

Forecast Financial Statements

New Zealand Defence Force

Statement of Forecast Financial Performance for the year ending 30 June 2009

	Note	2006/07 Actual \$000	2007/08 Budgeted \$000	2007/08 Estimated Actual \$000	2008/09 Budgeted \$000
Income					
Crown		1,806,812	1,874,992	1,874,992	2,045,532
Department(s)		9,490	10,642	10,642	10,942
Other revenue		6,586	8,143	7,143	8,643
Gains		(90,384)	11,751	11,751	-
Interest		1,263	100	100	100
Total Income		1,733,767	1,905,628	1,904,628	2,065,217
Expenses					
Personnel		649,722	682,616	682,616	762,146
Operating	1	547,593	573,160	572,160	591,846
Depreciation and amortisation		290,608	281,400	281,400	349,671
Capital charge		346,845	356,601	356,601	361,454
Finance costs		-	-	-	-
Other		3,109	-	-	-
Total Expenses	2	1,837,877	1,893,777	1,892,777	2,065,117
Net Surplus / (Deficit)		(104,110)	11,851	11,851	100

Statement of Forecast Changes in Taxpayers' Funds for the year ending 30 June 2009

	Note	2006/07 Actual \$000	2007/08 Budgeted \$000	2007/08 Estimated Actual \$000	2008/09 Budgeted \$000
Balance at 1 July					
General funds		3,212,513	3,570,383	3,570,383	3,653,523
Revaluation reserve		1,285,919	1,132,138	1,132,138	1,134,132
Other reserves		-	-	-	-
Taxpayers' Funds Opening Balance		4,498,432	4,702,521	4,702,521	4,787,655
Changes in Taxpayers' Funds					
Income and Expense for the Period					
Net surplus / (deficit) for the year		(104,110)	11,851	11,851	100
Total gains / (losses) taken to equity		(170,485)	(12)	(12)	-
Total Income and Expense for the Period		(274,595)	11,839	11,839	100
Other Changes					
Repayment of surplus		(6,182)	(100)	(100)	(100)
Capital contribution		479,812	73,395	73,395	54,190
Capital withdrawal		-	-	-	-
Other		5,054	-	-	-
Total Changes in Taxpayers' Funds		204,089	85,134	85,134	54,190
Balance at 30 June					
General funds		3,570,383	3,653,523	3,653,523	3,707,713
Revaluation reserve		1,132,138	1,134,132	1,134,132	1,134,132
Other reserves		-	-	-	-
Taxpayers' Funds Closing Balance		4,702,521	4,787,655	4,787,655	4,841,845

Forecast Statement of Financial Position as at 30 June 2009

	Note	2006/07 Actual \$000	2007/08 Budgeted \$000	2007/08 Estimated Actual \$000	2008/09 Budgeted \$000
Assets					
Current Assets					
Cash and cash equivalents		129,061	25,918	25,918	30,050
Debtors and other receivables	3	153,336	207,203	207,203	150,656
Prepayments	4	693,920	30,059	30,059	30,059
Inventories		83,617	91,769	91,769	104,745
Other current assets		-	-	-	-
Total Current Assets		1,059,934	354,949	354,949	315,510
Non-current Assets					
Property, plant and equipment	4, 6	3,715,144	4,459,146	4,459,146	4,514,468
Intangible assets		15,808	18,227	18,227	21,227
Other non-current assets	5	157,183	170,428	170,428	194,526
Total Non-current Assets		3,888,135	4,647,801	4,647,801	4,730,221
Total Assets		4,948,069	5,002,750	5,002,750	5,045,731
Liabilities					
Current Liabilities					
Creditors and other payables		168,311	146,235	146,235	140,941
Repayment of surplus		6,182	100	100	100
Employee entitlements		21,611	21,500	21,500	21,500
Other current liabilities		-	-	-	-
Total Current Liabilities		196,104	167,835	167,835	162,541
Non-current Liabilities					
Provisions		-	-	-	-
Employee entitlements		49,444	47,260	47,260	41,345
Other non-current liabilities		-	-	-	-
Total Non-current Liabilities		49,444	47,260	47,260	41,345
Total Liabilities		245,548	215,095	215,095	203,886
Taxpayers' Funds					
General funds		3,570,383	3,653,523	3,653,523	3,707,713
Revaluation reserve		1,132,138	1,134,132	1,134,132	1,134,132
Other reserves		-	-	-	-
Total Taxpayers' Funds		4,702,521	4,787,655	4,787,655	4,841,845
Total Liabilities and Taxpayers' Funds		4,948,069	5,002,750	5,002,750	5,045,731

Statement of Forecast Cash Flows for the year ending 30 June 2009

	Note	2006/07 Actual \$000	2007/08 Budgeted \$000	2007/08 Estimated Actual \$000	2008/09 Budgeted \$000
Cash Flows from Operating Activities					
Receipts from:					
Crown		1,732,116	1,815,042	1,815,042	2,102,079
Department(s)		7,056	10,552	10,552	10,942
Other		5,869	14,316	13,316	8,643
Interest		1,263	100	100	100
Payments to:					
Suppliers		(521,826)	(582,260)	(581,260)	(603,046)
Employees		(646,664)	(681,711)	(681,711)	(764,861)
Capital charge		(346,845)	(356,601)	(356,601)	(361,454)
Goods and services tax (net)		2,859	(3,005)	(3,005)	(5,294)
Other operating activities	7	-	(14,451)	(14,451)	-
Net Cash from Operating Activities	8	233,828	201,982	201,982	387,109
Cash Flow from Investing Activities					
Receipts from:					
Sale of property, plant and equipment		8,501	1,587	1,587	-
Sale of intangible assets		-	-	-	-
Sale of other non-current assets		-	-	-	-
Purchase of:					
Property, plant and equipment		(607,741)	(366,455)	(366,455)	(429,067)
Intangible assets		-	(7,470)	(7,470)	(8,000)
Other non-current assets		-	-	-	-
Net Cash from Investing Activities		(599,240)	(372,338)	(372,338)	(437,067)
Cash Flow from Financing Activities					
Capital contribution		479,812	73,395	73,395	54,190
Other financing cash inflows		-	-	-	-
Repayment of surplus		(131)	(6,182)	(6,182)	(100)
Capital withdrawal		-	-	-	-
Other financing cash outflows		-	-	-	-
Net Cash from Financing Activities		479,681	67,213	67,213	54,090
Net Increase / (Decrease) in Cash		114,269	(103,143)	(103,143)	4,132
Cash at the beginning of the year		14,792	129,061	129,061	25,918
Cash at the end of the year		129,061	25,918	25,918	30,050

Statement of Significant Assumptions

These statements have been compiled on the basis of government policies and the New Zealand Defence Force (NZDF) Output Plan agreements with the Minister for Defence at the time the statements were finalised.

The 2007/08 budgeted figures are based on management's judgments, estimates and assumptions of the final 2007/08 outcome and are used as the opening position for 2008/09 forecasts. Estimated year end information for 2007/08 is used as the opening position for the 2008/09 forecasts.

Key assumptions underlying this forecast are:

- There will be no significant change in government policies or the New Zealand Defence Force's Output Plan agreement with the Minister of Defence.
- Ministry of Defence payments reflect the forecast payments for acquisition projects which have been approved by Cabinet. Should additional projects be approved during the year, there may be some payments for these projects during the year.
- There will be no major changes in exchange rates.
- The capital charge rate for the year ending 30 June 2009 is assumed to be 7.5% per annum.

Department-Specific Accounting Policies

The New Zealand Defence Force has applied the accounting policies set out in the Statement of Accounting Policies - Standard included in this document, except as stated below.

Reporting Entity

These are the prospective financial statements of New Zealand Defence Force, prepared in accordance with section 38 of the Public Finance Act 1989.

New Zealand Defence Force is a Government Department as defined by section 2 of the Public Finance Act 1989. For the purposes of financial reporting New Zealand Defence Force is a public benefit entity. In addition the financial statements include information on the Crown activities that NZDF administers on behalf of Vote Veterans' Affairs Defence Force.

In these financial statements the New Zealand Defence Force is also referred to as the NZDF, and Veterans' Affairs New Zealand is also referred to as VANZ.

Statement of Entity-Specific Accounting Policies

Property, plant and equipment

Capitalisation thresholds applied are set out below:

Item	Amount
IT Equipment / Hardware	\$5,000
All other property, plant and equipment	\$5,000

Depreciation

The estimated useful lives of property, plant and equipment are set out below.

Item	Years
Buildings	5 - 100 years
Leasehold improvements	2 - 20 years
IT Equipment / Hardware	2 - 5 years
Motor Vehicles	10 - 15 years
Furniture and office equipment	5 - 20 years
Specialist Military Equipment	5 - 55 years
Other Plant and equipment	5 - 50 years

Valuation

Land, Buildings and Specialist Military Equipment asset classes are subject to revaluation. Valuations use a market-based approach where possible. Where reliable market evidence is unavailable optimised depreciated replacement cost (ODRC) is used to calculate fair value. Valuations are determined or reviewed by an independent registered valuer.

Specialist Military Equipment with a net carrying value of \$2 million or more, or groups of like assets with a total carrying value of \$4 million or more are subject to revaluation. All other specialist military equipment is recorded at historical cost.

Intangible assets

Capitalisation thresholds applied are:

Item	Amount
Purchased software	\$5,000
Internally developed software	\$5,000

The estimated useful lives of intangible assets are set out below:

Item	Years
Purchased software	2 - 10 years
Internally developed software	2 - 10 years

Foreign exchange

Monetary assets and liabilities in foreign currencies at balance date are translated at the closing mid-point exchange rate ruling at that date.

Cost allocation

The NZDF has determined the cost of outputs using a cost allocation system outlined below.

- Direct costs of a force element (for example, a squadron, a frigate, a battalion) are attributed directly to an appropriate output

- Support unit costs are charged to outputs using drivers that reflect the use of that activity to produce outputs.
- Overhead costs are charged to outputs using the percentage of that outputs gross operating budget (exclusive of capital charge) to the total gross budget (exclusive of capital charge) for all outputs.
- The allocation rules are reviewed if there is significant organisational change to alter the continued appropriateness of the rules.

Inventories

Inventories are held for distribution or consumption in the provision of services and are comprised of munitions, technical spares and consumable items.

Inventory intended to be kept for more than one year has been classified as *non-current inventory*.

Inventories are recorded at weighted average cost and the cost of inventory reflects any obsolescence or other impairment.

Notes to the Financial Statements

Note 1 - Operating Expenses

	2006/07 Actual \$000	2007/08 Budgeted \$000	2007/08 Estimated Actual \$000	2008/09 Budgeted \$000
Operating expenses include:				
Consultants' fees	1,895	1,672	1,672	1,973
Domestic travel	15,265	14,075	14,075	13,139
Materials	174,768	186,360	186,360	185,470
Operating lease rentals	41,460	41,605	41,605	41,700
Overseas travel	17,072	19,693	19,693	17,051
Premises costs	62,827	75,938	75,938	88,687
Repairs and maintenance	94,524	92,885	92,885	110,013
Other	139,782	140,932	139,932	133,813
Total operating expenses	547,593	573,160	572,160	591,846

Note 2 - Reconciliation of Departmental Expenses and Appropriations

	2006/07 Actual \$000	2007/08 Budgeted \$000	2007/08 Estimated Actual \$000	2008/09 Budgeted \$000
Appropriations for output expenses				
Total for Vote: Defence Force - Annual Expenses	1,781,633	1,814,954	1,814,954	2,086,176
Total for Vote: Defence Force - Multi-Year Appropriation (MYA) share for year	40,333	71,292	71,292	-
Total for Vote: Veterans' Affairs - Defence Force	4,973	7,531	7,531	3,941
Total Appropriations for output expenses	1,826,939	1,893,777	1,893,777	2,090,117
Appropriations for other expenses				
Asset Write-Offs	2,700	2,700	2,700	-
Total appropriations for other expenses	2,700	2,700	2,700	-
Adjustments				
Appropriation amounts unused	(5,868)	-	(1,000)	-
Proposed transfer to 2009/10	-	-	-	(25,000)
Other expense appropriation not treated as departmental expense	(2,700)	(2,700)	(2,700)	-
Remeasurement	16,742	-	-	-
Unappropriated expenses Vote Veterans' Affairs - Defence	64	-	-	-
Total departmental expenses [as per statement of financial performance]	1,837,877	1,893,777	1,892,777	2,065,117

Note 2 above reconciles the expenses reported in the statement of forecast financial performance with the corresponding departmental budgeted appropriations appearing in the Estimates of Appropriations.

For 2006/07 and 2007/08 the costs of the Operationally Deployed Forces were incurred under a Multi-Year Appropriation (MYA) covering the period 1 July 2005 - 30 June 2008. For 2008/09 these costs are subject to an annual vote.

Note 3 - Debtors and Other Receivables

	2006/07 Actual \$000	2007/08 Budgeted \$000	2007/08 Estimated Actual \$000	2008/09 Budgeted \$000
Debtor Crown	137,788	197,738	197,738	141,191
Debtors other	15,548	9,465	9,465	9,465
Total debtors and other receivables	153,336	207,203	207,203	150,656

Note 4 - Prepayments to Ministry of Defence

The NZDF reimburses the Ministry of Defence (Vote Defence) twice annually for costs incurred on capital projects. This has the effect of transferring non-departmental capital expenditure from the Ministry of Defence to the NZDF Statement of Financial Position.

As at 30 June 2007 \$663.840 million was incorporated within the prepayment total. From 1 July 2007 this treatment has been changed and values prepaid to the Ministry of Defence are now incorporated within Property, plant and equipment.

Note 5 - Other Non-Current Assets

	2006/07 Actual \$000	2007/08 Budgeted \$000	2007/08 Estimated Actual \$000	2008/09 Budgeted \$000
Inventory - non current	157,183	170,428	170,428	194,526
Total	157,183	170,428	170,428	194,526

Note 6 - Property, Plant and Equipment

	Land \$000	Buildings \$000	Specialist Military Equipment \$000	Plant & Equipment \$000	Computer Equipment \$000	Total \$000
Cost or Revaluation						
Balance as at 1 July 2008	384,700	961,068	3,638,010	286,956	48,404	5,319,138
Additions by purchase	-	20,000	348,993	25,000	6,000	399,993
Balance as at 30 June 2009	384,700	981,068	3,987,003	311,956	54,404	5,719,131

	Land	Buildings	Specialist Military Equipment	Plant & Equipment	Computer Equipment	Total
	\$000	\$000	\$000	\$000	\$000	\$000
Accumulated depreciation and impairment losses						
Balance as at 1 July 2008	-	70,023	610,158	144,202	35,609	859,992
Depreciation expense	-	34,000	291,671	13,000	6,000	344,671
Balance as at 30 June 2009	-	104,023	901,829	157,202	41,609	1,204,663
Carrying amount as at 30 June 2009	384,700	877,045	3,085,174	154,754	12,795	4,514,468

Note 7 - Unrealised Foreign Exchange Gains

The 2007/08 Statement of Forecast Cash Flows from Operating Activities (Other operating activities) includes unrealised Foreign Exchange Gains of \$14.451 million recognised as at 28 February 2008. However, the NZDF Annual Report 2008 will instead treat the values finally recognised as an adjustment to the closing cash balance.

Note 8 - Reconciliation of Net Surplus/Deficit to Net Cash Flows from Operating Activities for the Year Ending 30 June 2009

	2006/07 Actual \$000	2007/08 Budgeted \$000	2007/08 Estimated Actual \$000	2008/09 Budgeted \$000
Net surplus / (deficit)	(104,110)	11,851	11,851	100
Add/ (less) non-cash items				
Depreciation and amortisation expense	290,608	281,400	281,400	349,671
Asset write-down	1,665	2,700	2,700	-
Net foreign exchange (gains)/losses - Note 7	-	(14,451)	(14,451)	-
Revaluation Adjustments	90,484	-	-	-
Stock Obsolescence provision	1,615	-	-	-
Doubtful debt provision	109	-	-	-
Total non-cash items	384,481	269,649	269,649	349,671
Add/ (less) items classified as investing or financing activities				
(Gains) losses on disposal property, plant and equipment	(1,765)	-	-	-
Total items classified as investing or financing activities	(1,765)	-	-	-

	2006/07 Actual \$000	2007/08 Budgeted \$000	2007/08 Estimated Actual \$000	2008/09 Budgeted \$000
Add/ (less) movements in working capital items				
(Inc)/ Dec in debtors and other receivables	(79,797)	(53,867)	(53,867)	56,547
(Inc)/ Dec in prepayments	(1,073)	26,199	26,199	29,074
(Inc)/ Dec in inventories	(4,537)	(21,397)	(21,397)	(37,074)
Inc/ (Dec) in creditors and other payables	45,712	(28,158)	(28,158)	(5,294)
Inc/ (Dec) in employee entitlements	(1,723)	(111)	(111)	-
Net movements in working capital items	(41,418)	(77,334)	(77,334)	43,253
Add/(less) movements in non-current liabilities				
Inc/(Dec) in employee entitlements	(3,360)	(2,184)	(2,184)	(5,915)
Net cash from operating activities	233,828	201,982	201,982	387,109