

VOTE *Defence*

Defence

Overview

Departmental Appropriations

Departmental appropriations sought for Vote Defence in 2007/08 total \$9.542 million. This is intended to be spent as follows:

- \$1.890 million (19.8% of departmental appropriations in this Vote) on audits and assessments of the New Zealand Defence Force and the Ministry's non-departmental activities.
- \$3.713 million (38.9% of departmental appropriations in this Vote) on management of procurement and liaison with defence industry.
- \$3.939 million (41.3% 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 2007/08 of \$252.195 million. This is intended to be spent as capital expenditure in the procurement of defence equipment.

Crown Revenue and Capital Receipts

- \$870,000 of current revenue from interest.
- \$391.183 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

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: 2002/03 to 2006/07

Vote Defence baselines since 2002/03 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:

2002/03	\$4.523 million
2003/04	\$1.731 million
2004/05	\$454,000
2005/06	\$323,000
2006/07	\$280,000 (estimated)

Non-Departmental Expenditure and Revenue Trends: 2002/03 to 2007/08

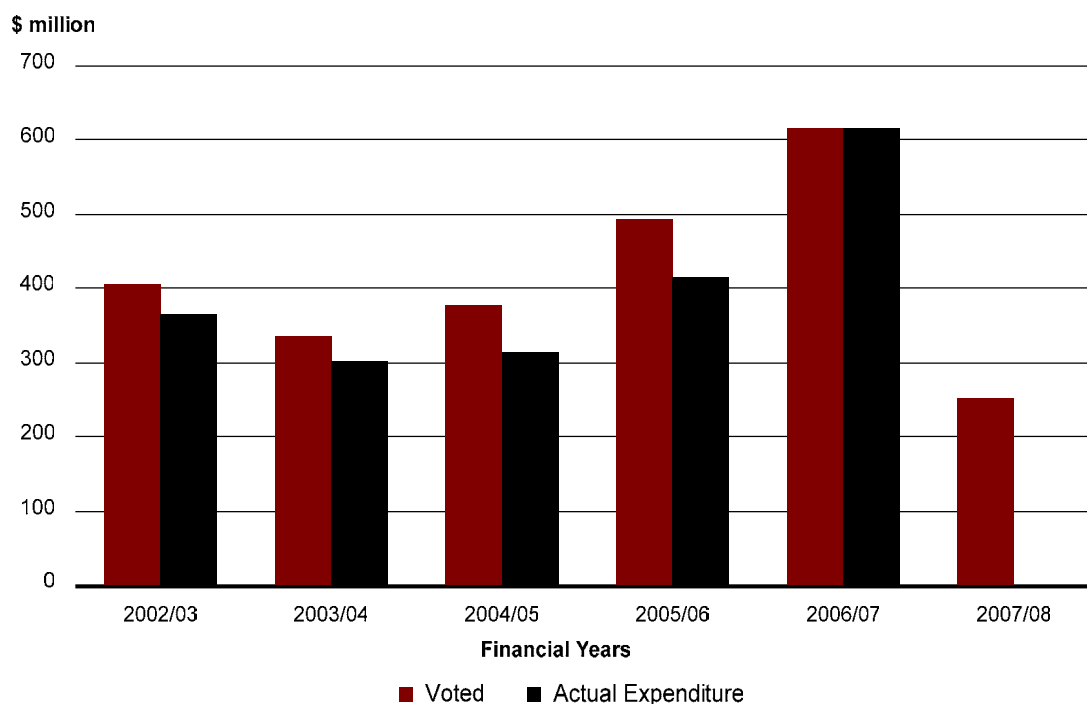
Capital Expenditure

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 2002/03. The appropriation for 2006/07 covers currently approved projects.

Further projects are anticipated to commence during 2007/08 and funding will be included in appropriation after approval.

Figure 2 - Projects contributing significant expenditure since 2002/03

Projects	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
ANZAC ships	X	X	X			
Maritime helicopter	X	X	X			
Light armoured vehicles	X	X	X			
Tactical mobile comms system	X	X	X			
B-757 aircraft modification		X	X	X	X	X
P-3 Orion re-wing	X	X	X			
C-130 Hercules self-protection	X					
Light operational vehicles			X	X	X	X
Medium range anti-armour weapon			X	X	X	X
Very low level air defence			X	X	X	X
P-3 Orion systems upgrade				X	X	X
C-130 Hercules life extension				X	X	X
Project Protector vessels				X	X	X
NH-90 Medium Utility Helicopters						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

	2002/03	2003/04	2004/05	2005/06	2006/07		2007/08 Appropriations to be Used				2008/09	2009/10	2010/11	
	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				
Appropriations														
Output Expenses	11,611	9,480	8,529	8,450	9,957	9,926	9,542	-	-	-	9,542	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	363,978	301,466	313,075	414,639	614,523	614,523	N/A	N/A	252,195	-	252,195	92,456	227,149	69,559
Intelligence and Security Department Expenses and Capital Expenditure	-	-	-	-	-	-	-	-	N/A	N/A	-	-	-	-
Total Appropriations	375,589	310,946	321,604	423,089	624,480	624,449	9,542	-	252,195	-	261,737	101,998	236,691	79,101
Crown Revenue and Receipts														
Tax Revenue	-	-	-	-	-	-	N/A	N/A	N/A	N/A	-	-	-	-
Non-Tax Revenue	392	290	237	570	870	870	N/A	N/A	N/A	N/A	870	870	870	870
Capital Receipts	124,875	462,298	282,357	395,882	509,267	509,267	N/A	N/A	N/A	N/A	391,183	161,722	211,343	230,991
Total Crown Revenue and Receipts	125,267	462,588	282,594	396,452	510,137	510,137	N/A	N/A	N/A	N/A	392,053	162,592	212,213	231,861

Part B1 - Details of Appropriations

Appropriations	2006/07				2007/08		Scope of 2007/08 Appropriations
	Budget		Estimated Actual		Vote		
	Annual \$000	Other \$000	Annual \$000	Other \$000	Annual \$000	Other \$000	
Departmental Output Expenses (General)							
Audit and Assessment of Performance (M22)	1,914	-	1,904	-	1,890	-	- Audits and assessments of the New Zealand Defence Force and of Ministry acquisition activity.
Management of Equipment Procurement (M22)	4,063	-	4,053	-	3,713	-	- 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)	3,980	-	3,969	-	3,939	-	- Policy advice, management of international defence relations and services to the Minister.
Total Departmental Output Expenses (General)	9,957	-	9,926	-	9,542	-	
Capital Expenditure							
Defence Equipment (M22)	614,523	-	614,523	-	252,195	-	- Purchase of defence equipment for the New Zealand Defence Force.
Total Capital Expenditure	614,523	-	614,523	-	252,195	-	
Total Appropriations	624,480	-	624,449	-	261,737	-	

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 2006/07 \$000	Projected 2007/08 \$000	Explanation of Projected Movements in 2007/08
Opening Balance	1,555	3,416	
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	3,416	3,416	

Part E3 - Explanation of Appropriations for Capital Expenditure

The 2007/08 appropriation is for the following significant projects:

	\$000
B-757 aircraft modification	29,243
Light operational vehicles	628
P-3 Orion systems upgrade	47,134
C-130 Hercules life extension	29,873
Project Protector vessels	36,285
NH-90 Medium Utility Helicopters	109,032
Total	252,195

Part F - Crown Revenue and Receipts

Part F1 - Current and Capital Revenue and Capital Receipts

	2006/07		2007/08	Description of 2007/08 Crown Revenue
	Budgeted \$000	Estimated Actual \$000	Budget \$000	
Non-Tax Revenue				
Crown Interest	870	870	870	Interest earned on balances in foreign currency accounts.
Total Non-Tax Revenue	870	870	870	
Capital Receipts				
Defence Equipment	509,267	509,267	391,183	Defence equipment sold to New Zealand Defence Force.
Total Capital Receipts	509,267	509,267	391,183	
Total Crown Revenue and Receipts	510,137	510,137	392,053	