, transparency, inter-agency collaboration and effective civil-military cooperation.

The course was designed for mid-level defence practitioners whose current and/or future responsibilities involved policymaking within the defence sector and wider government. The week comprised a series of presentations, syndicate work and discussions involving defence and wider government representatives. Topics covered ranged from regional geostrategic dynamics to domestic policymaking processes, with an emphasis on New Zealand values and good governance principles.



The course provided an opportunity for participants not only to learn the processes behind defence policymaking in New Zealand, but to share their own insights and national perspectives. This was also an excellent opportunity to build on our strong defence relationships with our partners in South East Asia, develop better linkages with our partner defence ministries and encourage cooperation and networking. The Ministry invited other government agencies (including the New Zealand Defence Force, the Ministry of Foreign Affairs and Trade, and the Department of the Prime Minister and Cabinet) to brief the course participants, to demonstrate the holistic, all-of-government approach New Zealand takes to policymaking.

The Ministry also wanted to showcase elements of New Zealand culture so the course included a 'Māori Highlights' guided tour of Te Papa, which was the first opportunity most of the group had ever had to learn about Te Ao Māori.

3

DEFENCE ADVICE BALANCES POLICY, CAPABILITY AND FUNDING

Our goals in 2018-2022 are:

- Delivering the agreed Defence Capability Plan
- Delivering major capability projects
- Enhanced portfolio, programme and project management



Delivering the Defence Capability Plan

In June 2019, the Government launched the *Defence Capability Plan 2019*. The Plan aligns future Defence capability investments with New Zealand’s defence policy in the *Strategic Defence Policy Statement* and foreign policy in the Pacific Reset. It signals Government’s commitment to maintain the indicative \$20 billion of capital funding for Defence investments out to 2030, to provide for the replacement and regeneration of all Defence capabilities. The Plan also signals investments to 2035, subject to the next Defence White Paper planned for 2022.

Delivery of the *Defence Capability Plan 2019* will provide enhanced Defence capability for New Zealand across three key themes:

- It will increase capacity to respond to events in the Pacific region, particularly as the impacts of climate change intensify, through the replacement of the five decades old C-130H Hercules fleet, and the addition of an enhanced sealift vessel to complement the work of HMNZS *Canterbury*.

- It will improve maritime domain awareness and response, through a layered approach including satellite surveillance, the P-8A Poseidon maritime patrol aircraft, and naval patrol. Capabilities will also provide dedicated services to other government agencies, including an enhanced air surveillance capability that will provide support to civil surveillance tasks, and dedicated patrol capabilities in New Zealand’s sovereign waters and the Southern Ocean through a Southern Ocean Patrol Vessel.
- It will position the Defence Force for the future, through investment in space-centred capabilities, enhanced cyber capabilities, and long endurance unmanned aerial systems. The delivery and resourcing of these capabilities will be informed by cross-agency work.

The timing and cost of all capability investments in the Plan are indicative and subject to individual business cases justifying the investment, and funding being available through the Budget process, taking into account other Government priorities.

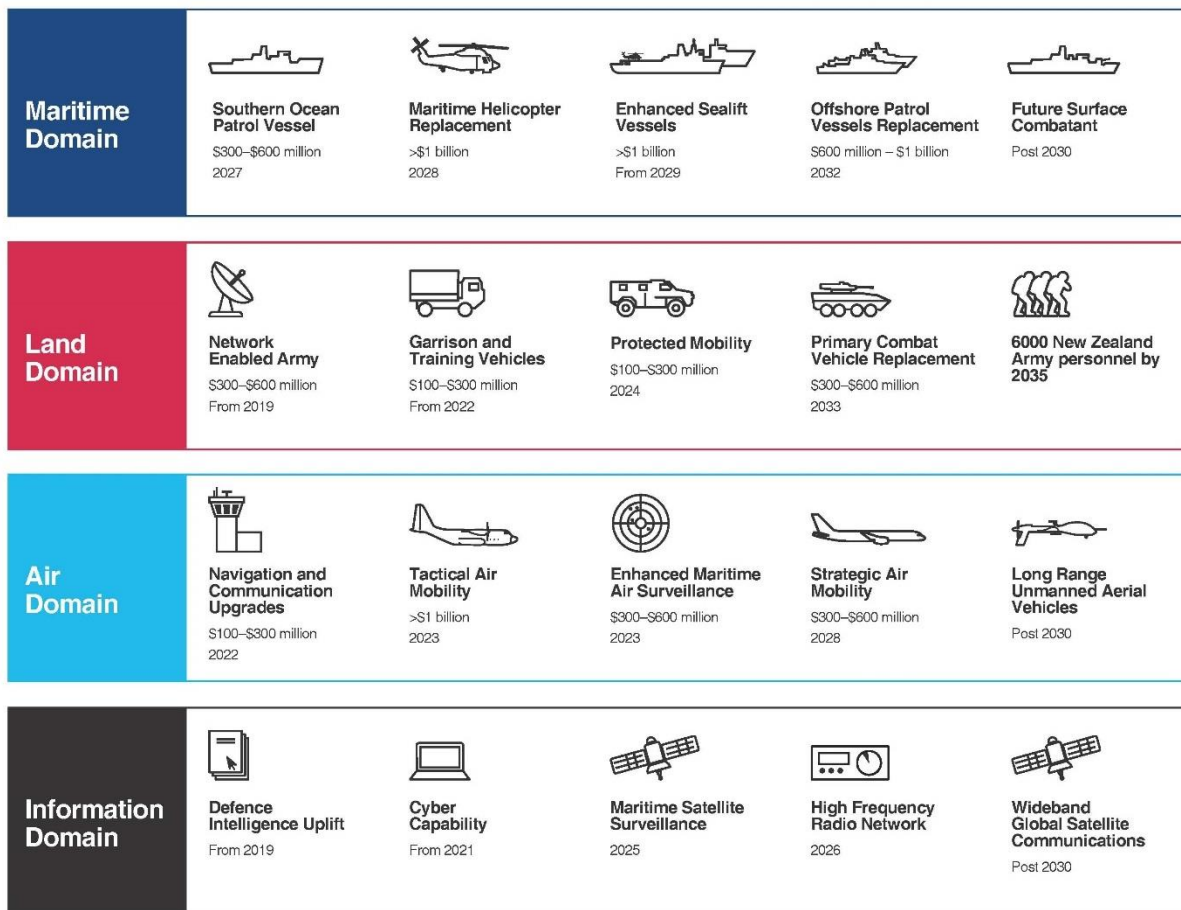


Figure 2: Indicative budgets and introduction into service dates from the *Defence Capability Plan 2019*

The Defence Capability Review

The *Defence Capability Plan 2019* was approved by Cabinet in April 2019, following a 12 month review of planned investments in Defence by a team of officials from the Ministry and Defence Force. The Review was undertaken to fulfil the commitment in the Government’s Coalition Agreement to re-examine the Defence procurement programme within the context of the *Defence Capability Plan 2016*. It followed the release of the *Strategic Defence Policy Statement 2018*, and the completion of the independent review of the Ministry of Defence’s procurement practices by Sir Brian Roche.

The Review built on the robust and transparent methodology previously used for the 2013 *Defence Midpoint Rebalancing Review* and *Defence White Paper 2016* to identify viable and fully costed options for Ministers on investment in Defence Force capabilities. It assesses the value of military capabilities in meeting policy objectives, alongside identifying and costing possible military options. This methodology supports decision-makers to consider the relative value of military capabilities and indicative capital and operating funding tracks over a 15 to 20 year period to deliver a sustainable and coherent defence force. Defence has continued to enhance and strengthen the analytical tools employed, including the use of scenarios to assess future capability requirements.

A long list of options for the future of Defence capability was developed. Cabinet then approved a shortlist of options to be taken forward for further consideration. Cabinet selected a final option in April that provides for uplift in the capability and capacity of the Defence Force, in order to respond effectively to increasing demands in the Pacific, and to events which impact New Zealand’s wellbeing.

The Plan prioritises investment in capabilities that maintain or enhance interoperability with partners, and strengthen New Zealand’s ability to operate independently.

The Review was developed with full recognition of the challenges climate change presents, as detailed in *The Climate Crisis: Defence Readiness and Responsibilities*. The findings of the Review were consulted across a wide range of government agencies. Identified investments were also assessed against affordability, as well as other Government priorities, including the *Pacific Reset*.

Delivering major Defence capabilities

The Ministry and New Zealand Defence Force have developed 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

Defining and selecting military capability

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 – from initial thinking in the Indicative Business Case, a decision to go to market through the Detailed Business Case or Single-Stage Business Case, and then the final decision on the capability through the Project Implementation Business Case.

In an independent review of Ministry business cases, NZIER considered that our presentation of the material gave Ministers an appreciation of what was at stake and brought the readers up to speed with long-term procurement processes. This is important when comparing and contrasting options.

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

- Approval to Commit to Contract for the NH90 Flight Simulator (July 2018)
- Approval to Purchase the Boeing P-8A Poseidon aircraft (July 2018)

- Approval to Commit to contract for a Dive and Hydrographic Vessel (August 2018)
- Approval to Commit for High Mobility Utility Light vehicles and Approval to Negotiate for Protected Vehicle Mediums for the Protected Mobility capability (April 2019)
- Approval to Commit for phase 1 of the Operational and Regulatory Aviation Compliance Sustainment capability (April 2019)
- Approval to undertake a Foreign Military Sales Letter of Request for a Letter of Offer and Acceptance for the Future Air Mobility Capability (the C-130H replacement, June 2019).

The Ministry also undertook work on the following projects that will be subject to consideration in the future:

- Garrison and Training Support Vehicles
- Enhanced Maritime Awareness Capability
- HMNZS *Canterbury* Communications Upgrade
- Land Force Protection Electronic Counter Measures
- Offshore Patrol Vessels Communications Upgrade
- Network Enabled Army – Tranche 2

Capability portfolio management

The 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 New Zealand Defence Force, and a variety of constraints on the delivery of investments including human resources, and broader Government budgetary priorities.

Over the last year Defence has continued to mature its portfolio management toolset to deal with the impact of a 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.

Funding the delivery of Defence capability

Integrated Project Teams are established early in a Defence capability project. These are led by Ministry staff and bring together specialists from the Ministry and Defence Force. A feature of the enhanced Capability Management System is incorporating acquisition expertise earlier in the project. Policy advice expertise is funded through the Vote Defence Policy and Related Outputs Multi-category Appropriation, and acquisition expertise is funded through the Management of Defence Capabilities Appropriation. At the point that Cabinet choose to invest in a capability, funding is established within the Crown Capital Appropriation for Delivering Defence Capabilities within Vote Defence.

Expenditure within the Crown Capital Appropriation varies from year to year, depending on the costs arising in relation to the projects in delivery phase. The appropriation involves significantly greater costs in 2019/20 as a result of the Government's decision to acquire the P-8A Poseidon maritime surveillance aircraft, as well as costs associated with the delivery of the new HMNZS *Aotearoa* tanker for the Maritime Sustainment Capability Project, the HMNZS *Manawanui* Dive and Hydrographic Vessel, and costs associated with the Anzac Frigate Systems Upgrade project.

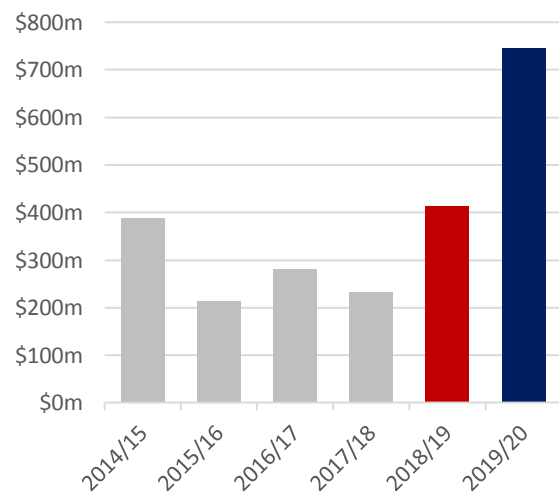


Figure 3: Crown Capital spend over previous years and budgeted for 2019/20

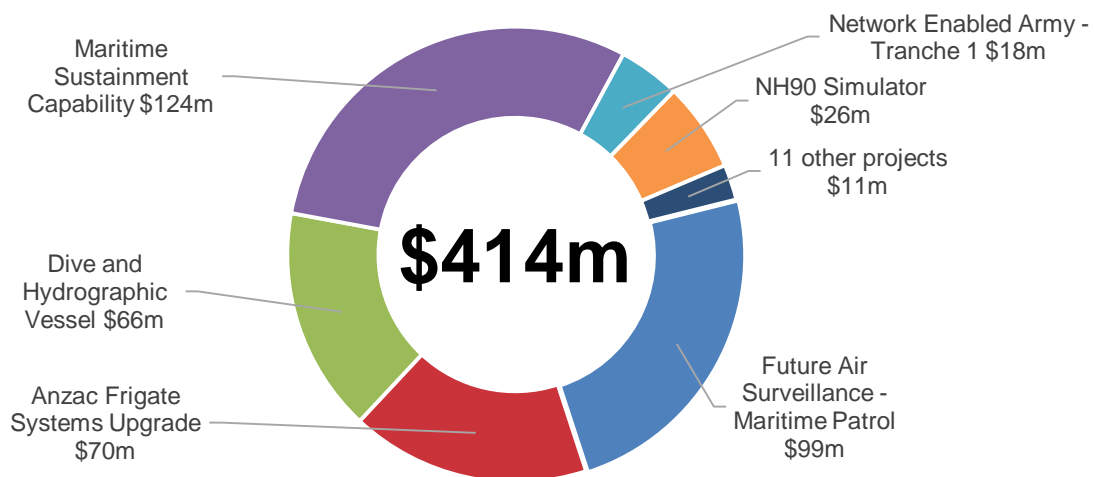


Figure 4: A breakdown of the Ministry's Crown Capital expenditure in 2018/19

Minimising risk in delivering generational change in Defence capabilities

By the end of the next decade decisions will have been taken on the replacement of all the New Zealand Defence Force's major platforms. Replacing these platforms accounts for over 50% of the forecast expenditure provisioned in the *Defence Capability Plan 2019*. Given the size of this investment, minimising risk is critical.

During 2018/19 significant decisions were taken on two of Defence Force's major platforms. In July 2018, the Crown agreed to purchase four Boeing P-8A Poseidon maritime patrol aircraft. This was followed in June 2019 with the decision to seek a Letter of Offer and Acceptance from the United States Government, for the Lockheed Martin C-130J-30 aircraft to replace the C-130H Hercules fleet. A final decision to procure the C-130J-30 will be made in 2020.

These are once-in-a-generation decisions. The aircraft the P-8A Poseidon and C-130J-30 will replace were acquired in the 1960s.

The new aircraft will shape the future Defence Force. The P-8A Poseidon is built specifically as a high-end military aircraft. Its advanced sensors and missions systems include a multi-role radar, high definition cameras, and an acoustic system with four times the processing capacity of the P-3K2 Orion.

The C-130J-30 will form the backbone for getting Defence personnel and their equipment where they need to be. It is a significantly more capable aircraft than the C-130H, with greater range and speed. This "stretched" variant of the Hercules comes with greater cargo and passenger carrying capabilities.

The P-8A Poseidon and C-130J-30 are currently in-service with our partners and are backed by a proven support network giving the platforms long and assured futures. This reduces cost and risk. Using the United States Foreign Military Sales process further reduces risk and provides the best level of price and delivery fidelity. It also provides the benefit of scale and ensures access to proven equipment and training options, including the same simulation used by our partners.

Future decisions on replacements for the Boeing 757 aircraft, the Anzac Frigates, and other major platforms will be informed by the same principles applied in these projects; minimising risk by acquiring proven systems that are in-service with our partners, and that can be supported through-life.



Delivering Defence capabilities

Detailed reports are provided on the purpose, progress, spend and timeline for

the following projects in the capability delivery phase.

- 81mm Mortar
- Anzac Frigate Systems Upgrade
- Dive and Hydrographic Vessel
- Fixed High Frequency Radio Refresh
- Future Air Surveillance – Maritime Patrol
- Maritime Sustainment Capability
- Network Enabled Army – Tranche 1
- NH90 Flight Simulator

Detailed reports are not provided for the following projects that moved from capability definition to capability delivery following Cabinet decisions in 2018/19. They will be included in future annual reports:

- Operational and Regulatory Aviation Compliance Sustainment
- Protected Mobility Capability.

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

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

The following projects have been substantially delivered by the Ministry and are awaiting project closure. No significant activity occurred within 2018/19 to be reported:

- C-130H Life Extension
- Individual Weapons Replacement
- Special Operations Vehicles
- Strategic Bearer Network
- Underwater Intelligence, Surveillance and Reconnaissance.

The following projects were closed during the year:

- Defence Command and Control System
- Maritime Helicopter Capability
- Medium and Heavy Operational Vehicles
- Medium Utility Helicopter (NH90).

Capability delivery milestones for 2018/19

15
major projects are in the delivery phase

\$414m
capital spent on capability projects this year

The portfolio of projects appropriated is **\$4.3b**

4
projects have been closed this year

6
projects moved from definition to delivery

A rating under Treasury's Investor Confidence Rating system

Managing foreign exchange risks

The Ministry purchases specialist capabilities 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, rather than the hedged rate.

The tables for each project show this notional expenditure which 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

	2018				2019			
	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun
81mm Mortar	Acquisition and delivery of capability							
Anzac Frigate Systems Upgrade	Installation of new equipment and systems (introduction of HMNZS <i>Te Kaha</i> /capability 2020)							
Dive and Hydrographic Vessel	Decision to buy	Acquisition and modifications					Introduction of capability	
Fixed HF Radio Refresh	Engaging with Industry				Proposed solution and introduction of capability			
Future Air Mobility Capability				Foreign Military Sales process				Decision Budget 2020
Future Air Surveillance – Maritime Patrol	Decision to buy	Delivery phase: first aircraft in 2022, simulator, infrastructure						
Maritime Sustainment Capability	Ship's build, fit out and delivery						Introduction of capability	
Network Enabled Army Tranche 1	Engagement with industry, acquisition and testing							
NH90 Simulator	Simulator build and testing (Canada)				Introduction of capability (New Zealand)			
ORACS				Approval to proceed. Acquisition of equipment		Introduction of capability		
Protected Mobility	Delivery of High Mobility Light and Protected Vehicle Medium			Engaging with industry			Potential delivery	

Introduction of capability: the time during which new capability (e.g. aircraft, vessel or vehicles; systems; training facilities and equipment; technology, networks; weapons) is delivered or initially available. It may include a period of operational testing and evaluation of the new capability, and initial release for use operationally. It ends when the new capability is declared to be fully operational, when it transfers to being in service.

81mm Mortar Replacement

Purpose

The New Zealand Army's existing 81mm medium mortar capability has been in use since the 1980s and is coming to the end of its operational life. To replace and enhance the capability, this project is acquiring three components: the new medium mortars, sighting systems and weapons locating radar.

Benefits

- Improved mobility, reliability, accuracy and effectiveness of the mortar capability for dismounted units.
- Improved detection of enemy weapons.
- Reduced noise and propellant blast when the mortar is fired, resulting in improved weapon crew health and safety.
- New support agreements will be in place.

Delivery of the capability

Following the approval of the Single Stage Business Case by the Minister of Defence in 2017, the project began the process of acquiring the three components. The initial approach was to source all three components through sole source procurement:

- both the 81mm mortars and radars were to be sourced via separate United States Foreign Military Sales (FMS) cases, and
- sighting systems through a direct commercial sales contract.

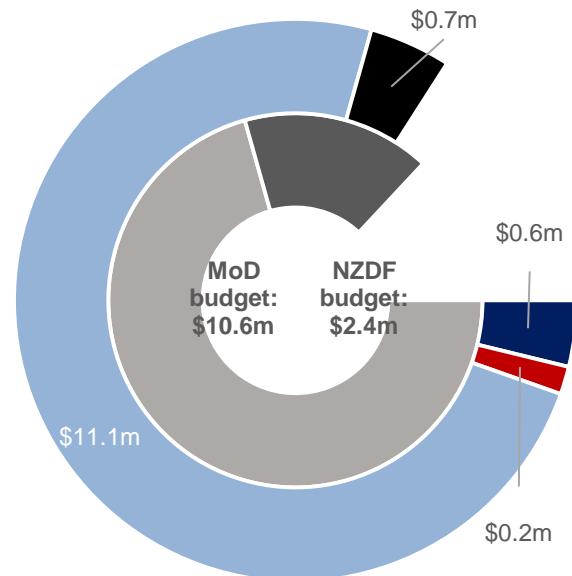
A contract for the sights was signed in October 2017 with Hall & Watts Defence Optics (UK) with the first tranche delivered in April 2018. A further tranche is expected to be delivered in the 2019/20 financial year.

Over the year

The FMS Letter of Offer and Acceptance for the radars was signed in July 2018. However, a price for mortars through FMS was higher than originally provisioned.



In November 2018, the Ministry issued a Request for Information to explore alternatives. Responses indicated that mortars could be acquired within the approved budget, which resulted in a Request for Quotation being issued in January 2019, and a contract for the supply of mortars and associated training signed with New Zealand-based company Hirtenberger Defence Technology Ltd in May 2019. The new mortars will be delivered before the current capability reaches its end of operational life.



- Spend in prior years
- 2018/19 spend
- Forecast Ministry spend
- Forecast NZDF spend
- Ministry budget
- NZDF budget

At 30 June 2019 expected project costs were:

		Ministry	NZDF	Consolidated project
		\$000	\$000	\$000
Budget	Current approved project budget	10,560	2,440	13,000
	Allowance for foreign exchange movements	-	-	-
	Original approved project budget	10,560	2,440	13,000
Forecast	Forecast total project cost	11,864	703	12,567
	Effect of foreign exchange movements	209	-	209
	Forecast cost using hedged rate	11,655	703	12,358
	Forecast project variance	(1,095)	1,737	642

Note: As the project developed over 2018/19 it became apparent that some of the project tasks originally budgeted as Defence Force tasks would be more effectively delivered in combination with other Ministry activities. The forecast costs reflect this transfer of tasks. The transfer of corresponding project budgets is intended to occur in 2019/20.

Anzac Frigate Systems Upgrade

Purpose

This is the largest of five upgrade projects that, cumulatively, will ensure the frigates HMNZS *Te Kaha* and *Te Mana* can maintain their effectiveness and continue to operate into the 2030s. The upgrade, being undertaken by Lockheed Martin Canada (LMC) as the prime contractor, will allow the frigates to continue to operate safely in medium and high threat environments.

Benefits

- Maintaining the frigates' surveillance, combat and self-defence capabilities through to their end of life.
- Improving support to amphibious forces, increasing ability to combat emerging threats and improved efficiency.

Delivery of the capability

The project is scheduled to complete *Te Kaha*'s upgrade in late 2020 and *Te Mana*'s upgrade in late 2021.

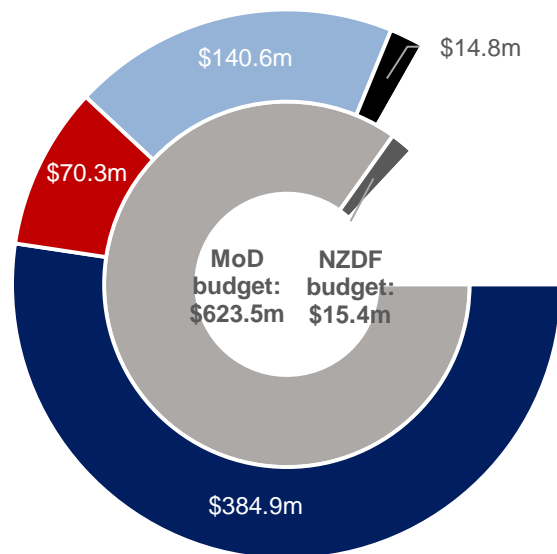
Over the year

Work on the first ship to arrive in Canada – *Te Kaha* – began on 1 May 2018 and, over the course of the 2018/19 financial year, legacy systems and equipment were removed and preparations made for installation of new equipment.

The arrival of *Te Mana* in March 2019 saw both frigates anchored at Esquimalt, in British Columbia. As with *Te Kaha* a year earlier, the industrial refit for *Te Mana* began as scheduled on 1 May 2019. The contract with LMC is expected to be concluded on time in 2021.



LMC have advised the Crown of delays to the schedule associated with the industrial refit phase for *Te Kaha*. This reflects the complexity of the upgrade and the extent of differences between the Halifax-class frigates – for which LMC had experience in delivering this type of upgrade – and New Zealand's Anzac-class frigates.



■ Spend in prior years
 ■ Forecast NZDF spend

■ 2018/19 spend
 ■ Ministry budget

■ Forecast Ministry spend
 ■ NZDF budget

At 30 June 2019 expected project costs were:

		Ministry	NZDF	Consolidated project
		\$000	\$000	\$000
Budget	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
Forecast	Forecast total project cost	595,793	14,824	610,617
	Effect of foreign exchange movements	17,063	-	17,063
	Forecast cost using hedged rate	578,730	14,824	593,554
	Forecast project variance	55	584	639

Dive and Hydrographic Vessel

Purpose

This project replaces the decommissioned dive ship HMNZS *Manawanui* and the hydrographic ship HMNZS *Resolution* with a vessel that will enable the Royal New Zealand Navy to provide both dive and hydrographic support.

Benefits

Ability to deliver underwater dive and hydrographic operations, both domestically and in support of regional partners.

Delivery of the capability

The project is on schedule with the final stage of modifications planned to start towards the end of 2019.

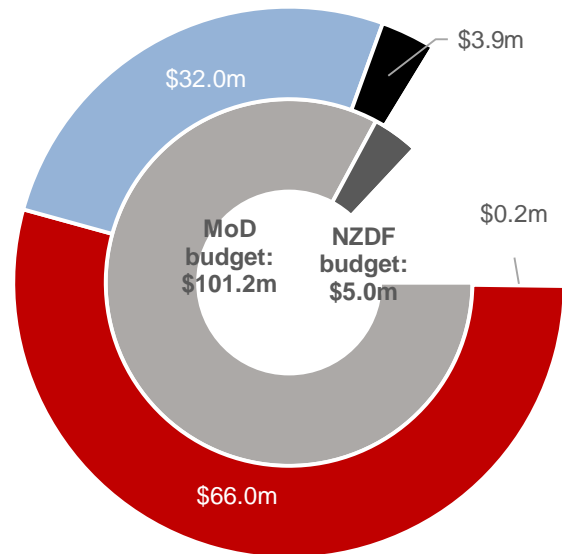


Over the year

In July 2018 the project identified MV *Edda Fonn*, a Norwegian-owned commercial vessel, as the preferred option to buy.

After due diligence and negotiations were undertaken and a project implementation case developed, the Government announced the purchase in August 2018.

New equipment was installed on the ship in Denmark in early 2019. This included surface supply diving systems, a decompression chamber, remote operated vehicle systems, hydrographic echo sounders, boat davits and a diesel engine. Following successful sea trials, and a 47-day journey, MV *Edda Fonn* reached New Zealand on 12 May 2019. On 7 June 2019 the ship was commissioned as HMNZS *Manawanui* – the fourth Navy ship to sail under this name – with Ship Sponsor Prime Minister Jacinda Ardern.



■ Spend in prior years
■ Forecast NZDF spend

■ 2018/19 spend
■ Ministry budget

■ Forecast Ministry spend
■ NZDF budget

At 30 June 2019 expected project costs were:

		Ministry	NZDF	Consolidated project
		\$000	\$000	\$000
Budget	Current approved project budget	101,186	5,000	106,186
	Allowance for foreign exchange movements	2,770	-	2,770
	Original approved project budget	98,416	5,000	103,416
Forecast	Forecast total project cost	98,326	3,910	102,236
	Effect of foreign exchange movements	(499)	-	(499)
	Forecast cost using hedged rate	98,825	3,910	102,735
	Forecast project variance	(409)	1,090	681

Supporting communities at home and across the Pacific

The arrival in May 2019 of the new HMNZS Manawanui in New Zealand waters was a major milestone for the Ministry of Defence-led project to deliver a Dive and Hydrographic Vessel to the Royal New Zealand Navy.

The project was delivered quickly. In December 2017, the Government decided to reallocate \$148 million of funding from the then Littoral Operations Support Capability project to ensure delivery of the installation phase of the Anzac Frigates Systems Upgrade.

With the project re-scoped for a Dive and Hydrographic Vessel, over 1,000 existing vessels with the potential to deliver the required capability were assessed. In August 2018 the Government announced plans to buy Norwegian offshore support vessel, MV *Edda Fonn*.

The ship's arrival in Wellington took place just two months after completion of the first of two phases of modifications, which added a range of equipment and systems including a mezzanine deck and complete dive system, a remotely operated vehicle (ROV) system and low emission engine.

From 2020 the vessel's capability will be released progressively, enabling diving and hydrographic specialists to conduct specialised operations, including surveying coastlines and harbours, underwater explosive disposal, underwater search and recovery, and limited mine countermeasures.

The capability will be a marked step up from what had been provided by the previous dive vessel *Manawanui*, which was retired in 2018, and the HMNZS *Resolution*, which delivered the Navy's survey capability until the ship was decommissioned in 2012.

Manawanui will have the capability to support New Zealand and Pacific Island communities following disasters by re-surveying harbours and approaches, as the *Resolution* did after the 2011 Canterbury earthquake, and that same year's grounding of the MV *Rena* off the coast of Tauranga. The hydrographic function will also be able to update and improve chart accuracy around Pacific islands. The vessel can operate in a green emission mode and has a fully compliant system that treats the ballast water taken on board.

In search and recovery operations, the integrated package of hydrography, diving and salvage will be used. A task may require search and mapping of an object, using the ROV for confirmation before divers are deployed in the wet bell that was installed as part of the purchase. The crane can recover objects up to 100 tonnes from 1,000 metres below the surface, while the ship's Dynamic Positioning System coordinates the directional thrusters to maintain the ship's position with a high level of accuracy.

This versatile vessel will also be able to support Police in anti-terrorism operations and provide security for major events, along with supporting fisheries and customs patrols.

Fixed High Frequency Radio Refresh

Purpose

The NZDF's high frequency radio infrastructure is used to communicate across long distances, as a backup to satellite communications, and to enable deployed forces that are not equipped with satellite communications capability to remain in contact.

This project will rationalise, consolidate and upgrade all fixed, owned or leased NZDF high frequency communications installations, facilities and stations. It will update the joint high frequency remote control system to control all NZDF high frequency equipment. Interim operating capability is expected to be delivered at the end of 2021.

Benefits

Improved and updated high frequency radio systems.

Delivery of the capability

Subject to approval of the project implementation business case.

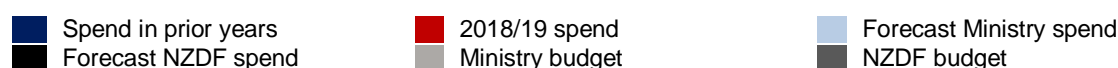
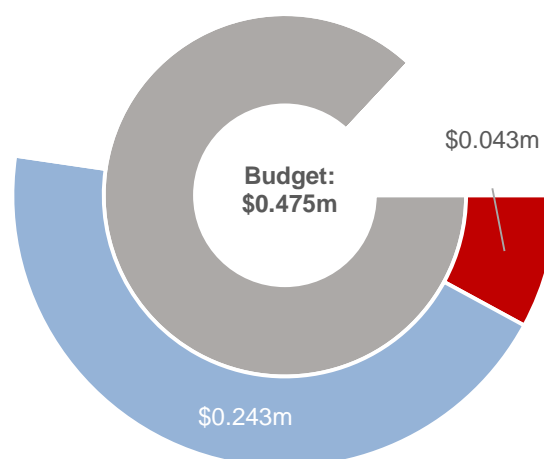
Over the year

Following approval of the Single Stage Business Case in June 2018, the project sought Registrations of Interest in the project. The Ministry held an Industry Day in August 2018 that informed industry representatives about the project, the need for options to be explored for the design and delivery of a new system, and for ongoing through-life support.

The Ministry issued a Request for Proposals in November 2018 and a preferred provider was identified after industry was given an opportunity to submit their best and final offer.

The project is currently negotiating contract terms with the preferred provider, and developing a project implementation business case for consideration by Ministers in late 2019.

The current project budget is for the costs of this process. The project budget will be updated following approval and funding of the acquisition contract.



At 30 June 2019 expected project costs were:

	Ministry	NZDF	Consolidated project	
	\$000	\$000	\$000	
Budget	Current approved project budget	475	-	475
	Allowance for foreign exchange movements	-	-	-
	Original approved project budget	475	-	475
Forecast	Forecast total project cost	286	-	286
	Effect of foreign exchange movements	-	-	-
	Forecast cost using hedged rate	286	-	286
	Forecast project variance	189	-	189

Future Air Surveillance – Maritime Patrol

Purpose

This project is to provide the New Zealand Government with effective airborne intelligence, surveillance, reconnaissance, through the replacement of the existing P-3K2 aircraft fleet with the P-8A Poseidon maritime patrol aircraft.

Benefits

- Provide meaningful and valued contributions to maritime, joint, coalition and/or interagency operations.
- Enable Government to fulfil policy and sovereignty responsibilities within the NZ maritime environment.
- Contribute to search and rescue and domestic intelligence, surveillance and reconnaissance mission tasks (e.g. Southern Ocean, South Pacific).

Delivery of the capability

Delivery of the new fleet is on schedule to commence in 2022.

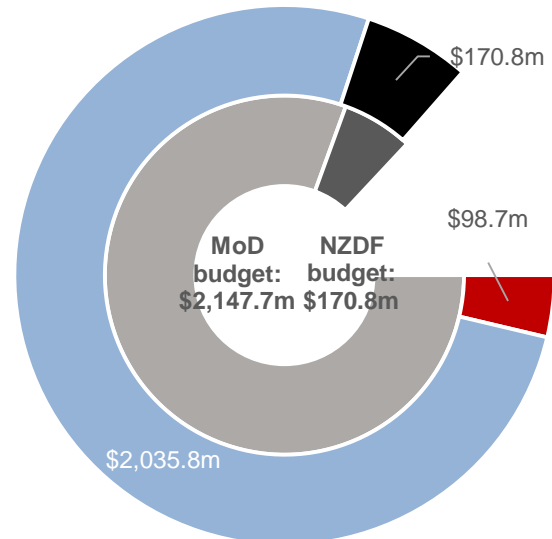
Over the year

In July 2018 the Government announced that it had decided to purchase four Boeing P-8A Poseidon maritime patrol aircraft through the United States Foreign Military Sales process. The project will deliver the new P-8As, flight simulator training systems, infrastructure requirements and the costs associated with introducing the new capability into service.



Since the announcement, a contract has been signed with the prime consultant, Aurecon, for preparing for the infrastructure development for the P-8As at Ohakea, which will include a building incorporating hangars, training and other facilities, and the apron adjacent to the hangars. A briefing to defence industry about opportunities relating to the infrastructure component was held in June 2019.

Technical discussions have taken place with the United States Navy on the requirements for the P-8As and training simulator. There has been engagement with Australia, Norway and the United Kingdom as they have or are currently acquiring P-8As and there is an opportunity to share lessons learned.



■ Spend in prior years
■ Forecast NZDF spend

■ 2018/19 spend
■ Ministry budget

■ Forecast Ministry spend
■ NZDF budget

At 30 June 2019 expected project costs were:

		Ministry	NZDF	Consolidated project
		\$000	\$000	\$000
Budget	Current approved project budget	2,147,743	170,823	2,318,566
	Allowance for foreign exchange movements	33,562	-	33,562
	Original approved project budget	2,114,181	170,823	2,285,004
Forecast	Forecast total project cost	2,134,576	170,812	2,305,388
	Effect of foreign exchange movements	22,115	-	22,115
	Forecast cost using hedged rate	2,112,461	170,812	2,283,273
	Forecast project variance	1,720	11	1,731

Maritime Sustainment Capability

Purpose

This project is replacing the now decommissioned HMNZS *Endeavour* with a new and enhanced vessel, HMNZS *Aotearoa*, which will provide a maritime replenishment capacity for the Defence Force. It will sustain maritime, air and land forces with fuel, fresh water, ammunition and a modest amount of equipment and non-perishable stores.

The new vessel is being built in Ulsan, Republic of Korea, by prime contractor Hyundai Heavy Industries. It will incorporate ice-strengthening and winterisation features, supporting New Zealand's continued civilian presence in Antarctica through a contribution to the Joint Logistics Pool. It will be able to deliver specialised Antarctic fuel, and transport containerised scientific material and supplies to McMurdo Sound.

Benefits

- Provide an independent and complementary maritime sustainment capability to New Zealand and its security partners.
- Improved ability to shape and react to events in New Zealand, Australia and the South Pacific.
- Improved flexibility of response options to threats and emergencies.
- Provision to Government of support to New Zealand's civilian presence in Antarctica.

Delivery of the capability

New Zealand is expecting to take delivery of *Aotearoa* in 2020, with most capabilities released to the NZDF by late 2021.

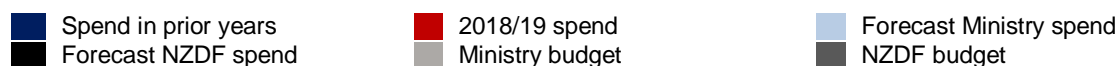
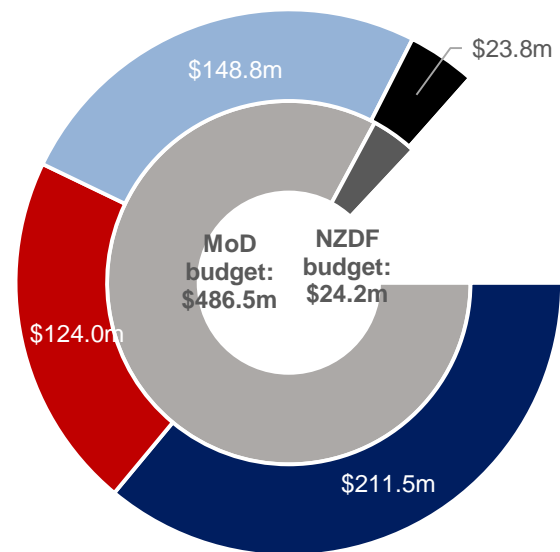
Over the year

On 13 August 2018 the keel laying ceremony was held. Eight months later, construction of the hull and

superstructure had been completed, replenishment at sea rigs, mast and propellers had been fitted and the vessel was launched on 24 April 2019.



At the end of June 2019, outfitting and system commissioning in the accommodation and machinery spaces was ongoing, with almost 67% of the overall build completed. Several compartments require only minor finishing to complete.



At 30 June 2019 expected project costs were:

		Ministry	NZDF	Consolidated project
		\$000	\$000	\$000
Budget	Current approved project budget	486,467	24,159	510,626
	Allowance for foreign exchange movements	9,401	-	9,401
	Original approved project budget	477,066	24,159	501,225
Forecast	Forecast total project cost	484,328	23,797	508,125
	Effect of foreign exchange movements	12,967	-	12,967
	Forecast cost using hedged rate	471,361	23,797	495,158
	Forecast project variance	5,705	362	6,067

Cleaner technology – the Maritime Sustainment Capability

When making investment decisions about ships for the Royal New Zealand Navy the service life is considered in decades, making it even more important to identify options that can help, long-term, to maintain the health of the maritime environment, and reduce emissions.

As a new build, the naval tanker constructed at Hyundai Heavy Industries' Ulsan shipyard, in the Republic of Korea, provided the opportunity to consider how to deliver the required military capability along with technology to help the ship operate efficiently and in compliance with standards, at home and abroad. The project is to deliver a replenishment vessel supporting other vessels, with the ability to deliver fuel and supplies, and provide potable water for deployed forces and in the event of emergency situations.

Finalising the vessel's design and build included plans for meeting emission standards for vessels, which are subject to the regulations for the prevention of air pollution under the International Convention for the Prevention of Pollution from Ships. The ship, HMNZS *Aotearoa*, will comply, for example, on nitrous oxide emission levels from the exhaust of the main diesel engines and generators, enabling *Aotearoa* to operate anywhere in the world, including Emission Control Areas where more stringent regulations are enforced.

There are also requirements for protecting the marine environment from the accidental introduction of pests and diseases that can be transported on ships' hulls. Use of a new anti-fouling hull product to help prevent this bio-fouling will reduce the impact on where the ship is able to berth, both around the world and in *Aotearoa*'s home port of Auckland, and a UV light treatment system will treat ballast water prior to discharge.

Network Enabled Army – Tranche 1

Purpose

The Network Enabled Army (NEA) Programme is addressing limitations of current Army and Special Forces command, control, communications and computers (C4), intelligence, surveillance and reconnaissance (ISR) capabilities. The programme is being rolled out in tranches through to 2025-26, with the first tranche focused on C4, providing land forces with systems, technology and infrastructure, including specialised trailers for deploying equipment.

Through NEA Tranche 1 the basic network architecture for the future NEA programme will be in place, including key software, battle management systems and communications methods

Benefits

- Improved interoperability.
- Improved common operating picture.
- Improved information management.
- Increased ability to pass data.
- Improved situational awareness; and ability to exercise command and control.

Delivery of the capability

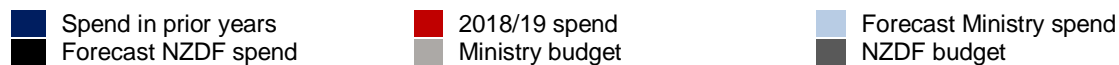
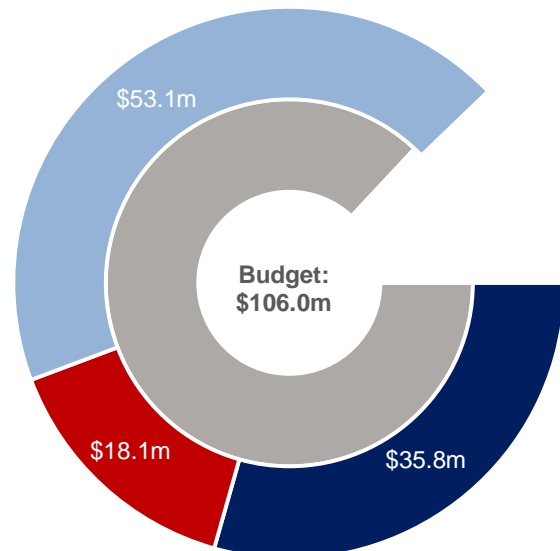
This tranche will reach full operating capability in late 2021.

Over the year

Mobile tactical command systems is the major work stream, consisting of network-capable combat

radios, a battle management system and software. These secure mobile communications networks support dispersed operations, providing voice, data and position location. In December 2018 a contract for the core radios was signed with Harris Defence Australia. Design of the supporting network was a significant focus over the remainder of the year, with testing due in 2019/20.

An agreement was signed with Cubic that will allow multiple awards to address current, emerging and future requirements over the life of the programme. Initially Cubic will provide deployable command post computing solutions. Future work will include additional hardware and technology that improves performance while reducing the weight of equipment carried, and reduce power requirements.



At 30 June 2019 expected project costs were:

	Ministry	NZDF	Consolidated project	
	\$000	\$000	\$000	
Budget	Current approved project budget	106,000	-	106,000
	Allowance for foreign exchange movements	-	-	-
	Original approved project budget	106,000	-	106,000
Forecast	Forecast total project cost	107,032	-	107,032
	Effect of foreign exchange movements	1,035	-	1,035
	Forecast cost using hedged rate	105,998	-	105,998
	Forecast project variance	2	-	2

A careful and managed approach to digitalising our Land Forces

The Network Enabled Army programme is transforming how our Land Forces collect, communicate, and view information, as well as respond to it. At the programme's core is the movement away from analogue (voice-only and paper-based) process to a real-time and information-rich digital picture of operations.

To manage the change and mitigate risk, the capability is being built and expanded over time. Capability delivery has commenced by enhancing small elements of the Army, progressively building to deploy and sustain a Battalion-size commitment and Special Operations Forces. This approach means the viability of the network can be tested and proven before scaling up the investment.

Since Cabinet approval in 2015, Tranche 1 has delivered the overall communications systems design and architecture. It has put in place the resources and facilities needed to maintain the communications and sensor networks being acquired. Capability delivery highlights include the Sitaware battle management system, which provides the ability to track soldier and vehicle movements in real-time, a mobile radio based command and control system, and the acquisition of the core radio fleet. Tranche 1 is scheduled to conclude in late 2021.

In July 2019, Cabinet approved Tranche 2. Building on the initial tranche, Tranche 2 deepens the current capabilities, while expanding the programme to include electronic warfare and other surveillance and intelligence tools.

Tranche 3 is scheduled to commence in mid-2020. Tranche 4 is scheduled to commence in 2023. The transition between overlapping tranches provides an opportunity to make adjustments to programme content and delivery in response to lessons learned.

NH90 Flight Simulator

Purpose

This project is acquiring an NH90 Flight Training Device (simulator) to allow both initial and on-going training of pilots in New Zealand to crew the eight helicopters in the RNZAF fleet. The project is also constructing the building to house the device.

Existing contracted overseas training, conducted in Germany and Australia, will be replaced when this training facility becomes operational. The existing NZDF syllabus will continue to be used.

Benefits

- There will be a sufficient number of trained helicopter pilots.
- Increased operational output of the NH90s.
- Reduced costs, both financial and in training time.

Delivery of the capability

The project is on schedule, with the facility expected to be ready for training in mid-2020.



Over the year

Following approval of the Project Implementation Business Case in July 2018, a contract was signed with Canadian-based company CAE.

■ Spend in prior years
■ Forecast NZDF spend

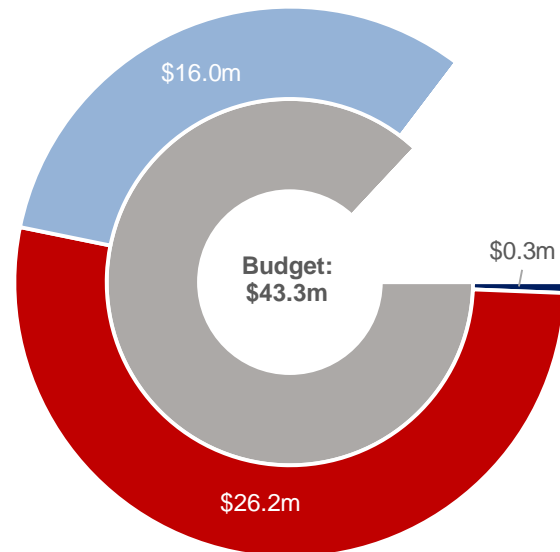
■ 2018/19 spend
■ Ministry budget

■ Forecast Ministry spend
■ NZDF budget

In April 2019 the CAE production team handed over the simulator to their internal testing team, slightly ahead of schedule. The on-screen simulation includes the whole of Wellington, with landing sites, ensuring trainees will be tested across the range of experiences as NH90 pilots.



The building that will house the simulator is on schedule for completion in the third quarter of 2019, ahead of the delivery date for the flight training device to the site, ready for its installation and testing.



At 30 June 2019 expected project costs were:

		Ministry	NZDF	Consolidated project
		\$000	\$000	\$000
Budget	Current approved project budget	43,344	-	43,344
	Allowance for foreign exchange movements	608	-	608
	Original approved project budget	42,736	-	42,736
Forecast	Forecast total project cost	42,531	-	42,531
	Effect of foreign exchange movements	194	-	194
	Forecast cost using hedged rate	42,337	-	42,337
	Forecast project variance	399	-	399

4

DEFENCE SUCCESSFULLY DELIVERS AND SUSTAINS SYSTEMIC IMPROVEMENT

Our goals in 2018-2022 are:

- The Government’s investment in the Ministry is managed successfully and meets expectations
- Partnership arrangements in Defence deliver benefits
- The Ministry is operating sustainably with contemporary organisational practices, systems and policies, with a highly engaged and participative culture
- The Ministry develops its people and offers them a career in a national security workforce



The Government’s investment in the Ministry

The Budget 2015 investment increased the Ministry’s annual baseline from \$11.2 million in 2014/15 to \$19.7 million in 2018/19. The Ministry’s increased baseline has enabled it to invest in becoming a more sustainable organisation, able to support a highly skilled workforce.

The Ministry believes in continuous improvement. We embed this in our own organisation; jointly with the Defence Force in the Defence Capability Management System; and across Defence through the activities of our Tū Aromatawai Independent Review Division.

Embedding the Defence Capability Change Action Programme

The year has focused on embedding the enhancements to the joint Defence Capability Management System (CMS) developed through the Defence Capability Change Action Programme (DCCAP). The CMS enables the Government’s defence policy through cost-effective design, delivery, operation, maintenance and eventually disposal of military capability.

The 2018 independent review of Defence Procurement Practices, led by Sir Brian Roche, found that the Defence agencies had addressed the structural, operational and information deficiencies of the previous system.³ The review recognised that the CMS now provides decision makers with a strong level of confidence and assurance to support informed decision-making. It did not make any recommendations for changes, but identified

³ The *Review of Defence Procurement Policies and Practices for Major Capability Projects* is available from the Ministry’s website at www.defence.govt.nz/publications/publication/review-of-defence-procurement-policies-and-practices-for-major-capability-projects.

observations on opportunities for Defence to consider.

In June 2019, Sir Brian and PwC completed a follow-up report on the progress made since their initial review. This found that the findings from the 2018 Review remain relevant, with DCCAP continuing to instil a strong risk management culture across the two Defence agencies in the management of major capability acquisitions.

“In our view, DCCAP is an investment that has the ability to successfully manage risk in major military acquisitions in New Zealand.”

Sir Brian Roche and PwC, June 2019

The review noted the importance of treating the CMS, and its component parts such as the integrated project teams and governance structures, as an integrated system with required checks and balances. It also observed that the system will be

tested with some large projects moving beyond business cases and into acquisition phases and transition into service.

All staff working on capability projects receive training on the CMS and the guidance, tools, practices and policies that are accessible through the Capability Management Framework Online. Several large capability projects are being successfully progressed under the guidance and processes in the Capability Management Framework, and these are set out in the following sections.

The CMS supports the delivery of the overall portfolio of Defence capability investments. Over the reporting period, the portfolio has been subject to a complete review, allowing for planned investments to be aligned with the Coalition Government’s priorities for Defence. This review culminated in the release of the *Defence Capability Plan 2019* in June 2019. The Capability Plan outlines the investments in capability that will be required in order to meet the objectives and expectations expressed through the *Strategic Defence Policy Statement 2018*. It also aligns Defence investments with other government priorities, including the Pacific Reset and preparing to respond to the impacts of climate change. A full description of the *Defence Capability Plan 2019* and the review is provided under priority 3.

Defence Capability Change Action Programme

The *Defence Capability Plan 2019* maintains the \$20 billion capital investment in new military capability out to 2030, first signalled in the *Defence White Paper 2016*.

To ensure Defence had the ability to successfully deliver and sustain such a large and complex investment programme, the Defence Capability Change Action Programme (DCCAP) was established in 2015. It has introduced a new operating model for Defence capability management, with new roles, tools, and support to ensure the right Defence equipment is bought at the right time, for the right price, with the right people and support in place to deliver the benefits of using it. The programme vision is for New Zealand to be an international exemplar for Defence capability management for a country of our size by 2020.

One of the critical changes DCCAP introduced is the concept of Integrated Project Teams for all large and challenging capability projects. Teams comprise both Ministry of Defence and New Zealand Defence Force personnel and include a mix of professional project specialists and experts in policy, acquisition, requirements and capability integration.

The oversight of projects has been strengthened by a fit for purpose governance structure. All complex projects report regularly to a dedicated project board, with the makeup of the board aligned to the complexity of the project. Project boards are jointly chaired by senior Ministry and Defence Force leaders, and include external members to provide independent challenge and expertise on complex projects. The project boards are accountable to the Capability Governance Board, co-chaired by the Secretary of Defence and Chief of Defence Force.

Underpinning how project teams work is the jointly owned Capability Management Framework. This online framework provides an accessible, authoritative, and systemic source of the guidance, standards, tools and responsibilities that people involved in capability management need to follow to successfully deliver projects under DCCAP.

The recent acquisition of a Dive and Hydrographic naval vessel demonstrated the success of the integrated project team approach. Having subject matter experts involved at an early stage of the project led to better project decision making, and planning for integration of the vessel's enhanced capability into service.

Other projects successfully delivered following the strengthened approach to capability management include the underwater sonar upgrade for the Air Force's P3-K Orion maritime patrol aircraft, and the introduction of the new MARS-L individual service rifle throughout the Defence Force.

Sir Brian Roche's independent reviews in 2018 and 2019 have found that as a result of the DCCAP, the new Defence Capability Management System has addressed past deficiencies and is able to provide decision makers with a strong level of confidence and assurance to support informed decision making.

In 2018 Treasury recognised the improvements to the Defence Capability Portfolio with an "A" rating in its Investor Confidence Index for the way the portfolio is now managed.

These encouraging results affirm that the investment in DCCAP has led to a significant uplift in how Defence capability management is undertaken and strengthens the ability of Defence to successfully deliver the planned investment out to 2030 and beyond.

Reviewing Defence activities

Tū Aromatawai (Independent Review), a division of the Ministry, undertakes assessments and audits to assist improvement across key areas for Defence:

- operational readiness
- people and organisation
- major projects.

Over 2018/19, Tū Aromatawai (Independent Review) delivered five reports:

- *Limited Services Volunteer programme*
- *Military Bases: Key Decisions 1988-2018*
- *Summary Report on Military Justice*
- *Military Women: A Stocktake of the Recommendations*
- *Recruit Training: A Stocktake of the Recommendations*

The review of the Limited Services Volunteer (LSV) programme addressed barriers to better

employment and training outcomes for the trainees. The review surveyed and interviewed trainees from two LSV programmes, as well as training staff and LSV patrons. The report recommends providing a greater level of post-programme support for the trainees to capitalise on the strong short-term outcomes of the programme.

A review of key decisions relating to the use and development of military bases was conducted. The review summarises past decisions leading to the current configuration of camps and bases.

A comprehensive assessment was undertaken of the effectiveness of the Military Justice system (focusing on the summary trial process) in achieving discipline and justice outcomes was also undertaken.

Tū Aromatawai also completed two "stocktake reports" that follow-up earlier substantive reports – *Recruitment barriers and Opportunities for Military Candidates* (2016) and *Maximising Opportunities for Military Women in the NZDF* (2014).

Limited Service Volunteer programme review

In 2018, the Minister of Defence requested a review of the Limited Service Volunteer (LSV) programme – a Ministry of Social Development employment programme that is implemented by the Defence Force. The LSV programme targets 18 to 24 year olds who are at risk of long-term unemployment. Trainees stay in a military area for six weeks and undertake basic military training alongside learning skills for life and employment. The programme aims to improve trainees' self-confidence, motivation, self-discipline and initiative, and through this, to improve their long-term employment outcomes.

The review asked: *“How does the LSV programme address barriers to better employment and training outcomes for trainees?”*

The review identified five main barriers to employment for trainees prior to attending an LSV programme:

- low motivation or confidence, or a poor mind-set or attitude
- substance dependency
- a “poverty of experience” (a lack of exposure to people, networks, or ways of thinking that might help them to gain employment)
- an unsupportive or dysfunctional family background/environment
- other barriers such as a criminal history or mental health issues.

The review found that the LSV programme helps trainees to overcome their barriers in three ways:

- The military environment provides the foundation for growth. Features of this environment include the high degree of structure, discipline and conformity; no drugs or alcohol; safety and predictability; and a focus on fitness and nutrition.
- The programme addresses a wide range of learning needs: employment and job search skills; life skills (e.g. budgeting, health, personal hygiene); social skills; values training; and confidence-building activities.
- The practical and personal support wraps around the trainees and supports them through the programme. While not directly aimed at increasing employability, the support helps trainees with issues that surface while on the programme.

The review found that the average wellbeing of trainees had improved during the programme, and was maintained for several months. Several barriers to employment remained, however, the most common being a negative, dysfunctional or unsupportive home environment, a lack of support for personal issues/to find employment, a lack of motivation to maintain good habits, and a lack of a driver licence.

The review also examined models of post-programme support and considered whether a longer programme might achieve better outcomes. The review found that post-programme support should be:

- targeted to trainees who leave the programme without a clear pathway or do not have a strong peer support network
- adaptable to trainees' many and varied needs
- long-term and relationship-based, and
- consistently available across New Zealand and include peer-to-peer support.

While a longer programme might result in better employment outcomes, improved post-programme support was likely to be at least as effective.



Partnership arrangements in Defence

Ministry of Defence and Defence Force personnel work together to provide the civilian and military perspective to Ministers on a full range of defence matters including defence capability, international engagement and defence deployments.

This collaboration is supported by our working arrangements, whereby the Ministry is co-located within the Defence Force Headquarters and its property footprint is managed by the Defence Force under a shared services agreement.

Co-location is particularly important in respect of major defence capability projects, delivered by integrated project teams led by the Ministry but including team members from both the Defence Force and Ministry. These projects are managed and governed under the joint Capability Management System. Reflecting the shared responsibilities of the Secretary of Defence and Chief of Defence, capability governance and management board meetings are co-chaired by Ministry and Defence Force representatives.

Partnered working between the agencies is supported by a shared system for programme and project management and reporting of capability projects. In addition, a combined Defence document management system has been introduced that both agencies are implementing and using together. This system has been rolled out to all Ministry teams.

A sustainable and contemporary Ministry of Defence

The Ministry has grown from 64 people in June 2015 to 149 people at 30 June 2019. This number will increase further as the Ministry recruits the necessary personnel to deliver the expanding portfolio of capability projects.

The Defence Capability Change Action Programme provided opportunities to enhance our capability delivery workforce with increased skills and expertise in portfolio and programme management; industry and science engagement; governance; and policy development for major capabilities. Most of the staff increase has been in the Capability Delivery division, which has increased from 15 to around 70 people since 2015.

Ministry policies are regularly reviewed and updated to ensure they are based on contemporary best practice.

Developing our people

At the Ministry, each staff member has a development plan as part of their individual performance agreement. The Ministry explores development opportunities for each individual to allow them every opportunity to be successful in their role. At the Ministry we utilise the 70:20:10 approach to learning and development; meaning that 70% of learning is on the job, 20% is learning through others and 10% is formal training.

The Ministry has a comprehensive induction programme, consisting of a two-day Ministry orientation as well as a tailored individual programme to help set employees up for success in their roles. A self-driven 'Foundation Programme' aimed at those joining the public service, or new to working in the defence and security sector has been developed. We regularly run programmes for a range of staff ranging in topics from Machinery of Government, Networking and Influencing and Presentation Skills.

The Ministry is an active participant in National Security Workforce activities. The Ministry has engaged in the mentor/mentee programme offered through the National Security Workforce. This is aimed at females, enabling them to see progression in the wider security sector.

The Ministry offers a range of development opportunities for its leaders, and those aspiring to be leaders. Some of these are accessed through the Leadership Development Centre and State Services Commission, examples include the Leadership Insight, Leadership In Practice and we are taking part in the New People Leader Development pilot programme. We also utilise the Leadership Development Centre's coaches for those in the Ministry who require this. During 2019 we ran a series of Master classes for our people leaders.

The Human Resources team work with the Leadership Team to establish the organisational development focus for the year ahead. For the previous two financial years this has been the 'Leader as Coach' and unconscious bias training.

Ministry staff also participate in training and development opportunities organised through the Defence Force. Joint training of the new Capability Management System has been a major focus.



5

DEFENCE IS OPEN, TRANSPARENT, ACCESSIBLE AND TRUSTED

Our goals in 2018-2022 are:

- The Ministry operates an open, transparent, high-integrity environment.
- The Ministry communicates in plain English and proactively with the public on Defence activities.
- The Ministry delivers a coordinated programme of outreach to universities, industry and interest groups.



A high integrity environment

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

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

Internal control environment

Internal control policies are regularly reviewed to ensure they are based on contemporary best practice and communication to staff on these has been increased.

The efforts to strengthen the internal control environment in recent years are shown in the results of the Treasury's Internal Control Assessment Tool (ICAT) survey. For 2018/19 the Ministry scored an average 3.7 out of a possible 4, with only minor areas that could be improved.

The Ministry's response rate to the survey was 100%, compared to an average of 95.3% for all contributing departments.

Fraud control framework

The Leadership Team provides governance of the Ministry's multi-layered set of policies and actions to prevent, detect and respond to fraud and corruption. Vulnerabilities relating to fraud and corruption are considered as part of the Leadership team's consideration of the Ministry's strategic risk.

The Ministry engages with external agencies and partners to develop better practice in fraud and corruption control. The Ministry attends the annual Five Country Defence Fraud and Anti-Corruption Network meeting and will host the annual meeting in 2019/20.

Outreach and communication

The Ministry's website www.defence.govt.nz is the main channel used by the Ministry for communicating information on Defence activities. In addition to providing access to major defence policy documents such as the *Defence Capability Plan 2019*, we proactively release on the website copies of Cabinet papers, Ministerial submissions and other documents on defence deployments, and international defence engagement activities.

Our 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

Defence industry is a key partner and a fundamental input to the successful delivery and support of military capability. The values and behaviours underpinning this partnership are set out in the Defence Engagement Strategy, *Smart Customers and Smart Suppliers*. The strategy prioritises transparency and effective two-way communications between the Ministry and industry.

The Ministry's website is the start-point for information on capability projects. For potential suppliers to Defence, additional information can be found via the Industry Portal. The Portal is an industry-specific channel accessed through the Ministry's website. It is a source of more detailed information on capability projects, commercial processes and templates.

Currently, 140 suppliers are registered on the Portal. For Prime suppliers the access this provides to New Zealand industry capabilities is important when responding to the Ministry's Requests for Tenders or Proposals which require the completion of an Activity Report demonstrating best value for money through New Zealand industry engagement. From 1 October 2019, providing these reports will become even more important following changes to Government Procurement Rules and the new focus on 'Public Value' and 'broader outcomes' which seek to leverage government procurement to deliver secondary benefits, including increasing New Zealand businesses' access to government capital investment.

The release of the *Defence Capability Plan 2019* was welcomed by Defence industry. The inclusion of a chapter on 'Working with Industry' and the commitment to ensuring that industry is as informed

as possible on plans for future defence spending should give the sector high levels of confidence. The inclusion of indicative estimates of cost and schedule for Defence-led and infrastructure projects, along with indicative dates for engaging with industry, provided greater levels of transparency. The Plan also reinforced the Ministry's focus on early industry engagement and creating opportunities for New Zealand industry.

The 2018 customer satisfaction survey reported just under 70% of industry respondents were 'somewhat satisfied' or 'very satisfied' with the Ministry. The highest satisfaction scores were for 'knowledge of personnel', 'information on upcoming projects' and 'access to personnel'.

Areas requiring more work included partnering opportunities with international suppliers and feedback on tender submissions and the process for developing and receiving them. Requiring prime suppliers to submit New Zealand Industry Activity Reports and creating opportunities for early engagement will lead to greater partnering. In terms of improving the tender process, additional functionality was added to the Industry Portal so that innovative ideas on how the Ministry might improve its engagement, tendering and/or contracting processes can be received from industry. The responses received will be considered by a panel of Ministry experts empowered to make changes.

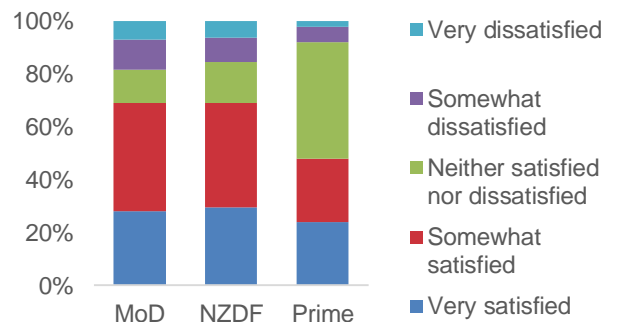


Figure 5: Industry satisfaction with engagement by Defence and Prime contractors

Recognising industry excellence

The Ministry continues to support the New Zealand Defence Industry Advisory Council. 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. It also oversees the annual Minister of Defence Awards of Excellence to Industry which recognise and celebrate industry excellence.

ORGANISATIONAL HEALTH AND CAPABILITY

MANAGING GROWTH

During 2018/19 staff numbers increased to 149. Most of this growth was for positions in the Capability Delivery Division.

The Ministry's values are:

Influential, kia whai mana

Our work shapes the agenda and our advice.

Collaborative, kia mahi tahi

We work together and in partnership. We build trusted relationships to understand what relationships to understand what's going on and get things done.

Courageous, kia kaha

We do the right thing, even when that is personally and professionally hard.

Dynamic, kia hihiri

We see where change will improve results, we self-start it, and we see it through.

Pragmatic, kia whaikupu

We find a way: we are practical, resourceful, and hard-nosed.

Professional, kia ngaio

People know us for our integrity, skills and attitude.

Expert: We are rigorous; our advice is the authority.

Collegial: We help each other to succeed.

Integrity: We are principled, honest and reliable.

As our numbers have grown, our staff profile has also changed. Between 2014 and 2019, the Ministry's average length of service reduced from six years to just over two. Because of this, an important part of the change continues to be preserving the best aspects of the Ministry's culture, while acknowledging that growth will bring change.

The Ministry has made sure every new staff member attends an induction programme that is focused on the Ministry's values. Each programme includes content on the Ministry's work and way of working, the perspectives of partners and key stakeholders, and is led by the Ministry's Leadership Team.

The table below shows staff numbers. The two main divisions, which reflect our major functions, are Capability Delivery and Policy and Planning. The majority of the Ministry's departmental costs are on personnel.

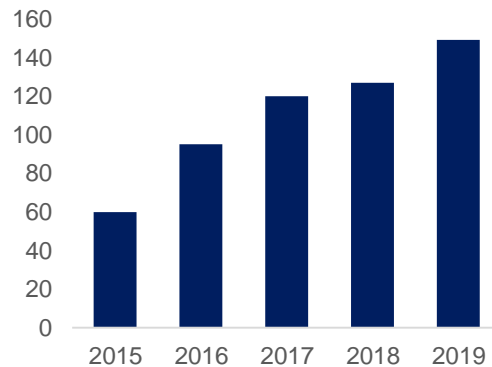


Figure 6: Growth of the Ministry over five years

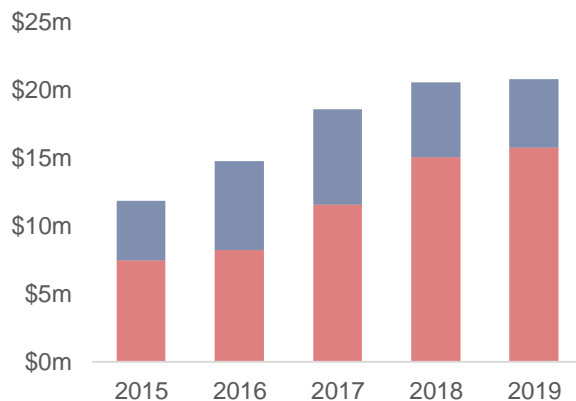
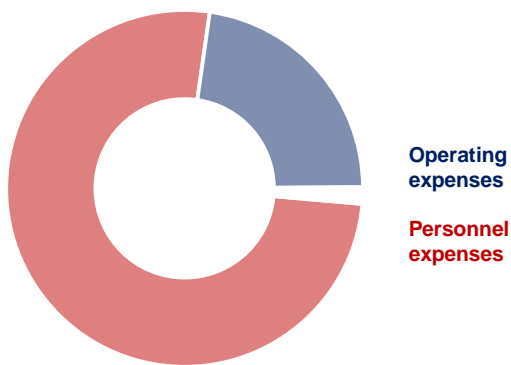


Figure 7: Departmental expenditure by category in 2018/19 (left) and over five years (right)

DEFENCE HEADQUARTERS

The November 2016 Kaikoura earthquake and subsequent demolition of the previous Defence House continues to have an impact on the Ministry, which is still in temporary premises in the Freyberg Building. Staff are required to work more flexibly as a result of reduced access to meeting rooms and collaborative spaces. Staff are also located across a number of floors of the building.

The Ministry will move to the new Defence headquarters in the former Bowen State Building in late 2019.

GENDER PAY

Our aim is to be a place where people do their best work, get great opportunities, and see their contribution recognised. The State Services Commission has identified eradicating the gender pay gap as a priority for the public sector. This year, as part of our People Strategy we have developed a revised Gender Pay Gap Action Plan to help us address the gender pay gap in our organisation.

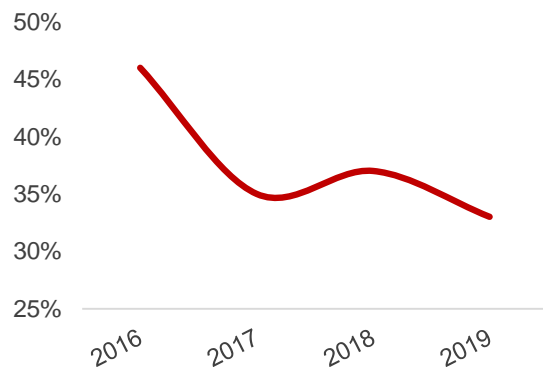


Figure 8: The Ministry's gender pay gap

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.

In 2016 the Ministry's pay gap was 46%. By June 2019 this had been reduced to 33%. Working to reduce this further is one of the organisation's key priorities, and the Ministry is making a concerted effort in this area. The Ministry is committed to taking the appropriate steps to ensure there is no disparity in pay. 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.

The Ministry has taken steps to support the careers of all staff, particularly females:

- providing secondment opportunities (in both government and private sector organisations)
- requiring shortlists for management roles to include at least one female candidate
- progressive policies that include support with parental leave and flexible working arrangements
- reimbursing some childcare costs, including when staff have to travel
- providing free flu vaccinations for dependent family members, and
- making sure that, where people have to pause their career or change hours, we help them to maintain pay and career advancement.

As a relatively small organisation one or two appointments can affect our gender pay gap.

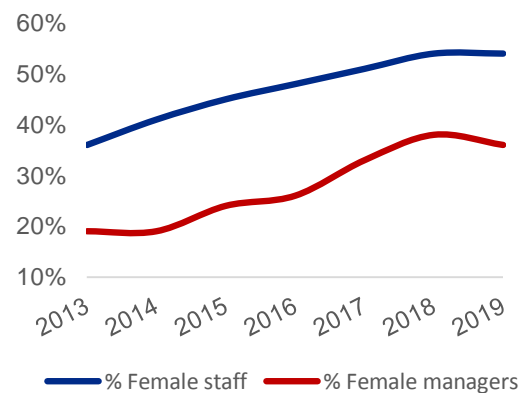


Figure 9: Proportion of female staff and managers

Five years ago only 36% of our staff were females. By June 2019 this was around 54%. 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. Females accounted for 36% of our managers in June 2019 – up from 19% in 2013.

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. Just three years ago we had no female project managers. The Ministry has made a concerted effort to hire and promote females into these positions, and as of June 2019, 38% of our project managers are female. 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 2019, 54% 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 2019, 36% 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 2019, 59% of appointments into Capability Delivery were female.

We recognise that further work will need to be done to continue to reduce the gender pay gap in our organisation. It is top of mind and we remain committed. Given the progress, and significant steps that have already been taken, we are confident the Ministry will be able to reduce its gender pay gap. We acknowledge it will take time.

HEALTH AND SAFETY

The Ministry takes its health and safety obligations seriously and participates in activities arranged by the Government Health and Safety Lead and through its membership of the Business Leaders' Health & Safety Forum. Engagement with workers is a focus of the Ministry's Health and Safety Committee. The Ministry's Leadership Team receives regular information on significant health and safety events.

The Ministry and Defence Force have put in place a shared project safety and environmental assurance framework, which is available to staff as part of the Capability Management Framework Online. This provides guidance to capability project teams on delivering capabilities that are safe to operate, and are operated safely, in accordance with the Health and Safety at Work Act 2015.

IMPLEMENTING THE NEW ZEALAND BUSINESS NUMBER

The Ministry has an internal group working on the Ministry's adoption of the New Zealand Business Number (NZBN). In 2018/19 the Ministry upgraded systems to enable the use of NZBN across all customer facing systems. The focus over 2019/20 will be to embed the use of NZBN across the Ministry's processes, working towards an automated and seamless interaction with New Zealand businesses.

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. Expenditure against the appropriations is provided in the table on page 66.

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	2017/18	2018/19	
	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)	+6.6%	>0%	+9.8%
Ministerial Services			
<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	98% (102 of 104 items unchanged)	≥90%	96% (127 of 132 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% (99 of 104 items to time)	≥95%	95% (125 of 132 items to time)
Policy Advice			
<i>This category is intended to achieve the provision of accurate, timely and responsive policy advice</i>			
Total cost per output hour of Policy Advice	\$91	\$100	\$107 ²
Technical quality of policy advice, as assessed by an independent review of a sample of policy papers	73%	Mean ≥70%	73%

Performance Measures	2017/18	2018/19	
	Actual	Budget	Actual
Minister's satisfaction with the quality of policy advice, as assessed by survey	82% ³	≥70%	90%
Policy Support <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	80%	≥70%	90%

Note 1: Measured by the difference between actual results and the budget standard of all percentage based measures within the MCA categories.

Note 2: This slightly raised cost is due to the engagement of specialist advice and support for the Defence Capability Plan Review.

Note 3: This score reflects a shared rating across both the Ministry and Defence Force.

Departmental output expense: Audit and assessment

This appropriation is intended to achieve the completion of an approved schedule of audits and assessments as required by the Minister of Defence.

Performance Measures	2017/18	2018/19	
	Actual	Budget	Actual
Ministerial Direction			
Audits and assessments are in accordance with work priorities identified and advised by the Minister of Defence	Standard met	Standard met	Standard met
Process Quality			
All audits and assessments meet the Ministry's pre-determined quality criteria	100%	100%	100%
All major audits and assessments are externally quality assured.	100%	100%	100%
<i>Note: Small, simple reviews may be peer reviewed by qualified Ministry staff from outside the Independent Review division. All medium, large and/or complex reviews are reviewed by qualified persons external to the Ministry.</i>			

Departmental output expense: Management of equipment procurement

This appropriation is intended to achieve the management of procurement of major military equipment in a transparent and fair way, and in accordance with government procurement policies.

Performance Measures	2017/18	2018/19	
	Actual	Budget	Actual
Quality of Deliverable			
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	New measure	100%	100% ¹
Schedule			
Each refurbishment or procurement project up to identification of the preferred tenderer stage will be managed to the agreed schedule, except when there are circumstances beyond the control of the Ministry	New measure	100%	100% ²

Note 1: Four projects are covered by this result:

- Fixed High Frequency Radio Refresh
- Future Air Mobility Capability
- Operational and Regulatory Aviation Compliance and Sustainment
- Protected Mobility Capability Project.

Note 2: Nine projects are covered by this result:

- Anzac Communications Update
- Fixed High Frequency Radio Refresh

- Future Air Surveillance – Maritime Patrol
- Garrison and Training Support
- HMNZS *Canterbury* and Offshore Patrol Vessels Communications
- Land Force Protection: Electronic Counter Measures
- Network Enabled Army – Tranche 2
- Operational and Regulatory Aviation Compliance and Sustainment
- Protected Mobility Capability Project

Departmental capital: Ministry of Defence – Capital expenditure permanent legislative authority

This appropriation is intended to achieve the purchase and development of assets by and for the use of the Ministry in its day-to-day operations.

Performance Measures	2017/18	2018/19	
	Actual	Budget	Actual
Capital expenditure is within Capital Plan	Within Capital Plan	Within Capital Plan	Within Capital Plan

NON-DEPARTMENTAL CAPITAL EXPENDITURE: DEFENCE EQUIPMENT

This appropriation is intended to achieve the management of procurement of major military equipment in a transparent and fair way, and in accordance with government procurement policies.

Performance Measures	2017/18	2018/19	
	Actual	Budget	Actual
<p>Cost: 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><i>Note: Measured by the percentage of all projects that have total project-related expenditure incurred in the year within the approved project expenditure budget.</i></p>	100%	100%	100% ¹
<p>Quality of Deliverable: Each procurement or refurbishment project will achieve on delivery the agreed/contracted specifications that are critical to acceptance.</p> <p><i>Note: Measured by the percentage of accepted projects that meet all specifications that are critical to acceptance.</i></p>	100%	100%	100% ¹
<p>Schedule: Each procurement or refurbishment project will be managed to schedule, without avoidable schedule over-run.</p> <p><i>Note: Measured by the percentage of all projects where, during the year, the project delivery schedule is not extended by more than 10%.</i></p>	82% (9 of 11 projects to schedule)	85%	83% (10 of 12 projects to schedule) ^{1, 2}

Note 1: 12 projects are covered by this result:

- 81mm Mortar
- Anzac Frigate Systems Upgrade
- Dive and Hydrographic Vessel
- Fixed High Frequency Radio Refresh
- Future Air Surveillance – Maritime Patrol
- Individual Weapons
- Maritime Sustainment Capability
- Network Enabled Army – Tranche 1

- NH90 Simulator
- Special Operations Vehicles
- Strategic Bearer Network
- Underwater Intelligence, Surveillance and Reconnaissance

Note 2: Two projects not to schedule are: Special Operations Vehicles and Strategic Bearer Network. Further details about the timelines for each project are provided in the project reports under Strategic Priority 3 from page 28.



STATEMENT OF RESPONSIBILITY AND AUDIT REPORT



STATEMENT OF RESPONSIBILITY

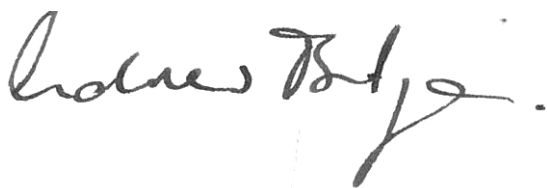
I am responsible, as Chief Executive of the Ministry of Defence (the Ministry), for:

- 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 2019 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 2020 and its operations for the year ending on that date.

Signed by:



Andrew Bridgman
Secretary of Defence

25 September 2019

Countersigned by:



Pasanka Wickremasinghe
Chief Financial Officer

25 September 2019

INDEPENDENT AUDITOR'S REPORT

To the readers of the Ministry of Defence's Annual Report for the year ended 30 June 2019

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 70 to 86, that comprise the statement of financial position, statement of commitments, statement of contingent liabilities and contingent assets as at 30 June 2019, 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 2019 on pages 14 to 43 and 55 to 58;
- the statements of expenses and capital expenditure of the Ministry for the year ended 30 June 2019 on pages 66 and 67; and
- the schedules of non-departmental activities which are managed by the Ministry on behalf of the Crown on pages 88 to 99 that comprise:
 - the schedules of assets; liabilities; capital commitments; and contingent liabilities and contingent assets as at 30 June 2019;
 - the schedules of expenses, revenue, capital receipts and capital expenditure for the year ended 30 June 2019; 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 70 to 86
 - present fairly, in all material respects:
 - its financial position as at 30 June 2019; 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 14 to 43 and 55 to 58:
 - presents fairly, in all material respects, for the year ended 30 June 2019:
 - 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 66 to 67 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 88 to 99 present fairly, in all material respects, in accordance with the Treasury Instructions 2018:
 - the assets; liabilities; capital commitments; and contingent liabilities and contingent assets as at 30 June 2019; and
 - schedule of expenses, revenue, capital receipts and capital expenditure for the year ended 30 June 2019.

Our audit was completed on 25 September 2019. 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.

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.
- 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 2018/19 for Vote Defence, and the 2018/19 forecast financial figures included in the Ministry's 2017/18 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 7 to 54, 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 a probity assurance review on the process used for the infrastructure tender in the Future Air Surveillance – Maritime Patrol project. Audit New Zealand on behalf of the Auditor-General, also carried out an assurance review of the Major Projects Report 2018 prepared by the Ministry of Defence and the New Zealand Defence Force.

Other than the audit and assurance reviews, 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



STATEMENT OF EXPENSES AND CAPITAL EXPENDITURE AGAINST APPROPRIATIONS

For the year ended 30 June 2019

Actual		Forecast	Main estimates	Supp estimates	Actual	Forecast
		not audited	not audited	not audited		not audited
2018		2019	2019	2019	2019	2020
\$000		\$000	\$000	\$000	\$000	\$000
Vote: Defence						
Departmental Appropriations						
Appropriations for output expenses						
1,870	Audit and assessment	2,294	2,294	2,247	1,946	2,378
10,769	Management of equipment procurement	9,628	9,628	11,857	9,732	9,658
12,639	Total appropriations for output expenses	11,922	11,922	14,104	11,678	12,036
Multi-category appropriations (MCA)						
Policy advice and related outputs MCA						
4,786	Policy advice	4,919	4,919	5,710	5,443	5,590
954	Ministerial services	981	981	1,138	1,085	1,115
2,209	Policy support	2,271	2,271	2,886	2,567	2,580
7,949	Total multi-category appropriations for output expenses	8,171	8,171	9,734	9,095	9,285
Departmental capital expenditure						
123	Ministry of Defence – capital expenditure*	350	350	350	13	350
20,711	Total Departmental appropriations	20,443	20,443	24,188	20,786	21,671
Non-Departmental Appropriations						
Capital expenditure						
232,898	Defence equipment	294,121	294,121	445,792	413,834	744,376
232,898	Total Non-Departmental appropriations	294,121	294,121	445,792	413,834	744,376
253,609	Total annual appropriations administered by the Ministry of Defence	314,564	314,564	469,980	434,620	766,047

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

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

For the year ended 30 June 2019

The Ministry has no instances of departmental or non-departmental unappropriated expenditure or capital expenditure (2018 – Nil).

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

For the year ended 30 June 2019

The Ministry has not received any capital injections during the year without, or in excess of, authority (2018 – Nil).

TRANSFERS UNDER SECTION 26A OF THE PUBLIC FINANCE ACT 1989

For the year ended 30 June 2019

The Ministry has not made any transfers under Section 26A of the Public Finance Act 1989 (2018 – 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 58 in this Annual Report.



DEPARTMENTAL FINANCIAL STATEMENTS



STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE

For the year ended 30 June 2019

Actual		Note	Forecast not audited	Actual	Forecast not audited
2018			2019	2019	2020
\$000			\$000	\$000	\$000
Revenue					
20,062	Revenue Crown	2	20,093	20,092	21,321
664	Other revenue	2	-	1,068	-
20,726	Total revenue		20,093	21,160	21,321
Expenses					
15,053	Personnel expenses	3	16,022	15,642	16,292
5,213	Operating expenses	4	3,644	4,820	4,734
222	Depreciation and amortisation expense	7,8	286	194	154
100	Capital charge	5	141	117	141
20,588	Total expenses		20,093	20,773	21,321
138	Surplus		-	387	-
-	Other comprehensive revenue and expense		-	-	-
138	Total comprehensive revenue and expense		-	387	-

The accompanying notes form part of these financial statements. Explanations of major variances against the 2019 forecast financial statements are shown in note 15.

STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

Actual		Note	Forecast not audited	Actual	Forecast not audited
2018			2019	2019	2020
\$000			\$000	\$000	\$000
Assets					
Current assets					
4,061	Cash and cash equivalents		4,967	4,356	3,487
399	Receivables	6	165	359	341
99	Prepayments		-	16	7
4,559	Total current assets		5,132	4,731	3,835
Non-current assets					
228	Property, plant and equipment	7	646	54	31
24	Intangible assets	8	18	17	2
252	Total non-current assets		664	71	33
4,811	Total assets		5,796	4,802	3,868
Liabilities					
Current liabilities					
1,255	Creditors and other payables	9	2,523	1,045	644
138	Return of surplus to the Crown	10	-	387	-
993	Employee entitlements	11	732	881	726
2,386	Total current liabilities		3,255	2,313	1,370
Non-current liabilities					
72	Employee entitlements	11	188	136	145
72	Total non-current liabilities		188	136	145
2,458	Total liabilities		3,443	2,449	1,515
2,353	Net assets		2,353	2,353	2,353
Equity					
2,353	Taxpayers' funds	12	2,353	2,353	2,353
2,353	Total equity		2,353	2,353	2,353

The accompanying notes form part of these financial statements. Explanations of major variances against the 2019 forecast financial statements are shown in note 15.

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2019

Actual		Note	Forecast not audited	Actual	Forecast not audited
2018			2019	2019	2020
\$000			\$000	\$000	\$000
2,353	Balance at 1 July		2,353	2,353	2,353
138	Total comprehensive revenue and expense		-	387	-
(138)	Return of operating surplus to the Crown	10	-	(387)	-
2,353	Balance at 30 June	12	2,353	2,353	2,353

The accompanying notes form part of these financial statements. Explanations of major variances against the 2019 forecast financial statements are shown in note 15.

STATEMENT OF CASH FLOWS

For the year ended 30 June 2019

Actual			Forecast not audited	Actual	Forecast not audited
2018			2019	2019	2020
\$000			\$000	\$000	\$000
Cash flows from operating activities					
20,062	Receipts from Revenue Crown		20,093	20,092	21,321
459	Receipts from other revenue		-	1,108	-
(14,902)	Payments to employees		(16,090)	(15,651)	(16,204)
(5,757)	Payments to suppliers		(3,576)	(5,067)	(4,822)
(100)	Payments for capital charge		(141)	(117)	(141)
(9)	Goods and services tax (net)		-	80	-
(247)	Net cash flow from operating activities		286	445	154
Cash flows from investing activities					
-	Receipts from sale of property, plant and equipment		-	-	-
(123)	Purchase of property, plant and equipment		(325)	(12)	(128)
-	Purchase of intangible assets		(25)	-	-
(123)	Net cash flow from investing activities		(350)	(12)	(128)
Cash flows from financing activities					
(539)	Return of operating surplus		-	(138)	(650)
(539)	Net cash flow from financing activities		-	(138)	(650)
(909)	Net increase/(decrease) in cash		(64)	295	(624)
4,970	Cash at the beginning of the year		5,031	4,061	4,111
4,061	Cash at the end of the year		4,967	4,356	3,487

The accompanying notes form part of these financial statements. Explanations of major variances against the 2019 forecast financial statements are shown in note 15.

STATEMENT OF COMMITMENTS

As at 30 June 2019

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 (2018 – Nil).

Non-cancellable Operating Lease Commitments

The Ministry usually leases property, plant and equipment in the normal course of its business. The Ministry is occupying its current premises in Freyberg Building under a neighbourhood agreement with the prime lessee, the New Zealand Defence Force. Consequently the Ministry has no non-cancellable operating lease commitments.

The Ministry is committed to moving to its long-term accommodation in the new Defence headquarters in the former Bowen State Building in late 2019 and at balance date had no formal lease agreement.

STATEMENT OF CONTINGENT LIABILITIES AND CONTINGENT ASSETS

As at 30 June 2019

Contingent Liabilities

The Ministry has no quantifiable or unquantifiable contingent liabilities (2018 – Nil).

Legal proceedings and disputes

The Ministry has no pending legal proceedings and disputes (2018 – Nil).

Contingent Assets

At balance date the Ministry had a contingent asset for insurance claims for the damage and other costs incurred due to the November 2016 Kaikoura Earthquake. Refer note 16 for events subsequent to balance date.

The accompanying notes form part of these financial statements. Explanations of major variances against the 2019 forecast financial statements are shown in note 15.

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 88 to 99.

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 2019 and were approved for issue by the Secretary of Defence of the Ministry on 25 September 2019.

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

The Crown has elected to adopt the new financial accounting standard, PBE IFRS 9 *Financial Instruments* in 2018/19. Apart from some changes in terminology, there were no differences in the Ministry's financial statements arising from the transition to the new standard.

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 34-38

PBE IPSAS 34-38 replace the existing standards for interests in other entities (PBE IPSAS 6-8) and are effective for annual periods beginning on or after 1 January 2019. 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.

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 (GST)

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

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

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

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 2019 forecast figures are for the year ended 30 June 2019 and were published in the 2017/18 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 2018/19.

The 2020 forecast figures are for the year ending 30 June 2020, which are consistent with the best estimate financial forecast information submitted to the Treasury for the BEFU for the 2019/20 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 2020 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 17 April 2019.

While the Ministry regularly updates its forecasts, updated forecast financial statements for the year ended 30 June 2020 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 2020 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 2019.

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 New Zealand Defence Force (NZDF). This is classified as an exchange transaction.

Other cost recoveries relate to contributions from the NZDF for development of NZDF-specific items, incurred by the Ministry as part of the Defence Capability Change Action Programme.

Breakdown of other revenue

Actual 2018 \$000		Actual 2019 \$000
514	Project costs recovered from NZDF	1,017
150	Other cost recoveries	51
664	Total other revenue	1,068

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 2018 \$000		Actual 2019 \$000
14,292	Salaries and wages	14,952
450	Employer contributions to defined contribution plans	491
311	Increase/(decrease) in employee entitlements	199
15,053	Total personnel expenses	15,642

NOTE 4: OPERATING EXPENSES

Accounting policy

Operating expenses are recognised when goods and services are received.

Actual 2018 \$000		Actual 2019 \$000
108	Audit fees for financial statements	150
-	Fees paid to Audit New Zealand for other services *	-
2,176	Consultants and contractors	1,355
144	Professional services	133
858	Travel and related costs	993
203	Courses, conferences and exhibitions	204
352	Rental of premises	398
130	Legal	188
142	Grants and contributions	347
309	Write-off of property, plant and equipment	-
791	Other operating costs	1,052
5,213	Total operating expenses	4,820

Fees paid to Audit New Zealand for other services totalled \$22,000 for the 2019 financial year (2018: Nil). The full amount has been capitalised in non-departmental capital expenditure. See the non-departmental schedules, note 5, for further details.

In addition, Audit New Zealand, on behalf of the Auditor-General, carried out an assurance review, at no cost, of the Major Projects Report 2018 prepared jointly by the Ministry and the New Zealand Defence Force.

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 2019 was 6.0% (2018 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.

Previous accounting policy

In the previous year, the allowance for credit losses was based on the incurred credit loss model. An allowance for credit losses was recognised only when there was objective evidence that the amount due would not be fully collected.

Actual 2018 \$000		Actual 2019 \$000
	Receivables from exchange transactions	
399	Debtors	359
-	Less allowance for credit losses	-
399	Net debtors	359
399	Total receivables from exchange transactions	359
-	Receivables from non-exchange transactions	-
399	Total receivables	359

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 \$000
	Leasehold improvements \$000	Office furniture \$000	Office and computer equipment \$000	
Cost or valuation				
Balance at 1 July 2017	468	535	943	1,946
Additions	36	14	73	123
Disposals	-	(446)	(59)	(505)
Balance at 30 June 2018	504	103	957	1,564
Balance at 1 July 2018	504	103	957	1,564
Additions	-	-	13	13
Disposals	-	-	-	-
Balance at 30 June 2019	504	103	970	1,577
Accumulated depreciation and impairment losses				
Balance at 1 July 2017	348	175	794	1,317
Depreciation expense	74	67	75	216
Eliminate on disposal	-	(170)	(27)	(197)
Balance at 30 June 2018	422	72	842	1,336
Balance at 1 July 2018	422	72	842	1,336
Depreciation expense	82	31	74	187
Eliminate on disposal	-	-	-	-
Balance at 30 June 2019	504	103	916	1,523
Carrying amounts				
At 30 June and 1 July 2018	82	31	115	228
At 30 June 2019	-	-	54	54

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
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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 \$000	Total \$000
Cost		
Balance at 1 July 2017	991	991
Additions	-	-
Disposals	-	-
Balance at 30 June 2018	991	991
Balance at 1 July 2018	991	991
Additions	-	-
Disposals	-	-
Balance at 30 June 2019	991	991
Accumulated amortisation and impairment losses		
Balance at 1 July 2017	961	961
Amortisation expense	6	6
Disposals	-	-
Balance at 30 June 2018	967	967
Balance at 1 July 2018	967	967
Amortisation expense	7	7
Disposals	-	-
Balance at 30 June 2019	974	974
Carrying amounts		
At 30 June and 1 July 2018	24	24
At 30 June 2019	17	17

NOTE 9: CREDITORS AND OTHER PAYABLES

Accounting policy

Short-term creditors are recorded at the amount payable.

Actual 2018 \$000	Actual 2019 \$000
489 Creditors	340
483 Accrued expenses	342
283 GST payable	363
1,255 Total creditors and other payables	1,045

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 2018 \$000	Actual 2019 \$000
138 Net surplus	387
138 Total return of operating surplus	387

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

NOTE 11: 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 2.15% (2018 3.00%) and an inflation factor of 2.85% (2018 2.00%) 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 \$12,500.

Actual 2018 \$000		Actual 2019 \$000
Current provisions are represented by:		
891	Annual leave	769
28	Sick leave	28
74	Retirement and long service leave	84
993	Total current provision	881
Non-current employee entitlements are represented by:		
72	Retirement and long service leave	136
1,065	Total employee entitlements	1,017

NOTE 12: EQUITY

Actual 2018 \$000		Actual 2019 \$000
Taxpayers' funds		
2,353	Balance at 1 July	2,353
138	Net surplus/(deficit)	387
-	Capital contribution from the Crown	-
(138)	Provision for repayment of surplus to the Crown	(387)
2,353	Taxpayers' funds at 30 June	2,353

NOTE 13: 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 2018 \$000		Actual 2019 \$000
Leadership team, including the Secretary of Defence		
1,853	Remuneration	1,920
6	Full-time equivalent staff	6

Key management personnel include the Secretary of Defence and the five members (2018 – 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 14: FINANCIAL INSTRUMENTS

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

Actual 2018 \$000		Actual 2019 \$000
Financial assets measured at amortised cost		
4,061	Cash and cash equivalents	4,356
399	Debtors and other receivables	359
99	Prepayments	16
4,559	Financial assets measured at amortised cost	4,731
Financial liabilities measured at amortised cost		
1,255	Creditors and other payables	1,045

NOTE 15: EXPLANATION OF MAJOR VARIANCES AGAINST FORECAST

Explanations for major variances from the forecast financial statements for 2018/19 are as follows:

Statement of comprehensive revenue and expense

Other revenue

The increase in Other Revenue primarily results from the New Zealand Defence Force reimbursing the Ministry for costs incurred in the definition and pre-acquisition stages of acquisition projects, which were approved by Cabinet during the year.

Personnel and Operating expenses

The decrease in Personnel expenses against forecast reflects the delay to 2019/20 in recruitment for some positions due to budget uncertainty resulting from delays in advancing some projects from development to acquisition stage.

Increased Operating expenses against forecast arises from additional acquisition projects in the definition and pre-acquisition stage and related costs, funded by Other Revenue.

Statement of financial position

Cash and cash equivalents

The value of Cash and cash equivalents is lower than forecast due to higher payments prior to balance date for Creditors and other payables, offset by lower payments for Property, plant and equipment, as described below.

Property, plant and equipment

The value of Property, plant and equipment is lower than forecast as the forecast assumed that assets required for the fit-out of the Ministry's new long-term premises would be purchased during 2018/19. A lower level of asset purchases is now expected and is likely to occur in early-2019/20.

Creditors and other payables

The value of Creditors and other payables is lower than forecast as more creditors were able to be paid prior to balance date than assumed, resulting in fewer unpaid invoices and accruals at balance date.

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 16: EVENTS AFTER BALANCE DATE

Subsequent to balance date 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 (2018 – No events).



NON-DEPARTMENTAL STATEMENTS AND SCHEDULES



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 2019

Actual 2018 \$000		Actual 2019 \$000
18,174	Realised foreign exchange gains	5,216
11,127	Realised gains on derivatives	8,380
7,450	Unrealised gains on derivatives	13,477
1,782	Interest	3,055
38,533	Total non-departmental revenue	30,128

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 2019.

SCHEDULE OF NON-DEPARTMENTAL EXPENSES

For the year ended 30 June 2019

Actual 2018 \$000		Actual 2019 \$000
3,081	Realised foreign exchange losses	1,434
677	Realised losses on derivatives	1,590
1,383	Unrealised losses on derivatives	-
8,766	GST input expense	16,402
13,907	Total non-departmental expenses	19,426

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 2019.

SCHEDULE OF NON-DEPARTMENTAL ASSETS

As at 30 June 2019

Actual 2018 \$000		Note	Actual 2019 \$000
Current assets			
251,243	Cash and cash equivalents		237,777
189,201	Receivables from exchange transactions	2	241,354
1,100	Derivative financial instruments	4	3,675
441,544	Total current assets		482,806
Non-current assets			
211	Derivative financial instruments	4	9,580
211	Total non-current assets		9,580
441,755	Total non-departmental assets		492,386

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 2019.

SCHEDULE OF NON-DEPARTMENTAL LIABILITIES

As at 30 June 2019

Actual 2018 \$000		Note	Actual 2019 \$000
Current liabilities			
52,709	Creditors and other payables	3	51,016
870	Derivative financial instruments	4	81
53,579	Total current liabilities		51,097
Non-current liabilities			
513	Derivative financial instruments	4	-
513	Total non-current liabilities		-
54,092	Total non-departmental liabilities		51,097

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 2019.

SCHEDULE OF NON-DEPARTMENTAL CAPITAL RECEIPTS

For the year ended 30 June 2019

Actual 2018 \$000		Actual 2019 \$000
70,996	Anzac Frigate Systems Upgrade	70,308
50	C-130 Hercules Life Extension	57
(292)	Defence Command and Control System	5
249	Dive and Hydrographic Vessel	66,028
7,573	Individual Weapons Replacement	4,100
-	Fixed High Frequency Radio Refresh	43
-	Future Air Surveillance – Maritime Patrol	98,728
32	Maritime Helicopter	-
110,089	Maritime Sustainment Capability	124,029
8	Medium-Heavy Operational Vehicles	80
15,656	Network Enabled Army	18,145
315	NH90 Simulator	26,204
-	Operational and Regulatory Aviation Compliance Sustainment	1,322
-	Protected Mobility	100
9,845	Special Operations Vehicles	416
4,560	Strategic Bearer Network	1,491
13,283	Underwater Intelligence, Surveillance and Reconnaissance	2,538
534	81mm Mortar Replacement	240
232,898	Total non-departmental capital receipts	413,834

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 2019.

SCHEDULE OF NON-DEPARTMENTAL CAPITAL EXPENDITURE

For the year ended 30 June 2019

Actual 2018 \$000	Note	Actual 2019 \$000
70,996	Anzac Frigate Systems Upgrade	70,308
50	C-130 Hercules Life Extension	57
(292)	Defence Command and Control System	5
249	Dive and Hydrographic Vessel	66,028
7,573	Individual Weapons Replacement	4,100
-	Fixed High Frequency Radio Refresh	43
-	Future Air Surveillance – Maritime Patrol	98,728
32	Maritime Helicopter	-
110,089	Maritime Sustainment Capability	124,029
8	Medium-Heavy Operational Vehicles	80
15,656	Network Enabled Army	18,145
315	NH90 Simulator	26,204
-	Operational and Regulatory Aviation Compliance Sustainment	1,322
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9,845	Special Operations Vehicles	416
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13,283	Underwater Intelligence, Surveillance and Reconnaissance	2,538
534	81mm Mortar Replacement	240
232,898	Total non-departmental capital expenditure	413,834

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 2019.

SCHEDULE OF NON-DEPARTMENTAL CAPITAL COMMITMENTS

As at 30 June 2019

Actual 2018 \$000	Actual 2019 \$000	
Non-cancellable capital commitments		
194,629	Not later than one year	525,373
136,991	Later than one year and not later than two years	593,596
8,310	Later than two years and not later than five years	613,528
-	Later than five years	6,259
339,930	Total non-cancellable capital commitments	1,738,756

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 2019.

SCHEDULE OF NON-DEPARTMENTAL CONTINGENT LIABILITIES AND CONTINGENT ASSETS

As at 30 June 2019

CONTINGENT LIABILITIES

The Ministry on behalf of the Crown has no contingent liabilities (2018 – Nil).

CONTINGENT ASSETS

The Ministry on behalf of the Crown has no contingent assets (2018 – 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 2019.

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 2019. 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 2019.

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

The Crown has elected to adopt the new financial accounting standard, PBE IFRS 9 *Financial Instruments* in 2018/19. Apart from some changes in terminology, there were no differences on transition to the new standard.

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 34-38

PBE IPSAS 34-38 replace the existing standards for interests in other entities (PBE IPSAS 6-8) and are effective for annual periods beginning on or after 1 January 2019. 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.

Previous accounting policy

In the previous year, the allowance for credit losses was based on the incurred credit loss model. An allowance for credit losses was recognised only when there was objective evidence that the amount due would not be fully collected.

Actual 2018 \$000		Actual 2019 \$000
	Receivables from exchange transactions	
189,201	Debtors	241,354
-	Less allowance for credit losses	-
189,201	Net debtors	241,354
189,201	Total receivables from exchange transactions	241,354
-	Receivables from non-exchange transactions	-
189,201	Total receivables	241,354

The carrying value of receivables approximates their fair value.

At 30 June 2019 the Ministry had no past due debtors (2018 – Nil). Due to the credit quality of debtors no allowance for credit losses was made at balance date (2018 – Nil).

NOTE 3: CREDITORS AND OTHER PAYABLES

Actual 2018 \$000		Actual 2019 \$000
408	Creditors	488
52,301	Accrued expenses	50,528
52,709	Total creditors and other payables	51,016

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 2018 \$000		Actual 2019 \$000
	Financial assets measured at amortised cost *	
251,243	Cash and cash equivalents	237,777
189,201	Debtors and other receivables	241,354
440,444	Financial assets measured at amortised cost	479,131
	Fair value through surplus or deficit – designated as such upon initial recognition	
1,311	Derivative financial instrument assets	13,255
1,383	Derivative financial instrument liabilities	81
	Financial liabilities measured at amortised cost	
52,709	Creditors and other payables	51,016

In the previous year prior to adopting the new financial accounting standard, PBE IFRS 9 *Financial Instruments*, the items in the Financial assets measured at amortised cost category were classified as Loans and receivables.

The notional principal amount of outstanding forward exchange contract derivatives at 30 June 2019 is NZD1,640.4 million (2018 – NZD218.6 million). The contracts consist of the purchase of (amounts in foreign currency):

Actual 2018 fx 000		Actual 2019 fx 000
4,500	Australian dollars	-
85,450	Canadian dollars	33,014
509	Euros	-
78,830	United States dollars	1,087,830

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 market price	Observable inputs	Significant non-observable inputs
	\$000	\$000	\$000	\$000
2019				
Financial assets				
Derivative financial instruments	13,255	-	13,255	-
Financial liabilities				
Derivative financial instruments	81	-	81	-
2018				
Financial assets				
Derivative financial instruments	1,311	-	1,311	-
Financial liabilities				
Derivative financial instruments	1,383	-	1,383	-

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 2019	Less than 6 months \$000	6-12 months \$000	1-5 years \$000	Over 5 years \$000	Total \$000
2019					
Creditors and other payables	51,016	-	-	-	51,016
2018					
Creditors and other payables	52,709	-	-	-	52,709

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.

	Liability carrying amount \$000	Asset carrying amount \$000	Contractual cash flows NZ \$000	Less than 6 months NZ \$000	6-12 months NZ \$000	1-2 years NZ \$000	2-5 years NZ \$000
Gross settled forward foreign exchange contracts:							
2019							
- outflow	81	13,255	1,640,408	192,839	223,711	596,852	627,006
- inflow			1,660,874	194,471	226,764	604,884	634,755
2018							
- outflow	1,383	1,311	218,609	92,691	91,199	34,719	-
- inflow			218,310	92,948	91,103	34,259	-

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.

	2018			2019		
	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	(660)	(230)	(890)	(943)	-	(943)
CAD	(2,561)	(4,469)	(7,030)	(3,954)	(1,780)	(5,734)
EUR	(219)	(42)	(261)	(139)	-	(139)
GBP	(966)	-	(966)	(488)	-	(488)
KRW	-	-	-	(1)	-	(1)
NOK	(7)	-	(7)	(8)	-	(8)
USD	(5,511)	(5,470)	(10,981)	(4,493)	(74,894)	(79,387)
Total	(9,924)	(10,211)	(20,135)	(10,026)	(76,674)	(86,700)
Effect on surplus if NZ dollar weakened by 5%						
AUD	730	254	984	1,042	-	1,042
CAD	2,829	4,939	7,768	4,371	1,967	6,338
EUR	242	46	288	154	-	154
GBP	1,068	-	1,068	539	-	539
KRW	-	-	-	1	-	1
NOK	7	-	7	9	-	9
USD	6,091	6,046	12,137	4,965	82,778	87,743
Total	10,967	11,285	22,252	11,081	84,745	95,826

NOTE 5: NON-DEPARTMENTAL CAPITAL EXPENDITURE

Included in non-departmental capital expenditure is \$22,000 paid to the Ministry's auditors, Audit New Zealand, for probity assurance on the process used for the infrastructure tender in the Future Air Surveillance – Maritime Patrol project (2018 – Nil).

In addition, Audit New Zealand, on behalf of the Auditor-General, carried out an assurance review, at no cost, of the Major Projects Report 2018 prepared jointly by the Ministry and the New Zealand Defence Force.

NOTE 6: EVENTS AFTER BALANCE DATE

There have been no significant events after balance date (2018 – 3 events).