

VOTE Defence

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OVERVIEW

Appropriations sought for Vote Defence in 1998/99 total \$343.436 million. This is intended to be spent as follows:

- \$9.228 million (2.69% of the Vote) on the purchase of services from the Ministry of Defence.
- \$334.208 million (97.31% of the Vote) on the purchase of items of equipment for onsale to the New Zealand Defence Force.

In 1998/99 the Ministry expects to be paid \$290.538 million by the New Zealand Defence Force for items of equipment. This is counted as Crown revenue.

Details of what the appropriations are to be spent on appear in Parts B1, C and E of this Vote. Details of Crown revenue appear in Part F.

Footnotes

Note 1	<i>Not applicable as Crown revenue is not appropriated.</i>
Note 2	<i>Appropriations are stated GST inclusive (where applicable).</i>

VOTE 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 will make an important contribution to the Government's broad defence and security outcomes which are concerned with the preservation of a free and orderly environment in which the political, economic and social aims of New Zealand and its citizens can be pursued free of threat or coercion.

The outcomes include:

- the maintenance of our sovereign integrity
- promotion of New Zealand's strategic interests
- contributing to the stability of the region
- promotion of global peace and security.

Output Classes

To pursue these outcomes, the appropriations are intended to fund a range of activities, including:

- policy and/or other advice on New Zealand's strategic environment, security interests and international defence relationships; technical and analytical studies of military capabilities, force structure and development issues; and investment and resource analysis
- a programme of work to develop New Zealand's defence relationships with regional countries and traditional allies, particularly Australia
- a public relations strategy to enhance public awareness of defence issues
- the evaluation of the management of human, matériel and financial resources in the New Zealand Defence Force
- review of the Ministry's acquisition projects
- the 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 the New Zealand Defence Force

- the maintenance of information on industrial capability and the provision of advice to industry on Defence requirements.

Linkage Between the Output Classes and the Government's Outcomes

The following table links the Government's strategic objectives and the classes of outputs being purchased under Vote Defence.

Output Classes	Related Outcomes
<ul style="list-style-type: none"> • Policy Advice • Audit and Assessment of Performance • Management of Equipment Procurement 	<ul style="list-style-type: none"> • Maintaining a credible defence force which provides national security and makes an appropriate contribution to regional security and international peacekeeping.

Part A2 - Trends in Vote Defence

The time series of departmental and Crown flows is detailed in the table which follows.

Output Trends: 1993/94 to 1997/98

The trend over the review period has been relatively constant. Staff numbers have varied slightly. Activity levels in policy work, audits undertaken and procurement projects managed have not changed significantly.

Crown Expenditure and Revenue Trends: 1993/94 to 1997/98

The Ministry has responsibility for managing procurement projects which entail a significant change to New Zealand's defence capability. The Ministry must ensure that the procurement process is operated efficiently, and the equipment is provided on time and within budget.

The major projects in the period since 1993/94 have been the management of the ANZAC frigate project and the purchase of Aermacchi aircraft. In 1995/96 the military sealift ship HMNZS *Charles Upham* was procured, and initial payments were made on the P3 Orion surveillance aircraft re-wing project. The 1995/96 Budget included provision for initial payments on self-protection equipment for Hercules transport aircraft. In 1996/97 expenditure was incurred on surveillance, target acquisition and night observation equipment and very low-level air defence systems. A replacement hydrographic survey and oceanographic research ship, HMNZS *Resolution*, was procured. 1997/98 saw a contract placed with Kaman Aerospace International Corporation for four Seasprite maritime helicopters, with delivery of these scheduled in the latter half of 2000, and for four older model Seasprites to maintain the capability in the meantime. The expenditure trends reflect the various timings of payments, on approximately 20 projects, as contracts are progressed.

Crown revenue in 1993/94 is from the sale of items of equipment to the New Zealand Defence Force, after delivery and acceptance. In 1994/95 a new policy was implemented which requires the New Zealand Defence Force to make progress payments to match the expenditure payments being made by the Ministry. Crown revenue is significantly higher because of this timing change.

Trends in Vote Defence - Summary of Appropriations and Crown Revenue

Types of Appropriation	1993/94	1994/95	1995/96	1996/97	1997/98		1998/99 Appropriations to be Used				Total \$000
	Actual \$000	Actual \$000	Actual \$000	Actual \$000	Budget \$000	Estimated Actual \$000	By the Department Administering the Vote		For Non-Departmental Transactions		
							Annual \$000	Other \$000	Annual \$000	Other \$000	
Operating Flows											
Classes of Outputs to be Supplied	8,925	8,708	8,933	8,978	9,228	9,228	9,228	-	-	-	9,228
Benefits and Other Unrequited Expenses	-	-	-	-	-	-	N/A	N/A	-	-	-
Borrowing Expenses	-	-	-	-	-	-	N/A	N/A	-	-	-
Other Expenses	25	5	-	-	-	-	-	-	-	-	-
Capital Flows											
Capital Contributions	-	-	-	-	-	-	-	-	-	-	-
Purchase or Development of Capital Assets	196,186	245,975	165,654	188,929	341,516	299,347	N/A	N/A	334,208	-	334,208
Repayment of Debt	-	-	-	-	-	-	N/A	N/A	-	-	-
Total Appropriations	205,136	254,688	174,587	197,907	350,744	308,575	9,228	-	334,208	-	343,436
Total Crown Revenue and Receipts (see note 1)	98,124	568,160	234,158	182,454	226,809	157,209	N/A	N/A	N/A	N/A	290,938

Part B - Statement of Appropriations

Part B1 - Details of 1998/99 Appropriations (see note 2)

	1997/98				1998/99		Description of 1998/99 Appropriations
	Vote		Estimated Actual		Vote		
Appropriations	Annual \$000	Other \$000	Annual \$000	Other \$000	Annual \$000	Other \$000	
Departmental Output Classes (Mode B Gross)							
D1 Policy Advice	3,458	-	3,458	-	3,293	-	- Policy advice, strategic planning and the management of international defence relationships.
D2 Audit and Assessment of Performance	2,390	-	2,390	-	2,473	-	- Evaluation of the management of resources in the New Zealand Defence Force and reviewing the Ministry's acquisition projects.
D3 Management of Equipment Procurement	3,380	-	3,380	-	3,462	-	- 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 Classes (Mode B Gross)	9,228	-	9,228	-	9,228	-	Refer to Part C1 for a full description.

Purchase or Development of Capital Assets by the Crown							
Defence Equipment	261,236	-	219,067	-	220,997	-	Purchase of defence equipment for the New Zealand Defence Force.
GST on Defence Equipment	80,280	-	80,280	-	113,211	-	Input GST on purchase of defence equipment for the New Zealand Defence Force.
Total Appropriations for Purchase or Development of Capital Assets by the Crown	341,516	-	299,347	-	334,208	-	Refer to Part E2 for a full description.
Total Appropriations	350,744	-	308,575	-	343,436	-	

Part C - Explanation of Appropriations for Output Classes

Part C1 - Departmental Output Classes

Output Class D1 - Policy Advice

Description

Under this output class the Minister of Defence will purchase advice on New Zealand's defence and security interests, strategic planning and the management of international defence relationships. This includes studies of military capabilities and force structures, and investment and resource analysis. The policy advice derived from this output class is consolidated in a Defence Planning System (DPS). The DPS provides Government with a consolidated set of short- and medium-term development plans and long-range estimates covering military capabilities needed to meet the Government's defence strategy, together with an investment programme and funding options to deliver these capabilities. Included in this output class is advice on the management of international defence relations, including closer defence relations (CDR) with Australia and the enhancement of regional security through participation in multilateral defence and security forums, and the development of bilateral defence relationships. It also includes responses to ministerial and parliamentary questions, Official Information Act inquiries and Ombudsman correspondence; and the preparation and implementation of a public affairs strategy to enhance public awareness of defence issues.

Quantity, quality, timeliness and cost

Quantity

The Minister of Defence will expect advice to be delivered as specified in the Purchase Agreement between the Minister of Defence and the Secretary of Defence. Included in this, the Ministry will:

- assist in the implementation of decisions arising from the Defence Assessment as outlined in the Government's White Paper *The Shape of New Zealand's Defence*
- in conjunction with the New Zealand Defence Force, implement and maintain a defence planning system
- progress activities and studies that will enhance long-term closer defence relationships with Australia
- undertake ongoing analysis of international developments likely to affect New Zealand and its security needs and interests
- in association with other interested parties, progress submissions for the Government decision on major defence investment proposals
- participate in regional multilateral security dialogue

- develop and implement a programme of bilateral visits, discussion and exchanges
- provide policy advice on the conduct of peacekeeping operations generally, including New Zealand's involvement
- based on previous years' figures, expected quantities of ministerial servicing products will be:
 - ministerial correspondence 75 - 100
 - parliamentary questions 75 - 100
 - Official Information Act requests 10 - 15
- produce four issues of the *New Zealand Defence Quarterly* magazine
- produce 12 articles on defence issues for general newspapers and specialist media
- extend the multimedia presentation "Why A Defence Force" to a wider public and educational institutions, to encourage a better understanding of defence
- participate in appropriate public forum activities where defence policy and security issues will be discussed.

Quality

Advice will be delivered in accordance with the following quality standards:

- Ongoing ISO9001 certification will be achieved.
- Reports will clearly state their purpose and address any questions raised by the Minister.
- Assumptions behind the advice will be explicit, and the argument will be logical and supported by facts.
- Forecasts will be supported by thorough analysis.
- An adequate range of options will be presented and assessed for benefits, costs and consequences.
- Evidence will exist of adequate consultation with interested parties, where applicable, and possible objections to proposals will be identified.
- Problems of implementation, technical feasibility, timing and consistency with other policies will be considered.
- Articles produced for external production shall be of a standard acceptable to the relevant media.
- The content, layout and production of the *New Zealand Defence Quarterly* magazine will be to standards of comparable commercial publications.
- The Ministry of Defence will maintain quality control procedures to support the expectations for policy advice delivered under this output class.

- Where appropriate, written and oral advice tendered to the Minister of Defence will accurately reflect:
 - revenue and expense implications (quantified where possible)
 - administrative implications and costs (quantified where possible).
- The Minister of Defence will be asked annually to confirm that he is satisfied with the quality of advice tendered, where applicable.

Timeliness

- All reports and oral advice will be delivered within the agreed or statutory timeframe.
- Ministerial questions and correspondence will be delivered within the agreed or statutory timeframe.
- The *New Zealand Defence Quarterly* magazine will be produced each quarter.

Cost

This output class will be provided within the appropriated sum of \$3.293 million (inclusive of GST).

Year	Cost GST incl \$000	Cost GST excl \$000	Total Revenue GST excl \$000	Revenue Crown GST excl \$000	Revenue Other GST excl \$000
1998/99	3,293	2,927	2,927	2,897	30
1997/98	3,458	3,074	3,074	3,044	30

Output Class D2 - Audit and Assessment of Performance

Description

This class of output involves evaluation of the delivery of New Zealand Defence Force outputs against defence policy objectives, and assessment of the efficiency and effectiveness of the management of human, matériel and financial resources in the New Zealand Defence Force. It also includes review of the management practices used for the Ministry's acquisition projects.

Quantity, quality, timeliness and cost

Quantity and timeliness

During the year the Minister expects the Ministry to:

- complete approximately 17 evaluations to a programme set by, and to the satisfaction of, the Defence Evaluations Review Board, comprising evaluations of New Zealand Defence Force output delivery, management reviews of the New Zealand Defence Force and reviews of the management of the Ministry's acquisition projects

- participate in oversight of the ANZAC frigate project through the Project Joint Audit Board.

Quality

The evaluations will have the following quality characteristics:

- Ongoing ISO9001 certification will be achieved.
- Evaluations will be conducted in accordance with prescribed practice.
- The facts used in reports will be accurate and all material facts will be included.
- The findings and recommendations will be a logical derivation from the circumstances found.
- Managerial review will be maintained throughout the evaluation process.

Cost

This output class will be provided within the appropriated sum of \$2.473 million (inclusive of GST).

Year	Cost GST incl \$000	Cost GST excl \$000	Total Revenue GST excl \$000	Revenue Crown GST excl \$000	Revenue Other GST excl \$000
1998/99	2,473	2,198	2,198	2,198	-
1997/98	2,390	2,124	2,124	2,124	-

Output Class D3 - Management of Equipment Procurement

Description

Under this output class the Minister of Defence will purchase management of procurement or refurbishment, on behalf of the Crown, of significant equipment contributing to a capability of the New Zealand Defence Force. This output covers the management of procurement functions 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 the New Zealand Defence Force, and the management of any warranty provisions beyond that date. It also covers the investigation of any associated financing arrangements and the arrangement of on-sale to the New Zealand Defence Force. Also included in this output class are the maintenance of information on industrial capability and the provision of advice to industry on Defence requirements.

*Quantity, quality, timeliness and cost*Quantity and timeliness

The Minister expects the Ministry in 1998/99 to:

- commence the following projects:
 - tactical communications for the Army
 - heavy machine guns (direct fire support)
 - P3 Orion mission equipment
 - bridge simulator for naval training
 - armoured vehicles
- progress acquisition of maritime helicopters
- progress the P3 Orion surveillance aircraft project to replace the wings and horizontal stabilisers
- complete the acquisition of electronic warfare equipment for C130 aircraft
- progress acquisition of surveillance, target acquisition and night observation equipment for the Army
- progress acquisition of very low-level air defence equipment for the Army
- manage all capability procurement projects within the agreed delivery schedule and on budget as confirmed by audit
- continue management of the ANZAC frigate project on time and on budget as confirmed by audit and six-monthly reports to Ministers
- provide support for the Defence Industry Committee of New Zealand
- complete material for the Australia and New Zealand Industry Defence Equipment and Capability Catalogue database
- conduct industry briefing sessions on current defence projects and activities.

Quality

The quality of equipment procurement will be subject to the following quality standards:

- Relevance - all contracts will meet the criteria and contribute to the Government's outcomes.
- Best price - the prices agreed for projects will be based on a competitive tender process, or where tendering is not possible, they will be based on either independent benchmarks, or full cost disclosure by the provider.

- Risk management - any significant variation will be identified and any corrective actions required or taken; any potential risks to delivering according to the agreed quality, quantity and price.
- Accuracy - payments will be made at the agreed sum to the correct supplier and no payments will be made in excess of the agreed sum.
- Timely - all contracts will be negotiated by specified deadlines and payments will be made on time provided the provider is meeting the terms of the contract.

In addition, delivery of this output class will be subject to:

- ongoing ISO9001 certification
- new capabilities and major refurbishment being acquired within approved budgets, to the quality standards negotiated for each project and within the agreed delivery schedule
- updating databases on industrial capability
- contract awards that are subject to considerations of through-life cost, quality, delivery schedule and local industrial participation
- advice to industry on Defence requirements
- initiatives to harmonise and implement joint industrial policy with the Australian Department of Defence
- the Minister of Defence being asked annually to confirm that he or she is satisfied with procurement activities.

Cost

This output class will be provided within the appropriated sum of \$3.462 million (inclusive of GST).

Year	Cost GST incl \$000	Cost GST excl \$000	Total Revenue GST excl \$000	Revenue Crown GST excl \$000	Revenue Other GST excl \$000
1998/99	3,462	3,078	3,078	3,078	-
1997/98	3,380	3,005	3,005	3,005	-

Part C2 - Non-departmental Output Classes

No output classes will be purchased from other parties for this Vote.

Part E - Explanation of Appropriations for Capital Flows

Part E1 - Departmental Output Classes

There is no appropriation in respect of Part E1.

Net Worth of Entities Owned

Statement of Estimated and Forecast Net Worth

	Balance Date	Estimated Net Worth 1998 \$ million	Forecast Net Worth 1999 \$ million
Ministry of Defence	30 June	1.555	1.555

Part E2 - Purchase or Development of Capital Assets of the Crown

The 1998/99 appropriation is for the following significant projects:

	\$000
Continuation of ANZAC ship project	109.359
Orion aircraft re-wing	15.613
Maritime helicopters	84.683
Replacement hydrographic survey and oceanographic research ship	0.554
Self-protection equipment for Hercules transport aircraft	3.095
Surveillance, target acquisition and night observation equipment	0.007
Very low-level air defence	0.313
Other projects	7.373
	220.997
GST on defence equipment	113.211
	334.208

Part E3 - Repayment of Debt

There are no appropriations for Part E3.

Part F - Crown Revenue and Receipts

Part F1 - Current and Capital Revenue and Receipts

	1997/98		1998/99	Description of 1998/99 Crown Revenue
	Budgeted	Estimated Actual	Budget	
	\$000	\$000	\$000	
Current Revenue				
Non-Tax Revenue				
Crown Interest	450	800	400	Interest earned on balances in foreign currency accounts.
Total Non-Tax Revenue	450	800	400	
Total Current Revenue	450	800	400	
Capital Receipts				
Defence Equipment	226,359	156,409	290,538	Defence equipment sold to New Zealand Defence Force.
Total Capital Receipts	226,359	156,409	290,538	
Total Crown Revenue and Receipts	226,809	157,209	290,938	