

# VOTE *Defence*

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# Defence

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## Overview

### Departmental Appropriations

Departmental appropriations sought for Vote Defence in 2006/07 total \$9.646 million. This is intended to be spent as follows:

- \$1.904 million (19.7% of departmental appropriations in this Vote) on audits and assessments of the New Zealand Defence Force and the Ministry's non-departmental activities.
- \$3.773 million (39.1% of departmental appropriations in this Vote) on management of procurement and liaison with defence industry.
- \$3.969 million (41.2% of departmental appropriations in this Vote) on policy advice and management of international defence relations.

### Non-Departmental Appropriations

Non-departmental appropriations sought for Vote Defence in 2006/07 of \$284.571 million. This is intended to be spent as capital expenditure in the procurement of defence equipment.

### Crown Revenue and Capital Receipts

- \$200,000 of current revenue from interest.
- \$437.132 million of capital revenue from sale of defence equipment to the New Zealand Defence Force.

Further information and explanations of the appropriations appear in Parts B1 and E3 of this Vote. Details of Crown revenue and capital receipts appear in Part F1.

## Minister Portfolio Table

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Minister of Defence

# Defence

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VOTE MINISTER: Minister of Defence

ADMINISTERING DEPARTMENT: Ministry of Defence

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

## Part A - Statement of Objectives and Trends

### Part A1 - Objectives for Vote

#### *Related Government Outcomes*

The appropriations in Vote Defence contribute to a secure New Zealand that contributes to international security.

#### *Output Expenses*

To achieve this objective, the appropriations are intended to fund a range of activities, including:

- policy advice on New Zealand's strategic environment and security interests
- analytical studies of military capability requirements, force structure, investment and resource
- management and enhancement of bilateral and multilateral defence relations
- audits and assessments of any function, duty, or project of the New Zealand Defence Force
- audits and assessments of the Ministry's procurement activities
- audits of the controls on hazardous substances under the control of the Minister of Defence as required by the Hazardous Substances and New Organisms Act 1996
- management of procurement or refurbishment, on behalf of the Crown, of various items of equipment identified as contributing to a change in the capability of New Zealand Defence Force
- maintenance of information on industrial capability and the provision of advice to industry on Defence requirements.

### Part A2 - Trends in Vote

#### *Departmental Output Trends: 2001/02 to 2006/07*

Vote Defence baselines since 2001/02 have been influenced by pre-acquisition costs as new capital projects are developed.

Pre-acquisition costs to the time of final Government approval to purchase, are funded by New Zealand Defence Force, but managed by the Ministry of Defence. Pre-acquisition costs are recovered from New Zealand Defence Force and are fiscally neutral in Vote Defence.

Actual pre-acquisition costs have been:

2001/02	\$1.180 million
2002/03	\$4.523 million
2003/04	\$1.731 million
2004/05	\$454,000
2005/06	\$340,000 (estimated)

### *Non-Departmental Expenditure and Revenue Trends: 2001/02 to 2006/07*

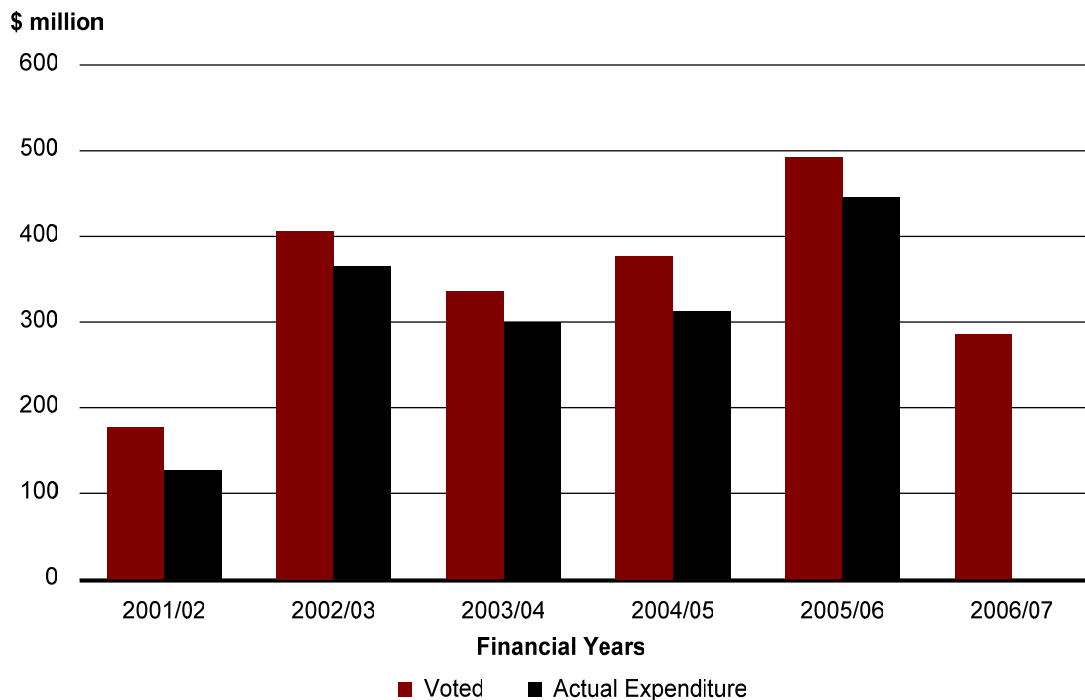
#### **Capital expenditure**

The Ministry has responsibility for the efficient management of procurement of defence equipment and its delivery on time and within budget. The Crown funds this work from an appropriation for Capital Expenditure.

The trend in non-departmental expenditure reflects the timing of contract payments as projects are progressed.

The following chart provides a history of amounts voted in Estimates and actual expenditure.

**Figure 1** - Trend in purchase of capital assets



Source: Ministry of Defence

The following table identifies projects contributing significant expenditure since 2001/02. The appropriation for 2006/07 covers currently approved projects.

Further projects are anticipated to commence during 2006/07 and funding will be included in appropriation after approval.

**Figure 2** - Projects contributing significant expenditure since 2001/02

Projects	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
ANZAC ships	X	X	X	X		
Maritime helicopter	X	X	X	X		
Light armoured vehicles	X	X	X	X		
Tactical mobile comms system	X	X	X	X		
B-757 aircraft modification			X	X	X	X
P-3 Orion re-wing	X	X	X	X		
C-130 Hercules self-protection	X	X				
Light operational vehicles				X	X	X
Medium range anti-armour weapon				X	X	X
Very low level air defence				X	X	X
P-3 Orion systems upgrade					X	X
C-130 Hercules life extension					X	X
Project Protector vessels					X	X

### Crown revenue and capital receipts

The level of current revenue varies with movements in interest rates and the level of foreign currency balances held.

Capital revenue is from the sale of items of equipment to New Zealand Defence Force. New Zealand Defence Force make progress payments in line with the expenditure payments being made by the Ministry. The revenue trends reflect the timing of contract payments as projects are progressed.

## Part B - Statement of Appropriations

### Summary of Financial Activity

	2001/02	2002/03	2003/04	2004/05	2005/06		2006/07 Appropriations to be Used				2007/08	2008/09	2009/10	
	Actual \$000	Actual \$000	Actual \$000	Actual \$000	Budget \$000	Estimated Actual \$000	By the Department Administering the Vote		For Non-Departmental Transactions		Total \$000	Estimated \$000	Estimated \$000	Estimated \$000
							Annual \$000	Other \$000	Annual \$000	Other \$000				
<b>Appropriations</b>														
Output Expenses	8,440	11,611	9,480	8,529	9,544	9,142	9,646	-	-	-	9,646	9,542	9,542	9,542
Benefits and Other Unrequited Expenses	-	-	-	-	-	-	N/A	N/A	-	-	-	-	-	-
Borrowing Expenses	-	-	-	-	-	-	N/A	N/A	-	-	-	-	-	-
Other Expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital Expenditure	128,119	363,978	301,466	313,075	492,490	444,677	N/A	N/A	284,571	-	284,571	134,892	31,319	39,253
Intelligence and Security Department Expenses and Capital Expenditure	-	-	-	-	-	-	-	-	N/A	N/A	-	-	-	-
<b>Total Appropriations</b>	<b>136,559</b>	<b>375,589</b>	<b>310,946</b>	<b>321,604</b>	<b>502,034</b>	<b>453,819</b>	<b>9,646</b>	<b>-</b>	<b>284,571</b>	<b>-</b>	<b>294,217</b>	<b>144,434</b>	<b>40,861</b>	<b>48,795</b>
<b>Crown Revenue and Receipts</b>														
Tax Revenue	-	-	-	-	-	-	N/A	N/A	N/A	N/A	-	-	-	-
Non-Tax Revenue	665	392	290	237	200	400	N/A	N/A	N/A	N/A	200	200	200	200
Capital Receipts	280,072	124,875	462,298	282,357	395,882	395,882	N/A	N/A	N/A	N/A	437,132	186,829	66,655	62,767
<b>Total Crown Revenue and Receipts</b>	<b>280,737</b>	<b>125,267</b>	<b>462,588</b>	<b>282,594</b>	<b>396,082</b>	<b>396,282</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>437,332</b>	<b>187,029</b>	<b>66,855</b>	<b>62,967</b>

## Part B1 - Details of Appropriations

Appropriations	2005/06				2006/07		Scope of 2006/07 Appropriations
	Budget		Estimated Actual		Vote		
	Annual \$000	Other \$000	Annual \$000	Other \$000	Annual \$000	Other \$000	
<b>Departmental Output Expenses (General)</b>							
Audit and Assessment of Performance (M22)	1,791	-	1,764	-	1,904	-	- Audits and assessments of the New Zealand Defence Force and of Ministry acquisition activity.
Management of Equipment Procurement (M22)	3,930	-	3,776	-	3,773	-	- Managing procurement or refurbishment, on behalf of the Crown, of various items of equipment contributing to a capability of the New Zealand Defence Force.
Policy Advice (M22)	3,823	-	3,602	-	3,969	-	- Policy advice, management of international defence relations and services to the Minister.
<b>Total Departmental Output Expenses (General)</b>	9,544	-	9,142	-	9,646	-	
<b>Capital Expenditure</b>							
Defence Equipment (M22)	492,490	-	444,677	-	284,571	-	- Purchase of defence equipment for the New Zealand Defence Force.
<b>Total Capital Expenditure</b>	492,490	-	444,677	-	284,571	-	
<b>Total Appropriations</b>	502,034	-	453,819	-	294,217	-	



## Part C - Explanation of Appropriations for Output Expenses

### Part C1 - Departmental Output Expenses

#### *Policy Advice*

This output expense involves defence policy advice on:

- strategies for achieving goals and outcomes
- changes in the strategic environment with implications for defence policy
- defence and security policies of other countries
- deployment of New Zealand Defence Force assets and personnel
- military capabilities required to meet defence policy goals; broad resources implications and the relative merits and risks associated with proposed capability options
- management and enhancement of bilateral and multilateral defence relations
- responses to Ministerial and Parliamentary Questions, Official Information Act enquiries and Ombudsman correspondence.

#### *Audit and Assessment of Performance*

This output expense involves:

- audits and assessments of any function, duty, or project of the New Zealand Defence Force
- audits and assessments of the Ministry's procurement, replacement or repair of major military equipment
- audits of the controls on hazardous substances under the control of the Minister of Defence as required by the Hazardous Substances and New Organisms Act 1996.

#### *Management of Equipment Procurement*

This output expense involves:

- management of procurement functions on behalf of the Crown from the initial identification of a requirement through ministerial "approval in principle" to the acquisition process involving project investigation, risk assessment, quality assurance, equipment selection, negotiation and execution of contract arrangements, up to the point when the equipment is delivered to New Zealand Defence Force
- management of any warranty provisions beyond date of delivery
- investigation of any associated financing arrangements
- arrangement of on-sale to New Zealand Defence Force
- maintenance of an information base on industrial capability, and the provision of advice to industry on defence requirements.

## Part E - Explanation of Capital Flows

### Part E1 - Explanation of Movements in Departmental Net Asset Schedules

Details of Net Asset Schedule for Ministry of Defence	Estimated Actual 2005/06 \$000	Projected 2006/07 \$000	Explanation of Projected Movements in 2006/07
Opening Balance	1,555	1,555	
Capital Injections	-	1,861	Capital contribution to meet the Ministry's share of new defence building costs.
Capital Withdrawals	-	-	
Surplus to be Retained (Deficit Incurred)	-	-	
Other Movements	-	-	
Closing Balance	1,555	3,416	

### Part E3 - Explanation of Appropriations for Capital Expenditure

The 2006/07 appropriation is for the following significant projects:

	\$000
B-757 aircraft modification	51,172
Light operational vehicles	964
Medium range anti-armour weapon	670
Very low level air defence	6,510
P-3 Orion systems upgrade	46,472
C-130 Hercules life extension	35,154
Project Protector vessels	143,629
<b>Total</b>	<b>284,571</b>

## Part F - Crown Revenue and Receipts

### Part F1 - Current and Capital Revenue and Capital Receipts

	2005/06		2006/07	Description of 2006/07 Crown Revenue
	Budgeted \$000	Estimated Actual \$000	Budget \$000	
<b>Non-Tax Revenue</b>				
Crown Interest	200	400	200	Interest earned on balances in foreign currency accounts
<b>Total Non-Tax Revenue</b>	200	400	200	
<b>Capital Receipts</b>				
Defence Equipment	395,882	395,882	437,132	Defence equipment sold to New Zealand Defence Force.
<b>Total Capital Receipts</b>	395,882	395,882	437,132	
<b>Total Crown Revenue and Receipts</b>	396,082	396,282	437,332	