

# *Forecast Financial Statements*

## *New Zealand Defence Force*

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## Statement of Forecast Comprehensive Income for the year ending 30 June 2010

	Note	2007/08	2008/09		2009/10
		Actual \$000	In 2008 Budget \$000	Estimated Actual \$000	Budgeted \$000
<b>Income</b>					
Crown		1,874,992	2,045,532	2,083,494	2,133,981
Department(s)		10,062	10,942	12,942	15,442
Other revenue		6,954	8,643	10,643	8,777
Gains	1	12,859	-	27,693	-
Interest		78	100	100	100
<b>Total Income</b>		<b>1,904,945</b>	<b>2,065,217</b>	<b>2,134,872</b>	<b>2,158,300</b>
<b>Expenses</b>					
Personnel		691,925	762,146	813,708	818,493
Operating	2	553,210	591,846	553,100	609,880
Depreciation and amortisation		279,755	349,671	319,844	332,733
Capital charge		356,601	361,454	400,427	397,094
Finance costs		-	-	-	-
Other		3,526	-	340	-
<b>Total Expenses</b>	3	<b>1,885,017</b>	<b>2,065,117</b>	<b>2,087,419</b>	<b>2,158,200</b>
<b>Net Surplus / (Deficit)</b>		<b>19,928</b>	<b>100</b>	<b>47,453</b>	<b>100</b>
Other comprehensive income	7	514,633	-	-	-
<b>Total Comprehensive Income</b>		<b>534,561</b>	<b>100</b>	<b>47,453</b>	<b>100</b>

## Statement of Forecast Changes in Taxpayers' Funds for the year ending 30 June 2010

	Note	2007/08	2008/09		2009/10
		Actual \$000	In 2008 Budget \$000	Estimated Actual \$000	Budgeted \$000
<b>Balance at 1 July</b>					
General funds		3,570,383	3,653,523	3,655,619	3,658,016
Revaluation reserve		1,132,138	1,134,132	1,647,789	1,647,675
Other reserves		-	-	-	-
<b>Taxpayers' Funds Opening Balance</b>		<b>4,702,521</b>	<b>4,787,655</b>	<b>5,303,408</b>	<b>5,305,691</b>
<b>Changes in Taxpayers' Funds</b>					
Comprehensive income for the period		534,561	100	47,453	100
Repayment of surplus		(7,069)	(100)	(20,100)	(100)
Capital contribution	4	73,395	54,190	54,930	80,000
Capital withdrawal	4	-	-	(80,000)	(171)
Other		-	-	-	-
<b>Total Changes in Taxpayers' Funds</b>		<b>600,887</b>	<b>54,190</b>	<b>2,283</b>	<b>79,829</b>
<b>Balance at 30 June</b>					
General funds		3,655,619	3,707,713	3,658,016	3,737,845
Revaluation reserve		1,647,789	1,134,132	1,647,675	1,647,675
Other reserves		-	-	-	-
<b>Taxpayers' Funds Closing Balance</b>		<b>5,303,408</b>	<b>4,841,845</b>	<b>5,305,691</b>	<b>5,385,520</b>

## Forecast Statement of Financial Position as at 30 June 2010

		2007/08	2008/09		2009/10
	Note	Actual \$000	In 2008 Budget \$000	Estimated Actual \$000	Budgeted \$000
<b>Assets</b>					
<b>Current Assets</b>					
Cash and cash equivalents		80,530	30,050	41,464	10,000
Debtors and other receivables	5	215,429	150,656	205,545	7,438
Prepayments		33,306	30,059	35,000	35,000
Inventories	6	82,820	104,745	97,827	105,063
Other current assets		-	-	-	-
<b>Total Current Assets</b>		<b>412,085</b>	<b>315,510</b>	<b>379,836</b>	<b>157,501</b>
<b>Non-current Assets</b>					
Property, plant and equipment	7	4,957,082	4,514,468	4,979,277	5,232,195
Intangible assets	8	16,756	21,227	16,518	16,517
Other non-current assets	6	171,355	194,526	181,679	195,117
<b>Total Non-current Assets</b>		<b>5,145,193</b>	<b>4,730,221</b>	<b>5,177,474</b>	<b>5,443,829</b>
<b>Total Assets</b>		<b>5,557,278</b>	<b>5,045,731</b>	<b>5,557,310</b>	<b>5,601,330</b>
<b>Liabilities</b>					
<b>Current Liabilities</b>					
Creditors and other payables		168,519	140,941	151,369	142,577
Repayment of surplus		7,069	100	20,100	100
Employee entitlements		27,756	21,500	29,150	29,150
Other current liabilities		-	-	-	-
<b>Total Current Liabilities</b>		<b>203,344</b>	<b>162,541</b>	<b>200,619</b>	<b>171,827</b>
<b>Non-current Liabilities</b>					
Provisions		-	-	-	-
Employee entitlements		50,526	41,345	51,000	43,983
Other non-current liabilities		-	-	-	-
<b>Total Non-current Liabilities</b>		<b>50,526</b>	<b>41,345</b>	<b>51,000</b>	<b>43,983</b>
<b>Total Liabilities</b>		<b>253,870</b>	<b>203,886</b>	<b>251,619</b>	<b>215,810</b>
<b>Taxpayers' Funds</b>					
General funds		3,655,619	3,707,713	3,658,016	3,737,845
Revaluation reserve		1,647,789	1,134,132	1,647,675	1,647,675
Other reserves		-	-	-	-
<b>Total Taxpayers' Funds</b>		<b>5,303,408</b>	<b>4,841,845</b>	<b>5,305,691</b>	<b>5,385,520</b>
<b>Total Liabilities and Taxpayers' Funds</b>		<b>5,557,278</b>	<b>5,045,731</b>	<b>5,557,310</b>	<b>5,601,330</b>

## Statement of Forecast Cash Flows for the year ending 30 June 2010

		2007/08	2008/09		2009/10
	Note	Actual \$000	In 2008 Budget \$000	Estimated Actual \$000	Budgeted \$000
<b>Cash Flows from Operating Activities</b>					
<b>Receipts from:</b>					
Crown		1,815,042	2,102,079	2,079,987	2,332,088
Department(s)		11,281	10,942	16,443	15,442
Other		3,592	8,643	20,533	8,777
Interest		78	100	100	100
<b>Payments to:</b>					
Suppliers		(539,766)	(603,046)	(531,846)	(617,130)
Employees		(681,502)	(764,861)	(806,189)	(819,859)
Capital charge		(356,601)	(361,454)	(400,427)	(397,094)
Goods and services tax (net)		2,367	(5,294)	(2,570)	(8,793)
Other operating activities	1, 9	(13,649)	-	(30,693)	-
<b>Net Cash from Operating Activities</b>	10	240,842	387,109	345,338	513,531
<b>Cash Flow from Investing Activities</b>					
<b>Receipts from:</b>					
Sale of property, plant and equipment		1,910	-	7,207	-
Sale of intangible assets		-	-	-	-
Sale of other non-current assets		-	-	-	-
<b>Purchase of:</b>					
Property, plant and equipment		(352,792)	(429,067)	(352,677)	(598,725)
Intangible assets		(5,704)	(8,000)	(6,795)	(5,999)
Other non-current assets		-	-	-	-
<b>Net Cash from Investing Activities</b>		(356,586)	(437,067)	(352,265)	(604,724)
<b>Cash Flow from Financing Activities</b>					
Capital contribution	4	73,395	54,190	54,930	80,000
Other financing cash inflows		-	-	-	-
Repayment of surplus		(6,182)	(100)	(7,069)	(20,100)
Capital withdrawal	4	-	-	(80,000)	(171)
Other financing cash outflows		-	-	-	-
<b>Net Cash from Financing Activities</b>		67,213	54,090	(32,139)	59,729
<b>Net Increase / (Decrease) in Cash</b>		(48,531)	4,132	(39,066)	(31,464)
Cash at the beginning of the year		129,061	25,918	80,530	41,464
<b>Cash at the end of the year</b>		80,530	30,050	41,464	10,000

## 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 2008/09 budgeted figures are based on management's judgments, estimates and assumptions of the final 2008/09 outcome and are used as the opening position for 2009/10 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 2010 is assumed to be 7.5% per annum.

## Statement of Entity-Specific Accounting Policies

The New Zealand Defence Force has applied the accounting policies set out in 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 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.

### Authorisation Statement

These forecast financial statements were authorised for issue by the Chief of Defence Force on 22 April 2009. The Chief of Defence Force as the Chief Executive of the New Zealand Defence Force is responsible for the forecast financial statements presented, including the appropriateness of the assumptions underlying the forecast financial statements and all other required disclosure.

### Specific Accounting Policies

#### *Property, Plant and Equipment*

Capitalisation thresholds applied are set out below.

- 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.

- 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

## Revaluation

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:

- Purchased software \$5,000
- Internally developed software \$5,000

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

- Purchased software 3 - 20 years
- Internally developed software 3 - 20 years

## *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.

## *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.

## Notes to the Financial Statements

### Note 1 - Foreign Exchange Gains

	2007/08	2008/09		2009/10
	Actual \$000	In 2008 Budget \$000	Estimated Actual \$000	Budgeted \$000
Unrealised Foreign Exchange Gain	14,799	-	30,693	-
Clearing accumulated disposal costs	(1,940)	-	(3,000)	-
<b>Total</b>	<b>12,859</b>	<b>-</b>	<b>27,693</b>	<b>-</b>

The Forecast Financial Statements include Unrealised Foreign Exchange Gains of \$30.693 million as at 28 February 2009 (28 February 2008 \$14.451 million). It is Government policy not to budget for remeasurements in asset values.

### Note 2 - Operating Expenses

	2007/08	2008/09		2009/10
	Actual \$000	In 2008 Budget \$000	Estimated Actual \$000	Budgeted \$000
Materials	185,645	185,470	208,146	208,044
Repairs and maintenance	85,749	110,013	77,178	88,709
Premises cost	77,342	88,687	73,189	73,514
Operating lease rentals	40,729	41,700	44,640	39,501
Domestic travel	14,730	13,139	15,912	14,193
Overseas travel	18,708	17,051	20,122	17,818
Consultants' fees	1,936	1,973	3,496	2,513
Other operating expenses	128,371	133,813	110,417	165,588
<b>Total</b>	<b>553,210</b>	<b>591,846</b>	<b>553,100</b>	<b>609,880</b>

**Note 3 - Reconciliation of Departmental Expenses and Appropriations**

This note reconciles the expenses reported in the forecast Statement of Comprehensive Income with the corresponding departmental appropriations appearing in the Estimates of Appropriations.

	2007/08	2008/09		2009/10
	Actual \$000	In 2008 Budget \$000	Estimated Actual \$000	Budgeted \$000
<b>Appropriations for output expenses</b>				
Total for Vote: Defence Force - Annual Expenses	1,814,954	2,086,176	2,099,297	2,149,823
Total for Vote: Defence Force - Multi Year Appropriation (MYA)	71,292	-	-	-
Total for Vote: Veterans' Affairs - Defence Force	7,531	3,941	7,782	8,377
<b>Total Appropriations for output expenses</b>	<b>1,893,777</b>	<b>2,090,117</b>	<b>2,107,079</b>	<b>2,158,200</b>
<b>Appropriations for other expenses</b>				
Asset Write-Offs	2,700	-	3,000	-
Gifting of Putiki Rifle Range	-	-	340	-
<b>Total Appropriations for other expenses</b>	<b>2,700</b>	<b>-</b>	<b>3,340</b>	<b>-</b>
<b>Adjustments</b>				
Appropriation amounts unused	(8,760)	-	(20,000)	-
Proposed transfer to 2009/10		(25,000)	-	-
Other expense appropriation not treated as departmental expense	(2,700)	-	(3,000)	-
<b>Total departmental expenses [as per Statement of Comprehensive Income]</b>	<b>1,885,017</b>	<b>2,065,117</b>	<b>2,087,419</b>	<b>2,158,200</b>

**Note 4 - Capital Transfer**

	2007/08	2008/09		2009/10
	Actual \$000	In 2008 Budget \$000	Estimated Actual \$000	Budgeted \$000
Capital contribution 2007/08	127,585	-	-	-
Capital contribution transfer from 2007/08 to 2008/09	(54,190)	54,190	-	-
Capital contribution for 2008/09	-	-	54,930	-
Capital contribution transfer from 2008/09 to 2009/10	-	-	(80,000)	80,000
Capital withdrawal in 2009/10	-	-	-	(171)
<b>Total</b>	<b>73,395</b>	<b>54,190</b>	<b>(25,070)</b>	<b>79,829</b>

**Note 5 - Debtors and Other Receivables**

	2007/08	2008/09		2009/10
	Actual \$000	In 2008 Budget \$000	Estimated Actual \$000	Budgeted \$000
Debtor Crown	197,738	141,191	201,245	3,138
Debtors and other receivables	17,691	9,465	4,300	4,300
<b>Total</b>	<b>215,429</b>	<b>150,656</b>	<b>205,545</b>	<b>7,438</b>

**Note 6 - Inventory**

	2007/08	2008/09		2009/10
	Actual \$000	In 2008 Budget \$000	Estimated Actual \$000	Budgeted \$000
Inventory: Current	82,820	104,745	97,827	105,063
Inventory: Non - Current	171,355	194,526	181,679	195,117
<b>Total</b>	<b>254,175</b>	<b>299,271</b>	<b>279,506</b>	<b>300,180</b>

**Note 7 - Property, Plant and Equipment (PPE)**

	Land \$000	Buildings \$000	Specialist Military Equipment \$000	Plant & Equipment \$000	Office & Computer Equipment \$000	Total \$000
<b>Cost or Revaluation</b>						
Balance as at 1 July 2009	578,680	1,097,707	3,850,488	262,395	75,838	5,865,108
Additions by purchase	-	72,000	466,651	33,000	8,000	579,651
<b>Balance at 30 June 2010</b>	<b>578,680</b>	<b>1,169,707</b>	<b>4,317,139</b>	<b>295,395</b>	<b>83,838</b>	<b>6,444,759</b>
<b>Accumulated depreciation</b>						
Balance as at 1 July 2009	-	38,337	658,665	152,083	36,746	885,831
Depreciation expense	-	34,000	272,733	15,000	5,000	326,733
<b>Balance at 30 June 2010</b>	<b>-</b>	<b>72,337</b>	<b>931,398</b>	<b>167,083</b>	<b>41,746</b>	<b>1,212,564</b>
<b>Net PPE at 30 June 2010</b>	<b>578,680</b>	<b>1,097,370</b>	<b>3,385,741</b>	<b>128,312</b>	<b>42,092</b>	<b>5,232,195</b>

The Forecast Financial Statements include the revaluation increase of \$514.633 million as at 30 June 2008 for the Land, Buildings and Specialist Military Equipment asset classes that are subject to revaluation. This revaluation increase is included in opening asset class values as at 1 July 2008. It is Government policy not to budget for revaluations in asset values.

**Note 8 - Intangible Assets**

	Acquired software \$000	Internally generated software \$000	Other \$000	Total \$000
<b>Cost</b>				
Balance as at 1 July 2009	37,959	-	-	37,959
Additions by purchase	5,999	-	-	5,999
Additions internally developed	-	-	-	-
Disposals	-	-	-	-
<b>Balance as at 30 June 2010</b>	<b>43,958</b>	<b>-</b>	<b>-</b>	<b>43,958</b>
<b>Accumulated amortisation and impairment losses</b>				
Balance as at 1 July 2009	21,441	-	-	21,441
Amortisation expense	6,000	-	-	6,000
Disposals	-	-	-	-
Impairment losses	-	-	-	-
<b>Balance as at 30 June 2010</b>	<b>27,441</b>	<b>-</b>	<b>-</b>	<b>27,441</b>
<b>Carrying amount as at 30 June 2010</b>	<b>16,517</b>	<b>-</b>	<b>-</b>	<b>16,517</b>

**Note 9 - Other Operating Activities**

The Statement of Forecast Cash Flows include Unrealised Foreign Exchange Gains of \$30.693 million as at 28 February 2009 (28 February 2008 \$14.451 million).

**Note 10 - Reconciliation of Net Surplus to Net Cash Flows from Operating Activities for the year ending**

	2007/08	2008/09		2009/10
	Actual \$000	In 2008 Budget \$000	Estimated Actual \$000	Budgeted \$000
<b>Net surplus / (deficit)</b>	<b>19,928</b>	<b>100</b>	<b>47,453</b>	<b>100</b>
<b>Add / (less) non cash items</b>				
Depreciation and amortisation expense	279,755	349,671	319,844	332,733
Increase / (decrease) in the provision for stock obsolescence	14,506	-	-	-
Increase / (decrease) in the provision for doubtful debts	333	-	-	-
Increase / (decrease) in non-current employee entitlements	1,082	-	474	(7,017)
Asset Write-Offs	1,940	-	3,000	-
Realised foreign exchange gain / (loss)	(1,150)	-	-	-
Other non cash item	-	-	2,999	-
<i>Total non-cash items</i>	<i>296,466</i>	<i>349,671</i>	<i>326,317</i>	<i>325,716</i>

	2007/08	2008/09		2009/10
	Actual \$000	In 2008 Budget \$000	Estimated Actual \$000	Budgeted \$000
<b>Add / (less) items classified as investing or financing activities</b>				
(Gains) / losses on disposal of Property, Plant and Equipment	2,376	-	340	-
<i>Total items classified as investing or financing activities</i>	<i>2,376</i>	<i>-</i>	<i>340</i>	<i>-</i>
<b>Add / (less) movements in working capital items</b>				
(Increase) / decrease in debtors and receivables	(62,573)	56,547	9,884	198,107
(Increase) / decrease in interest	-	-	-	-
(Increase) / decrease in inventories	(21,948)	(37,074)	(25,331)	(1,600)
(Increase) / decrease prepayments	(3,226)	29,074	(1,694)	-
Increase / (decrease) in creditors and other payables	1,594	(5,294)	(15,595)	(8,792)
Increase / (decrease) in GST payable	2,367	-	2,570	-
Increase / (decrease) in provisions	(167)	-	-	-
Increase / (decrease) in current employee entitlements	6,025	(5,915)	1,394	-
<i>Net movements in working capital items</i>	<i>(77,928)</i>	<i>37,338</i>	<i>(28,772)</i>	<i>187,715</i>
<b>Net cash from operating activities</b>	<b>240,842</b>	<b>387,109</b>	<b>345,338</b>	<b>513,531</b>