

VOTE *Defence*

Defence

Overview

Departmental Appropriations

Departmental appropriations sought for Vote Defence in 2005/06 total \$9.155 million. This is intended to be spent as follows:

- \$3.807 million (41.6% of departmental appropriations in this Vote) on policy advice and management of international defence relations.
- \$1.774 million (19.4% of departmental appropriations in this Vote) on audits and assessments of the New Zealand Defence Force and the Ministry's non-departmental activities.
- \$3.574 million (39% of departmental appropriations in this Vote) on management of procurement and liaison with defence industry.

Non-Departmental Appropriations

Non-departmental appropriations sought for Vote Defence in 2005/06 total \$443.117 million. This is intended to be spent as follows:

- \$443.117 million on capital expenditure.

Crown Revenue and Capital Receipts

- \$170,000 of current revenue from interest.
- \$500.391 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.

Defence

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 Defence

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 Defence

Departmental Output Trends: 2000/01 to 2005/06

Vote Defence baselines since 2000/01 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:

- 2000/01 \$362,000
- 2001/02 \$1.180 million
- 2002/03 \$4.523 million
- 2003/04 \$1.731 million
- 2004/05 \$493,000 (estimated)

Non-Departmental Expenditure and Revenue Trends: 2000/01 to 2005/06

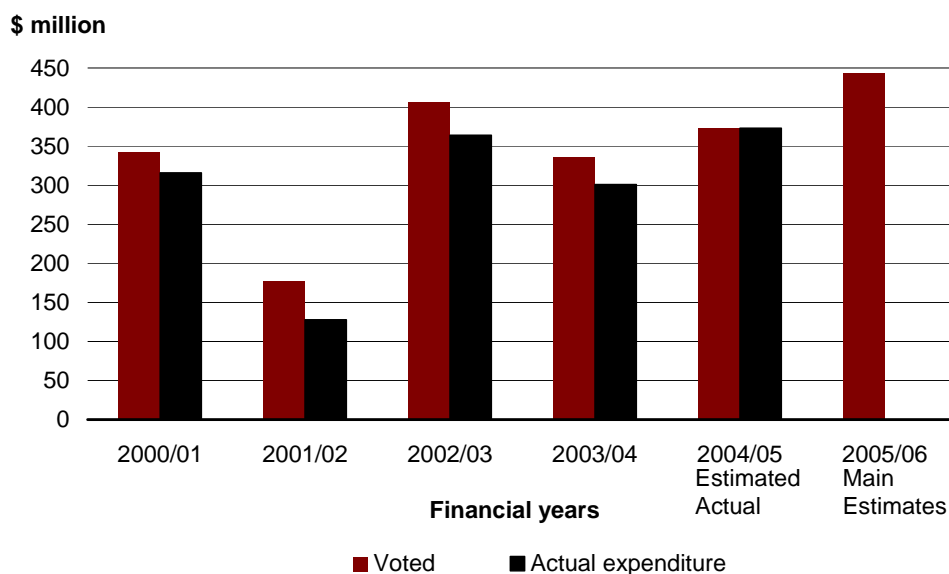
Capital Expenditure

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 appropriations 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 2000/01. The appropriation for 2005/06 covers currently approved projects.

Further projects are anticipated to commence during 2005/06 and funding will be included in appropriation after approval.

Figure 2 - Projects contributing significant expenditure since 2000/01

Projects	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
ANZAC ships	✓	✓	✓	✓	✓	
Maritime helicopter	✓	✓	✓	✓	✓	
Light armoured vehicles	✓	✓	✓	✓	✓	
Tactical mobile comms system		✓	✓	✓	✓	
B-757 aircraft modification				✓	✓	✓
P-3 Orion re-wing	✓	✓	✓	✓	✓	
C-130 Hercules self-protection	✓	✓	✓			
Light operational vehicles					✓	✓
Medium range anti-armour weapon					✓	✓
Very low level air defence					✓	✓
P-3 Orion systems upgrade						✓
C-130 Hercules life extension						✓
Project Protector vessels						✓

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.

New Policy Initiatives by Appropriation

Initiative	Appropriation as shown in Part B	\$000 increase/(decrease)				
		2004/05	2005/06	2006/07	2007/08	2008/09
Defence Capability and Resourcing Review - Improved Organisational Capability	Departmental Output Expense - Policy Advice	-	844	844	844	844
Total Initiative		-	844	844	844	844

Trends in Vote Defence - Summary of Financial Activity

	2000/01	2001/02	2002/03	2003/04	2004/05		2005/06 Appropriations to be Used				2006/07	2007/08	2008/09	
	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	7,832	8,440	11,611	9,480	9,121	8,821	9,155	-	-	-	9,155	9,565	9,176	9,176
Benefits and Other Unrequited Expenses	-	-	-	-	-	-	N/A	N/A	-	-	-	-	-	-
Borrowing Expenses	-	-	-	-	-	-	N/A	N/A	-	-	-	-	-	-
Other Expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital Expenditure	316,435	128,119	363,978	301,466	377,184	373,108	-	-	443,117	-	443,117	236,098	116,092	31,508
Intelligence and Security Department Expenses and Capital Expenditure	-	-	-	-	-	-	-	-	N/A	N/A	-	-	-	-
Total Appropriations	324,267	136,559	375,589	310,946	386,305	381,929	9,155	-	443,117	-	452,272	245,663	125,268	40,684
Crown Revenue and Receipts														
Tax Revenue	-	-	-	-	-	-	N/A	N/A	N/A	N/A	-	-	-	-
Non-Tax Revenue	1,220	665	392	290	170	170	N/A	N/A	N/A	N/A	170	170	170	170
Capital Receipts	189,076	280,072	124,875	462,298	282,348	282,348	N/A	N/A	N/A	N/A	500,391	297,975	159,537	70,356
Total Crown Revenue and Receipts	190,296	280,737	125,267	462,588	282,518	282,518	N/A	N/A	N/A	N/A	500,561	298,145	159,707	70,526

Part B - Statement of Appropriations

Part B1 - Details of Appropriations

	2004/05				2005/06		
	Budget		Estimated Actual		Vote		
Appropriations	Annual \$000	Other \$000	Annual \$000	Other \$000	Annual \$000	Other \$000	Scope of 2005/06 Appropriations
Departmental Output Expenses (General)							
Policy Advice	3,261	-	3,084	-	3,807	-	Policy advice, management of international defence relations and services to the Minister.
Audit and Assessment of Performance	1,772	-	1,763	-	1,774	-	Audits and assessments of the New Zealand Defence Force and of Ministry acquisition activity.
Management of Equipment Procurement	4,088	-	3,974	-	3,574	-	Managing procurement or refurbishment, on behalf of the Crown, of various items of equipment contributing to a capability of the New Zealand Defence Force.
Total Appropriations for Departmental Output Expenses (General)	9,121	-	8,821	-	9,155	-	
Capital Expenditure							
Defence Equipment	377,184	-	373,108	-	443,117	-	Purchase of defence equipment for the New Zealand Defence Force.
Total Appropriations for Capital Expenditure	377,184	-	373,108	-	443,117	-	
Total Appropriations	386,305	-	381,929	-	452,272	-	

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 Department Net Asset Schedules

Explanation of Movements in Department's Net Asset Schedule

Details of Net Asset Schedule for Ministry of Defence	Estimated Actual 2004/05 \$ million	Projected 2005/06 \$ million	Explanation of Projected Movements in 2005/06
Opening Balance	1.555	1.555	
Capital Injections	-	-	
Capital Withdrawals	-	-	
Surplus to be Retained (Deficit Incurred)	-	-	
Other Movements	-	-	
Closing Balance	1.555	1.555	

Part E3 - Explanation of Appropriations for Capital Expenditure

The 2005/06 appropriation is for the following significant projects:

	\$000
B-757 aircraft modification	10,666
Light operational vehicles	11,707
Medium range anti-armour weapon	6,747
Very low level air defence	2,728
P-3 Orion systems upgrade	120,436
C-130 Hercules life extension	113,793
Project Protector vessels	177,040
	443,117
GST on defence equipment	18,200
	461,317

Part F - Crown Revenue and Receipts

Part F1 - Current and Capital Revenue and Receipts

	2004/05		2005/06	Description of 2005/06 Crown Revenue
	Budgeted \$000	Estimated Actual \$000	Budget \$000	
Current Revenue				
Non-Tax Revenue				
Crown Interest	170	170	170	Interest earned on balances in foreign currency accounts.
Total Non-Tax Revenue	170	170	170	
Total Current Revenue	170	170	170	
Capital Receipts				
Defence Equipment	282,348	282,348	500,391	Defence equipment sold to New Zealand Defence Force.
Total Capital Receipts	282,348	282,348	500,391	
Total Crown Revenue and Receipts	282,518	282,518	500,561	

