

Forecast Financial Statements

New Zealand Defence Force

Statement of Forecast Comprehensive Income for the year ending 30 June 2011

	Note	2008/09	2009/10		2010/11
		Actual \$000	In 2009 Budget \$000	Estimated Actual \$000	Budgeted \$000
Income					
Crown		2,083,494	2,133,981	2,201,375	2,253,969
Department(s)		12,081	15,442	20,542	25,142
Other revenue		8,335	8,777	8,777	8,777
Gains	1	42,463	-	(3,300)	-
Interest		49	100	100	100
Total Income		2,146,422	2,158,300	2,227,494	2,287,988
Expenses					
Personnel		816,444	818,493	846,850	862,172
Operating	2	582,600	609,880	598,528	607,297
Depreciation and amortisation		306,200	332,733	338,452	382,695
Capital charge		400,428	397,094	428,864	435,724
Finance costs		-	-	-	-
Other	9	29,039	-	90,000	-
Total Expenses	3	2,134,711	2,158,200	2,302,694	2,287,888
Net Surplus / (Deficit)		11,711	100	(75,200)	100
Other comprehensive income	7	454,885	-	-	-
Total Comprehensive Income		466,596	100	(75,200)	100

Statement of Forecast Changes in Taxpayers' Funds for the year ending 30 June 2011

	Note	2008/09	2009/10		2010/11
		Actual \$000	In 2009 Budget \$000	Estimated Actual \$000	Budgeted \$000
Balance at 1 July					
General funds		3,655,619	3,658,016	3,618,986	3,619,899
Revaluation reserve		1,647,789	1,647,675	2,101,943	2,101,943
Other reserves		-	-	-	-
Taxpayers' Funds Opening Balance		5,303,408	5,305,691	5,720,929	5,721,842
Changes in Taxpayers' Funds					
Comprehensive income for the period		466,596	100	(75,200)	100
Repayment of surplus		(24,005)	(100)	(18,100)	(100)
Capital contribution	4	54,930	80,000	94,384	-
Capital withdrawal	4	(80,000)	(171)	(171)	-
Other		-	-	-	-
Total Changes in Taxpayers' Funds		417,521	79,829	913	-
Balance at 30 June					
General funds		3,618,986	3,737,845	3,619,899	3,619,899
Revaluation reserve		2,101,943	1,647,675	2,101,943	2,101,943
Other reserves		-	-	-	-
Taxpayers' Funds Closing Balance		5,720,929	5,385,520	5,721,842	5,721,842

Forecast Statement of Financial Position as at 30 June 2011

		2008/09	2009/10		2010/11
	Note	Actual \$000	In 2009 Budget \$000	Estimated Actual \$000	Budgeted \$000
Assets					
Current Assets					
Cash and cash equivalents		13,099	10,000	53,146	10,863
Debtors and other receivables	5	189,861	7,438	179,207	15,800
Prepayments		38,149	35,000	35,000	35,000
Inventories	6	95,180	105,063	101,513	110,704
Other current assets		-	-	-	-
Total Current Assets		336,289	157,501	368,866	172,367
Non-current Assets					
Property, plant and equipment	7	5,482,911	5,232,195	5,442,872	5,606,120
Intangible assets	8	14,214	16,517	15,025	15,025
Other non-current assets	6	175,298	195,117	182,125	185,595
Total Non-current Assets		5,672,423	5,443,829	5,640,022	5,806,740
Total Assets		6,008,712	5,601,330	6,008,888	5,979,107
Liabilities					
Current Liabilities					
Creditors and other payables		183,515	142,577	184,796	180,015
Repayment of surplus		24,005	100	18,100	100
Employee entitlements		31,184	29,150	33,150	26,150
Other current liabilities		-	-	-	-
Total Current Liabilities		238,704	171,827	236,046	206,265
Non-current Liabilities					
Provisions		-	-	-	-
Employee entitlements		49,079	43,983	51,000	51,000
Other non-current liabilities		-	-	-	-
Total Non-current Liabilities		49,079	43,983	51,000	51,000
Total Liabilities		287,783	215,810	287,046	257,265
Taxpayers' Funds					
General funds		3,618,986	3,737,845	3,619,899	3,619,899
Revaluation reserve		2,101,943	1,647,675	2,101,943	2,101,943
Other reserves		-	-	-	-
Total Taxpayers' Funds		5,720,929	5,385,520	5,721,842	5,721,842
Total Liabilities and Taxpayers' Funds		6,008,712	5,601,330	6,008,888	5,979,107

Statement of Forecast Cash Flows for the year ending 30 June 2011

		2008/09	2009/10		2010/11
	Note	Actual \$000	In 2009 Budget \$000	Estimated Actual \$000	Budgeted \$000
Cash Flows from Operating Activities					
Receipts from:					
Crown		2,119,988	2,332,088	2,199,212	2,417,376
Department(s)		14,879	15,442	35,193	25,142
Other		13,559	8,777	6,943	8,777
Interest		49	100	100	100
Payments to:					
Suppliers		(589,013)	(617,130)	(615,929)	(625,609)
Employees		(809,140)	(819,859)	(837,312)	(863,521)
Capital charge		(400,428)	(397,094)	(428,864)	(435,724)
Goods and services tax (net)		(3,056)	(8,793)	(1,051)	(4,781)
Other operating activities		(7,764)	-	-	-
Net Cash from Operating Activities	10	339,074	513,531	358,292	521,760
Cash Flow from Investing Activities					
Receipts from:					
Sale of property, plant and equipment		14,766	-	1,377	-
Sale of intangible assets		-	-	-	-
Sale of other non-current assets		245,198	-	-	-
Purchase of:					
Property, plant and equipment		(386,176)	(598,725)	(384,830)	(542,943)
Intangible assets		(2,956)	(5,999)	(5,000)	(3,000)
Other non-current assets		(245,198)	-	-	-
Net Cash from Investing Activities		(374,366)	(604,724)	(388,453)	(545,943)
Cash Flow from Financing Activities					
Capital contribution		54,930	80,000	94,384	-
Other financing cash inflows		-	-	-	-
Repayment of surplus		(7,069)	(20,100)	(24,005)	(18,100)
Capital withdrawal		(80,000)	(171)	(171)	-
Other financing cash outflows		-	-	-	-
Net Cash from Financing Activities		(32,139)	59,729	70,208	(18,100)
Net Increase / (Decrease) in Cash		(67,431)	(31,464)	40,047	(42,283)
Cash at the beginning of the year		80,530	41,464	13,099	53,146
Cash at the end of the year		13,099	10,000	53,146	10,863

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 2009/10 budgeted figures are based on management's judgments, estimates and assumptions of the final 2009/10 outcome and are used as the opening position for 2010/11 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 2011 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 23 April 2010. 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 - Gains

	2008/09	2009/10		2010/11
	Actual \$000	In 2009 Budget \$000	Estimated Actual \$000	Budgeted \$000
Clearing accumulated disposal costs	(2,818)	-	(3,300)	-
Realised foreign exchange gains	22,701	-	-	-
Unrealised foreign exchange gains	11,225	-	-	-
Gains on sale of Property, plant and equipment	11,355	-	-	-
Total Gains	42,463	-	(3,300)	-

Note 2 - Operating Expenses

	2008/09	2009/10		2010/11
	Actual \$000	In 2009 Budget \$000	Estimated Actual \$000	Budgeted \$000
Materials	199,879	208,044	216,733	162,952
Repairs and Maintenance	80,072	88,709	91,548	88,128
Premises cost	74,071	73,514	63,114	69,522
Operating lease rentals	45,656	39,501	48,162	48,045
Domestic travel	16,480	14,193	15,559	15,390
Overseas travel	17,589	17,818	20,668	22,101
Consultants' fees	3,251	2,513	6,636	2,199
Other operating expenses	145,602	165,588	136,108	198,960
Total Operating Expenses	582,600	609,880	598,528	607,297

Note 3 - Reconciliation of Departmental Expenses and Appropriations

	2008/09	2009/10		2010/11
	Actual \$000	In 2009 Budget \$000	Estimated Actual \$000	Budgeted \$000
Appropriations for Output expenses				
Total for Vote: Defence Force - Annual Expenses	2,099,297	2,149,823	2,222,367	2,279,461
Total for Vote: Veterans' Affairs - Defence Force	7,782	8,377	8,327	8,427
Total Appropriations for output expenses	2,107,079	2,158,200	2,230,694	2,287,888
Appropriations for other expenses				
Asset Write-Offs	3,000	-	3,300	-
Loss on Sale of Physical Assets	340	-	-	-
Revaluation Losses	-	-	90,000	-
Total Appropriations for other expenses	3,340	-	93,300	-
Adjustments				
Remeasurements	26,162	-	-	-
Appropriation amounts unused	(11,711)	-	(18,000)	-
Other expense appropriation not treated as departmental expense	(2,819)	-	(3,300)	-
Other	12,660	-	-	-
Total departmental expenses [as per Statement of Comprehensive Income]	2,134,711	2,158,200	2,302,694	2,287,888

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

Note 4 - Capital Movement

	2008/09	2009/10		2010/11
	Actual \$000	In 2009 Budget \$000	Estimated Actual \$000	Budgeted \$000
Capital contribution	54,930	-	-	-
Capital contribution transfer from 2008/09 to 2009/10	(80,000)	80,000	80,000	-
Capital contribution 2009/10	-	-	14,384	-
Capital withdrawal in 2009/10	-	(171)	(171)	-
Total	(25,070)	79,829	94,213	-

Note 5 - Debtors and Other Receivables

	2008/09	2009/10		2010/11
	Actual \$000	In 2009 Budget \$000	Estimated Actual \$000	Budgeted \$000
Debtor Crown	161,244	3,138	163,407	-
Debtors and other receivables	28,617	4,300	15,800	15,800
Total debtors and other receivables	189,861	7,438	179,207	15,800

Note 6 - Inventory

	2008/09	2009/10		2010/11
	Actual \$000	In 2009 Budget \$000	Estimated Actual \$000	Budgeted \$000
Inventory: Current	95,178	105,063	101,513	110,704
Inventory: Non - current	175,300	195,117	182,125	185,595
Total Inventory	270,478	300,180	283,638	296,299

Note 7 - Property, Plant and Equipment

	Land \$000	Buildings \$000	Specialist Military Equipment \$000	Plant & Equipment \$000	Office & Computer Equipment \$000	Total \$000
Cost or Revaluation						
Balance as at 1 July 2010	522,955	1,132,463	4,422,755	274,532	76,785	6,429,490
Additions by purchase	-	169,749	350,587	17,607	5,000	542,943
Balance at 30 June 2011	522,955	1,302,212	4,773,342	292,139	81,785	6,972,433
Accumulated depreciation						
Balance as at 1 July 2010	-	64,720	724,446	161,643	35,809	986,618
Depreciation expense	-	42,279	314,916	17,500	5,000	379,695
Balance at 30 June 2011	-	106,999	1,039,362	179,143	40,809	1,366,313
Net PPE at 30 June 2011	522,955	1,195,213	3,733,980	112,996	40,976	5,606,120

The Forecast Financial Statements include the revaluation increase of \$454.885 million as at 30 June 2009 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 2009. 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
Cost				
Balance as at 1 July 2010	40,526	-	-	40,526
Additions by purchase	3,000	-	-	3,000
Additions internally developed	-	-	-	-
Disposals	-	-	-	-
Balance as at 30 June 2011	43,526	-	-	43,526
Accumulated amortisation and impairment losses				
Balance as at 1 July 2010	25,501	-	-	25,501
Amortisation expense	3,000	-	-	3,000
Disposals	-	-	-	-
Impairment losses	-	-	-	-
Balance as at 30 June 2011	28,501	-	-	28,501
Carrying amount as at 30 June 2011	15,025	-	-	15,025

Note 9 - Other Operating Activities

The Statement of Comprehensive Income for 2009/10 includes within other expenses an asset write down of \$90 million (2008/09 Nil).

Note 10 - Reconciliation of Net Surplus to Net Cash Flows from Operating Activities for the year ending 30 June 2011

	2008/09	2009/10		2010/11
	Actual \$000	In 2009 Budget \$000	Estimated Actual \$000	Budgeted \$000
Net surplus / (deficit)	11,711	100	(75,200)	100
Add / (less) non cash items				
Depreciation and amortisation expense	306,200	332,733	338,452	382,695
Increase / (decrease) in the provision for stock obsolescence	(4,719)	-	-	-
Increase / (decrease) in provision for doubtful debt	(10)	-	-	-
Increase / (decrease) in non-current employee entitlements	(1,447)	(7,017)	1,921	-
Asset write offs	2,819	-	93,300	-
Realised foreign exchange gain / (loss)	(5,462)	-	-	-
Other non cash items	9,208	-	(3,300)	-
Total non cash items	306,589	325,716	430,373	382,695

	2008/09	2009/10		2010/11
	Actual \$000	In 2009 Budget \$000	Estimated Actual \$000	Budgeted \$000
Add / (less) items classified as investing or financing activities				
(Gains) / losses on disposal of Property, Plant and Equipment	(8,684)	-	-	-
Total items classified as investing or financing activities	(8,684)	-	-	-
Add / (less) movements in working capital items				
(Increase) / decrease in debtors and receivables	43,891	198,107	9,945	163,407
(Increase) / decrease in inventories	(17,847)	(1,600)	(13,160)	(12,661)
(Increase) / decrease in prepayments	(4,844)	-	3,149	-
Increase / (decrease) in creditors and other payables	9,431	(8,792)	2,270	-
Increase / (decrease) in GST payables	(3,056)	-	(1,051)	(4,781)
Increase / (decrease) in provisions	(1,555)	-	-	-
Increase / (decrease) in current employee entitlements	3,438	-	1,966	(7,000)
Net movements in working capital	29,458	187,715	3,119	138,965
Net cash from operating activities	339,074	513,531	358,292	521,760