



**MANATŪ KAUPAPA
WAONGA**
NEW ZEALAND
MINISTRY OF DEFENCE

G.4

ANNUAL REPORT

Te Pūrongo-ā-tau 2021



defence.govt.nz

Te Kāwanatanga o Aotearoa
New Zealand Government

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This page: P-8A hangar construction at Royal New Zealand Air Force Base Ōhakea in July 2020

Cover page: NZDF personnel and a Ministry staff member (middle) on secondment to the Fiji Ministry of Defence, National Security and Policing

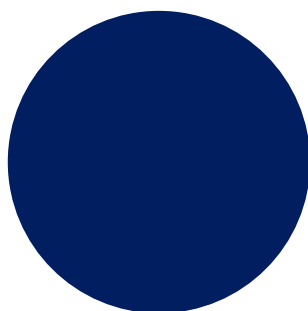
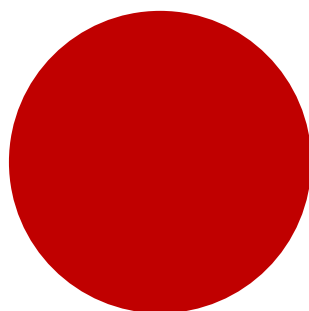
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Ministry of Defence leaders working together



1

OVERVIEW

Te Tirohanga Whānui



After three years away in Canada for a frigate systems upgrade, HMNZS *Te Kaha* sails back into Auckland

OVERVIEW BY THE SECRETARY OF DEFENCE

TE TIROHANGA WHĀNUI KI TĀ TE TUMU WHAKARAE MŌ TE WAONGA

Despite the challenges that the COVID-19 pandemic has presented, the Ministry of Defence has continued to deliver across its work programme.

The Ministry plays a critical role in providing the Government with advice on defence policy, the security environment, regional and international security challenges and New Zealand's response. We also lead a significant programme of defence capability procurement.

In light of changes to the strategic environment, I directed the Ministry to produce a formal Defence Assessment. This provides Ministers with a comprehensive view of New Zealand's strategic environment and the implications for defence policy settings and Defence Force roles and tasks. Over the past year, the Ministry also delivered regular assessments on emerging issues, such as fire risk and biodefence.

The strategic environment has become substantially more challenging, and this trend is likely to continue and further accelerate in coming years.

International engagement continues to be a priority. With COVID-19 preventing in person meetings, the Ministry has adjusted to a "new normal", and virtual diplomacy is more important than ever. The Ministry is committed to regular meetings with counterparts, ensuring that our Defence relationships continue to mature and evolve.

Where possible, our people-to-people ties in the South Pacific continue to grow. In April 2021 I hosted the inaugural Pacific Secretaries' dialogue virtually with counterparts from Fiji, Papua New Guinea, Tonga and Australia. In September 2020, the Ministry sent a policy analyst to Fiji as part of a combined Defence Force training team, to work alongside peers in the Ministry for Defence, National Security and Policing. This demonstrates that the Ministry is committed to developing Defence partnerships in our region, even with the complications that COVID-19 presents.

A number of deployments were considered by Cabinet, including the decision to withdraw from Afghanistan after 20 years in the region, bringing an end to one of New Zealand's longest deployments that involved over 3,500 New Zealand Defence Force personnel.

The Ministry has continued to deliver significant new capabilities for the Defence Force during the year. In July 2020 the Navy's largest ever ship, HMNZS *Aotearoa*, arrived in New Zealand. This ship will ensure that the areas of significant importance to New Zealand are better served by the Defence Force, particularly in the event of natural disasters. We welcomed HMNZS *Te Kaha* to New Zealand in December 2020, having completed her systems upgrade in Canada. HMNZS *Te Mana* is expected to return to New Zealand later this year.

The vertical works at RNZAF Base Ōhakea are well underway in preparation for the arrival of the P-8A Poseidon fleet in 2022. The NH90 flight simulator, was approved for pilot training in October 2020.

In 2020, Cabinet approved the purchase of 43 Bushmaster vehicles to replace the New Zealand Army's armoured Pinzgauers, which will provide better protection for personnel and improved carrying capacity.

The Ministry has also worked with the NZDF to implement the four recommendations in the *Report of the Government Inquiry into Operation Burnham and related matters* released in July 2020. The independent Expert Review Group into NZDF's organisational structure, record keeping, and retrieval processes is supported by the Ministry under its Audit and Assessment function. The Review Report will be present to the Minister in third quarter of 2021. In December 2020, the Ministry also became the lead agency for developing policy and legislative advice to government on the establishment of an Inspector-General of Defence.

This year the Ministry developed a new organisational strategy. The new Ministry purpose, vision and focus areas were developed through a series of workshops involving all staff. This strategy including new organisational priorities will be set out in our Statement of Intent for 2021-2025.

I would like to acknowledge and thank the staff at the Ministry for their professionalism, resilience and commitment, in what has been a challenging and exceptional year.



Andrew Bridgman
Secretary of Defence
Te Tumu Whakarae mō te Waonga



Secretary of Defence, Andrew Bridgman, collecting for Poppy Day 2021



Maintenance training for the new Polaris MRZR high mobility vehicles is undertaken with the aid of videoconferencing to the United States, as a result of COVID-19 travel restrictions

2

THE MINISTRY'S PERFORMANCE AND OPERATIONS

Ko ngā mahi a te Manatū



RNZAF C-130H Hercules aircraft repatriates 56 citizens and permanent residents to Vanuatu in 2020

ABOUT THE MINISTRY OF DEFENCE

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

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

To carry out our role, the Ministry:

- provides analysis and advice on New Zealand's national security and defence interests and challenges, across both the short and long terms
- advises the Government on how our Defence Force can meet current challenges (such as potential deployments) and possible future challenges
- purchases major defence equipment for use by the Defence Force as a defence capability¹
- builds and maintains strong defence relationships internationally
- advises on Defence's performance and effectiveness as a system.

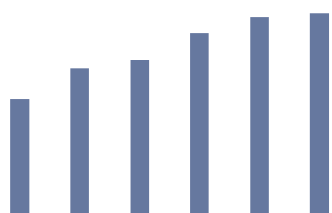
The Ministry works closely with the NZDF and other agencies to carry out these activities. It also builds

and maintains strong defence connections through defence diplomacy with other governments throughout the world, including our ally Australia, so that New Zealand can contribute to the security of the Pacific region, and play our part in addressing defence and security challenges internationally.

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

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

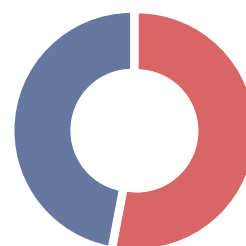
The Ministry and Defence Force – collectively 'Defence' – work very closely together; drawing on their strong, separate civilian and military perspectives.



165 staff in the
Ministry of Defence



38% women
managers
(19% in 2013)



53% women and
47% 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.

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

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

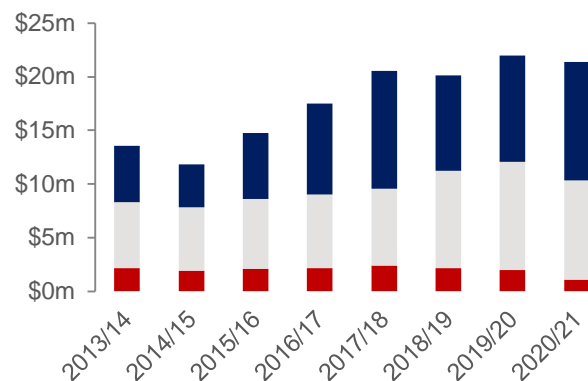


Figure 1: The Ministry's expenditure across the three departmental appropriations



The New Zealand Army performs a Death Gun Salute in response to the passing of HRH Prince Philip, Duke of Edinburgh. This included the Minister of Defence, Chief of Defence Force and Secretary of Defence (front)

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 New Zealand across five key outcomes:



The Ministry contributes to the achievement of these outcomes by:

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



Ministry staff meeting under COVID-19 restrictions

NEW ZEALAND IS SUBJECT TO MAJOR NEGATIVE GEOSTRATEGIC TRENDS

Since the end of World War Two, and particularly over the last 30 years, New Zealand has benefited from a strategic environment primarily shaped by an international rules-based system that broadly reflected New Zealand's values and supported its interests. The system of international law, norms and institutions contributes to broad stability, provides safeguards against major conflict, and enables collective action on a range of issues.

The *Strategic Defence Policy Statement 2018* presented an assessment of New Zealand's strategic environment in which the international rules-based system was under significant pressure. The issues and trends identified in the *Policy Statement* have intensified over the past three years and are intersecting with new security challenges.

Uncertainty will always be a feature of the global environment, and the intersection of multiple drivers

will inevitably produce strategic surprises. Out of this complex global landscape, however, we have identified two significant and compounding challenges that we judge will have the greatest impact on New Zealand's security interests over the medium-to-long term:

- strategic competition, and
- the intensifying and wide-ranging impacts of climate change.

These challenges are already affecting New Zealand's strategic environment and will intersect with other trends and discrete events. The global COVID-19 pandemic, as a particularly acute example, has intensified and accelerated pre-existing trends in addition to its substantial direct impacts on human health, wellbeing and security.

Overall, New Zealand's strategic environment has become substantially more challenging, and this trend is likely to continue and accelerate in coming years. New Zealand faces a future strategic environment with greater threats and risks to its interests since World War Two.



Minister of Defence, Hon Peeni Henare, at the opening of the new facility, *Te Pokapū Whakauru Māia*, for the Network Enabled Army Programme

DELIVERING ON THE MINISTRY'S STRATEGIC INTENTIONS

The Ministry's *Statement of Intent 1 July 2020 – 30 June 2024* sets out four strategic priorities for the Ministry. The following sections describe progress made against each priority over the year to 30 June 2021, including the associated critical success factors.



Ministry staff members collaborating to develop a new organisational strategy

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

2. Our Defence engagements and support for deployments enhances New Zealand's security and other interests

3. Defence delivers capability that balances policy, funding and requirements

4. Defence is open, transparent, accessible and trusted, and supports system improvement

1

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

The Ministry seeks to deliver the following:

What we'll do

working with the Defence Force and other domestic and international partners,

- produce regular defence assessments on current and emerging defence policy issues
- develop policy, including in new and emerging areas of national security and defence policy
- produce a 2021 Defence Assessment that assesses changes in the strategic environment and implications for New Zealand defence policy settings
- if requested by Ministers, lead work on a **Defence White Paper**

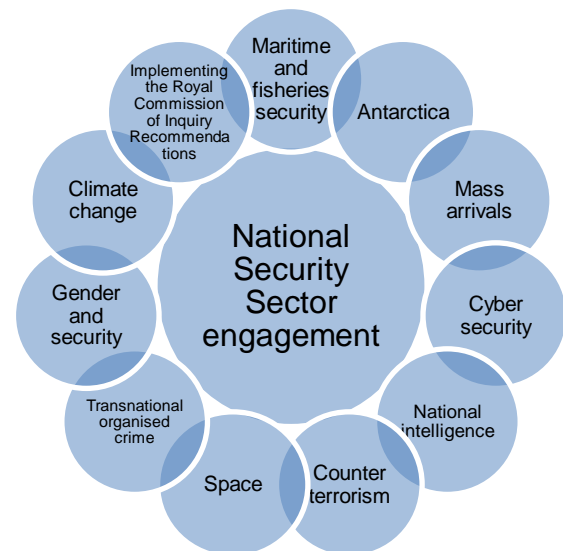
How we'll know we've been successful

- Defence advice anticipates developments in the security environment and prepares the Government to respond
- Defence assessments identify new and emerging areas of Defence policy and capability, and inform strategic decision making
- Defence advice is implemented, with actions in line with Government direction
- Defence assessments contribute to domestic and international understanding of key security issues

Defence advice anticipates the dynamic security environment and contributes to a stronger National Security Sector

A key focus for the Ministry has been completion of the *Defence Assessment He moana pukepuke e ekengia e te waka – A rough sea can still be navigated*. This is a comprehensive assessment of the strategic environment, anticipated future challenges to our interests and national security, and implications for New Zealand defence policy settings. We have also commenced and are nearing completion on three topic-focused assessments. The Ministry continues to engage across the sector to remain informed and provide advice on policy development and response options. The Ministry

collaborates actively with sector agencies on areas including:



4.9 / 5

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

The Minister rated the Ministry's policy advice 4.9 out of 5 for the 2020/21 year.

2

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

The Ministry seeks to deliver the following:

What we'll do

working with the Defence Force,

- advance country and regional initiatives outlined in the *International Defence Engagement Strategy*, particularly with the Pacific
- actively participate in the regional security architecture, including the South Pacific Defence Ministers' Meeting, Five Power Defence Arrangements and ASEAN Defence Ministers' Meeting-Plus
- provide accurate, timely and robust advice to Government on the deployment of Defence Force personnel and assets
- monitor deployments and advise the Minister in the event of substantive changes to the mission or environment
- support Ministerial and other Defence senior-level travel with comprehensive briefing and visit management
- host and attend bilateral Defence talks

How we'll know we've been successful

- New Zealand's national security and foreign policy interests are advanced
- New Zealand is well represented by the Ministry and influential at bilateral defence talks, in regional fora and at major international defence conferences
- New Zealand's international defence engagement is aligned with the Government's defence priorities, our engagement principles and provides value to New Zealand
- deployment advice is comprehensive and enables the Government to make informed choices.

Updating and Implementing the International Defence Engagement Strategy

Defence's approach to international defence engagement is guided by the *International Defence Engagement Strategy* (IDES). The Strategy prioritises New Zealand's international defence

relationships and determines the key initiatives to maintain and develop our defence engagement. The Ministry is currently undertaking an update of the IDES for the period 2022-2026. The updated IDES will reflect current Government and Defence priorities, and have a stronger focus on cross cutting issues, including climate change, gender, te ao Māori, and on measuring the effectiveness of our international engagements and activities.

95%

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

The Minister rated the Ministry's policy support 95% for the 2020/21 year.

New Zealand's international defence engagement is aligned with the Government's defence priorities, our engagement international strategy and provides value to New Zealand

The COVID-19 pandemic has continued to affect the conduct of international engagements and activities. Despite the challenges arising from the pandemic, the Ministry has successfully adapted to the 'new normal' by continuing to engage virtually with partners in our immediate region and where our wider interests are engaged. Virtual engagements have their limitations, however in some areas the virtual format has led to an increase in the tempo of engagements with international partners, including Australia and our Pacific partners. When international travel commences, many key defence partnerships will need to be reinforced through an initial period of increased travel and engagement.

The Ministry supported over 100 international engagement activities in 2020/21 involving the Minister of Defence and senior defence officials, including:

- bilateral virtual counterpart calls with Australia, Fiji, Tonga, Vanuatu, the United States, Canada, the United Kingdom, Malaysia, Japan, Singapore and Germany.
- multilateral virtual meetings including the South Pacific Defence Ministers' Meeting and the

Association of Southeast Asian Nations (ASEAN) Defence Ministers' Meeting-Plus.

The Ministry, working closely with the Defence Force, held a wide range of formal 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. The Ministry also supported bilateral defence initiatives, albeit at a reduced tempo than planned due to COVID-19 limitations.

The Deputy Secretary of Defence, Policy and Planning, and the Vice Chief of Defence Force, were able to travel to Canberra in April 2021 for the annual Australia-New Zealand Group of Four talks and to attend Australia's formal ANZAC Day memorial service. The Group of Four is comprised of two officials from each country, one civilian and one military. The visit was the first time defence officials had met with Australian counterparts in person since the onset of COVID-19.

The Ministry continues to be an active supporter of regional 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 supporting stability, peace and security in the region by promoting understanding, entrenching habits of dialogue and facilitating practical cooperation. These engagements advance New Zealand's defence interests internationally and enhance our international defence relationships.



Video conference attendees for the 2021 ASEAN Defence Senior Officials' Meeting Plus

Case Study: International Engagement – Supporting civilian defence advice in the Pacific

International engagement has continued throughout the COVID-19 pandemic, despite closed borders. In 2020-2021, the Ministry achieved a number of firsts in its programme of international engagement, continuing the delivery of international defence policy collaboration with partner countries in the Pacific through new avenues.

In April 2021, the Secretary of Defence hosted the inaugural Pacific Secretaries' dialogue virtually with his counterparts from Fiji, Papua New Guinea, Tonga and Australia. The purpose of the meeting was to develop connections among the region's chief civilian advisers to government on defence matters. The forum was an opportunity to share views on the challenges in the Pacific region.

In September 2020, as part of a combined defence force training team, the Ministry sent a senior policy analyst to work alongside peers in the Ministry for Defence, National Security and Policing in Fiji. The analyst supported Fiji's policy advisers to develop a range of policies and strategies on key defence and security challenges facing Fiji.

In November 2020, the Ministry held a virtual regional working group meeting to discuss the security implications of climate change, and policy responses. The working group is advancing the recommendations of a study presented to the South Pacific Defence Ministers' Meeting in 2019, and includes officials from member countries: Australia, Fiji, Papua New Guinea, France, Chile, and Tonga. During the meeting, New Zealand shared its approach to scenario planning, which helps Defence better prepare personnel and assets for more severe weather events as a result of climate change, and demonstrated how scenario processes can support partners' military forces to do the same.

New Zealand's engagement with Pacific partners and support to civilian defence advice in the Pacific aims to support defence policy formulation and decisions. This will contribute to making the Pacific more secure, stable and resilient. As a Pacific nation, this is directly in New Zealand's security interests. It also supports our maintenance of strong and deep defence and security relationships with our Pacific partners.



NZDF personnel and a Ministry staff member (middle) on secondment to the Fiji Ministry of Defence, National Security and Policing

Deployment advice is comprehensive and enables the Government to make informed choices

During the reporting period, the Ministry led the development of advice to the Government on a range of deployments of Defence Force personnel and assets, collaborating closely with the Defence Force and the Ministry of Foreign Affairs and Trade, and in consultation with other government agencies. This included advice to Cabinet on the withdrawal of NZDF personnel from Afghanistan, bringing an end to one of our longest deployments.

The Ministry's advice supported Government decision-making on a range of deployments that align with our national security priorities and that support the international rules based system, as well as our willingness to play our part in addressing regional and global issues.

On the basis of advice prepared by the Ministry, Defence Force and Ministry of Foreign Affairs and Trade, the Government approved a series of operational deployments in 2020/21. These included Cabinet decisions to extend peace and stability

leadership mandates in the Middle East and Africa, including Multinational Force Observers (Egypt), United Nations Mission in South Sudan, and United Nations Truce Supervision Organisation (Golan Heights, Lebanon). New Zealand also deployed forces closer to home in the Indo-Pacific region, including to the Counter-Terrorism Information Facility in Singapore, on maritime surveillance operations countering North Korean United Nations sanctions evasion, and extended the mandate and expanded the personnel footprint of New Zealand's contribution to United Nations Command on the Korean Peninsula.

The Ministry's 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 interests and foreign policy goals. The advice also sets out risks to Defence Force personnel and how these will be managed.

All deployment advice includes an element of flexibility that has enabled the Defence Force to respond and adjust to challenges and manage risk the COVID-19 pandemic.

3.5 / 5

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

In 2020/21, the Ministry scored an average of 3.5 for a random selection of its policy advice, against the Department of the Prime Minister and Cabinet's *Policy Quality Framework*.

Highly rated papers relating to deployments and international engagements included advice on the Defence Force providing support to the Pacific and the Polynesian vaccination programme (rated 4.5), recommending visits by Foreign Military Ships to New Zealand (rated 4.5) and advice on concluding New Zealand's deployment in Afghanistan (rated 4). A particularly high rating was provided for advice on the South Pacific Defence Ministers' Meeting, which was rated 5.

Case Study: Deployment advice – supporting New Zealand's deployment to Afghanistan

In December 2020 the Ministry provided advice to Cabinet on the future of New Zealand's 20-year deployment to Afghanistan. This was developed in close collaboration with the NZDF and the Ministry of Foreign Affairs and Trade, and consulted closely with agency counterparts to provide options for Cabinet consideration.

The advice on the Afghanistan deployment was developed according to the 'should we, could we, would we' approach to deployment advice, which canvasses the political and strategic imperatives (should we), the operational considerations (could we) and the political decision by Government (would we). Considerations included the timeline for the international military withdrawal, partners' planning and the security situation on the ground in Afghanistan, as well as operational considerations, such as threat assessment, rotation timings and COVID-19 considerations, and associated travel restrictions and challenges.

As a result of this advice, in February 2021 Cabinet announced its decision to conclude the NZDF's deployment to Afghanistan by May 2021, bringing an end to one of New Zealand's longest deployments. The last of our six remaining NZDF personnel withdrew from Afghanistan and returned to New Zealand in March 2021.

Current deployments

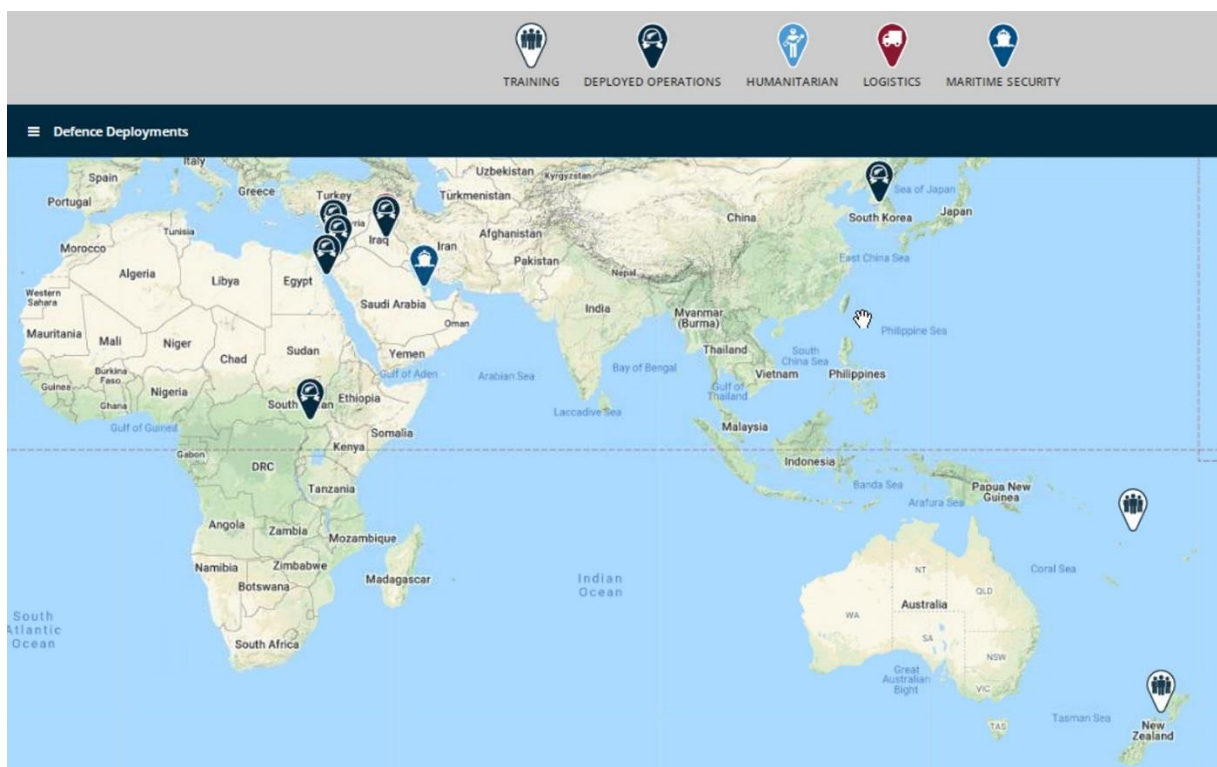


Figure 2: Defence Force deployments as at early September 2021. This map also includes Defence's Antarctica logistics support and capacity-building work in the Pacific and Southeast Asia

Defeat ISIS Coalition – Iraq, Kuwait, Qatar



New Zealand has maintained a military contribution to the Global Coalition to Defeat ISIS (D-ISIS) since 2015, holding a variety of Coalition Headquarters, support, and intelligence roles since that time. The majority of NZDF personnel were deployed to the Australia-New Zealand Building Partner Capacity mission at Camp Taji, which trained over 47,000 Iraqi Security Force (ISF) personnel before handing the base over to the ISF and withdrawing in March 2020. New Zealand continues to maintain an ongoing military contribution of nine NZDF personnel located in Iraq, Kuwait and Qatar. These roles are mandated until 30 June 2022.

Through participation in the Coalition, New Zealand works alongside international partners to advance broader national and international security interests in the campaign against ISIS and terrorism more broadly. New Zealand's participation also contributes to the Defence Force's capabilities and provides valuable experience in a multinational military coalition. The skills learned, people to people links forged and the information received due to our Coalition membership also informs New Zealand's ability to respond to events at home and in our near region.

Maritime Security – Middle East



New Zealand has a programme of personnel commitments to collective security efforts in the Middle East maritime environment, an area which contains some of the

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

Multinational Force and Observers – Egypt



New Zealand was a founding member of the Multinational Force and Observers mission in the Sinai Peninsula, Egypt, in 1982. The deployment bolsters interoperability

with our partners, delivers significant insight into regional issues (including the spread of violent extremism) and contributes to our international relationships, particularly those within the Middle East and Africa. The mission offers a wealth of opportunities for junior and non-commissioned officers across all three services to gain operational experience, and provides significant leadership opportunities. New Zealand currently holds the role of Force Commander, until March 2023.

Operation Gallant Phoenix – Jordan



Strong information sharing networks with international partners help reinforce New Zealand's national security, and the deployment to Operation Gallant

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

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



The New Zealand deployments of P-3K2 maritime patrol aircraft

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

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



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

United Nations Mission in South Sudan – Republic of South Sudan



New Zealand's commitment to the United Nations Mission in South Sudan advances our national security interests, and reinforces

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

United Nations Truce Supervision Organisation – Golan Heights, Lebanon



For nearly 70 years New Zealand has provided support to the United

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



Republic of Fiji Military Forces unload humanitarian aid and disaster relief supplies from an RNZAF C-130H Hercules, which delivers over 14,000 kilos of humanitarian aid and disaster relief to Fiji following tropical cyclone Harold

3

DEFENCE DELIVERS CAPABILITY THAT BALANCES POLICY, FUNDING AND REQUIREMENTS

The Ministry seeks to deliver the following:

What we'll do:

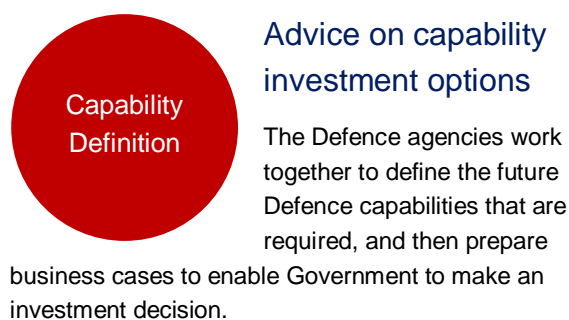
- define future military capability requirements, and develop robust and influential advice for consideration by Ministers
- deliver projects in an integrated manner with the Defence Force, combining professional project management with specialist military advice
- deliver projects in accordance with the standards, guidance and practices of the Defence Capability Management Framework
- ensure effective governance and oversight at the portfolio and project level
- enhance Defence's management of a highly dynamic capability investment portfolio
- close engagement with industry

How we'll know we've been successful:

- the **Defence Capability Plan** is delivered in a fiscally responsible manner
- advice on capability options is comprehensive and enables the Government to make informed investment choices
- capability projects are delivered to schedule, cost and quality standards
- across the portfolio, investments are managed in a way that maximises efficiency and value
- New Zealand is recognised as an international exemplar in defence capability management
- there is early engagement with Industry on Defence procurement

Joint management of Defence capability

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



Using the Government's Better Business Case model, projects progress through the stages of the investment process, supported by business cases at each stage:

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

Over the reporting period the Ministry prepared business cases for Cabinet on the following projects:²

- Southern Ocean Patrol Vessel Project – indicative business case (July 2020)
- Consolidated Logistics Project (Linton Maintenance Support Facility) – project implementation business case (June 2021)

The Ministry also developed the project implementation business case for the HMNZS *Canterbury*/Offshore Patrol Vessels Communications project. This was approved by both Defence Chief Executives in February 2021 through the delegated level authority agreed with the Minister of Defence.

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

3.5 / 5

In 2020/21 the Ministry scored an average of 3.5 for a random selection of its policy advice, against the Department of the Prime Minister and Cabinet's *Policy Quality Framework*.

A **4.5** rating was awarded for the Cabinet paper *Southern Ocean Patrol Vessel: Indicative Business Case*.

Case Study: Consolidated Logistics Project – Linton Maintenance Support Facility

In June 2021, Cabinet approved investment in a new purpose-built Maintenance Support Facility (MSF) at Linton Army Camp, to replace existing workshops that were primarily built in the 1940s. This substantial project is funded and delivered by the NZDF, but with policy support from the Ministry for the business case.

The \$47 million investment will be the Army's largest engineering and maintenance facility, and will support new generations of Defence Force personnel for the next 60 years. It is estimated that up to 90% of the investment cost will be spent in the local Manawātū-Whanganui region, and approximately 120 workers will be employed at the peak of construction.

Construction is due to commence in late-2021, and be completed by mid-2023. The proposed investment was part of the larger Consolidated Logistics Project, which aims to provide the Defence Force with a modern, efficient logistics system. As part of this system, Defence requires facilities that are able to undertake maintenance and repair tasks, and storage for key pieces of equipment and capabilities.

The preferred contractor to undertake the build, McMillan & Lockwood, is a locally-based, New Zealand owned and operated company. As part of their bid, they submitted data to show the number of local workers they would employ, the estimated value the build would return to the Manawātū-Whanganui region, and other wide-reaching impacts the build would have in areas such as hospitality and accommodation for additional workers outside of the region.

² Copies of the Cabinet papers supporting final decisions on a project – through a project implementation business case or single stage business case – are available from the Ministry's website at www.defence.govt.nz/publications.

Enhancing capability portfolio management

The capability portfolio operates in a fiscal environment that changed significantly in 2020, largely as a result of COVID-19.

Defence's capability portfolio management provides an important link between planned investments and those projects that are already in delivery.

Defence has continued to develop and utilise capability portfolio management tools to enable planning and options for Government around the future scope and schedule of Defence capability investments.

The portfolio function examines the pipeline of investments, and potential for deferral and reprioritisation so that decision makers have response options that continue to maximise efficiency and value. Options cover whole-of-enterprise interests, and including readiness and personnel availability. There is also a portfolio monitoring function that provides health reports and occasional deep dives into specific areas of concern so that governance boards can be assured the portfolio isn't unduly 'overheating' or running inefficiently.



HMNZS Aotearoa arrives in Auckland as she sails into Devonport Naval Base

Delivering capabilities

Integrated Project Teams (IPTs) are established for our highest risk and scale capability projects. They are led by Ministry staff and bring together professional project specialists and subject matter experts from the Ministry and Defence Force. IPTs are designed to deliver excellence in capability delivery. They enable a collaborative way of working on major projects across the capability management system and drive end to end thinking at the project level and across the capability portfolio.



Sod turning for the new facilities at Ōhakea as part of the Air Surveillance Maritime Patrol project, involving Chief of Air Force, Andrew Clark, Minister of Defence, Hon Peeni Henare, and Deputy Secretary Capability Delivery, Mike Yardley

Capability projects are delivered to schedule, cost and quality standards

As at June 2021, the Ministry had an inflight portfolio of 28 projects. Eleven of these projects are in the capability definition phase (pre-decision to go to market); and 17 are in the delivery phase.

All projects in capability definition are on schedule, and are to cost and quality requirements, except where there has been circumstances beyond the control of the project team. Where such circumstances arise, the primary impact is to schedule.

Of the projects in delivery, all are delivering to cost and quality. COVID-19 has impacted schedule, particularly where meeting a project milestone has required overseas technical support. Where those delays are considered excusable, baselines have been adjusted to reflect that neither the Ministry nor the supplier is liable.

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

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

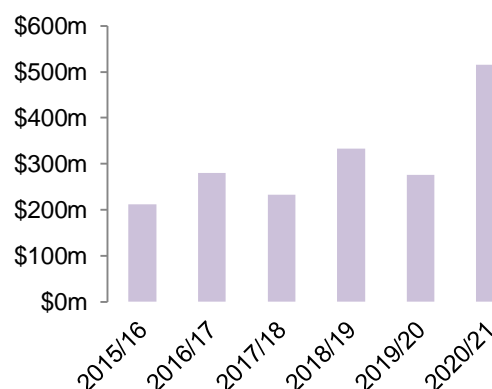


Figure 3: The Ministry's Crown capital expenditure compared to previous years

The following pages report on major capability projects in delivery phase, with a total value of \$5.789 billion.

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

All projects are to budget and Government requirements. As at June 2021, four projects are reporting a delay to schedule, some as a result of the COVID-19 pandemic (Dive Hydrographic Vessel, Maritime Sustainment Capability, NH90 Flight Simulator and Operational and Regulatory Aviation Capability projects). These projects are marked with an *.

Further details are provided in the following project pages. The proportion of spend to date and forecast expenditure for each project is depicted around the image, according to the following key. In some cases, separate charts are provided for different elements of the same project.

-  Spend in prior years
-  2020/21 spend
-  Forecast Ministry spend
-  Net foreign exchange allowance³
-  Forecast NZDF spend



81mm Mortar Replacement



Air Surveillance Maritime Patrol

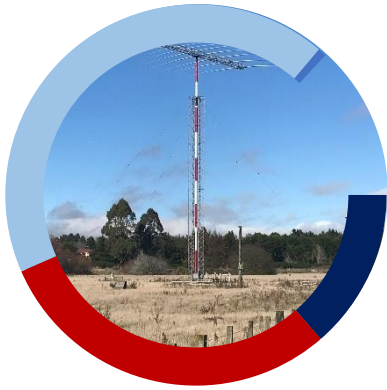


Anzac Frigate Systems Upgrade

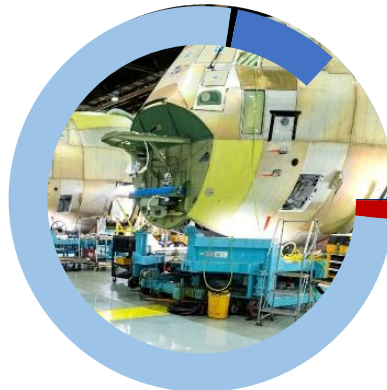


Dive and Hydrographic Vessel*

³ Details about the management of foreign exchange risk for major capability projects are provided on page 30.



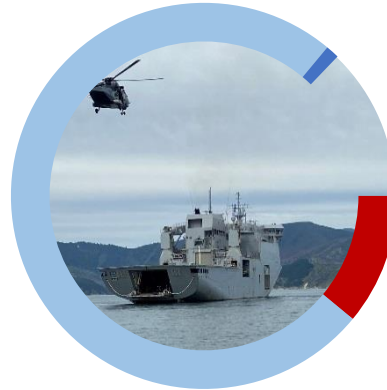
Fixed High Frequency Radio Refresh



Future Air Mobility Capability – Tactical



Garrison and Training Support Vehicles: Phase One



HMNZS *Canterbury*/Offshore Patrol Vessels
Communications Upgrade



Maritime Sustainment Capability*



Network Enabled Army: C4



Network Enabled Army: ISR



NH90 Flight Simulator*



Operational and Regulatory Aviation Compliance Sustainment: Phase One (A)*



Operational and Regulatory Aviation Compliance Sustainment: Phase One (B)*



Protected Mobility Capability: High Mobility Light



Protected Mobility Capability: Medium

The Ministry is managing the following projects on behalf of the Defence Force, funded from Vote Defence Force:

- Cyber Security and Support
- Joint Intelligence Project.

The following projects have been substantially delivered by the Ministry and are awaiting project closure. No significant activity occurred within 2020/21 to be reported:

- Aircrew Training Capability
- Counter Explosive Hazards
- Individual Weapons Replacement

- Special Operations Vehicles
- Strategic Bearer Network.

The following projects contain more than one financial table. This reflects different capability work streams, timing and funding appropriations. Separation allows for better monitoring for these aspects of the project:

- Network Enabled Army
- Operational and Regulatory Aviation Compliance Sustainment
- Protected Mobility Capability.

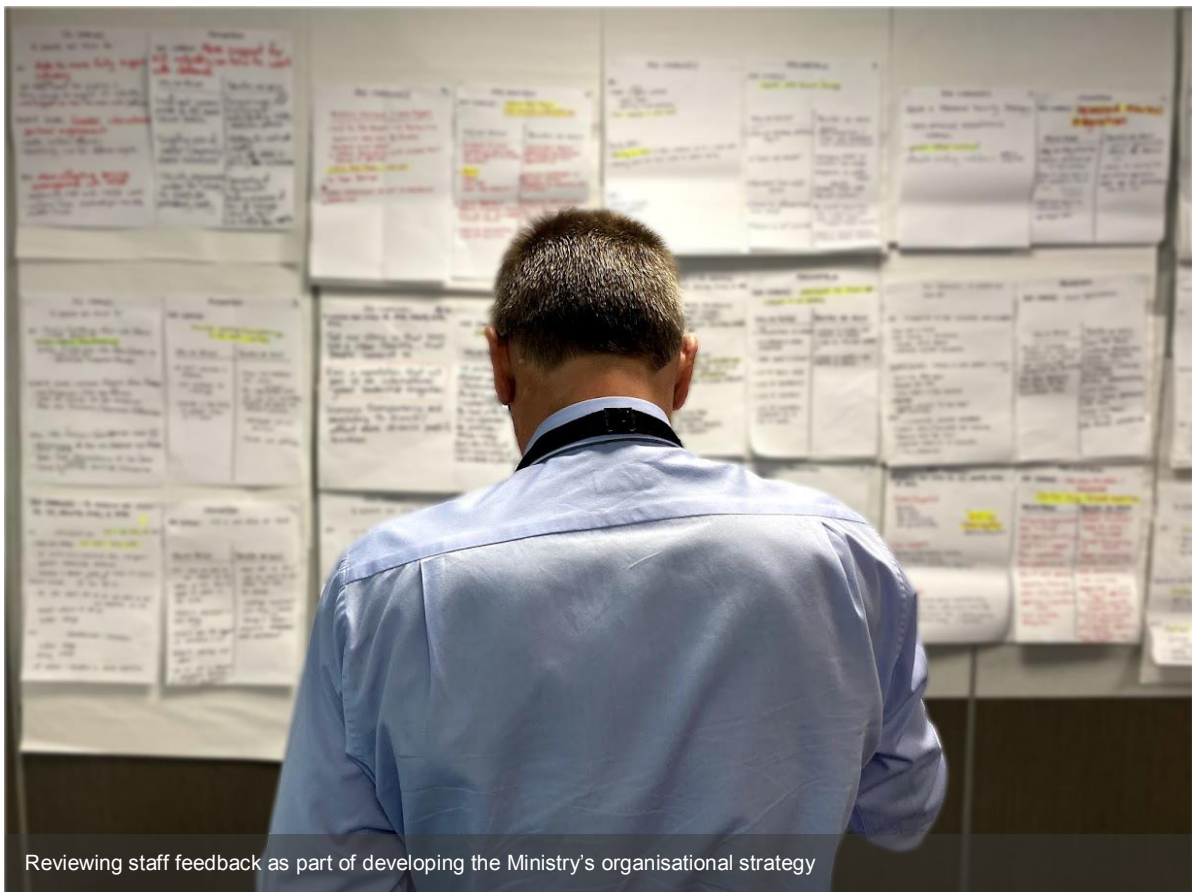
Managing foreign exchange risks

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

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

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

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



Reviewing staff feedback as part of developing the Ministry's organisational strategy

Projects in Delivery phase

	2020 2021				2021 2022			
	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun
81mm Mortar Replacement	Acquisition and delivery of capability					Operational Release		
Air Surveillance Maritime Patrol	Infrastructure delivery Acquisition of capability Air crew training							
Anzac Frigate Systems Upgrade	Delivery and testing of capability				Interim Operational Release			
Dive and Hydrographic Vessel	Introduction of Capability							
Fixed High Frequency Radio Refresh	Acquisition and implementation of solution							
Future Air Mobility Capability	Acquisition and delivery of capability							
Garrison and Training Support Vehicles	Introduction of Capability				Interim Operational Release of first capability			
HMNZS <i>Canterbury</i> /Offshore Patrol Vessels Communications Upgrade	Engaging with Industry		Acquisition and delivery of capability					
Maritime Sustainment Capability	Military customisation in New Zealand		Introduction of Capability					
Network Enabled Army C4	Acquisition and testing of capability				Tranche 1 Interim Operational Release			Tranche 2 Interim Operational Release
Network Enabled Army ISR	Engaging with Industry					Delivery phase commences		
NH90 Simulator	Build and testing	Introduction of Capability			Ready for training			
ORACS: Phase 1a	Acquisition of equipment			Interim Operational Capability				
ORACS: Phase 1b	Engaging with Industry				Acquisition and development of capability			
Protected Mobility Capability: High Mobility Light	High Mobility Light: Delivery of capability			Introduction of Capability				
Protected Mobility Capability: Medium	Protected Vehicle Medium: Engaging with Industry		Acquisition of capability					

81mm Mortar Replacement

Purpose

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

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

Benefits

Combined, the new components will improve the reliability, accuracy, effectiveness and mobility of the mortar capability. The ability to detect, locate and target unfriendly weapons will also be improved.

Delivering the capability

Following approval of the Single Stage Business Case by the Minister of Defence in 2017, the project commenced acquiring the three components. Initially, all were expected to be acquired through sole source procurement; the 81mm mortars and radars via separate US Government Foreign Military Sales (FMS) cases, and the sighting systems through a direct commercial sales contract. A higher than provisioned price for the mortars resulted in a request to the market to explore alternatives and a request for quotation was issued in January 2019.

The contracts and expected delivery dates are:

- Sights: Signed in October 2017 with Hall & Watts Defence Optics (UK). The first tranche was delivered in April 2018 and the second in December 2019.
- Radars: FMS Letter of Offer and Acceptance signed in July 2018. Delivery is expected to be completed by the end of 2021.
- Mortars: Signed in May 2019 with New Zealand-based company Hirtenberger Defence Technology Ltd. The mortars were delivered in October 2020.

2020/21

In the past 12 months the mortars were delivered. Since then, the project has focused on radar delivery, introduction into service, and capability integration, including training.

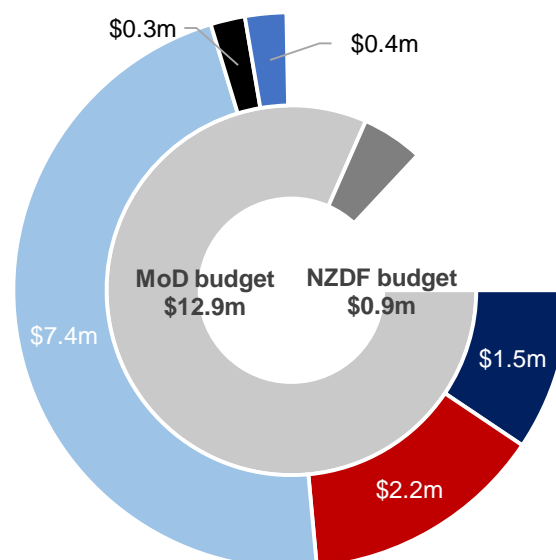
The impact of COVID-19

Delivery of the mortars was expected to take place in the first half of 2020, following Factory

Acceptance

Testing. The move to COVID-19 Alert Level 4 and lockdown in Austria resulted in the testing being undertaken in August 2020 by the manufacturer.

Maintainer training was scheduled to occur in the United States in quarter four 2020. Travel restrictions have delayed this training until the first quarter of 2022. Operator training is also scheduled for the first quarter of 2022 in New Zealand.



- Spend in prior years
- 2020/21 spend
- Forecast Ministry spend
- Forecast NZDF spend
- Net foreign exchange allowance
- Ministry budget
- NZDF budget

At 30 June 2021 expected 81mm Mortar Replacement project costs were:

		Ministry	NZDF	Consolidated project
		\$000	\$000	\$000
Budget	Current approved project budget	12,919	850	13,769
	Allowance for foreign exchange movements	769	-	769
	Original approved project budget	12,150	850	13,000
Forecast	Forecast total project cost	11,133	317	11,450
	Effect of foreign exchange movements	389	-	389
	Forecast cost using hedged rate	10,744	317	11,061
	Forecast project variance	1,406	533	1,939

Air Surveillance Maritime Patrol (P-8A Poseidon maritime patrol aircraft)⁴

Purpose

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

Benefits

The new capability will provide meaningful and valued contributions to maritime, joint, coalition and/or interagency operations. It will enable the Government to fulfil policy and sovereignty responsibilities within the New Zealand maritime environment, while continuing to contribute to search and rescue and intelligence, surveillance and reconnaissance tasks over a broad area (e.g. the Southern Ocean and South Pacific).

Delivering the capability

Production of the aircraft is scheduled to start in early 2022. The RNZAF now has a fully qualified P-8A aircrew operating as instructors with the United States Navy gaining operational experience with the new capability. Maintenance personnel are undertaking training with the Royal Australian Air Force in Australia. Further detail of the spare parts and support arrangements for the new capability continue to develop in preparation for the arrival of the new aircraft.

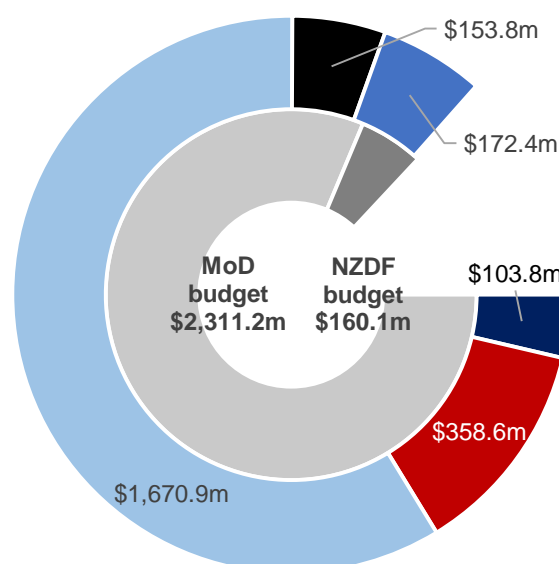
2020/21

The pace of infrastructure work at Base Ōhakea has increased significantly in the last year with the construction of new aprons and taxiways by Fulton Hogan well advanced. Additionally, Hawkins have been engaged as the Vertical Works contractor with foundation works well underway at the end of the financial year.

The impact of COVID-19

Delivery of capability components out of the US (aircraft and support systems) is currently unaffected by COVID-19 but is being monitored closely by the project. Construction of the facilities at Base Ōhakea is being impacted by supply chain

disruptions, resulting in both schedule and cost pressures. The project will utilise temporary facilities to allow capability delivery to proceed as originally planned.



- Spend in prior years
- 2020/21 spend
- Forecast Ministry spend
- Forecast NZDF spend
- Net foreign exchange allowance
- Ministry budget
- NZDF budget

⁴ Previously 'Future Air Surveillance – Maritime Patrol'.

At 30 June 2021 expected Air Surveillance Maritime Patrol project costs were:

		Ministry	NZDF	Consolidated project
		\$000	\$000	\$000
Budget	Current approved project budget	2,311,151	160,087	2,471,238
	Allowance for foreign exchange movements	125,140	-	125,140
	Original approved project budget	2,186,011	160,087	2,346,098
Forecast	Forecast total project cost	2,133,316	153,791	2,287,107
	Effect of foreign exchange movements	(47,286)	-	(47,286)
	Forecast cost using hedged rate	2,180,602	153,791	2,334,393
	Forecast project variance	5,409	6,296	11,705

Case Study: Simulation Training for New Capabilities

Time spent in a simulator or flight training device is critical for pilot and aircrew generation and sustainment. Simulators are being introduced across all of the RNZAF's new and recent capabilities, ensuring pilots and aircrews have an opportunity to maintain skills and flight hours.

Since delivering the first modern flight training device for the A109 Helicopter in 2011, a further three have been acquired and installed for the T-6 Texan training aircraft, the SH-2G(I) Seasprite maritime helicopter, and the NH90 Medium Utility Helicopter. Delivery of the P-8A Poseidon and C-130J-30 Hercules capabilities will include full flight and mission simulators.

The benefits of simulator training include:

- Significant operational cost savings as less training is conducted in aircraft.
- Using New Zealand-based simulators means pilots and instructors are not required to travel overseas, avoiding travel that presents both cost and logistical challenges.
- Purpose-built simulators are an exact replica of the platform. They also allow unique, real-life scenarios to be created to practice domestic operations and emergency procedures for when a part of the aircraft is damaged or ceases to operate mid-flight.
- Aircraft flying hours can be used more efficiently by utilising a simulator for training, freeing the aircraft for operational tasking. This is particularly important for small aircraft fleets where aircraft availability for operational tasking is a priority.

While the majority of simulators delivered by the Ministry support the Defence Force's aircraft fleets, simulation is being introduced across the Defence Force. The Anzac Frigate Systems Upgrade project includes a ground-based Combat Weapons System trainer replicating the operations room of the upgraded frigates, and the Maritime Sustainment Capability project has delivered a software package for the new fleet replenishment tanker, HMNZS Aotearoa.

To support the New Zealand Army, the Ministry is delivering a simulator for the NZ5.5 Bushmaster vehicle; one of the vehicle fleets being supplied by the Protected Mobility Capability project.



Inside the NH90 flight simulator

Anzac Frigate Systems Upgrade

Purpose

This project upgrade the weapons and sensor systems of the Anzac frigates. It will ensure HMNZS' *Te Kaha* and *Te Mana* can continue to operate into the mid-2030s, in medium and high threat environments. It is the largest of five mid-life upgrades of the Anzac frigates.⁵

Benefits

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

Delivering the capability

The impact of COVID-19 has resulted in a delay to the completion of the ship upgrades, which are being undertaken in British Columbia, Canada.

Te Kaha returned to New Zealand in December 2020. Acceptance of Contract for *Te Mana* is currently on track for December 2021 and the ship is scheduled to return to New Zealand in April 2022.

2020/21

In September 2020, *Te Kaha* successfully completed Sea Acceptance Tests in Canada.

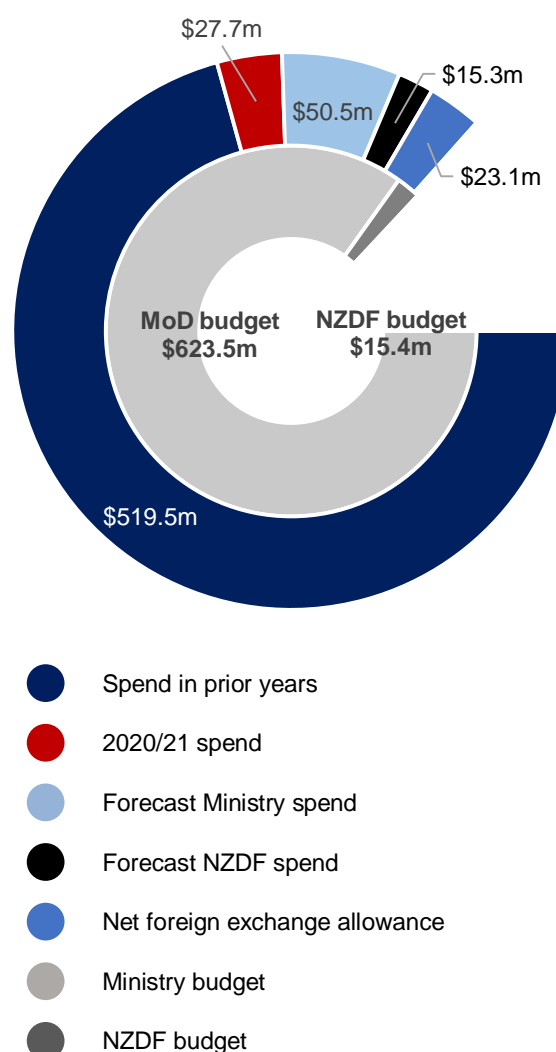
Following the ship's return to New Zealand in December, further sea trials and training events were conducted as part of preparations for the Naval Operational Test and Evaluation phase. *Te Kaha* subsequently entered into a period of planned maintenance including routine painting and preservation work, the re-certification of safety equipment, and some machinery maintenance.

Te Mana completed her Industrial Phase in December 2020, with the Crown taking custody of the vessel for the move to the Royal Canadian Navy's Fleet Maintenance Facility in March 2021 for set to work activities, including system activation and testing, crew familiarisation and sea trials. This work has been supported by RNZN personnel, who arrived in Victoria, Canada, at the end of January 2021.

The impact of COVID-19

In mid-April 2021, a number of *Te Mana*'s crew tested positive for COVID-19, stopping work on the ship. A

regime of testing and isolation was initiated and work on-board *Te Mana* was able to continue from 21 April 2021.



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

At 30 June 2021 expected Anzac Frigate Systems Upgrade 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	597,713	15,326	613,039
	Effect of foreign exchange movements	21,630	-	21,630
	Forecast cost using hedged rate	576,083	15,326	591,409
	Forecast project variance	2,702	82	2,784

Dive and Hydrographic Vessel (HMNZS *Manawanui*)

Purpose

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

Benefits

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

Delivering the capability

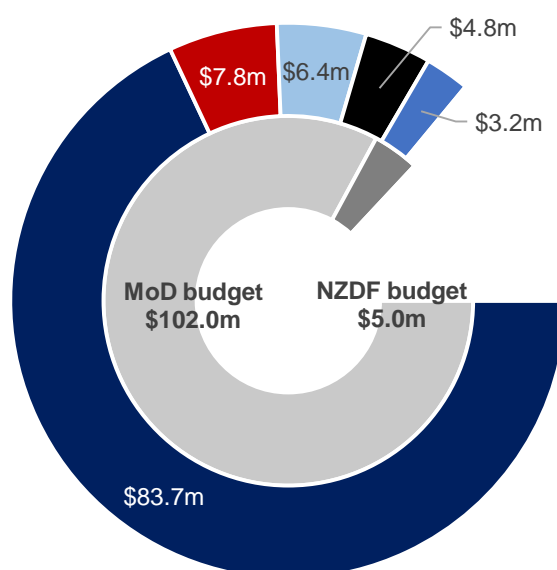
The vessel and Phase 1 modifications were delivered on schedule. Phase 2 modifications are well-advanced and sea trials are underway.

2020/21

HMNZS *Manawanui* started the financial year with a passage to Hawaii to take part in exercise Rim of the Pacific 2020 (RIMPAC 20). It joined 21 ships and one submarine from nine countries, and during the two-week exercise participated in numerous seamanship and warfare scenarios. During its return to New Zealand, *Manawanui* made a contactless stop in Tonga to disembark a container of medical stores. The remainder of the financial year saw further Stage 2 modifications and Operational Test and Evaluation activities. These culminated in the completion of combined Remotely Operated Vehicle and Surface Supplied Breathing Apparatus search and recovery trials.

The impact of COVID-19

The ability to complete modifications to the *Manawanui* has been impacted by COVID-19. Stage 2 modifications have been delayed due to interruptions to the global supply chain and border restrictions have limited access to overseas technical support. This has delayed testing and training activities. The capability integration plan was able to be rescheduled internally to accommodate these delays. An extension to the Operational Release milestone to reflect last year's lockdown period has been approved.



- Spend in prior years
- 2020/21 spend
- Forecast Ministry spend
- Forecast NZDF spend
- Net foreign exchange allowance
- Ministry budget
- NZDF budget

At 30 June 2021 expected Dive and Hydrographic Vessel project costs were:

		Ministry	NZDF	Consolidated project
		\$000	\$000	\$000
Budget	Current approved project budget	101,976	5,000	106,976
	Allowance for foreign exchange movements	2,770	-	2,770
	Original approved project budget	99,206	5,000	104,206
Forecast	Forecast total project cost	97,838	4,777	102,615
	Effect of foreign exchange movements	(417)	-	(417)
	Forecast cost using hedged rate	98,255	4,777	103,032
	Forecast project variance	951	223	1,174

Fixed High Frequency Radio Refresh

Purpose

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

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

Benefits

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

Delivering the capability

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

2020/21

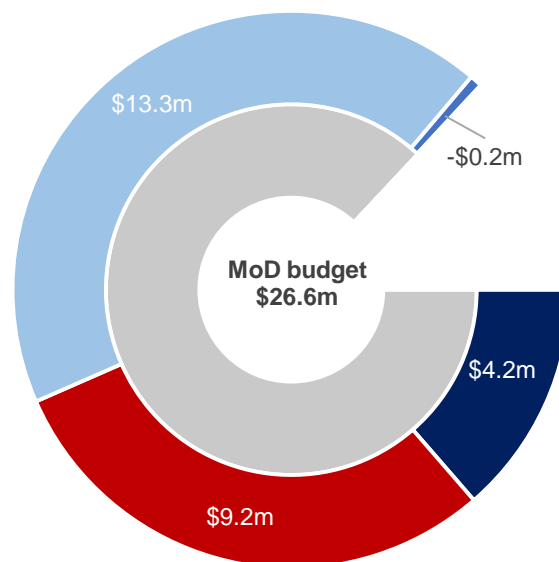
The design solution for the new system is near completion, with the Preliminary Design Review successfully completed in November 2020, and the Critical Design Review, completed on 26 July 2021.

Planning is progressing for installation of the new HF antennae and communications equipment at the two transmitter and receiver sites, and two operational centres.

The impact of COVID-19

The primary impact had been caused by delays in shipping Government Furnished Equipment to the United Kingdom, which has impacted progress on the system design and establishing a System

Integration laboratory. These delays meant the Ministry was unable to provide all of the Government Furnished Information within the required deadline, resulting in a four-month delay to the design. This is not, however, expected to impact the overall delivery date of the capability.



- Spend in prior years
- 2020/21 spend
- Forecast Ministry spend
- Net foreign exchange allowance
- Ministry budget

At 30 June 2021 expected Fixed High Frequency Radio Refresh project costs were:

		Ministry	NZDF	Consolidated project
		\$000	\$000	\$000
Budget	Current approved project budget	26,580	-	26,580
	Allowance for foreign exchange movements	-	-	-
	Original approved project budget	26,580	-	26,580
Forecast	Forecast total project cost	26,724	-	26,724
	Effect of foreign exchange movements	222	-	222
	Forecast cost using hedged rate	26,502	-	26,502
	Forecast project variance	78	-	78

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

Purpose

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

Benefits

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

Delivering the capability

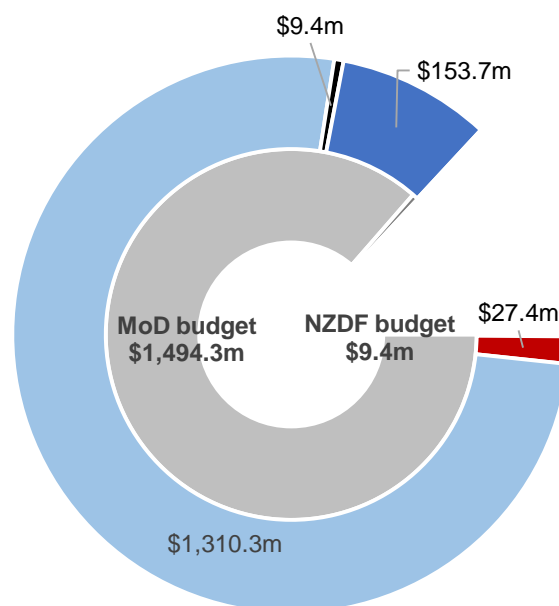
Aircraft manufacturing timelines, combined with the time required to introduce, integrate and release the new capability into service, means that delivery of these aircraft is expected to commence at the end of 2024, and that the full fleet of five Hercules will be operational from 2025.

2020/21

The five Lockheed Martin C-130J-30 Hercules are being acquired through the US Foreign Military Sales process. Letters of Offer and Acceptance with the US were approved in June 2020. This initiated the US Air Force (USAF) and Lockheed Martin project teams, with the baseline aircraft being placed on contract on 14 October 2020. This provides confirmed slots on the production line for the New Zealand aircraft. The full motion flight simulator and the finalised equipment configuration are yet to be contracted between the USAF and Lockheed Martin. However, these discussions are ongoing and the project team is being kept informed of progress. The detailed design for the simulator building has been completed and an approach to market for construction is expected in 2022.

The impact of COVID-19

The project is in the early delivery phase. Production and delivery of capability components out of the US (aircraft and support systems) is currently unaffected by COVID-19, but is being monitored closely by the project.



- Spend in prior years
- 2020/21 spend
- Forecast Ministry spend
- Net foreign exchange allowance
- Ministry budget

At 30 June 2021 expected Future Air Mobility Capability – Tactical project costs were:

		Ministry	NZDF	Consolidated project
		\$000	\$000	\$000
Budget	Current approved project budget	1,494,255	9,392	1,503,647
	Allowance for foreign exchange movements	-	-	-
	Original approved project budget	1,494,255	9,392	1,503,647
Forecast	Forecast total project cost	1,339,652	9,367	1,349,019
	Effect of foreign exchange movements	(153,683)	-	(153,683)
	Forecast cost using hedged rate	1,493,335	9,367	1,502,702
	Forecast project variance	920	25	945

Garrison and Training Support Vehicles: Phase One

Purpose

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

This first phase is addressing vehicles that need immediate replacement. It will ensure output delivery is not compromised by vehicle unavailability due to age and obsolescence issues.

Benefits

This project aims to deliver improved availability and reliability of domestic operational and training support vehicle fleets, increasing operating safety and efficiency, as well as reducing maintenance costs.

Delivering the capability

Phase One is focused on domestic fire appliances, rural fire appliances (RFA), airfield response appliances (ARAs), medical response vehicles (MRVs) and mobile bulk aviation fuelling vehicles. The latter are used to refuel large aircraft, including the P-8A Poseidon and C-130J-30 Hercules currently in delivery.

Delivery of the vehicles started in late 2020 and will be completed in 2023.

2020/21

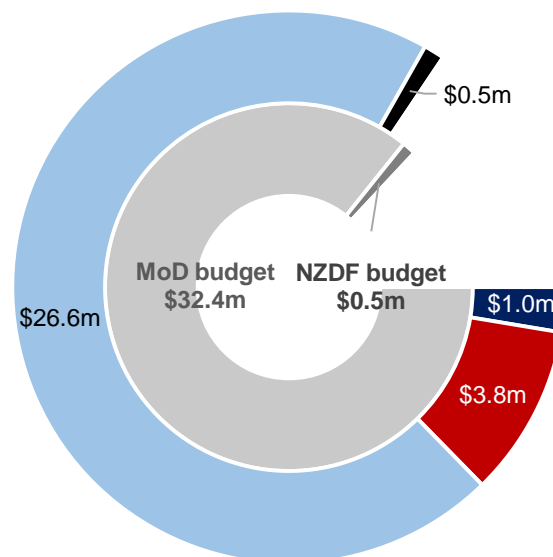
In early 2020, a contract was signed with Hamilton-based Action Manufacturing for a fleet of six MRVs later increased to 12 to replace the 30 year old Unimog-based medical vehicles that are operated by all three military services. Delivery of the first three vehicles has been completed.

In mid-2020, a contract was signed with Holmwood Highgate of Australia for a fleet of six Mobile Bulk Aviation Fuel Capabilities. Unit one and two have been shipped to New Zealand. Delivery of all units will be completed by the end of 2021.

In late 2020, a contract was signed with Volvo Trucks Australia for a fleet of 11 RFA Primemovers. Delivery of all units will be completed by the end of 2022. Also in late 2020, a contract was signed with Oshkosh Airport Products for two ARAs. Delivery of all units will be completed by the second quarter of 2022.

The impact of COVID-19

Travel restrictions and supply chain issues have forced a number of schedule delays, which have impacted the original identified delivery dates for some vehicles. However, the schedules for all vehicle types remain within the overall Phase One schedule.



- Spend in prior years
- 2020/21 spend
- Forecast Ministry spend
- Forecast NZDF spend
- Ministry budget
- NZDF budget

At 30 June 2021 expected Garrison and Training Support Vehicles: Phase One project costs were:

		Ministry	NZDF	Consolidated project
		\$000	\$000	\$000
Budget	Current approved project budget	32,382	456	32,838
	Allowance for foreign exchange movements	-	-	-
	Original approved project budget	32,382	456	32,838
Forecast	Forecast total project cost	31,419	456	31,875
	Effect of foreign exchange movements	(94)	-	(94)
	Forecast cost using hedged rate	31,513	456	31,969
	Forecast project variance	869	-	869

HMNZS *Canterbury*/Offshore Patrol Vessels Communications Upgrade

Purpose

Upgraded communications systems on HMNZS *Canterbury* and the Offshore Patrol Vessels (OPVs – HMNZS *Otago* and *Wellington*) will enable better communication and networking with other ships, aircraft, ground forces and coalition partners when deployed.

Benefits

Benefits will include an increased ability for *Canterbury* to conduct concurrent operations, lead joint and combined operations and maintain interoperability. It will provide confidence that the vessel can effectively and efficiently complete her missions. The OPV Communications Upgrade will maintain tasking availability, improve ability to conduct expected tasks and maintain interoperability into the future.

Delivering the capability

Detailed design is due to conclude with a Critical Design Review in the fourth quarter of 2021. A change in ship installation order has been agreed and will see installation on the first OPV begin in April 2022 followed by *Canterbury* and the second OPV in 2023.

2020/21

Following due diligence, two suppliers were selected to participate in a competitive preliminary design phase. The purpose of the preliminary design phase was to ensure a fixed and firm price for the detailed design and integration phase. Evaluation following the preliminary design phase was based on management assurance, technical assessment, integrated logistics support, through life support and price.

A pre-ship conditioning refit assessment has been undertaken on *Canterbury* to identify the current condition and any fixes required on the ship before the new communications system is installed.

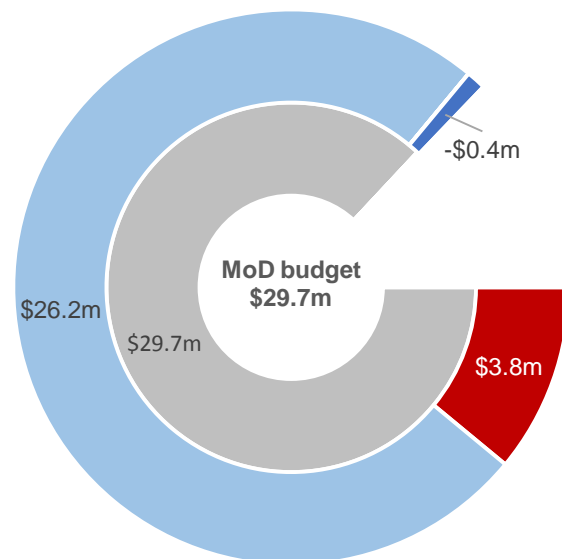
In October 2020, a preferred supplier, Mission Systems Australia (MSA), was selected as the Prime System Integrator for the project.

Following Defence Chief Executives' approval to commit funds on 22 February 2021, the Design, Build and Installation contract was signed between the Secretary of Defence, on behalf of the Crown, and MSA. MSA are sub-contracting New Zealand

companies Beca Technologies and McKay Ltd for project management and installation.

The impact of COVID-19

The project team conducted all of the project design phase and subsequent contracting activities virtually. MSA, which is based in Melbourne, was able to maintain focus on design activities, during multiple lockdowns. The Pre Refit Condition Assessment for *Canterbury* was able to be conducted when the trans-Tasman travel bubble was open, with the MSA project team also able to attend face to face meetings with the Crown project team for the first time since contract signature at Devonport Naval Base.



- 2020/21 spend
- Forecast Ministry spend
- Net foreign exchange allowance
- Ministry budget

At 30 June 2021 expected HMNZS *Canterbury*/Offshore Patrol Vessels Communications Upgrade project costs were:

		Ministry	NZDF	Consolidated project
		\$000	\$000	\$000
Budget	Current approved project budget	29,697	-	29,697
	Allowance for foreign exchange movements	-	-	-
	Original approved project budget	29,697	-	29,697
Forecast	Forecast total project cost	30,060	-	30,060
	Effect of foreign exchange movements	396	-	396
	Forecast cost using hedged rate	29,664	-	29,664
	Forecast project variance	33	-	33

Maritime Sustainment Capability (HMNZS *Aotearoa*)

Purpose

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

Benefits

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

Delivering the capability

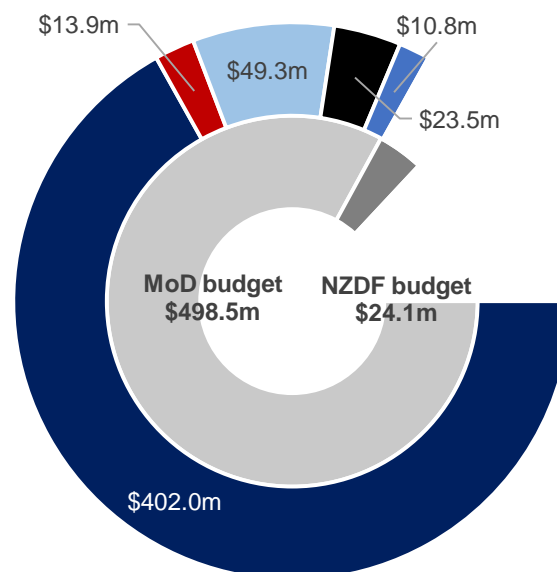
Provisional acceptance of the ship took place on 8 June 2020 and the delivery voyage to New Zealand commenced two days later. *Aotearoa* was welcomed at Devonport Naval Base on 26 June 2020. It was commissioned on 29 July 2020 at Devonport Naval Base into the RNZN fleet as their newest and largest vessel.

2020/21

Following the commissioning, *Aotearoa* entered its customisation phase with the fitting of military systems and completion of some of Hyundai Heavy Industries remaining work. This first phase was completed in October with tests and trials of the equipment installed, prior to preparations for deployment to Australia in the New Year. In February 2021, *Aotearoa* took part in a Royal Australian Navy fleet exercise, where the ship and crew were able to successfully complete Replenishment At Sea activities with HMAS *Stuart* and other Australian frigates. This exercise allowed *Aotearoa* to introduce the main capability of the tanker into service. Preparations and planning are now focussed on the Antarctic Resupply Operation due to take place in the summer of 2022.

The impact of COVID-19

The project has been following Government guidelines in accessing overseas technical support to complete critical specialist activities on *Aotearoa*. The challenging part of this process is the need to plan six months in advance of the ships programme due to the high demand and limited availability of spaces in Managed Isolation Facilities, and negotiating with suppliers to plan around their other business requirements and allocation of MIF costs, including personnel costs over the 14-day isolation period.



- Spend in prior years
- 2020/21 spend
- Forecast Ministry spend
- Forecast NZDF spend
- Net foreign exchange allowance
- Ministry budget
- NZDF budget

At 30 June 2021 expected Maritime Sustainment Capability project costs were:

		Ministry	NZDF	Consolidated project
		\$000	\$000	\$000
Budget	Current approved project budget	498,512	24,095	522,607
	Allowance for foreign exchange movements	26,832	-	26,832
	Original approved project budget	471,680	24,095	495,775
Forecast	Forecast total project cost	465,288	23,459	488,747
	Effect of foreign exchange movements	16,036	-	16,036
	Forecast cost using hedged rate	449,252	23,459	472,711
	Forecast project variance	22,428	636	23,064

Case Study: Information Domain

Information has always been critical for the Defence Force and the ability to obtain, verify, protect and use information is crucial for the NZDF being able function effectively. The Ministry has previously structured its Capability Delivery function, and delivered a work programme, within a structure of Maritime, Land and Air domains. This reflected Navy, Army and Air Forces within the NZDF.

With technology now embedded and integrated on a global scale as part of daily life, the Ministry's structure has been adjusted to reflect its significant influence on information and intelligence. An Information Domain was established in the Ministry's Capability Delivery Division in 2019 and is mirrored within the NZDF's structure. The two organisations are in the process of developing a delivery strategy and establishing a vision and approach for the Domain that reflects the needs and outputs across Defence Force.

Through its work, the Information Domain will support and enable NZDF to develop and use information-related capabilities, tools and competencies while defending information from adversarial collection, compromise, or denial of service.

Information Domain capabilities offer more than a supporting role; they are present in cyber space and in all physical domains in which NZDF operates. The Domain is working collaboratively with other government agencies, industry, military partners and academia in order to maintain pace with evolving threat information, and to develop, share and deploy effective countermeasures.

The Fixed High Frequency Radio Refresh project is being delivered under the Information Domain. High frequency radio has been an important part of NZDF's communications network for decades and continues to enable long-range communications with smaller assets that are deployed far from New Zealand. It provides a measure of resilience by acting as a back-up capability if satellite communications are unavailable. One example is the area below 60° south in the Southern Ocean where communication via satellite is difficult or unavailable. Using high frequency radio enables command and control and other information to be conveyed.

Current high frequency radio assets and systems are aging and this project will replace and upgrade equipment and sites, while continuing to support NZDF's operational requirements.



The Network Enabled Army Programme conducts a capability demonstration at Linton Military Camp

Network Enabled Army

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

The programme is being rolled out through four tranches. The first two funding tranches have been approved, and there are two Ministry-led projects underway: NEA Command, Control, Communications and Computers and NEA Intelligence, Surveillance and Reconnaissance.

NEA Command, Control, Communications and Computers (C4)

Purpose

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

Benefits

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

Delivering the capability

NEA C4 is funded by the Tranche One funding (approved in April 2015) and a part of Tranche Two funding (approved July 2019).

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

2020/21

NEA C4 has continued delivery of Tranche One and Two capabilities, with capability integration of Tranche One deliverables



a main focus. With the basic network and the initial facility for testing operating, the fundamental systems are in place and digital communications and other systems are being procured to equip individual soldiers and command elements. The Capability Integration Centre at Linton Military Camp was opened in 2021. The Centre will provide lecture and training facilities to support NEA's delivery of capability to Army. The facility also provides accommodation and engineering space for 1 Communications Support Regiment. The NEA Engineering Centre was established at Trentham Military Camp in September 2018. This is a key facility used by the project's main vendors, supporting the delivery and integration of the capability.

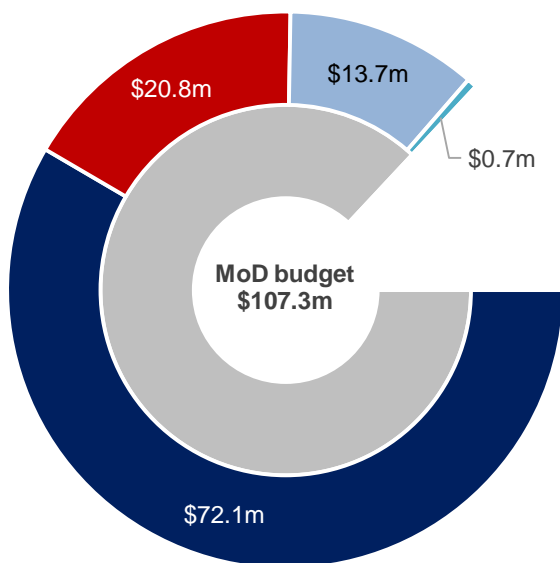
This year the project continued to work with its key vendors; L3 Harris Australia for the supply of the Army core radios, and Cubic|GATR Technology for the tactical network. Work to deliver radios and associated equipment and software for the Mobile Tactical Command System continued, with final design and testing completed during the year. The dismounted soldier radio equipment for the New Zealand Army was shipped to units for final acceptance testing in support of Interim Operational Release.

The impact of COVID-19

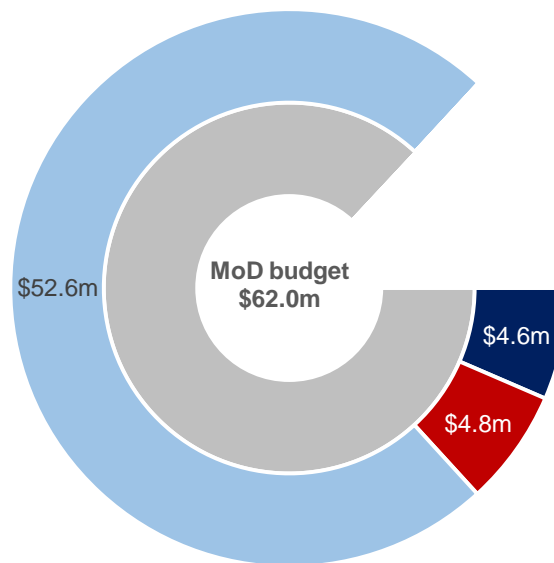
The constraints on the ability for vendors to travel to New Zealand has impacted project delivery and capability integration. International shipping delays have also delayed the delivery of materials to NEA manufacturers.

NEA C4

Project costs for Tranche One



Project costs for Tranche Two



- Spend in prior years
- 2020/21 spend
- Forecast Ministry spend
- Ministry budget
- Net foreign exchange allowance

As At 30 June 2021 expected NEA C4 project costs were:

Tranche One funding

		Ministry	NZDF	Consolidated project
		\$000	\$000	\$000
Budget	Current approved project budget	107,253	-	107,253
	Allowance for foreign exchange movements	1,253	-	1,253
	Original approved project budget	106,000	-	106,000
Forecast	Forecast total project cost	106,541	-	106,541
	Effect of foreign exchange movements	545	-	545
	Forecast cost using hedged rate	105,996	-	105,996
	Forecast project variance	4	-	4

Tranche Two funding

		Ministry	NZDF	Consolidated project
		\$000	\$000	\$000
Budget	Current approved project budget	62,022	-	62,022
	Allowance for foreign exchange movements	-	-	-
	Original approved project budget	62,022	-	62,022
Forecast	Forecast total project cost	61,992	-	61,992
	Effect of foreign exchange movements	17	-	17
	Forecast cost using hedged rate	61,975	-	61,975
	Forecast project variance	47	-	47

NEA Intelligence, Surveillance and Reconnaissance (ISR)

Purpose

NEA ISR-Electronic Warfare Tranche 2 projects are tasked with delivering a system to the New Zealand Army to improve situational awareness and support deployed commanders' decision-making at all levels. It includes:

1. Information and Intelligence (I2) – completing the provision of the deployable Intelligence environment and supporting processing capabilities to enable better decision making.
2. Surveillance and Reconnaissance (S&R) – delivery of a new range of systems, including tactical sensors to support reconnaissance and surveillance tasks.

Delivering the Capability

The Government approved the second tranche of funding for NEA in August 2019, expanding the focus to include ISR capabilities. The ISR tranche is in the definition phase and is developing a Project Implementation Business Case.

The impact of COVID-19

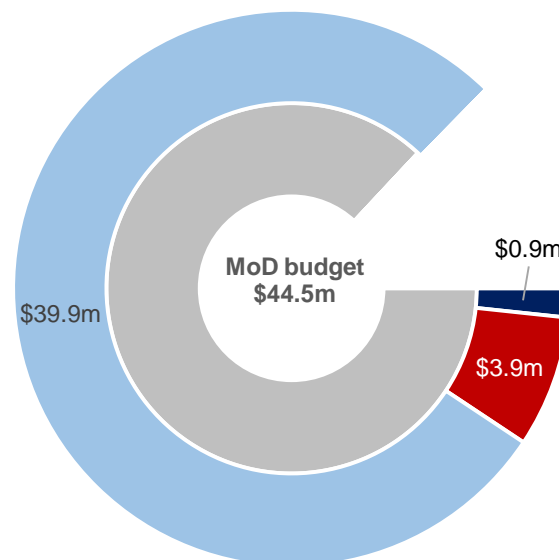
There have been some delays to engagement with vendors. The project has used available virtual technologies to mitigate this issue. International travel restrictions will impact the acquisitions phase, and require design, testing and delivery activities to be conducted in New Zealand.

Benefits

This project is delivering improved interoperability of systems and equipment, improved command and control of the operating picture and information management, an improved situational awareness and ability to maintain increased operation tempo.



NEA ISR



- Spend in prior years
- 2020/21 spend
- Forecast Ministry spend
- Ministry budget

As At 30 June 2021 expected NEA ISR project costs were:

		Ministry	NZDF	Consolidated project
		\$000	\$000	\$000
Budget	Current approved project budget	44,459	-	44,459
	Allowance for foreign exchange movements	-	-	-
	Original approved project budget	44,459	-	44,459
Forecast	Forecast total project cost	44,642	-	44,642
	Effect of foreign exchange movements	198	-	198
	Forecast cost using hedged rate	44,444	-	44,444
	Forecast project variance	15	-	15

NH90 Flight Simulator⁶

Purpose

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

Benefits

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

Delivering the capability

CAE Ltd based in Montreal, Canada have built the simulator and New Zealand-based staff will provide through life support at Ōhakea.

The capability was declared acceptable in an interim state in October 2020 and handed over to the RNZAF. Since that time the RNZAF have been conducting training activities and have reached 400 training hours on the simulator (planned annual use for each NH90 aircraft is 300 flying hours).

It is expected that the simulator will be certified and fully handed over to NZDF in the third quarter of 2021.

The infrastructure to house the NH90 simulator and training facility was completed at Ōhakea in 2019.

The infrastructure contract was with Watts and Hughes.

2020/21

At the beginning of 2020/21 the work on assembling the simulator commenced at Ōhakea using a small number of CAE New Zealand staff assisted by NZDF personnel. Once assembled a period of intense testing was undertaken to ensure that the simulator met the required standards for safe training and replicated the flight characteristics of the NH90 helicopter.

Since February 2021, CAE has been working either remotely or on-site to transition the simulator to its final contractual configuration.

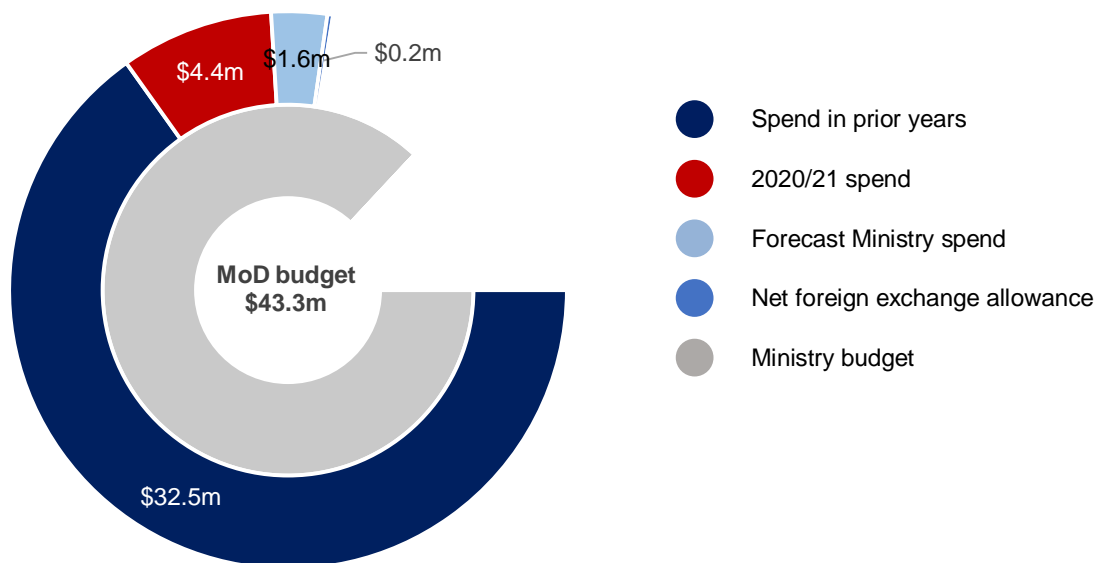
The impact of COVID-19

COVID-19 travel restrictions affected the ability of key personnel to complete the software development, testing and qualification activities as planned. These restrictions specifically delayed CAE staff and qualification specialists from travelling to New Zealand to conduct these tasks for final acceptance of the simulator. However NZDF was able to use the simulator for training in an interim configuration until key personnel could travel to New Zealand and conduct the work on-site.

A small number of personnel have been granted critical worker visas and, after spending time in managed isolation facilities, have been working to bring the simulator to its final capability.



⁶ Also referred to as the NH90 Flight Training Defence.



At 30 June 2021 expected NH90 Flight Simulator 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	38,513	-	38,513
	Effect of foreign exchange movements	446	-	446
	Forecast cost using hedged rate	38,067	-	38,067
	Forecast project variance	4,669	-	4,669

Case Study: Technical Services Support Panel

Defence-led project teams continue to draw on external resources to deliver their milestones. However, the nature of that use and the types of resources required have been impacted by COVID-19.

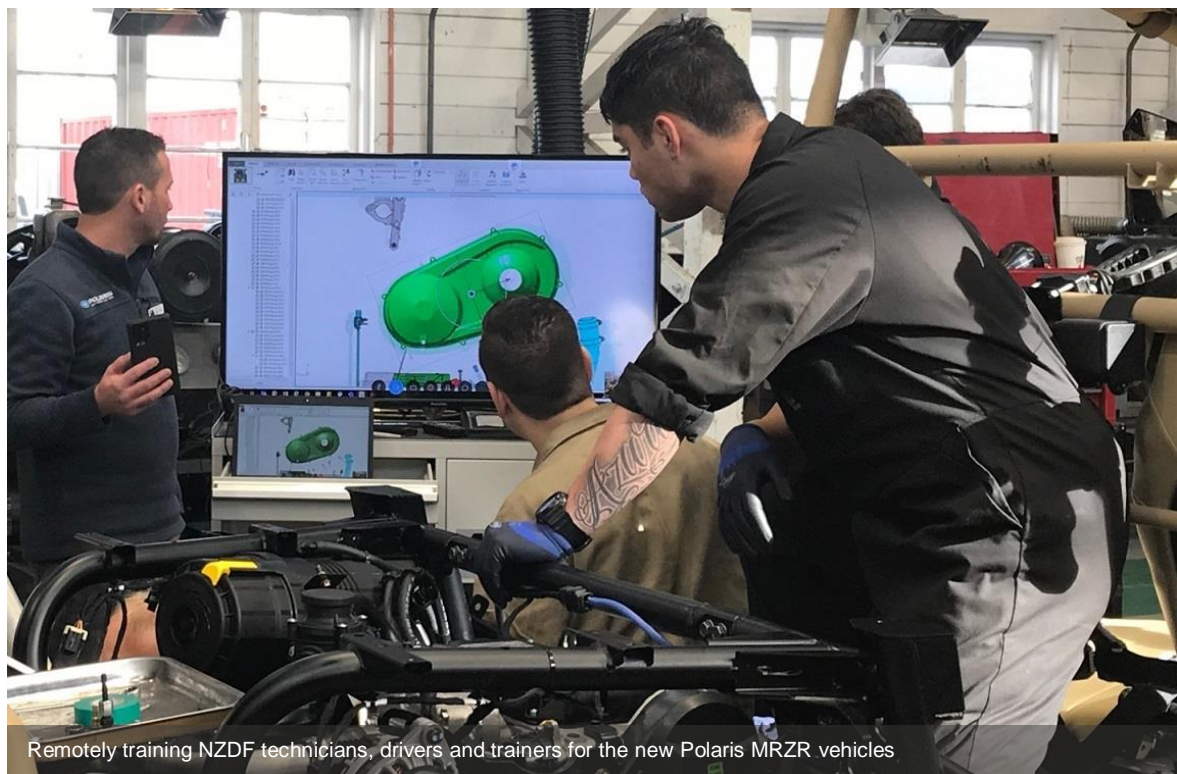
The demand on NZDF personnel as it prioritises supporting the nation's COVID-19 response and Operation Protect has created gaps in such areas as Operational Testing and Evaluation – a critical project milestone leading up to the Operational Release of a capability. COVID-19 travel and border restrictions, while keeping the country safe, have further compounded resource pressures by limiting access to overseas technical and engineering support.

To help manage this pressure, the Ministry has established a Technical Services Support Panel (the Panel). The July 2020 Request for Proposals for the Panel sought responses from suppliers whose services could not be accessed using an All-of-Government panel. The aim was to target a range of niche and multidisciplinary areas, covering such areas as financial modelling, training, health and safety, Crown acceptance activities and testing and evaluation. One of the key lessons of COVID-19, is that domestic and Australian-based suppliers can step up to at least mitigate some of the challenges to project delivery in the current environment.

Benefits in establishing the Panel, include:

- having access to an identified pool of specialist suppliers
- the technical capabilities of panel members have been assessed in advance
- panel members have provided evidence they can meet security requirements, and
- the process of selecting and engaging a panel member will be quicker and more transparent.

Sixty-four suppliers responded to the Request for Proposals. Twenty-seven largely New Zealand and Australian-based suppliers were appointed to the Panel. Secondary procurement rules are available on the Ministry of Defence Industry Portal. Of the 28 suppliers, one has identified as a Māori business, which we are committed to growing in line with the Government's progressive procurement policy.



Remotely training NZDF technicians, drivers and trainers for the new Polaris MRZR vehicles

Operational and Regulatory Aviation Compliance Sustainment: Phase One

Purpose

This project will equip Defence Force aircraft fleets with upgraded communications, navigation and air traffic management and identification systems. The upgrades are required due to changes in civil and military aviation regulations, improving aircraft safety and security.

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

Benefits

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

Delivering the capability

Phase One (A) was approved by Cabinet in 2019. It encompasses the upgrade of most Defence Force aircraft fleets (B757, C-130H, SH-2G(I), T-6C and A109), and will be completed by mid-2022.

Phase One (B) was approved by Cabinet in 2020 and upgrades the NH90 helicopters. Due to complex technical and commercial arrangements it will be completed by end of 2024.

2020/21

Phase One (A): Modifications to B757 and C130H aircraft and the first aircraft of both T-6C and SH-2G(I) have been completed. A contract was signed for the A109s and hardware development is on schedule. Modification of all remaining aircraft will take place during planned maintenance throughout 2021/22.

Phase One (B): A contract was signed with NATO Helicopter Industries, the manufacturer of the NH90s, to complete Phase One modifications. This allowed software development to commence.

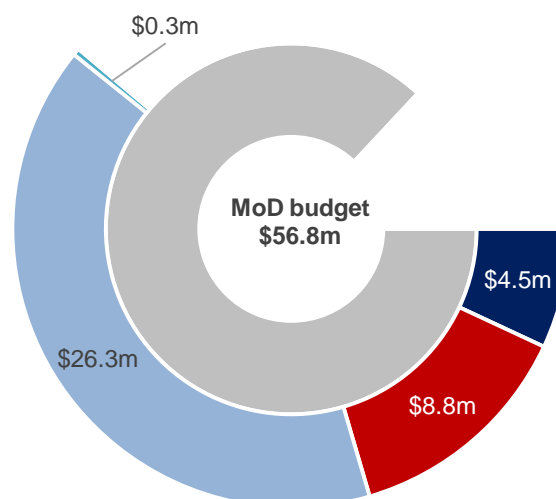
The impact of COVID-19

COVID-19 continues to impact the project causing delays due to specialist testing activities, and delays with supply chains. The project team has adapted

procurement and integration activities to mitigate delays, including engaging New Zealand suppliers to provide alternative solutions for some fleets.



ORACS Phase One (A)

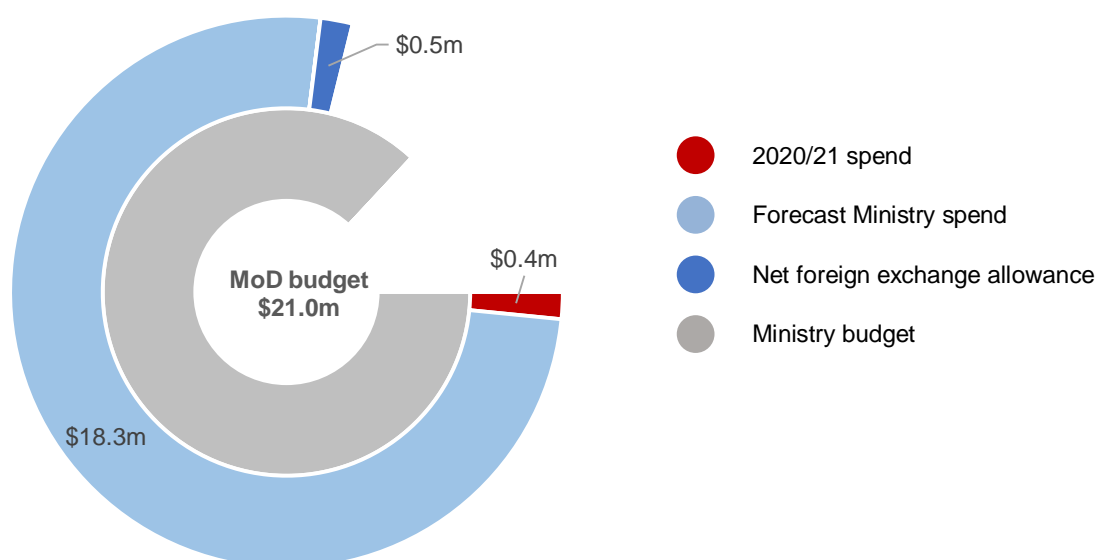


- Spend in prior years
- 2020/21 spend
- Forecast Ministry spend
- Net foreign exchange allowance
- Ministry budget

At 30 June 2021 expected ORACS: Phase One (A) project costs were:

		Ministry \$000	NZDF \$000	Consolidated project \$000
Budget	Current approved project budget	56,832	-	56,832
	Allowance for foreign exchange movements	-	-	-
	Original approved project budget	56,832	-	56,832
Forecast	Forecast total project cost	39,715	-	39,715
	Effect of foreign exchange movements	(266)	-	(266)
	Forecast cost using hedged rate	39,981	-	39,981
	Forecast project variance	16,851	-	16,851

ORACS Phase One (B)



At 30 June 2021 expected ORACS: Phase One (B) project costs were:

		Ministry \$000	NZDF \$000	Consolidated project \$000
Budget	Current approved project budget	21,050	-	21,050
	Allowance for foreign exchange movements	-	-	-
	Original approved project budget	21,050	-	21,050
Forecast	Forecast total project cost	18,634	-	18,634
	Effect of foreign exchange movements	(455)	-	(455)
	Forecast cost using hedged rate	19,089	-	19,089
	Forecast project variance	1,961	-	1,961

Protected Mobility Capability

Purpose

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

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

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

Benefits

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

Delivering the capability

Following Cabinet approval of the Detailed Business Case in April 2019, the project engaged with Polaris, the company that was selected as the preferred provider of the High Mobility – Light vehicles component of this project. These side by side off road vehicles are replacing quad bikes and other small vehicles used by the New Zealand Army. A contract was signed in December 2019, and six D-MRZR vehicles, spares, specialist tools and test equipment, arrived in New Zealand in May 2020 and were introduced into Army over the

following 12 months. A further 12 vehicles will arrive in late-2021 to complete the fleet.

2020/21

Following Cabinet approval of the Project Implementation Business Case in June 2020, a contract was signed for 43 Bushmaster NZ5.5 armoured vehicles with Thales Australia. The Bushmaster NZ5.5 is a proven vehicle used by the Australian Defence Force. It is the latest version of the vehicle and incorporates small improvements based on operational experience. Over the past 12 months the Project has been verifying the vehicle design against the contracted requirements.

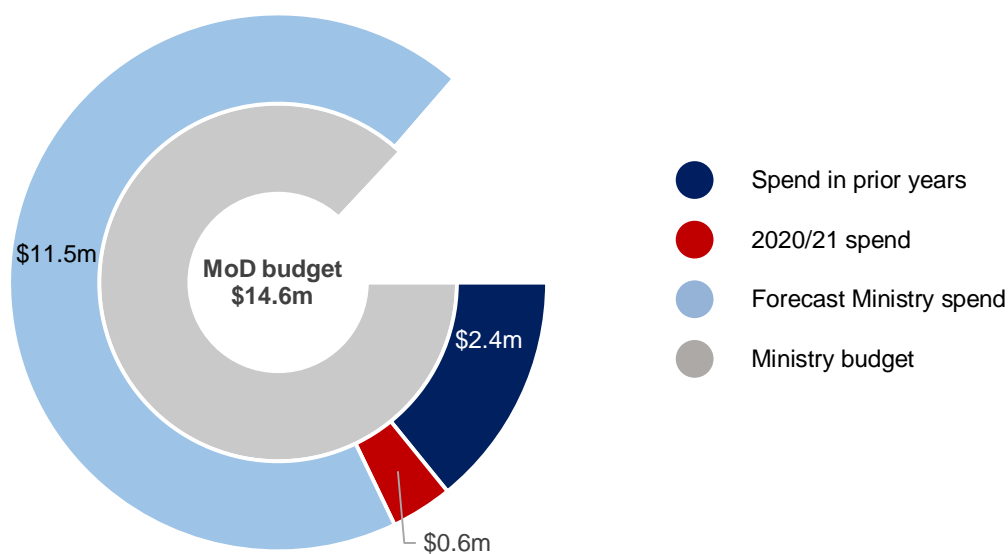
The impact of COVID-19

The introduction into service of the D-MRZR vehicles was altered to take into account the effect of the pandemic and New Zealand's alert level requirements, including travel restrictions. This has required rescheduling of initial training and assessment of vehicles during exercises, and altering training delivery to utilise real time video links.

Design work of the Bushmaster NZ5.5 has taken longer than anticipated, as travel restrictions mean multi-day video conferencing has replaced the anticipated (pre-COVID-19) shorter face to face discussions.



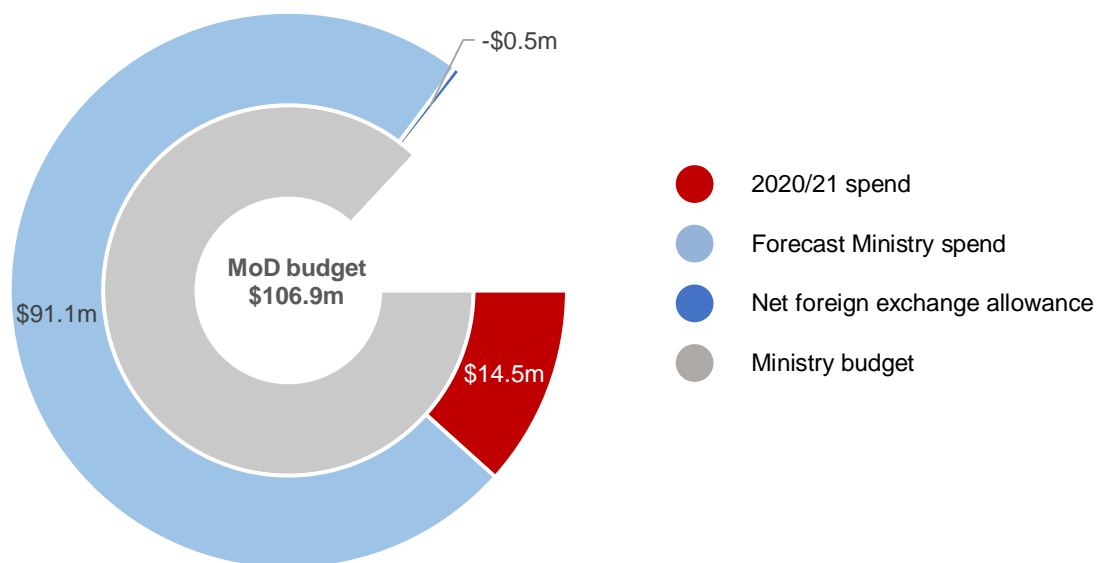
Protected Mobility Capability: High Mobility Light (Polaris MRZR)



At 30 June 2021 expected project costs were:

		Ministry	NZDF	Consolidated project
		\$000	\$000	\$000
Budget	Current approved project budget	14,619	-	14,619
	Allowance for foreign exchange movements	-	-	-
	Original approved project budget	14,619	-	14,619
Forecast	Forecast total project cost	14,514	-	14,514
	Effect of foreign exchange movements	-	-	-
	Forecast cost using hedged rate	14,514	-	14,514
	Forecast project variance	105	-	105

Protected Mobility Capability: Medium (Bushmaster NZ5.5)



At 30 June 2021 expected project costs were:

		Ministry \$000	NZDF \$000	Consolidated project \$000
Budget	Current approved project budget	106,873	-	106,873
	Allowance for foreign exchange movements	-	-	-
	Original approved project budget	106,873	-	106,873
Forecast	Forecast total project cost	105,589	-	105,589
	Effect of foreign exchange movements	497	-	497
	Forecast cost using hedged rate	105,092	-	105,092
	Forecast project variance	1,781	-	1,781

CAPABILITY MANAGEMENT

The joint Defence Capability Management System (CMS) has been designed to reduce risk and enhance the successful delivery of Defence capability projects. It provides assurance that capability projects follow best practice tailored to the Defence environment and sets the standards which governance apply to successfully deliver the expected outcomes and benefits.

Key elements of the CMS are the Integrated Project Team concept; a fit for purpose governance

structure; and guidance, tools, practices and policies. These are continuously updated to ensure the system remains effective, fit for purpose, and in line with best practice.

The CMS has proved resilient during the COVID-19 pandemic with governance boards continuing to meet virtually during periods of lockdown and personnel working within the system to manage risks, making use of contingencies and adapting plans to support delivery.

Case Study: External Board Members

Since 2016, external board members have been appointed to the Project Boards responsible for governing Defence's highest risk capability projects.

All of the external members appointed to our Boards have extensive governance and project management experience of large and complex projects or programmes. The key elements of the external member's role is to:

- bring knowledge and experience of corporate governance and project management of large and complex projects
- bring an independent voice to the board's deliberations
- ask challenging questions and
- provide constructive challenge in Project Board meetings and to the project team.

A forum for External Board Members was held in June 2021. It provided an opportunity for external members to share and learn from each other experiences in Defence Project Boards. The Forum was also attended by Secretary of Defence and Chief of Defence Force and some senior members of project boards.

The Forum identified areas the external members considered were going well, and also some potential areas for improvement. It was noted that Board performance has matured since 2016. External members have gained familiarity with Defence culture and processes, and increasingly comfortable to raise challenges when necessary. Some key areas for improvement included thorough inductions for new board members and visibility of wider Defence priorities and drivers to better identify and manage project risks.

The feedback from the Forum will be disseminated to Project Boards and used to improve the Capability Management System. The external members appreciated the opportunity to share lessons and experiences, and the Ministry intends to continue these forums as part of continuous improvement processes.

During the 2020/21 year Defence refreshed the vision for the CMS described in the *International Exemplar 2020*, published in 2016.

An updated *International Exemplar 2025* released in December 2020, describes the seven key components of capability management that Defence strives to operate at a high state of maturity:

- capability requirement identification and management
- risk identification, monitoring and management
- estimation and forecasting of cost, schedule and benefits
- investment system maturity
- commercial practice – beyond contract writing, monitoring and delivery
- capability integration and change management
- through-life capability management and operation excellence.

In 2018, the Ministry commissioned Sir Brian Roche and PricewaterhouseCoopers to undertake a review of Defence Procurement Policies and Practices for Major Capability Projects to confirm that the CMS is functioning as intended. The 2018 Review and a follow-up Review in 2019, affirmed that the CMS provides decision makers with a strong level of confidence and assurance to support informed decision-making.⁷

A further follow-up review by Sir Brian Roche and PricewaterhouseCoopers commenced in June 2021. Findings will be delivered in the second half of 2021.



Ministry and NZDF leadership providing governance for major defence capability projects

⁷ Both of these reviews can be found on the Ministry's website at <https://www.defence.govt.nz/publications>.

ENGAGING WITH INDUSTRY

In December 2020, the Government announced that it will support economic and social outcomes for Māori with a progressive procurement policy that targets Māori businesses. Cabinet agreed to set a target for mandated government agencies, which includes the Ministry, to award five percent of their procurement contracts annually to Māori businesses.

In May 2021, the Secretary of Defence met with Amotai. Previously known as He Waka Eke Noa, Amotai is the intermediary for supplier diversity working to connect government agencies to Māori and Pasifika owned businesses. Funding has been approved giving the Ministry access to the Amotai database of Māori and Pasifika businesses, as well as partner and the technical support to identify areas of opportunity for Māori businesses in supporting Defence.

Since 2016/17, the Ministry has undertaken an annual survey of Defence industry. The Survey

seeks to measure supplier satisfaction with their engagements with the Ministry of Defence and the New Zealand Defence Force. It has a particular focus on the quality of the supplier-experience during the early delivery and tender phases. The 2020/21 survey had a strong procurement capability focus.

Feedback from the survey has been considered and incorporated into a number of initiatives already underway by the Ministry aimed at improving:

- information on upcoming projects and their sub-components (e.g. infrastructure, technical services support, assurance activities)
- the experience of prime contractors and their New Zealand sub-contractors in the tender process, and
- opportunities for local companies to partner with prime contractors and/or other New Zealand suppliers.



Deputy Secretary Capability Delivery, Mike Yardley, presents at an event awarding a Minister of Defence Award of Excellence to CAE New Zealand for work installing the NH90 simulator

4

DEFENCE IS OPEN, TRANSPARENT, ACCESSIBLE AND TRUSTED, AND SUPPORTS SYSTEM IMPROVEMENT

The Ministry seeks to deliver the following:

What we'll do

- proactively report on the detail of major Defence procurement work, including the annual Major Projects Report
- proactively release key material on Defence activities and major decisions on the Ministry's website
- conduct assessments of Defence performance under a work programme approved by the Minister of Defence and when directed by the Minister
- participate in an anti-corruption network with defence partners
- undertake a programme of engagement with key domestic stakeholders, including universities
- support the implementation of the Operation Burnham Inquiry Report recommendations

How we'll know we've been successful

- assessments and audits assist improvements across key areas of Defence, with a majority of recommendations adopted
- capability projects meet probity and anti-corruption requirements
- staff demonstrate good awareness of fraud and internal controls and follow requirements
- stakeholders have a better understanding of the Ministry's role and work, and have opportunities to contribute

UNDERSTANDING DEFENCE

Proactive release of Cabinet material

The Ministry proactively released on its website 20 Cabinet papers in the reporting period. This provides transparency on key Defence decisions – particularly regarding the international deployment of Defence Force personnel and expenditure on major defence capability projects. In the period we also proactively released several tranches of documentation regarding the establishment of the Expert Review Group in response to a recommendation from the Operation Burnham Inquiry.

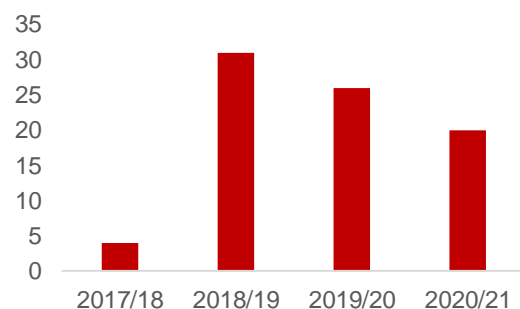


Figure 4: Number of Defence Cabinet papers published on the Ministry's website⁸

⁸ Some 2019/20 Cabinet papers that arose during the COVID-19 lockdown were released after the end of the financial year.

Major Projects Report

Since 2010 the Ministry has published a report that details annual progress of major Defence-led procurement projects that are in delivery. The Major Projects Report series provides the Foreign Affairs, Defence and Trade Select Committee with greater visibility and scrutiny of major defence acquisition projects. It is proactively published on the Ministry's website, providing open access to information on each project's progress in relation to cost, schedule and the capability that's being delivered. An independent review, currently conducted by Audit New Zealand, provides a level of assurance for readers in relation to the content of each edition.⁹

Outreach to New Zealanders

In September 2020 the Ministry appointed a Senior Strategic Communications Advisor to enhance communications capability and public transparency on Defence decisions. This has provided increased capacity to engage with media on Ministry-specific defence activity – including identifying new opportunities to provide information on the Ministry's work outside of existing transparency mechanisms or reactive communications. This has included publishing a number of feature articles about the work of the Ministry and its people on our website.

Additionally, the Head of the Ministry's International Branch undertook a speaking engagement with Canterbury University Master's students and various engagements with academics occurred during this period.

Transparency International Government Defence Integrity Index 2020

Every five years Transparency International conducts a Government Defence Integrity Index (GDII) assessment. The Index assesses the quality of institutional controls to manage the risk of corruption in defence and security institutions worldwide. The last assessment was undertaken in 2015.

The Ministry, NZDF and other government agencies provided input to Transparency International's GDII draft assessment from mid to late 2020, with some information provided in early 2021. This involved consolidating responses to around 75 questions, each requiring supporting reference material to help Transparency International verify answers. The Ministry and NZDF also released a number of documents as part of this process, to help Transparency International understand the measures the Ministry and NZDF takes to promote anti-corruption in the defence sector. Released documents included Defence Force Orders and internal policies and procedures.

Transparency International has indicated that the results of this assessment will be available towards the end of 2021.



⁹ The 2019 and 2020 Major Projects Reports are available at: www.defence.govt.nz/publications.

OPERATING IN A HIGH-INTEGRITY ENVIRONMENT

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

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

The Ministry undertakes a targeted programme of regularly training on financial controls. It covers the importance of the Ministry's internal controls and the key topics that underpin it, including conflicts of interest, delegations and sensitive expenditure.

A session on Ministry internal controls forms part of two formal induction courses for new staff.

All capability projects have independent probity support prior to an investment.

IMPLEMENTING THE RECOMMENDATIONS OF THE OPERATION BURNHAM INQUIRY

The Ministry is working with the NZDF and other relevant agencies to implement the four recommendations in the *Report of the Government Inquiry into Operation Burnham and related matters* (the Report) that was publicly released on 31 July 2020.¹⁰

Recommendation 1 was that the Minister of Defence establish an expert review group to enable the Minister to satisfy himself "that NZDF's organisational structure and record-keeping and retrieval processes are in accordance with international best practice and are sufficient to remove or reduce the possibility of organisational and administrative failings of the type identified in [the Inquiry's] report".

The Ministry supported the Minister to identify suitable candidates to form the Expert Review Group (ERG) and the development of its Terms of Reference. In October Cabinet approved the Terms of Reference and membership of the Group, which is chaired by former Auditor-General and Controller, Lyn Provost. The Ministry's Deputy Secretary Governance, People and Executive Services was appointed as a member. The Ministry has provided secretariat, research and other support to the ERG which is being conducted under the Ministry's Audit and Assessment function.

In February 2021 Cabinet directed the Ministry lead the development of policy and legislative advice on Recommendation 2 to establish, by legislation, an

office of Independent Inspector-General of Defence to provide independent and external oversight of the NZDF. A temporary function to lead this work has been established in the Governance, People and Executive Services Division and policy development is well underway. An officials steering group with representatives from a number of agencies has been established as directed by Cabinet. The Ministry reports to the Minister of Defence and the Attorney-General who are jointly responsible for this work.

The Ministry contributed to the development and introduction of *Defence Force Order 35: NZDF Response to Civilian Harm* (the DFO) that was issued by the Chief of Defence Force on 21 January 2021.¹¹

In late 2020, members of the NZDF and the Ministry's International Branch hosted a workshop to inform the DFO, which included members of civil society such as the Red Cross.

The DFO, which address Recommendation 3 in the Inquiry report, sets out a consistent and transparent approach for responding to reports of civilian harm involving NZDF military activity in situations of armed conflict.

Cabinet confirmed on 2 February 2021 that DFO 35 met the intent of the Government Inquiry's, and Cabinet's own, recommendation to Defence on civilian casualties.

¹⁰ The *Report of the Government Inquiry into Operation Burnham and related matters* is available from <https://operationburnham.inquiry.govt.nz>.

¹¹ DFO 35 is available from the NZDF website at www.nzdf.mil.nz/assets/publication/dfo_35.pdf.

The Ministry's International Branch is contributing to work led by the Ministry of Foreign Affairs and Trade to implement Recommendation 4, which is to develop and promulgate effective detention policies and procedures, for:

a) people detained by New Zealand forces in operations overseas

b) people detained in operations overseas where New Zealand forces are involved with the forces of another country, and
c) the treatment of allegations that detainees in either category have been mistreated or tortured in detention, including by New Zealand personnel.

REVIEWING DEFENCE ACTIVITIES

In early 2020 the Secretary commissioned a review to determine the optimal model for delivery of the Ministry's assessment and audit function. A decision was made in July 2020 that the specialist nature of these reviews meant that they are best conducted by independent external reviewers with expertise in the area being reviewed, supported by staff in the Ministry's Governance, People and Executive Services Division.

As a result the Tū Aromatawai, Independent Review Division was disestablished. The new operating model provides access to the right blend of skills

and experience, so credibility of reviews is assured, while retaining internal knowledge and capability to maintain sufficient and necessary connections across the Ministry and NZDF.

The current focus of the Ministry's audit and assessment function is the delivery of the Expert Review Group established in response to a recommendation in the Operation Burnham Inquiry. The report is expected to be presented to the Minister of Defence by October 2021. Further information on the ERG is provided in the section above.

100%

Assessing Audit and Assessment: The Ministry surveys the Minister of Defence on the quality of the Ministry's audit and assessment work, which this year has been focused on supporting the Expert Review Group.

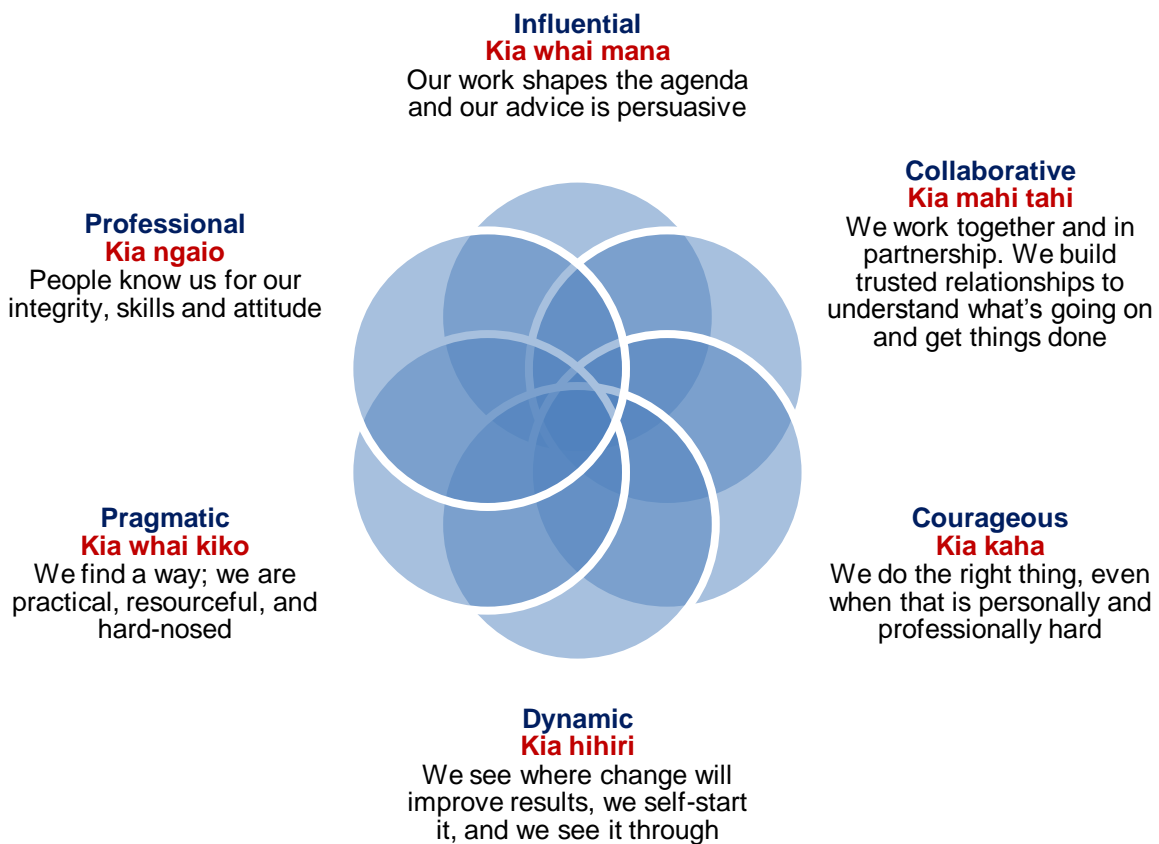
The Minister rated the Ministry's audit and assessment work 100% for the 2020/21 year.



The Ministry of Defence Leadership Team

ORGANISATIONAL HEALTH AND CAPABILITY

The Ministry's spirit and character are to be:



Over the past year staff numbers increased from 162 to 165, predominantly in the Capability Delivery Division. The two largest divisions, which reflect our major functions, are Capability Delivery and Policy and Planning. The majority of the Ministry's departmental costs are personnel costs.

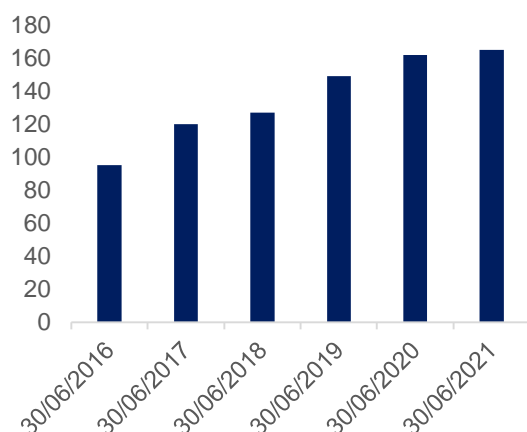


Figure 5: Growth of the Ministry's staff numbers

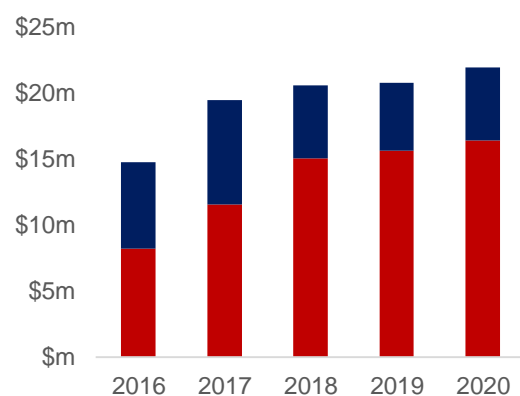


Figure 6: Departmental expenditure showing personnel and operating expenses over five years

DIVERSITY AND INCLUSION

The Ministry contributes to a common set of public service commitments to diversity and inclusion. The five Papa Pounamu priority commitments are:

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

During the year the Ministry engaged Diversity Works to deliver workshops on Unconscious Bias and Cultural Intelligence. There was some disruption to these due to COVID-19 restrictions.

A bespoke workshop, called Above the Line, was designed in response to the Public Service Commissioner's Model Standards: Positive and Safe Workplaces which necessarily requires inclusive leadership and developing relationships that are responsive to diversity.

Cultural Intelligence workshops commenced in April 2021. Staff have been encouraged to have conversations with their teams on practical ways of ensuring the workplace is inclusive. New staff will be encouraged to attend this suite of workshops as part of a range of learning and development opportunities.

The Ministry has three employee-led networks with executive sponsorship. The Social Club is inclusive of all Ministry staff and arranges events for people to build relationships across the Ministry. The Pride Network has been focused on educating and encouraging other staff to become allies of the LGBTQI+ communities. The Women's Network was established this year and has actively engaged in helping the Ministry create a fit for purpose Gender Pay Gap Action Plan.

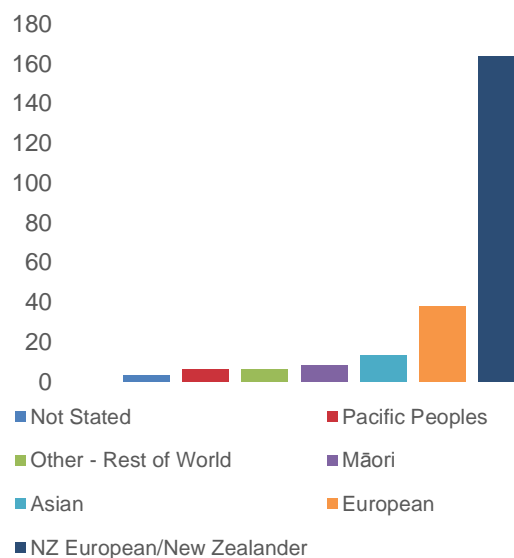


Figure 8: Ethnicities that Ministry staff identified with, as of 30 June 2021 (staff may identify with up to three ethnicities)



Ministry staff meeting under COVID-19 restrictions

Gender pay

The Ministry has decreased its gender pay gap from around 32% to around 25% over the last year. This is a key focus for the Leadership Team and the revised Gender Pay Gap Action Plan was published on the Ministry website at the end of September 2021.

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

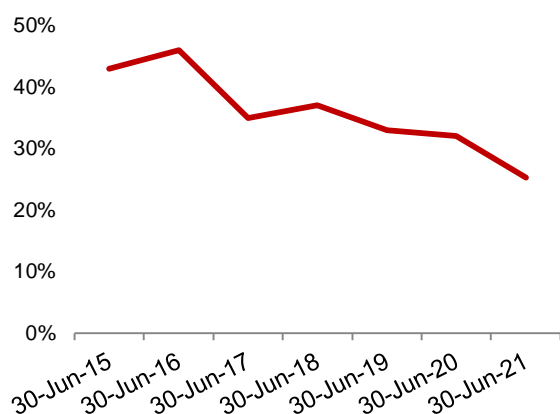


Figure 9: The Ministry's gender pay gap

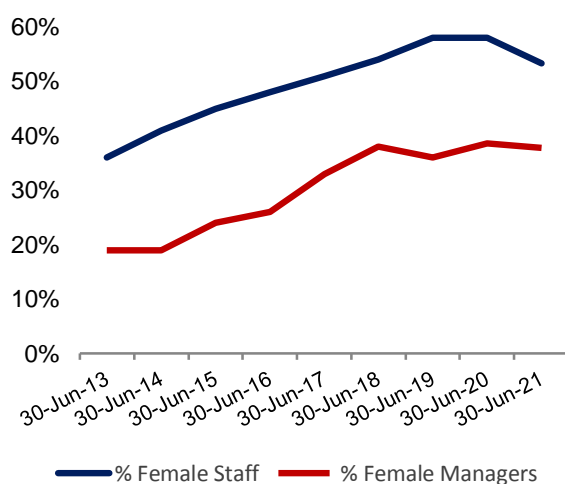


Figure 10: Proportion of female staff and managers

The Ministry is tracking well against the following Gender Pay Gap action targets set in 2017, for achievement by 2022.

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 2021, 53% 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 2021, 38% of managers were female.

3. That 50% of appointments made to the capability delivery division each year over the next five years will be female.

Progress: in the year to 30 June 2021, 44% of appointments into capability delivery were female (achievements in the previous three years were as follows 2020 - 49%, 2019 - 59%, 2018 - 59%).

MĀORI CROWN RELATIONSHIP

In June 2021 the Ministry's Māori Language Plan, Manatū Kaupapa Waonga o Te Rautaki Reo Māori, was approved by Te Taura Whiri o te Reo Māori (Māori Language Commission). Through this Plan, the Ministry makes clear its intention to use and celebrate te reo Māori throughout its publications and communications, and meet the requirements of the Maihi Karauna strategy as mandated by Cabinet. Greater use of te reo during the year included the Brief for the Incoming Minister and Statement of Intent. The Ministry's new Vision, Purpose, and focus areas of its organisational strategy, have been translated into te reo and will be published in the Statement of Intent 2021-2025.

In March the Secretary committed to the Whāinga Amorangi Leadership Framework and the Ministry developed its Phase One Whāinga Amorangi Plan which has been submitted to Te Arawhiti for their consideration. This Plan focuses on building the individual capability of staff within the Ministry to engage with and understand the perspectives of Māori, thereby contributing to a healthy Māori – Crown relationship and strengthening our identity as a New Zealand organisation anchored to this country.

These Plans represent the Ministry's first steps in its journey to become more culturally competent, and will be reviewed on a yearly basis to ensure they continue to be fit for purpose.

HEALTH AND SAFETY

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

The Ministry's Health and Safety Committee meets regularly to review the most significant health and safety risks and is active in promoting good health and safety practices in the workplace. It also has regular interaction and dialogue with the Leadership Team.

Health and safety information is shared with staff through regular communications, dedicated noticeboards, and the Ministry's intranet.

The Leadership Team receives regular Health and Safety reports in accordance with the *Health and Safety at Work Act 2015*.

COVID-19 has been a major area of focus in 2020/2021, with precautionary measures implemented and communicated to staff. Wellbeing of staff during lockdown periods has been a priority for the Leadership Team with surveys conducted to assess Ministry staff wellbeing. Staff have been provided information on COVID-19 vaccinations and how they can arrange these.

There is an important health and safety aspect from the "Above the Line" workshops discussed in the

previous section, which emphasised the importance of maintaining a respectful and professional workplace. This initiative has aimed to create a culture in which below the line behaviour is unacceptable and staff feel comfortable calling out inappropriate conduct.

IMPLEMENTING THE NEW ZEALAND BUSINESS NUMBER

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

DEFENCE HEADQUARTERS

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

The Ministry utilises a range of all of Government tools provided by the government's functional leads, including the use of the common web platform for the Ministry's website, the Government Electronic Tender Service and benefits from all of government procurement contracts.



Ministry staff collaborating on the development of a new organisational strategy

VOTE DEFENCE PERFORMANCE BY APPROPRIATION

Below are details of the appropriations under Vote Defence that fund the delivery 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 90.

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	2019/20	2020/21	
	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)	+10.6%	>0%	13.6%
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	93% (95 of 102 items unchanged)	≥90%	100% (83 of 83 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	100% (102 of 102 items to time)	≥95%	100% (83 of 83 items unchanged)
Policy Advice			
<i>This category is intended to achieve the provision of accurate, timely and responsive policy advice</i>			
Technical quality of policy advice, as assessed by an independent review of a sample of policy papers	3.4	3.5 ²	3.5
Minister's satisfaction with the quality of policy advice, as assessed by survey	4.6	3.5 ³	4.9
Policy Support			
<i>This category is intended to achieve the provision of quality and timely policy support to the Minister</i>			

Performance Measures	2019/20	2020/21	
	Actual	Budget	Actual
Minister's satisfaction with the quality of policy support, as assessed by survey	95%	≥70%	95%

Note 1: Measured by the difference between actual results and the budget standard of all percentage-based measures within the MCA categories. From 2019/20, the policy advice budget and scores are out of 5 and are converted to a percentage for the purposes of this result: 70% for the independent review and 98% for the Ministerial satisfaction survey, against Budgets of 70%.

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

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

Expenditure for the year ended 30 June 2021:

Actual	Appropriation	Actual	Supp estimates	Main estimates
2020		2021	2021	2021
\$000		\$000	\$000	\$000
6,069	Policy advice	5,582	7,065	5,871
1,210	Ministerial services	1,119	1,206	1,171
2,803	Policy support	2,591	3,021	2,841
10,082	Total Policy advice and related outputs	9,292	11,292	9,883

Departmental output expense: Audit and assessment

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

Performance Measures	2019/20	2020/21	
	Actual	Budget	Actual
Timeliness: Assessed by the percentage of reports that are submitted by the timeframe set in the approved terms of reference.	85%	≥75%	100% ¹
Ministerial satisfaction: Minister's satisfaction with the quality of reports, as assessed by survey.	65%	≥70%	100% ¹
Quality – process: All audits and assessments meet the Ministry's pre-determined quality criteria.	100%	100%	100%
Quality – external review: All major audits and assessments completed by the Ministry are externally quality assured. Small, simple reviews may be peer reviewed by qualified Ministry of Defence staff from outside the Division. All major reviews are reviewed by qualified persons external to the Ministry.	100%	100%	100% ¹

Note 1: Across this period the audit and assessment function consists of the delivery of the Expert Review Group work stream arising from the Operation Burnham Inquiry recommendations. As this work is led by external people, it does not involve separate peer review.

Expenditure for the year ended 30 June 2021:

Actual	Appropriation	Actual	Supp estimates	Main estimates
2020		2021	2021	2021
\$000		\$000	\$000	\$000
1,991	Audit and assessment	1,069	1,526	2,398

Departmental output expense: Management of defence capabilities

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

	2019/20	2020/21	
Performance Measures	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.	100%	100%	100%
Schedule			
Each refurbishment or procurement project up to the identification of the preferred tenderer will be managed to the agreed schedule, except when there are circumstances beyond the control of the Ministry.	100%	100%	100%

Expenditure for the year ended 30 June 2021:

Actual	Appropriation	Actual	Supp estimates	Main estimates
2020		2021	2021	2021
\$000		\$000	\$000	\$000
9,881	Management of defence capabilities	11,020	12,659	10,983

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

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

	2019/20	2020/21	
Performance Measures	Actual	Budget	Actual
Capital expenditure is within Capital Plan	Within Capital Plan	Within Capital Plan	Within Capital Plan

Expenditure for the year ended 30 June 2021:

Actual	Appropriation	Actual	Supp estimates	Main estimates
2020		2021	2021	2021
\$000		\$000	\$000	\$000
233	Ministry of Defence – capital expenditure	73	350	350

NON-DEPARTMENTAL APPROPRIATIONS

Non-departmental other expense: Non-capitalised procurement costs

This appropriation is intended to achieve the procurement of major military capabilities for the New Zealand Defence Force in a transparent and fair way, and in accordance with government procurement policies.

This new appropriation was established in 2020/21 to allow for the recognition of non-capitalisable costs incurred during the procurement or refurbishment of major military capabilities for the New Zealand Defence Force. This is combined with the capital appropriation below into a multi-category appropriation from 2021/22.

	2019/20	2020/21
Performance Measures	Actual	Budget
Each procurement or refurbishment project will be managed within its approved budget, inclusive of approved variations to the contract price and project budget (see Note 1).	New measure	100%
		100%

Note 1: Measured by the percentage of all projects that have project-related capital or other expenditure incurred in the year within the approved project expenditure budget.

Expenditure for the year ended 30 June 2021:

Actual	Appropriation	Actual	Supp estimates	Main estimates
2020		2021	2021	2021
\$000		\$000	\$000	\$000
-	Non-capitalised procurement costs	-	4,500	-

Non-departmental capital expenditure: Defence capabilities

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

Performance Measures	2019/20	2020/21	
	Actual	Budget	Actual
Cost: Each procurement or refurbishment project will be managed within its approved budget, inclusive of approved variations to the contract price and project budget. Measured by the percentage of all projects that have project-related capital expenditure incurred in the year within the approved project expenditure budget.	100%	100%	100%
Quality of deliverable: Each procurement or refurbishment project will achieve on delivery the agreed/contracted specifications that are critical to acceptance. Measured by the percentage of all projects in the delivery phase that meet all specifications that are critical to acceptance.	100%	100%	100%
Schedule: Each procurement or refurbishment project will be managed to schedule, without avoidable schedule over-run. Measured by the percentage of all projects in the delivery phase progressed within agreed schedule.	62% (8 of 13 projects to schedule)	>=85%	71% (10 of 14 projects to schedule) ¹
Benefits realisation: The aggregate percentage of planned benefits expected to have been realised by quarter, as set out in approved project benefits realisation plans.	80%	>=80%	85%
Cost forecasting: The aggregate actual capital expenditure on procurement or refurbishment projects compared to the forecast capital expenditure.	Revised method: -48% ^{2,3} Original method: -6%	Within +/- 10% of forecast	+3.7% ³

Note 1: The Dive and Hydrographic Vessel, Maritime Sustainment Capability, NH90 Flight Simulator and Operational and Regulatory Aviation Capability: Phase 1 projects are outside their approved schedule baseline, primarily driven by the impact of COVID-19. Further details are provided on each project page under Strategic Priority 3.

Note 2: The methodology for capital expenditure under the Foreign Military Sales agreement with the US Government changed subsequent to the 2019/20 forecast to be in line with alternate information provided by the supplier that is compliant with international accounting standards. Had no change occurred, aggregate actual capital expenditure would have been 6% under budget and within the performance measure.

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

Expenditure for the year ended 30 June 2021:

Actual	Appropriation	Actual	Supp estimates	Main estimates
2020		2021	2021	2021
\$000		\$000	\$000	\$000
275,671	Defence capabilities	515,278	696,195	625,389



Ministry and NZDF staff members working together under COVID-19 restrictions



STATEMENT OF RESPONSIBILITY AND AUDIT REPORT

Te Tauākī Takohanga me te Ripoata Arotake



STATEMENT OF RESPONSIBILITY

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

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

In my opinion:

- the financial statements fairly reflect the financial position of the Ministry as at 30 June 2021 and its operations for the year ended on that date
- the annual report fairly reflects the operations, progress, and the organisational health and capability of the Ministry, and
- the forecast financial statements fairly reflect the forecast financial position of the Ministry as at 30 June 2022 and its operations for the year ending on that date.

Signed by:



Andrew Bridgman
Secretary of Defence
Te Tumu Whakarae mō te Waonga

30 September 2021

Countersigned by:



Pasanka Wickremasinghe
Chief Financial Officer

30 September 2021

INDEPENDENT AUDITOR'S REPORT

To the readers of the Ministry of Defence's Annual Report for the year ended 30 June 2021

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

The Auditor-General is the auditor of 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 Department on pages 94 to 111, that comprise the statement of financial position, statement of commitments, statement of contingent liabilities and contingent assets as at 30 June 2021, 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 2021 on pages 14 to 71 and 76 to 81;
- the statements of expenses and capital expenditure of the Ministry for the year ended 30 June 2021 on pages 90 and 91; and
- the schedules of non-departmental activities which are managed by the Ministry on behalf of the Crown on pages 114 to 125 that comprise:
 - the schedules of assets; liabilities; capital commitments; and contingent liabilities and contingent assets as at 30 June 2021;
 - the schedules of expenses; and revenue, capital receipts and capital expenditure for the year ended 30 June 2021; 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 94 to 111:
 - present fairly, in all material respects:
 - its financial position as at 30 June 2021; 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 71 and 76 to 81:
 - presents fairly, in all material respects, for the year ended 30 June 2021:
 - 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 90 and 91 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 114 to 125 present fairly, in all material respects, in accordance with the Treasury Instructions 2020:
 - the assets; liabilities; capital commitments; and contingent liabilities and contingent assets as at 30 June 2021; and
 - schedule of expenses, revenue, capital receipts and capital expenditure for the year ended 30 June 2021.

Our audit was completed on 30 September 2021. 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 Department, that are presented fairly, in accordance with the requirements of the Public Finance Act 1989; and
- schedules of non-departmental activities, in accordance with the Treasury Instructions, that present fairly those activities managed by the Ministry on behalf of the Crown.

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

In preparing the information to be audited, the Secretary of Defence is responsible on behalf of the Ministry for assessing the Ministry's ability to continue as a going concern. The Secretary of Defence is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to merge or to terminate the activities of the Department, 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 2020/21 Statement of Intent, Estimates and Supplementary Estimates of Appropriation 2020/21 for Vote Defence, and the 2020/21 forecast financial figures included in the Ministry's 2019/20 annual report.

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

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

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

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

Our responsibilities arise from the Public Audit Act 2001.

Other information

The Secretary of Defence is responsible for the other information. The other information comprises the information included on pages 3 to 125, 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: International Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board.

In addition to this audit, Audit New Zealand has carried out an assurance review of the Major Projects Report 2020 prepared by the Ministry of Defence and the New Zealand Defence Force.

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

Karen Young

Karen Young

Audit New Zealand

On behalf of the Auditor-General

Wellington, New Zealand



APPROPRIATION STATEMENTS

Te Tauākī Rohenga Pūtea



STATEMENT OF EXPENSES AND CAPITAL EXPENDITURE AGAINST APPROPRIATIONS

For the year ended 30 June 2021

Actual		Forecast	Main estimates	Supp estimates	Actual	Main estimates
		not audited	not audited	not audited		not audited
2020		2021	2021	2021	2021	2022
\$000		\$000	\$000	\$000	\$000	\$000
Vote: Defence						
Departmental Appropriations						
Output expenses						
1,991	Audit and assessment	2,398	2,398	1,526	1,069	-
9,881	Management of defence capabilities	10,983	10,983	12,659	11,020	-
-	Ministry of Defence outputs	-	-	-	-	24,832
11,872	Total appropriations for output expenses	13,381	13,381	14,185	12,089	24,832
Multi-category appropriations (MCA)						
Policy advice and related outputs MCA						
Output expenses						
6,069	Policy advice	5,871	5,871	7,065	5,582	-
1,210	Ministerial services	1,171	1,171	1,206	1,119	-
2,803	Policy support	2,841	2,841	3,021	2,591	-
10,082	Total multi-category appropriations	9,883	9,883	11,292	9,292	-
Departmental capital expenditure						
233	Ministry of Defence – capital expenditure PLA	350	350	350	73	350
22,187	Total Departmental appropriations	23,614	23,614	25,827	21,454	25,182
Non-Departmental Appropriations						
Other expenses						
-	Non-capitalised procurement costs	-	-	4,500	-	-
Capital expenditure						
275,671	Defence capabilities	625,389	625,389	696,195	515,278	-
Multi-category appropriations (MCA)						
Defence capabilities MCA						
Other expenses						
-	Procurement expenses	-	-	-	-	2,000
Capital expenditure						
-	Defence capability delivery	-	-	-	-	873,354
275,671	Total Non-Departmental appropriations	625,389	625,389	700,695	515,278	875,354
297,858	Total annual appropriations administered by the Ministry of Defence	649,003	649,003	726,522	536,732	900,536

Notes to the Statement of Expenses and Capital Expenditure Against Appropriations

Ministry of Defence – capital expenditure PLA

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

Restructuring of appropriations

In Budget 2021 the Ministry's appropriations for 2021/22 onwards were restructured:

- Departmental expense appropriations, including the multi-category appropriation (MCA), were consolidated into one operating expense appropriation: Ministry of Defence outputs.
- The non-departmental capital expenditure appropriation was restructured into a multi-category appropriation with an expense component to allow for the recognition of non-capitalisable costs incurred during the procurement or refurbishment of major military capabilities for the New Zealand Defence Force.

Accounting policies

Forecast figures: The forecast figures are presented in accordance with the policy described in Note 1 of the Notes to the Departmental Financial Statements on page 99.

Cost allocation policy: The Ministry has determined the cost of outputs using a cost allocation system:

- Direct costs are those costs directly attributable to an output. Direct costs are charged directly to outputs.
- Indirect costs are those costs that cannot be attributed to a specific output in an economically feasible manner. Indirect costs are charged to outputs based on a predetermined ratio, which 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 allocation policies since the date of the last audited financial statements.

Performance information

Performance information for all appropriations are reported on pages 76 – 81 of this Annual Report.

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

For the year ended 30 June 2021

The Ministry has not incurred any expenses or capital expenditure without, or in excess of, appropriation or other authority (2020 – One instance).

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

For the year ended 30 June 2021

The Ministry has not received any capital injections during the year without, or in excess of, authority (2020 – Nil).

TRANSFERS UNDER SECTION 26A OF THE PUBLIC FINANCE ACT 1989

For the year ended 30 June 2021

The Ministry has not made any transfers under Section 26A of the Public Finance Act 1989 (2020 – Nil).



Aerial imagery of the P-8A hangar construction at Base Ōhakea in September 2020



DEPARTMENTAL FINANCIAL STATEMENTS
Te Tauākī Pūtea ā-Tari



STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE

For the year ended 30 June 2021

Actual		Note	Forecast not audited	Actual	Forecast not audited
2020			2021	2021	2022
\$000			\$000	\$000	\$000
Revenue					
20,338	Revenue Crown	2	23,264	22,340	24,832
4,229	Other revenue	2	-	2,737	-
24,567	Total revenue		23,264	25,077	24,832
Expenses					
16,353	Personnel expenses	3	17,089	15,400	18,645
5,420	Operating expenses	4	5,986	5,815	5,986
90	Depreciation and amortisation expense	7,8	48	79	60
91	Capital charge	5	141	118	141
21,954	Total expenses		23,264	21,412	
2,613	Surplus		-	3,665	24,832
-	Other comprehensive revenue and expense		-	-	-
2,613	Total comprehensive revenue and expense		-	3,665	-

The accompanying notes form part of these financial statements. Explanations of major variances against the 2021 forecast financial statements are shown in note 16.

STATEMENT OF FINANCIAL POSITION

As at 30 June 2021

Actual	Note	Forecast not audited	Actual	Forecast not audited
2020		2021	2021	2022
\$000		\$000	\$000	\$000
Assets				
Current assets				
7,317	Cash and cash equivalents	4,975	7,797	4,096
15	Receivables	6 394	606	100
4	Prepayments	18	19	8
7,336	Total current assets	5,387	8,422	4,204
Non-current assets				
205	Property, plant and equipment	7 80	170	168
10	Intangible assets	8 -	39	1
215	Total non-current assets	80	209	169
7,551	Total assets	5,467	8,631	4,373
Liabilities				
Current liabilities				
2,218	Creditors and other payables	9 2,034	1,473	825
1,550	Return of surplus to the Crown	10 -	3,665	-
128	Provision for restructuring	11 -	-	-
1,130	Employee entitlements	12 860	964	915
5,026	Total current liabilities	2,894	6,102	1,740
Non-current liabilities				
172	Employee entitlements	12 220	176	280
172	Total non-current liabilities	220	176	280
5,198	Total liabilities	3,114	6,278	2,020
2,353	Net assets	2,353	2,353	2,353
Equity				
2,353	Taxpayers' funds	13 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 2021 forecast financial statements are shown in note 16.

STATEMENT OF CASH FLOWS

For the year ended 30 June 2021

Actual		Forecast not audited	Actual	Forecast not audited
2020		2021	2021	2022
\$000		\$000	\$000	\$000
Cash flows from operating activities				
20,338	Receipts from Revenue Crown	23,264	22,340	24,832
4,494	Receipts from other revenue	-	2,230	-
(15,939)	Payments to employees	(17,067)	(15,690)	(18,621)
(5,028)	Payments to suppliers	(6,008)	(6,862)	(6,010)
(91)	Payments for capital charge	(141)	(118)	(141)
(273)	Goods and services tax (net)	-	205	-
3,501	Net cash flow from operating activities	48	2,105	60
Cash flows from investing activities				
79	Receipts from sale of property, plant and equipment	-	-	-
(233)	Purchase of property, plant and equipment	(60)	(38)	(60)
-	Purchase of intangible assets	-	(37)	-
(154)	Net cash flow from investing activities	(60)	(75)	(60)
Cash flows from financing activities				
(386)	Return of operating surplus	(595)	(1,550)	(1,210)
(386)	Net cash flow from financing activities	(595)	(1,550)	(1,210)
2,961	Net increase/(decrease) in cash	(607)	480	(1,210)
4,356	Cash at the beginning of the year	5,582	7,317	5,306
7,317	Cash at the end of the year	4,975	7,797	4,096

The accompanying notes form part of these financial statements. Explanations of major variances against the 2021 forecast financial statements are shown in note 16.

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2021

Actual	Note	Forecast not audited	Actual	Forecast not audited
2020		2021	2021	2022
\$000		\$000	\$000	\$000
2,353	Balance at 1 July	2,353	2,353	2,353
2,613	Total comprehensive revenue and expense	-	3,665	-
(1,550)	Return of operating surplus to the Crown	10	(3,665)	-
1,063	Approved retention of surplus	13	-	-
(1,063)	Voluntary return of funds	13	-	-
2,353	Balance at 30 June	2,353	2,353	2,353

STATEMENT OF CONTINGENT LIABILITIES AND CONTINGENT ASSETS

As at 30 June 2021

Contingent Liabilities

The Ministry has no quantifiable or unquantifiable contingent liabilities (2020 – Nil).

Legal proceedings and disputes

The Ministry has no pending legal proceedings and disputes (2020 – Nil).

Contingent Assets

The Ministry has no contingent assets (2020 – Nil).

The accompanying notes form part of these financial statements. Explanations of major variances against the 2021 forecast financial statements are shown in note 16.

STATEMENT OF COMMITMENTS

As at 30 June 2021

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 (2020 – Nil).

Non-cancellable Operating Lease Commitments

The Ministry leases property, plant and equipment in the normal course of its business. In October 2019 the Ministry moved to its long-term accommodation in Defence headquarters (Defence House). The sublease with the New Zealand Defence Force has a non-cancellable leasing period of around 16 years remaining. The commitments below all relate to this accommodation lease, which includes the associated fit-out and furniture:

Actual 2020 \$000		Actual 2021 \$000
	Non-cancellable operating lease commitments	
2,163	Not later than one year	2,091
2,181	Later than one year and not later than two years	2,110
6,652	Later than two years and not later than five years	6,418
27,468	Later than five years	24,237
38,464	Total non-cancellable operating lease commitments	34,856

The accompanying notes form part of these financial statements. Explanations of major variances against the 2021 forecast financial statements are shown in note 16.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: STATEMENT OF ACCOUNTING POLICIES

Reporting entity

The Ministry of Defence (the Ministry) is a government department as defined by section 2 of the Public Finance Act 1989 and is domiciled and operates in New Zealand. The relevant legislation governing the Ministry's operations includes the Public Finance Act 1989 and the Defence Act 1990. The Ministry's ultimate parent is the New Zealand Crown.

In addition, the Ministry has reported on Crown activities that it administers in the non-departmental statements and schedules in Part 6.

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 2021 and were approved for issue by the Secretary of Defence of the Ministry on 30 September 2021.

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

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

Standards issued and not yet effective and not early adopted

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

Amendment to PBE IPSAS 2 Statement of Cash Flows

This amendment requires entities to provide disclosures that enable users of the financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. This amendment is effective for annual periods beginning on or after 1 January 2021, with early application permitted. No effect is expected as a result of this change. The Ministry will adopt this in its financial statements for the year ended 30 June 2022.

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. The Ministry will adopt this in its financial statements for the year ended 30 June 2023.

PBE FRS 48 Service Performance Reporting

PBE FRS 48 replaces the service performance reporting requirements of PBE IPSAS 1 and is effective for reporting periods beginning on or after 1 January 2022. The Ministry has not yet determined how application of this standard will affect its service performance reporting. The Ministry will adopt this in its financial statements for the year ended 30 June 2022.

Summary of significant accounting policies

Significant accounting policies are included in the notes to which they relate. Significant accounting policies that do not relate to a specific note are outlined below.

Foreign currency transactions

Foreign currency transactions (including those for which forward foreign exchange contracts are held) are translated into New Zealand dollars using the exchange rates prevailing at the dates of the transactions.

Goods and Services Tax

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

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

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

Income tax

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

Forecast figures

The 2021 forecast figures are for the year ended 30 June 2021 and were published in the 2019/20 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 30 June 2021.

The 2022 forecast figures are for the year ending 30 June 2022, which are consistent with the best estimate financial forecast information submitted to the Treasury for the BEFU for the 2021/22 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 2022 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 19 March 2021.

While the Ministry regularly updates its forecasts, updated forecast financial statements for the year ended 30 June 2022 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 2022 are likely to vary from the forecast information, and the variations may be material.

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 2021.

Comparative information

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

NOTE 2: REVENUE

Accounting policy

Revenue Crown

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

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

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

Other revenue

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

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

Breakdown of other revenue

Actual 2020 \$000		Actual 2021 \$000
1,698	Project costs recovered from NZDF	2,540
440	Other cost recoveries	76
2,012	Proceeds from insurance claims	4
79	Gain on sale of property, plant and equipment	-
-	Other gains	117
4,229	Total other revenue	2,737

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 2020 \$000		Actual 2021 \$000
15,497	Salaries and wages	15,010
482	Employer contributions to defined contribution plans	473
374	Increase/(decrease) in employee entitlements	(83)
16,353	Total personnel expenses	15,400

NOTE 4: OPERATING EXPENSES

Accounting policy

Operating expenses are recognised when goods and services are received.

Actual 2020 \$000		Forecast not audited 2021 \$000	Actual 2021 \$000	Forecast not audited 2022 \$000
149	Audit fees for financial statements	155	152	152
65	Fees paid to Audit New Zealand for other services	-	26	35
1,200	Consultants and contractors	702	1,062	1,910
54	Professional services	10	1,185	63
722	Travel and related costs	975	131	323
172	Courses, conferences and exhibitions	208	261	262
1,362	Rental of premises	2,273	1,535	2,252
328	Legal	95	157	155
158	Grants and contributions	184	102	273
1,210	Other operating costs	1,384	1,204	561
5,420	Total operating expenses	5,986	5,815	5,986

Fees paid to Audit New Zealand for other services relate to an annual assurance review of the Major Projects Report prepared jointly by the Ministry and the 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 2021 was 5.0% (2020 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.

Actual 2020 \$000	Actual 2021 \$000
Receivables from exchange transactions	
15 Debtors	606
- Less allowance for credit losses	-
15 Net debtors	606
15 Total receivables from exchange transactions	
- Receivables from non-exchange transactions	-
15 Total receivables	606

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			
	Leasehold improvements	Office furniture	Office and computer equipment	Total
	\$000	\$000	\$000	\$000
Cost or valuation				
Balance at 1 July 2019	504	103	970	1,577
Additions	-	-	234	234
Disposals	(504)	(103)	(890)	(1,497)
Balance at 30 June 2020	-	-	314	314
Balance at 1 July 2020	-	-	314	314
Additions	-	-	36	36
Disposals	-	-	(1)	(1)
Balance at 30 June 2021	-	-	349	349
Accumulated depreciation and impairment losses				
Balance at 1 July 2019	504	103	916	1,523
Depreciation expense	-	-	83	83
Eliminate on disposal	(504)	(103)	(890)	(1,497)
Balance at 30 June 2020	-	-	109	109
Balance at 1 July 2020	-	-	109	109
Depreciation expense	-	-	71	71
Eliminate on disposal	-	-	(1)	(1)
Balance at 30 June 2021	-	-	179	179
Carrying amounts				
At 30 June and 1 July 2020	-	-	205	205
At 30 June 2021	-	-	170	170

In October 2019 the Ministry relocated to its long-term accommodation in the new Defence Headquarters in the former Bowen State Building. The sublease from the Defence Force includes all required building fit-out and furniture. On relocation the Ministry disposed of all owned office furniture. At 30 June 2020 and 2021 the Ministry did not own any leasehold improvements or furniture.

NOTE 8: INTANGIBLE ASSETS

Accounting policy

Additions

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

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

Amortisation

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

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

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

Impairment

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

Critical accounting estimates and assumptions

Useful lives of software

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

Restrictions on title

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

	Actual	
	Software \$000	Total \$000
Cost		
Balance at 1 July 2019	991	991
Additions	-	-
Disposals	(391)	(391)
Balance at 30 June 2020	600	600
Balance at 1 July 2020	600	600
Additions	37	37
Disposals	-	-
Balance at 30 June 2021	637	637
Accumulated amortisation and impairment losses		
Balance at 1 July 2019	974	974
Amortisation expense	7	7
Disposals	(391)	(391)
Balance at 30 June 2020	590	590
Balance at 1 July 2020	590	590
Amortisation expense	8	8
Disposals	-	-
Balance at 30 June 2021	598	598
Carrying amounts		
At 30 June and 1 July 2020	10	10
At 30 June 2021	39	39

NOTE 9: CREDITORS AND OTHER PAYABLES

Accounting policy

Short-term creditors are recorded at the amount payable.

Actual 2020 \$000		Actual 2021 \$000
1,475	Creditors	20
653	Accrued expenses	1,158
90	GST payable	295
2,218	Total creditors and other payables	1,473

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 2020 \$000		Actual 2021 \$000
2,613	Net surplus	3,665
(1,063)	Approved retention of surplus	-
1,550	Total return of operating surplus	3,665

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

NOTE 11: PROVISION FOR RESTRUCTURING

Actual 2020 \$000		Actual 2021 \$000
-	Provision at start of period	128
128	Additional provision made	-
-	Provision used	(106)
-	Unused provision reversed	(22)
128	Provision for restructuring	-

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

NOTE 12: EMPLOYEE ENTITLEMENTS

Accounting policy

Short-term employee entitlements

Entitlements expected to be settled within twelve months of balance date are measured at nominal values based on accrued entitlements at current rates of pay.

These include salaries and wages accrued up to balance date, annual leave earned but not yet taken at balance date, retiring and long service leave entitlements expected to be settled within twelve months, and sick leave.

Long-term employee entitlements

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

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

Critical accounting estimates and assumptions

Long service leave and retirement gratuities

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

Expected future payments are discounted using a weighted average discount rate of 2.89% (2020 1.52%) and an inflation factor of 2.84% (2020 2.51%) 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 \$14,000 (2019 less than \$16,000).

Actual 2020 \$000		Actual 2021 \$000
Current provisions are represented by:		
1,017	Annual leave	813
21	Sick leave	36
92	Retirement and long service leave	115
1,130	Total current provision	964
Non-current employee entitlements are represented by:		
172	Retirement and long service leave	176
1,302	Total employee entitlements	1,140

NOTE 13: EQUITY

Actual 2020 \$000		Actual 2021 \$000
Taxpayers' funds		
2,353	Balance at 1 July	2,353
2,613	Net surplus/(deficit)	3,665
-	Capital contribution from the Crown	-
(1,550)	Provision for repayment of surplus to the Crown	(3,665)
1,063	Approved retention of surplus	-
(1,063)	Voluntary return of funds	-
2,353	Taxpayers' funds at 30 June	2,353

NOTE 14: RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT PERSONNEL

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

All transactions with related parties have been undertaken either:

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

Key management personnel compensation

Actual 2020 \$000		Actual 2021 \$000
Leadership team, including the Secretary of Defence		
2,087	Remuneration	1,835
6	Full-time equivalent staff	5

Key management personnel include the Secretary of Defence and the four members (2020 – five) of the Leadership Team.

The above key management personnel compensation excludes the remuneration and other benefits received by the Minister of Defence. The Minister's remuneration and other benefits are not received only for his role as a member of key management personnel of the Ministry. The Minister's remuneration and other benefits are set by the Remuneration Authority under the Members of Parliament (Remuneration and Services) Act 2013 and are paid under Permanent Legislative Authority, and not paid by the Ministry of Defence.

NOTE 15: FINANCIAL INSTRUMENTS

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

Actual 2020 \$000		Actual 2021 \$000
Financial assets measured at amortised cost		
7,317	Cash and cash equivalents	7,797
15	Debtors and other receivables	606
4	Prepayments	19
7,336	Financial assets measured at amortised cost	8,422
Financial liabilities measured at amortised cost		
2,219	Creditors and other payables	1,473

NOTE 16: EXPLANATION OF MAJOR VARIANCES AGAINST FORECAST

Explanations for major variances from the forecast financial statements for 2020/21 are as follows:

Statement of comprehensive revenue and expense

Other revenue

The increase in Other Revenue primarily results from the recovery of costs from the New Zealand Defence Force for costs incurred in the definition and pre-acquisition stages of acquisition projects.

Personnel expenses

Overall Personnel Expenses were lower than forecast due to ongoing vacancies during the year caused by a tight labour market and more time taken to fill vacancies.

Operating expenses

Overall Operating Expenses were close to forecast. Departmental expenditure on Rental of Premises was lower than expected due to the allocation of rental costs to non-departmental capital projects utilising departmental floorspace. These savings were offset by increased Consultants and Contractors and Professional Services expenditure, predominantly on definition and pre-acquisition stage acquisition projects which were budgeted at the start of the financial year. The Ministry is reimbursed by the NZDF for its expenditure on consultants and contractors for pre-acquisition stage projects, meaning these expenses have a nil net impact to the Ministry.

Statement of financial position

Cash and cash equivalents

The value of Cash and cash equivalents is higher than forecast due to lower Personnel and Operating Expenses (excluding those reimbursed by NZDF), as described above.

Statement of cash flows

Variances in cashflows largely reflect the above explanations.

NOTE 17: EVENTS AFTER BALANCE DATE

There are no events after balance date (2020 – Nil).



Construction of the P-8A hangar at Ōhakea, July 2020



NON-DEPARTMENTAL STATEMENTS AND SCHEDULES

Te Tauākī me ngā Hōtaka Ehara nā te Tari



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

SCHEDULE OF NON-DEPARTMENTAL REVENUE

For the year ended 30 June 2021

Actual 2020 \$000		Actual 2021 \$000
5,919	Realised foreign exchange gains	2,637
34,760	Realised gains on derivatives	1,959
60,482	Unrealised gains on derivatives	1,220
2,315	Interest	16
103,476	Total non-departmental revenue	5,832

SCHEDULE OF NON-DEPARTMENTAL EXPENSES

For the year ended 30 June 2021

Actual 2020 \$000		Actual 2021 \$000
3,121	Realised foreign exchange losses	65,398
-	Realised losses on derivatives	39,035
35,537	Unrealised losses on derivatives	148,451
1,354	Other expenses	-
73,656	GST input expense	35,502
113,668	Total non-departmental expenses	288,386

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 2021.

SCHEDULE OF NON-DEPARTMENTAL ASSETS

As at 30 June 2021

Actual 2020 \$000		Note	Actual 2021 \$000
Current assets			
271,260	Cash and cash equivalents		609,338
695	Receivables from exchange transactions	2	262,492
443,013	Prepayments		284,762
33,867	Derivative financial instruments	4	989
748,835	Total current assets		1,157,581
Non-current assets			
36,195	Derivative financial instruments	4	231
36,195	Total non-current assets		231
785,030	Total non-departmental assets		1,157,812

SCHEDULE OF NON-DEPARTMENTAL LIABILITIES

As at 30 June 2021

Actual 2020 \$000		Note	Actual 2021 \$000
Current liabilities			
122,935	Creditors and other payables	3	27,593
1,283	Derivative financial instruments	4	27,061
124,218	Total current liabilities		54,654
Non-current liabilities			
34,254	Derivative financial instruments	4	119,450
24,254	Total non-current liabilities		119,450
158,472	Total non-departmental liabilities		174,104

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 2021.

SCHEDULE OF NON-DEPARTMENTAL CAPITAL RECEIPTS

For the year ended 30 June 2021

Actual 2020 \$000		Actual 2021 \$000
682	81mm Mortar Replacement	2,237
3,735	Air Surveillance Maritime Patrol	358,589
64,331	Anzac Frigate Systems Upgrade	27,681
9	C-130 Hercules Life Extension	-
17,387	Dive and Hydrographic Vessel	7,787
(12)	Individual Weapons Replacement	22
4,184	Fixed High Frequency Radio Refresh	9,241
-	Frigate Sustainment Phase 1 – Communications	470
1,917	Future Air Mobility Capability – Tactical	27,414
992	Garrison and Training Support Vehicles: Phase One	3,799
-	HMNZS <i>Canterbury</i> and Offshore Patrol Vessel Communications Upgrade	3,843
66,455	Maritime Sustainment Capability	13,946
18,091	Network Enabled Army – Tranche One	20,778
5,487	Network Enabled Army – Tranche Two	8,717
5,958	NH90 Flight Simulator	4,422
3,217	Operational and Regulatory Aviation Compliance Sustainment: Phase One (A)	8,835
-	Operational and Regulatory Aviation Compliance Sustainment: Phase One (B)	381
2,281	Protected Mobility Capability: High Mobility Light	624
-	Protected Mobility Capability: Medium	14,472
599	Special Operations Vehicles	312
113	Strategic Bearer Network	1,532
(3)	Underwater Intelligence, Surveillance and Reconnaissance	176
195,423	Total non-departmental capital receipts	515,278

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 2021.

SCHEDULE OF NON-DEPARTMENTAL CAPITAL EXPENDITURE

For the year ended 30 June 2021

Actual 2020 \$000	Actual 2021 \$000
682 81mm Mortar Replacement	2,237
83,983 Air Surveillance Maritime Patrol	358,589
64,331 Anzac Frigate Systems Upgrade	27,681
9 C-130 Hercules Life Extension	-
17,387 Dive and Hydrographic Vessel	7,787
(12) Individual Weapons Replacement	22
4,184 Fixed High Frequency Radio Refresh	9,241
- Frigate Sustainment Phase 1 – Communications	470
1,917 Future Air Mobility Capability – Tactical	27,414
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- Protected Mobility Capability: Medium	14,472
599 Special Operations Vehicles	312
113 Strategic Bearer Network	1,532
(3) Underwater Intelligence, Surveillance and Reconnaissance	176
275,671 Total non-departmental capital expenditure	515,278

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 2021.

SCHEDULE OF NON-DEPARTMENTAL CAPITAL COMMITMENTS

As at 30 June 2021

Actual 2020 \$000		Actual 2021 \$000
Non-cancellable capital commitments		
726,129	Not later than one year	872,849
647,405	Later than one year and not later than two years	865,629
1,095,177	Later than two years and not later than five years	790,831
160,304	Later than five years	18,364
2,629,015	Total non-cancellable capital commitments	2,547,673

Capital commitments are the aggregate amount of capital expenditure contracted for the purchase, modification or refurbishment of defence capabilities for the New Zealand Defence Force that have not been paid for or not recognised as a liability at the balance date

SCHEDULE OF NON-DEPARTMENTAL CONTINGENT LIABILITIES AND CONTINGENT ASSETS

As at 30 June 2021

Contingent Liabilities

The Ministry on behalf of the Crown has no contingent liabilities (2020 – Nil).

Contingent Assets

The Ministry on behalf of the Crown has no contingent assets (2020 – 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 2021.

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 2021. 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 2021.

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

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

Standards issued and not yet effective and not early adopted

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

Amendment to PBE IPSAS 2 Statement of Cash Flows

This amendment requires entities to provide disclosures that enable users of the financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. This

amendment is effective for annual periods beginning on or after 1 January 2021, with early application permitted. No effect is expected as a result of this change. The Ministry will adopt this in its financial statements for the year ended 30 June 2022.

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. The Ministry will adopt this in its financial statements for the year ended 30 June 2023.

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. The Ministry will adopt this in its financial statements for the year ended 30 June 2022.

Summary of significant accounting policies

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

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

Revenue

Interest income is recognised using the effective interest method.

Foreign currency transactions

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

Goods and Services Tax

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

Commitments

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

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

Comparative information

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

NOTE 2: RECEIVABLES

Accounting policy

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

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

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

Actual 2020 \$000	Actual 2021 \$000
Receivables from exchange transactions	
695 Debtors	262,492
- Less allowance for credit losses	-
695 Net debtors	262,492
695 Total receivables from exchange transactions	
- Receivables from non-exchange transactions	-
695 Total receivables	262,492

The carrying value of receivables approximates their fair value.

At 30 June 2021 the Ministry had no past due debtors (2020 – Nil). Due to the credit quality of debtors no allowance for credit losses was made at balance date (2020 – Nil).

NOTE 3: CREDITORS AND OTHER PAYABLES

Actual 2020 \$000		Actual 2021 \$000
102,972	Creditors	45
19,963	Accrued expenses	27,548
122,935	Total creditors and other payables	27,593

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 2020 \$000		Actual 2021 \$000
	Financial assets measured at amortised cost	
271,260	Cash and cash equivalents	609,338
695	Debtors and other receivables	262,492
443,013	Prepayments	284,762
714,968	Financial assets measured at amortised cost	1,156,592
	Fair value through surplus or deficit – designated as such upon initial recognition	
70,062	Derivative financial instrument assets	1,220
35,537	Derivative financial instrument liabilities	146,511
	Financial liabilities measured at amortised cost	
122,935	Creditors and other payables	27,593

The notional principal amount of outstanding forward exchange contract derivatives at 30 June 2021 is NZD 2,017.9 million (2020 – NZD 2,610.7 million). The contracts consist of the purchase of (amounts in foreign currency):

Actual 2020 fx 000	Actual 2021 fx 000
10,500 Australian dollars	57,397
600 Canadian dollars	-
77 Great British pounds	650
- Swedish krona	1,355
6,115 Euros	10,617
1,674,957 United States dollars	1,237,342

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
2021				
Financial assets				
Derivative financial instruments	1,220	-	1,220	-
Financial liabilities				
Derivative financial instruments	146,511	-	146,511	-
2020				
Financial assets				
Derivative financial instruments	70,062	-	70,062	-
Financial liabilities				
Derivative financial instruments	35,537	-	35,537	-

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 2021	Less than 6 months \$000	6-12 months \$000	1-5 years \$000	Over 5 years \$000	Total \$000
2021					
Creditors and other payables	27,593	-	-	-	27,593
2020					
Creditors and other payables	122,935	-	-	-	122,935

Contractual maturity analysis of derivative financial instrument liabilities

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

	Carrying amount NZ \$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	Over 5 years NZ \$000
Gross settled forward foreign exchange contracts:							
2021							
Asset value	1,220						
Liability value	146,511						
- outflow		2,017,863	359,818	342,976	151,255	1,163,814	-
- inflow		1,849,010	346,607	329,173	143,022	1,030,208	-
2020							
Asset value	70,062						
Liability value	35,537						
- outflow		2,610,727	371,498	319,863	623,805	1,214,035	81,526
- inflow		2,629,922	387,097	336,494	649,640	1,178,864	77,827

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.

	2020			2021		
	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	(571)	(536)	(1,107)	(1,577)	(2,936)	(4,513)
CAD	(2,419)	(33)	(2,452)	(1,153)	-	(1,153)
EUR	(328)	(514)	(842)	(573)	(863)	(1,436)
GBP	(576)	(7)	(583)	(623)	(61)	(684)
NOK	(3)	-	(3)	(10)	-	(10)
SEK	-	-	-	-	(11)	(11)
USD	(896)	(123,338)	(124,234)	(21,539)	(83,167)	(104,706)
Total	(4,793)	(124,428)	(129,221)	(25,475)	(87,038)	(112,513)
Effect on surplus if NZ dollar weakened by 5%						
AUD	631	592	1,223	1,743	3,245	4,988
CAD	2,674	36	2,710	1,274	-	1,274
EUR	363	568	931	633	954	1,587
GBP	637	8	645	688	68	756
NOK	4	-	4	11	-	11
SEK	-	-	-	-	12	12
USD	991	136,321	137,312	23,805	91,921	115,726
Total	5,300	137,525	142,825	28,154	96,200	124,354

NOTE 5: EVENTS AFTER BALANCE DATE

On 9 August 2021, Cabinet approved \$20.500 million for the detailed design work for the communications systems upgrade of the Anzac frigates.

In August 2021, New Zealand was placed into a lockdown and work was unable to be carried out as expected on some of the Ministry's projects. The Ministry expects to incur additional costs on some projects as a result. The quantum of these costs is still to be determined.

(2020 – no events).