



New Zealand  
**DEFENCE  
FORCE**  
Te Ope Kātua O Aotearoa

# Annual Report 2018

**For the year ended 30 June 2018**

and

**Report by the Minister of Veterans on  
selected non-departmental appropriations  
for the year ended 30 June 2018**

and

**Financial statements of the Veterans' Medical  
Research Trust Fund for the years ended  
31 March 2015, 2016, 2017 and 2018**





# Annual Report **2018**

For the year ended 30 June 2018

## **New Zealand Defence Force Te Ope Kātua O Aotearoa**

**Headquarters**  
**New Zealand Defence Force**  
20 Aitken Street  
Wellington  
New Zealand

Phone: +64 4 496 0999  
Facsimile: +64 4 496 0869  
NZDF Website: [www.nzdf.mil.nz](http://www.nzdf.mil.nz)

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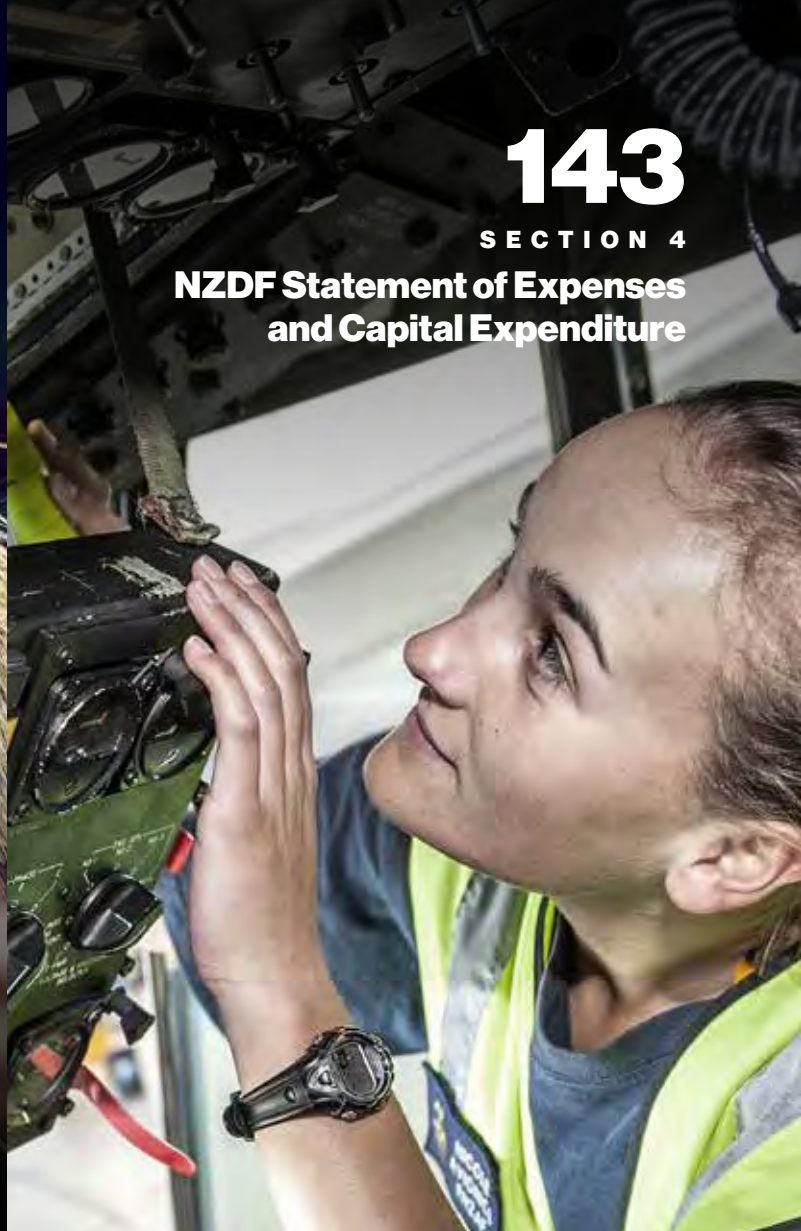
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*K.R. Short*

**K.R. Short**

Air Marshal  
Chief of Defence Force



# Chief of Defence Force Message

## TRUST COMES FROM PERFORMANCE

In June 2018, leading market research company Colmar Brunton released the results of their annual reputation survey of the public sector, with the public rating the New Zealand Defence Force sixth most trusted of forty-five public sector agencies.

This result was further confirmation of similar scores we received from a Defence Force-commissioned public survey earlier in the year, which found that 77 percent of New Zealanders had a 'favourable' or 'very favourable' opinion of the New Zealand Defence Force. Only three percent of New Zealanders reported an 'unfavourable' rating of the NZDF. These kinds of results are important as one of the high-level principles underlying New Zealand's Defence policy is our Defence Force operating in ways that maintain public trust and confidence. However, scratch a little deeper and these same findings nonetheless throw up an interesting challenge for our Defence Force – while the public are overwhelmingly positive towards their armed forces, there is quite a drop-off when the public are asked what their Defence Force does specifically.

This Annual Report highlights much of what we do for New Zealand, playing a key role supporting New Zealand's security, resilience and wellbeing. The Government deploys our armed forces to support New Zealand's national interests and to further our nation's foreign policy and security aims.

We are New Zealand's sole provider of military know-how and equipment which the country uses as a Force for good in the world. By necessity we operate sophisticated and dangerous military equipment and platforms and we push that equipment, and our people, to the very edge of the envelope delivering on our mission for New Zealand. We recognise that we must be prepared to deploy our people into tough situations and severe environments, to perform at times the most demanding of all human endeavours – combat. Consequently, the New Zealand Defence Force prepares its personnel to be physically fit, mentally agile, and to act with professionalism and mana.

Of course, preparing and maintaining our people, equipment and organisational systems to be this successful military force, also lends considerable utility to other tasks in furtherance of our country's goals. So this Annual Report also highlights our work supporting a range of other government agencies in tasks that matter to ordinary New Zealanders.

These include: reacting to natural disasters; participating in search and rescue; protecting our ocean resources; disposing of explosives; supporting conservation efforts; countering terrorism; deterring unwelcome intrusions; and protecting New Zealand's trading routes. We can and do respond at short notice. We are constantly prepared for threats and likely contingencies that challenge New Zealand's interests, be they within New Zealand and its Exclusive Economic Zone, the Antarctic region, the Pacific or elsewhere in the world.

This is the story that the Government sets out in the Strategic Defence Policy Statement it released in July this year, when it identified Defence outcomes contributing to the community, our nation, and alongside others in the world. I think the women and men of the New Zealand Defence Force – Regular Force, Reservists and our civilians – are all rightly proud of the contribution and difference they are making every day for New Zealand. Our constant challenge remains better explaining what we are doing, and the difference we are making. We need to help the public understand and value the significant investment being made by the Government in the New Zealand Defence Force as we contribute to national security. We as a Defence Force haven't always got this right, and I am committed to our Defence Force fronting up more and Defence leaders being more up front in giving our account to the public and the media as issues arise.

Together we are a Force for New Zealand.





# Who we are and what we do

The purpose of this section is to provide a high level understanding of the roles and responsibilities of the New Zealand Defence Force and what has been achieved during the 2017/18 financial year.

# A Force for New Zealand

The Government's 2018 Strategic Defence Policy Statement states that "New Zealand Defence provides value to the COMMUNITY, NATION and WORLD".

The New Zealand Defence Force (NZDF) shares responsibility for providing this value alongside other government agencies. Within these agencies, NZDF is the key operational arm of the country's defence activities.

NZDF's operational activities occur on an international (WORLD), national (NATION) and local (COMMUNITY) level in line with the Government's policy statement. The value of these activities is often realised on more than one level. NZDF's global contributions to security and peace provides the national security our country needs to prosper as a nation, and allows us to go freely about our daily lives.



## World

As a small nation, dependant on trade, our safety and prosperity is fundamentally tied to global security. The ability of New Zealanders to communicate, travel and trade goods globally underpins our economy and our way of life.

As a nation, we have benefited from the broadly peaceful international order that has prevailed since the end of the Second World War. New Zealand is an active supporter of institutions, such as the United Nations, which work to collectively maintain global order.

The NZDF's involvement in military partnerships and coalitions and its involvement in combined military operations is a key part of the New Zealand Government's support rules-based international order.

In order to maintain the effectiveness of that contribution, the NZDF must continue to be combat capable, flexible and ready to operate globally alongside its partner nations.

A combat capable force is one that has a range of military capabilities that can be deployed anywhere in the world and is ready to operate successfully in a range of high-threat environments.

We often think about military capability in terms of ships or aircraft. While they are important, the most critical part of any military capability is its people. New Zealand's key military asset is the highly trained, dedicated servicemen and servicewomen who represent New Zealand's values everywhere they operate.

## Nation

The capabilities that enable NZDF to operate globally also add value at a national level. Working with its Defence Sector partners, the NZDF works to maintain the safety and security of New Zealand and its interests. This includes developing intelligence, counter-terrorism and defensive cyber capabilities that support New Zealand's ongoing national security.

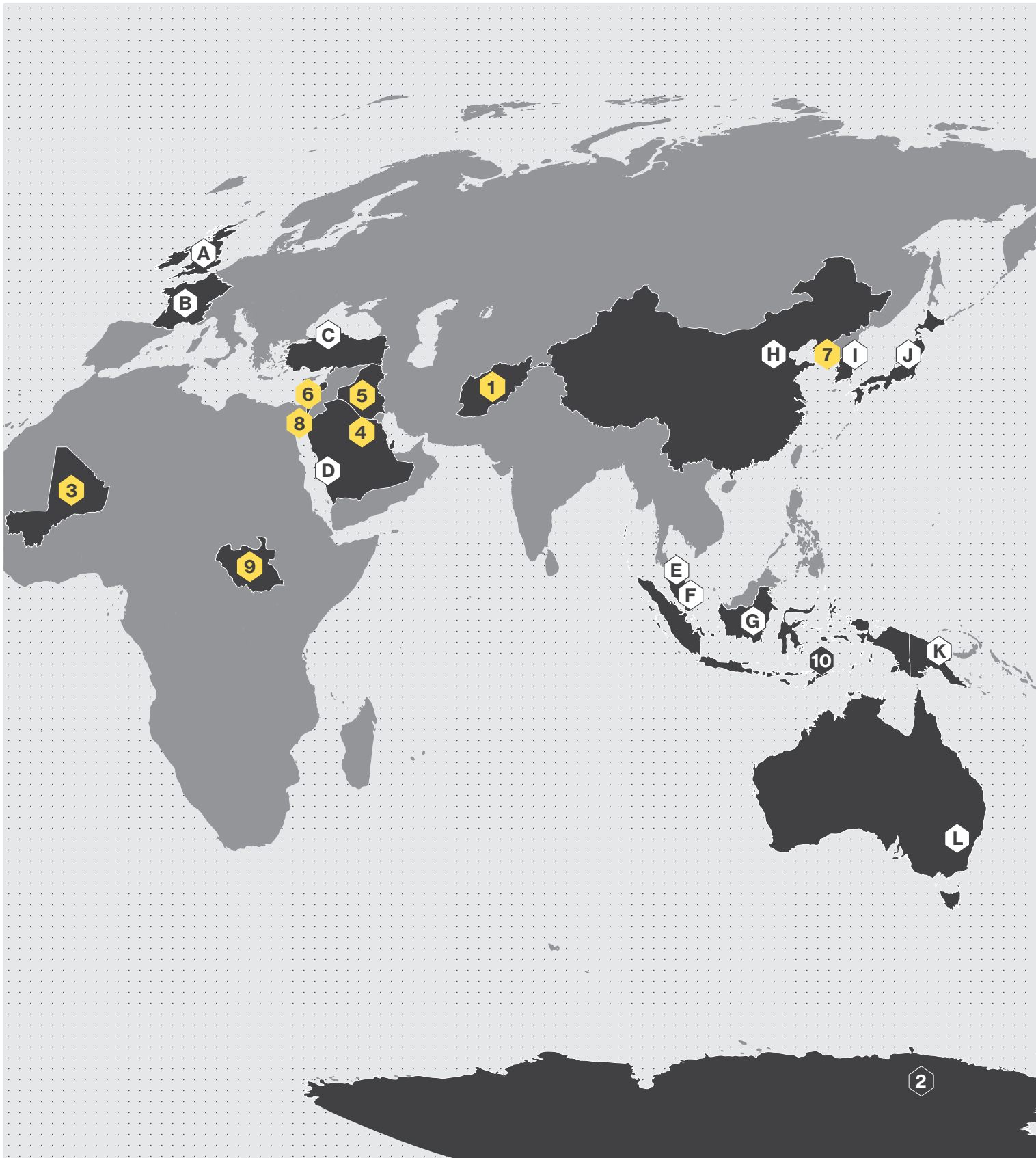
The NZDF also works with a large range of public sector agencies in support of wider government goals and objectives. These activities could be planned or reactive. Planned activities include for example the Air Force and Navy patrolling New Zealand's waters to help the Ministry for Primary Industries (MPI) protect our fisheries. An example of a reactive activity is helping the New Zealand Police (NZ Police) with locating and recovering missing persons or acting for Fire and Emergency New Zealand by attending motor vehicle accidents on the Desert Road.

## Community

The NZDF also prides itself on providing local support to the community – from disaster relief, to support for Hui of national significance. The NZDF provides surge support when a large people resource is required for emergencies or significant events.

The NZDF system is built to train and support the servicemen and servicewomen that deliver globally, locally and to their community. The system that develops its people is also used to deliver value across a range of youth development programmes. NZDF supports its own Cadet schemes, the Ministry of Education's Service Academies, the Ministry of Social Development's Limited Service Volunteer Scheme and the NZ Police's Blue Light Trust. These programmes all provide the same values and discipline-based approaches that develop the core skills in the servicemen and servicewomen who are operating around the globe to support a rules-based international order and global security.

These concepts of value build on one another. The same capabilities that operate globally, provide value nationally. The system that builds that capability provides value to the community. Collectively, these make up the NZDF's value proposition.



## Operations and Other Deployed Personnel

- |   |  |    |                                |
|---|--|----|--------------------------------|
| 1 | Afghanistan (Operation (Op) RUA II)          | 7  | Republic of Korea (Op MONITOR) |
| 2 | Antarctica (Op ANTARCTICA)                   | 8  | Sinai Peninsula (Op FARAD)     |
| 3 | Mali (Op TAWHITI)                            | 9  | South Sudan (Op SUDDEN)        |
| 4 | Middle East (Ops TROY, TAKAPU, PUKEKO, TEAL) | 10 | Timor-Leste                    |
| 5 | Iraq (Ops MANAWA, MOHUA)                     | 11 | USA (Central Command)          |
| 6 | Israel, Lebanon (Op SCORIA)                  |    |                                |

# NZDF Global Footprint in 2017/18

M

N

- Operations
- Other deployed personnel
- Defence Attachés

## Defence Attachés

- |   |   |  |
|---|---|--|
| <b>A</b> Head of Defence Staff and Defence Advisor United Kingdom | <b>G</b> DA Indonesia   | <b>M</b> DA Fiji   |
| <b>B</b> Assistant Defence Attachés (DA) France                   | <b>H</b> DA China   | <b>N</b> DA Pacific  |
| <b>C</b> DA Turkey  | <b>I</b> DA Korea   | <b>O</b> DA Canada   |
| <b>D</b> DA Saudi Arabia  | <b>J</b> DA Japan   | <b>P</b> DA Head of Defence Staff and Advisor USA                                      |
| <b>E</b> DA Malaysia, HQIADS                                      | <b>K</b> DA Papua New Guinea                                    | <b>Q</b> Military and Police Advisor NZ permanent representative to the United Nations |
| <b>F</b> DA Singapore, NZDSU                                      | <b>L</b> Head of NZ Defence Staff and Defence Advisor Australia |  |

## CASE STUDY

# Operation MANAWA



NZDF's combined training mission with the Australian Defence Force in Iraq has helped boost the combat edge of Iraqi troops against Islamic State extremists (also known as ISIL – the Islamic State of Iraq and the Levant – and ISIS – the Islamic State of Iraq and Syria) Iraqi and US officials say.

“Your fierceness, your absolute ability to train these Iraqis has turned the tide of this fight,” Lieutenant General Paul Funk II (US), the Commanding General of the Combined Joint Forces – Operation INHERENT RESOLVE, said during a recent visit to Camp Taji.

“We have the enemy on the run, we have the upper hand and the Iraqis are giving it to ISIS every day, and this is directly because of your efforts.”

NZDF troops form part of Task Group Taji that has trained more than 28,000 Iraqi personnel since its training mission began in May 2015.

Major General Tim Gall, Commander, Joint Forces New Zealand, said Iraqi officials value the contribution of Task Group Taji to their continuing efforts to develop a self-sustaining force.

“The training we provided has sharpened the combat edge of Iraqi forces, helping them recapture swaths of Iraq that ISIS militants seized three years ago,” Major General Gall said.

“We are proud of the work they have done and their contribution to Iraq's efforts in developing a self-reliant and self-sustaining force.”

The sixth rotation of 108 NZDF troops headed to Taji in late November after undertaking integration training with Australian Defence Force personnel at Lavarack Barracks in Townsville.

“Everyone is keen to get here and get on with the job. The previous rotations of New Zealand and Australian personnel have done an outstanding job and we hope to build on that,” the NZDF Senior National Officer for the sixth rotation said.

The New Zealand government last year extended the NZDF's training mission in Iraq to November 2018. It also allowed Defence Force personnel to train stabilisation forces such as the Iraqi Federal Police in addition to the Iraqi Army.

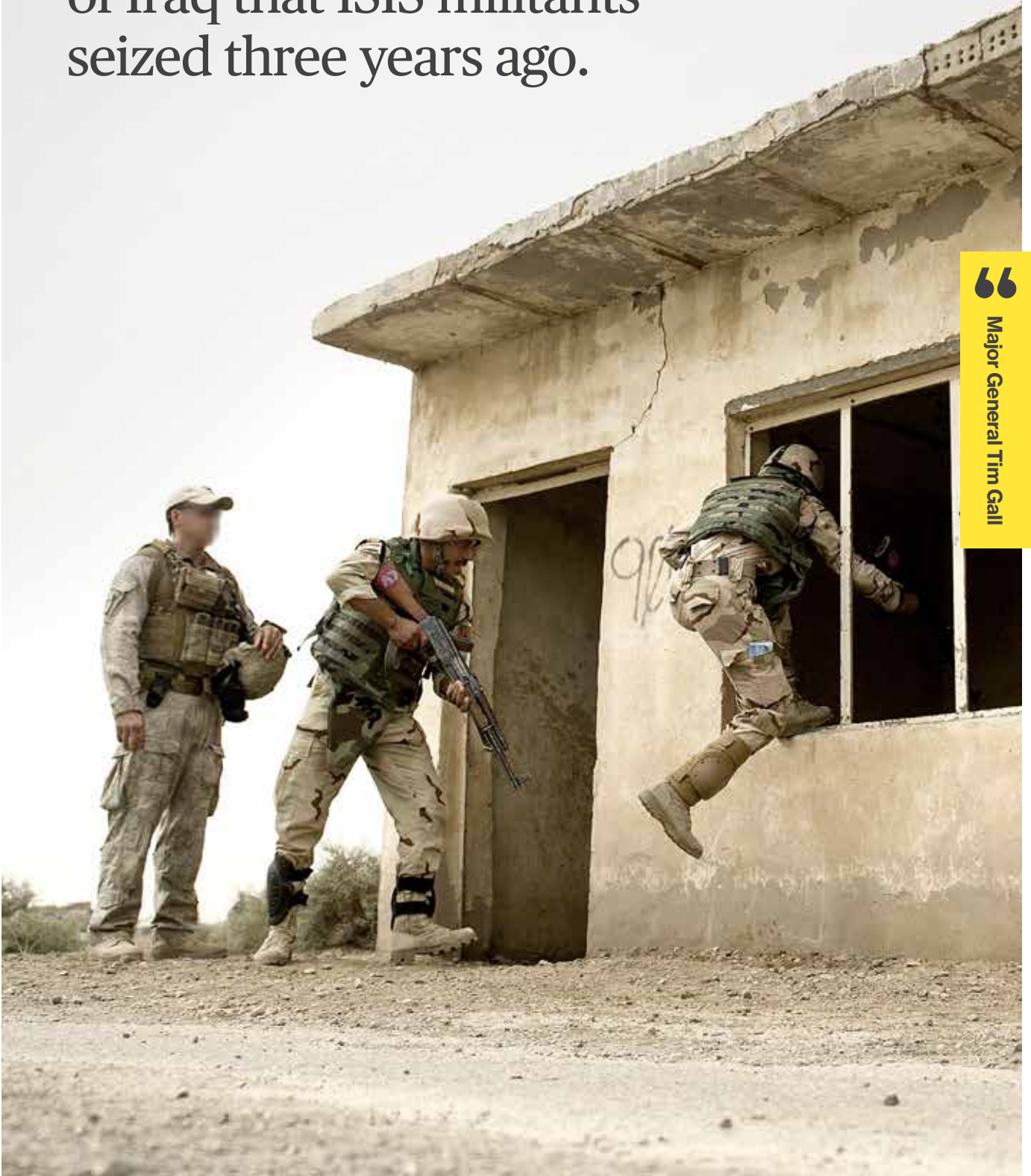
## Outcomes

International order is supported

## Outputs

5.1 Military operations in support of a rules-based international order

The training we provided has sharpened the combat edge of Iraqi forces, helping them recapture swaths of Iraq that ISIS militants seized three years ago.



Major General Tim Gall

# What NZDF Delivered in 2017/18

## World

In 2017/18, NZDF has worked both independently and in conjunction with security partners on a range of operations that contribute to global peace and security and the maintenance of international rules-based order. This includes operations of both a humanitarian and a combative nature.

Highlights of NZDF's work on the world stage in 2017/18 include:

- NZDF continued to deploy personnel alongside the Australian Defence Force to build the partner capacity of the Iraqi Security Forces. This is so the local forces can better counter the threat posed by the Islamic State extremists and deter their advance.
- In February 2018, NZDF's P-3K2 Orion surveillance aircraft and 55-person team completed its deployment to the United Arab Emirates. The deployment was part of New Zealand's support for the ongoing United States-led, multi-national mission to protect and maintain the freedom of trading routes from the Arabian Gulf to the Republic of Seychelles. The Middle East Maritime Security Operations also continued to be supported by NZDF personnel in Qatar and Bahrain.

- In May 2018, a C-130H Hercules aircraft was deployed to the Middle East to carry out air transport tasks alongside the Australian C-130 Super Hercules aircraft based in Dubai.
- Five officers were stationed in South Korea. This was part of New Zealand's contribution to the 16-country United Nations Command Military Armistice Commission's supervision and maintenance of the Armistice Agreement between the Republic of Korea and North Korea.
- New Zealand has had a presence on the border between Sinai and Israel since the inception of the Multinational Force and Observers in Sinai in 1982, as part of the Egyptian-Israeli Treaty of Peace to prevent any violation of its terms. In 2017/18 a NZDF transport section provided a training and advisory team to the mission.
- NZDF personnel served as observers in the Republic of South Sudan. This was part of the United Nations Mission in South Sudan (UNMISS) to consolidate peace and security and to support the South Sudanese government.
- NZDF personnel have also served as part of the United Nations Truce Supervision Organisation (UNTSO). This organisation covers Israel, Lebanon, Syria, Jordan and Egypt.
- NZDF trainers worked in Afghanistan under a United Kingdom-led programme under Operation RUA. This programme trains the next generation of leaders in the Afghan National Army in conventional warfighting skills and counter-insurgency techniques.
- NZDF maintained a National Support Element in the Middle East which is a logistics supply hub to support New Zealand's contribution to operations across the region.
- As in previous years, a number of NZDF staff were deployed to coalition headquarters around the world in planning and liaison roles. This includes Iraq, Qatar, Bahrain and Mali.

NZDF's global footprint is set out on page 12.





A key part of NZDF's globally focused activities includes promoting stability and prosperity in our local region – the South Pacific, the Southern Ocean, and Antarctica. New Zealand has cultural and historical ties with countries in the South Pacific. In addition, we have constitutional obligations towards the Cook Islands, Niue and Tokelau, and a special relationship with Samoa under the Friendship Treaty. The NZDF plays a crucial role in delivering on our country's commitment to others in the region.

NZDF does this through initiating military operations in response to regional security events and surveillance, or through providing humanitarian assistance and disaster relief when required.

Highlights of NZDF activities in the South Pacific during 2017/18 are:

- NZDF deployed at short notice to help the Vanuatu Government respond to the threatened eruption of the Ambae Volcano in April 2018.
- The NZDF released an update to its South-West Pacific Campaign Plan. It also conducted a range of activities related to delivering on this plan such as Exercise Tropic Twilight. This is an annual engineer and medical exercise conducted in Vanuatu.
- In November and December 2017, the ship HMNZS OTAGO completed Operation CASTLE, a patrol and boarding operation implemented in the areas associated with the Commission for the Conservation of Antarctic Living Marine Resources (CCAMLR) in the Southern Ocean.

For further detail, refer to Outputs 4 and 5. Protect and Project, on page 68.

- An NZDF Inshore Patrol Vessel (IPV) continued to deploy on Operation WASAWASA. This operation is a six month deployment to Fiji to reinforce the Republic of Fiji Military Force (RFMF) Resource and Border Protection operations. This operation also functions to demonstrate New Zealand's continued engagement with the RFMF and to support the Republic of Fiji.
- NZDF's air transport capabilities and logistic personnel supported New Zealand's interests in Antarctica, through their contribution to the New Zealand, United States and Italian Antarctic programmes as part of the Joint Logistics Pool.
- The P-3K2 Orion aircraft and Offshore Patrol Vessel (OPV) continued to be in demand in the Southern Ocean in 2017/18 through activities such as Operation CALYPSO. These resources supported the Ministry of Foreign Affairs and Trade (MFAT) in New Zealand's commitment to the CCAMLR as well as MPI in the detection and deterrence of illegal, unregulated and unreported (IUU) fishing activities.
- NZDF's P-3K2 aircraft and its crews conducted surveillance patrols of a number of South Pacific Islands' exclusive economic zones as part of Operation NORPAT.

## Mutual Assistance Programme

The NZDF Mutual Assistance Programme (MAP) is an integral part of New Zealand's contribution to regional security.

The programme provides training, technical and other support to South Pacific and Southeast Asian security and defence forces. Originally created to provide training assistance to Tonga, Singapore and Malaysia, it has expanded to include other South Pacific and Southeast Asian nations. One-off MAP activities may also be undertaken in other countries as required.

The MAP allows for the strengthening of New Zealand's bilateral relations. Other contributing activities include combined military exercises, ship visits, search and rescue missions, disaster relief activities, Exclusive Economic Zone surveillance, security dialogues and visits. It is a practical expression of the Government's commitment to promote a stable and peaceful neighbourhood and complements efforts in the political, economic and development fields.

The MAP contributes to the effectiveness and self-reliance of the other nations' forces without requiring any operational commitments. It also contributes to NZDF training and work in tropical environments, and allows regional security forces to train in New Zealand alongside the NZDF. The priority is on developing individual and collective skills rather than providing equipment.

## CASE STUDY

# Pacific Patrols



HMNZS OTAGO was at the forefront of the fight against illegal, unreported and unregulated (IUU) fishing from June 2017 during the latter half of Operation CALYPSO in the Pacific.

The Offshore Patrol Vessel's patrols were part of work undertaken by 10 member countries of the Forum Fisheries Agency (FFA) and the Quadrilateral Defence Coordination Group comprising New Zealand, Australia, France and the United States. Along with HMNZS OTAGO, New Zealand contributed a P-3K2 Orion to the hunt, which patrolled for three days and reported 60 vessels of interest.

HMNZS OTAGO placed four MPI officials aboard 26 vessels during patrols in the exclusive economic zones of Vanuatu and the Solomon Islands and the adjacent high seas pockets.

It was the first time a transshipment vessel was boarded – a vessel that allows fishing vessels to offload their catch so they can continue fishing.

Lieutenant Commander Lorna Gray, the Commanding Officer of HMNZS OTAGO, says that among many minor breaches, four major breaches were found. Shark fins were found on board one vessel, she said. Another was found misreporting a large catch of bigeye tuna, while another was caught tampering with the vessel's monitoring system.

"Previous cases have shown that a significant percentage of IUU activity across the region is being conducted by legally licensed fishing vessels under- or misreporting their catch," she says. "Physical inspection is the only way to verify that the catch is being properly reported.

"The importance of high seas patrols cannot be overemphasised, because they enable confidence in the accuracy of catch reporting, which is essential to ensuring the sustainability of fishery resources, while also deterring those who may be considering not complying with the rules."

## Outcomes

International order is supported

## Outputs

4.2 Defence International Engagement

4.3 Resource and Border protection operations

The importance of high seas patrols cannot be overemphasised, because they enable confidence in the accuracy of catch reporting, which is essential to ensuring the sustainability of fishery resources, while also deterring those who may be considering not complying with the rules.

“

Lieutenant Commander Lorra Gray



## CASE STUDY

# Operation SUDDEN



Major Kevin Williams deployed to the United Nations Mission in South Sudan (UNMISS) in July 2017.

He worked in Malakal, in the Upper Nile State bordering Sudan to the North and Ethiopia to the East. Within the Upper Nile State the United Nations currently has 29 Military Liaison Officers (MLOs) from 20 different countries, and Major Williams was the only native English speaker.

Malakal was once the second largest city in South Sudan, with a university, hospital, hotels, busy river port, international airport, large government ministry presence and a population of about 140,000. After changing hands twelve times during the civil war, most recently in October 2015, the town is now in total ruin with no power and deteriorated roads. Buildings bear the scars of war and looting, and burnt out vehicles litter the streets. Although there is a civilian presence in town, it is a fraction of what would have been there five years ago. There are now around 33,000 Internally Displaced Persons (IDPs) living in the Protection of Civilians (POC) site next to the UNMISS base.

The primary role of MLOs is to provide liaison between UNMISS and South Sudan military, community leaders, and the opposition military.

This role presents the expected challenges of trying to enable UNMISS activity that may be inconsistent with local forces/opposition activity.

“We were told that under the Status of Forces Agreement (SOFA) between the Government of South Sudan and UNMISS all UN troops are guaranteed freedom of movement throughout the country,” said Major Williams. “The reality is that the average soldier at checkpoints has never heard of the SOFA, so negotiation skills, the ability to read the situation on the ground and patience are important requisites of being an MLO.”

To conduct liaison, Military Liaison Officers go on a number of patrols. The Nile river runs past Malakal, so these patrols include river patrols, which are particularly important during the wet season when roads become muddy waterways and impassable to vehicles.

“On arrival, we found the town almost entirely populated by government forces due to the civilian population fleeing before the government troops assumed control. We met the local commander and were shown through the town. Although the town is largely empty due to recent conflict, the government forces are keen to have the civilians come back to their homes and return to some semblance of normality.”

## Outcomes

International order is supported

## Outputs

5.1 Military operations in support of a rules-based international order

“This sentiment is shared at other settlements that now stand empty due to the ongoing civil war, including Kodok which is further down river and changed hands only weeks ago. I visited Kodok only days before the government forces assumed control, and there were displaced persons who had walked for a week seeking safety. They are now likely to be in Aburoc with an estimated 50,000 displaced persons, a further 60km to the North West, or across the border in Sudan.”

Trying to make a difference can seem daunting at times, but the work of UNMISS and the numerous humanitarian organisations present in South Sudan helps the thousands of civilians survive in a country that is in turmoil.



## Nation

The NZDF is charged with protecting New Zealand and its people at home. It does this by maintaining a very high readiness to respond to terrorist threats or other incidents that could impact on public safety. In this, it works closely with the NZ Police and other government security and intelligence agencies.

NZDF also uses its unique capabilities to support other agencies in a variety of ways: resource and border protection and monitoring, including in our territorial waters; disaster relief and assistance; search and rescue; recovery operations; and rural fire-fighting.

In 2017/18 the NZDF's activities at a national level included the following:

- The NZDF Explosive Ordnance Disposal Squadron attended 141 callouts and requests from the NZ Police. This squadron deals with incidents involving chemical, biological, radiological or improvised explosive devices.
- The Air Force supported NZ Police and the Department of Conservation (DoC), with 154 flying hours for its NH90 and A109 LUH helicopters in a range of activities from anti-cannabis operations to supporting remote DoC huts.
- Both the Air Force and the Navy worked with MPI on fisheries inspection, monitoring, and patrols along the coastline and across our wider Exclusive Economic Zone. These included P-3K2 Orions surveillance aircraft, SH2-G(l) helicopters, Inshore and Offshore Patrol Vessels.

- The NZDF responded to 20 callouts to search and rescue operations across the country, the Pacific Islands and the Tasman Sea. The NZDF's helicopters, fixed-wing aircraft and Navy vessels were crucial in providing this support.
- The NZDF also responded to 209 requests for assistance from Fire and Emergency New Zealand. This included the provision of a C-130H Hercules aircraft to establish situational awareness of fires on the Chatham Islands.

For further detail, refer to Outputs 4.1 and 4.3 Protect on pages 70 and 72.

## CASE STUDY

# Scientific Research a Focus for Navy



The Navy conducted two missions to the Kermadec Islands during 2017/18, providing a means for ongoing scientific research for both seasoned experts and young scientists from the Sir Peter Blake Trust.

In both missions, the Navy transported teams from DoC, GNS Science, MetService New Zealand, and the University of Auckland. The weather station on Raoul Island provides crucial information to the global weather pattern data and contributes to effective weather forecasting in New Zealand and throughout the world, while the waters off Raoul Island are a marine sanctuary which includes humpback whales whose migratory patterns between Antarctica and the island provide a rich subject of research.

MetService's Network Observations Manager Steve Knowles says the Navy's support getting to Raoul Island was invaluable. "It is strategically located from a meteorological perspective, but it's difficult to get there for annual maintenance and inspection. This is where the transportation and logistical support provided by NZDF is very much appreciated."

Marine scientist Bhaki Patel travelled in a Navy ship for the first time to undertake her research into Oceania humpback migratory routes. "Providing logistical support to organisations like DoC and allowing me to carry out my research at these rarely visited islands opened my eyes to the many roles the Navy plays in New Zealand."

Trips to Raoul Island are problematic due to the outbreak of Myrtle Rust Disease on the island's pohutukawa species. The disease is a threat to New Zealand pohutukawa, manuka and rata and ships have to enact strict decontamination procedures if personnel and equipment go to and from the island. It means that every item that touches the island is sterilised, including the helicopters.

## Outcomes

New Zealand's national interests are secured

## Outputs

4.4 Military assistance to civil authorities in non-emergency situations

## CASE STUDY

# Operation ANTARCTICA



The Royal New Zealand Air Force's (RNZAF's) biggest operation of the summer is to support New Zealand's presence in Antarctica.

The RNZAF's first flight to Antarctica for the 2017-18 summer season left late November, taking 90 New Zealand and American scientists, support staff and 12.5 tonnes of payload to the world's most important natural laboratory. The Boeing 757-2K2 flight marked the start of the NZDF's biggest operation that summer.

"The NZDF has been supporting Antarctic science through the Joint Logistics Pool over the past 52 years," Commander, Joint Forces New Zealand Major General Tim Gall said.

"Every year, we deploy our aircraft and up to 220 of our personnel to help advance globally important research that has been key to understanding how our world works and the impact of human activity upon it."

NZDF Senior National Officer in Antarctica, Lieutenant Commander Ross Hickey, said the NZDF completed nine strategic airlift flights last summer – five Boeing 757-2K2 flights and four C-130H Hercules flights – to bring scientists and equipment needed to support New Zealand and United States research programmes on the continent.

Antarctica New Zealand said the NZDF had been an integral part of the New Zealand Antarctic programme since the Navy supported Sir Edmund Hillary and his team when they established Scott Base 60 years ago.

In preparation for the start of its annual airlift mission to the ice, the NZDF conducted a survival training course in Antarctica in late October.

Battling temperatures as low as -31°C, seven aircrew and two survival training instructors from the RNZAF spent one night in tents on the sea ice in front of the Erebus Ice Tongue. For the second night in the open, they dug trenches on the Ross Ice Shelf.

## Outcomes

New Zealand's national interests are secured

## Outputs

4.2 Defence International engagement

4.4 Military assistance to civil authorities in non-emergency situations



## Community

### Community Service

As one of New Zealand's largest employers, personnel of the NZDF are involved in local communities throughout New Zealand. One of the NZDF's unique contributions to community life in New Zealand is their participation in and leadership of ceremonial activities and parades all over New Zealand.

Some of the community activities involving NZDF in 2017/18 were:

- Commemorations, both nationally and internationally, of the 100th anniversary of the First World War. This includes the provision of Navy, Army, and Air Force personnel for the daily Last Post ceremony at the National War Memorial in Wellington.
- Regular parades, such as charter parades which create a connection with the community, or formal ceremonial parades such as those for Anzac Day. These occurred both in New Zealand and overseas where NZDF staff are posted, and in sites of historical significance such as Gallipoli.
- Supporting the tangi in the Chatham Islands of Alfred Preece, one of the last surviving members of the 28th Māori Battalion and the last surviving Officer. A C-130H Hercules aircraft and a firing party was involved in the ceremony.
- Participating in the Warbirds over Wanaka international airshow attended by over 54,000 people.
- Attending charity events, such as the Cancer Society Relay for Life, which celebrates cancer survivors and carers.
- Participating in sports competitions throughout the country and beyond. At the Invictus Games 2017, an international multi-sport event for injured defence personnel, the NZDF team won 11 medals.

For further detail, refer to Outputs 4.4 and 4.5. Protect, on page 74–75.



## Youth Development

The NZDF is committed to teaching leadership, self-reliance, and resilience in young New Zealanders. It does this by supporting youth development programmes in the community that seek to develop young people to make a difference in their lives. These initiatives also contribute to the Government's Better Public Services programme, specifically boosting skills and employment, and reducing crime. This affects hundreds of communities across the nation.

In 2017/18, these ongoing programmes included those operated by the government-funded Youth Development Unit (YDU) and the New Zealand Cadet Forces. NZDF personnel who contribute to these programmes have completed specialist training in working and motivating young people. As well as building resilience and life skills in the youth participating in these programmes, many are assisted to enter the workforce.

Some key activities of note with regards to the NZDF's contribution to youth development in 2017/18 includes:

- Ongoing support to the Ministry of Social Development to deliver their Limited Service Volunteer (LSV) Programme. The purpose of the LSV programme is to increase the number of young people entering employment or training. As part of the LSV programme, NZDF ran eight intensive six-week motivational training courses involving 800 young people aged between 18 and 24. The training focuses on motivation and key life skills.
- A joint longitudinal study of the benefits of the programme is being undertaken by the Ministry of Social Development and the Ministry of Defence.
- In May 2018, the NZ Government announced the expansion of the scheme, renamed the Enhanced Limited Service Volunteer (ELSV) scheme. The number of trainees will double to 1,600 per year by 2020.

- Ongoing support to the Ministry of Education to deliver their Service Academy Programme. Service Academies operate in 30 High Schools throughout the country. The Service Academy Programme is aimed at 12 to 17 year-old Māori and Pasifika high school children at risk of disengaging from school. The military-based programme helps students gain qualifications in preparation for the workforce, further education, or training. 500 students participated in the programme during the 2017 school year (Jan – Dec).
- Ongoing support to the NZ Police and the New Zealand Blue Light Trust through the delivery of the Youth Life Skills programme. The Youth Life Skills programme provides leadership training and life skills for young people aged 14 to 17. A total of 330 youths participated in the programme in 2017/18.
- Ongoing support for the New Zealand Cadet Forces (NZCF). The Cadet Forces is a voluntary, disciplined, uniformed youth leadership training organisation, for young people aged 13 to 18. The three branches: Sea Cadet Corps, New Zealand Cadet Corps, and Air Training Corps, mirror the three Services in the NZDF. Of those, 15–20% of youth who join these corps go on to serve in the relevant Service in the NZDF. The current strength of the NZ Cadet Forces is approximately 430 NZ Cadet Force Officers and 3,200 Cadets, and the Forces are found in 100 communities in New Zealand. The Commandant of the NZCF and approximately 35 permanent NZDF staff provide a range of enabling administrative and logistic functions, advice on training, and assurance of Health and Safety requirements under legislation.
- Developing a proposal for a pilot Youth Employment, Training and Education (YETE) initiative. This initiative is currently under consideration by joint agencies. This programme seeks to work with youth who are not in employment, education or training, in order to better prepare them for the modern workforce and prepare them to move off benefit dependency.

## PFAS Contamination

As part of a routine environmental test in 2015, NZDF found traces of PFAS (or per- and poly-fluoroalkyl substances) in soil and water samples taken on its Ohakea and Woodbourne Air Force bases. The PFAS chemicals PFOS and PFOA had been used in specialist firefighting foams up until 2002.

At that time, there was no regulatory framework for PFAS in New Zealand, and no agreed testing protocols. When follow-up tests suggested that PFAS may have migrated off base, NZDF initiated an all-of-government group to agree testing standards and a broader testing regime. NZDF continues to work as part of that group under the leadership of the Ministry for the Environment.

NZDF has supported neighbours with alternative drinking water supplies, including the installation of water tanks, and the most comprehensive testing programme yet undertaken in New Zealand.

NZDF has been at the forefront of learning about this issue in New Zealand. As the effects of the historic use of firefighting foams are discovered at civilian airports and industrial facilities, NZDF has openly shared its learnings with other agencies through the all-of-government group.

Details of results of the testing programme are published on the Ministry for the Environment's website and can be found at [www.mfe.govt.nz/land/pfas-and-poly-fluoroalkyl-substances](http://www.mfe.govt.nz/land/pfas-and-poly-fluoroalkyl-substances)

## CASE STUDY

# Youth Development



Five times a year, close to 120 young people from around the country descend on Burnham Military Camp for a six-week course designed to help them develop life skills essential in today's society.

The Limited Service Volunteer (LSV) scheme began in 1983 and, although run differently now, still provides young New Zealanders with the skills needed to gain employment.

The New Zealand Defence Force runs the courses in collaboration with the Ministry of Social Development (MSD) (Work and Income New Zealand). Instructors on the course are from the Navy, Army and Air Force.

The Officer Commanding of the Youth Development Unit (YDU) South, Lieutenant Commander Grant Boore, said the LSV course provides youth with a supportive learning environment and well trained staff.

"We build in our trainees the basic behaviours and attitudes that employers look for in skilled and unskilled employees. We give them experiences that build on the NZDF values of comradeship, courage and commitment to achieve the LSV programme goal of increasing the number of people entering employment or training by improving their self-discipline, self-confidence, motivation and initiative.

"We see these as values that underpin a good employee in any work environment," he said.

The Government recently announced funding to support a doubling of the number of trainees going through the LSV programme from 800 to 1,600 annually. A new youth development facility at RNZAF Base Auckland has already begun construction to help with the increase of trainees.

"I would recommend the LSV course to anyone who gets the opportunity to do it" says Journey Robin, 18, from Palmerston North. "I think my self-discipline has been tested a lot. I never thought I could push myself to the limits like I did, and I know now that I can push myself further."

## Outcomes

New Zealand's national interests are secured

## Outputs

4.5 Defence support to the community



## Honouring our Veterans

One of NZDF's key outcomes is 'Veterans' Service is honoured'. Over the past four years, New Zealand has acknowledged the century since the First World War and remembered the more than 120,000 New Zealanders who enlisted to serve. Since then, New Zealand service personnel have served with honour both at home and abroad.

### Our Veteran Community

New Zealand's veterans range in age from 26 to over 100. They served in well-known conflicts such as the Korean War, supported UN missions in places like Sudan and Sierra Leone, and helped nations to rebuild in places like Afghanistan.

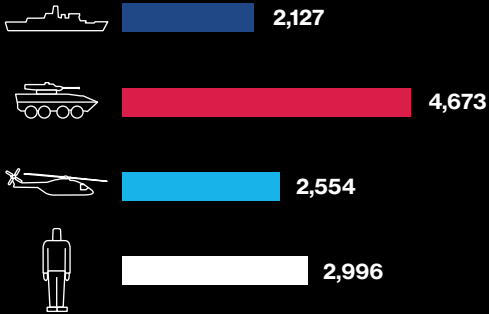
Veterans' Affairs New Zealand is a key part of NZDF's commitment to its veterans who have served New Zealand in operations overseas where significant risk of harm has been recognised. It serves and supports New Zealand veterans and their families. It provides support (including case management, rehabilitation, and payments), as well as policy advice and remembrance support.

In 2017/18, NZDF:

- Supported the independent review of the operation of the Veterans' Support Act 2014. Headed by Professor Ron Paterson, the review team's findings were reported to the Chief of Defence Force in December 2017.
- Developed a social and vocational rehabilitation strategy. The focus of the Veterans' Support Act 2014 is on helping those who have been injured or made ill by their service, to improve their health and quality of life. Veterans' Affairs has worked with representatives across both government and non-government sectors to develop a framework that offers veterans a smooth and coordinated pathway towards wellbeing and independence.
- In October 2017, the 100th Anniversary the Battle of Passchendaele was remembered in Belgium and the Battle of Beersheba was remembered in Israel.
- Continued to support the four-year-long period of commemorations of the 100th Anniversary of the First World War, which began on Anzac Day 2015, and will conclude on Armistice Day, 11 November 2018. NZDF support included the provision of transport and support for veterans and others to attend some of these ceremonies at the battlefield locations.
- Provided Navy, Army, and Air Force personnel for the duties of flag orderlies, ode readers, bugler, and command for the daily Last Post ceremony at the National War Memorial in Wellington. This ceremony has been performed daily at 1700 hours since Anzac Day 2015 and will continue until Armistice Day 2018 which will mark the 100th anniversary of the end of the First World War.

# Defence by the Numbers

## NZDF Personnel



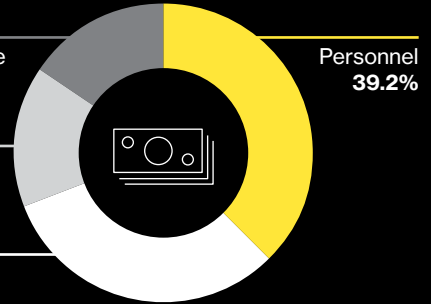
## Expenditure

**Total  
\$2.574  
Billion**

Capital charge  
15.0%

Depreciation  
15.3%

Operating  
30.5%



## Community Engagement

**3,143**

Cadet Force Personnel

**2,420**

Reserve Force Personnel

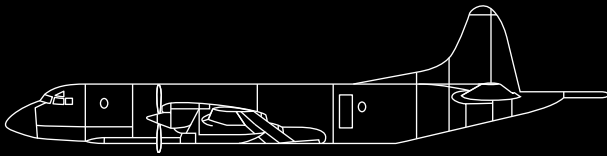
**800**

Limited Service Volunteers

**1,215\***

Service Academy Students

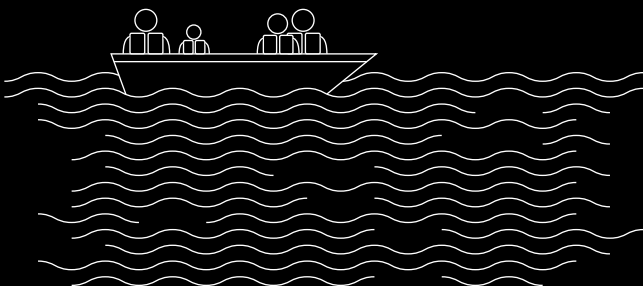
## Search and Rescue



**200**  
total flying hours

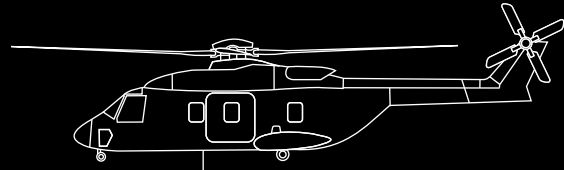
**55**

hours flying time in a  
P3-K2 Orion searching for  
Kiribati ferry survivors



20 Callouts: 2 Navy / 2 Army / 16 Air Force

## Support to the Department of Conservation



**15,000kg  
of gravel**

to Baseline Hut in Nelson  
Lakes National Park

**1,100kg  
hut**

to the edge of Blue Lake in  
Nelson Lakes National Park

**900kg  
water tank**

to West Sabine Hut in  
Nelson Lakes National Park

**7,800kg  
of firewood**

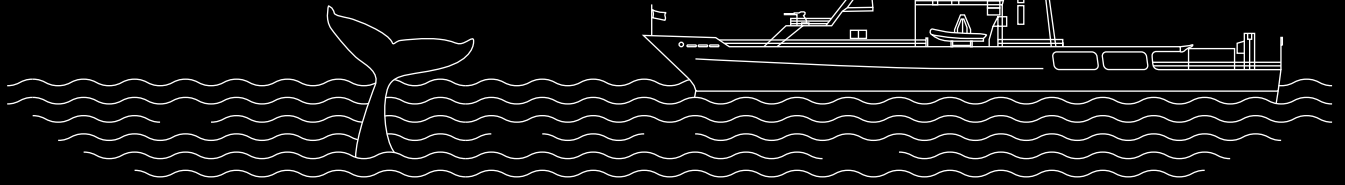
to various huts in Ruahines

Navy support transporting supplies to remote locations

**Fisheries Protection**

**28** patrols  
**80** days at sea

working with  
MPI checking  
for illegal  
fishing



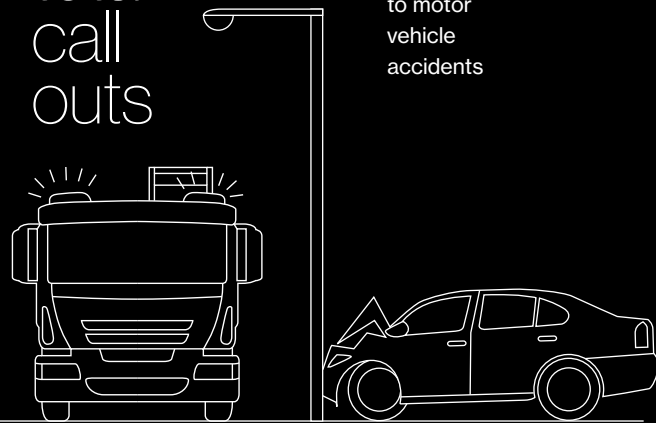
Patrols: 7 Navy / 21 Air Force

**Fire and Emergency NZ**

**209**  
total  
call  
outs

**73**

to motor  
vehicle  
accidents

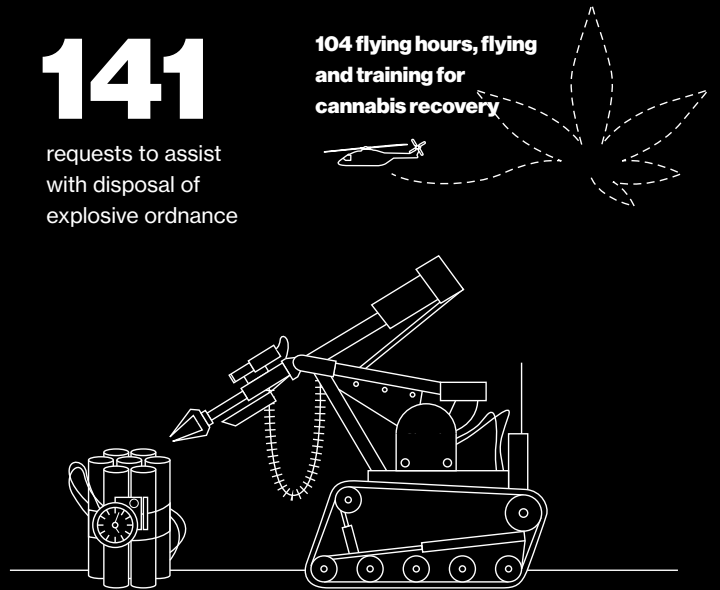


**NZ Police**

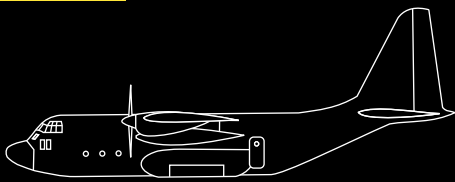
**141**

requests to assist  
with disposal of  
explosive ordnance

104 flying hours, flying  
and training for  
cannabis recovery

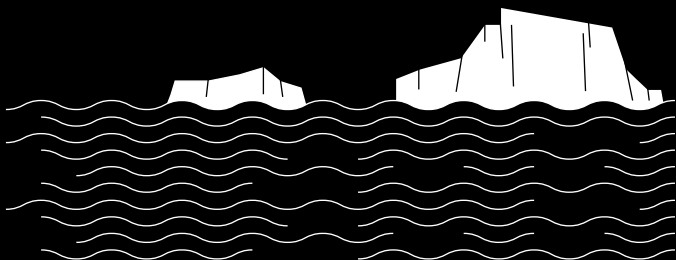


**Antarctica**



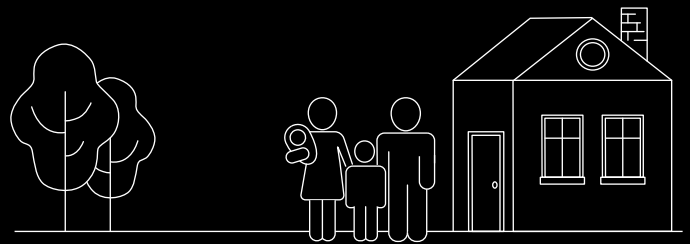
**42,473**kg

of freight between  
New Zealand and Antarctica



9 Flights / 862 passengers to and from Antarctica

**Veterans' Affairs**



**12,000+**

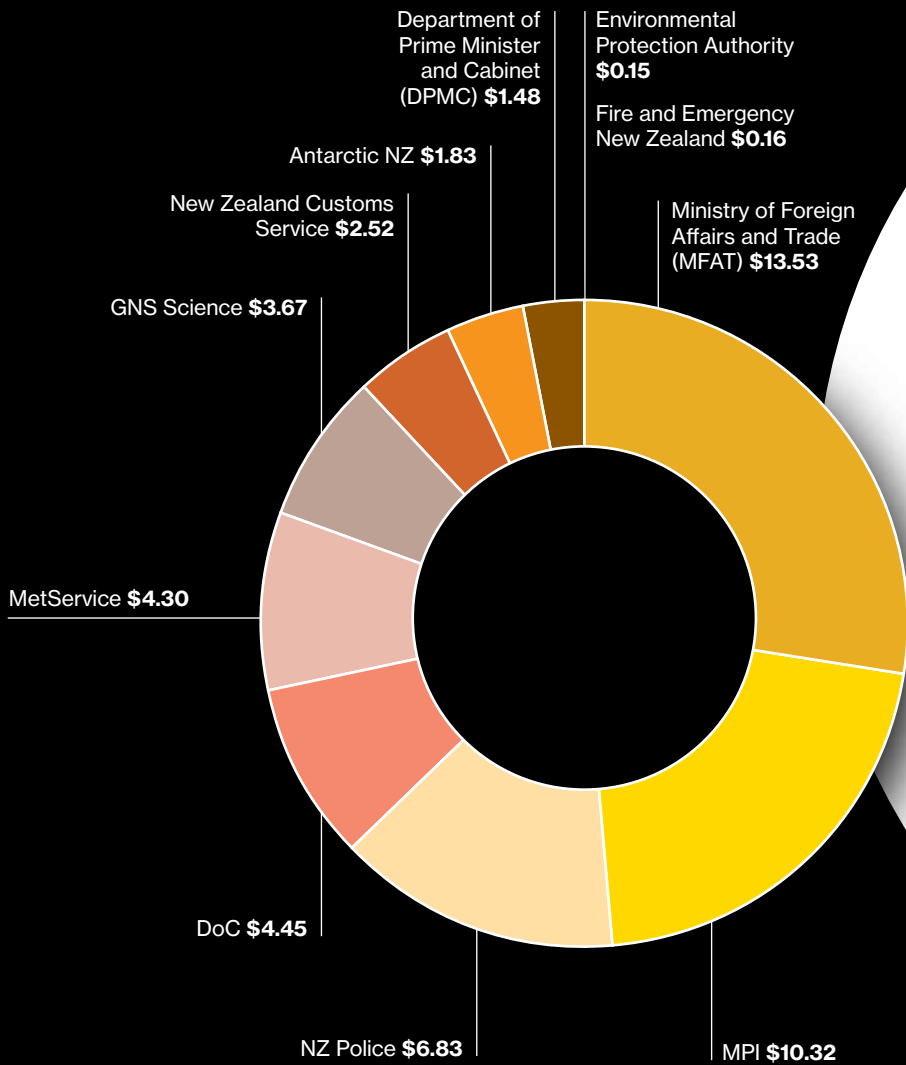
Veterans and whānau  
supported by Veterans' Affairs

**\$92.529**m

paid to veterans  
and whānau

# Support to Other Government Agencies

Nation **\$49.22**



## MFAT

- Support through humanitarian assistance and disaster relief (HADR) operations
- Regional (Southwest Pacific) Search And Rescue
- VIP travel
- Air movement of charitable freight
- Southern Ocean Patrols
- Op ANTARCTICA

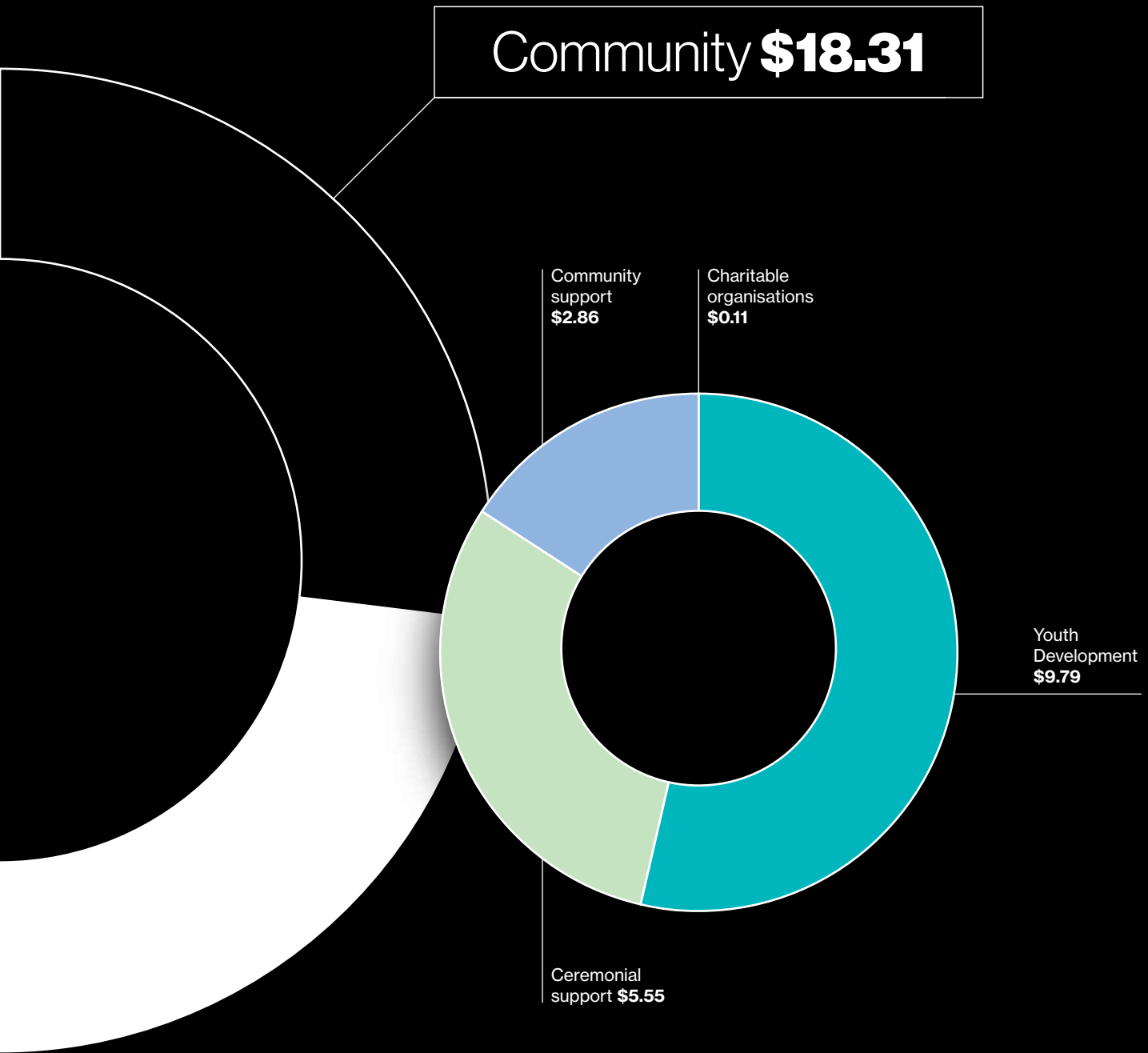
## NZ Police

- Support through Domestic Search And Rescue/Counter Terrorist Group on standby/Explosive Ordnance Device callouts
- Training support
- Strategic Air Transport
- Cannabis Recovery Operation

## MPI

- Support with resource protection patrols (inshore)
- Staff supplementation as they managed concurrent responses
- EEZ Patrols

This chart illustrates the value of support the NZDF provided to Other Government Agencies in FY 17/18. Figures represent the marginal cost only and are in \$Millions.



**Multi-Agency – Youth Development**

- Limited Service Volunteers (MSD)
- Life Skills Courses in Service Academies (Ministry of Education)
- Cadet Forces (NZDF)
- Blue Light (NZ Police)

**Ceremonial**

- Commemorative ceremonies (Department of Internal Affairs, Ministry of Culture and Heritage (MCH), MPI)
- Visiting dignitaries

**DoC**

- Support with track and hut management
- Access to remote locations such as Raoul Island and the Sub-Antarctic islands

**Civil Defence and Emergency**

- Support to local/regional emergencies in response to natural disasters
- National emergencies in response to natural disasters

**Customs**

- Border management (Boat arrivals, Aerial Surveillance)

# How are we Organised?

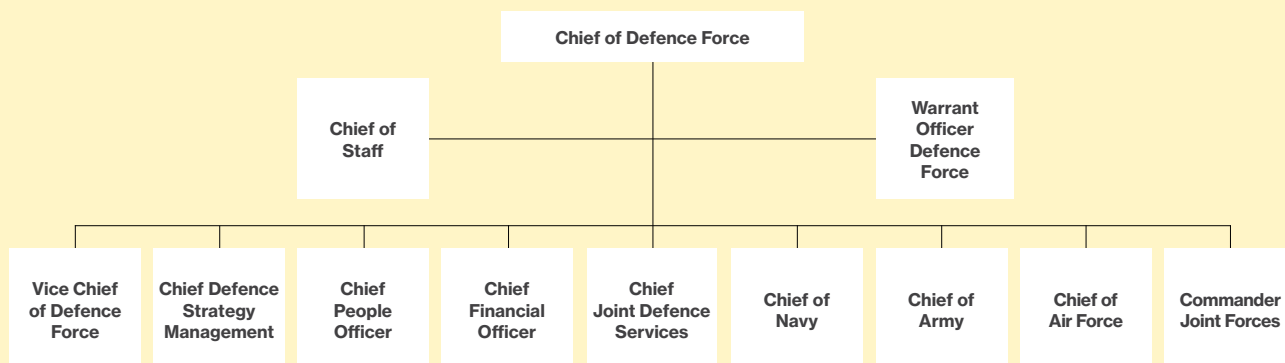
The NZDF provides the Government with defence outputs in conjunction with the Ministry of Defence and in accordance with the Defence Act 1990, the Veterans' Support Act 2014, and other regulations.

The command structure of the NZDF is a chain that emanates from the Crown, down through the Chief of the Defence Force, then branches out to the three Services; the Royal New Zealand Navy, the New Zealand Army and the Royal New Zealand Air Force, as well as Joint Forces New Zealand, the New Zealand Defence Force Headquarters, and enabling functions. The executive management structure is set out in the following diagram.





## Executive Management Structure



The governance of NZDF is supported by a Board that provides advice to the Chief of the Defence Force. Chaired by an independent external member, the Board includes the Chief of Defence Force, Vice Chief of the Defence Force, the Chiefs of the three Services, the Warrant Officer of the Defence Force, and a number of independent, external

members including the Secretary of Defence. The role of the Board is to set the long term strategy for the NZDF and to monitor the organisation's performance. The Defence Force is comprised of almost 14,800 military personnel, reserves and civilian employees, as set out in the following table.

### NZDF Personnel as at 30 June 2018

Our People Capability				
	Regular	Reserves	Civilian	TOTAL
Navy	2,127	480		2,607
Army	4,673	1,685		6,358
Air Force	2,554	255		2,809
Other Defence Roles			2,996	2,996
<b>TOTAL</b>	<b>9,354</b>	<b>2,420</b>	<b>2,996</b>	<b>14,770</b>

## The NZDF Regular Force

The NZDF Regular Force is made up of enlisted personnel who fill a wide variety of roles across the three Services.

They are an extremely diverse and capable group of people – Privates to Generals, Ordinary Seamen to Rear Admirals, Aircraftmen to Air Marshals, technicians to special operations troops, engineers to chefs, intelligence specialists to medics, and divers to drivers.

In addition, they are trained in command planning, leadership, operations, logistics support, and participate in and support operational deployments, training, and recruitment, both in New Zealand and in overseas posts. They have oversight, managerial and corporate roles on bases, camps, and at Headquarters Joint Forces New Zealand and Headquarters NZDF.

## NZDF Reserves

As well as the full-time Regular Force personnel, the NZDF provides extra military capacity through the Navy, Army and Air Force Reserves, who work and train part-time. These Reserves supplement the Regular Force by providing specialist roles and a contingent capability in the event of a large-scale military deployment.

The Army Reserve is made up of soldiers and officers who conduct military training in addition to their civilian employment. These Reserves have played a significant role throughout New Zealand's history, contributing to deployments, civil defence, and ceremonial activities. Because they live and train in their local communities, all over the country, they are often the public face of the New Zealand Army.

The Navy Reserves are made up of both civilian and former Naval personnel. They support the Navy's operational capability in its maritime defence and security roles, as well as the wider NZDF mission to protect New Zealand's interests and provide support during disasters.

Air Force Reservists are recruited differently to those of the Navy and Army. Because Air Force personnel are often trained in specialist roles, the Air Force Reserves also draw from personnel who have left the Regular Force by retaining them on part-time contracts. This approach makes use of their specialist skills and training while they pursue other career opportunities.

## NZDF Civilian Personnel

Civilian employees fill a wide range of specialist and corporate roles in the NZDF that don't require deployment in an operational environment. The work they do enables the NZDF to operate effectively. Many civilian personnel are ex-Regular Force, or are currently-serving Reserve Force sailors, soldiers, or airmen.

# Improving our Military Capability

## How Military Capability is Defined

The term 'military capability' is broader than a ship, machine gun or aircraft. It is a complete combination of highly trained and skilled people, top-class equipment (such as vehicles, weapons and supplies), supporting infrastructure and the best leadership, research and development and information technology. The NZDF has a range of military capabilities within its three Services. For each mission, the best mix of capabilities is selected to create a tailored task force.

## Readiness

Readiness is a critical part of being an effective combat force. NZDF's core role in an increasingly violent and unstable world is to support a rules-based international order. It works both independently and in conjunction with security partners on a range of operations from humanitarian through to combat, that contribute to global peace and security. Outputs 1, 2 and 3 fund NZDF to maintain 'readiness' to deploy Naval, Army and Air Force units or formations.

The measurement of readiness is an assessment of the time it would take for a designated unit or formation to be ready to deploy, appropriately staffed, trained, equipped and supported, to meet the defined conditions and standards for the designated operation. A unit is deemed to be at readiness when it can demonstrate that it can be made ready to deploy within the timeframe agreed with Government. Units are kept at different levels of readiness depending on the notice the NZDF has between being directed to deploy and deploying.

Readiness is assessed by NZDF's ability to:

- maintain personnel at the required strength and training levels to meet directed readiness levels;
- retain adequate levels of equipment for training, current operations and contingencies;
- complete stipulated training activities that enable force elements to operate effectively as a collective force to achieve the specified tasks; and
- maintain the ability to sustain the deployment as required.

High levels of readiness are resource intensive and levels of readiness vary. Therefore each year, the NZDF agrees with Government on readiness standards for each unit or formation based on how quickly they may be required.

# Achievements over the Last Year



## Aircrew Training Capability

RNZAF Air Warfare Officer (AWO) training and AWO Instructor training has until recently been carried out at an Australian base. A project is being undertaken to 'repatriate' AWO training to New Zealand. The Beechcraft King Air KA 350 will be used for this training and the first aircraft has arrived at RNZAF Base Ohakea.

## NH90 Helicopters

The fleet of NH90 Helicopters continue to be brought to full operational release. The NH90s recently tested the external fuel tank capability, used for long range missions.

Additionally, training has been carried out with helicopter mounted MAG58 M machine gun.



## P-3K2 Orion Mission Systems Upgrade

This project upgraded the Command, Control, Communications and Computers Intelligence, Surveillance and Reconnaissance (C4ISR) systems to enable effective high capacity and secure communication for these aircraft. The project was implemented successfully and has recently closed. One of the P-3K2 Orion aircraft's missions is to provide C4ISR capabilities to support New Zealand Defence, International Coalition and other Government Agency operations and activities. The aircraft directly facilitates two of the six key attributes that support NZDF Joint Task Forces: – to be Network Enabled and Situationally Aware. To meet essential objectives the aircraft utilises a commercial Satellite Communications (SATCOM) system, INMARSAT Swift64, to facilitate air-ground connectivity for data exchange, email, file transfer and voice phone lines.





## Anzac Frigate Systems Upgrade

The purpose of this project is to upgrade the combat management systems, sensors and weapons on board the two frigates to meet contemporary threats and operational situations. HMNZS TE KAHA is the first frigate to be upgraded and the work is taking place in Victoria, Canada. HMNZS TE KAHA arrived in Canada for her refit on time and schedule on 9th April 2018.

## Individual Weapon Replacement

This project is to replace the existing NZDF Steyr rifle and grenade launcher with a new individual weapon and grenade launcher including the necessary spares and ancillaries. The MARS-L weapon has now been delivered to all three services and training is being undertaken.



## Maritime Sustainment Capability

This project is to replace HMNZS ENDEAVOUR and an afloat replenishment capability for the NZDF. The replacement vessel is HMNZS AOTEAROA and it will be able to sustain maritime, air and land forces with fuel, fresh water, ammunition, equipment and stores. The ship is capable of operating worldwide in support of NZDF and coalition operations. It is being constructed to operate in the Southern Ocean and Antarctic contributing to New Zealand's obligations and interests in that area. The ship is being built in South Korea by Hyundai Heavy Industries and the first steel blocks for the keel have now been cut and production is underway and running to schedule.

## Land Transport Capability Project: Special Operations Vehicles

The Supacat Mobility Heavy Transporter with its exceptional cross country and extended range capability has undergone operational test and evaluation at Waiouru. This fleet will be at full operating capability by August 2018.



## Working with the Ministry of Defence on Defence Capability

The NZDF works in conjunction with the Ministry of Defence to develop its military capabilities (see figure 1). The Ministry is responsible for the development of defence policy, international defence relationships and engagements, advice on potential military deployments, systemic reviews on behalf of the Minister of Defence, and the development and delivery of capability projects. In this context, capability means platforms, equipment systems, technologies and material with a whole of life capital and operating cost of more than \$15 million.

By 2030, Defence (the NZDF and Ministry of Defence collectively) will have replaced a significant proportion of its current major military platforms.

Changes to defence capability management are being delivered through the Defence Capability Change Action Programme. The Programme has now been in place for two years and is at a stage where the key activities needed to build the essential aspects of a contemporary capability management system are in place.

At the core of the Programme is the enrichment of collaboration between the two agencies to draw on expertise from both.

One of the key components of the changes to the Defence Capability Management Systems is the establishment of Integrated Project Teams (IPTs). In February 2017, the Defence agencies introduced six IPTs for major capability projects. A further two IPTs were stood up in January 2018. IPTs bring Ministry and Defence Force staff together into a single team that spans capability definition and selection, and acquisition (for which the Secretary of Defence is primarily responsible) and Introduction into Service (for which the Chief of Defence Force is primarily responsible) phases of each capability project (see figure 2).

The system of capability governance boards and management groups has been redesigned to provide greater assurance to the Capability Governance Board, co-chaired by the Chief of Defence Force and the Secretary of Defence. The Capability Governance Board is supported by the Capability Management Group which makes recommendations on portfolio matters and considers items referred from project boards. Project boards provide assurance that the project will successfully deliver the expected outcomes and benefits. Ten dedicated project boards have been established to provide executive management over the following projects and programmes: Anzac Frigate Systems Upgrade, Network Enabled Army, Maritime Sustainment Capability, Individual Weapons Replacement, Underwater Intelligence, Surveillance and Reconnaissance, Dive and Hydrographic Vessel, Future Air Surveillance Capability, Future Air Mobility Capability, Protected Mobility Capability and the Consolidated Logistics Project. Common Capability Boards have been established for other major projects in the Maritime, Air, Land and C4ISR Domains.

The work of each IPT is guided by a refreshed Capability Management System and Capability Management Framework that are now in place. This Framework is owned by the Capability Governance Board. Enhancements to the System include clarification of roles, and policies, procedures and guidelines based on international best practice. It has been developed through a co-design process with staff from both organisations.

As part of the Programme, Defence implemented a Whole of Life Costing model for major projects that strengthens costing advice for projects at each stage of their lifecycle. It has also implemented a Benefits Management Framework to ensure benefits expected from Defence's investments are agreed, understood, and ultimately realised. We have enhanced the planning process used to define the capability needed to meet policy goals, and have developed a collection of standard tools to support the definition and selection of military capability.

The next phase of the Programme is to embed and sustain the improvements that have been developed and introduced.

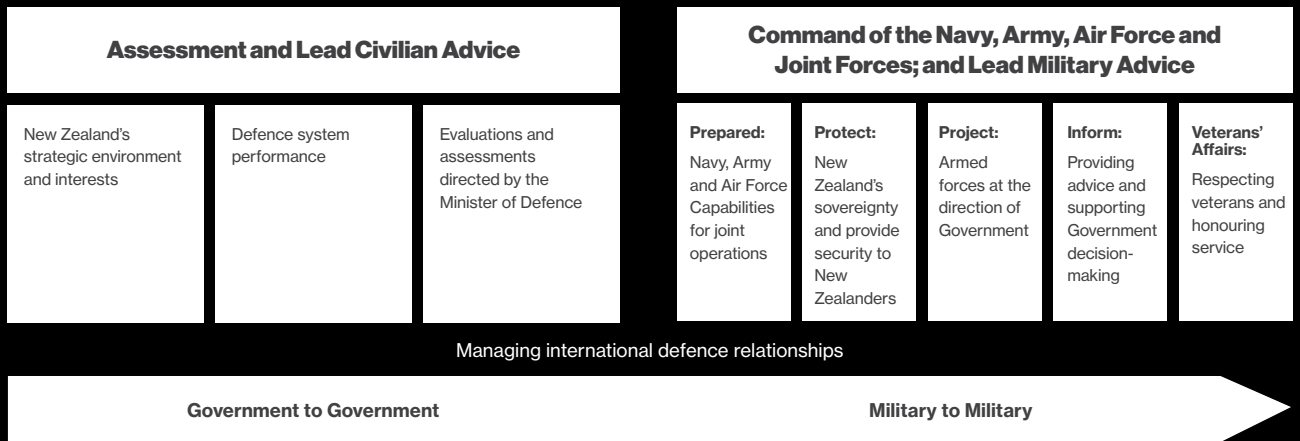


Figure 1: Respective roles of the Ministry of Defence and New Zealand Defence Force.

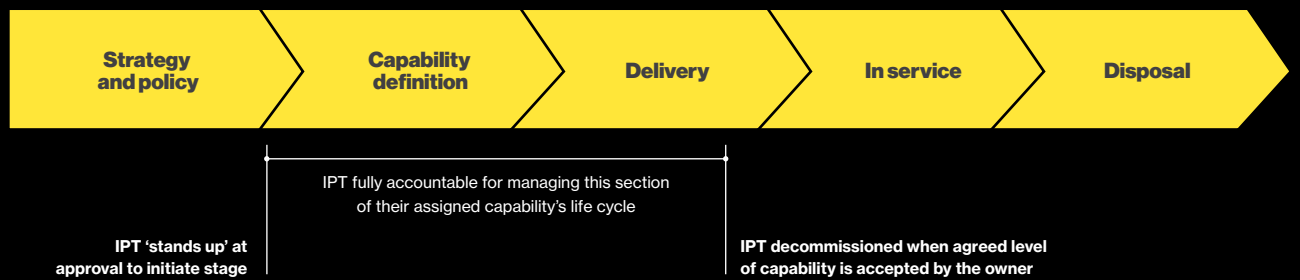


Figure 2: How NZDF and the Ministry of Defence work together through Integrated Project Teams across the lifecycle of a defence capability.

## The Defence Capability Plan Review

The Defence Capability Plan Review will confirm the investments required for Defence to meet the expectations of the Strategic Defence Policy Statement 2018, including capability sets and timings for delivery. Prior to this occurring, the investment detailed in the 2016 Defence Capability Plan remains the basis for Defence investment in capabilities. Investment in the capabilities set out in the 2016 plan would see Defence having delivered or be in the process of acquiring the capabilities necessary to fulfil the roles outlined in the 2016 Defence White Paper by 2030.

The Defence Capital Plan Review requires careful assessment of the full range of capabilities in order to provide Government with investment choices.

These new capabilities represent high value investment for Defence. Generally of limited scalability, they are heavily driven by maintaining interoperability with Defence partners. Options to acquire suitable capabilities are often limited and driven by sole source, time bound commercial opportunities.

Conversely, capabilities which straddle the national and regional context offer a greater diversity of options. These capabilities offer a greater range of potential solutions and scalability in the number of platforms and systems provided. Consequently, they are more inclined to be the focus of trade-offs in investment planning where cost or other pressures are experienced in the portfolio.

Defence has continued to steadily deliver the capabilities highlighted in the 2016 Defence White Paper. While commercial opportunities, organisational capacity and priorities have changed timings, and cost fidelity continues to mature, the development of investment cases and the delivery of capabilities generally aligns with those outlined in the 2016 Defence White Paper.

In delivering investments, agreement was reached with Treasury that Defence would manage the planned investments as a portfolio: any cost pressures would be managed through the identification of trade-off options; any savings for planned investments would be available for Defence to propose investment options. Defence continuously monitors the overall affordability of the portfolio of planned investments and identifies options to manage cost pressures.

## Planned Capability Investments and the Impact of not Investing

A key aspect of Defence investment planning is the delivery of operational enablers and enterprise change programmes. Operational enablers represent a small percentage of Defence's total capital envelope, however their successful delivery is key to realising the full value of the major investments. Prioritising these investments despite their relatively small scale is an ongoing challenge for Defence in delivering the portfolio. Other change programmes, including the Defence Estate Refresh, the Consolidated Logistics Project, and the Information and Communications Technology (ICT) Change and Transformation Programme are being undertaken to ensure a modern, effective business model to support the sustainable generation and employment of military capabilities towards Defence outcomes.







## Planned Investments in Air Capability Sets

The Air Force provides a number of critical functions, either through support to a Joint Task Force or by operating as individual units in support of New Zealand interests. Our ability to deploy people and equipment will continue to rely on air transport. Air platforms also have an important Intelligence, Surveillance and Reconnaissance function, which is critical to enhancing maritime domain awareness. Multi-role systems are an important consideration in future air capability development along with access to space-based assets for the provision of persistent Intelligence, Surveillance and Reconnaissance effects.

To deliver those required capabilities, Defence has identified planned investments in three areas:

- Planned replacements of key platforms
- Maintenance of rotary wing capabilities
- Maintenance of legacy platforms

### Air Intelligence, Reconnaissance and Surveillance and Prosecution

Airborne intelligence, reconnaissance and surveillance describes the Defence Force's use of air based systems used to collect, collate and disseminate information from a broad range of sources. The most significant planned investment in this capability is the Future Air Surveillance Capability which seeks to replace the aging P-3K2 Orion fleet of aircraft.

### Airlift

A set of initiatives have been programmed to maintain the capability of the legacy fixed wing platforms (Boeing 757, C-130H Hercules, and P-3K2 Orion) through to their respective economic life of type. The most significant planned investment in this capability is the Future Air Mobility Capability which seeks to replace the C130H Hercules and 757 fleet of aircraft.

### Utility Helicopters

Defence has completed several major acquisition projects for rotary wing capability within the last five years, including the Medium Utility Helicopter (NH90) and the Training Light Utility Helicopter (A109 LUH). These provide a range of support to the New Zealand Defence Force's combat and counter terrorism capability, including tactical troop transport and delivery, command and control, search and rescue and medium light utility roles. They also provide support to Humanitarian Aid and Disaster Relief (HADR) operations both within New Zealand and in the South-West Pacific region. Planned integration of the NH90s with naval platforms, particularly HMNZS CANTERBURY, will enable support to littoral and amphibious operations.

### Naval Aviation

The fleet of upgraded Kaman SH-2G(I) Seasprite helicopters are now in the latter stages of Capability Integration. They now form part of the Anzac frigates' capability through extended reach, surveillance and air delivered weapon capabilities. They can also be used to provide HADR support both within New Zealand and the South-West Pacific region.

### Air Training Systems

The efficiency of NH90 utilisation would be enhanced by the purchase of a flight training device. This training device would introduce simulator based training for NH90 aircrew, allowing the helicopters to prioritise operations over training. By increasing the capacity to train aircrew, Defence would also ensure that realising the maximum utility of the NH90 is supported.

## Planned Investments in Maritime Capability Sets

Maritime forces bring utility across a range of operations and can be conducted at a scale that ranges from individual units through to a complete Joint Task Force. A Joint Task Force relies on the contribution of maritime forces to provide command and control, communications, intelligence, surveillance and reconnaissance, aviation capabilities for surveillance and combat tasks, rapid environmental assessment from the sea, projection, and sustainment capabilities. Maritime forces provide appropriate control of the sea to enable freedom of action for the Joint Task Force and protect its combat power.

The 2016 Defence White Paper outlined the need for the New Zealand Defence Force to maintain a credible naval combat force, an enduring logistics replenishment and support force, sufficient strategic sealift assets, and a robust patrol force that enables littoral and amphibious operations in New Zealand's maritime zone and South Pacific. Defence investments in maritime capabilities reflect those commitments and fall into the following categories:

- Maintenance of current Naval Combat Force;
- Maintenance of sealift capability;
- Enhancement of the Naval Patrol Force;
- Replacement of the Maritime Sustainment Capability;
- Littoral capabilities; and
- Naval Combat Force replacement.

### Naval Combat

Significant investments are now being made to maintain the capabilities of the current Naval Combat Force – the Anzac frigates. The Anzac Platform System Upgrade (the ships) has been delivered and the Anzac Frigate Systems Upgrade (the on-board systems) is currently in the installation stage of delivery. These upgrades will ensure the continued relevance and effectiveness of the Anzacs in contemporary environments.

### Sealift Sustainment and Projection

The New Zealand Defence Force's sealift capability is centered on HMNZS CANTERBURY. Replacement of the current platform is expected in the 2030–35 period and will be considered during the 2018 Capability Review.

### Naval Patrol

The Defence White Paper identified value in a rebalancing of the patrol fleet with an additional third, ice strengthened Ocean Patrol Vessel and the reduction of the Inshore Patrol Vessels from four to none. This recognises the greater utility of the Offshore Patrol Vessel, and capacity to undertake patrol operations in New Zealand's Exclusive Economic Zone, as well as their limited current ability to undertake operations in the Southern Ocean. Remotely Piloted Aircraft Systems have been trialled on Offshore Patrol Vessels operating in the Southern Ocean, to test the value they provide to patrol operations in ice covered water through the extension of the area over which they are able to conduct surveillance.

### Maritime Sustainment Capability

The Maritime Sustainment Capability is a project to purchase a modern naval tanker to replace the recently retired HMNZS ENDEAVOUR, which was decommissioned on 15 December 2016. On 31st January 2018, construction began on HMNZS AOTEAROA. Cabinet has agreed to this vessel being strengthened to Polar Class 6 which will mean that HMNZS AOTEAROA will be able to deliver fuel and supplies to McMurdo Sound as part of the Joint Logistics Pool. This vessel will increase NZDF's capability and self-sufficiency when conducting an independent operation in the South Pacific, particularly those involving a sizeable helicopter element.

### Littoral Warfare Support

The most significant investment is the Dive Hydrographic Vessel – a dedicated support vessel that will be acquired in the lead up to 2020. A range of complementary systems which will support littoral warfare operations will also be procured in conjunction with the Dive Hydrographic Vessel. These systems, which include a Littoral Manoeuvre Craft, dive systems, and underwater remotely operated vehicles, will ensure the littoral warfare teams are equipped to undertake their full range of operational requirements. This will replace HMNZS MANAWANUI and HMNZS RESOLUTION with a single vessel.

## Planned Investments in Land Capability Sets

Deployable ground forces are often at the centre of a Joint Task Force. They may be required to deploy into unstable, potentially hostile environments. They must be capable of combat tasks, but will also be used for humanitarian assistance, disaster relief, and the evacuation of nationals. To successfully deploy, our ground forces will require a range of support and force protection capabilities.

Unlike air and maritime capability sets which are platform based, land capabilities are based around a diverse range of functions which collectively form a combined arms task group. Many of these investments also provide utility domestically (for example, the domestic counter explosives capability). However, primarily these capabilities are focused on supporting international defence outcomes.

Anticipated benefits arising from investments in Land platforms (Light Armoured Vehicle upgrades) are focussed on maintaining the current effectiveness of these capabilities. However, land investments in general are provided for improved effectiveness, reflecting the rapidly evolving technology associated with land forces, as well as the relatively short lifespans of systems in comparison to air and maritime forces.

### Mobility and Counter Mobility

Mobility and Counter Mobility capabilities are focussed on ensuring land forces can get to and from the tactical area of operations, are able to move freely around the battlefield and are able to prevent adversaries from doing the same. This includes transport (armoured and operational vehicles) and engineering plant to surmount obstacles, both natural and manmade.

### Protected Mobility Capability

The Protected Mobility Capability Project has been established to provide the NZDF with land mobility capabilities that meet the challenges of the contemporary land operating environment and future operating concepts. The project essentially includes all of Defence's operational vehicles except for the new medium/heavy operational trucks; the Special Operations Forces vehicles; the garrison and other support vehicles intended primarily for use in New Zealand; and specific engineering and other specialised plant and equipment.

### Joint Fire and Effects

Joint Fire and effects describes the supporting firepower for land combat. This includes artillery, mortars and also smaller weapons that can have a direct or indirect fire role. Investment in this area includes the 81mm mortar upgrade, heavy machine gun replacement, indirect fire prediction systems upgrade and the infrastructure to support them.

### Soldier Modernisation

Soldier Modernisation is an enduring line of effort to ensure that the NZDF service personnel, operating in the Land Domain, are trained and equipped to achieve NZDF missions and tasks within coalition and expeditionary forces. The Soldier Modernisation and Soldier Personal Protection Equipment project provides the capital funding to ensure that the broad range of equipment carried by individual soldiers is modern, interoperable and fit for purpose.

### Force Protection

Force Protection involves the reduction of risk to our personnel from battlefield effects. These might be mines, IEDs or other sorts of attacks not directly delivered, such as chemical or biological weapons. Methods include detection, prevention, protection (protective clothing), avoidance and disruption.

### Special Operations

Special Operations capability includes the designated, organised, trained and equipped forces using operational techniques and modes of employment not standard to conventional forces. In recent years, improved special operations vehicles have been delivered and are now in the later stages of capability integration.

### Network Enabled Army

The Network Enabled Army programme represents a transformational change for the land forces through enabling them to operate in a modern digital environment. As a major investment over 12 years, the NEA programme is a vital mechanism to make improvements across the spectrum of land forces.

The anticipated benefits are:

- Maximise informed tactical command decision making, in order to improve the likelihood of mission success.
- Provide effective situational awareness, for commanders and staff of deployed land forces, to enable the appropriate application of resources for land operations.
- Reduce the risk of adverse consequences, by providing deployable land forces with a greater understanding of the operating environment.
- Operate in modern digital environments, in order to maximise options for employment of land forces, whether independently or with partners, in order to be able to participate fully in joint, interagency and multinational operations.

## CASE STUDY

# Pilot Training Capability



The Pilot Training Capability (PTC) Project was introduced to provide a modern pilot training system to the NZDF. The aim of the project was to deliver a capability which:

- produces pilots with the required military flying competencies in sufficient numbers capable of conducting safe military air operations;
- trains pilots with the competencies required to progress through the NZDF as operational aircraft captains, flying instructors and flying supervisors; and
- delivers a safe and appropriate capability that provides value for money to the NZDF.

The acquisition phase of the project commenced in late 2012 with the Cabinet approval of the Detailed Business Case and approval to undertake a Request For Tender (RFT). The project employed a philosophy that minimised risk and design development by only considering certified, non-developmental, off-the-shelf solutions. The selected aircraft was required to be already certified by a National Aviation Authority (NAA) considered acceptable by the NZDF.

An RFT was released in December 2012 which elicited seven responses. These were narrowed to two preferred bidders, both offering modern aircraft and training systems.

In December 2013, Cabinet agreed that the RNZAF's CT-4E Air trainer aircraft would be replaced by eleven T-6C Texan II aircraft and two fixed base simulators, along with associated training and logistics support.

The delivery route the Texans flew from Beechcraft in Kansas, USA to New Zealand. This represents the confidence that the manufacturer had in their product. Each aircraft flew approx. 60 flying hours and took 23 days to complete the flight. Contracts were signed in January 2014 for the delivery and support of the PTC with Beechcraft Defense Company (BDC).

BDC carried out the production of the eleven aircraft at their plant in Wichita, Kansas, and coordinated the procurement of miscellaneous support equipment for the capability. BDC managed a significant subcontract with Canadian Aviation Electronics (CAE) for the provision of the two simulators and training packages associated with a modern training capability.

A separate Logistic Support Agreement was established with BDC to manage services with CAE for the maintenance and support of the simulators and training systems, and with Airbus NZ for the maintenance and support of the aircraft.

Significant infrastructure upgrades and new builds at RNZAF Base Ohakea were funded by the project, including the renovation of the maintenance and operational facilities of No. 1 Hangar. There was also a new build of aircraft shelters and a training centre to house the simulators, training equipment and classrooms; all designed to provide a positive, professional learning environment.

The first four aircraft were accepted into the RNZAF on 31 October 2014, after delivery flights from Wichita to Ohakea over a 23 day period. A full Type Certificate was awarded in December 2015 and RNZAF pilot training commenced on the new capability in January 2016.

In December 2017 the Treasury Gateway Review Team found that "the Pilot Training Capability Project has been successfully delivered under budget and broadly to time. The benefits flowing from the project will be evident within the next few years and the early indications are positive, with a demonstrable uplift in pilot training quality. Furthermore, the new fleet of T-6 aircraft is presenting an opportunity to prepare the RNZAF for the next generation of platform and capability renewal. The project is a key enabler for the future and has provided Defence with valuable insights and validation of recent organisational project delivery reforms."



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Treasury Gateway Review Team

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# Improving our Organisational Capability

Alongside our military capabilities, the NZDF is working to enhance its organisational capabilities. The following section sets out the progress of the key organisational change initiatives progressed in 2017/18.

## People Management

The most critical part of any military capability is the people. NZDF is continually looking to improve its people management practices to ensure it can both attract and retain people with both the skills and the values that underpin military service.

In 2017/18, NZDF agreed to a programme of changes to its Career and Talent Management (CTM) system. The CTM system delivers the right person into the right role at the right time. In a military context, that ensures they have the right levels of skill and experience to safely and effectively deliver as part of a bigger team.

The changes to the CTM system focus on improving the transparency of the process and, ultimately, to improve both the customer and the service personnel's satisfaction with the process. This is critical as career management is one of the key frustrations expressed by exiting uniform personnel in their exit surveys and may contribute to unwanted attrition.

The benefits of the improvements to the career and talent management system should begin to manifest in the 2018/19 year.

Also targeted at improving the retention of key personnel is the accommodation policy. NZDF has a three-stream accommodation policy. The first is barracks which is the traditional boarding style accommodation of Camps and Bases. The second stream is defence housing, which is normal houses which are available to rent. The number of houses owned by NZDF is due to reduce significantly over the coming years as many are included within settlement offers to address Treaty of Waitangi claims.

The third, which was introduced in 2017/18 is the Operational Enabling Allowance Posting Readiness (OEAPR) which is an allowance paid to regular force personnel in some regions who are critical to output delivery and are not entitled to NZDF accommodation. The allowance contributes to meeting the cost of privately provided accommodation. As at 31 January, 3,196 service personnel were entitled to an OEAPR allowance.



## Organisational Culture

Despite being a values-centric organisation, the NZDF is a reflection of society and is not immune to harmful behaviour. Because many of its personnel both live and work on Camps and Bases, NZDF has taken proactive steps to reduce the likelihood of harmful behaviours as part of its commitment to delivering a safe and respectful workplace.

In July 2017, NZDF rolled out its Sexual Ethics and Respectful Relationships (SERR) training. The training aims to create a workforce that is both empowered and prepared to address harmful sexual behaviour.

Over the 2017/18 year, the training was rolled out to more than 12,000 military and civilian personnel in the NZDF.

The SERR training programme was awarded the Supreme Award at the 2018 Diversity Awards.

## Information Management

Information is a critical asset, both for the effective delivery of military effect and for the effective management of the NZDF. Work to improve the collection, storage, transfer, analysis and use of information is ongoing. From new sensor systems on aircraft to information sharing with government agencies, the volume of information processed by the NZDF continues to increase.

NZDF has three focus areas that both manage the increased volume of information and make better use of it.

The first is operational. This focuses on getting the right information to the right person in time to support them to make better informed decisions.

The second is information management. This work has delivered a new document management system that improves the ability to store, share and retrieve electronic information across the NZDF. The next steps focus on enterprise analytics and enhancements to NZDF's data analytic tools and practices.

The third is the management of the technology itself. A major transformation programme is underway to improve the state of NZDF's ICT infrastructure and its capability to manage it. The key changes in 2017/18 were focused on the operating model and operational capability of the Communications and Information Services portfolio.

# Asset Management

Defence assets are managed by the NZDF and are held to secure New Zealand against external threats, protect sovereign interests and to be ready to take action to meet contingencies in strategic areas of interest.

The majority of Defence assets are made up of:

- Specialised Military Equipment (SME), which comprises the operational equipment required to enable the Defence Force to function effectively and efficiently. It includes assets such as ships, aircraft, weapons systems, vehicles and protective equipment as well as the associated Information and Communications Technology. Major equipment is purchased by the Ministry of Defence and becomes a capability when it is used by the service men and women of the Defence Force.
- The Defence Estate which comprises the property, infrastructure and facilities required to generate and maintain military skills and capabilities. This primarily consists of more than 20 bases and camps around New Zealand.

## Specialist Military Equipment

The Government funds NZDF to deliver Force Elements at a directed state of readiness to undertake military operations. As such, Specialised Military Equipment assets are contingent assets that are assessed on Readiness (and not usage).

Readiness of SME assets is the key measure of the effectiveness. NZDF aims to have all of its Force Elements at the directed level of readiness to undertake military operations 100% of the time. From an asset management perspective, this means NZDF seeks to manage its SME assets in a way that enables the achievement of directed levels of readiness.

The assessment of readiness is the primary measure of NZDF's performance under Outputs 1, 2 and 3. Readiness is assessed on four factors: personnel, training, equipment and sustainability. The NZDF uses its Operational Readiness Reporting System (OPReS) to track the readiness of its Force Elements on a quarterly basis.

As detailed in section four of this report, a number for Force Elements did not meet their readiness targets in 2017/18.

Issues connected to the condition and/or functionality of SME were a factor in a 9% underperformance in 2017/18.

The specific issues are well understood and under management. These are set out in more detail in Section Four.

A number of the issues effecting readiness stem from the age of the SME asset base which increases the assets' maintenance burden. Defence's capability investment programme, which is detailed earlier in this section, is heavily focused on the replacement or extension of existing capabilities and is intended to address these condition and functionality issues.

## Defence Estate

The Defence Estate is a key enabler of readiness and delivery of military operations.

The utilisation and functionality of Defence estate assets is measured periodically on a multi-year cycle. As indicated in figure 4, the NZDF exceeded target utilisation for both critical and non-critical assets. However, NZDF did not meet targets for the condition and functionality of the Defence Estate. This is largely due to the majority of Defence Estate assets reaching the end of their economic and/or useful lives. There are in excess of 100 critical buildings that are past their useful lives.

The Defence Estate Regeneration Plan currently underway will help reduce key estate/facility risks.



Measure	Indicator	Target	2015/16 Actual	2016/17 Actual	2017/18 Actual				
					Overall	Q1	Q2	Q3	Q4
Percentage of Force Elements with Readiness to deliver military operations is not affected by condition and/or functionality of SME assets	Readiness	100%	92%	92%	91%	91%	91%	91%	92%
Percentage of Force Elements for which the condition of SME assets is at or above target	Condition	100%	92%	97%	97%	95%	97%	97%	97%
Percentage of Force Elements for which the functionality of SME assets is at or above target	Functionality	100%	100%	95%	91%	91%	91%	91%	92%

Figure 3: Asset condition – Specialist Military Equipment.

	Measure	Indicator	Target	FY14–15	FY15–16	FY16–17	FY17–18
Critical Estate Assets	% of critical estate assets with actual utilisation rated as optimal or less	Utilisation	>75%	88%	not measured	not measured	86%
	% of critical estate assets with actual functionality of satisfactory or better	Functionality	>75%	69%	not measured	not measured	61%
	% of critical estate assets with actual condition rated as average or better	Condition	>70%	63%	61%	59%	60%
Non-Critical Estate Assets	% of non-critical estate assets with actual utilisation rated as optimal or less	Utilisation	>80%	95%	not measured	not measured	92%
	% of non-critical estate assets with actual functionality of satisfactory or better	Functionality	>80%	53%	not measured	not measured	59%
	% of non-critical estate assets with actual condition rated as average or better	Condition	>84%	91%	90%	74%	89%

Figure 4: Asset condition – Defence Estate.



## SECTION 2

# Delivering Defence

This section explains how we deliver the business of defence. It explains the outcomes we are seeking to achieve, the outputs we deliver, what the results of these outputs look like, what effects we achieved, and how our output delivery contributes to NZDF outcomes.



# What Outcomes we are Seeking to Achieve

The Government's primary security objective is to ensure the security and territorial integrity of New Zealand, including protecting the institutions that sustain confidence, good governance, and prosperity. It encompasses the preparedness, protection and preservation of people, property, and information.

This is underpinned by the defence strategic objective, which is to ensure that New Zealand is secure and that the nation's strategic interests are advanced through the conduct of military operations and other tasks. The output framework of the NZDF establishes three defence-related outcomes to the Government.

**OUTCOME 1****New Zealand's Interests are Secured**

A secure New Zealand, including its people, land, territorial waters, exclusive economic zone, natural resources and critical infrastructure.

**How do we do this?**

The NZDF contributes to the security of New Zealand's interests through:

- Deterrence of military threats to New Zealand's sovereign territory and areas under New Zealand's responsibility.
- More active government awareness of activities in our territorial waters and the wider maritime domain. Improved response by civil authorities to illegal and unauthorised activities in and around New Zealand's maritime zones.
- Maintaining dynamic awareness of activities of strategic interest and foreign defence relevance to New Zealand to support responsive, conversant and cognisant government.
- Supporting civil authorities fulfilling their mandated national security responsibilities to save lives, prevent human suffering or mitigate property damage, and all-of-government efforts to secure the safety of New Zealand citizens and residents.
- Effective assistance to civil authorities in non-emergency situations.
- Effectively managing support to the community.

**OUTCOME 2****International Order is Supported**

New Zealand's military contributions to prevent, manage, resolve conflict, and maintain international order are valued.

**How do we do this?**

The NZDF contributes to international order through:

- Reducing instability in conflict-affected states resulting from breakdowns in law and order, insurgency, and other irregular activity.
- Mitigating future security events that challenge global security.
- Enhancing the resilience of New Zealand's offshore interests and improving the levels of social and environmental wellbeing for regional nations.
- The New Zealand Government promoting global stability through conflict resolution and preservation of a rules-based international order.

**OUTCOME 3****Veterans' Service is Honoured**

The service of our people is recognised, respected and honoured.

**How do we do this?**

Veterans' Affairs New Zealand, which is part of the NZDF, contributes to honouring veterans' service through:

- Acknowledging and recognising veterans for their service and sacrifice, and making the community aware of the role veterans have played and continue to play in developing New Zealand.
- Monitoring the impacts of service on eligible veterans and their dependants, and ensuring they have information about, and access to, services and support that promote wellbeing.
- Ensuring veterans' perspectives being considered as part of government decision-making on issues that impact their lives.

# What do we Deliver?

The work of the NZDF is broken down into seven outputs, these are:

## Prepare

# 1

Navy Capabilities Prepared for Joint Operations

# 2

Army Capabilities Prepared for Joint Operations

# 3

Air Force Capabilities Prepared for Joint Operations

## Protect, Project and Inform

# 4

Operations to Protect New Zealand and New Zealanders

# 5

Operations Contributing to New Zealand's Security, Stability and Interests

# 6

Advice to the Government

## Veterans' Affairs

# 7

Supporting our Veterans

# Prepare

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## OUTPUTS 1, 2 & 3

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**The NZDF aims to maintain maritime, land, and air capabilities at the Government’s directed level of readiness, and to prepare for joint operations and other responsibilities. The reason we have these military capabilities is not only to deter military threats to New Zealand, but also to be prepared for any other tasks that align with the Government’s strategic objectives. The result is that the NZDF is ready to protect the sovereign territory of New Zealand and any areas under our responsibility, and ready to support other agencies and defence partners.**

## CASE STUDY

# Exercise Southern Katipo



More than 3,000 people from 13 countries took part in the culmination of Exercise Southern Katipo 17 in November 2017.

The exercise was conducted over six months, working up to seven weeks of intensive field training.

Also involved were 300 role players from local communities, more than 100 other Government agencies and non-government agency participants, as well as local body councils, emergency services, Iwi and local communities throughout the Marlborough, Tasman, Nelson, Grey and Kaikoura Districts.

The exercise built on the cooperation achieved between the NZDF and other government agencies, non-government agencies and regional defence partners during recent humanitarian aid operations such as in Fiji and Kaikoura last year.

Exercise Southern Katipo 17 was designed to build on the objectives and lessons identified in 2015 in order to further enhance New Zealand and the NZDF's ability to lead a combined, joint and interagency task force in a challenging operational environment.

To achieve this outcome the scenario and exercise framework, whilst building on 2015, was far more complex. Within the fictitious state of Becara itself the ongoing economic

and ethnic tensions between the West and East continued, but now there were tensions between Becara and its southern neighbour Alpira relating to competing demands for access to newly discovered oil reserves off the east coast from Kaikoura.

Other factors introduced to Exercise Southern Katipo 17 included four additional nations, Singapore, Malaysia, Timor Leste and Chile, totalling 13, and a far bigger area of operations, including the Grey District and Kaikoura. Perhaps the most significant addition was a far greater input from other government agencies, including nine staff from MFAT and 10 staff from the Ministry of Health, as well as 47 staff from 17 different non-government organisations from as far away as Belgium and Switzerland, and a large contingent from UNOCHR Fiji and the New Zealand Red Cross.

The RNZAF implemented a new Command and Control system, which was designed to make tasking for personnel easier. Additional staff were brought into the exercise, who worked long hours to manage the tempo of the numerous flying operations.

"A big focus for us was importing our knowledge of air power and continuing to look at the best ways of staying in line with international best practice. So there was a big push

## Outcomes

New Zealand's national interests are secured

## Outputs


- 1 Navy capabilities prepared for joint operations
- 2 Army capabilities prepared for joint operations
- 3 Air Force capabilities prepared for joint operations

getting people into the headquarters, as well as the flying itself," said Wing Commander Brian Ruiterman, whose job was to task and maintain Command and Control of all of the participating aircraft.

No. 3 Squadron Commanding Officer Wing Commander Mike Cannon said there was be a big focus and evaluation of the embarked capability of the NH90.

"We took about 45 personnel and two aircraft to sea early in the exercise and operated from HMNZS CANTERBURY for about 10 days. We also cross-decked to the deck of HMAS CHOULES, which travelled from its base in Sydney."



A photograph of a military helicopter, likely a UH-60 Black Hawk, on a grassy field. The helicopter is the central focus, with its rotor blades blurred from motion. A soldier in full combat gear, including a helmet and a tactical vest, is seen from behind, standing in the tall grass in the foreground. The background shows a line of trees and a hazy sky. The text is overlaid on the right side of the image.

A big focus for us was importing our knowledge of air power and continuing to look at the best ways of staying in line with international best practice. So there was a big push getting people into the headquarters, as well as the flying itself.

“

Wing Commander Brian Ruiterman



## OUTPUT 1

# Navy Capabilities Prepared for Joint Operations

The Royal New Zealand Navy (RNZN), together with the enabling New Zealand Defence Force (NZDF) portfolios, the Ministry of Defence (MoD), Other Government Agencies (OGA), partner navies and commercial partners combine to form the wider Naval System that generates the NZDF's maritime outputs. The role of the Chief of Navy (CN) is that of 'systems integrator' as well as the 'lead steward' of the NZDF's maritime capability, monitoring and managing system performance to ensure that NZDF outputs are produced in the short-term and sustained in the long-term.



A primary function of the Naval System is the management of activities and the engagement of joint enablers to ensure that Force Elements are trained, equipped and prepared for operational deployment. The personnel component of these capabilities comprises full-time and part-time uniformed personnel including the specialists needed to support deployed operations and others that are available to individually augment operational forces.

There were some performance challenges in 2017/18. The Naval System generally delivered what the Government expected with major output deficiencies being driven by the decommissioning of some ships from the fleet. Details of this performance are set out in the following section.

At a macro level, the Naval System is under significant stress particularly in the ability for it to generate sufficient skills and experience to sustainably deliver Outputs.

Looking ahead at FY18/19 the Naval System will require complete focus on the generation of the new capabilities that are being introduced. This will require a re-orientation away from some operations in order to provide the resources necessary to conduct introduction into service of new capabilities as well as sufficient investment in the Output 1 force generation model.

The key capabilities include naval combat, projection and sustainment, naval patrol and maritime trade operations.

The following section provides an overview of the major activities that supported the generation of each capability during the 2017/18 year.

## Naval Combat Force

- **Maritime Warfare Operations**
- **Maritime Security Operations**

The Navy has entered the Frigate Systems Upgrade period (2018–2021) with HMNZS TE KAHA entering the installation process in Canada. This resulted in HMNZS TE MANA taking over as the lead operational naval combat unit through the period. The expected output demand on HMNZS TE MANA was to be prepared to conduct sea control operations within a coalition naval task group, protect military and commercial shipping and related operations to enforce international law, and prohibit the movement of specified items, people, or vessels.

Due to a combination of factors including personnel shortages across key Naval Combat trades and maintenance, repair and overhaul deficiencies, the Naval Combat Force failed to achieve the directed level of readiness for this output despite participation in readiness training activities. Notwithstanding the inability for the Naval Combat Force to achieve full preparedness, HMNZS TE MANA participated in Exercise Ocean Explorer (Australia) and RIMPAC 18 (Hawaii) through the year.

Naval Combat also completed deployments to Australia, Southeast Asia, and Hawaii to undertake force generation and assessment activities, including sea control training with the Royal Australian Navy, Five Power Defence Arrangements Navies, United States Navy and other regional navies.

Despite HMNZS TE MANA and HMNZS TE KAHA providing valuable training platforms for the RNZN, 2017/18 evidenced that the two frigate paradigm does not provide enough reliable training capacity to sustain critical training capabilities. Significant deficiencies in trained and experienced personnel exist across the Naval Combat Force and wider Naval System as a result. This provides the NZDF with an important future challenge. Bold and urgent action is required to remedy the situation and ensure the NZDF has the capacity to sustainably introduce and operate the post Frigate System Upgrade vessels.



## Projection and Sustainment

### Amphibious Sealift

HMNZS CANTERBURY provides amphibious sealift capabilities to project forces from the sea and sustain deployed forces at the directed level of readiness and availability throughout the year. HMNZS CANTERBURY also undertook a number of readiness generation and validation activities. These included support to the deployment and recovery of NZDF personnel and equipment from Exercise Talisman Sabre, Southern Katipo, Tropic Major, Croix Du Sud, as well as focused readiness development and validation for HADR scenarios in the South-West Pacific. HMNZS CANTERBURY made a significant contribution to other government agency (OGA) partners including the resupply of Raoul Island (DoC) and Vanuatu (MFAT) demonstrating the value and flexibility this vessel provides from the sea.

### Replenishment

HMNZS ENDEAVOUR delivered its readiness requirements in the first half of the period, providing specialised capabilities to conduct replenishment of fuels, cargo and personnel for naval forces in a mid-intensity environment. HMNZS ENDEAVOUR deployed to Australia and provided the Royal Australian Navy with key consort support prior to decommissioning in December 2017. There is now a replenishment capability gap until the Maritime Sustainment Capability (MSC) is delivered in FY20/21.

### Littoral Warfare Support

The combined Littoral Warfare Support capabilities reside within HMNZS MATATUA. They provide specialised naval forces that conduct short-notice, short-duration, rapid environmental assessment missions to prepare regional ports, inshore waters and beachheads for maritime and amphibious operations in a national or allied task force.

HMNZS MANAWANUI was decommissioned in Feb 18 resulting in a capability gap which directly impacted the ability for the NZDF to conduct organic sea based salvage and specialist diving activities. The replacement vessel identified for procurement will enter service in FY2019/20 and undertake gradual capability release thereafter.

The operational pause in diving capabilities enacted during FY16/17 has been partially lifted through FY17/18 as compliance and safety measures have been implemented. Full diving capability release is not expected to occur until the replacement Dive Hydro Vessel (HMNZS MANAWANUI) is introduced into service in FY19/20.

The Littoral Warfare Support capability undertook a variety of domestic and international training activities to maintain capabilities at readiness. Exercises Dugong, Spear, Nautilus, Cluso, Tropic Major, Croix Du Sud and Operations POSEIDON, ASTOLAT, ORION, CRADOCK were conducted and incorporated elements of the Littoral Warfare Support Force.

## Maritime Trade Operations

### Naval Guidance and Naval Supervision of Shipping

The purpose of the Maritime Trade Operations capability is to provide a shore-based capability able to implement naval cooperation and guidance for shipping, and provide for the naval supervision of shipping in a crisis. An extensive domestic and overseas training programme was conducted to ensure the ongoing maintenance of the readiness requirements of this capability. Additionally, New Zealand is the Chair of the Pacific and Indian Oceans Shipping Working Group, which consists of nine navies. This relationship focuses on improving interoperability between the member nations, and works to ensure the safe and efficient delivery of maritime trade capabilities.

Maritime Trade Operations capabilities were deployed operationally during the year, collaborating with the Royal Navy Maritime Trade Organisation in Dubai and the Republic of Singapore Navy Intelligence Fusion Centre to contribute to the safety and security of merchant maritime operations in the Middle East and Southeast Asia.

## Naval Patrol

HMNZS TE MANA and HMNZS TE KAHA carry out surveillance, deter unlawful activity and interdict vessels of interest; to contribute to government efforts to secure borders, protect resources and enable New Zealand law to be enforced at sea and assist regional nations in ensuring the security of their respective maritime domains.

Naval Patrol Forces achieved the required preparation for this output through a combination of important readiness training activities in New Zealand and abroad. These included collaborative agency work up activities for the offshore and inshore patrol vessels in preparation for Output 4 activities including Operation CASTLE (Southern Ocean Patrol), Operation WASAWASA (in support of Fiji), Operation CALYPSO (South-West Pacific), Operations ENDURANCE and HAVRE (in support of DoC), Operations KAUWAE (support to MPI).





## OUTPUT 2

# Army Capabilities Prepared for Joint Operations

The purpose of this output is to generate Army capabilities that achieve the levels of readiness for military operations and other tasks as directed by the Government of New Zealand.

The New Zealand Army generates and prepares multi-purpose, combat-capable land forces and special operations forces that are optimised for joint land combat, but can also respond to a wide range of security events, such as regional crises and non-combat inter-agency operations and tasks in New Zealand.



The Army's multi-purpose land forces are prepared to conduct complex warfighting in a mid-intensity setting. NZ Army does this by combining the effects of its unit level command, command support, combat, combat support and combat service support capabilities, as well as joint enabling capabilities. This combined arms approach enables land forces to be task organised to suit the requirements of different contingencies as they arise across a range of security events.

New Zealand Special Operations Forces are prepared to operate in high-intensity environments. They are internationally benchmarked and expand the government's options to achieve strategic goals.

The NZ Army maintains the capacity to deploy at up to Task Group level and contributes to New Zealand or coalition Joint Task Forces. As part of the joint approach, the NZ Army generates the capability to integrate joint units and to command landing force(s) as part of a Joint Amphibious Task Force, in order to conduct national or coalition operations and exercises. Additionally, NZ Army maintains a high readiness capability that can quickly react to a regional crisis or disaster. This capability is generated through both Special Operations Forces and combined arms, task organised, land forces.

The NZ Army balances readiness for future contingencies with concurrent operational commitments as well as assisting the civil powers or other government agencies for non-combat operations. The following section provides an overview of the major activities that supported the generation of Army capabilities in the 2017/18 year.

## Joint Land Combat Operational Responses

Within directed readiness levels, NZ Army maintained the ability to generate up to a Combined Arms Task Group (CATG) for joint land combat operations and a Special Operations Task Group for special operations globally and regionally.

NZ Army generated the directed land combat capabilities while sustaining multiple concurrent operations, including the current operations; Iraq (Operation MANAWA and MOHUA), Afghanistan (Operation RUA), Sinai (Operation FARAD), South Sudan (Operation SUDDEN), United Arab Emirates (Operation TROY), Israel and Lebanon (Operation SCORIA), South Korea (Operation MONITOR), Antarctica (Operation ANTARCTICA), and the new operation in Mali (Operation TAWHITI).

The largest NZ Army operational commitment remains the generation and sustainment of Operation MANAWA, a training-focused, Building Partner Capacity Task Unit in Iraq, now in its fourth year. The Task Unit is deployed alongside the Australian Defence Force as part of a combined task group and as part of the international coalition support to the Government of Iraq. The Task Unit's purpose is to train the Iraqi Security Forces, supporting the defence of their population over the long term and was recently extended to include the training of additional stabilisation forces, such as the Iraqi Federal Police, in addition to the Iraqi Army.

In the Middle East region, Army also provided staff officers to the coalition headquarters in Baghdad and Kuwait, and trainers to the Afghan Officer Academy in Afghanistan.

The Army commitment to South Sudan and Sinai regions increased with the deployment of additional staff officers in the roles of Chief of Staff United Nations Mission in South Sudan and Military Advisory support to the Special Representative Secretary General. Additionally two electrical engineers were deployed in support of the infrastructure development in South Camp Sinai.

The Army continues to support the forward New Zealand Defence Support Unit in the United Arab Emirates, providing logistic support to personnel deployed in the Middle Eastern Region, Israel and Lebanon in support of the United Nations Truce Supervision Organisation. It also continued its provision of support to Antarctica New Zealand and the United States Antarctica programme.

Finally, the Army also deployed a Staff Officer to the United Nations Multidimensional Integrated Stabilisation Mission in Mali.

## New Zealand Operations and Tasks

The NZ Army maintained the ability to generate emergency response groups in the North and South Islands. Special operations forces maintained a counter terrorist task group (including Explosive Ordnance Disposal) on very short degrees of notice to support the NZ Police counter terrorism response.

During the period, land forces contributed to NZDF's Civil Defence response in the Coromandel Peninsula, Nelson/Marlborough and Otago. They also contributed to NZ Police Search and Rescue responses in the Kaimanawa Ranges and to the Auckland fuel crisis providing a team which was able to conduct the full range of civilian fuel operations. In addition to normal Antarctic support the NZ Army also provided a building team for renovation and deconstruction tasks.

## Force Generation

An Army is a large and complex organisation. Generating the force is a comprehensive management task. Three areas are highlighted: force design, capability modernisation and training.

Army reviewed its current structure and activities in order to determine the most suitable organisational structure and focus for the NZ Army as part of the integrated Defence Force. The Chief of Army's Seminar concentrated much of the Army's future leadership, and

coupled with the Force Design project, has set the conditions for Army to enhance its contribution to the NZDF Strategy. Capability modernisation has continued throughout the period meeting the Army 2020 strategy objective of Enhanced Combat Capability and reinforcing the NZDF Strategy capability line of effort, including Rural Fire Pods, capability enhancement of high end combat equipment and ongoing delivery of Network Enabled Army capabilities.

Collective (team) and individual training in preparation for operations continued. Ab-initio training was conducted by the NZ Army's Training and Doctrine Command to qualify and prepare Army individual recruits for acceptance into all of Army's 42 trades. The 1st (NZ) Brigade and the Special Air Service Regiment conducted collective training to generate the land and special operations forces required to meet directed outputs. The NZ Army Collective Training Centre conducted final assessment and mission specific training for troops and units about to deploy on operations.

Key New Zealand-based training activities included Exercises Talisman Sabre 17 (Australia), Southern Katipo 17, Sari Bair and Tropic Major (Vanuatu). Live field firing activities certified Combined Arms Task Group elements ability to conduct operations at the mid intensity level.

Land forces participated in a number of multinational exercises throughout the year to enhance their capabilities and support NZDF's international engagement priorities.

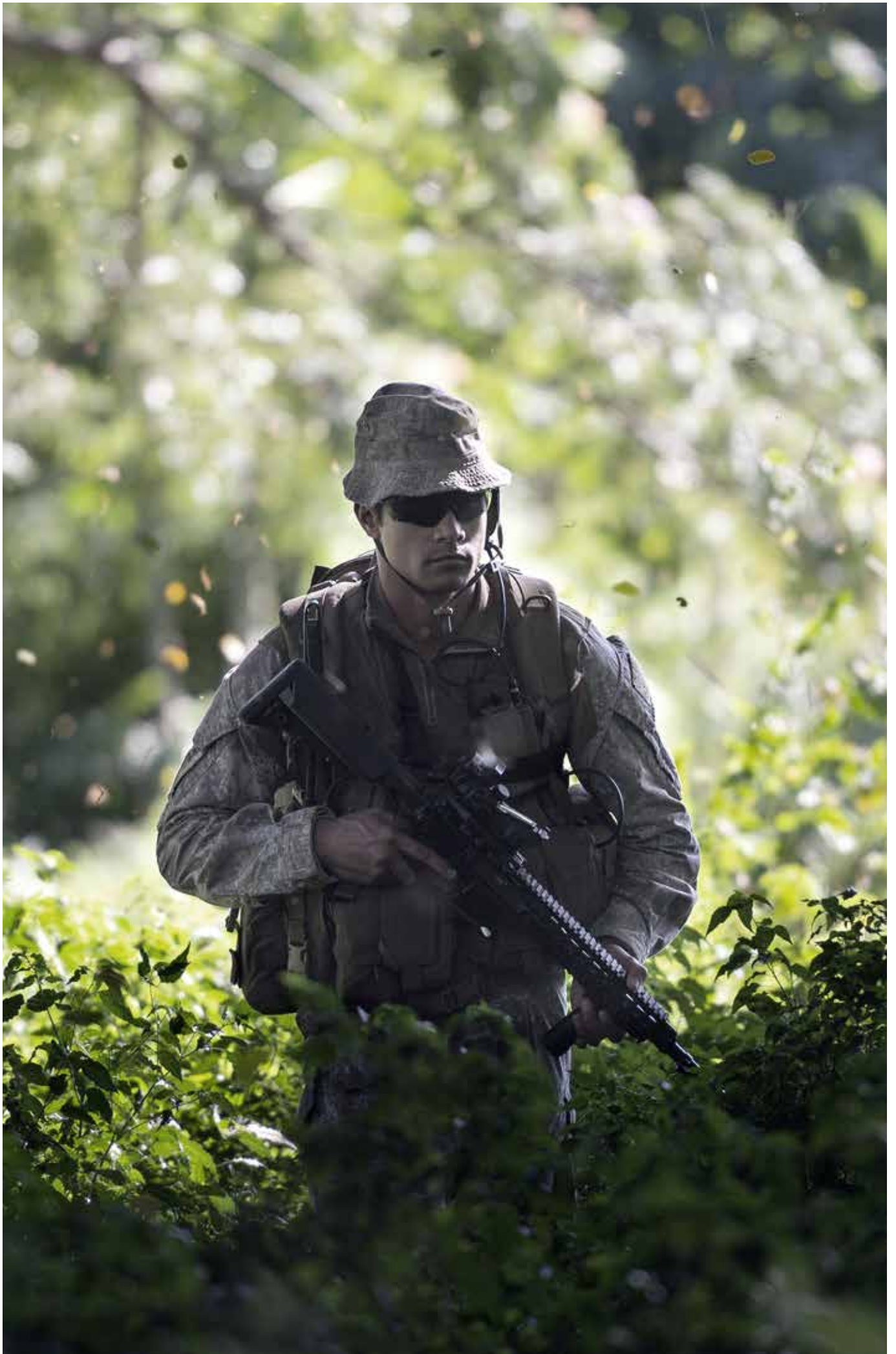
Activities included: High Readiness Company (with supporting enablers), participation in Exercise Hamel (Australia), an artillery live field firing exercise with the US Army on Exercise Lightning Whaitiri (Hawaii), a Joint Fires Team to the Republic of Korea on Exercise Ssang Yong as well as a reciprocal exercise, Jasco Black, in New Zealand. Exercises Lion Walk (New Zealand), Bersama Lima and Suman Warrior supported the Five Power Defence Arrangement (FPDA) members.

In addition to multinational training, interoperability was enhanced with FPDA nations and with the American, British, Canadian and Australian Armies. As an effect-multiplier, Interoperability activities included a comprehensive collaboration program to leverage each nation's lessons, technological developments and the continued standardisation of procedures and digital protocols.

## Regional Stabilisation Operations

During the reporting period, Land Combat forces remained prepared for regional stabilisation operations within directed readiness levels. Personnel continued to focus on building partner capacity across the region, including activities such as Exercise Tropic Twilight 17, and a deployment of a construction team into Vanuatu with the Peoples' Liberation Army to undertake Pacific resilience building tasks.



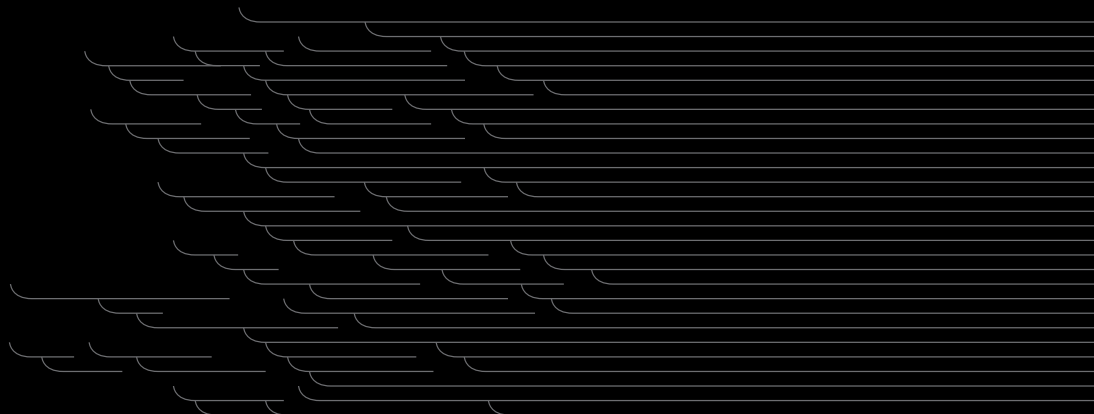


**OUTPUT 3**

# Air Force Capabilities Prepared for Joint Operations

The purpose of this output is to generate Air Force capabilities that achieve the levels of readiness for military operations and other tasks as directed by the Government. These capabilities include air surveillance and response, naval operations, security and stability operations, and projection and sustainment.

The NZDF manages the generation and sustainment of these capabilities so they can be called on to contribute to the protection and security of New Zealand and its people and interests at home and abroad. The following section provides an overview of the major activities that supported the generation of each capability during the 2017/18 year.





## Air Surveillance and Response

- Surveillance and Response Operations
- Sea Control Operations

Surveillance skills were maintained by Operation TAKAPU, but reduced aircraft availability due to maintenance issues and the Under Water ISR upgrade meant missions were not undertaken at the rate planned for South Pacific and NZ areas of responsibility. Exercise Southern Katipo 17 allowed the squadron to achieve another step in undertaking the surveillance role, by supporting another Government agency in an on-going exercise activity. Orion aircraft and crews had reduced preparedness for sea control. The capability was to be generated by conducting bombing training at Kaipara and participating in Exercise RIMPAC in Hawaii, however weapon limitations prevented completion of the training.

## Naval Operations

### Naval Air Operations

Seasprite helicopters and crews were prepared to conduct embarked operations from our aviation-capable Navy ships. The capability provides a range of roles from logistic support to combat operations as a weapons system of the Anzac Class frigate.

The capability was provided during Exercise Southern Katipo 17, by embarking on HMNZS WELLINGTON, while an aircraft also embarked on HMNZS CANTERBURY. The squadron also undertook several shore-based tasks in support of other Government agencies and prepared to partake in Exercise RIMPAC 18.

## Security and Stability Operations

### Theatre Air Mobility

C-130 Hercules aircraft and crews were prepared for projection and sustainment of deployed forces, aeromedical evacuation, special operations, search and survivor assistance, and support to civilian organisations in stabilisation operations. Readiness training activities included Exercises Southern Katipo 17 and Skytrain in New Zealand and Exercise Green Flag to qualify crews in Airborne Operations. Exercise Skytrain featured the attendance of a Chinese Peoples' Liberation Army Air Force IL-76 Candid military transport aircraft, the first such combined exercise. A Hercules aircraft is currently deployed on Operation TEAL in the Middle East.

### Tactical Air Mobility

NH90 helicopters and crews were prepared to conduct air logistics, battlefield support, aeromedical evacuation and search and rescue missions. During Exercise Southern Katipo 17, two NH90 helicopters were deployed to the forward operating bases in Marlborough and the West Coast. Exercise Blackbird provided mountain flying experience and Exercise Peka Peka maintained night flying skills. Overseas exercises included Talisman Sabre, Tropic Major and Croix du Sud. Amphibious capability development continued through these exercises.

## Projection and Sustainment

### Strategic Air Mobility

Boeing 757-2K2 aircraft and crews, augmented by the C-130H Hercules, maintained a high level of availability. The Boeing flight contributes to this Output by transporting personnel and freight to and from exercises and operations. No. 40 Squadron Boeing flight supported Operation ANTARCTICA and, notably an RAF Humanitarian Aid mission in the Caribbean. The flight also provided VIP transport flying.


# Protect and Project

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## OUTPUTS 4 & 5

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**The NZDF aims to protect the sovereignty of New Zealand, and provide security and other services for New Zealanders. The result can be seen not only in military operations, but in other activities conducted to protect the country and support New Zealanders. The NZDF also contributes to New Zealand's security, stability and interests through regional and international operations that project our armed forces under the direction of the Government.**





## OUTPUT 4

# Protection of New Zealand and New Zealanders

The purpose of this output is to protect New Zealand's sovereignty and provide security and other services to New Zealanders. The NZDF does this in a number of ways, through resource and border protection operations, engagement with international partners and agencies, assisting the civil power and providing a public service, military assistance to the civil authorities, and supporting the community. The following section provides an overview of the major activities that supported the protection and security of New Zealand and its people and interests at home and abroad during the 2017/18 year.

## OUTPUT 4.1

# Resource and Border Protection Operations

Having resource and border protection operations in place allows for two main effects: firstly, active awareness of the Government through monitoring New Zealand's territorial waters and maritime domain, and secondly, an improved ability for New Zealand civil authorities to respond to any illegal or unauthorised maritime activities.

The NZDF contributes to all-of-government efforts to secure New Zealand's sovereign and economic borders, detecting, reporting and responding to unlawful activities in the offshore maritime zones in accordance with the Government's direction.

The NZDF is the major contributor to the National Maritime Coordination Centre (NMCC) for domestic security operations that protect the nation's sovereign and economic borders. The Government's area of interest also covers those nations for which New Zealand has constitutional obligations (Cook Islands, Niue and Tokelau), and the Southern Ocean and the Ross Dependency.

Headquarters Joint Forces New Zealand collaborated effectively with the NMCC – using information from our intelligence surveillance and reconnaissance assets and the Automatic Identification System – to enhance the compilation of New Zealand's maritime picture. This information enabled the NMCC to plan and coordinate patrol and surveillance missions to support the requirements of MPI, the New Zealand Customs Service, DoC, MFAT, the MetService, and GNS Science. Some 100 pre-planned air and maritime tasks were conducted, each contributing to the protection of New Zealand's borders and off-shore maritime interests.

A range of NZDF assets contributed to this output. Our Inshore Patrol Vessels worked with Customs NZ to monitor pleasure craft arriving off the Northland coastline and supporting MPI through patrols of our inshore fisheries. Our A109 LUH helicopters provided support to MPI inspections of forests in the Whanganui, Taranaki and the Wilding Pine survey in Canterbury and North Otago regions.

Our SH2(G) helicopters supported MPI with inshore patrols along the Coromandel, Great Barrier Island and Nelson Marlborough fishery areas. The maritime surveillance capabilities of the P-3K2 Orion and the Patrol Force fleet worked both together and alone to support MPI and our South Pacific partners in fisheries patrols around New Zealand, the South Pacific and the Southern Ocean. These patrols help to detect and deter illegal, unregulated and unreported fishing activities.

The sealift and airlift capabilities of our Offshore Patrol Vessels and C-130H Hercules and NH90 aircraft provided logistical support to the DoC for their domestic and offshore island operations.

The NZDF provides assistance to the New Zealand Antarctic Programme, supporting New Zealand's right of sovereignty over the Ross Dependency and providing a continuous presence on the Antarctic continent.

Our C-130H Hercules and Boeing 757-2K2 aircraft conducted nine airlift missions to Antarctica and provided standby medical evacuation support pre-positioned in Christchurch as a backup to the primary US-led evacuation option.

To support MFAT and New Zealand's obligation as a member of the Commission for the Conservation of Antarctic Marine Living Resources (CCAMLR), the NZDF makes the surveillance capabilities of the P-3K2 Orion and Offshore Patrol Vessels available to conduct patrols in the Southern Ocean to enable compliance checks on licensed fishing vessels and to monitor for illegal, unreported and unregulated fishing.

## OUTPUT 4.2

# Defence International Engagement

Defence international engagement supports the Government's foreign policy objectives and maintains important relationships that bolster international peace and security, contributing to a rules-based international order.

Engaging with our partners builds confidence between nations, fostering alliances and partnerships to ensure cooperation, burden sharing, interoperability and information sharing, as well as access to equipment, technology, and training opportunities.

Regional engagement, often on a joint interagency or multinational basis, assists with capacity building, aid, and assistance programmes. This in turn helps shape the security environment, resulting in stability and resilience, economic growth and social wellbeing.

NZDF international engagement plays an important role in:

- Strengthening international relationships by maintaining formal and informal military-to-military engagement.
- Enhancing bilateral and multilateral alliances through participation in military exercises.
- Building relationships and enhancing transparency through senior officer visits to other nations.

- Developing confidence and building security through ship visits and military exercises.
- Contributing to all-of-government development and capacity building efforts, including support to regional nations' efforts to manage marine resources.
- Managing the Mutual Assistance Programme to enhance the defence and security capabilities of regional nations.
- Belonging to military and defence-related technology organisations, including AUSCANZUKUS<sup>1</sup>, ABCA<sup>2</sup>, ASIC<sup>3</sup>, TTCP<sup>4</sup>, WPNS<sup>5</sup>, and MIC<sup>6</sup>.
- Providing in-country representation through Defence Attachés, defence advisors, and resident staff in operational headquarters.

International engagement achieves a number of effects:

- Military relationships provide for professional development and improved interoperability between the NZDF and the armed forces of other countries.
- Participation in exercises and related activities support the Government's foreign policy objectives, and maintain New Zealand's membership in key partnerships and arrangements.

- Visits by senior military officers help preserve our strong network of professional relationships and complement the Government's broader foreign policy objectives.
- Maritime deployments and ship visits help enhance New Zealand's reputation in line with Government's foreign policy and defence engagement priorities.
- The NZDF's regional engagement helps improve the resilience, economic and social wellbeing of Pacific Island nations.
- Through international engagement, our contribution to multilateral and bilateral confidence and security-building activities is highlighted.
- Contributes to the maintenance of peace and security through the assignment of Defence Attachés and defence advisers.
- Active participation in military fora, and relationships with scientific and technology organisations help support the provision of military capability and promotion of security.

NZDF's international engagement for the reporting period was dominated by numerous engagements with key partners during the commemorations of the 100th anniversary of the Battles of Passchendaele and Beersheba, along with the commemorations of the 75th anniversary of the Battle of El Alamein. These events allowed all ranks of the NZDF to interact with a broad range of nations and Service personnel, developing professional links and understanding. This programme was heavily supported by the Defence Attaché and foreign affairs communities.

<sup>1</sup> Naval Command, Control, Communications and Computers (C4) interoperability organisation involving Australia, Canada, New Zealand, the United Kingdom and the United States.

<sup>2</sup> American, British, Canadian, Australian, and New Zealand Armies Programme.

<sup>3</sup> Air and Space Interoperability Council.

<sup>4</sup> The Technical Cooperation Programme.

<sup>5</sup> Western Pacific Naval Symposium.

<sup>6</sup> Multinational Interoperability Council.

## OUTPUT 4.3

# Assistance to the Civil Power and Provision of a Public Service in Emergency Situations

In an emergency situation, specialist military capabilities and NZDF resources are available to save lives, prevent human suffering, and mitigate exceptional property damage. Similarly, the NZDF also aims to provide assistance for search and rescue, recovery operations, and maritime incidents. The effect of this output is that civil authorities are better positioned to maintain essential services, mitigate effects of disaster, and keep the public safe.

In addition to natural disasters and civil emergencies, NZDF high-readiness capabilities need to be on hand in case of asymmetric threats or other incidents that could impact on national services and public safety.

The NZDF is able to provide military assistance to national and local government and agencies by using its specialist military capabilities or equipment in situations that are beyond the capacity of those organisations to deal with, and where the NZDF is able to provide specialist capabilities not available elsewhere.

The NZDF holds counter-terrorist capabilities at very high readiness. This enables it to respond rapidly to requests to support the NZ Police. This response includes the specialist NZDF Explosive Ordnance Squadron that can help NZ Police when chemical, biological, radiological or improvised explosive device incidents threaten public safety or New Zealand's national interests. The NZDF responded to over 140 requests for this capability during the year.

NZDF's Littoral Warfare Forces provided specialist capabilities, including side-scan searches and diving operations, to augment the NZ Police Dive Squad during challenging search and recovery operations.

The NZDF remained committed to the national search and rescue role throughout 2017/18 with on-call search and rescue coverage for maritime and land environments by both the Navy and Air Force. The New Zealand search and rescue area covers 30 million square kilometres and 15,134 kilometres of coastline. To meet this commitment, the NZDF maintained fixed-wing aircraft, rotary-wing aircraft, and ships on call 24/7, 365 days a year, to respond to requests from the Rescue Coordination Centre. The NZDF maintained the capacity to conduct land search and rescue activities with response groups in the North and South Islands.

Search and rescue activities by Air Force helicopters of No. 3 Squadron included two missions in the Tararua Ranges after trampers got into trouble. NH90 aircraft were used to insert and extract search teams.

The fixed-wing search and rescue response remained primarily with the P-3K2 Orion. Search and rescue activities by No. 5 Squadron P-3K2 Orion aircraft included searching for missing people in the following areas: Tonga, Tarawa, Tuvalu, Fiji, Niue and American Samoa. Two requests were received to assist in the search for a beacon activation in the Hauraki Gulf and missing fisherman on the Northland coast. In February 2018 a P-3K2 Orion joined the

search for a missing Kiribati ferry with an estimated 50 persons on board. The P-3K2 Orion located a small dinghy with survivors which were subsequently rescued by the fishing vessel Lomalo. A C-130H responded to an emergency beacon activation after a sailing vessel broke her mast and took on water. The vessel eventually sank and the solo yachtsman was rescued by the motor vessel Norfolk Guardian.

NZDF personnel from Waiouru and Linton assisted NZ Police in the search for two young persons in the Tongariro National Park.

HMNZS WELLINGTON was asked to assist St Johns Ambulance to rescue a woman with a fractured leg from Great Barrier Island as weather conditions would not allow the transportation of the patient by ferry or civilian helicopter. HMNZS TAUPO assisted NZ police in the search for a missing person from an overturned dingy in the vicinity of Matakana Island.

The NZDF participated in 'table top' and preparedness exercises with other agencies to confirm the relevance of contingency plans to support civil authorities' lead response to major disasters or incidents, including responses to maritime mass rescue and oil spills.



## CASE STUDY

# Giving the Rescuers a Lift



After 24 hours of searching for two lost hunters in heavy rain and muddy, rain-sodden bush, a Land Search and Rescue (LandSAR) team was very pleased to hear the familiar sound of helicopter rotors from an NH90 flying in to pick them up.

A father and son had become stranded in the Tararua Ranges when a downpour caused rivers to swell. The pair made a shelter and hunkered down for the night.

Teams from Horowhenua LandSAR were sent in to search the 16-square-kilometre area the hunters were believed to be in.

Rob Bigwood was in the initial search party and said they were called out in the afternoon and tramped into the area through the night.

That day other teams entered the area and came upon the hunters, who were making their way out, but Mr Bigwood's team was out of communication range, so was unaware.

An NH90 was called in to collect the team members, who were exhausted by then.

"We always feel pretty good when we see the chopper coming over the hill. Being extracted out of a search by a helicopter – which saves us from walking out – means that we can go to work fresh that afternoon or the next day, which makes it easy for our employers to keep letting us volunteer.

"And those NH90s are so capable – they can pull us out of anything."

Co-pilot on the mission Flight Lieutenant Andrew Stewart said they flew to the general point of where it was thought the rescuers were, which turned out to be about a kilometre away.

"There were five people that we extracted and took to Levin. They were quite happy to get out."

## Outcomes

New Zealand's national interests are secured

## Outputs

4.3 Assistance to the civil power and provision of a public service in emergency situations

## OUTPUT 4.4

# Military Assistance to Civil Authorities in Non-Emergency Situations

The NZDF provides short-term assistance to the Government and civil authorities in non-emergency situations for specific events or occasions. Requests for NZDF services may involve formal, pre-planned support to individual government departments and agencies, or one-off special occasions such as:

- Ceremonial activities for State events (e.g. ceremonial guards, military bands);
- Significant military anniversaries and nationally recognised commemorative events;
- Support for the Vice-Regal Household (the Governor-General's official residence in Wellington) through the provision of Aides-de-Camp;
- Air, sea and land transport for members of the Government and guests of the State; and
- Support for significant commemorative events offshore.

The provisions of these military capabilities are balanced against the requirements of sustaining current military operations and deployment preparations for future missions and availability.

The NZDF, in conjunction with the MCH, provides personnel from the three Services to perform the duties of flag orderlies, ode readers, bugler and command for the daily Last Post ceremony at the National War Memorial in Wellington. The ceremony is in line with similar ceremonies at the Menin Gate, Belgium and at the Arc de Triomphe, Paris, both of which have been held almost continuously since the 1920s, and at the Australian War Memorial, Canberra.

This ceremony has been performed daily at 1700 hours since Anzac Day 2015 and will continue until 11 November 2018, the 100th anniversary of the end of the First World War. Members of the public have been invited to read the Ode of Remembrance in Te Reo Māori and in English, and competent buglers have played the Last Post as the flag is lowered for the day.

Another key role for the NZDF is to provide transport for members of the Government working closely with both MFAT and DPMC to support the effective Government operations.



## OUTPUT 4.5

### Defence Support to the Community

NZDF support to the community promotes national identity, improves civil-military relations, provides visibility of the role of the armed forces, improves recruitment, enhances the community's trust in the NZDF, and preserves New Zealand's military history for future generations to enjoy. The Reserve Forces play a key role in delivering support to the community. With their local base and municipal engagement, the Reserve Forces offer an ideal means of representing the NZDF in the wider community, encouraging enlistment and supporting local government and civil contingencies.

The NZDF also provides support for the community through various youth development programmes, including:

- The Limited Service Volunteer programme;
- The Youth Life Skills programme, which provides support to over 20 Service Academies throughout New Zealand;
- Military-Style Activity Camps;
- NZ Police community support programmes (e.g. Blue Light Trust activities); and
- The New Zealand Cadet Force.

Additional community support is through:

- Support to the management of Service museums;
- Support for hui of significance; and
- Support for significant national and community events.







## OUTPUT 5

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# New Zealand's Security, Stability and Interests

The purpose of this output is to allow for operations that contribute to New Zealand's security, stability and interests through the employment of the armed forces at the direction of the Government.

The NZDF does this through conducting military operations that support a rules-based international order and operations that contribute to regional security.

The following section provides an overview of the major operations that supported New Zealand's security, stability and interests during the 2017/18 year.



## OUTPUT 5.1

# Military Operations in Support of a Rules-Based International Order

This output represents the main use of Outputs 1–3. It provides for the employment of forces on operations, both independently and in conjunction with security partners, whether on an enduring basis, selected ongoing operations or for one-off named international operations.

When directed by the Government, this output contributes to global peace and security through military operations across the spectrum of conflict, from humanitarian assistance to combat, in conjunction with national and international partners, to achieve timely and decisive results in support of New Zealand's national interests.

New Zealand has been a member of the Multinational Force and Observers (MFO) in Sinai since its inception in 1982. The MFO supervises the implementation of the security provisions of the Egyptian-Israeli Treaty of Peace to prevent any violation of its terms. The primary tasks of the New Zealand contingent are to provide a transport section to operate and drive vehicles required by the force, and to provide a training and advisory team.

The NZDF has a long history of supporting United Nations missions around the world. The NZDF currently supports the United Nations Truce Supervision Organisation (UNTSO) which covers the five Middle Eastern countries of Israel, Lebanon, Syria, Jordan and Egypt. UNTSO seeks to ensure peace agreements or ceasefires are observed and to report any activities which violate

these agreements or could threaten international peace and security in the region. Our personnel are also serving in Mali, and contributing to the United Nations Mission in the Republic of South Sudan. This mission seeks to consolidate peace and security and strengthen the capacity of the Government of South Sudan to govern effectively and democratically and establish good relations with its neighbours.

NZDF personnel are involved in monitoring compliance and providing education about the Armistice Agreement between North and South Korea, and contribute to the 16-country United Nations Command and the Military Armistice Commission (UNCMAC). Monitoring compliance with the armistice requires NZDF personnel to maintain an awareness of what is happening in their area of operations, and to know if activities breach the rules agreed between the two warring sides as laid out in the armistice. Where it is identified that breaches occur by either side, NZDF personnel investigate them and report findings and recommendations to UNCMAC.

NZDF personnel are currently deployed to Taji Military Complex in Iraq, working alongside the Australian Defence Force as part of a Building Partner Capacity mission. The purpose of the mission is to train Iraqi Security Forces to be able to conduct combat operations at a trained level, as agreed by both the Iraqis and coalition trainers. It also aims to train them to a state where they are considered a self-sustaining capability for the Iraqi Government.

Training of the Iraqis covers a broad range of individual and organisational military skills, including basic weapons skills, individual and unit military skills to prepare for combat operations, as well as other skills such as medical support and logistics.

New Zealand's contribution of a P-3K2 Orion to the 30-nation Combined Maritime Force and Naval Command concluded in early 2018. The objective was to conduct maritime security operations to combat piracy and the trafficking of people and drugs.

The NZDF continues to deploy a C-130H Hercules and personnel to the Middle East as part of an Australian-led air mobility task group supporting coalition operations. The sustainment flights transport freight and personnel primarily to Iraq and Afghanistan. This mission contributes to the New Zealand and the international community's resolve to preserve security and stability in the region.

The NZDF continues to contribute to the security of Afghanistan by supporting their Government in developing the next generation of leaders in the national army (Operation RUA). NZDF mentors provide support to the Afghan National Army Officer Academy.

To support New Zealand's contribution to operations throughout the Middle East region, the NZDF maintains a National Support Element in the region to provide logistical support (Operation TROY). The NZDF also has staff deployed to various coalition headquarters in planning and liaison roles.

## OUTPUT 5.2

# Military Operations that Contribute to Regional Security

The NZDF has a role to play in enhancing the resilience of New Zealand's offshore interests, improving the levels of social and environmental wellbeing of regional nations. This can be military operations in response to regional security events, particularly those demanding humanitarian assistance and disaster relief, but also to evacuate New Zealand citizens from high-risk areas. The NZDF has a range of maritime, land and air capabilities available which enable New Zealand to act alone or in a combined response with regional partners.

The NZDF has continued to demonstrate the ability to respond urgently in support of our neighbours following natural disasters. Fortunately, there have not been any major tropical cyclones or other natural disasters to contend with this reporting period. NZDF continued to develop its South-West Pacific Campaign Plan while continuing to promote confidence building through activities like Exercise Tropic Major in Vanuatu.

The NZDF has continued to deploy patrol vessels to Fiji (Operation WASAWASA) in support of the Republic of Fiji Military Force's (RFMF) resource and border protection operations off the Fijian EEZ and territorial waters, demonstrating New Zealand's continued engagement with the RFMF and wider support to the Republic of Fiji.



# Inform

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## OUTPUT 6

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**The NZDF has an obligation to inform the Government and provide advice in order to support decision-making on policy matters relating to defence. This needs to have a set purpose, be accurate, well presented, and be produced with consultation and in a timely manner.**

The NZDF aims to provide the Government with situational awareness. Strategic military intelligence relating to areas of interest to New Zealand is collected, analysed, and disseminated. This is done in conjunction with other security sector agencies, to support their decision-making, and assist with planning and conducting military operations.

In addition, the NZDF offers ministerial support, providing services that enable ministers to fulfil their portfolio responsibilities. Services can take the form of reports, responses to ministerial or parliamentary questions, Official Information Act requests, and responses to requests from the Office of the Ombudsman.





# Veterans' Affairs

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## OUTPUT 7

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**It is important to respect and honour our veterans by recognising their service to the nation, their sacrifices, and their individual needs. The NZDF does this through Veterans' Affairs New Zealand, which provides support for veterans and their families and whānau when it is required. Services included health and rehabilitation support, financial entitlements, and services to help maintain independence. Veterans' Affairs also funds the upkeep of services cemeteries and provides policy advice to the Minister for Veterans.**



Te Tira Ahu Ika A Whiro

**VETERANS'  
AFFAIRS**  
New Zealand

## OUTPUT 7

# Supporting our Veterans through Veterans' Affairs

The Minister for Veterans is the responsible Minister for policies relating to veterans. The Chief of Defence Force, through Veterans' Affairs, provides veterans and their families and whānau with services and support.

The main departmental output, Policy Advice and Other Services for Veterans, comprises three discrete outputs: Administration Services, Policy Advice, and Services and Payments to Veterans.

Collectively these deliver:

- services to the Minister for Veterans, administration services to relevant independent statutory boards and panels, and the administration of service contracts for maintenance and development work in services cemeteries;
- policy advice to support decision-making by Ministers on matters relating to veterans; assessment, review and payment of veteran entitlements and benefits; the provision of plaques and headstones; and support through case management for veterans and their families.

A Non-Departmental Output covers the development and maintenance of services cemeteries.

The Non-Departmental Other Expenses output covers assistance to veterans to attend overseas commemorations and revisit their place of qualifying operational service; ex gratia payments and comprehensive medical assessments for Vietnam War veterans. It also provides support to non-Government veteran support organisations.

The Non-Departmental Benefits or Related Expenses output covers veterans' support entitlements, assessments, treatment and rehabilitation, services provided by the Veterans' Independence Programme, and special annuities.

The image features a series of silhouettes of veterans in various military uniforms, including a sailor and several in garrison caps, set against a clear blue sky. The figures are positioned in a line, receding into the distance, creating a sense of depth and honor.

# An Insight to Veterans' Affairs

**Honouring Our Veterans**

In 2017–18 Veterans' Affairs focused on providing support for qualifying veterans and their families and whānau, and developing better ways to do this.

# Partnering to Greater Effect

## Veteran health clinics on the east coast



Veterans' Affairs introduced veteran health clinics in 2017/18 to supplement and encourage uptake of the annual medical assessments offered to Vietnam War veterans. Two clinics were run on the east coast of the North Island.

They were arranged in partnership with local health providers Ngati Porou Hauora and Hauora Tairāwhiti. More than 30 veterans attended. The clinics offered services from an Auckland-based gerontologist, as well as podiatry and audiology services.

They proved a viable way of delivering services in regions where there is often a poor uptake of the annual medical assessments. They also demonstrated the benefit of working in partnership with the District Health Board and local Māori health provider.

## Veterans' Independence Programme

This programme, known as VIP services, supports veterans to be independent at home, at work, and in their communities. Veterans do not need to have a service-related condition to benefit from the programme.

The programme provides a growing number and range of services to an increasing number of veterans. As of 30 June 2018 over 3,600 veterans were receiving more than 8,000 services from the programme. These include medical alarms, house washing, lawn and garden maintenance, home help, travel and transport support.

In the coming year Veterans' Affairs will be exploring options to grow and develop services that will help make life easier for the men and women who have served New Zealand.

As of 30 June 2018 over

**3,600**  
veterans

were receiving more than

**8,000**  
services

from the programme

# Review of the Operation of the Veterans' Support Act

## Professor Paterson's 'Warrant of Fitness' report

An independent review into the operation of the Veterans' Support Act 2014 was conducted by Professor Ron Paterson between June 2017 and March 2018. Professor Paterson's report was released in May.

The report is available online at [www.nzdf.mil.nz/corporate-documents/vsa](http://www.nzdf.mil.nz/corporate-documents/vsa)

Professor Paterson organised consultation meetings around New Zealand and they were well attended by veterans. He talks in his report about how useful this was for him.

"I came to understand in a very direct and personal way how their service for New Zealand has affected their lives" Professor Paterson said. "And also how the Act impacts on them and their families." He dedicates his report to New Zealand veterans.

A total of 64 recommendations came out of the review. Some cover quite small matters, but others are more complex and go to the heart of how New Zealand recognises and supports those who have served in the armed forces.

The Minister for Veterans has asked Veterans' Affairs to work through the recommendations and provide advice by the end of 2018 on options for follow-up action.

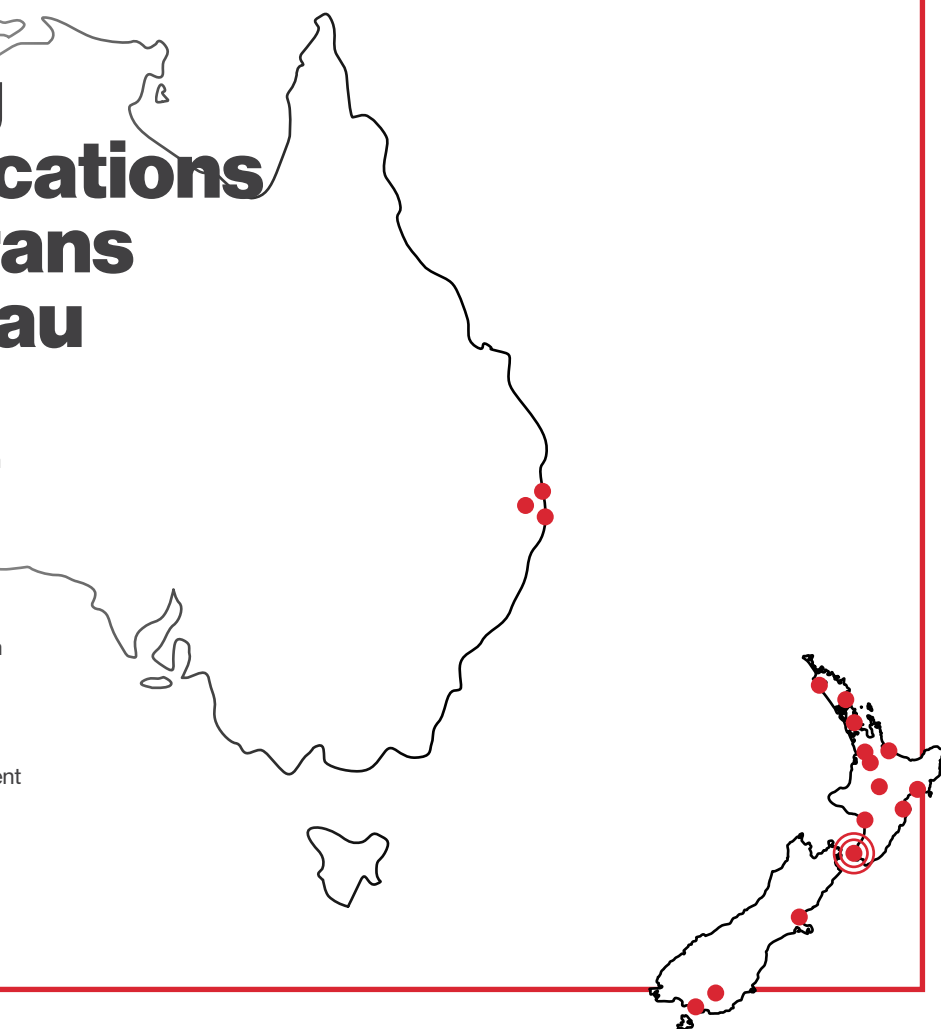


## Improving Communications with Veterans and Whānau

Veterans' Affairs has been working on improving the way it communicates with veterans and their whānau.

A new website was launched in 2018, along with a refreshed quarterly publication – VA News. Veterans' Affairs has also introduced a plain language standard which will be used in all written communications, and a new Freephone number for Australia.

Veterans' Affairs also ran an increased number of Community Case Management Clinics over the past year throughout New Zealand, as well as in Australia.



# The Veteran Rehabilitation Strategy

In May 2018 the Minister for Veterans, Hon Ron Mark, launched New Zealand's first strategy that sets out how rehabilitation services will be offered to veterans.

Veterans' Affairs worked with veterans, the Royal New Zealand Returned and Services' Association, the No Duff Charitable Trust, and Government and non-Government organisations to identify what was going to be needed to make rehabilitation work for veterans.

The starting point was the belief every veteran who has been injured or made ill because of service has the right to live the best possible life. The new strategy accepts that service-related illnesses and injuries are not all the same.

It also recognises that rehabilitation can be many different things. For a person with a physical injury it could be help from a physiotherapist. Those dealing with psychological issues might find that counselling or medical treatment – or a combination of the two – might help them get their lives back on an even keel. For a person wanting to be as independent as possible – or to return to employment – the focus might be on social or vocational rehabilitation.

Veterans' Affairs has trained rehabilitation advisors on staff. Advisors work with veterans individually to find out what they might need. Then – between them – they'll agree on a personal plan that spells out how each person can reach their specific goals.

This new way of working will offer better support for those with service-related conditions who approach Veterans' Affairs wanting to improve their health and wellbeing.

The full strategy is available online at [www.veteransaffairs.mil.nz/rehabilitation-strategy](http://www.veteransaffairs.mil.nz/rehabilitation-strategy)

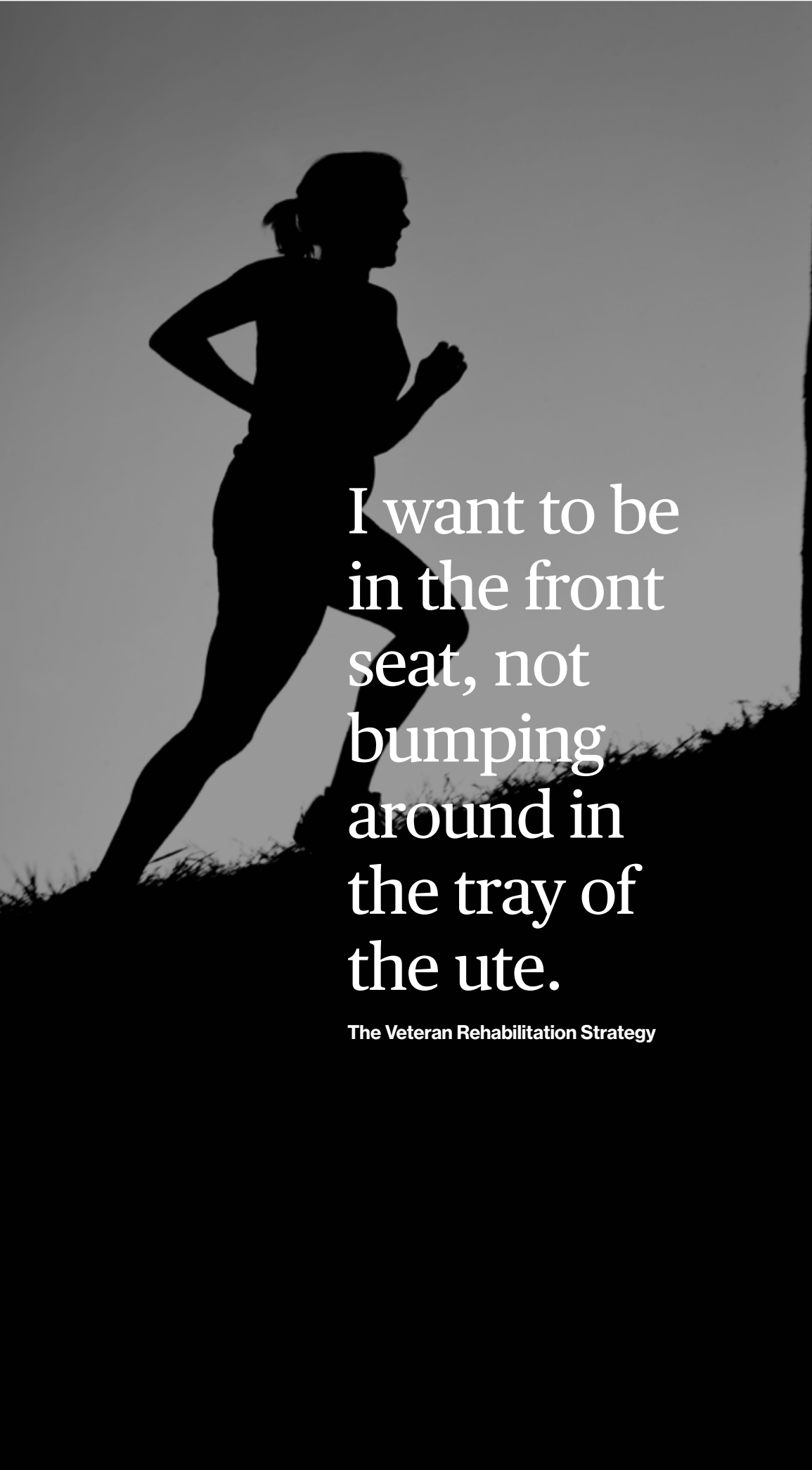
## Commemorating and Celebrating Service



Veterans' Affairs continues to commemorate and celebrate the service of New Zealand veterans.

Over the past 12 months the Commemorative Fund has provided over \$86,000 to 54 veterans to return to their place of "battle" or qualifying operational service.

Veterans' Affairs also contributed to the delivery of international commemorations as part of the centenary of the First World War. Over 2017-18 this included the delivery of the Anzac Day services in Gallipoli, and the centenary of the Battle of Beersheba in Israel. Veterans' Affairs also led the Youth Ambassador programme for young New Zealanders to travel to the centenary of the Battle of Passchendaele in Belgium.



I want to be  
in the front  
seat, not  
bumping  
around in  
the tray of  
the ute.

The Veteran Rehabilitation Strategy



New Zealand Veteran

# How do our Partners Rate our Performance?

What our partners think is important to us. We deliver a range of services that support New Zealanders through a number of government agencies. Effective working relationships help ensure that the right services are provided at the right time. The NZDF sends out a satisfaction survey questionnaire in order to assess the satisfaction of our governmental and other agency partners.

The survey examines agencies' expectations around performance, various measures of performance itself, and their general satisfaction concerning the service provided by NZDF.

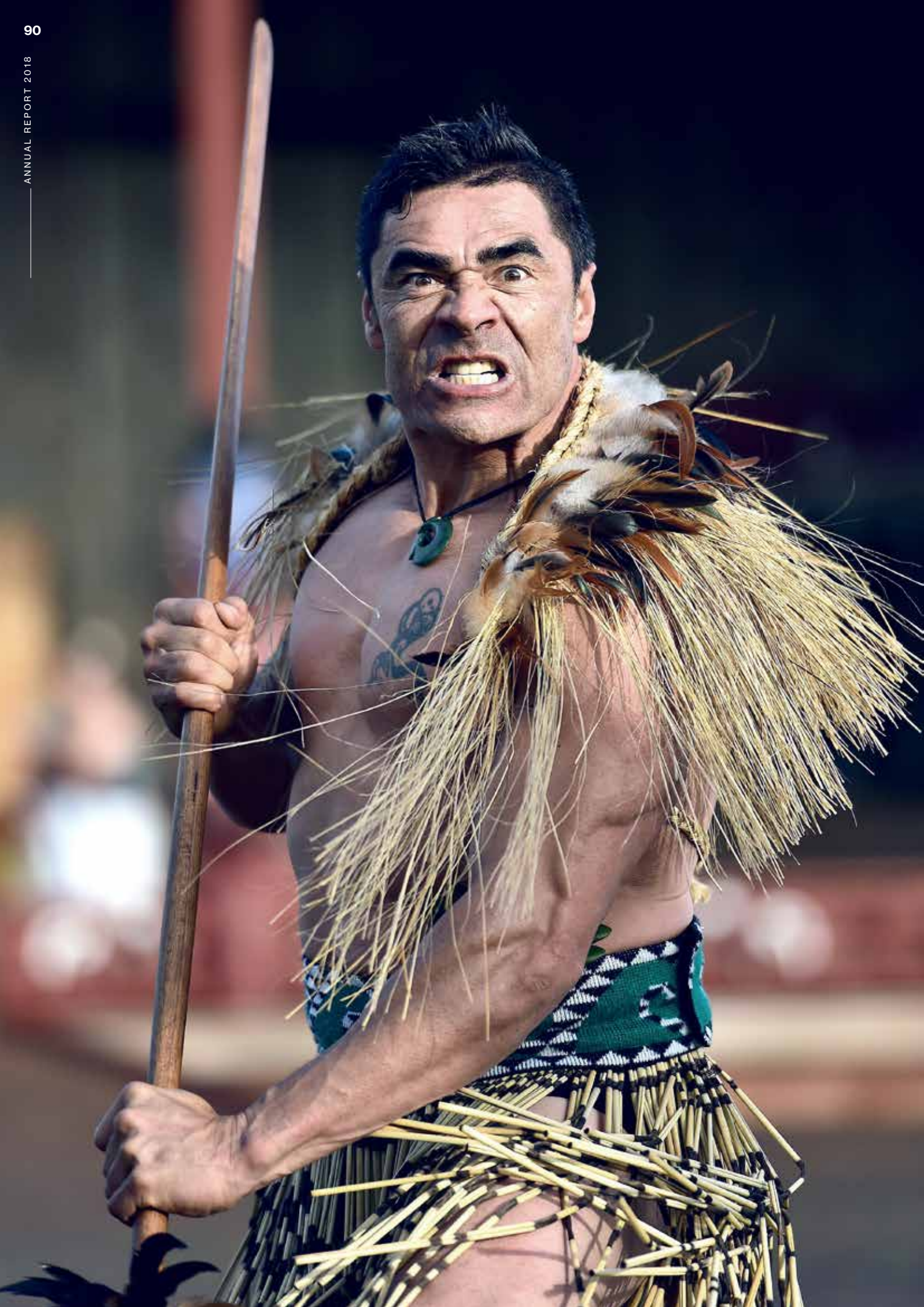
Result: Agency satisfaction with NZDF was 100%. This is an improvement on the 2016/17 year where agency satisfaction with NZDF was 88%.

In addition to the agency satisfaction surveys, the NZDF sends out ministerial satisfaction surveys to the Minister of Defence and Minister for Veterans. These surveys seek feedback to understand what works well, to drive improvements, and are also necessary for reporting purposes.

Overall, the performance of the NZDF concerning the quality of defence policy advice and support was rated 8 out of 10 by the Minister of Defence and 7.5 out of 10 by the Minister for Veterans.



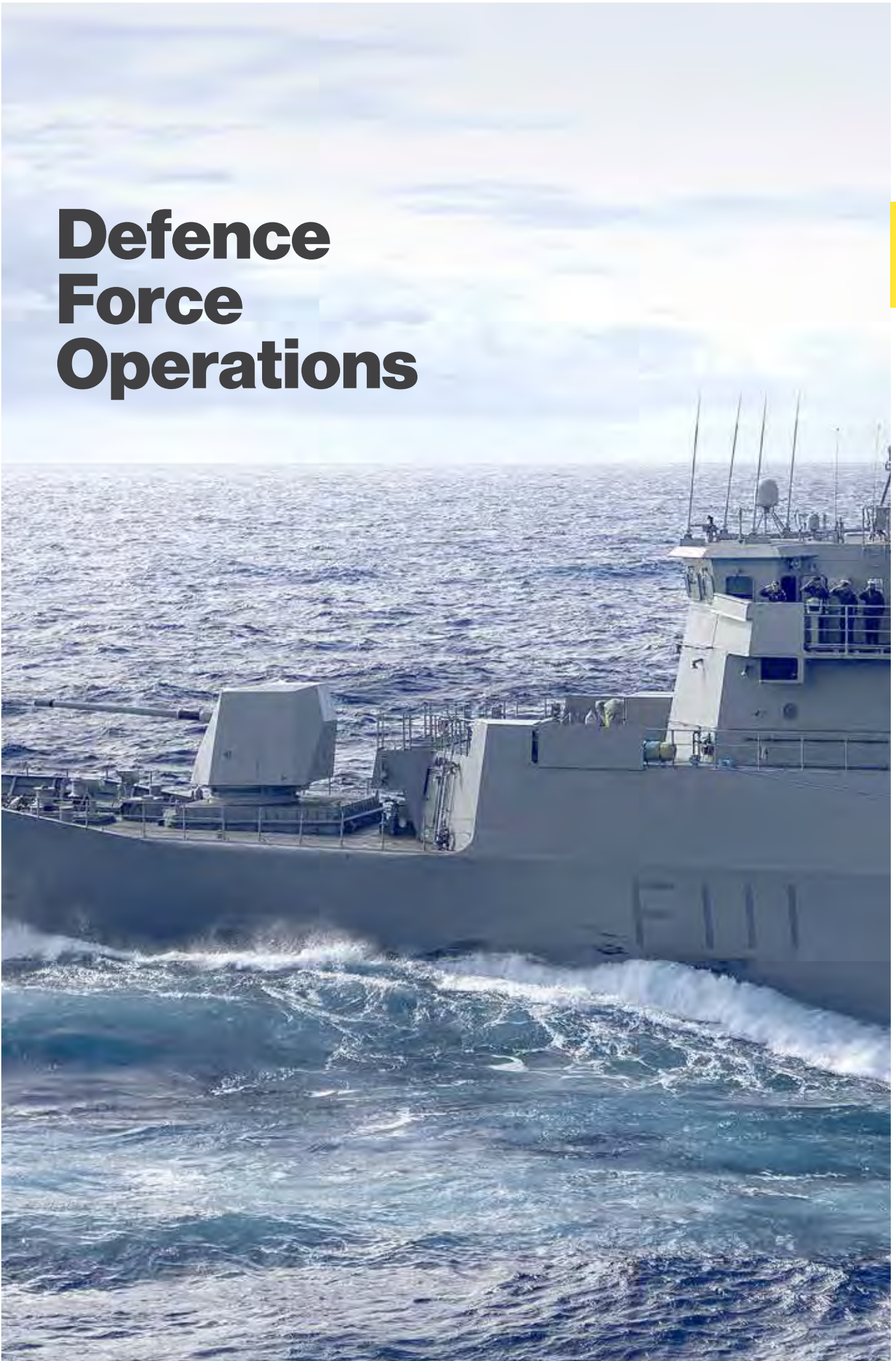




# Accountability Reporting

This section reports against NZDF's formal accountabilities as set out in 'Vote Defence Force' The Estimates of Appropriations 2017/18. This document can be found on the [www.budget.govt.nz](http://www.budget.govt.nz) website.

# Defence Force Operations



# Prepared

## Prepared for Military Operations and Other Tasks

The generation of combat forces that can be deployed, sustained, recovered and regenerated at the scales of effort required to meet Government's strategic objectives.

### OUTPUT 1

## Navy Capabilities Prepared for Joint Operations and Other Tasks

This appropriation is limited to the generation of Naval capabilities that achieve the levels of readiness for military operations and other tasks as directed by the Government of New Zealand.

### Revenue and Expenditure Summary

2017		2018		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
	<b>Revenue</b>			
442,620	Crown	436,742	436,742	445,469
1,869	Other	5,163	1,323	1,323
444,489	<b>Total Revenue</b>	441,905	438,065	446,792
	<b>Expenses</b>			
441,766	Excluding Re-measurements	428,365	438,065	446,792
4,049	Re-measurements	2,773	-	-
445,815	<b>Total Expenses</b>	431,138	438,065	446,792
<b>(1,326)</b>	<b>Surplus/(Deficit)</b>	<b>10,767</b>	-	-



## Performance Summary Output 1

Capability	Role	Target for FY 17/18	Actual 30 Jun 18	Actual 30 Jun 17
Naval Combat	Maritime Warfare Operations	100% of Government directed readiness levels achieved and maintained	89%	100%
	Maritime Security Operations		89%	100%
Projection and Sustainment	Amphibious Sealift		95%	100%
	Replenishment		50%	100%
	Littoral Warfare Support		72%	73%
Maritime Trade Operations	Naval Guidance and Naval Supervision of Shipping		100%	100%
Naval Patrol	Domestic and regional border protection operations		100%	100%

## Variance Reporting

### Naval Combat

The Naval Combat Force is underpinned by two frigates, HMNZS TE MANA and HMNZS TE KAHA. The frigates are currently undergoing a major upgrade through the Frigate Systems Upgrade programme. While the programme is underway, Navy has been reliant on a single operational frigate. This reduced the readiness of the capability during the first half of 2017/18.

### Amphibious Sealift

NZ Sealift Forces successfully integrated into EX Talisman Sabre and Southern Katipo reporting a high level of operational readiness. Mid Second Quarter HMNZS CANTERBURY reported a number of technical faults. The effect of these faults degraded the readiness state for Regional operations. Readiness for Global operations was not effected as there is a longer lead time which allowed for the remediation of the faults.

### Replenishment

The RNZN's replenishment tanker, HMNZS ENDEAVOUR was decommissioned as planned in late 2017. There is a capability gap until the new tanker, HMNZS AOTEAROA is commissioned in 2021.

### Littoral Warfare Support

Decommissioning HMNZS MANAWANUI resulted in gaps in aspects of Littoral Warfare Support. Compressed Air Breathing Apparatus capability satisfies civil service commitments but only limited military operational utility. Commercial options are currently being employed. Full diving capability release is not expected to occur until the replacement Dive Hydro Vessel is introduced into service in 2019/20.

## OUTPUT 2

# Army Capabilities Prepared for Joint Operations and Other Tasks

This appropriation is limited to the generation of Army capabilities that achieve the levels of readiness for military operations and other tasks as directed by the Government of New Zealand.

### Revenue and Expenditure Summary

2017		2018		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
	<b>Revenue</b>			
791,477	Crown	821,369	821,369	829,849
1,785	Other	12,738	883	883
793,262	<b>Total Revenue</b>	834,107	822,252	830,732
	<b>Expenses</b>			
778,690	Excluding Re-measurements	811,051	822,252	830,732
9,900	Re-measurements	7,513	-	-
788,590	<b>Total Expenses</b>	818,564	822,252	830,732
<b>4,672</b>	<b>Surplus/(Deficit)</b>	<b>15,543</b>	-	-

### Performance Summary Output 2

Capability	Role	Target for FY 17/18	Actual 30 Jun 18	Actual 30 Jun 17
Land Combat	Special Operations	100% of Government directed readiness levels achieved and maintained	100%	100%
	Regional Stabilisation Operations		100%	88%
	Land Combat Operations		92%	85%

## Variance Reporting

### Land Combat Operations

Land Combat Operations achieved an overall readiness of 92%, an increase of 7% over last reporting period. Due in part to current staff operational commitments, this output requires an additional period of personnel and equipment reallocation and integration between camps and islands in order to fully meet one of the mandated response times.

The Army's commitment to the training-focused operation in Iraq and the generation of follow-on rotations in New Zealand means there is a heavier than usual requirement for senior instructors to both conduct and sustain the operation, as well as the individual equipment to support the deployment. In addition, the NZ Army continues to provide senior officers and non-commissioned officers to support a variety of operations world-wide, contributing to the readiness risk due to the commitment of key rank and trades.

## OUTPUT 3

# Air Force Capabilities Prepared for Joint Operations and Other Tasks

This appropriation is limited to the generation of Air Force capabilities that achieve the levels of readiness for military operations and other tasks as directed by the Government of New Zealand.

### Revenue and Expenditure Summary

2017		2018		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
	<b>Revenue</b>			
741,979	Crown	807,805	807,805	764,215
3,681	Other	10,726	2,411	1,974
745,660	Total Revenue	818,531	810,216	766,189
	<b>Expenses</b>			
742,601	Excluding Re-measurements	807,327	810,216	766,189
4,752	Re-measurements	3,460	-	-
747,353	Total Expenses	810,787	810,216	766,189
(1,693)	<b>Surplus/(Deficit)</b>	<b>7,744</b>	-	-

### Performance Summary Output 3

Capability	Role	Target for FY 17/18	Actual 30 Jun 18	Actual 30 Jun 17
Air Surveillance and Response	Sea Control Operations	100% of Government directed readiness levels achieved and maintained	75%	75%
	Surveillance and Response Operations		78%	75%
Naval Operations	Naval Air Operations		100%	100%
Security and Stability Operations	Theatre Air Mobility		98%	90%
	Tactical Air Mobility		100%	100%
Protection and Sustainment	Strategic Air Mobility	100%	100%	

## Variance Reporting

### Air Surveillance and Response Force

The Air Surveillance and Response Force continued a commitment to Operation TAKAPU between July 2017 and March 2018. To sustain Operation TAKAPU, the number of crews maintained at the optimum trained state for sea control operations was reduced.

The performance assessment of 75% demonstrates the capability remained available at extended readiness throughout the commitment to the operation. A regeneration plan was implemented, culminating in Exercise RIMPAC 18, which will restore the capability to meet the performance target at the commencement of the new financial year. Surveillance capability in regional operations was limited due to the need to sustain the Operation TAKAPU deployment.





# Protect

## OUTPUT 4

### Protection of New Zealand and New Zealanders

The overarching purpose of this appropriation is to protect New Zealand's sovereignty and provide security and other services for New Zealanders.

#### Performance Summary Output 4 (2017 performance results in brackets)

Deliverable	Target	Result
The degree of satisfaction expressed by authorities requesting assistance in accordance with their actual programmes.	100%	100% (88%) as measured by the common satisfaction survey (see page 88 for details).
Regular evaluation of significant issues, the capacity to react to requests for assistance and the provision of adequate support from the limited resources available.	Meet.	Met. (Met).

## OUTPUT 4.1

# Resource and Border Protection Operations

This category is intended to provide sharing of information and provision of resources to support all-of-government efforts to protect New Zealand's borders and offshore maritime interests.

### Revenue and Expenditure Summary

2017		2018		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
	<b>Revenue</b>			
182,308	Crown	187,945	187,945	187,177
783	Other	2,249	547	547
183,091	Total Revenue	190,194	188,492	187,724
	<b>Expenses</b>			
178,861	Excluding Re-measurements	189,463	188,492	187,724
2,221	Re-measurements	1,337	-	-
181,082	Total Expenses	190,800	188,492	187,724
<b>2,009</b>	<b>Surplus/(Deficit)</b>	<b>(606)</b>	-	-

### Performance Summary Output 4.1 (2017 performance results in brackets)

Deliverable	Target	Performance
Information Sharing. <sup>7</sup>	Government agencies are informed of activities occurring in the maritime zones of national interest to New Zealand.	<p>100% of information on maritime traffic, suitably adapted for civil needs, is passed to National Maritime Coordination Centre in an actionable timeframe so that government agencies are informed of activities going on in the maritime zones of national interest to New Zealand.</p> <p>99%. (100%).</p> <p>Variance Note: A small number of short duration information system outages occurred during the reporting period which impacted on the availability of electronic information.</p> <p>Alternate processes were available to ensure there was no material impact on business operations.</p>

<sup>7</sup> The wording in the deliverable and target sections of this and the following tables is consistent with the wording of the Vote Defence Force Estimates of Appropriations document 2017/18. This may create some inconsistencies where titles have changes. This includes the Minister for Veterans who is referred to in the Estimates document as the Minister of Veteran's Affairs.

## Performance Summary Output 4.1 (2017 performance results in brackets) (continued)

Deliverable		Target	Performance
Air Surveillance and Response.	Air surveillance capabilities are available for the conduct of pre-planned missions in support of the National Maritime Coordination Centre.	Not less than 90% of the total agreed pre-planned air surveillance tasks requested by the National Maritime Coordination Centre met.	82% of tasks achieved. (96%). Variance Note: Serviceability of assigned airframes, severe weather and reprioritisation towards other tasks impacted on ability to meet all tasks.
	Air surveillance capabilities are available to meet the National Maritime Coordination Centre's requirement to investigate vessels of interest and respond to actual or potential non-compliance with New Zealand legislation.	Not less than 90% of the total air surveillance response tasks requested by the National Maritime Coordination Centre within the agreed notice to move to meet the Centre's requirement (to investigate vessels of interest and respond to actual or potential non-compliance with New Zealand and international legislation met).	100% of tasks achieved. (96%).
Naval Patrol and Response.	Naval patrol and surveillance capabilities are available for the conduct of pre-planned missions in support of the National Maritime Coordination Centre.	Not less than 90% of the total agreed pre-planned maritime tasks requested by the National Maritime Coordination Centre met.	97% of tasks achieved. (100%).
	Naval patrol capabilities are available to meet NMCC's requirement to investigate vessels of interest and respond to actual or potential non-compliance with New Zealand legislation.	Not less than 90% of the total response tasks requested by the National Maritime Coordination Centre within the agreed notice to move to meet the Centre's requirement to investigate vessels of interest and respond to actual or potential non-compliance with New Zealand and international legislation met.	100% of tasks achieved. (100%).
Exercising the right of sovereignty and the servicing of offshore island territories.	Support New Zealand's right of sovereignty over the Ross Dependency and continuous presence on the Antarctic continent.	Not less than 90% satisfaction of the NZDF's specialised military capabilities to support Antarctica New Zealand's operations in New Zealand and on the Antarctic continent, including contributions to the Joint United States/ New Zealand logistics pool to support New Zealand's right to sovereignty over the Ross Dependency and continuous presence on the Antarctic Continent.	100% of land based tasks were achieved. (100%). 90% of flights tasked, (nine out of ten) were achieved. (70%).
	Contribute to New Zealand's efforts to manage Antarctic marine living resources.	Not less than 90% satisfaction of the Ministry of Foreign Affairs and Trade for the NZDF's provision of specialised military capabilities to support New Zealand's efforts to manage marine living resources on and about the Antarctic continent.	100%. (100%).
	Naval and air capabilities are available to conduct pre-planned missions to service the offshore islands and demonstrate New Zealand's sovereignty.	Not less than 90% of total pre-planned tasks requested by the National Maritime Coordination Centre to conduct pre-planned missions to service the offshore islands and demonstrate New Zealand's sovereignty met.	100%. (100%).



## OUTPUT 4.2

# Defence International Engagement

This category is intended to support foreign policy objectives that strengthen security and avert conflict.

### Revenue and Expenditure Summary

2017		2018		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
	<b>Revenue</b>			
97,324	Crown	94,742	94,742	99,660
50	Other	311	3,441	2,643
97,374	<b>Total Revenue</b>	95,053	98,183	102,303
	<b>Expenses</b>			
97,499	Excluding Re-measurements	95,826	98,183	102,303
2,211	Re-measurements	891	-	-
99,710	<b>Total Expenses</b>	96,717	98,183	102,303
<b>(2,336)</b>	<b>Surplus/(Deficit)</b>	<b>(1,644)</b>	-	-

## Performance Summary Output 4.2 (2017 performance results in brackets)

Deliverable	Target	Performance
Capacity and Confidence Building Activities.	<p>Maintain a contemporary network of multilateral and bilateral military relationships that advances the professional capacity of the NZDF.</p>	<p>Met. (Met).</p> <p>Supporting information: The NZDF's commitments to Australia were met by maintaining a close defence partnership under the mechanism of Closer Defence Relations. The capacity of the two countries to act together was enhanced by combined activities such as Exercise Talisman Sabre, the Australian Army Skill at Arms Meeting (an international shooting competition), personnel exchanges, and professional training courses. The NZDF also continued to support the Five Power Defence Arrangements (FPDA) relationship with Australia, Singapore, Malaysia and the United Kingdom. The NZDF also provided support to regional fora, such as the Association of Southeast Asian Nations Defence Ministers Meeting Plus (ADMM+) and the Shangri-La Dialogue. The NZDF also maintained close relationships with the United States and NATO alliance.</p> <p>The NZDF also completed an overseas visit and training programme that enhanced military-to-military relationships with security partners, provided for professional development and improved interoperability between the NZDF.</p>
	<p>Support recognised alliance and other arrangements that foster peace and security.</p>	<p>100%. (100%).</p> <p>Supporting information: The Master Activity Schedule includes participation in multinational readiness training activities that maintain New Zealand's membership of key alliances and arrangements (e.g. FPDA, ADMM+ etc.) and enhance interoperability between military forces and generated and maintained the required levels of capability to support the Government's foreign policy objectives.</p>

## Performance Summary Output 4.2 (2017 performance results in brackets) (continued)

Deliverable	Target	Performance
Capacity and Confidence Building Activities. (Continued)	The visit schedule for senior military officers maintains a strong network of professional relationships and complements the Government's broader foreign policy objectives.	100%. (100%).  Supporting information: The NZDF completed an overseas visit and training programme that enhanced military-to-military relationships with security partners, provided for professional development and improved interoperability between the NZDF and the armed forces of other countries. Visits included: Chief of Defence Force to Australia, Belgium, Canada, China, Denmark, Egypt, Ethiopia, India, Italy, Japan, Jordan, Korea, Norway and the United States; Vice Chief of Defence Force to Canada, Australia and the United States; Chief of Navy to Australia, Canada, Fiji, France, Ireland, Malaysia, Papua New Guinea, Singapore, United Kingdom; Chief of Army to China, Egypt, Israel, Jordan, South Korea, Papua New Guinea and Turkey; Chief of Air Force to Australia, Bahrain, Canada, Chile, Cook Islands, Japan, Oman, United Kingdom and the United States; and the Commander Joint Forces New Zealand to Afghanistan, Australia, Iraq, Malaysia, South Sudan, United Arab Emirates and the United States.
	Maritime deployments and ship visits satisfies all-of-government efforts to enhance New Zealand's reputation.	100%. (100%).  Supporting information: Maritime exercises undertaken in the period included: Exercises Suman Protector, Dugong, Paradise, Ocean Explorer, Spear, Tropic Major, Croix Du Sud, and Bersama Shield.  Maritime Operations included: Operations CRUCIBLE, CALYPSO, NASSE and WASAWASA.  Ships' visits included: Suva, Lautoka, Townsville, Noumea, Port Villa, Guadalcanal, Sydney, Hawaii, Melbourne, and Esquimalt.

## Performance Summary Output 4.2 (2017 performance results in brackets) (continued)

Deliverable	Target	Performance
Capacity and Confidence Building Activities. (Continued)	Regional engagement.	<p>100%. (100%).</p> <p>Supporting information: The NZDF contributed to regional engagement by participating in security co-operative and confidence-building measures such as visits to, and exercises and activities with, and within, South Pacific countries. This included the provision of training and professional development of indigenous defence and security forces throughout the region, through the Mutual Assistance Programme (MAP).</p> <p>For example:</p> <ul style="list-style-type: none"> <li>• 8 NZDF personnel are posted as Technical Advisers across the South-West Pacific</li> <li>• Two officers (1 x PNGDF and 1 x HMAF) posted as instructors with NZ Army Officer Cadet School</li> <li>• 44 personnel from across the South-West Pacific attended various training courses with the NZDF</li> <li>• 2 MAP teams visited Fiji</li> <li>• 1 MAP team visited PNG</li> <li>• 2 MAP teams visited Tonga</li> </ul> <p>MAP talks held with MAP partner countries including Fiji, PNG, Tonga, Indonesia, Timor Leste and Vietnam.</p>
	Contribute to confidence and security building measures.	<p>100%. (100%).</p> <p>Supporting information: NZDF provided training support to PNGDF in preparation for APEC and support to Fiji maritime capacity building through Operation WASAWASA.</p> <p>NZDF also support to Fiji UN Mission Pre-Deployment Training.</p> <p>The Chief of Navy led the South Pacific Heads of Maritime Forces meeting (4–5 Sep 17, Auckland).</p> <p>Together, NZDF and MoD participation in ADMM-Plus meetings including New Zealand's co-chairing of the Cyber Security Expert Working Group.</p>

**Performance Summary Output 4.2 (2017 performance results in brackets) (continued)**

Deliverable	Target	Performance
Capacity and Confidence Building Activities. (Continued)		<p>Other key activities included:</p> <ul style="list-style-type: none"> <li>• one member of the NZDF personnel (pers) attended the Counter Terrorism (CT) EWG in Thailand</li> <li>• MoD led a delegation to the Cyber Security (CS) EWG in the Philippines</li> <li>• one NZDF pers attended the Humanitarian Assistance and Disaster Relief (HADR) EWG in Hawaii</li> <li>• one NZDF pers attended the Peacekeeping Operation (PKO) EWG in Australia</li> <li>• two NZDF pers attended the Maritime Security (MS) EWG in Singapore</li> <li>• MoD and NZDF hosted the CS EWG and Legal Seminar in Wellington</li> <li>• one NZDF pers attended the Military Medicine (MM) Conference in Myanmar</li> <li>• one NZDF pers attended the MM EWG and Table Top Exercise in Myanmar</li> <li>• one NZDF pers attended the CT EWG in China</li> <li>• one NZDF pers attended the PKO EWG and IPC in Indonesia</li> <li>• one NZDF pers attended the Humanitarian Mine Action IPC in Laos</li> <li>• one NZDF pers attended the HADR IPC in Malaysia</li> <li>• MoD led a delegation to the CS EWG in the Philippines</li> <li>• two NZDF pers attended the MS EWG and Conference in the Republic of Korea</li> <li>• two NZDF pers attended the MS IPC in Singapore</li> <li>• two NZDF pers attended the MS Future Leaders Programme in Singapore</li> </ul> <p>Participation in FPDA planning conferences, seminars, and meetings included:</p> <ul style="list-style-type: none"> <li>• six NZDF pers attended the introduction to warfare course</li> <li>• three NZDF pers attended the SUMAN PROTECTOR FPC</li> <li>• two NZDF pers attended the Exercise Programme meeting</li> <li>• two NZDF pers attended the Littoral Manoeuvre Working Group</li> <li>• the HQIADS command team visited NZ</li> <li>• six NZDF pers formed an advance body for SUMAN PROTECTOR</li> <li>• 26 NZDF pers participated as the main body to SUMAN PROTECTOR</li> <li>• one NZDF pers attended the COMMS Working Group, and two pers attended the LOG Working Group</li> </ul>



**Performance Summary Output 4.2 (2017 performance results in brackets) (continued)**

Deliverable	Target	Performance
Capacity and Confidence Building Activities. (Continued)		<ul style="list-style-type: none"> <li>• Two NZDF pers attended the BERSAMA SHIELD (BS) IPC and MPC</li> <li>• Five NZDF pers attended the BS Final Planning Conference (FPC) and BERSAMA LIMA (BL) Initial Planning Conference (IPC)</li> <li>• six NZDF pers attended the Combined Working Group</li> <li>• five NZDF pers attended the BL MPC</li> <li>• twelve NZDF pers participated in BS 18</li> <li>• two NZDF pers attended the FPDA Exercise Programme meeting</li> <li>• 18 two NZDF pers attended the FPDA Seminar</li> </ul> <p>Participating in United Nations and Regional Peacekeeping-linked planning conferences, seminars, and meetings included:</p> <ul style="list-style-type: none"> <li>• one NZDF pers attended the Global Peace Operations Initiative capstone event in Mongolia</li> <li>• one NZDF pers attended the Association of Asia-Pacific Peacekeeping Training Centres annual conference in Sri Lanka</li> <li>• five NZDF pers attended the International Association of Peacekeeping Training Centres annual conference in Cairo. This delegation was large due to New Zealand planned to host this event in Oct 2018.</li> <li>• one NZDF pers instructed on the UN Military Officers Course in China</li> <li>• two NZDF pers attended the PACOM Capability Development Working Group in Hawaii</li> <li>• two NZDF pers attended the United Nations Defence Ministerial meeting in Canada</li> <li>• two NZDF pers delivered the Operationalising Gender in Peacekeeping Operations programme at the Kofi Annan International Peacekeeping Training Centre in Ghana</li> <li>• one NZDF pers attended the UN Female Military Officers Course in Kenya</li> <li>• one NZDF pers attended the UN Protection of Civilians Train the Trainers Course in Korea</li> <li>• one NZDF pers provided English Language instruction to Vietnam peacekeepers prior to an UNMISS deployment</li> <li>• two NZDF pers attended the Quinary Consultations on Peacekeeping in New York.</li> <li>• one NZDF pers attended the ASEAN Regional Forum Peacekeeping Event in Vietnam.</li> <li>• one NZDF pers attended the regional peacekeeping operations capacity building technical working group in Australia</li> </ul>

## Performance Summary Output 4.2 (2017 performance results in brackets) (continued)

Deliverable	Target	Performance
Capacity and Confidence Building Activities.	Contribute to the maintenance of peace and security through the assignment of Defence Attachés and Advisors.	100% of resident and non-resident Defence representation maintained through the assignment of Defence Attachés and Advisors in host nations and in accordance with the Government's direction.  100%. (100%). Supporting information: See map on pages 12-13 for all Defence Attachés and Advisor posts.
Defence Doctrine and Advances in Defence-Related Technology.	The NZDF remains well informed about defence doctrine and advances in defence-related technology.	Maintaining active participation in specific military fora to enable the NZDF to remain well-informed about military doctrine, current military operations and future changes and exchanges of information related to the profession-of-arms.  Met. (Met). Supporting information: Active participation in military fora is important for the Defence Force in ensuring interoperability, commonality, and standardisation with prospective coalition partners undertaking operations as part of a multinational force. The principal standardisation agreements the Defence Force participated in over the period were: <ul style="list-style-type: none"> <li>• <b>Joint Forces</b> – Multinational Interoperability Council to which New Zealand is a full member and has attended Principals Meeting.</li> <li>• <b>Air Force</b> – Air and Space Interoperability Council, including the RNZAF chairing and hosting this year's National Directors meeting.</li> <li>• <b>Army</b> – American, British, Canadian, Australian and New Zealand Interoperability Program; Special Operations Forces Capability Development Memorandum of Understanding (MOU).</li> <li>• <b>Navy</b> – Australia, Canada, New Zealand, United Kingdom, United States Agreement; Naval Command Control and Communications Board; Navigation Warfare MOU.</li> <li>• <b>Defence Research and Development</b> – The Technical Cooperation Program; Quintripartite Imagery, Measurements, and Signatures Research and Development Program.</li> <li>• <b>Command and Control</b> – Australia/New Zealand Command and Control Interoperability Board.</li> <li>• <b>Logistics</b> – Australia/New Zealand Operational Working Party.</li> <li>• <b>Communications</b> – Australia/New Zealand Communications Forum and Military Communications and Electronics Board.</li> </ul> Other joint multinational interoperability forums in which the Defence Force participates are: the Multinational Interoperability Programme, Quinquartite Combined Joint Warfare Conference, and the North Atlantic Treaty Organisation Allied Joint Operations Doctrine Working Group.

Performance Summary Output 4.2 (2017 performance results in brackets) (continued)

Deliverable	Target	Performance
<p>Defence Doctrine and Advances in Defence-Related Technology. (Continued)</p>	<p>Maintaining a network of relationships with external scientific and technology organisations that contribute to the development of solutions for the Government, the Defence Force, and New Zealand's national security agencies and supports the provision of military capability and promotion of security.</p>	<p>Met. (Met).</p> <p>Supporting information: The NZDF Defence Technology Agency (DTA) provides support to NZDF by:</p> <ul style="list-style-type: none"> <li>• Identifying and assessing future technologies that will enhance NZDF capability.</li> <li>• Providing scientific advice to support acquisitions and operations.</li> <li>• Developing technologies that provide new capabilities.</li> <li>• Enhancing and/or extending the lifespan of current capabilities.</li> <li>• Providing solutions to technical problems as they arise.</li> </ul> <p>This work significantly leverages a large number of identifiable collaborations (144 in flight collaborations as at 30 June 2018) in which DTA is engaged at any given time. These are mostly international and include industry, defence organisations, and non-defence organisations such as universities, Crown Research Institutes, and government laboratories.</p>





## OUTPUT 4.3

# Assistance to the Civil Power and Provision of a Public Service in Emergency Situations

This category is intended to achieve the contribution to all-of-government efforts that provide for public safety, protection of national infrastructure, emergency response and recovery operations in order to satisfy critical humanitarian needs.

### Revenue and Expenditure Summary

2017		2018		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
	<b>Revenue</b>			
70,008	Crown	73,626	73,626	71,498
117	Other	816	62	62
70,125	<b>Total Revenue</b>	74,442	73,688	71,560
	<b>Expenses</b>			
73,978	Excluding Re-measurements	73,252	73,688	71,560
998	Re-measurements	686	-	-
74,976	<b>Total Expenses</b>	73,938	73,688	71,560
<b>(4,851)</b>	<b>Surplus/(Deficit)</b>	<b>504</b>	-	-

### Performance Summary Output 4.3 (2017 performance results in brackets)

Deliverable	Target	Performance
Conduct capability generation activities and inter-agency training to maintain the readiness of a national counter-terrorist capability.	100% of the levels of operational capability and readiness as directed met to maintain the national counterterrorist capability.	100%. (100%). Supporting information: SAS D Squadron conducted multiple co-ordination and interoperability activities with the NZ Police Special Tactics Group in addition to supporting roles for a number of domestic operations including: <ul style="list-style-type: none"> <li>• Exercise Peka Peka – collective training activity.</li> <li>• Multiple Explosive Ordnance Disposal joint training activities with NZ Police.</li> <li>• Multiple Command and Control, skill based interoperability joint training activities with NZ Police.</li> </ul>
Generate the necessary capabilities to deal with complex chemical, biological, radiological, explosives and improvised explosive device incidents and maintain the readiness of the national response capability in support of the Police.	100% of the levels of operational capability and readiness as directed met to generate the necessary capabilities to deal with complex chemical, biological, radiological, explosives and improvised explosive devices and maintain the readiness of the national response capability in support of the New Zealand Police.	100%. (100%). Supporting information: Multiple Counter Improvised Explosive Device and Chemical, Biological, Radiological and Explosive training activities have been conducted with international partners and NZ Police. NZSAS (E Sqn) relies on overseas activities to participate in Nuclear render-safe training opportunities of which none were conducted during the reporting period.
Assist the Police maintain security when asymmetric incidents in the land and maritime environment threaten public safety or national interests.	100% of agreed notice to move met for the specialised Counter-Terrorist Group to respond to New Zealand Police requests for assistance.	100%. (100%). Supporting information: (21 requests for assistance). There have been no Counter-Terrorist Group call outs for the period. NZSAS (E Sqn) supported NZ Police during major events, VIP visits to NZ and gang related police action including venue search and forward staging of EOD response personnel and equipment.
Assist the Police to maintain security when chemical, biological, radiological, explosive and improvised explosive device incidents threaten public safety or national interests.	100% of agreed notice to move met for the specialised Explosive Ordnance Disposal Squadron to respond to requests to assist New Zealand Police operations.	100%. (100%). Supporting information: 141 callouts and requests were undertaken on behalf of the NZ Police.
Provide specialised and complementary military capabilities to assist Police law enforcement operations.	Subject to the availability of resources, 100% of requests to assist New Zealand Police law enforcement operations.	100%. (100%).
Maintain contingency forces at camps and bases with the capacity to assist the civil power deal with major disasters.	100% of contingency forces and specialised military capabilities available to assist the civil power deal with major disasters when not deployed on operations.	100%. (100%). Supporting information: NZDF maintained an agreed level of personnel on camps/bases at all times as part of Contingency Plan Awhina. NZDF responded to the following requests: 13 Jul 17: Horizons / Ruapehu Emergency Operations Centre (EOC). 22 Jul 17: Otago (Dunedin) EOC. 05 Jan 18: Coromandel / Thames EOC. 12 Jan 18: Greymouth EOC. 21 Feb 18: Nelson / Marlborough EOC (post Tropical Cyclone Gita). NZDF completed preparedness exercises with Maritime New Zealand, the New Zealand Search and Rescue Coordination Centre, MFAT and the NZ Police as part of table top exercises.
Availability of specialised military capabilities to assist the civil power to conduct search and rescue and recovery operations within New Zealand, the New Zealand Search and Rescue Region and adjacent regional search and rescue areas.	100% of agreed notice to move met for specialised military capabilities to assist the civil power to move to conduct search and rescue and recovery operations within New Zealand and the maritime search and rescue and regional rescue coordination centre areas.	Fixed Wing: 100%. (98.9%). All other platforms 100%. (100%).

### Performance Summary Output 4.3 (2017 performance results in brackets) (continued)

Deliverable	Target	Performance
Availability of specialised military capabilities to assist the civil power to evacuate persons from high-risk environments in New Zealand.	100% of contingency plans in place to assist the civil power to evacuate persons from high-risk environments in New Zealand.	100%. (100%). Supporting information: There are two relevant contingency plans in place. Both are in place and reviewed annually. An additional contingency plan has been created and is currently being validated to confirm suitability. It is anticipated that this plan will be released in the 2018/19 year.
The NZDF has the capacity to assist the Fire and Emergency New Zealand <sup>8</sup> when incidents exceed the capabilities of the local resources.	100% of requests met to augment the capacity of Fire and Emergency to deal with a wide range of incidents involving safety of life, protection of property and related actions to mitigate the effects of fire.	100%. (100%). Supporting Information: 209 requests were received where NZDF appliances attended a variety of incidents. One request was received for a C-130H to provide situational awareness for fires on the Chatham Islands.
Availability of specialised military capabilities to assist the civil power in response to a maritime disaster and mitigate the effects of degradation of the marine environment.	100% of contingency plans in place to assist the civil power mitigate the effects of a maritime disaster and degradation of the marine environment.	100%. (100%). There are three contingency plans that relate to this activity. All are current and in place, however subject to annual review. The annual review for one of the contingency plans has been completed for 2018. The remaining contingency plan reviews are expected to be complete by the 3rd quarter 2018. Support to NZ Search and Rescue and the Regional Rescue Coordination Centre remains available upon request.
Availability of specialised military capabilities to conduct aeromedical evacuation and medical rescue at sea at the Government's direction.	100% of contingency plans in place to assist the civil power within the agreed notice to move to conduct aeromedical evacuation and medical rescue at sea at the Government's direction.	100%. (95%). Supporting information: Nil capability from rotary over the last year for Air Medical Evacuation.
The provision of specialised capabilities that augment the capacity of the Police to maintain law and order and public safety.	Subject to availability of resources, 100% of requests met for specialised military capabilities to assist New Zealand Police operations to maintain law and order and public safety.	100%. (100%).
Assist the Department of Corrections maintain the integrity of prisons when normal custodial arrangements fail.	100% of contingency plans in place to mobilise the Armed Forces to assist the Department of Corrections to maintain the integrity of prisons when normal custodial arrangements fail.	100%. (100%). Supporting information: Nil requests.
Enhance central and local governments' preparedness for responses to crises.	100% of NZDF participation in central and local governments' planning and multi-agency training exercises to enhance the all-of-government preparedness for responses to community scale crises.	100%. (100%). Supporting information: NZDF provided support to the following government agency preparedness exercises as part of building agency capacity. <b>Contingency Plan Pacific Relief:</b> • Supported MFAT annual pre-cyclone season training exercise. <b>Contingency Plan Awhina:</b> • Supported NZ Search and Rescue (SAR) Rescue Coordination Centre (RCC) and NZ Police. • Outreach programme to Ministry of Civil Defence Emergency Management (MCDEM) by NZDF. • Operation PIPELINE ASSISTANCE. • Pike River planning assistance. • M-Bovis planning assistance 9 weeks in total over two stages. • MCDEM was provided with two places on the Joint Operations Planning Course in February 18 to enhance planning experience.

<sup>8</sup> Formerly NZ Fire Service and Rural Fire Authority.

## OUTPUT 4.4

# Military Assistance to Civil Authorities in Non-Emergency Situations

This category is intended to provide periodic Defence Force resources, services and non-emergency assistance to the Government and civil authorities.

### Revenue and Expenditure Summary

2017		2018		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
	<b>Revenue</b>			
33,752	Crown	34,879	34,879	34,212
40	Other	242	-	-
33,792	<b>Total Revenue</b>	35,121	34,879	34,212
	<b>Expenses</b>			
35,591	Excluding Re-measurements	33,878	34,879	34,212
943	Re-measurements	542	-	-
36,534	<b>Total Expenses</b>	34,420	34,879	34,212
<b>(2,742)</b>	<b>Surplus/(Deficit)</b>	<b>701</b>	-	-

### Performance Summary Output 4.4 (2017 performance results in brackets)

Deliverable	Target	Performance
Support State ceremonial activities that represent the nation and meet the Government's direction.	100% of requests met to provide military guards, suitably tailored for the occasion; military bands and associated support to support State ceremonial activities that represent the nation and meet the Government's direction.	100%. (100%). Supporting information: Military support (military guards, bands, gun saluting batteries and Māori cultural elements) for nine state welcomes/wreath laying for official Guest of Government visits to New Zealand, including visits by the: <ul style="list-style-type: none"> <li>• President of Croatia;</li> <li>• President Indonesia;</li> <li>• President Ireland;</li> <li>• President Germany;</li> <li>• Head of the Presidency of Federation of Bosnia and Herzegovina;</li> <li>• Prime Minister of Vietnam;</li> <li>• Prime Minister of Soloman Islands;</li> <li>• British Foreign Secretary unveiled the UK Memorial at Pukeahu National War Memorial; and</li> <li>• Prime Minister of Laos.</li> </ul>

### Performance Summary Output 4.4 (2017 performance results in brackets) (continued)

Deliverable	Target	Performance
Support significant military anniversaries and nationally recognised commemorative events.	100% of requests met to provide military guards, suitably tailored for the occasion; military bands and associated support to support significant military anniversaries, nationally recognised commemorative events and significant commemorative events overseas.	100%. (100%). Supporting information: Military support was provided to 13 domestic national commemorations and wreath-laying ceremonies, including: <ul style="list-style-type: none"> <li>• 99th anniversary of the signing of the Armistice to end WW1;</li> <li>• 75th Anniversary commemoration of El Alamein at Pukeahu National War Memorial;</li> <li>• 68th Anniversary of the Commencement of the Korean War;</li> <li>• 64th Anniversary of the ceasefire in the Korean War;</li> <li>• 51st Anniversary of the Vietnam War;</li> <li>• Annual Merchant Navy Commemoration Service;</li> <li>• ANZAC Day;</li> <li>• Battle of Britain Day;</li> <li>• National Commemoration of Post War Malaya/Malaysia Operations;</li> <li>• National Commemoration of the 75th Anniversary of RNZAF Service;</li> <li>• Waitangi Day;</li> <li>• Dissolution of Parliament; and</li> <li>• State opening of Parliament.</li> </ul> Military support was provided to six major overseas commemorative events in four different countries. Some events included activities across multiple days and included: <ul style="list-style-type: none"> <li>• Gallipoli, Turkey;</li> <li>• Western Front, France and Belgium;</li> <li>• 100th Anniversary of Passchendaele, Belgium;</li> <li>• 100th Anniversary of the Battle of Beersheba;</li> <li>• Laucala Bay Memorial Unveiling, Fiji; and</li> <li>• Guadalcanal 75th Anniversary, Guadalcanal.</li> </ul>
Support the Vice-Regal Household (The Governor Generals Official Residence).	100% of requests met to provide representational staff for the Vice-Regal House, military guards, suitably tailored for the occasion, military bands, air, land and sea transport and associated support for Vice-Regal activities.	100%. (100%). Supporting information: Military support (including Māori Culture Groups, military guards, and band) were provided for five Credential Ceremonies at Government House.
Support the Government's internal and external transportation requirements.	100% of requests met to provide air, land and sea transport for members of the Government and guests of the State to support the Government's internal and external transportation requirements.	100%. (95%).





## OUTPUT 4.5

### Defence Support to the Community

This category is intended to provide Defence Force resources for the betterment of the community at large and to inform the public's awareness of the proficiency and practice of the Armed Forces.

#### Revenue and Expenditure Summary

2017		2018		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
	<b>Revenue</b>			
42,110	Crown	37,787	37,787	42,389
7,060	Other	6,897	6,766	6,334
49,170	<b>Total Revenue</b>	44,684	44,553	48,723
	<b>Expenses</b>			
47,715	Excluding Re-measurements	46,365	44,553	48,723
853	Re-measurements	546	-	-
48,568	<b>Total Expenses</b>	46,911	44,553	48,723
<b>602</b>	<b>Surplus/(Deficit)</b>	<b>(2,227)</b>	-	-

## Performance Summary Output 4.5 (2017 performance results in brackets)

Deliverable	Target	Performance
The provision of leadership and skills training for the New Zealand Cadet Forces.	Not less than 90% satisfaction with the NZDF's provision of leadership and skills training for the New Zealand Cadet Forces to develop confident, responsible young citizens who are valued in their community by providing them with safe, enjoyable and challenging opportunities.	The satisfaction with the provision of leadership and skills training for the New Zealand Cadet Forces delivered in 2017/18 was not measured. (Not measured).
The provision of support to government initiated youth development schemes and contributions to other sponsored youth life skills programmes.	Not less than 90% satisfaction of the Ministry of Social Development requirements for trainees selected for Limited Service Volunteer courses to gain life skills, develop core values, teamwork and trust, which boost self-esteem and confidence.	100%. (100%). Supporting information: 800 Limited Service Volunteers marched in across LSV courses held at Motu Moana Scout Camp, Auckland and at Burnham Military Camp, Christchurch.
	Not less than 90% satisfaction of the Ministry of Education Youth Life Skills programme requirements for Service Academies and the provision of leadership development and outdoors adventure-based training opportunities within high schools.	100%. (100%). Supporting information: 1,215 students attended Induction, Basic Leaders, Advanced Leaders, Bushcraft and Adventure Challenge courses run by NZDF in the 2017 calendar year.
	Not less than 90% satisfaction of the Justice sector (Child, Youth and Family) to deliver the physical aspects of Military-Style Activity Camps and the development of discipline, routine and a sense of self-respect amongst the participants.	Not applicable – NZDF ceased contributing to this activity in January 2017. (Not measured).
	Not less than 90% satisfaction of the Police Blue Light Trust with NZDF services to enhance the Trust's youth development programmes nationwide.	100%. (100%). Supporting information: 320 young persons attended Blue Light courses in 2017/18.
Promotion of New Zealand's identity through the preservation New Zealand's military history and culture for the enjoyment of future generations.	Not less than 90% satisfaction of Service Museum Trust Boards with NZDF support to Service Museums and the development, management and display of New Zealand's military history collections for the preservation of New Zealand's military history and culture for the enjoyment of future generations.	66.6%. (73%) . Variance Note: One of the three service museums reported their satisfaction as neutral. The key challenge noted by the museum was in maintaining a connection with the NZDF which was challenged by distance (due to where the museums are located) and a number of personnel changes within NZDF. Supporting information: <ul style="list-style-type: none"> <li>• Number of Museum site visitors – 236,000</li> <li>• Number of education visitors – 16,197</li> <li>• Number of discrete website visitors – 305,000</li> </ul>
Support significant national and local events that benefit the community.	Not less than 90% satisfaction to support significant national and local events that benefit the community through the provision of services at hui of national significance, national and local events, including ceremonial and military displays that contribute to the success of the occasion and enhances the identity and professional reputation of the NZDF.	Not measured. Supporting information: Historically, the NZDF provides a wide range of support to communities, organisations and iwi across New Zealand, such as schools, the Breast Cancer Foundation, White Ribbon Campaign, Service Clubs, local and national events involving displays and parades. The NZDF maintains a close relationship with the Returned Services Association and supports ex-service personnel and their families. In 2017/18, NZDF had the honour of support to the Tangi of Hon Mr Cliff Whiting at the Kaiaio Marae, Te Kaha. NZDF also had the honour of supporting the Chatham Islands Tangi of Alfred Preece, one of the last surviving members of the 28th Māori Battalion and the last surviving Officer.



# Project

## OUTPUT 5

### Operations Contributing to New Zealand’s Security, Stability and Interests

The overarching purpose of this appropriation is the employment of New Zealand’s Armed Forces overseas at the Government’s direction.

Performance Summary Output 5 (2017 performance results in brackets)

Deliverable	Target	Result
Achieve the conduct of military operations and other tasks that support the Government’s strategic interests	Meet.	Met. (Met).
Enhance all-of-government capacity to respond to regional crises	Meet.	Met. (Met).

## OUTPUT 5.1

# Military Operations in Support of a Rules-Based International Order

This category is intended to achieve the provision of operations that contribute to New Zealand's security, stability and interests.

### Revenue and Expenditure Summary

2017		2018		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
	<b>Revenue</b>			
55,030	Crown	51,651	51,651	48,228
-	Other	-	264	264
55,030	<b>Total Revenue</b>	51,651	51,915	48,492
	<b>Expenses</b>			
52,316	Excluding Re-measurements	51,062	51,915	48,492
-	Re-measurements	22	-	-
52,316	<b>Total Expenses</b>	51,084	51,915	48,492
<b>2,714</b>	<b>Surplus/(Deficit)</b>	<b>567</b>	<b>-</b>	<b>-</b>

### Performance Summary Output 5.1 (2017 performance results in brackets)

Deliverable	Target	Performance
Contribute to United Nations Missions.	Maintain the Government's military commitment to the following missions: <ul style="list-style-type: none"> <li>• UNTSO – Middle East</li> <li>• UNMISS – South Sudan</li> <li>• MINUSMA – Mali</li> </ul>	Met. (Met).
Lead and contribute to regional contingency military operations, as listed.	Maintain the Government's military commitment to the following operations: No mandated operations.	Not applicable as there were no mandated operations. (Not applicable).
Contribute military forces for contingencies in the rest of the world.	Maintain the Government's military commitment to the following operations: <ul style="list-style-type: none"> <li>• Multinational Force and Observers (MFO) (Sinai)</li> <li>• United Nations Command Military Armistice Commission (UNCMAC) – (Republic of Korea)</li> <li>• Operation SPEAK (CENTCOM, Florida, USA)</li> <li>• Operation RUA II (Afghanistan)</li> <li>• Operation TROY (Middle East)</li> <li>• Operation TAKAPU (Gulf of Aden)</li> <li>• Operation PUKEKO (Middle East)</li> <li>• Operation MOHUA (Middle East)</li> <li>• Operation MANAWA (Iraq)</li> <li>• Operation TEAL (Middle East)</li> </ul>	Met. (Met).

## OUTPUT 5.2

# Military Operations that Contribute to Regional Security

This category is intended to achieve the provision of operations that contribute to New Zealand's security, stability and interests.

### Revenue and Expenditure Summary

2017		2018		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
	<b>Revenue</b>			
458	Crown	464	464	464
180	Other	-	45	45
638	<b>Total Revenue</b>	464	509	509
	<b>Expenses</b>			
174	Excluding Re-measurements	175	509	509
-	Re-measurements	-	-	-
174	<b>Total Expenses</b>	175	509	509
<b>464</b>	<b>Surplus/(Deficit)</b>	<b>289</b>	-	-

### Performance Summary Output 5.2 (2017 performance results in brackets)

Deliverable	Target	Performance
Contribute to the Government's response capacity to regional and major crisis.	100% of the agreed notice to move met for a Joint Task Force comprising relevant force elements and military capabilities to assist with regional humanitarian assistance and disaster relief missions when directed.	100%. (100%). Supporting information: South-West Pacific Campaign Plan – range of confidence building measures undertaken with partners in the Pacific to support national resilience, e.g. Exercises Tropic Castor, Southern Katipo 17 and Tropic Major.
Support all-of-government efforts to secure the safety of New Zealand citizens and approved nationals and assist with the evacuation of persons from high-risk areas in times of crisis.	100% of the agreed notice to move met for strategic airlift and sealift capabilities to assist with regional non-combatant evacuation operations when not deployed on military operations elsewhere.	100%. (100%). Supporting information: Participated in a range of New Zealand government planning activities to support whole of government response to regional contingencies. NZDF force elements conducted a range of force generation activities to maintain military capacity to respond to regional contingencies, e.g., Exercises RIMPAC, Talisman Sabre, and Croix Du Sud.
Support all-of-government efforts to assist a host nation to restore law and order and provide for the immediate humanitarian needs of the population.	100% of the agreed notice to move met for a specialised, high readiness task group, with integral airlift and/or sealift capabilities available to act independently or with regional security partners to assist regional nations restore law and order and provide immediate aid to the population.	100%. (100%). Supporting information: Exercise Croix Du Sud tested this notice to move and interoperability with French, Australian and New Zealand partners in the Pacific.



# Inform

## OUTPUT 6

### Advice to the Government

The overarching purpose of this appropriation is to support Ministers in discharging their portfolio responsibilities.

#### What is intended to be achieved with this appropriation?

This appropriation is intended to achieve the provision of policy advice, situational awareness and support to Ministers in discharging their portfolio responsibilities.

#### Performance Summary Output 6 (2017 performance results in brackets)

Deliverable	Target	Result
The supply of high quality individual products, as shown in the tables below.	Meet.	Met. (Met).

## OUTPUT 6.1

### Policy Advice

This category is intended to achieve the provision of accurate, timely and responsive policy advice.

#### Revenue and Expenditure Summary

2017		2018		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
	<b>Revenue</b>			
3,657	Crown	3,727	3,727	3,723
4	Other	82	-	-
3,661	<b>Total Revenue</b>	<b>3,809</b>	<b>3,727</b>	<b>3,723</b>
	<b>Expenses</b>			
3,507	Excluding Re-measurements	3,791	3,727	3,723
26	Re-measurements	17	-	-
3,533	<b>Total Expenses</b>	<b>3,808</b>	<b>3,727</b>	<b>3,723</b>
<b>128</b>	<b>Surplus/(Deficit)</b>	<b>1</b>	<b>-</b>	<b>-</b>

#### Performance Summary Output 6.1 (2017 performance results in brackets)

Deliverable	Target	Performance
The provision of policy advice to the Government and contribution to policy advice led by other agencies is accurate, timely and offers practical and cost-effective approaches to fulfil the Government's defence priorities.	Meet.	Met. (Met).
The satisfaction of the Minister of Defence with the policy advice service, as per the common satisfaction survey.	At least 90%.	80%. (70%).
Technical quality of policy advice papers assessed by a survey with a methodical robustness of 90%. (The higher the robustness score, the stronger the methodical quality of the completed assessment.)	At least an average of 70%.	73%. (76.1%). Supporting information: This measure is based on an assessment by NZIER of a random sample of papers from both NZDF and the Ministry of Defence.
The total cost per hour of producing policy advice outputs.	At most \$150.	\$84. (\$76).

## OUTPUT 6.2

# Situational Awareness

This category is intended to achieve the provision of timely, accurate and high-quality intelligence support.

### Revenue and Expenditure Summary

2017		2018		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
	<b>Revenue</b>			
4,004	Crown	5,023	5,023	5,015
7	Other	53	-	-
4,011	Total Revenue	5,076	5,023	5,015
	<b>Expenses</b>			
3,983	Excluding Re-measurements	4,771	5,023	5,015
49	Re-measurements	33	-	-
4,032	Total Expenses	4,804	5,023	5,015
(21)	<b>Surplus/(Deficit)</b>	272	-	-

### Performance Summary Output 6.2 (2017 performance results in brackets)

Deliverable	Target	Performance
Situational Awareness. Ensure that the national intelligence community is provided with timely, accurate and high quality intelligence support and advice on matters of foreign defence interest in accordance with the Government's priorities to support the NZDF, policy and wider security operations.	Not less than 90% of timely and high-quality reports that meet expectations to inform the Government of matters of foreign defence interest and support the Government's decision-making processes.	Overall – 80%. (80%). Timeliness – 60%, Quality – 90%. Supporting information: 819 reports and assessments were provided over the period.



## OUTPUT 6.3

# Supporting Ministers

This category is intended to achieve the provision of quality and timely support to Ministers.

### Revenue and Expenditure Summary

2017		2018		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
	<b>Revenue</b>			
1,918	Crown	1,955	1,955	1,953
3	Other	21	-	-
1,921	<b>Total Revenue</b>	1,976	1,955	1,953
	<b>Expenses</b>			
1,828	Excluding Re-measurements	1,917	1,955	1,953
20	Re-measurements	13	-	-
1,848	<b>Total Expenses</b>	1,930	1,955	1,953
73	<b>Surplus/(Deficit)</b>	46	-	-

### Performance Summary Output 6.3 (2017 performance results in brackets)

Deliverable	Target	Performance
Ensure that Ministers are provided with quality and timely advice and support that enable them to lead the Defence Force and Veterans' Affairs New Zealand. <sup>9</sup>	Not less than 90% of timely, accurate and high-quality advice that meets expectations to support Ministers of Defence and Veterans' Affairs portfolios and meets legislative obligations.	95%. (100%). Supporting information: <ul style="list-style-type: none"> <li>• 259 select committee questions (responses to all questions provided).</li> <li>• 122 Ministerials (responses to all questions provided. See below for timeliness measurement).</li> <li>• 490 (includes eight Oral) Parliamentary Questions (responses to all questions provided. See below for timelines measurement).</li> <li>• 1,244 (includes 12 Veteran's Affairs) Official Information Act requests (responses to all requests provided).</li> </ul>

<sup>9</sup> The Minister's title changed to the "Minister for Veterans" from 26 October 2017.

## NZDF – Capital Expenditure Permanent Legislation Authority (PLA)

2017		2018		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
406	Land	-	-	-
397,308	Property, Plant and Equipment	455,260	448,546	700,608
10,632	Intangibles	11,851	11,454	7,611
408,346	Appropriation total	467,111	460,000	708,219

The approval of the 2016 Defence White Paper and the Defence Capability Plan 2016 provided an updated indicative Defence Force capital expenditure track. The original budget of \$708m for the delivery of Defence capability projects anticipated significant expenditure in respect of:

- Anzac Frigate Systems Upgrade Project – Part of the mid-life upgrade of the NZDF frigates to maintain their surveillance, combat and self-defence capabilities.
- Maritime Sustainment Capability – Replacement of the HMNZS ENDEAVOUR naval tanker with a new ice-strengthened and winterised, tanker.
- Defence Force Logistics – Investment in infrastructure and IT to enable more efficient management of equipment holdings.
- Network Enabled Army – 12 year, four tranche programme of work encompassing a number of information and communication technologies and business change initiatives.
- Estate and infrastructure – Investment in the regeneration of Defence estate and infrastructure.

## Performance Summary Capital Expenditure Permanent Legislation Authority (PLA)

Deliverable	Target	Performance
Expenditure supports the delivery of the department's output performance measures in accordance with the Defence Mid-Point Rebalancing Review and 2016 Defence White Paper.	Achieve.	Achieved.

Defence has experienced some delays in delivery of a number of capital projects and actual expenditure for the 2017/18 year is \$467m. These delays are predominately driven by the robust approval and due diligence process Defence projects are subject to, and the complexity associated with interdependencies.



# Departmental Other Expenses

## Loss on Sale of Physical Assets

This appropriation is intended to achieve the provision for the loss on sale of certain New Zealand Defence Force commercial properties.

### Revenue and Expenditure Summary

2017		2018		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
-	Appropriation	-	4,860	4,860

### Performance Summary

Deliverable	Target	Performance
Expenditure reflects the loss on sale of certain New Zealand Defence Force commercial properties.	Meet.	Met.





# Veterans' Affairs

## OUTPUT 7

### Supporting our Veterans

The overarching purpose of this appropriation is to provide policy advice and other support to Ministers in discharging their policy decision-making and other portfolio responsibilities, and the provision of services and payments to veterans.

#### Performance Summary Output 7 (2017 performance results in brackets)

Deliverable	Target	Result
The degree of satisfaction expressed by veterans requesting assistance	Meet.	Met. (Met). The results of the annual veterans survey showed a 97% overall satisfaction rating by veterans.
Regular evaluation of significant issues, the capacity to react to requests for assistance and the provision of adequate support from the resources available	Meet.	Met. (Met). Supplementary information: This result cannot be expressed as a percentage. This rating is based on an aggregation of the following metrics: <ul style="list-style-type: none"> <li>• A rating of 7.5 out of 10 from the Minister for Veterans on policy advice to support decision making;</li> <li>• 100% achievement of fortnightly and monthly pension payments to around 12,000 veterans and their spouses, partners, dependents, and children; and</li> <li>• The results of the Veterans' Independence Programme survey showed an 87% satisfaction rating by veterans.</li> </ul>

# Departmental Output Expenses

## OUTPUT 7.1

### Administration Services

This category is intended to achieve the provision of services to Ministers to enable them to discharge their portfolio (other than policy decision making) responsibilities, the coordination of commemorations, the provision of administration services to relevant boards and committees and the administration of contracts for service for maintenance and development work carried out in services cemeteries.

#### Revenue and Expenditure Summary

2017		2018		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
	<b>Revenue</b>			
2,812	Crown	2,869	2,869	2,869
1	Other	-	-	-
2,813	<b>Total Revenue</b>	2,869	2,869	2,869
	<b>Expenses</b>			
1,445	Excluding Re-measurements	1,162	2,869	2,869
-	Re-measurements	-	-	-
1,445	<b>Total Expenses</b>	1,162	2,869	2,869
<b>1,368</b>	<b>Surplus/(Deficit)</b>	<b>1,707</b>	-	-

#### Performance Summary Output 7.1 (2017 performance results in brackets)

Deliverable	Target	Performance
Provide Ministerial Servicing and Support.	95% of replies to requests within 20 days of receipt of requests, if not otherwise agreed.	100%. (95%).
	95% of responses accepted without substantive amendment.	100%. (98%).
Provide Administration to Boards and Panels as set out in the Veterans' Support Act 2014.	100% of arrangements and actions meet Board/ Panel requirements.	100%. (100%).
Administration of maintenance and development agreements and contracts for Services Cemeteries.	100% of contracts to be current, legally correct and clearly specify maintenance and development requirements.	100%. (100%).
	100% of Services Cemeteries will have maintenance agreements specifying the maintenance standards in place.	94%. (100%). Variance Note: 4 cemeteries did not respond.
Assist with the coordination of New Zealand's participation in commemorations of significant military anniversaries.	Participation will be delivered in accordance with agreed parameters and budget.	Met. (Met).

## OUTPUT 7.2

### Policy Advice

This category is intended to achieve the provision of policy advice to the Minister on Government policy matters relating to Veterans' Affairs.

#### Revenue and Expenditure Summary

2017		2018		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
	<b>Revenue</b>			
222	Crown	426	426	976
1	Other	-	-	-
223	<b>Total Revenue</b>	426	426	976
	<b>Expenses</b>			
249	Excluding Re-measurements	203	426	976
-	Re-measurements	-	-	-
249	<b>Total Expenses</b>	203	426	976
(26)	<b>Surplus/(Deficit)</b>	223	-	-

#### Performance Summary Output 7.2 (2017 performance results in brackets)

Deliverable	Target	Performance
Policy Advice. This category is intended to achieve the provision of policy advice to the Minister to support decision making by the Minister on government policy matters relating to Veterans' Affairs.	95% of replies to requests within 20 days of receipt of requests, if not otherwise specified.	100%. (100%).
	95% of first drafts of all policy products presented to the Minister will be accepted.	100%. (100%).
	80% satisfaction of Minister of Veterans' Affairs with the policy advice service, as per the common satisfaction survey.	75%. (90%).

Please Note: The "Minister of Veterans' Affairs" title changed to the "Minister for Veterans" on 26 October 2017.

## OUTPUT 7.3

# Repatriation of New Zealanders Interred Overseas

This category is intended to achieve the repatriation of New Zealand Service Personnel buried overseas.

### Revenue and Expenditure Summary

2017		2018		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
	<b>Revenue</b>			
-	Crown	550	550	-
-	Other	-	-	-
-	<b>Total Revenue</b>	<b>550</b>	<b>550</b>	<b>-</b>
	<b>Expenses</b>			
-	Excluding Re-measurements	1,031	550	-
-	Re-measurements	-	-	-
-	<b>Total Expenses</b>	<b>1,031</b>	<b>550</b>	<b>-</b>
-	<b>Surplus/(Deficit)</b>	<b>(481)</b>	<b>-</b>	<b>-</b>

### Performance Summary Output 7.3 (2017 performance results in brackets)

Deliverable	Target	Performance
This category is intended to achieve the successful repatriation, where agreed, of New Zealanders interred overseas as a result of a military burial.	100% of families are satisfied with the repatriation of their relatives.	The re-interments are due to be completed in 2018/19. Families will be engaged once the project is complete.



## OUTPUT 7.4

# Services and Payments to Veterans

This category is intended to achieve the assessment, determination, review and appeal of entitlements and services to veterans and their spouses, children and dependants, provided for under the Veterans' Support Act 2014 (including grand-parented entitlements and services under the repealed War Pensions Act 1954 where claims were lodged before 7 December 2014), the assessment and review of eligibility of burial in service cemeteries for eligible veterans and their families.

### Revenue and Expenditure Summary

2017		2018		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
	<b>Revenue</b>			
6,147	Crown	6,269	6,269	6,269
12	Other	-	-	-
6,159	<b>Total Revenue</b>	6,269	6,269	6,269
	<b>Expenses</b>			
6,516	Excluding Re-measurements	6,588	6,269	6,269
-	Re-measurements	-	-	-
6,516	<b>Total Expenses</b>	6,588	6,269	6,269
<b>(357)</b>	<b>Surplus/(Deficit)</b>	<b>(319)</b>	-	-



## Performance Summary Output 7.4 (2017 performance results in brackets)

Deliverable	Target	Performance
<p>Services and Payments to Veterans – Assessments and Reviews.</p> <p>This category is intended to achieve the provision of assessment and review of entitlements and services under the Veterans' Support Act 2014.</p>	In 100% of cases, where all information is provided, Veterans' Affairs will make a decision on the claim within 30 working days of it being received.	98%. (88–92%). Variance Note: progress has been made on clearing the backlog. This results has been affected by surges in volumes and the increased complexity of applications.
	100% of all amendments to and replacement of Statements of Principles are reported to the Veterans' Health Advisory Panel for consideration and decisions by the Minister of Veterans' Affairs regarding adoption.	100%. (100%). Between 1 July 2017 and 30 June 2018 a total of 214 Statements of Principles (SOPs) were adopted in New Zealand.
	100% of reviews will be completed within three months of receipt.	94%. (59%). Resources were diverted during one quarter to address decisions backlog.
Provide Ex-Service Memorial Plaques and Headstones for Eligible Veterans.	99% of ex-service memorials will be factually correct, meet technical specifications as contracted and be correctly installed.	100%. (100%).
	In 90% of cases, where correct documentation has been supplied with the application, an ex-service memorial will be manufactured and installed within four months of receipt of the order.	95%. (94%).
Provide Case Management.	Within five working days of accepting a veteran's claim for entitlements Veterans' Affairs must appoint a Case Manager in 95% of cases.	95%. (87%).
	Combined annual Veteran Survey rating of Case Management interaction either excellent, very good or good is at least 70%.	97%. (95%).
	Within 13 weeks after Veterans' Affairs accepts a veteran's claim for entitlements under Scheme One or Two, Veterans' Affairs in association with the Rehabilitation Advisor must determine whether the veteran is likely to need social or vocational rehabilitation and if so prepare a rehabilitation plan in consultation with the veteran in 100% of cases.	97%. (100%). Variance Note: The results have been affected by surges in volume and the increased complexity of applications.
Deal with Enquiries.	80% of calls will be resolved on first contact.	90%. (92%). Information Note: This information does not reflect the full period. Statistics have not been available for the full period. This result is derived from the months since February 2018.
	100% of calls will be resolved within five working days.	100%. (100%). Information Note: This information does not reflect the full period. Statistics have not been available for the full period. This result is derived from the months since February 2018.

### Further Reporting Requirements

Section 211 of the Veterans' Support Act 2014 requires that NZDF report on the timeliness of its decision making and the implementation of systems and procedures.

- Once all necessary information on an application has been received by Veterans' Affairs, and the application has been assigned to a Decision Officer, 98% of those applications have decisions made on them within 30 working days.

- All systems and processes are in place to enable Veterans' Affairs, the Defence Force and the Accident Compensation Corporation to exercise their respective responsibilities under the Act.

# Non-Departmental Output Expenses

## OUTPUT 7.5

### Development and Maintenance of Services Cemeteries

This appropriation is limited to the development and maintenance of services cemeteries.

#### Revenue and Expenditure Summary

2017		2018		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
643	Appropriation	655	746	746

#### What is intended to be achieved with this appropriation?

This appropriation is intended to develop and maintain services cemeteries.

#### Performance Summary Output 7.5 (2017 performance results in brackets)

Deliverable	Target	Performance
The annual maintenance and development works plan outcomes are achieved.	95% of annual maintenance and development works plan outcomes are achieved.	97%. (99%).
Services Cemeteries will be maintained in accordance with the Standard of Care agreement.  (Note: the wording of the measure in 2017 read: Service Cemeteries will be maintained to the satisfaction of Local Authorities, the RSA and veterans' representative organisations.)	Meet.	Met. (Met).

# Non-Departmental Other Expenses

## OUTPUT 7.6

### Debt Write-Down for Benefits and Other Unrequited Expenses

This appropriation is limited to the write-down of Crown debtors administered by the NZDF due to the requirement to comply with Crown accounting policies and generally accepted accounting principles.

#### Revenue and Expenditure Summary

2017		2018		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
9	Appropriation	138	250	250

#### What is intended to be achieved with this appropriation?

This appropriation is intended to achieve the write-down of Crown debtors by the NZDF.

#### End of year reporting requirements

This appropriation is exempt from performance reporting due to an exemption under 15D (2)(b)(ii) of the Public Finance Amendment Act 2013 as performance information is unlikely to be informative.

## OUTPUT 7.7

# Ex Gratia Payments and Comprehensive Medical Assessments for Vietnam Veterans

This appropriation is limited to the ex gratia payments to Vietnam veterans and/or members of their family with accepted conditions and for the annual comprehensive medical assessments for Vietnam veterans.

### Revenue and Expenditure Summary

2017		2018		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
63	Appropriation	621	830	1,100

### What is intended to be achieved with this appropriation?

As well as achieving the payment of ex gratia payments and annual comprehensive medical assessments to eligible Vietnam veterans, it is intended that this appropriation will also allow for the monitoring of trends in the health and wellbeing of up to 3,000 Vietnam veterans and their families with the associated provision of this information to veterans.

### End of year reporting requirements

This appropriation is exempt from performance reporting due to an exemption under 15D (2)(b)(iii) of the Public Finance Amendment Act 2013 as the amount for this annual appropriation is less than \$5 million.

## OUTPUT 7.8

# Fair Value Write Down on Veteran Trust Loans and Thirty-Year Endowment

This appropriation is limited to providing for the fair value write down on the Veteran Trust loans and the thirty-year endowment to the Vietnam Veterans and their Families Trust.

### Revenue and Expenditure Summary

2017		2018		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
-	Appropriation	-	203	203

### What is intended to be achieved with this appropriation?

This appropriation is intended to achieve the fair value write down on the thirty-year endowment of the Vietnam Veterans and their Families Trust.

### End of year reporting requirements

This appropriation is exempt from performance reporting due to an exemption under 15D (2)(b)(ii) of the Public Finance Amendment Act 2013 as performance information is unlikely to be informative.



## OUTPUT 7.9

# Veteran Assistance to Attend Commemorations or Revisit Battlefields

This appropriation is limited to providing assistance to veterans to enable them to attend official commemorations or revisit battlefields.

### Revenue and Expenditure Summary

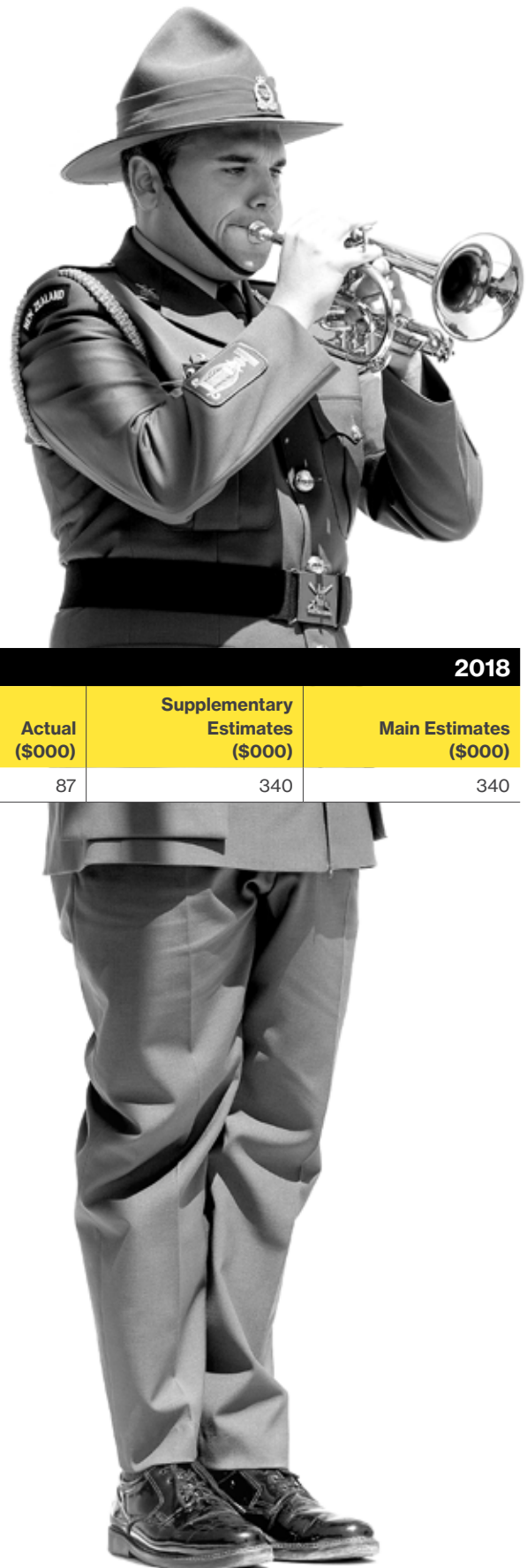
2017		2018		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
95	Appropriation	87	340	340

### What is intended to be achieved with this appropriation?

This appropriation was established in 2016/17 and is intended to achieve increased support for veterans to attend commemorations and revisit battlefields over the Vietnam 50th anniversary commemoration period and beyond.

### End of year reporting requirements

This appropriation is exempt from performance reporting due to an exemption under 15D (2)(b)(iii) of the Public Finance Amendment Act 2013 as the amount for this annual appropriation for a non-departmental other expense is less than \$5 million.



## OUTPUT 7.10

# Grant Payments to Non-Government Organisations

This appropriation is limited to grant payments to Non-Government Organisations in support of veterans and their families.

### Revenue and Expenditure Summary

2017		2018		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
175	Appropriation	270	270	-

### What is intended to be achieved with this appropriation?

This appropriation is intended to grant payments to Non-Government Organisations to support veterans and their families.

### End of year reporting requirements

This appropriation is exempt from performance reporting due to an exemption under 15D (2)(b)(iii) of the Public Finance Amendment Act 2013 as the amount for this annual appropriation for a non-departmental other expense is less than \$5 million.

# Non-Departmental Benefits or Related Expenses

## OUTPUT 7.11

### Assessments, Treatment and Rehabilitation

This appropriation is limited to the payment of the costs of assessments, treatment (including associated aids and appliances), and social and vocational rehabilitation provided for under the Veterans' Support Act 2014 and associated regulations.

#### Revenue and Expenditure Summary

2017		2018		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
9,678	Appropriation	12,050	15,179	11,593

#### What is intended to be achieved with this appropriation?

This appropriation is intended to achieve the on-going payment of veteran assessments, treatment and rehabilitation with a strong focus on social and vocational rehabilitation to help younger veterans remain in or return to employment if they are able to do so.

#### End of year reporting requirements

This appropriation is exempt from performance reporting due to an exemption under 15D (2)(b)(ii) of the Public Finance Amendment Act 2013 as performance information is unlikely to be informative.





## OUTPUT 7.12

### Special Annuities

This appropriation is limited to the payment of the costs of assessments, treatment (including associated aids and appliances), and social and vocational rehabilitation provided for under the Veterans' Support Act 2014 and associated regulations.

This appropriation is exempt from performance reporting due to an exemption under 15D(2)(b) (ii) of the Public Finance Amendment Act 2013 as performance information is unlikely to be informative.

This appropriation is limited to paying annuities authorised by Cabinet to recognise a special contribution by the recipient to New Zealand society.

#### Revenue and Expenditure Summary

2017		2018		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
88	Appropriation	89	90	89

#### What is intended to be achieved with this appropriation?

This appropriation currently recognises a special contribution by the recipients to New Zealand society.

#### End of year reporting requirements

This appropriation is exempt from performance reporting due to an exemption under 15D (2)(b)(ii) of the Public Finance Amendment Act 2013 as performance information is unlikely to be informative.

## OUTPUT 7.13

# Veterans' Independence Programme

This appropriation is limited to provision of services and support to assist eligible veterans and their families.

### Revenue and Expenditure Summary

2017		2018		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
7,458	Appropriation	9,821	10,919	11,246

### What is intended to be achieved with this appropriation?

This appropriation currently supports over 3,800 veterans to allow them to live independently in their homes.

### Performance Summary Output 7.13

Deliverable	Target	Performance
Services and support provided will be to the satisfaction of the veteran and/or the veteran's family.	95% of the services provided will be to the satisfaction of the veteran and/or the veteran's family.	<p>The first independent survey on veteran satisfaction with VIP services was conducted in Q2. 87% of veterans are satisfied with the VIP services they were receiving.</p> <p>Last year's result has not been included as it was measured using a different survey tool.</p> <p>Variance Note: Services are delivered by external subcontractors nationwide. NZDF is working with them to ensure high standards are consistently delivered.</p>

## OUTPUT 7.14

# Veterans' Support Entitlement

This appropriation is limited to the payment of entitlements (in respect of the impairment or death of veterans determined to be related to qualifying operational service occurring at any time, or qualifying routine service occurring prior to 1 April 1974) to veterans and their spouses, partners, children and dependents under the Veterans' Support Act 2014 and associated regulations and to the provision for grand-parented loans of the differential between 3% or 5% Rehabilitation Loan rate and the current market rate as set out in the Rehabilitation Act 1941 for interest concessions on land and buildings.

### Revenue and Expenditure Summary

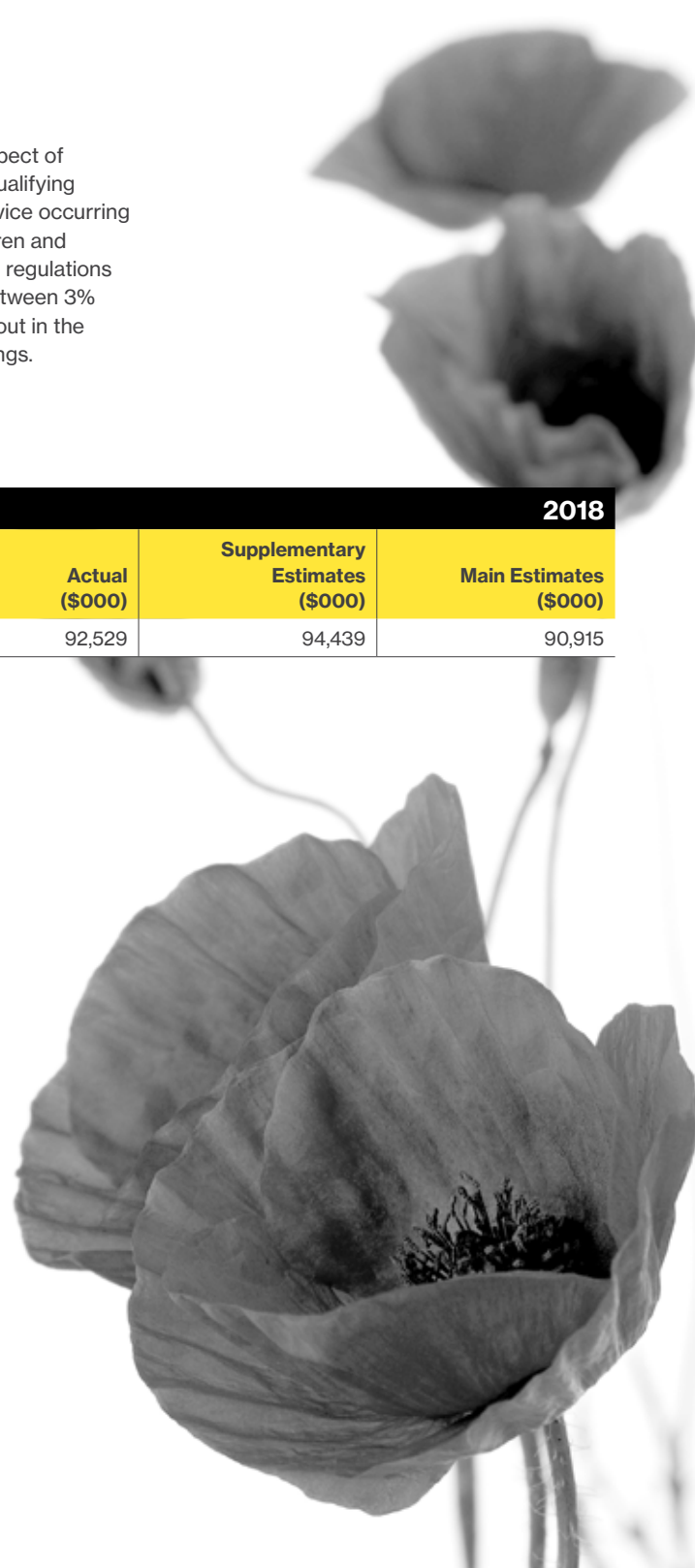
2017		2018		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
97,824	Appropriation	92,529	94,439	90,915

### What is intended to be achieved with this appropriation?

This appropriation currently supports over 13,000 veterans, surviving spouses, partners and children through the on-going payment of entitlements under the Veterans' Support Act 2014 and associated regulations.

### End of year reporting requirements

This appropriation is exempt from performance reporting due to an exemption under 15D (2)(b)(ii) of the Public Finance Amendment Act 2013 as performance information is unlikely to be informative.



# Appropriations Ceased

## Recovery from the November 2016 Hurunui/ Kaikoura Earthquakes

This appropriation is limited to writing off, or making good, damage to departmental assets and re-establishing departmental operations following the 14 November 2016 Hurunui/Kaikoura earthquakes and aftershocks.

### Revenue and Expenditure Summary

2017		2018		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
16,154	Appropriation	-	-	-



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# **Statement of Expenses and Capital Expenditure**

## Statement of Expenses and Capital Expenditure against Appropriations for the year ended 30 June 2018

2017					2018		
Actual Expenditure Including Re-measurements (\$000)	Output Class		Main Estimates (\$000)	Supplementary Estimates (\$000)	Actual Expenditure Excluding Re-measurements (\$000)	Re-measurements (\$000)	Actual Expenditure Including Re-measurements (\$000)
<b>Departmental Output Appropriations</b>							
445,815	1	Navy Capabilities Prepared for Joint Operations and Other Tasks	446,792	438,065	428,365	2,773	431,138
788,590	2	Army Capabilities Prepared for Joint Operations and Other Tasks	830,732	822,252	811,051	7,513	818,564
747,353	3	Air Force Capabilities Prepared for Joint Operations and Other Tasks	766,189	810,216	807,327	3,460	810,787
1,981,758		Departmental Output Appropriations total	2,043,713	2,070,533	2,046,743	13,746	2,060,489
<b>Multi-Category Appropriations Protection of New Zealand and New Zealanders MCA</b>							
181,082	4.1	Resource and Border Protection Operations	187,724	188,492	189,463	1,337	190,800
99,710	4.2	Defence International Engagement	102,303	98,183	95,826	891	96,717
74,976	4.3	Assistance to Civil Power and Provision of a Public Service in Emergency Situations	71,560	73,688	73,252	686	73,938
36,534	4.4	Military Assistance to Civil Authorities in Non-Emergency Situations	34,212	34,879	33,878	542	34,420
48,568	4.5	Defence Support to the Community	48,723	44,553	46,365	546	46,911
440,870		Appropriation total	444,522	439,795	438,784	4,002	442,786
<b>Operations Contributing to New Zealand's Security, Stability and Interests MCA</b>							
52,316	5.1	Military Operations in Support of a Rules-Based International Order	48,492	51,915	51,062	22	51,084
174	5.2	Military Operations that contribute to Regional Security	509	509	175	-	175
52,490		Appropriation total	49,001	52,424	51,237	22	51,259



## Statement of Expenses and Capital Expenditure against Appropriations for the year ended 30 June 2018 (continued)

2017				2018			
Actual Expenditure Including Re-measurements (\$000)	Output Class		Main Estimates (\$000)	Supplementary Estimates (\$000)	Actual Expenditure Excluding Re-measurements (\$000)	Re-measurements (\$000)	Actual Expenditure Including Re-measurements (\$000)
<b>Advice to the Government MCA</b>							
3,533	6.1	Policy Advice	3,723	3,727	3,791	17	3,808
4,032	6.2	Situational Awareness	5,015	5,023	4,771	33	4,804
1,848	6.3	Supporting Ministers	1,953	1,955	1,917	13	1,930
9,413		Appropriation total	10,691	10,705	10,479	63	10,542
<b>Policy Advice and Other Services for Veterans MCA</b>							
1,445	7.1	Administration Services	2,869	2,869	1,162	-	1,162
249	7.2	Policy Advice	976	426	203	-	203
-	7.3	Repatriation of New Zealanders Interred Overseas as a Result of a Military Burial: Te Auraki (The Return)	-	550	1,031	-	1,031
6,516	7.4	Services and Payments to Veterans	6,269	6,269	6,588	-	6,588
8,210		Appropriation total	10,114	10,114	8,984	-	8,984
<b>Departmental Other Expenditure</b>							
-		Loss on sale physical assets	4,860	4,860	-	-	-
16,154		Recovery from the Recovery from the November 2016 Hurunui/Kaikoura Earthquakes	-	-	-	-	-
16,154		Total Departmental Other Expenditure	4,860	4,860	-	-	-
<b>2,508,895</b>		<b>Total Departmental Appropriations</b>	<b>2,562,901</b>	<b>2,588,431</b>	<b>2,556,227</b>	<b>17,833</b>	<b>2,574,060</b>

## Statement of Expenses and Capital Expenditure against Appropriations for the year ended 30 June 2018 (continued)

2017					2018		
Actual Expenditure Including Re-measurements (\$000)	Output Class		Main Estimates (\$000)	Supplementary Estimates (\$000)	Actual Expenditure Excluding Re-measurements (\$000)	Re-measurements (\$000)	Actual Expenditure Including Re-measurements (\$000)
<b>Capital Expenditure – PLA New Zealand Defence Force</b>							
406		Land	-	-	-	-	-
397,308		Property, Plant and Equipment	700,608	448,546	455,260	-	455,260
10,632		Intangibles	7,611	11,454	11,851	-	11,851
408,346		Total Departmental Capital Expenditure	708,219	460,000	467,111	-	467,111
<b>Non-Departmental Output Expenses</b>							
643	7.5	Development and Maintenance of Services Cemeteries	746	746	655	-	655
643		Total Non-Departmental Expenses	746	746	655	-	655
<b>Other Expenses to be Incurred by the Crown</b>							
9	7.6	Debt Write-Down for Benefits and Other Unrequited Expenses	250	250	138	-	138
63	7.7	Ex Gratia Payments and Comprehensive Medical Assessments for Vietnam Veterans	1,100	830	621	-	621
-	7.8	Fair Value Write Down on Veteran Trust Loans and Thirty-Year Endowments	203	203	-	-	-
95	7.9	Veterans Assistance to attend	340	340	87	-	87
175	7.10	Grant Payments to Non-Government Organisations	-	270	270	-	270
342		Total Other Expenses to be Incurred by the Crown	1,893	1,893	1,116	-	1,116
<b>Benefits and Other Related Expenses to be Incurred by the Crown</b>							
9,678	7.11	Assessments, Treatment and Rehabilitation	11,593	15,179	12,050	-	12,050
88	7.12	Special Annuities	89	90	89	-	89
7,458	7.13	Veterans' Independence Programme	11,246	10,919	9,821	-	9,821
97,824	7.14	Veterans' Support Entitlements	90,915	94,439	92,529	-	92,529
115,048		Total Benefits and Other Related Expenses to be Incurred by the Crown	113,843	120,627	114,489	-	114,489
<b>116,033</b>		<b>Total Non-Departmental Expenditure</b>	<b>116,482</b>	<b>123,266</b>	<b>116,260</b>	<b>-</b>	<b>116,260</b>

The performance reporting for the above Statement of Expenses and Capital expenditure can be found\* in the NZDF's annual report. \*except where exempt under the Public Finance Act 1989.

- Output 7.6 – Debt write-down for Benefits and Other Unrequited Expenses
- Output 7.7 – Ex Gratia Payments and Comprehensive Medical Assessments for Vietnam Veterans
- Output 7.8 – Fair value Write-down on Veteran Trust Loans and Thirty Year Endowment
- Output 7.9 – Veteran Assistance to Attend Commemorations and Revisit Battlefields
- Output 7.10 – Grant Payments to Non-Government Organisations
- Output 7.11 – Assessments, Treatments and Rehabilitation
- Output 7.12 – Special Annuities
- Output 7.14 – Veterans Support Entitlement

### Capital Injection

2017		2018	
Actual (\$000)		Actual Capital Injection (\$000)	Actual Appropriation (\$000)
81,072	Capital injection	206,287	206,287

### Statement of Capital Injections without, or in excess of, authority for the year ended 30 June 2018

The NZDF has not received any capital injections during the year without, or in excess of, authority. (2017: Nil)

### Statement of Expenses and Capital Expenditure incurred without, or in excess of, appropriation or other authority

The NZDF has not incurred any expenses or capital expenditure during the year without, or in excess of, authority. (2017: Nil)



SECTION 5

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# Financial Statements

# Statement of Responsibility

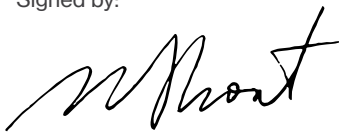
**I am responsible, as Chief Executive of the New Zealand Defence Force, for:**

- the preparation of the New Zealand Defence Force's financial statements, and statements of expenses and capital expenditure, and for the judgements expressed in them;
- having in place a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting;
- ensuring that end-of-year performance information on each appropriation administered by the New Zealand Defence Force is provided in accordance with sections 19A to 19C of the Public Finance Act 1989, whether or not that information is included in this annual report; and
- the accuracy of any end-of-year performance information prepared by the New Zealand Defence Force, whether or not that information is included in the annual report.

**In my opinion:**

- the financial statements fairly reflect the financial position of the New Zealand Defence Force as at 30 June 2018 and its operations for the year ended on that date; and
- the forecast financial statements fairly reflect the forecast financial position of the New Zealand Defence Force as at 30 June 2019 and its operations for the year ending on that date.

Signed by:



**K.R. Short**

Air Marshal

Chief of Defence Force

27 September 2018

# Independent Auditor's Report

## To the readers of the New Zealand Defence Force's annual report for the year ended 30 June 2018

The Auditor-General is the auditor of the New Zealand Defence Force (the Defence Force) and group. The Auditor-General has appointed me, Karen Young, using the staff and resources of Audit New Zealand, to carry out, on his behalf, the audit of:

- the financial statements of the Defence Force and group on pages 154 to 198, that comprise the statement of financial position, statement of commitments, statement of contingent liabilities and statement of contingent assets as at 30 June 2018, the statement of comprehensive revenue and expense, statement of changes in equity, and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information;
- the performance information prepared by the Defence Force for the year ended 30 June 2018 on pages 50 to 142;
- the statements of expenses and capital expenditure of the Defence Force for the year ended 30 June 2018 on pages 143 to 147; and
- the schedules of non-departmental activities which are managed by the Defence Force on behalf of the Crown on pages 199 to 204 that comprise:

- the schedules of assets; liabilities; commitments; and contingent assets & contingent liabilities as at 30 June 2018;
- the schedules of expenditure and revenue for the year ended 30 June 2018; and
- the notes to the schedules that include accounting policies and other explanatory information.

### Opinion

In our opinion:

- the financial statements of the Defence Force and group on pages 154 to 198:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2018; and
    - its financial performance and cash flows for the year ended on that date; and
  - comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Reporting Standards; and
- the performance information of the Defence Force on pages 50 to 142:
  - presents fairly, in all material respects, for the year ended 30 June 2018:
    - what has been achieved with the appropriation; and

- the actual expenses or capital expenditure incurred compared with the appropriated or forecast expenses or capital expenditure; and
- complies with generally accepted accounting practice in New Zealand; and
- the statements of expenses and capital expenditure of the Defence Force on pages 143 to 147 are presented fairly, in all material respects, in accordance with the requirements of section 45A of the Public Finance Act 1989; and
- the schedules of non-departmental activities which are managed by the Defence Force on behalf of the Crown on pages 199 to 204 present fairly, in all material respects, in accordance with the Treasury Instructions:
  - the assets, liabilities, commitments and contingent assets & contingent liabilities as at 30 June 2018; and
  - expenditure and revenue for the year ended 30 June 2018.

Our audit was completed on 27 September 2018. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Chief of Defence Force and our responsibilities relating to the information to be audited, we comment on other information, and we explain our independence.

## Basis for our opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Responsibilities of the Chief of Defence Force for the information to be audited

The Chief of Defence Force is responsible on behalf of the Defence Force and group for preparing:

- financial statements that present fairly the Defence Force and group's financial position, financial performance, and its cash flows, and that comply with generally accepted accounting practice in New Zealand;
- performance information that presents fairly what has been achieved with each appropriation, the expenditure incurred as compared with expenditure expected to be incurred, and that complies with generally accepted accounting practice in New Zealand;
- statements of expenses and capital expenditure of the Defence Force, that are presented fairly, in accordance with the requirements of the Public Finance Act 1989; and
- schedules of non-departmental activities, in accordance with the Treasury Instructions, that present fairly those activities managed by the Defence Force on behalf of the Crown.

The Chief of Defence Force is responsible for such internal control as is determined is necessary to enable the preparation of the information to be audited that is free from material misstatement, whether due to fraud or error.

In preparing the information to be audited, the Chief of Defence Force is responsible on behalf of the Defence Force and group for assessing the Defence Force and group's ability to continue as a going concern. The Chief of Defence Force is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to merge or to terminate the activities of the Defence Force and group, or there is no realistic alternative but to do so.

The Chief of Defence Force's responsibilities arise from the Public Finance Act 1989.

## Responsibilities of the auditor for the information to be audited

Our objectives are to obtain reasonable assurance about whether the information we audited, as a whole, is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers, taken on the basis of the information we audited.

For the budget information reported in the information we audited, our procedures were limited to checking that the information agreed to the Defence Force's information in its 2015-2018 Statement of Intent, Budget 2017 Estimates and Supplementary Estimates of Appropriations, and the 2017/18 forecast financial figures included in the Defence Force's 2016/17 Annual Report.

We did not evaluate the security and controls over the electronic publication of the information we audited.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the information we audited, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Defence Force and group's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Chief of Defence Force.
- We evaluate the appropriateness of the reported performance information within the Defence Force's framework for reporting its performance.



- We conclude on the appropriateness of the use of the going concern basis of accounting by the Chief of Defence Force and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Defence Force and group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the information we audited or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Defence Force and group to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the information we audited, including the disclosures, and whether the information we audited represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Chief of Defence Force regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

### Other information

The Chief of Defence Force is responsible for the other information. The other information comprises the information included on pages 7 to 211 and the Report by the Minister of Veterans on relevant non-departmental appropriations for the year ended 30 June 2018 and the financial statements of Veterans' Medical Research Trust Fund for the years ended 30 June 2015, 2016, 2017 and 2018, but does not include the information we audited, and our auditor's report thereon.

Our opinion on the information we audited does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

Our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the information we audited or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

The Minister of Veterans' report on relevant non-departmental appropriations in Appendix 1 of the Defence Force and group's annual report is not part of the Defence Force's annual report. The Public Finance Act 1989 does not require the information in the Minister's report to be audited and we have performed no procedures over the information in the Minister's report.

### Independence

We are independent of the Defence Force and group in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board.

Other than in our capacity as auditor, we have no relationship with, or interests, in the Defence Force and group.

*Karen Young*

**Karen Young**  
Audit New Zealand  
On behalf of the Auditor-General  
Wellington, New Zealand

# NZDF Financial Statements

## Statement of Comprehensive Revenue and Expense for the year ended 30 June 2018

2017				2018			
Group Actuals (\$000)	Parent Actuals (\$000)		Note	Group Actuals (\$000)	Parent Actuals (\$000)	Group Unaudited Budget (\$000)	Group Unaudited Forecast (\$000)
<b>Revenue from non-exchange transactions</b>							
2,475,826	2,475,826	Crown		2,567,829	2,567,829	2,543,966	2,567,829
1,821	-	Other revenue		1,841	-	-	-
<b>Revenue from exchange transactions</b>							
6,305	6,305	Departmental revenue	B1	6,254	6,254	6,313	6,745
12,601	9,740	Other revenue	B2	35,354	33,044	7,762	8,997
20,874	20,874	Gain on financial instruments	B3	29,502	29,502	-	30,000
1,131	7	Interest revenue		1,010	9	20	20
15	-	Dividend revenue		238	-	-	-
2,518,573	2,512,752	Total Revenue		2,642,028	2,636,638	2,558,061	2,613,591
<b>Expense</b>							
945,676	945,030	Personnel costs	B4	1,010,975	1,010,006	966,429	1,005,013
766,652	764,086	Operating costs	B5	768,396	766,140	841,671	781,101
26,022	26,022	Loss on financial instruments	B6	17,833	17,833	-	30,000
526	121	Finance costs		541	132	181	108
386,389	385,409	Depreciation, amortisation and impairment	C1, C3	396,097	395,184	391,893	402,658
388,227	388,227	Capital charge	B7	384,765	384,765	362,727	384,551
2,513,492	2,508,895	Total Expense		2,578,607	2,574,060	2,562,901	2,603,431
5,081	3,857	Net Surplus/(Deficit)		63,421	62,578	(4,840)	10,160
<i>Items that will not be reclassified to Net Surplus/(Deficit)</i>							
<b>Other Comprehensive Revenue and Expense</b>							
372,420	366,217	Gain/(Loss) on property, plant, and equipment revaluations	D2	23,963	22,744	-	-
372,420	366,217	Total Other Comprehensive Revenue and Expense		23,963	22,744	-	-
<b>377,501</b>	<b>370,074</b>	<b>Total Comprehensive Revenue and Expense</b>		<b>87,384</b>	<b>85,322</b>	<b>(4,840)</b>	<b>10,160</b>

Explanations of major variances against the main estimates are provided in note F2. The accompanying notes form part of these financial statements.

## Statement of Financial Position as at 30 June 2018

2017				2018			
Group Actuals (\$000)	Parent Actuals (\$000)		Note	Group Actuals (\$000)	Parent Actuals (\$000)	Group Unaudited Budget (\$000)	Group Unaudited Forecast (\$000)
<b>Assets</b>							
<b>Current Assets</b>							
55,385	52,085	Cash and cash equivalents		50,488	48,090	50,000	50,000
10,825	10,225	Debtors and other receivables from exchange transactions	E1	31,279	30,725	5,410	10,878
441,954	441,898	Debtors and other receivables from non-exchange transactions	E1	623,917	623,917	154,191	623,917
47,910	47,909	Prepayments		48,197	48,170	50,489	47,910
91,871	91,769	Inventories	E2	92,063	91,945	99,189	91,871
22,277	1,035	Other financial assets	E3	24,926	3,492	27,915	27,784
670,222	644,921	Total Current Assets		870,870	846,339	387,194	852,360
<b>Non-Current Assets</b>							
5,990,600	5,933,613	Property, plant and equipment	C1	6,082,703	6,023,540	6,014,873	6,040,120
41,565	41,565	Intangible assets	C3	45,871	45,871	42,896	52,807
257,585	257,585	Inventories	E2	286,085	286,085	262,697	257,585
5,506	172	Other financial assets	E3	5,861	412	-	-
6,295,256	6,232,935	Total Non-Current Assets		6,420,520	6,355,908	6,320,466	6,350,512
<b>6,965,478</b>	<b>6,877,856</b>	<b>Total Assets</b>		<b>7,291,390</b>	<b>7,202,247</b>	<b>6,707,660</b>	<b>7,202,872</b>
<b>Liabilities</b>							
<b>Current Liabilities</b>							
391,795	387,651	Creditors and other payables under exchange transactions	E4	403,872	400,317	299,758	414,821
-	-	Creditors and other payables under non-exchange transactions	E4	27,043	27,013	8,228	-
1,988	1,988	Surplus repayable to the Crown	E5	56,086	56,086	(4,840)	10,160
10,866	10,866	Provisions	E6	10,625	10,625	10,751	11,151
55,944	55,922	Employee entitlements	E7	56,948	56,906	56,224	55,155
362	358	Finance leases	E8	389	389	466	358
3,628	3,628	Other financial liabilities	E9	191	191	6,374	4,092
464,583	460,413	Total Current Liabilities		555,154	551,527	376,961	495,737

## Statement of Financial Position as at 30 June 2018 (continued)

2017				2018			
Group Actuals (\$000)	Parent Actuals (\$000)		Note	Group Actuals (\$000)	Parent Actuals (\$000)	Group Unaudited Budget (\$000)	Group Unaudited Forecast (\$000)
<b>Non-Current Liabilities</b>							
6,072	6,072	Employee entitlements	E7	4,573	4,573	8,382	6,839
737	737	Finance leases	E8	348	348	395	387
464	464	Other financial liabilities	E9	106	106	-	-
7,273	7,273	Total Non – Current Liabilities		5,027	5,027	8,777	7,226
<b>471,856</b>	<b>467,686</b>	<b>Total Liabilities</b>		<b>560,181</b>	<b>556,554</b>	<b>385,738</b>	<b>502,963</b>
6,493,622	6,410,170	Net Assets		6,731,209	6,645,693	6,321,922	6,699,909
<b>Equity</b>							
3,798,383	3,798,383	Taxpayers' funds	D1	3,925,971	3,925,971	4,019,912	4,004,670
2,640,063	2,611,787	Revaluation reserve	D2	2,749,218	2,719,722	2,249,257	2,640,063
52,507	-	Non-taxpayers' funds	D3	53,335	-	50,063	52,507
2,669	-	Restricted funds	D4	2,685	-	2,690	2,669
6,493,622	6,410,170	Total Equity		6,731,209	6,645,693	6,321,922	6,699,909
<b>6,965,478</b>	<b>6,877,856</b>	<b>Total Liabilities and Taxpayers' Funds</b>		<b>7,291,390</b>	<b>7,202,247</b>	<b>6,707,660</b>	<b>7,202,872</b>

Explanations of major variances against the main estimates are provided in note F2. The accompanying notes form part of these financial statements.

## Statement of Changes in Equity for the year ended 30 June 2018

2017				2018			
Group Actuals (\$000)	Parent Actuals (\$000)		Note	Group Actuals (\$000)	Parent Actuals (\$000)	Group Unaudited Budget (\$000)	Group Unaudited Forecast (\$000)
<b>Balance at 1 July</b>							
3,738,632	3,738,632	Taxpayers' funds		3,798,383	3,798,383	3,876,587	3,798,383
2,257,967	2,235,894	Revaluation reserve		2,640,063	2,611,787	2,249,257	2,640,063
50,063	-	Non-taxpayers' funds		52,507	-	-	52,507
2,690	-	Restricted funds		2,669	-	-	2,669
<b>6,049,352</b>	<b>5,974,526</b>			<b>6,493,622</b>	<b>6,410,170</b>	<b>6,125,844</b>	<b>6,493,622</b>
5,081	3,857	Net surplus/(deficit) for the year		63,421	62,578	(4,840)	10,160
372,420	366,217	Total gain/(loss) on property, plant and equipment revaluation		23,963	22,744	-	-
<b>377,501</b>	<b>370,074</b>	<b>Total Comprehensive Revenue and Expense for the Year</b>		<b>87,384</b>	<b>85,322</b>	<b>(4,840)</b>	<b>10,160</b>
<b>Owner Transactions</b>							
(1,988)	(1,988)	Repayment of surplus	E5	(56,086)	(56,086)	4,840	(10,160)
(4,650)	(4,581)	Capital withdrawal		(46)	-	-	-
(8,933)	(8,933)	Transfer of property to LINZ		-	-	-	-
81,072	81,072	Capital injection		206,287	206,287	196,078	206,287
1,268	-	Owners contributions		48	-	-	-
<b>6,493,622</b>	<b>6,410,170</b>	<b>Balance as at 30 June</b>		<b>6,731,209</b>	<b>6,645,693</b>	<b>6,321,922</b>	<b>6,699,909</b>
3,798,383	3,798,383	Taxpayers' funds	D1	3,925,971	3,925,971	4,072,665	4,004,670
2,640,063	2,611,787	Revaluation reserve	D2	2,749,218	2,719,722	2,249,257	2,640,063
52,507	-	Non-taxpayers' funds	D3	53,335	-	-	52,507
2,669	-	Restricted funds	D4	2,685	-	-	2,669

Explanations of major variances against the main estimates are provided in note F2. The accompanying notes form part of these financial statements.

## Statement of Cash Flow for the year ended 30 June 2018

2017				2018			
Group Actuals (\$000)	Parent Actuals (\$000)		Note	Group Actuals (\$000)	Parent Actuals (\$000)	Group Unaudited Budget (\$000)	Group Unaudited Forecast (\$000)
<b>Cash Flow – Operating Activities</b>							
2,393,626	2,393,626	Non-exchange receipts from Crown		2,380,879	2,380,879	2,791,412	2,380,879
872	-	Non-exchange receipts from other revenue		1,904	-	-	-
25,024	21,262	Exchange receipts from departmental and other revenue		19,310	16,924	14,075	15,742
3	-	Dividends received from operating activities		159	-	-	-
1,062	-	Interest revenue from operating activities		995	-	-	-
(944,570)	(943,928)	Payments to employees		(1,007,166)	(1,006,217)	(965,029)	(1,003,513)
(730,326)	(728,629)	Payments to suppliers		(789,264)	(787,258)	(971,714)	(763,192)
(265)	-	Grants paid		(562)	-	-	-
(396)	-	Interest paid to members		(294)	-	-	-
(388,227)	(388,227)	Payments for capital charge		(384,765)	(384,765)	(362,727)	(384,551)
(5,651)	(5,625)	Goods and services tax (net)		32,030	31,944	-	4,931
351,152	348,479	Net Cash Flow from Operating Activities		253,226	251,507	506,017	250,296
<b>Cash Flow – Investing Activities</b>							
26,080	25,716	Receipts from sale of property, plant and equipment		1,252	1,269	-	-
135	(114)	Interest revenue and expense		(541)	(123)	20	20
143	-	Sale of investments		9,600	-	-	-
(1,089)	-	Purchase of investments		(10,063)	-	-	-
17	-	Repayment of advances		141	-	-	-
(418,627)	(415,072)	Purchase of property, plant and equipment		(456,141)	(454,273)	(700,608)	(448,546)
(7,213)	(7,213)	Purchase of intangible assets		(11,851)	(11,851)	(7,611)	(11,454)
(400,554)	(396,683)	Net Cash Flow from Investing Activities		(467,603)	(464,978)	(708,199)	(459,980)

Explanations of major variances against the main estimates are provided in note F2. The accompanying notes form part of these financial statements.

## Statement of Cash Flow for the year ended 30 June 2018 (continued)

2017				2018			
Group Actuals (\$000)	Parent Actuals (\$000)		Note	Group Actuals (\$000)	Parent Actuals (\$000)	Group Unaudited Budget (\$000)	Group Unaudited Forecast (\$000)
<b>Cash Flow - Financing Activities</b>							
82,340	81,072	Capital injection		206,337	206,287	196,078	206,287
(4,650)	(4,581)	Capital withdrawal		(46)	-	-	-
(31,306)	(31,306)	Repayment of surplus		(1,988)	(1,988)	6,104	(1,988)
46,384	45,185	Net Cash Flow from Financing Activities		204,303	204,299	202,182	204,299
(3,018)	(3,019)	Net increase/ (decrease) in cash		(10,074)	(9,172)	-	(5,385)
65,420	62,121	Cash at the beginning of the year		55,385	52,085	50,000	55,385
(7,017)	(7,017)	Effect of foreign exchange rates on cash and cash equivalents		5,177	5,177	-	-
<b>55,385</b>	<b>52,085</b>	<b>Cash and Cash Equivalents at the End of the Year</b>		<b>50,488</b>	<b>48,090</b>	<b>50,000</b>	<b>50,000</b>

Explanations of major variances against the main estimates are provided in note F2. The accompanying notes form part of these financial statements.

**Statement of Cash Flow for the year ended 30 June 2018 (continued)**  
**Reconciliation of net surplus/(deficit) to net cash flow from operating activities**

2017			2018	
Group (\$'000)	Parent (\$'000)		Group (\$'000)	Parent (\$'000)
5,081	3,857	<b>Net Surplus/(Deficit)</b>	<b>63,421</b>	<b>62,578</b>
		<i>Items included in the operating balance but not in net cash flows from operations</i>		
<b>(Gains)/Losses</b>				
5,148	5,148	Net (gains)/losses on financial instruments	(11,669)	(11,669)
(452)	(452)	Net (gains)/losses on non-financial instruments	3,357	3,329
4,696	4,696	Total (Gains)/Losses	(8,312)	(8,340)
<b>Other Non-cash Items in Operating Balance</b>				
386,389	385,409	Depreciation, amortisation and impairment	396,097	395,184
(39)	(39)	Non-cash movement in non-current inventories	(28,500)	(28,500)
(358)	(358)	Non-cash movement in non-current finance leases	(389)	(389)
(1,365)	(1,365)	Non-cash movement in non-current employee entitlements	(1,499)	(1,499)
(135)	114	Other	541	123
384,492	383,761	Total Other Non-cash Items in Operating Balance	366,250	364,919
<b>Movements in Working Capital</b>				
(81,932)	(81,081)	(Increase)/decrease in debtors and other receivables	(175,374)	(202,519)
5,510	5,475	(Increase)/decrease in current inventories	(192)	(176)
2,610	2,580	(Increase)/decrease in prepayments	(287)	(261)
50,456	48,944	Increase/(decrease) in creditors and other payables	12,077	39,679
(108)	(108)	Increase/(decrease) in current finance leases	1,004	31
(1,255)	(1,247)	Increase/(decrease) in current employee entitlements	27	984
100	100	Increase/(decrease) in provisions	(241)	(241)
(18,498)	(18,498)	Working capital movement related to cash flow from investing activities	(5,147)	(5,147)
(43,117)	(43,835)	Total Movements in Working Capital	(168,133)	(167,650)
<b>351,152</b>	<b>348,479</b>	<b>Net Cash Flows from Operations</b>	<b>253,226</b>	<b>251,507</b>

The accompanying notes form part of these financial statements.



## Statement of Commitments as at 30 June 2018

2017			2018	
Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)
<b>Capital Commitments</b>				
10,332	10,332	Building	30,494	30,494
671,238	671,238	Specialist military equipment	633,370	633,370
6,760	6,760	Plant and equipment	16,383	16,383
688,330	688,330	Total Capital Commitments	680,247	680,247
<b>Non-Cancellable Operating Lease Commitments</b>				
18,256	18,256	Not later than one year	34,994	34,994
17,630	17,630	Later than one year and not later than five years	47,285	47,285
23,717	23,717	Later than five years	67,934	67,934
59,603	59,603	Total Non-Cancellable Operating Lease Commitments	150,213	150,213
<b>747,933</b>	<b>747,933</b>	<b>Total Commitments</b>	<b>830,460</b>	<b>830,460</b>

### Capital Commitments

The majority of the capital commitments are with the Ministry of Defence who manage the procurement of major military assets on behalf of the NZDF. The value of the capital commitments with the Ministry of Defence this year is \$596.4 million 2017: \$634.4 million).

Under the Memorandum of Understanding (MOU) the Ministry of Defence manages for the NZDF, the acquisition process of Specialist Military Equipment costing in excess of \$15 million.

### Non-Cancellable Operating Lease Commitments

The lease commitments for premises, planes and simulators are based on lease review dates that range from 2 months to 22 years. Increased commitments in 2018 are in relation to the replacement of building lease commitments ceased during 2017, following the 2016 Kaikoura/Hurunui Earthquakes.

## Statement of Contingent Liabilities as at 30 June 2018

2017			2018	
Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)
1,220	1,220	Potential claims from legal proceedings and disputes	990	990
1,203	1,203	Restructuring cost	1,155	1,155
<b>2,423</b>	<b>2,423</b>	<b>Total Quantifiable Contingent Liabilities</b>	<b>2,145</b>	<b>2,145</b>

The potential claims from legal proceedings and disputes represent the amounts claimed by plaintiffs in relation to the performance of the NZDF's statutory role and the expected legal costs. The NZDF is currently disputing these claims. The NZDF is jointly responsible for redundancy compensation payments if a restructuring of the dockyard contract occurs.

As at 30 June 2018, there are unquantifiable contingent liabilities in relation to a contractual dispute and the potential contamination of ground water (2017: nil).

Evidence has been found of varying levels of contamination of ground water with persistent organic pollutant Per- and Poly-Fluoroalkyl Substances (PFAS) derived from chemicals used in historical firefighting foams at NZDF camps and bases. The prospect and need for remediation is unclear, but there is a potential for liability which is not possible to quantify.

### Statement of Contingent Assets as at 30 June 2018

There were quantifiable contingent assets in relation to claims with NZDF insurers for material damage, business interruption and rental savings of \$45.9 million as at 30 June 2018 (2017: nil).

As at 30 June 2018, there are unquantifiable contingent assets in relation to claims with NZDF insurers for business interruption and loss of the fixtures and fittings in Defence House following the 2016 Kaikoura/Hurunui Earthquakes. A further contingent asset relates to a claim with the Defence House landlord for historical contributions to the landlord for build costs (2017: unquantifiable contingent assets in relation to claims for business interruption, loss of the fixtures and fittings and historical contributions for build costs).

# Notes to the Financial Statements

The notes to the financial statements include information that is considered relevant and material to assist the reader in understanding changes in The New Zealand Defence Force (NZDF) financial position or performance.

Information is considered relevant and material if:

- the amount is significant because of its size and nature;
- it is important for understanding NZDF's results;
- it helps to explain changes in NZDF; or
- it relates to an aspect of NZDF's operations that is important to future performance.

## A

### Statement of Accounting Policies for the year ended 30 June 2018

#### Reporting Entity

The New Zealand Defence Force (NZDF) is a government department as defined by Section 2 of the Public Finance Act 1989 and is domiciled in New Zealand. The relevant legislation governing the NZDF's operations include the Defence Act 1990. The NZDF's ultimate parent is the New Zealand Crown.

The NZDF Group (the Group) consists of the NZDF (controlling entity) and its controlled entities being the Service Museums (Air Force Museum of New Zealand, Queen Elizabeth II Army Memorial Museum, Royal New Zealand Navy Museum Trust) and the Non-Public Funds (RNZAF Central Fund, RNZAF Sports Association, RNZAF Air Bank, Army Central Welfare Fund, Army Non Public Funds, Army Kippenberger Library, Army Singapore Fund, RNZN Benevolent Fund, RNZN Officers' Benevolent Trust, RNZN Central Fund, RNZN Ngatiranga Bay Naval Sports Complex). The Service Museums are independent entities established by Trust Deed and hold various heritage collections. The Non-Public Funds have been established under Section 58 of the Defence Act 1990. These funds are established for the benefit of service personnel and are specifically defined as not being public money under the Public Finance Act 1989.

The primary objective of the NZDF is to provide services to the public rather than making a financial return. Accordingly, the NZDF has designated itself as a public benefit entity (PBE) for financial reporting purposes.

The financial statements of the NZDF are for the 12 months ended 30 June 2018. The financial statements were authorised for issue by the Chief of Defence Force on 27 September 2018.

#### Basis of Preparation

The financial statements have been prepared on the going concern basis, and the accounting policies have been applied consistently throughout the period.

#### Statement of Compliance

The financial statements of the NZDF have been prepared in accordance with the requirements of the Public Finance Act 1989, which includes the requirement to comply with New Zealand generally accepted accounting practices (NZ GAAP) and Treasury Instructions.

These financial statements have been prepared in accordance with Tier 1 PBE Accounting Standards.

These financial statements comply with PBE Accounting Standards.

#### Functional and Presentation Currency

The financial statements are presented in New Zealand dollars, which is the NZDF's functional currency and all values are rounded to the nearest thousand dollars (\$000).

#### Changes in Accounting Policies

In 2016, the External Reporting Board (XRB) issued 2016 Omnibus Amendments to PBE Standards. These amendments apply to PBEs with reporting periods on or after 1 January 2017. NZDF has applied these amendments in preparing its 30 June 2018 financial statements. There is a minimal effect in applying these amendments (reclassification only) in relation to the treatment of military inventories in the contingency reserve stock in the statement of financial position (refer to Note E2 Inventories) arising from changes to PBE IPSAS 17.

### **Standards and amendments, issued but not yet effective that have not been early adopted**

#### **Impairment of revalued assets**

In April 2017, the XRB issued Impairment of Revalued Assets, which now clearly scopes revalued property, plant, and equipment into the impairment accounting standards. Previously, only property, plant, and equipment measured at cost were scoped into the impairment accounting standards. Under the amendment, a revalued asset can be impaired without having to revalue the entire class of asset to which the asset belongs. This amendment is effective for the 30 June 2020 financial statements, with early adoption permitted. The timing of the NZDF adopting this amendment will be guided by the Treasury's decision on when the Financial Statements of the Government will adopt the amendment.

#### **Financial instruments**

In January 2017, the XRB issued PBE IFRS 9 Financial Instruments. This replaces PBE IPSAS 29 Financial Instruments: Recognition and Measurement. PBE IFRS 9 is effective for financial years beginning on or after 1 January 2021, with earlier application permitted. The main changes under the standard relevant to the NZDF are:

- New financial asset classification requirements for determining whether an asset is measured at fair value or amortised cost.
- A new impairment model for financial assets based on expected losses, which might result in the earlier recognition of impairment losses.

The Treasury has decided that the Financial Statements of the Government will early adopt PBE IFRS 9 for the 30 June 2019 financial year. NZDF will also early adopt PBE IFRS 9 for the 30 June 2019 financial year to be consistent with Crown's accounting policy for financial instruments. The NZDF has not yet assessed in detail the impact of the new standard. Based on an initial assessment, the NZDF anticipates that the standard will not have a material effect on the NZDF's financial statements.

### **Use of Accounting Estimates and Judgements**

The preparation of financial statements requires the use of certain accounting estimates. It also requires the NZDF to exercise judgement in the process of applying the NZDF's accounting policies. Accounting estimates and judgements are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Any area involving a high degree of judgement or complexity or where accounting estimates are significant to the financial statements, are disclosed under the applicable accounting policies outlined.

#### **Basis of Consolidation**

The consolidated financial statements comprise the financial statements of the NZDF and its controlled entities as at 30 June 2018.

Controlled entities are all those entities over which the NZDF (the controlling entity) has the power to govern the financial and operating policies so as to obtain benefits from their activities. The controlled entities have been fully consolidated from the date on which control has been obtained. Assets, liabilities, income and expenses of the controlled entities are included in the financial statements from the date the Group gains control until the date the Group ceases to control the controlled entity.

The financial statements of the controlled entities have been prepared for either a balance date of 31 March or 30 June. Where the financial statements prepared of the controlled entities do not match the reporting period of NZDF, and the compliance cost outweighs the benefit of having these prepared again at 30 June, adjustments have been made to account for any significant transactions that may have occurred in the same reporting period as the Group.

In preparing the consolidated financial statements, uniform accounting policies have been applied. Where the financial statements of the controlled entities have not been prepared using the same accounting policies of the NZDF, and it has resulted in material differences, adjustments have been made to the applicable items as if a uniform accounting policy had been applied.

All intercompany balances resulting from intra-group transactions have been eliminated in full.

### **Accounting Policies**

Significant accounting policies are included in the notes to which they relate.

Significant accounting policies that do not relate to a specific note are outlined below.

#### **Budget Figures**

The budget figures are the Main Estimates presented in the forecast financial statements from the 2016/17 Annual Report. The forecast reflects the estimated actuals contained in the Supplementary Estimates as at 30 June 2018. The budget figures have been prepared in accordance with GAAP, using accounting policies that are consistent with those adopted in preparing these financial statements.

The Main Estimates and Supplementary Estimates include NZDF and its controlled entities as at 30 June 2018. Controlled entities are all those entities over which the NZDF (the controlling entity) has the power to govern the financial and operating policies so as to obtain benefits from their activities.

### Foreign Currency

Foreign currency transactions are converted to New Zealand currency using the exchange rate prevailing at the date of the transaction.

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

Gains and losses resulting from foreign currency transactions are recognised in the Statement of Comprehensive Revenue and Expense.

### Goods and Services Tax (GST)

The financial statements and schedules are prepared on a GST exclusive basis except for Debtors and Other Receivables and Creditors and Other Payables in the Statement of Financial Position, which are GST inclusive.

The net amount of GST recoverable from, or payable to, the Inland Revenue Department (IRD) is included as part of the receivables or payables in the Statement of Financial Position.

The net GST paid to, or received from, the IRD including the GST relating to investing and financing activities, is classified as an operating cash flow in the Statement of Cash Flows.

Commitments and contingencies are disclosed exclusive of GST.

### Income Tax

Government departments are exempt from income tax as public authorities. Accordingly no charge for income tax has been provided for.

### Capital Management Programme

The NZDF's capital is its equity, which comprises Taxpayers' Funds and Revaluation Reserves. Equity is represented by net assets.

The NZDF manages its revenues, expenses, assets, liabilities and general financial dealings prudently. The NZDF's equity is largely managed as a by-product of managing income, expenses, assets, and liabilities, and in compliance with Government Budget processes and with Treasury Instructions.

Although the NZDF is more asset intensive than most Government departments, this is managed using robust governance, systems, policies, the Capability Management Framework and the resultant NZDF Capital Programme.

The objective of managing the NZDF's equity is to ensure the NZDF effectively achieves its strategic goals and objectives for which it has been established, whilst remaining a going concern.

### Commitments

Future expenses to be incurred on contracts that have been entered into at reporting date are disclosed as commitments to the extent that there are equally unperformed obligations.

Cancellable commitments that have a penalty or exit cost explicit in the agreement on exercising that option to cancel are included in the Statement of Commitments at the lower of the remaining contractual commitment and the value of that penalty or exit cost.

### Critical accounting estimates and assumptions

In preparing these financial statements, estimates and assumptions have been made concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are referred to:

- Useful lives and residual values of property, plant and equipment – refer to Section C
- Fair value of land and buildings – refer to Section C
- Fair value of specialist military equipment – refer to Section C
- Useful lives of software assets – refer to Section C

### Critical judgements in applying accounting policies

Management has exercised the following critical judgements in applying accounting policies:

- Leases classification – refer to Note E8

### Cost allocation

NZDF has determined the cost of outputs using the cost allocation system outlined below:

- Direct variable costs of a force element (for example, a squadron, a frigate, a battalion) are attributed directly to an appropriate output.
- Direct fixed costs of a force element are attributed to outputs based on their predominant purpose.
- Support unit costs are charged to outputs in proportion to the total direct costs of the force elements they support.
- Overhead costs are charged to outputs in proportion to the total force elements including their support unit costs.

The allocation rules are reviewed if there is significant organisational change to alter the continued appropriateness of the rules. There has been no change to the cost allocation method since the date of the last audited financial statements.

# Notes to the Financial Statements

## Revenue

### B Financial Performance

#### Accounting Policy Revenue

The NZDF derives revenue through the provision of outputs to the Crown and for services to third parties. Revenue is measured at the fair value of consideration received.

#### Revenue from Exchange Transactions

##### Other Revenue

Other revenue from exchange transactions are made on a normal commercial basis and largely comprise of insurance proceeds, the miscellaneous provision of rentals, goods and services to third parties not in the main line of operation for the NZDF Group. Revenue from exchange transactions is recognised when earned and is reported in the financial period to which it relates.

#### Revenue from Non-Exchange Transactions

##### Revenue Crown Recognition Policy

Revenue from the Crown is measured based on NZDF's funding entitlement for the reporting period. The funding entitlement is established by Parliament when it passes the Appropriation Acts for the financial year. The amount of revenue recognised takes into account any amendments to appropriations approved in the Appropriation (Supplementary Estimates) Act for the year and certain other unconditional funding adjustments formally approved prior to balance date.

There are no conditions attached to the funding from the Crown. However, the NZDF can incur expenses only within the scope and limits of its appropriations.

The fair value of Revenue Crown has been determined to be equivalent to the funding entitlement.

#### Other Revenue

Other revenue from non-exchange transactions are made on a no obligation basis, and are largely made up of transfer revenue from donations and grants received by the various Service Museums and Non-Public Funds controlled by NZDF. These are recognised on receipt if they result in an increase in an asset without a corresponding increase in a liability. Any grant or donation revenue with conditions attached where the future economic benefits or service potential will be returned to the transferor is not recorded as income until the liability is satisfied.

#### Interest

The NZDF derives interest income on funds held in overseas bank accounts. Interest received on overseas bank accounts is recognised when received. Interest on loans and other receivables is recognised using the effective interest method.

## B1 Departmental Revenue

2017			2018		
Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)	Group Unaudited Forecast (\$000)
5,542	5,542	Ministry of Social Development	5,260	5,260	5,260
763	763	Other departments	994	994	1,485
<b>6,305</b>	<b>6,305</b>	<b>Total Departmental Revenue</b>	<b>6,254</b>	<b>6,254</b>	<b>6,745</b>

## B2 Other Revenue

2017			2018		
Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)	Group Unaudited Forecast (\$000)
<b>Revenue from non-exchange transactions</b>					
-	-	Other revenue	1,841	-	-
-	-	<b>Total revenue from non-exchange transactions</b>	<b>1,841</b>	<b>-</b>	<b>-</b>
<b>Revenue from exchange transactions</b>					
-	-	Insurance claims	20,000	20,000	-
12,601	9,740	Other revenue	15,354	13,044	8,997
12,601	9,740	Total revenue from exchange transactions	35,354	33,044	8,997
<b>12,601</b>	<b>9,740</b>	<b>Total Departmental Revenue</b>	<b>37,195</b>	<b>33,044</b>	<b>8,997</b>

## B3 Gain on Financial Instruments

2017			2018		
Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)	Group Unaudited Forecast (\$000)
14,840	14,840	Realised gain on foreign exchange	21,965	21,965	25,000
6,034	6,034	Unrealised gain on foreign exchange	7,537	7,537	5,000
<b>20,874</b>	<b>20,874</b>	<b>Total Gain on Financial Instruments</b>	<b>29,502</b>	<b>29,502</b>	<b>30,000</b>

# Expenses

## B4 Personnel Costs

### Accounting Policy

#### Superannuation schemes

Superannuation contributions to defined contribution schemes include contributions to the Defence Force Superannuation Schemes, State Sector Retirement Savings Scheme, NZDF Kiwi Saver Scheme, Other KiwiSaver Schemes, Government Superannuation Fund Schemes, and National Provident Fund.

2017			2018		
Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)	Group Unaudited Forecast (\$000)
901,832	901,186	Salaries and wages	959,422	958,453	952,701
48,967	48,967	Superannuation contributions to defined contribution schemes	50,661	50,661	51,448
(2,612)	(2,612)	Retirement and accumulated leave adjustment	(516)	(516)	(636)
(2,511)	(2,511)	Accident Compensation Corporation (ACC) levies	1,408	1,408	1,500
<b>945,676</b>	<b>945,030</b>	<b>Total Personnel Costs</b>	<b>1,010,975</b>	<b>1,010,006</b>	<b>1,005,013</b>

### Remuneration of NZDF Regular Force and Civilian staff by salary bands

The figures in the table cover Regular Force and civilian staff, including locally-employed civilian staff and Veterans' Affairs personnel. Figures for Reserve Forces personnel, casual employees and civilian contractors are not included. Pay band figures apply to an individual's total remuneration, including employer superannuation contributions and the 'Military Factor' component where applicable.

2017		2018
Parent	Salary Band	Parent
552	\$30,000 - \$40,000	512
1,817	\$40,000 - \$50,000	1,232
2,654	\$50,000 - \$60,000	2,747
1,617	\$60,000 - \$70,000	1,773
1,567	\$70,000 - \$80,000	1,623
1,039	\$80,000 - \$90,000	1,225
922	\$90,000 - \$100,000	982
694	\$100,000 - \$110,000	755
392	\$110,000 - \$120,000	562
228	\$120,000 - \$130,000	278
69	\$130,000 - \$140,000	92
193	\$140,000 - \$150,000	213
75	\$150,000 - \$160,000	96
74	\$160,000 - \$170,000	61
36	\$170,000 - \$180,000	29
32	\$180,000 - \$190,000	38
42	\$190,000 - \$200,000	51
71	Over \$200,000	81
<b>12,074</b>	<b>Total</b>	<b>12,350</b>



## B5 Operating Costs

### Accounting Policy

#### Operating Leases

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset. Lease payments under an operating lease are recognised as an expense on a straight line basis over the lease term.

The NZDF leases training aircraft, office premises and office equipment (mainly multi-functional reprographic equipment). As the lessor retains all the risks of ownership, these leases are classified as operating leases.

#### Maintenance Costs

The cost of major platform restoration of airframe engines and ship overhauls are capitalised and depreciated over the shorter of the period between major overhauls or the remaining useful life of the principal asset to which they relate. All other maintenance costs are expensed as incurred.

2017			2018		
Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)	Group Unaudited Forecast (\$000)
186,512	186,514	Materials	166,375	166,375	168,147
128,217	128,043	Premises cost	115,394	115,221	120,663
119,784	119,700	Repairs and maintenance	120,104	119,916	115,365
82,664	82,493	Training and travel	78,845	78,798	83,883
68,559	68,552	Operating lease rentals and other licence charges	75,334	75,332	77,372
4,971	4,944	Consultancy	6,575	6,549	7,474
409	409	Audit fees: Audit New Zealand	479	479	453
106	19	Fees to auditors other than Audit New Zealand	85	-	10
482	483	Increase in provision for doubtful debts	49	55	-
-	-	Loss on sale of property, plant, and equipment	3,357	3,329	4,860
174,948	172,929	Other operating costs	201,799	200,086	202,874
<b>766,652</b>	<b>764,086</b>	<b>Total Operating Costs</b>	<b>768,396</b>	<b>766,140</b>	<b>781,101</b>

## B6 Loss on Financial Instruments

2017			2018		
Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)	Group Unaudited Forecast (\$000)
21,847	21,847	Realised foreign exchange losses	16,720	16,720	25,000
4,175	4,175	Unrealised foreign exchange losses	1,113	1,113	5,000
<b>26,022</b>	<b>26,022</b>	<b>Total Loss on Financial Instruments</b>	<b>17,833</b>	<b>17,833</b>	<b>30,000</b>

## B7 Capital Charge

### Accounting Policy

The capital charge is expensed in the year to which the charge relates.

### Further information

The NZDF pays a capital charge to the Crown on its average equity as at 30 June and 31 December each year. The capital charge rate during the year ended 30 June 2018 was 6.0% (2017: 7.0% for six months to December and 6.0% for six months to June).

# Notes to the Financial Statements

## C Property, Plant and Equipment

### Accounting Policy

#### Property, Plant, and Equipment

Property, plant and equipment consists of land, buildings, leasehold improvements, specialist military equipment, plant and equipment, office and computer (hardware) equipment.

Property, plant and equipment is shown at cost or valuation less accumulated depreciation, accumulated impairment losses, and loss of service potential.

#### Additions

The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits or service potential will flow to the NZDF and the cost of the item can be measured reliably.

Part of the cost of a purchased aircraft and ship is linked to its service potential that reflects the maintenance condition of the main components. The cost of the major aircraft engine and ship overhauls are capitalised and depreciated over the shorter of the period between major overhauls or the remaining useful life of the asset.

#### Capitalisation

A de minimis of \$5,000 applies for capitalisation below which individual items are expensed on purchase or treated as inventory for future consumption. Grouped assets are capitalised if their total acquisition cost is greater than \$5,000.

The initial cost of a self-constructed item of property, plant and equipment is determined using the same principles as for acquired assets, i.e. only costs directly attributable to bringing the asset to working condition for its intended use are treated as capital expenditure.

Capitalisation commences once a decision has been made on what asset is to be acquired or constructed and capitalisation ceases when substantially all the activities necessary to bring an item of property, plant and equipment to working condition for its intended use are complete.

Personnel costs are capitalised only when the cost is incremental as a result of a construction of an asset. For instance when overtime is paid or labour is acquired for the purpose of the construction of the asset.

#### Work in progress

Work in progress is recognised at cost less impairment and is not depreciated. Capital costs incurred in the acquisition of an asset are charged to Capital Work in Progress until the asset is delivered. On delivery the asset is transferred to the Fixed Asset Register.

### Disposals

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposal are included in the Statement of Comprehensive Revenue and Expense. When a revalued asset is sold, the amount included in the property, plant and equipment revaluation reserve in respect of the asset is transferred to taxpayers' funds.

### Subsequent Costs

Costs incurred subsequent to initial acquisition are capitalised only when it is probable that future economic benefits or service potential associated with the item will flow to the NZDF and the cost of the item can be measured reliably.

### Revaluation

Land, buildings (including housing and infrastructure) and specialist military equipment asset classes are subject to revaluation with sufficient regularity to ensure that the carrying amount does not differ materially from fair value, and at least once every five years.

The net revaluation results are credited or debited to other comprehensive revenue and expense and are accumulated to an asset revaluation reserve in equity for that class of asset. Where this would result in a debit balance in the asset revaluation reserve, this balance is not recognised in other comprehensive revenue and expense but is recognised in the surplus or deficit.

Any subsequent increase on revaluation that reverses a previous decrease in value recognised in the surplus or deficit will be recognised first in the surplus or deficit up to the amount previously expensed, and then recognised in other comprehensive revenue and expense.

Valuations use a market based approach except where reliable market evidence is unavailable and then optimised depreciated replacement cost is used to calculate fair value. The carrying values of revalued items are reviewed at each reporting date to ensure that those values are not materially different to fair value.

Buildings with a net book value greater than or equal to \$250,000 are individually revalued. Buildings with a net book value of less than \$250,000 are revalued using an appropriate market or construction cost based index.

For 2018, NZDF have reviewed land and buildings and asset classes and determined no revaluation is necessary.

The most recent valuation of land and buildings, effective as at 30 June 2017, was performed by independent valuers:

- land and off-base housing by Chris Stanley (AAMINZ Registered Valuer) of TelferYoung
- building infrastructure and on-based buildings and housing by John Vessey (Fellow of IPENZ, Affiliate Member PINZ, Member of ACENZ) and Richard Taylor (MSc, MBA, CAMA) of Opus International Consultants Limited.

The valuation resulted in a fair value adjustment that increased the value of land and building assets by \$366.2 million.

The valuation approach for Land depends on the internal NZDF classification of either on-base or off-base.

Off-base land is valued at fair value using market based evidence on its highest and best use with reference to comparable land values. Adjustments have been made to the “unencumbered” land value for certain situations (e.g. historic designations, Treaty of Waitangi, Offer Back Obligations or Reserve Status). In these situations a deduction has been made from the assessed unencumbered market value of the land. Any specific restrictions on sale have been identified and included in the market value assessed for the land component. Camps and bases located in a rural environment have utilised a market comparison approach having regard to sales of rural holdings in the general location, and considered the potential for more intensive development where appropriate.

Camps and bases in urban locations have been valued with regard to block land sales. Having established the value under the highest and best use scenario, an allowance has been made for costs of rezoning, holding period and the probability of a zoning change.

Restrictions on NZDF’s ability to sell land would normally not impair the value of the land because NZDF has operational use of the land for the foreseeable future and will substantially receive the full benefits of outright ownership.

On-base land is valued at fair value using optimised depreciated replacement cost (ODRC), as there is no reliable market evidence available.

The valuation approach for Buildings depends on the internal NZDF classification of either on-base or off-base.

Off-base non-specialised buildings (for example, residential properties) have been valued on a market comparison approach having regard to market transactions for similar properties. Adjustments are made to reflect the assets condition and any restriction on sale. Recent transactions of residential properties in the immediate surrounding area have been considered to arrive at a benchmark value.

On-base and specialised buildings are valued at fair value using optimised depreciated replacement cost (ODRC) because no reliable market data is available for such buildings. For the 2017 Revaluation, the valuers established a number of building typologies based on building size, structure, services and fit-out. The building typology allowed for the same assumptions to be applied across the Estate, for ‘like’ buildings.

Specialist Military Equipment (SME) is manufactured overseas and recent cost comparisons of similar capability equipment are required under the ODRC valuation principle. Owing to the nature of the military environment and the unique specifications of the SME manufactured for the NZDF, comparable capability and equipment type is difficult to determine. Similar military variants were used for the valuation of SME based on recommendations and information sourced by NZDF Capability Subject Matter Experts, where available. The recent cost of similar SME is based in overseas currencies and movements in foreign exchange will directly impact the valuation as well as market values.

Specialist Military Equipment was revalued to fair value as at 30 June 2018, with the assistance of NZDF Subject Matter Experts. The revaluation has resulted in a fair value adjustment that increased the value of Specialist Military Equipment by \$22.7 million (2017: No revaluation).

Heritage assets held by the various controlled entities have been recorded at fair value where readily obtainable market values are present. The collection held by the Army Museum was independently revalued at fair value as at 30 June 2015 by Dr. Robin J. Watt MA, PhD. The heritage and working collection held by the Kippenberger Library was independently revalued at fair value as at 30 June 2010 by antiquarian bookseller Rowan Gibbs. The heritage collection held by the Navy Museum was independently revalued at 30 June 2016 by Ashley Associates. The collections held by the Air Force Museum have not been recognised as there are no readily obtainable fair values for the types of collections held. Insurance valuations have been performed and suggest that the value of these collections is \$8.4 million. The current valuations are the best representation of fair value and it has been assessed that there are no significant changes in fair value of the museum working collections.

### Defence Major Platform Restoration

The Defence Major Platform Restoration (DMPR) is an ongoing restoration plan for the Air Force and Navy to ensure the major servicing and replacement of key components of Specialist Military Equipment are made at regular intervals. As these assets are typically subject to reductions in service potential during normal business use, a reduction in value is recorded in addition to depreciation to reflect this. As the servicing or replacements are performed, the service potential is gradually restored for the applicable assets and the major servicing and replacement costs for the component parts that will provide economic benefits in future reporting periods are capitalised to reverse the initial reduction in value made.

### Depreciation

Depreciation is provided on a straight line basis on all property, plant and equipment except freehold land and capital work in progress so as to allocate the cost, or valuation, of the assets, less any estimated residual value, over their estimated useful lives. The estimated useful lives are within the following ranges:

	Parent	Group
Buildings	5-100 years	5-100 years
Leasehold improvements	2-20 years	2-25 years
Specialist Military Equipment	5-55 years	5-55 years
Plant and Equipment	3-50 years	2-50 years
Office and Computer Equipment	2-20 years	2-20 years
Heritage assets	Infinite	10 years - infinite

Leasehold improvements are depreciated over the unexpired period of the lease or the estimated remaining useful life of the improvements, whichever is shorter.

### Heritage Assets

Heritage assets comprise archive holdings and military collections. Assets are not reported with a financial value in cases where they are not realistically able to be reproduced or replaced, and where no market exists to provide a valuation.

Where the asset has been provided from a non-exchange transaction, the asset will be initially recorded at fair value.

### Intangibles Assets

Computer software with a finite useful life costing more than \$50,000 is capitalised and recorded at cost less accumulated amortisation. Costs associated with maintaining computer software are recognised as an expense when incurred.

Amortisation is charged to the Statement of Comprehensive Revenue and Expense on a straight-line basis over the useful life of the asset. The estimated economic useful life for computer software is 3-20 years.

## Impairment

### Cash Generating Assets

The NZDF does not hold any cash-generating assets. Assets are considered cash-generating where their primary objective is to generate a commercial return.

### Non-Cash Generating Assets

For Non-cash generating assets except for those that are valued using the revaluation model, the Group reviews at every reporting date whether there are any indicators that the carrying amount may not be recoverable. If indicators do exist, the asset's recoverable amount is estimated. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. In assessing value in use, the risks specific to the asset are considered.

An impairment gain or loss is recognised in the Statement of Comprehensive Revenue and Expense as the amount by which the asset's carrying amount exceeds its recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of the recoverable amount.

### Status of Land and Buildings

There is contamination and potential contamination of some NZDF sites as a result of occupation over many years. Where contamination has been confirmed, and associated restoration costs can be reliably estimated, the value of the land has been adjusted. Where contamination is presumed and restoration costs have not been quantified, NZDF has valued those properties on a consistent basis with the adjacent land. In the event of any land being proposed for sale under the Government sale processes, potentially contaminated sites will be subject to specific valuation and negotiation at that point in time.

The NZDF has an established programme to assess and manage the seismic integrity of the NZDF estate. Assessments have confirmed that the NZDF has 46 buildings that are potentially earthquake prone (less than 34% of the National Building Standard). Detailed Engineering Evaluations have been undertaken that confirm these assets are indeed earthquake prone and the potential costs of remediation. The outcome is that:

- Within the 46, there remain 5 buildings that needed adjustments immediately and these have been vacated.
- The remaining 41 have been deemed safe to occupy by engineers although they will require some strengthening work in the future and some have restrictions on occupancy.
- For many buildings the strengthening work is relatively minor (e.g. removing a concrete chimney). Strengthening will achieve greater than 34% of code compliance and where practicable, over 67%.

Under legislation passed into law in 2017 NZDF has from 15 to 35 years to either complete strengthening work on the buildings or demolish them; the variation is due to building location and therefore earthquake hazard risk, within seismic regions of New Zealand. There will be a liability for seismic remediation work as a result of the seismic assessment programme, however, it remains too early to be able to articulate the extent of that liability however that liability has a less than 35 year horizon. Confirmation of this information will become clear in early 2019 as the need for strengthening or demolishing buildings will be included in the Estate Regeneration Programme. Defence Estate and Infrastructure has, in the meantime, addressed the highest priority buildings to reduce immediate risk to buildings and occupants and this process is ongoing as part of business as usual development projects.

Given the current level of uncertainty of both remedial works costs and future estate planning in relation to retention or demolition of these assets, the NZDF has chosen not to recognise an impairment on current building values. However, given the size of the potential remedial and regeneration work the NZDF is disclosing this situation.

## C1 Property, Plant and Equipment

### Group 2017

	Land (\$000)	Buildings (\$000)	Specialist Military Equipment (\$000)	Plant and Equipment (\$000)	Office and Computer Equipment (\$000)	Heritage Assets (\$000)	Total (\$000)
<b>Cost or Valuation</b>							
Balance as at 1 July 2016	946,055	1,436,827	3,740,111	278,693	127,589	16,247	6,545,522
Additions	384	35,171	368,114	12,157	22,950	1,446	440,222
Revaluation	44,474	270,685	-	-	-	6,203	321,362
Disposals	(8,986)	(9,110)	(23,868)	(19,242)	(12,210)	-	(73,416)
Work in progress movement	-	619	(39,325)	3,769	(4,033)	-	(38,970)
as at 30 June 2017	981,927	1,734,192	4,045,032	275,377	134,296	23,896	7,194,720
<b>Accumulated Depreciation</b>							
Balance as at 1 July 2016	-	(4,839)	(669,958)	(188,584)	(87,458)	(8)	(950,847)
Depreciation expense	-	(51,761)	(292,570)	(8,901)	(10,115)	(49)	(363,396)
Impairment	-	(7,753)	(19)	(7,586)	(796)	-	(16,154)
Eliminated on disposal	-	43	8,925	11,846	11,396	-	32,210
Eliminated on Revaluation	-	51,058	-	-	-	-	51,058
Reverse accumulated impairment loss	-	-	30,522	3,601	1,202	-	35,325
Other asset movements	-	7,676	-	-	-	8	7,684
as at 30 June 2017	-	(5,576)	(923,100)	(189,624)	(85,771)	(49)	(1,204,120)
<b>as at 30 June 2017</b>	<b>981,927</b>	<b>1,728,616</b>	<b>3,121,932</b>	<b>85,753</b>	<b>48,525</b>	<b>23,847</b>	<b>5,990,600</b>

## C1 Property, Plant and Equipment (continued)

<b>Group 2018</b>							
	<b>Land (\$000)</b>	<b>Buildings (\$000)</b>	<b>Specialist Military Equipment (\$000)</b>	<b>Plant and Equipment (\$000)</b>	<b>Office and Computer Equipment (\$000)</b>	<b>Heritage Assets (\$000)</b>	<b>Total (\$000)</b>
<b>Cost or Valuation</b>							
Balance as at 1 July 2017	981,927	1,734,192	4,045,032	275,377	134,296	23,896	7,194,720
Additions	-	43,942	197,177	14,459	2,957	445	258,980
Revaluation	-	-	22,744	-	-	1,219	23,963
Disposals	-	(356)	(12,964)	(24,116)	(6,130)	-	(43,566)
Work in progress movement	-	25,555	144,261	18,667	9,630	-	198,113
Other asset movements	-	(26)	(24,912)	3,588	(3,592)	-	(24,942)
<b>as at 30 June 2018</b>	<b>981,927</b>	<b>1,803,307</b>	<b>4,371,338</b>	<b>287,975</b>	<b>137,161</b>	<b>25,560</b>	<b>7,607,268</b>
<b>Accumulated Depreciation</b>							
Balance as at 1 July 2017	-	(5,576)	(923,100)	(189,624)	(85,771)	(49)	(1,204,120)
Depreciation expense	-	(62,536)	(303,727)	(11,641)	(10,779)	(21)	(388,704)
Eliminated on disposal	-	37	11,408	23,915	6,127	-	41,487
Reverse accumulated impairment loss	-	-	5,476	1	137	-	5,614
Other asset movements	-	(315)	21,419	(4,688)	4,742	-	21,158
<b>as at 30 June 2018</b>	<b>-</b>	<b>(68,390)</b>	<b>(1,188,524)</b>	<b>(182,037)</b>	<b>(85,544)</b>	<b>(70)</b>	<b>(1,524,565)</b>
<b>as at 30 June 2018</b>	<b>981,927</b>	<b>1,734,917</b>	<b>3,182,814</b>	<b>105,938</b>	<b>51,617</b>	<b>25,490</b>	<b>6,082,703</b>

The other movements in relation to specialist military equipment relate to the reclassification of contingency reserve stock to inventory as outlined in Note E2.

## C1 Property, Plant and Equipment (continued)

### Parent 2017

	Land (\$000)	Buildings (\$000)	Specialist Military Equipment (\$000)	Plant and Equipment (\$000)	Office and Computer Equipment (\$000)	Heritage Assets (\$000)	Total (\$000)
<b>Cost or Valuation</b>							
Balance as at 1 July 2016	938,729	1,407,758	3,740,111	276,422	127,431	-	6,490,451
Additions	406	35,133	368,114	11,894	22,922	-	438,469
Revaluation	44,474	270,685	-	-	-	-	315,159
Disposals	(8,986)	(8,705)	(23,868)	(19,283)	(12,210)	-	(73,052)
Work in progress movement	-	(1,166)	(39,325)	3,769	(4,033)	-	(40,755)
as at 30 June 2017	974,623	1,703,705	4,045,032	272,802	134,110	-	7,130,272
<b>Accumulated Depreciation</b>							
Balance as at 1 July 2016	-	-	(669,958)	(187,099)	(87,301)	-	(944,358)
Depreciation expense	-	(51,024)	(292,570)	(8,731)	(10,091)	-	(362,416)
Impairment expense	-	(7,753)	(19)	(7,586)	(796)	-	(16,154)
Eliminated on disposal	-	43	8,925	11,846	11,396	-	32,210
Eliminated on Revaluation	-	51,058	-	-	-	-	51,058
Reverse accumulated impairment loss	-	-	30,522	3,601	1,202	-	35,325
Other asset movements	-	7,676	-	-	-	-	7,676
as at 30 June 2017	-	-	(923,100)	(187,969)	(85,590)	-	(1,196,659)
<b>as at 30 June 2017</b>	<b>974,623</b>	<b>1,703,705</b>	<b>3,121,932</b>	<b>84,833</b>	<b>48,520</b>	<b>-</b>	<b>5,933,613</b>



## C1 Property, Plant and Equipment (continued)

<b>Parent 2018</b>							
	<b>Land (\$000)</b>	<b>Buildings (\$000)</b>	<b>Specialist Military Equipment (\$000)</b>	<b>Plant and Equipment (\$000)</b>	<b>Office and Computer Equipment (\$000)</b>	<b>Heritage Assets (\$000)</b>	<b>Total (\$000)</b>
<b>Cost or Valuation</b>							
Balance as at 1 July 2017	974,623	1,703,705	4,045,032	272,802	134,110	-	7,130,272
Additions	-	43,943	197,177	14,407	2,957	-	258,484
Revaluation	-	-	22,744	-	-	-	22,744
Disposals	-	(356)	(12,964)	(24,116)	(6,130)	-	(43,566)
Work in progress movement	-	24,218	144,261	18,667	9,630	-	196,776
Other asset movements	-	-	(24,912)	3,925	(3,925)	-	(24,912)
as at 30 June 2018	974,623	1,771,510	4,371,338	285,685	136,642	-	7,539,798
<b>Accumulated Depreciation</b>							
Balance as at 1 July 2017	-	-	(923,100)	(187,969)	(85,590)	-	(1,196,659)
Depreciation expense	-	(61,818)	(303,727)	(11,467)	(10,779)	-	(387,791)
Impairment expense	-	-	-	-	-	-	-
Eliminated on disposal	-	37	11,408	23,915	6,127	-	41,487
Eliminated on Revaluation	-	-	-	-	-	-	-
Reverse accumulated impairment loss	-	-	5,476	1	137	-	5,614
Other asset movements	-	(328)	21,419	(4,737)	4,737	-	21,091
as at 30 June 2018	-	(62,109)	(1,188,524)	(180,257)	(85,368)	-	(1,516,258)
<b>as at 30 June 2018</b>	<b>974,623</b>	<b>1,709,401</b>	<b>3,182,814</b>	<b>105,428</b>	<b>51,274</b>	<b>-</b>	<b>6,023,540</b>

### Restrictions

The NZDF has finance leases on computer equipment with a net carrying amount of \$0.5 million (2017: \$0.8 million). Except for the finance leases, there are no restrictions over the title of the NZDF's property, plant and equipment, nor is any item of property, plant and equipment pledged as security for liabilities.

## C2 Work in Progress

### Work in Progress

The NZDF reimburses the Ministry of 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.

Total work in progress as at 30 June 2018 was \$857.7 million (2017: \$661.0 million). This included \$683.2 million for work in progress for capital projects managed by the Ministry of Defence (2017: \$551.0 million).

2017			2018	
Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)
16,280	16,280	Buildings	40,498	40,498
631,966	631,966	Specialist military equipment	776,227	776,227
5,798	5,798	Plant and equipment	24,465	24,465
6,906	6,906	Office and computer equipment	16,536	16,536
<b>660,950</b>	<b>660,950</b>	<b>Total Work in Progress</b>	<b>857,726</b>	<b>857,726</b>

## C3 Intangibles

2017			2018	
Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)
<b>Cost or Valuation</b>				
87,486	87,486	Opening balance	91,626	91,626
10,632	10,632	Additions	11,851	11,851
(6,492)	(6,492)	Disposals	(527)	(527)
<b>91,626</b>	<b>91,626</b>	<b>Closing Balance</b>	<b>102,950</b>	<b>102,950</b>
<b>Accumulated Amortisation</b>				
(46,295)	(46,295)	Opening balance	(50,061)	(50,061)
(6,839)	(6,839)	Less amortisation	(7,393)	(7,393)
3,073	3,073	Eliminated on disposal	375	375
<b>(50,061)</b>	<b>(50,061)</b>	<b>Closing Balance</b>	<b>(57,079)</b>	<b>(57,079)</b>
<b>41,565</b>	<b>41,565</b>	<b>Net Intangible Assets</b>	<b>45,871</b>	<b>45,871</b>

There are no restrictions under the title of the NZDF's intangibles. No intangible assets are pledged as security for liabilities.

# Notes to the Financial Statements

## D Equity

### Accounting Policy

#### Equity

Equity is the Crown's investment in the NZDF and is measured as the difference between total assets and total liabilities.

Equity is disaggregated and classified into a number of components to enable clearer identification of the specified uses of equity within the NZDF and the Group. The components of equity are Taxpayers' funds, property, plant and equipment revaluation reserves, non-taxpayers' funds and restricted funds.

The non-taxpayers' funds and restricted funds are the equity in the various Service Museums and Non-Public Funds that are not public money. The restricted funds are those reserves in the NZDF controlled entities that are subject to specific conditions of use, whether under statute or accepted as binding by the NZDF. Transfers from these reserves may be made only for specified purposes or when certain specified conditions are met.

## D1 Taxpayers' Funds

2017			2018	
Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)
3,738,632	3,738,632	Opening Balance as at 1 July	3,798,383	3,798,383
5,081	3,857	Net surplus for the year	63,421	62,578
(9,676)	(9,676)	Transfers from revaluation reserve on disposal of assets	(85,191)	(85,191)
(2,423)	-	Transfers to non-taxpayers' funds	(845)	-
81,072	81,072	Capital injection	206,287	206,287
1,268	-	Owners contributions	48	-
(4,650)	(4,581)	Capital withdrawal	(46)	-
(8,933)	(8,933)	Transfer of property to LINZ	-	-
(1,988)	(1,988)	Repayment of surplus	(56,086)	(56,086)
<b>3,798,383</b>	<b>3,798,383</b>	<b>Closing Balance as at 30 June</b>	<b>3,925,971</b>	<b>3,925,971</b>

## D2 Revaluation Reserve for Property, Plant and Equipment

Group							
(\$000)		Land (\$000)	Buildings (\$000)	Specialist Military Equipment (\$000)	Plant and Equipment (\$000)	Heritage Assets (\$000)	Total Group (\$000)
2,257,967	Opening Balance as at 1 July	962,169	1,328,867	328,042	(200)	21,185	2,640,063
372,420	Revaluation gains/(losses)	-	-	22,744	-	1,219	23,963
9,676	(Gains)/losses transferred to Taxpayers' funds for disposals	1	(4,019)	89,210	-	-	85,192
<b>2,640,063</b>	<b>Closing Balance as at 30 June</b>	<b>962,170</b>	<b>1,324,848</b>	<b>439,996</b>	<b>(200)</b>	<b>22,404</b>	<b>2,749,218</b>

Parent							
(\$000)		Land (\$000)	Buildings (\$000)	Specialist Military Equipment (\$000)	Plant and Equipment (\$000)	Heritage Assets (\$000)	Total Group (\$000)
2,235,894	Opening Balance as at 1 July	957,428	1,326,317	328,042	-	-	2,611,787
366,217	Revaluation gains/(losses)	-	-	22,744	-	-	22,744
9,676	(Gains)/losses transferred to Taxpayers' funds for disposals	-	(4,019)	89,210	-	-	85,191
<b>2,611,787</b>	<b>Closing Balance as at 30 June</b>	<b>957,428</b>	<b>1,322,298</b>	<b>439,996</b>	<b>-</b>	<b>-</b>	<b>2,719,722</b>

This reserve reflects revaluation changes of asset classes carried at current valuation.

## D3 Non-Taxpayers' Funds

2017			2018	
Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)
50,063	-	Opening balance	52,507	-
2,492	-	Additional funds	890	-
(69)	-	Funds utilised	(46)	-
21	-	Transfers to restricted funds	(16)	-
<b>52,507</b>	<b>-</b>	<b>Closing Balance as at 30 June</b>	<b>53,335</b>	<b>-</b>

## D4 Restricted Funds

2017			2018	
Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)
2,690	-	Opening balance	2,669	-
-	-	Additional funds	16	-
(21)	-	Funds utilised	-	-
<b>2,669</b>	<b>-</b>	<b>Closing Balance as at 30 June</b>	<b>2,685</b>	<b>-</b>

The restricted funds of the controlled entities relate to various funds held by the Service Museums and Non-Public Funds including:

- Capital and Museum collection reserves
- Fiduciary funds held for specific purposes of the applicable Non-Public Funds
- Funds held to benefit the members of the Non-Public Funds

# Notes to the Financial Statements

## E Other Assets and Liabilities

### E1 Debtors and Other Receivables

#### Accounting Policy

#### Debtors and Other Receivables

Debtors and other receivables are initially recorded at fair value and subsequently at amortised cost after providing for impairment. Impairment of a receivable is established when there is objective evidence that the NZDF will not be able to collect amounts due according to the original terms of the receivable.

2017			2018	
Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)
10,971	10,371	Trade Debtors (gross)	31,326	30,772
(146)	(146)	Less provision for doubtful debts	(47)	(47)
<b>10,825</b>	<b>10,225</b>	<b>Net Debtors</b>	<b>31,279</b>	<b>30,725</b>
4,987	4,931	GST Receivable	-	-
436,967	436,967	Debtor Crown	623,917	623,917
<b>452,779</b>	<b>452,123</b>	<b>Total Receivables</b>	<b>655,196</b>	<b>654,642</b>
<b>Total Receivables comprise:</b>				
10,825	10,225	Receivables from exchange transactions	31,279	30,725
441,954	441,898	Receivables from non-exchange transactions	623,917	623,917
<b>452,779</b>	<b>452,123</b>	<b>Total Debtors and Other Receivables</b>	<b>655,196</b>	<b>654,642</b>

As at 30 June 2018, all overdue receivables have been assessed for impairment and appropriate provisions have been applied, as detailed on the next page.

## E1 Debtors and Other Receivables (continued)

<b>Group</b>						
<b>Gross (\$000)</b>	<b>Impairment (\$000)</b>	<b>Net (\$000)</b>		<b>Gross (\$000)</b>	<b>Impairment (\$000)</b>	<b>Net (\$000)</b>
449,740	-	449,740	Not past due	652,679	-	652,679
512	-	512	Past due to 30 days	291	-	291
807	-	807	Past due 31-60 days	293	-	293
86	-	86	Past due 61-90 days	315	-	315
1,780	(146)	1,634	Past due >91 days	1,665	(47)	1,618
<b>452,925</b>	<b>(146)</b>	<b>452,779</b>	<b>Total</b>	<b>655,243</b>	<b>(47)</b>	<b>655,196</b>

<b>Parent</b>						
<b>Gross (\$000)</b>	<b>Impairment (\$000)</b>	<b>Net (\$000)</b>		<b>Gross (\$000)</b>	<b>Impairment (\$000)</b>	<b>Net (\$000)</b>
449,084	-	449,084	Not past due	652,125	-	652,125
512	-	512	Past due to 30 days	291	-	291
807	-	807	Past due 31-60 days	293	-	293
86	-	86	Past due 61-90 days	315	-	315
1,780	(146)	1,634	Past due >91 days	1,665	(47)	1,618
<b>452,269</b>	<b>(146)</b>	<b>452,123</b>	<b>Total</b>	<b>654,689</b>	<b>(47)</b>	<b>654,642</b>

### Movements in the Provision for Doubtful Debts

<b>2017</b>			<b>2018</b>	
<b>Group (\$000)</b>	<b>Parent (\$000)</b>		<b>Group (\$000)</b>	<b>Parent (\$000)</b>
150	150	Opening Balance	146	146
48	48	Additional provisions made during the year	-	-
(52)	(52)	Charged against provisions for the year	(99)	(99)
<b>146</b>	<b>146</b>	<b>Closing Doubtful Debt Provision</b>	<b>47</b>	<b>47</b>

## E2 Inventories

### Accounting Policy

#### Inventories

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

Inventory intended to be kept for more than one year has been classified as non-current inventory. No inventory is pledged as security for liabilities.

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

The obsolescence provision is calculated by identifying specific obsolete inventory items and slow moving inventory lines.

2017			2018	
Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)
91,871	91,769	Total Current Inventories	92,063	91,945
257,585	257,585	Total Non-Current Inventories	286,085	286,085
<b>349,456</b>	<b>349,354</b>	<b>Total Inventories</b>	<b>378,148</b>	<b>378,030</b>

#### Inventories by Category

2017			2018	
Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)
193,481	193,481	Equipment and spares	228,576	228,576
96,635	96,635	Ammunition	108,459	108,459
41,119	41,017	General materials and consumables	42,272	42,154
22,317	22,317	Stock on board ships	18,381	18,381
12,054	12,054	Fuel, clothing and other inventories	11,133	11,133
(16,150)	(16,150)	Obsolescence	(30,673)	(30,673)
<b>349,456</b>	<b>349,354</b>	<b>Total Inventories</b>	<b>378,148</b>	<b>378,030</b>

The carrying amount of inventory held for distribution is at weighted average cost. The write-down of inventory held for distribution was nil (2017: nil). There have been no reversals of write-downs. The total amount of inventories recognised as an expense during the period was \$153.2 million (2017: \$160.1 million).

The loss in service potential of inventory held for distribution is determined on the basis of obsolescence. Inventories were reviewed for obsolete items during 2018. Inventories were determined obsolete, adding \$14.5 million of obsolescence provision (2017: \$10.7 million reduction in provision). The increase in the obsolescence provision during 2018 included \$21.4 million in relation to the transfer of the contingency reserve stock. Total inventories are net of obsolescence.

No inventory has been pledged as security for liabilities (2017: nil). Some inventory is subject to retention of title clauses.

## E3 Other Financial Assets

2017			2018	
Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)
<b>Financial assets at fair value through surplus and deficit – Held for Trading</b>				
1,207	1,207	Derivative financial instruments	3,904	3,904
1,035	1,035	Current asset	3,492	3,492
172	172	Non-Current asset	412	412
<b>1,207</b>	<b>1,207</b>		<b>3,904</b>	<b>3,904</b>
Financial assets through surplus or deficit reflect the positive change in fair value of those foreign exchange forward contracts that are not designated in hedge relationships, but are, nevertheless, intended to reduce the level of foreign currency risk for expected sales and purchases.				
<b>Held-to-maturity investments at amortised cost</b>				
26,030	-	Fixed term deposits and fixed interest bonds	26,426	-
20,948	-	Current asset	21,162	-
5,082	-	Non-Current asset	5,264	-
<b>26,030</b>	<b>-</b>		<b>26,426</b>	<b>-</b>
Held-to-maturity investments are held to maturity and generate a fixed or variable interest income for the Group. The carrying value may be affected by changes in the credit risk of the counterparties.				
<b>Loans and receivables (excluding Debtors and other receivables)</b>				
546	-	Concessionary loans	457	-
294	-	Current asset	272	-
252	-	Non-Current asset	185	-
<b>546</b>	<b>-</b>		<b>457</b>	<b>-</b>
<b>Total other financial assets classified as follows:</b>				
22,277	1,035	Current asset	24,926	3,492
5,506	172	Non-Current asset	5,861	412
<b>27,783</b>	<b>1,207</b>	<b>Total Other Financial Assets</b>	<b>30,787</b>	<b>3,904</b>



## Concessionary loans

2017			2018	
Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)
605	-	Opening balance	546	-
(57)	-	Repayments	(89)	-
(2)	-	Impairment	-	-
<b>546</b>	<b>-</b>	<b>Closing Balance</b>	<b>457</b>	<b>-</b>
<b>Total Concessionary loans classified as follows</b>				
294	-	Current assets	272	-
252	-	Non-Current assets	185	-
<b>546</b>	<b>-</b>	<b>Closing Balance</b>	<b>457</b>	<b>-</b>

Concessionary loans are advances that have been made at lower than market terms. NZDF has not received or made any concessionary loans. The loans detailed above relate only to the Group and comprise of the following:

The Army Non Public Fund operates a personal loan scheme whereby it provides personal loans up to \$15,000 for army personnel. Personal loans in excess of \$10,000 are secured by the applicant. The personal loans become callable once an employee ceases employment with the Army. A provision of 1% of outstanding loans has been made in line with the Fund's assessment of doubtful debts.

The Royal New Zealand Air Force Central Fund has made advances to Air Force personnel to assist their families with relief from poverty and hardship. In addition, an advance has been made to the RNZAF Base Woodbourne Base Fund.

The Royal New Zealand Naval Benevolent Fund and the Royal New Zealand Naval Officers Benevolent Trust offer home purchase, home improvements and personal loans to Navy personnel.

## E4 Creditors and Other Payables

2017			2018	
Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)
<b>Payables and Deferred Revenue under Exchange Transactions</b>				
52,178	48,098	Trade creditors	54,041	50,648
2,689	2,689	Income in Advance	2,886	2,886
309,453	309,389	Accrued expenses	315,515	315,353
27,126	27,126	Payroll liabilities	31,430	31,430
349	349	Other short term liabilities	-	-
<b>391,795</b>	<b>387,651</b>	<b>Total Trade Creditors and Accruals</b>	<b>403,872</b>	<b>400,317</b>
<b>Payables under Non-Exchange Transactions</b>				
-	-	GST payable	27,043	27,013
<b>391,795</b>	<b>387,651</b>	<b>Total Creditors and Other Payables</b>	<b>430,915</b>	<b>427,330</b>

Creditors and other payables are non-interest bearing and are normally settled within 30 day terms, therefore the carrying value of creditors and other payables approximates their fair value.

## E5 Surplus Repayable to the Crown

2017			2018	
Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)
3,857	3,857	Net operating surplus	62,578	62,578
(1,869)	(1,869)	Unrealised (Gains)/Losses in relation to forward foreign exchange	(6,492)	(6,492)
1,988	1,988	Net Surplus from Delivery of Outputs	56,086	56,086
<b>1,988</b>	<b>1,988</b>	<b>Total Provision for Repayment of Surplus</b>	<b>56,086</b>	<b>56,086</b>

The repayment of surplus is required to be paid by the 31st October of each year. There is no difference between the Parent and Group amounts as the other entities making up the Group are not required to make a repayment of surplus.

## E6 Provisions

### Accounting Policy

A provision is recognised for future expenditure of uncertain amount or timing when there is a present obligation (either legal or constructive) as a result of a past event, and it is probable that an outflow of future economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Provisions are not recognised for future operating losses.

2017			2018	
Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)
7	7	Foreign Military Sales	-	-
584	584	Narrow Neck Lease	716	716
9,909	9,909	Range Remediation	9,909	9,909
366	366	Reconstitution of Equipment	-	-
<b>10,866</b>	<b>10,866</b>	<b>Total Provisions</b>	<b>10,625</b>	<b>10,625</b>

2017					
	Foreign Military Sales (\$000)	Narrow Neck Lease (\$000)	Range Remediation (\$000)	Reconstitution of Equipment (\$000)	Group/Parent (\$000)
Opening balance 1 July 2016	7	451	9,910	398	10,766
Changes against provisions during the year	-	133	(1)	(32)	100
<b>Closing Balance as at 30 June 2017</b>	<b>7</b>	<b>584</b>	<b>9,909</b>	<b>366</b>	<b>10,866</b>

2018					
	Foreign Military Sales (\$000)	Narrow Neck Lease (\$000)	Range Remediation (\$000)	Reconstitution of Equipment (\$000)	Group/Parent (\$000)
Opening balance 1 July 2017	7	584	9,909	366	10,866
Changes against provisions during the year	(7)	132	-	(366)	(241)
<b>Closing Balance as at 30 June 2018</b>	<b>-</b>	<b>716</b>	<b>9,909</b>	<b>-</b>	<b>10,625</b>

### Foreign Military Sales Provision

This provision is an estimate of NZDF's liabilities for Foreign Military Sale Cases that are in the process of being finalised at balance date.

### Narrow Neck Lease Provision

This provision is the spreading of lease payments on the Narrow Neck sale and lease back that is subject to a 15 year put option. This provision will start to reverse in 2020.

### Range Remediation

This provision is an estimate of NZDF's liability to remediate operational ranges that have been used in overseas deployments.

### Reconstitution of Equipment

This is an estimate of the costs to reconstitute equipment in use on deployment.

## E7 Employee Entitlements

### Accounting Policy

#### Employee Entitlements

A provision is made in respect of the NZDF's liability for annual, long service, incentive leave and retirement benefits. Annual leave has been calculated on an actual entitlement basis at current rates of pay. Long service, incentive leave and retirement benefits have been calculated on an actuarial basis, by the NZDF based on the estimated present value of future entitlements and inflation and discount rates advised by The Treasury. The actuarial gains and losses on the provision of employee entitlements are recorded through the Statement of Comprehensive Revenue and Expense.

#### ACC Partnership Programme

The NZDF is an ACC Accredited Employer under the ACC Partnership Programme whereby NZDF accepts the management and financial responsibility for work related illnesses and accidents of employees. Under the ACC Partnership Programme, the NZDF is effectively providing accident insurance to employees and this is accounted for as an insurance contract.

The NZDF manages ACC claims for work related injuries until the claim is closed or for a period of 48 months following the year in which the claim was registered. At the end of this period, any open claims still requiring entitlements are handed back to ACC for management together with the lifetime cost of these claims. ACC calculates the lifetime cost of open claims at hand back. The NZDF liability for these claims ceases at the point of setting the lifetime costs.

The value of the liability for ACC claims is measured as the expected future payments to be made for claims already registered up to the reporting date for which the NZDF has responsibility under the terms of the Accredited Employer Programme.

#### Superannuation

Obligations for contributions to the Defence Force Superannuation Schemes, State Sector Retirement Savings Scheme, NZDF Kiwi Saver Scheme, Other KiwiSaver Schemes, Government Superannuation Fund Schemes, and National Provident Fund are accounted for as defined contribution schemes and are recognised as an expense in the Statement of Comprehensive Revenue and Expense as incurred.

2017			2018	
Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)
<b>Current Entitlement</b>				
2,271	2,271	Retirement, incentive and long service leave	2,472	2,472
52,906	52,884	Accrued and annual leave	53,531	53,489
767	767	Sick leave	945	945
<b>55,944</b>	<b>55,922</b>	<b>Total Current Entitlement</b>	<b>56,948</b>	<b>56,906</b>
<b>Non-Current Entitlement</b>				
4,109	4,109	Retirement, incentive and long service leave	3,507	3,507
525	525	Accrued leave	293	293
1,438	1,438	ACC self insurance liability	773	773
6,072	6,072	Total Non-Current Entitlement	4,573	4,573
<b>62,016</b>	<b>61,994</b>	<b>Total Provision for Employee Entitlements</b>	<b>61,521</b>	<b>61,479</b>

Annual leave is calculated using the number of days owing as at the end of June 2018. Incentive and long service leave are actuarially calculated by the NZDF based on inflation and discount rates advised by Treasury to reflect the likelihood of a liability being incurred. Accumulated leave and terminal benefits are paid out on release and their values are actuarially calculated using predicted terminal dates. The provision for the cost of sick leave is calculated based on the additional amount that the NZDF expects to pay as a result of the unused entitlement that has accumulated at the reporting date, in excess of the annual sick leave entitlement.

Inflation has been assumed to be 2.0% and a discount rate between 1.78% and 4.75% (2017: 1.97% and 4.75%) has been used for future years.

### **ACC Accredited Employer Programme**

The liability for the ACC Accredited Employer Programme has been actuarially calculated by the NZDF based on expected treatment costs, rehabilitation entitlements, income compensation and historical claims information. Claims management practices focus on limiting liability without compromising care and entitlements.

Inflation has been assumed to be 2.0% and a discount rate between 1.78% and 4.75% (2017: 1.97% and 4.75%) has been used for future years.

The claims management provision allows for the future cost of managing claims applying the ACC standard basis of 8.0% of the total liability.

The value of the liability is not material for the NZDF's financial statements, therefore any changes in assumptions will not have a material impact on the financial statements.

The NZDF has purchased high cost claim cover to limit liability for any one event to \$2.5 million. The NZDF has a stop loss limit since joining the Accredited Employer Programme set at \$11.3 million which is 160% of the risk.

## **E8 Finance Leases**

### **Accounting Policy**

#### **Finance Leases**

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset, whether or not the title is eventually transferred.

At the commencement of the lease term, finance leases are recognised as assets and liabilities in the Statement of Financial Position at the lower of the fair value of the leased item or the present value of the minimum lease payments.

The finance costs are charged to the Statement of Comprehensive Revenue and Expense over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability.

The amount recognised as an asset is depreciated over its useful life. If there is no certainty as to whether the NZDF will obtain ownership at the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life.

## Critical Judgements in Applying Accounting Policies

### Determining lease classification

Determining whether a lease agreement is a finance lease or an operating lease requires judgement as to whether the agreement transfers substantially all the risk and rewards of ownership to the NZDF. Judgement is required on various aspects that include, but are not limited to, the fair value of the lease asset, the economic life of the leased asset, whether or not to include the renewal options in the lease term, and

determining an appropriate discount rate to calculate the present value of the minimum lease payments.

Classification as a finance lease means the asset is recognised in the Statement of Financial Position as property, plant and equipment, whereas with an operating lease no such asset is recognised.

The NZDF has exercised its judgement on the appropriate classification of equipment leases and has determined a number of lease arrangements to be finance leases.

2017			2018	
Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)
<b>Total Minimum Lease Payments Payable</b>				
442	438	Not later than one year	438	438
802	802	Later than one year and not later than five years	364	364
1,244	1,240	<b>Total Minimum Lease Payments</b>	<b>802</b>	<b>802</b>
(145)	(145)	Less future finance charges	(65)	(65)
1,099	1,095	<b>Present Value of Minimum Lease Payments</b>	<b>737</b>	<b>737</b>
<b>Present Value of Minimum Lease Payments Payable</b>				
362	358	Not later than one year PV	389	389
737	737	Later than one year and not later than five years PV	348	348
1,099	1,095	<b>Total Present Value of Minimum Lease Payments Payable</b>	<b>737</b>	<b>737</b>
<b>Represented by:</b>				
362	358	Current finance lease liabilities	389	389
737	737	Non-Current finance lease liabilities	348	348
1,099	1,095	<b>Total Finance Lease Liabilities</b>	<b>737</b>	<b>737</b>

### Description of Leasing Arrangements

The NZDF has entered into finance leases for computer equipment. The net carrying amount of the leased items is shown in the office and computer equipment class of property, plant and equipment in note C1.

The finance leases can be extended at NZDF's option. The NZDF does not have the option to purchase the assets at the end of the lease term. There are no restrictions placed on the NZDF by the finance lease arrangements. Finance lease liabilities are effectively secured, as the rights to the leased asset revert to the lessor in the event of default in payment.

## E9 Other Financial Liabilities

2017					2018	
Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)		
<b>Financial liabilities at fair value through surplus and deficit – Held for Trading</b>						
4,092	4,092	Derivative financial instruments	297	297		
<b>Total other financial liabilities classified as follows:</b>						
3,628	3,628	Current liabilities	191	191		
464	464	Non-Current liabilities	106	106		
<b>4,092</b>	<b>4,092</b>	<b>Total Other Financial Liabilities</b>	<b>297</b>	<b>297</b>		

Financial liabilities through surplus or deficit reflect the negative change in fair value of those foreign exchange forward contracts that are not designated in hedge relationships, but are, nevertheless, intended to reduce the level of foreign currency risk for expected sales and purchases.

## E10 Categories of Financial Instruments

### Accounting Policy

#### Financial Instruments

The NZDF is party to financial instruments as part of its normal operations. These financial instruments include cash balances, receivables, payables, held-to-maturity investments, and foreign currency forward exchange contracts or derivatives.

All financial instruments are recognised in the Statement of Financial Position.

All revenue and expenses in relation to all financial instruments are recognised in the Statement of Comprehensive Revenue and Expense.

#### Cash and Cash Equivalents

Cash means cash balances on hand and funds on deposit with banks and is measured at its face value. The NZDF is only permitted to expend its cash and cash equivalents within the scope and limits of its appropriations.

#### Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments that the Group intends and is able to hold to maturity and that do not meet the definition of debtors and other receivables and are not designated on initial recognition as assets at fair value through profit or loss or as available for sale. The held-to-maturity investments are measured at amortised cost.

#### Derivative Financial Instruments

The NZDF uses derivative financial instruments to manage its exposure to foreign exchange risks. Derivative financial instruments are initially recognised at fair value on the date a contract is entered into and then restated at their fair value every reporting date. Movements in the fair value of derivatives are recognised in the Statement of Comprehensive Revenue and Expense.

2017			2018	
Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)
<b>Loans and Receivables</b>				
55,385	52,085	Cash and cash equivalents	50,488	48,090
452,779	452,123	Debtors and other receivables	655,196	654,642
546	-	Concessionary loans	457	-
<b>508,710</b>	<b>504,208</b>	<b>Total Loans and Receivables</b>	<b>706,141</b>	<b>702,732</b>
<b>Fair Value through Surplus and Deficit – Held for Trading</b>				
1,207	1,207	Derivative financial instrument assets	3,904	3,904
(4,092)	(4,092)	Derivative financial instrument liabilities	(297)	(297)
<b>(2,885)</b>	<b>(2,885)</b>	<b>Total Fair Value through Surplus and Deficit</b>	<b>3,607</b>	<b>3,607</b>
<b>Held-to-Maturity Investments</b>				
26,030	-	Fixed term deposits and fixed interest bonds	26,426	-
<b>26,030</b>	<b>-</b>	<b>Total Held-to-Maturity Investments through Surplus and Deficit</b>	<b>26,426</b>	<b>-</b>
<b>Financial Liabilities Measured at Amortised Cost</b>				
391,795	387,651	Creditors and other payables	430,915	427,330
1,099	1,095	Finance leases	737	737
<b>392,894</b>	<b>388,746</b>	<b>Total Financial Liabilities Measured at Amortised Cost</b>	<b>431,652</b>	<b>428,067</b>

## E11 Financial Instrument Risks

The NZDF's activities expose it to a variety of financial instrument risks. The NZDF has a series of policies to manage the associated risks and seeks to minimise exposure from financial instruments.

### Credit Risk

Credit risk is the risk that a third party will default on its obligations to the NZDF, causing the NZDF to incur a loss.

In the normal course of its business, the NZDF incurs credit risk from trade debtors, and transactions with various approved financial institutions and the New Zealand Debt Management Office (NZDMO). The NZDF does not have significant concentrations of credit in financial instruments.

The Group's maximum credit exposure for each class of financial instruments is represented by the total carrying amount of cash and cash equivalents, net debtors, held-to-maturity investments and derivative financial instrument assets.

The Group does not require any collateral or security to support financial instruments with either the financial institutions that it deals with, or with the NZDMO, as these entities have high credit ratings.

The Group has risk management policies in place to limit the risk of default of any concessionary loans. These include such policies as having to meet commercial lending eligibility criteria, credit checks, requiring security for loans over certain thresholds, and the establishment of a loan redemption fund collected through levies charged on new loans.

The Group's held to maturity investments consist of term deposits made with various financial institutions and fixed interest stock with various companies or local Government organisations.

### Market Risk

#### Currency Risk

Currency risk is the risk that balances denominated in foreign currency will fluctuate because of changes in foreign exchange rates. The NZDF has a Treasury Management Policy that was approved by the Treasury.

The NZDF uses foreign exchange forward contracts with options to manage foreign exchange exposures. The notional principal amount outstanding at reporting date on hedged purchase and sale commitments was \$134.8 million (2017: \$138.3 million).

#### Sensitivity Analysis – Cash and Cash Equivalents

At 30 June 2018, if the NZ dollar strengthened by 5% against the major currencies with all other variables held constant, the unrealised gain for the year would have been \$0.61 million lower (2017: \$0.82 million lower).



Conversely, if the NZ dollar weakened by 5% against all the major currencies with all other variables held constant, the unrealised gain for the year would have been \$0.68 million higher (2017: \$0.90 million higher). The movements are a result of the exchange gains or losses on translation of overseas currencies.

#### Sensitivity Analysis – Derivative Financial Instruments

At 30 June 2018, if the NZ dollar strengthened by 5% against all the

hedged currencies with all other variables held constant, the unrealised gain for the year would have been \$7.25 million lower (2017: \$7.12 million lower).

Conversely, if the NZ dollar weakened by 5% against all the hedged currencies with all other variables held constant, the unrealised gain for the year would have been \$8.01 million higher (2017: \$7.87 million higher). The movements are a result of the exchange gains or losses on translation of overseas currencies.

<b>Sensitivity Analysis – Cash and Cash Equivalents and Derivative Financial Instruments</b>		
	<b>If the NZD dollar strengthened by 5% against all significant hedged currencies (\$000)</b>	<b>If the NZD dollar weakened by 5% against all significant hedged currencies (\$000)</b>
Australian Dollars (AUD)	(1,776)	1,963
Canadian Dollars (CAD)	(154)	169
Euro (EUR)	(1,496)	1,654
Great British Pounds (GBP)	(968)	1,070
Norwegian Krone (NOK)	(56)	61
Swedish Krona (SEK)	(47)	52
United States Dollar (USD)	(3,351)	3,704
Other	(12)	13
<b>Total Currency Impact</b>	<b>(7,860)</b>	<b>8,686</b>

#### Interest Rate Risk

Interest rate risk is the risk that the fair value of a financial instrument will fluctuate or the cash flows from a financial instrument will fluctuate due to changes in market interest rates.

The Group is exposed to interest rate risk on its cashflow from its interest earning financial assets. The Group holds \$30.8 million (2017: \$27.8 million) of financial assets that are mostly interest bearing with interest revenue generated of \$1.0 million (2017: \$1.1 million) during the year. As the Group does not have a significant concentration of credit in financial instruments the exposure to interest rate risk is minor and not material to the Group.

#### Liquidity Risk

Liquidity risk is the risk that the NZDF will encounter difficulty raising liquid funds to meet commitments as they fall due.

In meeting its liquidity requirements, the NZDF closely monitors its forecast cash requirements with expected cash drawdowns from the NZDMO. The NZDF maintains a target level of available cash to meet liquidity requirements.

The following tables analyse the NZDF's financial instruments that will be settled based on the remaining period from reporting date to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows.

	Carrying amount (\$000)	Contractual cash flows (\$000)	Less than 6 Months (\$000)	Between 6 Months and 1 Year (\$000)	Between 1 Year and 5 Years (\$000)	Over 5 Years (\$000)
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**2018****Group**

Payables	430,915	430,915	430,915	-	-	-
Finance Leases	737	802	-	438	364	-

**Parent**

Payables	427,330	427,330	427,330	-	-	-
Finance Leases	737	802	-	438	364	-

**2017****Group**

Payables	391,795	391,795	391,795	-	-	-
Finance Leases	1,099	1,244	-	442	802	-

**Parent**

Payables	387,651	387,651	387,651	-	-	-
Finance Leases	1,095	1,240	-	438	802	-

	Liability carrying amount (\$000)	Asset carrying amount (\$000)	Contractual cash flows (\$000)	Less than 6 months (\$000)	6–12 months (\$000)	1–5 years (\$000)
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**2018****Group/Parent**

<b>Gross settled forward foreign exchange contracts:</b>	297	3,904				
- Outflow			134,844	85,985	23,991	24,868
- Inflow			141,377	89,102	25,551	26,724

**2017****Group/Parent**

<b>Gross settled forward foreign exchange contracts:</b>	4,092	1,207				
- Outflow			138,295	80,065	30,240	27,990
- Inflow			135,408	77,921	29,722	27,765

## E12 Fair Value Hierarchy Disclosures

For those financial instruments recognised at fair value in the Statement of Financial Position, fair values are determined according to the following hierarchy:

- Quoted market price (level 1) – financial instruments with quoted prices for identical instruments in active markets;

- Valuation techniques using observable inputs (level 2) – financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable; and

- Valuation techniques with significant non-observable inputs (level 3) – financial instruments valued using models where one or more significant inputs are not observable.

The following tables analyse the basis of the value of classes of NZDF's financial instruments measured at fair value in the Statement of Financial Position:

<b>Group/Parent 2018</b>				
	Quoted market price (\$000)	Observable inputs (\$000)	Significant non- observable inputs (\$000)	Group/Parent (\$000)
<b>Assets</b>				
Derivative financial instruments	-	3,904	-	3,904
<b>Liabilities</b>				
Derivative financial instruments	-	297	-	297

<b>Group/Parent 2017</b>				
	Quoted market price (\$000)	Observable inputs (\$000)	Significant non- observable inputs (\$000)	Group/Parent (\$000)
<b>Assets</b>				
Derivative financial instruments	-	1,207	-	1,207
<b>Liabilities</b>				
Derivative financial instruments	-	4,092	-	4,092

There were no transfers between the different levels of the fair value hierarchy.

## E13 Fair Value Hierarchy Disclosures

The notional principal amounts of outstanding forward exchange contracts as at 30 June 2017 and 30 June 2018 are noted below. The fair value of forward exchange contracts has been determined using a discounted cash flows valuation technique based on quoted market rates.

<b>2017</b>		
Group/Parent (\$000)		Group/Parent (\$000)
<b>Currency</b>		
24,468	Australian Dollars (AUD)	21,534
2,374	Canadian Dollars (CAD)	1,497
37,390	Euro (EUR)	25,013
15,402	Great British Pounds (GBP)	19,324
-	Norwegian Krone (NOK)	1,040
659	Swedish Krona (SEK)	942
58,002	United States Dollar (USD)	65,494
<b>138,295</b>	<b>Total Derivative Financial Instruments</b>	<b>134,844</b>

# Notes to the Financial Statements

## F Other Key Disclosure and Information

### F1 Related Party Information

The NZDF is a wholly owned entity of the Crown. The Government significantly influences the roles of the NZDF as well as being its major source of revenue.

Related party disclosures have not been made for transactions with related parties that are within a normal supplier or client / recipient relationship on terms and conditions no more or less favourable than those that it is reasonable to expect the NZDF would have adopted in dealing with the party at arm's length in the same circumstances.

Further, transactions with other government agencies (for example, government departments and Crown entities) are not disclosed as related party transactions when they are consistent with the normal operating arrangements between government agencies and undertaken on the normal terms and conditions for such transactions.

2017			2018	
Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)
<b>Executive Group, including the Chief of Defence Force</b>				
4,323	4,323	Remuneration	4,696	4,696
12.0	12.0	Full-time equivalent staff	12.0	12.0

The Defence Act 1990 sets out the statutory military operational responsibilities for the Chief of Defence Force and the Chief of Navy, Chief of Army, Chief of Air Force and Commander of Joint Forces. Civilian members of the New Zealand Defence Force Executive Group do not have military operational responsibilities. No other remuneration or compensation is received other than in their capacity as key management personnel. No remuneration or loans have been made to either key management personnel or close family members of the key management personnel. All key management personnel are within the parent entity.

Key management personnel compensation excludes the remuneration and other benefits of the Responsible Ministers of the Department. The Ministers' remuneration and other benefits are set out by the remuneration authority under the Members of Parliament (Remuneration and Services) Act 2013 and are paid under Permanent Legislative Authority.

## F2

## Explanation of Major Variances Against Budget

Explanations of major variances from NZDF's actuals to Main Estimates/original 2017/18 budget are as follows:

### Statement of Comprehensive Revenue and Expense

#### Changes approved by Cabinet or joint Ministers

The factors contributing to the overall increase of in the expense budgets between the Main Estimates and Supplementary Estimates included changes to the appropriations approved by Cabinet or the joint Ministers of \$25.530 million.

Approved changes between Main Estimates and Supplementary Estimates	(\$000)
Increased Revenue Crown to fund capital charge increases as a result of the 2016/17 Revaluation of Land and Buildings	21,973
New Revenue Crown funding in support of United Nations operations and deployments to the Middle East and South Sudan	2,985
New Other Revenue funding as a result of cost recoveries from visiting foreign militaries participating in training activities	437
New Other Revenue funding as a result of cost recoveries for services provided to foreign militaries	798
New Departmental Revenue funding for the delivery of the Limited Services Volunteers programme for the Ministry of Social Development	432
New Revenue Crown funding for the deployment of an Inshore Patrol Vessel to Fiji to support their regional security activities	425
Decreased Revenue Crown funding in 2017/18 as a result of an expense transfer to future periods to enable the successful completion of the Defence Force Logistics project	(1,520)
<b>Total Movements</b>	<b>25,530</b>

### Variances between Main Estimates and 2017/18 Actuals

#### Revenue Crown

Revenue Crown increased by \$23.9 million compared to the budget as a result of Cabinet and joint Minister approvals as outlined above.

#### Other Revenue

Other Revenue was \$29.4 million above budget. The driver for this increased revenue was insurance recoveries of \$20 million resulting from damage caused in the 2016 Kaikoura/Hurunui Earthquakes; \$4.2 million of revenue from the Non-Public Funds not forecasted; \$1.2m from recovery of expenses approved by joint Ministers as outlined above; and the remainder mainly from gains on the disposal of assets.

#### Gain on Financial Instruments

Gains on Financial Instruments were \$29.5 million above budget. Gains on Financial Instruments are not forecasted as part of the Main Estimates. The gains have been offset by forecasted losses on foreign currency transactions noted below.

#### Personnel Expenditure

Personnel expenditure was \$44.5 million above budget. This is a result of the increased cost of allowances to enable personnel to be available for operations and activities (\$24.5 million); \$10 million as a result of higher than budgeted number of civilian and military personnel and the balance (\$10 million) a result of the remuneration for staff increasing by more than originally forecasted.

#### Operating Costs

Operating Costs are \$73.3 million below budget. The budget had forecasted that there would be an additional \$44.5 million of other operating expenses to support the delivery of new capabilities. However, this funding was utilised to the increase the capacity and readiness of personnel for the new capabilities through the allocation of increased allowances (\$24.5m); better remuneration; and increased numbers of staff and personnel.

The remaining underspend of \$27 million was largely driven through approximately \$12 million of savings on premises as a result of rental savings not budgeted for, and the later than expected entry into lease agreements; \$10 million on lower consumption of materials such as clothing; and \$5 million as training and travel were lower than budgeted.

### Loss on financial instruments

Losses on financial instruments have been driven by losses on foreign currency transactions of \$17.8 million due to exchange rate movements. These are not forecasted as part of the Main Estimates.

### Depreciation

Depreciation was \$4.2 million above budget driven by a \$5.0 million increase in depreciation as a result of the 2016/17 revaluation of land and building.

### Capital Charge

Capital Charge increased by \$22.0 million as a result of the 2016/17 revaluation of land and buildings.

## Statement of Financial Position

### Variances between Main Estimates and 2017/18 Actual

#### Debtors and Other Receivables – Exchange and Non-Exchange

Debtors are \$495.6 million higher than budgeted. This is largely driven by an increase in Debtor Crown of \$469.7 million with an increase in approved capital contributions of \$10.2 million for the delivery of the Frigate System Upgrade; reduced capital expenditure of \$356 million across 2016/17 (\$112 million) and 2017/18 (\$244 million) as a result of changed forecast assumptions for the timing of approval of capital projects and delays in implementation of capability projects; and \$104 million as a result of the expected timing of payment to Creditors. The balance of the increased Debtor Crown relates minor changes in 2016/17 such as an increased surplus repayable to Crown.

The movement in Other Debtors of \$25.9 million is largely a result of insurance recoveries of \$20 million resulting from damage incurred in the Kaikoura/Hurunui earthquakes. The balance is due to movements in the Non-Public Funds and other receivables expected by NZDF.

### Inventories

Total Inventories have increased by \$16.3 million more than forecasted at the budget. This is largely a result of increases to the cost of individual inventory items.

### Property, Plant and Equipment

Property, Plant and Equipment is \$67.8 million higher than the budget. Revaluations of Land and Building in 2016/17 (\$372 million) and Specialist Military Equipment in 2017/18 (\$22.7 million) have increased the value of Property, Plant and Equipment by \$395.6 million. This has been largely offset by lower than forecasted capital expenditure of \$356 million, with \$112 million and \$244 million from 2016/17 and 2017/18 respectively, driven by changed forecast assumptions regarding the timing of capital projects and to reflect delays in implementation and procurement of capability projects, such as the Defence Frigate Systems Upgrade and the Network Enabled Army, through 2017/18.

The remaining increase of \$28.1 million is mostly a result of other movements in 2016/17 that occurred after the budget for 2017/18 was released. This includes underspends on depreciation and transfers to Property, Plant and Equipment.

### Creditors and Other Payables

Total Creditors and Other Payables have increased by \$122.9 million more than budgeted. The increased creditors is largely driven in the changes to the timing of when work is completed on capital projects especially with the Ministry of Defence. Projects, such as the Maritime Sustainment Capability and the Defence Frigate Systems Upgrade, have had milestone payments or significant work completed that is due for payment at 30 June 2018 – this is the main driver of \$68 million increase since the budget.

GST of \$27 million is payable as a result of the timing of when invoices have been received for the capital expenditure. Additionally, there have been increases in Other Accounts Payable of \$30 million as additional stock is purchased at a higher value than forecasted; work is completed on NZDF coordinated projects especially the Defence Estate Regeneration Programme; and other employee benefits increased by \$8 million from the timing of salary accruals and increased cost of remuneration.

### Surplus repayable to the Crown

The surplus repayable to the Crown increased by \$61 million as a result of underspends in operating expenditure and additional revenue received.

### Taxpayers' Funds

Taxpayers' funds decreased by \$94.8 million to align to the actual balance at the end of the 2016/17 financial year. The movement is driven by capital contributions and any transfers from the revaluation reserve.

### Revaluation Reserve

The revaluation reserve increased by \$500.8 million is largely as a result of the revaluation of land and building in 2016/17 (\$366.2 million) and Specialist Military Equipment in 2017/18 (\$22.7 million) plus transfers to taxpayers funds for revalued assets disposed of during the year (\$85.2 million).

## F3 Events After Balance Date

After balance date, Cabinet approved the purchase of four Boeing P-8A Poseidon maritime patrol aircraft from the United States Government. The new P-8As, training systems, infrastructure and introduction into service costs will total \$2.346 billion. The purchase is not included in the Statement of Commitments because the approval was received after balance date.

In August 2018 the Minister of Defence and Minister of Finance approved NZDF retaining \$20 million of the surplus from the 2017/18 financial year to fund capital expenditure for the fit out of the new Defence House.

There have been no other significant events after balance date.

# Non-Departmental Schedules

The following non-departmental statements and schedules record revenue, expenses, assets, liabilities, commitments, contingent liabilities, contingent assets and trust accounts that NZDF manages on behalf of the Crown.

## Schedule of Non-Departmental Revenue for the year ended 30 June 2018

2017		2018
Actual (\$000)		Actual (\$000)
119	Interest revenue	127
685	Gain on financial instruments	932
<b>804</b>	<b>Total Non-Departmental Revenue</b>	<b>1,059</b>

## Schedule of Non-Departmental Expenditure for the year ended 30 June 2018

2017		2018
Actual (\$000)		Actual (\$000)
97,824	Payment of Veterans Support Entitlement	92,529
9,678	Payment of Assessments, Treatment and Rehabilitation	12,050
7,458	Veterans Independence Programme	9,821
95	Attendance at Commemorations	87
175	Grants Subsidies	270
643	Works Maintenance	655
63	Non-Recurring Expenses	621
2,011	Non-Deductible GST	2,458
9	Debt Write-Down for Benefits	138
88	Special Annuities	89
496	Losses on financial instruments	406
<b>118,540</b>	<b>Total Non-Departmental Expenditure</b>	<b>119,124</b>

The accompanying notes form part of these financial statements.

For a full understanding of the Crown's financial position and the results of its operations for the year, refer to the consolidated Financial Statements of the Government for the year ended 30 June 2018.

### Schedule of Non-Departmental Assets for the year ended 30 June 2018

2017		2018	
Actual (\$000)		Note	Actual (\$000)
<b>Current Non-Departmental Assets</b>			
4,572	Cash and cash equivalents	2	10,753
281	Debtors and other receivables	3	239
1,033	Prepayments	3	719
3	Derivative financial instruments		67
5,889	Total Current Non-Departmental Assets		11,778
<b>Non-Current Non-Departmental Assets</b>			
1,819	Debtors and other receivables	3	1,946
-	Investments	4	846
-	Derivative financial instruments		24
1,819	Total Non-Current Non-Departmental Assets		2,816
<b>7,708</b>	<b>Total Non-Departmental Assets</b>		<b>14,594</b>

### Schedule of Non-Departmental Liabilities for the year ended 30 June 2018

2017		2018	
Actual (\$000)			Actual (\$000)
<b>Current Non-Departmental Liabilities</b>			
98	Trade creditors		2,042
210	Derivative financial instruments		16
1,279	Other short term liabilities		1,280
1,587	Total Current Non-Departmental Liabilities		3,338
<b>Non-Current Non-Departmental Liabilities</b>			
97	Derivative financial instruments		46
97	Total Non-Current Non-Departmental Liabilities		46
<b>1,684</b>	<b>Total Non-Departmental Liabilities</b>		<b>3,384</b>

### Schedule of Non-Departmental Commitments for the year ended 30 June 2018

There are no non-departmental non cancellable capital or lease commitments at 30 June 2018 (2017: nil).

### Schedule of Non-Departmental Contingent Assets and Liabilities for the year ended 30 June 2018

There are no non-departmental contingent assets or contingent liabilities at 30 June 2018 (2017: nil).

The accompanying notes form part of these financial statements.

Actual expenditure against the non-departmental appropriations can be found on page 145-146.

For a full understanding of the Crown's financial position and the results of its operations for the year, refer to the consolidated Financial Statements of the Government for the year ended 30 June 2018.



# Notes to the Non-Departmental Schedules

## 1 Statement of Accounting Policies for the year ended 30 June 2018

### Reporting Entity

These non-departmental schedules and statements present financial information on public funds managed by the NZDF on behalf of the Crown.

These non-departmental balances are administered by appropriation, and are consolidated into the Financial Statements of the Government for the year ended 30 June 2018. For a full understanding of the Crown's financial position, financial performance and cash flows for the year, refer to the Financial Statements of the Government.

Section 262(5) of the Veterans' Support Act 2014 requires the Defence Force to incorporate the Veterans' Medical Research Trust Fund's annual report in NZDF's annual report. The audited annual reports for the Veterans' Medical Research Trust Fund for each of the 2015, 2016, 2017 and 2018 years respectively have been included as an appendix to the Annual Report.

### Basis of Preparation

The non-departmental statements and schedules have been prepared in accordance with the accounting policies of the Financial Statements of the Government, Treasury Instructions and Treasury Circulars.

Measurement and recognition rules applied in the preparation of these non-departmental schedules and statements are consistent with New Zealand generally accepted accounting practice and Tier 1 PBE Accounting Standards as appropriate for public benefit entities.

### Goods and Services Tax (GST)

The financial statements and schedules are prepared on a GST exclusive basis except for Debtors and Receivables, and Creditors and Payables in the Schedules of Non-Departmental Assets and Liabilities, which are GST inclusive.

The GST content of the individual appropriations is reported as an expense item and not claimed back from the Inland Revenue Department (IRD).

### Foreign Currency

Foreign currency transactions are converted to New Zealand currency using the exchange rate prevailing at the date of the transaction.

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

Gains and losses resulting from foreign currency transactions are recognised in the Schedule of Non-Departmental Expenditure.

## 2 Cash and Cash Equivalents

### Accounting Policy

#### Cash and Cash Equivalents

Cash means cash balances on hand and funds on deposit with banks. The NZDF is only permitted to expend its cash and cash equivalents within the scope and limits of its appropriations.

2017		2018
Actual (\$000)		Actual (\$000)
<b>Cash and cash equivalents</b>		
3,672	Administered by the NZDF	10,722
900	Administered by the Veterans' Medical Research Trust Fund	31
<b>4,572</b>	<b>Total Cash and Cash Equivalents</b>	<b>10,753</b>

## 3 Debtors and Other Receivables

### Accounting Policy

#### Debtors and Receivables

Debtors and other receivables are recorded at their fair value after providing for impairment. Impairment of a receivable is established when there is objective evidence that the NZDF will not be able to collect amounts due according to the original terms of the receivable.

2017		2018
Actual (\$000)		Actual (\$000)
281	Debtors and other receivables	232
-	Debtors and other receivables administered by the Veterans' Medical Research Trust Fund	7
1,033	Prepayments	719
<b>1,314</b>	<b>Total Current Debtors and Other Receivables</b>	<b>958</b>
1,819	Loan to Vietnam Veterans' and their Families Trust	1,946
<b>1,819</b>	<b>Total Non-Current Debtors and Other Receivables</b>	<b>1,946</b>
<b>3,133</b>	<b>Total Debtors and Other Receivables</b>	<b>2,904</b>

As at 30 June 2018, all receivables have been assessed for impairment.

## Concessionary loans

2017		2018
Actual (\$000)		Actual (\$000)
<b>Vietnam Veterans' and their Families Trust Loan</b>		
1,700	Opening balance	1,819
119	Interest Unwind	127
<b>1,819</b>	<b>Closing balance at 30 June 2018</b>	<b>1,946</b>

The Vietnam Veterans' and their Families Trust Loan was provided for the purpose of assisting veterans and their families with relief from poverty and/or hardship. The loan was granted for a 30 year period. A discount rate of 7% (2017: 7%) has been used to present value the loan.

## 4 Investments

### Accounting Policy

#### Fixed interest investments

Fixed interest investments are initially measured at the amount invested. Interest is subsequently accrued and added to the investment balance.

#### Equity investments

Equity investments are designated at fair value.

2017		2018
Actual (\$000)		Actual (\$000)
<b>Investments</b>		
-	Fixed interest investments administered by the Veterans' Medical Research Trust Fund	549
-	Equity investments administered by the Veterans' Medical Research Trust Fund	297
-	<b>Total Investments</b>	<b>846</b>

## 5 Financial Instruments

### Accounting Policy

#### Financial Instruments

The NZDF is party to financial instruments as part of its normal operations. These financial instruments include cash balances, receivables and payables, investments, and derivative financial instruments.

All financial instruments are recognised in the Schedule of Non-Departmental Assets and Liabilities. All revenue and expenses in relation to all financial instruments are recognised in the Statement of Non-Departmental Expenditure and Appropriations.

#### Derivative Financial Instruments

The NZDF uses derivative financial instruments to manage its exposure to foreign exchange risks. Derivative financial instruments are initially recognised at fair value on the date a contract is entered into and then restated at their fair value every reporting date. Movements in the fair value of derivatives are recognised in the Statement of Comprehensive Revenue and Expense.

#### Credit Risk

Credit risk is the risk that a third party will default on its obligations, causing the Crown to incur a loss. Credit risk arises from debtors and deposits with banks.

The maximum credit exposure for each class of financial instrument is represented by the total carrying amount of cash and cash equivalents and net debtors. There is no collateral held as security against these financial instruments, including those instruments that are overdue or impaired. The NZDF is only permitted to deposit funds with Westpac, a registered bank.

#### Liquidity Risk

Liquidity risk is the risk that the NZDF will encounter difficulty raising liquid funds to meet commitments as they fall due.

In meeting its liquidity requirements, the NZDF closely monitors its forecast cash requirements with expected cash draw downs from the NZDMO. The NZDF maintains a target level of available cash to meet liquidity requirements.

#### Market Risk

##### Currency Risk

Currency risk is the risk that balances denominated in foreign currency will fluctuate because of changes in foreign exchange rates. VANZ has a Treasury Management Policy that was approved by the Treasury and which is administered by the NZDF.

VANZ uses foreign exchange forward contracts with options to manage foreign exchange exposures. The notional principal amount outstanding at reporting date on hedged purchase and sale commitments was \$13 million (2017: \$11 million). As VANZ does not hold a significant amount of forward contracts or foreign currency, the exposure to currency risk from fluctuations in foreign exchange rates is minor and is not considered material.

## 6 Categories of Financial Instruments

2017		2018
Actual (\$000)		Actual (\$000)
<b>Loans and Receivables</b>		
4,572	Cash and cash equivalents	10,753
3,133	Debtors and other receivables	2,904
<b>7,705</b>	<b>Total Loans and Receivables</b>	<b>13,657</b>
<b>Fair Value through Surplus and Deficit – Held for Trading</b>		
3	Derivative financial instrument assets	91
(307)	Derivative financial instrument liabilities	(62)
<b>(304)</b>	<b>Total Fair Value through Surplus and Deficit</b>	<b>29</b>
<b>Held-to-Maturity Investments</b>		
-	Investments – fixed interest investments administered by the Veterans' Medical Research Trust Fund	549
-	<b>Total Held-to-Maturity Investments</b>	<b>549</b>
<b>Financial Assets at Fair Value</b>		
-	Investments – equity investments administered by the Veterans' Medical Research Trust Fund	297
-	<b>Total Financial Assets Measured at Fair Value</b>	<b>297</b>
<b>Financial Liabilities Measured at Amortised Cost</b>		
1,377	Creditors and other payables	3,322
<b>1,377</b>	<b>Total Financial Liabilities Measured at Amortised Cost</b>	<b>3,322</b>

## 7 Fair Value Hierarchy Disclosures

For those financial instruments recognised at fair value in the Statement of Financial Position, fair values are determined according to the following hierarchy:

- Quoted market price (level 1) – financial instruments with quoted prices for identical instruments in active markets;

- Valuation techniques using observable inputs (level 2) – financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable; and

- Valuation techniques with significant non-observable inputs (level 3) – financial instruments valued using models where one or more significant inputs are not observable.

The following table analyses the basis of the value of classes of NZDF's financial instruments measured at fair value in the Statement of Financial Position:

Actual	Quoted market price (\$000)	Observable inputs (\$000)	Significant non-observable inputs (\$000)	Total (\$000)
<b>Assets</b>				
Derivative financial instruments	-	91	-	91
Equity investments	297	-	-	297
<b>Liabilities</b>				
Derivative financial instruments	-	(62)	-	(62)

There were no transfers between the different levels of the fair value hierarchy.

# 2019 Forecast Financial Statements

## Forecasted Statement of Comprehensive Revenue and Expense for the year ended 30 June 2019

2019	
	Group Unaudited Forecast (\$'000)
<b>Revenue from non-exchange transactions</b>	
Crown	2,669,631
<b>Revenue from exchange transactions</b>	
Departmental revenue	8,950
Other revenue	7,762
Interest revenue	20
<b>Total Revenue</b>	<b>2,686,363</b>
<b>Expense</b>	
Personnel costs	1,033,503
Operating costs	823,759
Finance costs	108
Depreciation and amortisation	412,424
Capital charge	416,549
<b>Total Expense</b>	<b>2,686,343</b>
<b>Net Surplus/(Deficit)</b>	<b>20</b>
<i>Items that will not be reclassified to Net Surplus/(deficit)</i>	
<b>Other Comprehensive Revenue and Expense</b>	
Gain/(Loss) on property, plant, and equipment revaluations	-
Other revaluation movements	-
<b>Total Other Comprehensive Revenue and Expense</b>	<b>-</b>
<b>Total Comprehensive Revenue and Expense</b>	<b>20</b>

## Forecasted Statement of Financial Position as at 30 June 2019

		<b>2019</b>
		<b>Group Unaudited Forecast (\$'000)</b>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents		50,000
Debtors and other receivables from exchange transactions		10,878
Debtors and other receivables from non-exchange transactions		476,612
Prepayments		47,910
Inventories		91,871
Other financial assets		27,784
<b>Total Current Assets</b>		<b>705,055</b>
<b>Non-Current Assets</b>		
Property, plant and equipment		6,263,996
Intangible assets		57,997
Inventories		257,585
<b>Total Non-Current Assets</b>		<b>6,579,578</b>
<b>Total Assets</b>		<b>7,284,633</b>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Creditors and other payables under exchange transactions		321,191
Surplus repayable to the Crown		20
Provisions		11,151
Employee entitlements		86,303
Finance leases		358
Other financial liabilities		4,092
<b>Total Current Liabilities</b>		<b>423,115</b>
<b>Non-Current Liabilities</b>		
Employee entitlements		6,839
Finance leases		37
<b>Total Non-Current Liabilities</b>		<b>6,876</b>
<b>Total Liabilities</b>		<b>429,991</b>
<b>Net Assets</b>		<b>6,854,642</b>
<b>Equity</b>		
Taxpayers' funds		4,159,403
Revaluation reserve		2,640,063
Non-taxpayers' funds		52,507
Restricted funds		2,669
<b>Total Equity</b>		<b>6,854,642</b>
<b>Total Liabilities and Taxpayers' Funds</b>		<b>7,284,633</b>

## Forecasted Statement of Changes in Equity for the year ended 30 June 2019

2019	
	Group Unaudited Forecast (\$'000)
<b>Balance at 1 July</b>	
Taxpayers' funds	4,004,670
Revaluation reserve	2,640,063
Non-taxpayers' funds	52,507
Restricted funds	2,669
	6,699,909
Net surplus for the year	20
Total gain/(loss) on property, plant and equipment revaluation	-
Other revaluation movements	-
Total Comprehensive Revenue and Expense for the Year	20
<b>Owner Transactions</b>	
Repayment of surplus	(20)
Capital withdrawal	-
Capital injection	154,733
<b>Balance as at 30 June</b>	<b>6,854,642</b>
Taxpayers' funds	4,159,403
Revaluation reserve	2,640,063
Non-taxpayers' funds	52,507
Restricted funds	2,669

## Foretasted Statement of Cash Flows for the year ended 30 June 2019

		<b>2019</b>
		<b>Group Unaudited Forecast (\$000)</b>
<b>Cash Flow – Operating Activities</b>		
Non-exchange receipts from Crown		2,816,936
Exchange receipts from departmental and other revenue		16,712
Payments to employees		(1,028,003)
Payments to suppliers		(892,199)
Payments for capital charge		(416,549)
Goods and services tax (net)		-
<b>Net Cash Flow from Operating Activities</b>		<b>496,897</b>
<b>Cash Flow – Investing Activities</b>		
Interest revenue		20
Purchase of property, plant and equipment		(630,955)
Purchase of intangible assets		(10,535)
<b>Net Cash Flow from Investing Activities</b>		<b>(641,470)</b>
<b>Cash Flow – Financing Activities</b>		
Capital injection		154,733
Repayment of surplus		(10,160)
<b>Net Cash Flow from Financing Activities</b>		<b>144,573</b>
<b>Net increase/(decrease) in cash</b>		
Cash at the beginning of the year		50,000
<b>Cash and Cash Equivalents at the End of the Year</b>		<b>50,000</b>



# Notes to the 2019 Forecast Financial Statements

## 1 Statement of Significant Assumptions

### 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 2017/18 budgeted figures are based on management's judgements, estimates and assumptions of the final 2017/18 outcome and are used as the opening position for 2018/19 forecasts.

Key assumptions underlying this forecast are:

- The department's activities will remain substantially the same as for the previous year.
- 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 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 2019 is assumed to be 6.0% per annum.
- Operating costs are based on historical experience. The general historical pattern is expected to continue.

## 2 Statement of Entity – Specific Accounting Policies

### Basis of preparation

These forecast financial statements have been prepared in accordance with New Zealand Public Benefit Entity (NZ PBE) International Public Sector Accounting Standards (IPSAS). They comply with PBE FRS 42 Prospective Financial Statements.

The purpose of the forecast financial statements is to facilitate Parliament's consideration of the appropriations for, and planned performance of NZDF.

Use of this information for other purposes may not be appropriate. Readers are cautioned that actual results are likely to vary from the forecast information presented and that the variations may be material.

The NZDF has applied the accounting policies set out in the Statement of Accounting Policies included in the financial statements, except as stated below.

### Reporting Entity

These are the prospective financial statements of the NZDF, prepared in accordance with section 38 of the Public Finance Act 1989.

The NZDF is a Government Department as defined by section 2 of the Public Finance Act 1989. For the purposes of financial reporting the NZDF is a public benefit entity.

The prospective financial statements are prepared for NZDF and its controlled entities. Controlled entities are all those entities over which the NZDF (the controlling entity) has the power to govern the financial and operating policies so as to obtain benefits from their activities.

The other entities forming the Group are non-public funds and do not have the same reporting requirements as the parent.

### Authorisation Statement

These forecast financial statements were authorised for issue by the Chief of Defence Force on 23 April 2018. The Chief of Defence Force as the Chief Executive of the NZDF is responsible for the forecast financial statements presented, including the appropriateness of the assumptions underlying the forecast financial statements and all other required disclosures.

While the NZDF regularly updates its forecasts, updated forecast financial statements for the year ending 30 June 2019 will not be published.

### 3 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	3–50 years

#### Revaluation

Land, Buildings and Specialist Military Equipment asset classes are subject to revaluation at least once every 5 years. 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.

#### 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.



# **Appendix 1**

**Report by the Minister of Veterans  
on selected non-departmental  
appropriations for the year ended  
30 June 2018**



New Zealand  
**DEFENCE  
FORCE**  
Te Ope Kaitiaki O Aotearoa

# **VOTE DEFENCE FORCE**

**Report on selected non-departmental  
appropriations for the year ended**

**30 June 2018**

**A FORCE FOR  
NEW ZEALAND**

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# MINISTER'S FOREWORD

As Minister for Veterans, I purchase medical, advisory, and support services from a number of organisations to deliver outputs that support and enhance the wellbeing of veterans and their families. A significant number of those service providers do not report to Parliament directly.

In accordance with section 19 of the Public Finance Act 1989, the purpose of this report is to articulate the service performance of those outputs delivered by third-party service providers funded directly by Veterans' Affairs New Zealand and not covered by other reporting to Parliament.



Hon Ron Mark

Minister for Veterans

Date:

# **STATEMENT OF PERFORMANCE**

This report is prepared under section 19 of the Public Finance Act 1989 and covers the Vote Defence Force appropriations used for purchasing outputs supplied by third-party service providers that do not report to Parliament directly on that expenditure.

This report excludes Vote Defence Force appropriations which have exemptions from performance reporting under section 15D (2) of the Public Finance Act 1989.



# NON-DEPARTMENTAL OUTPUT EXPENSES

## DEVELOPMENT AND MAINTENANCE OF SERVICES CEMETERIES

This appropriation is limited to the development and maintenance of Services Cemeteries.

2017		2018		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
643	Appropriation	656	746	746

### What is intended to be achieved with this appropriation

This appropriation is intended to develop and maintain Services Cemeteries.

### Performance Summary (2017 performance results in brackets)

Development and Maintenance of Services Cemeteries		
Deliverable	Target	Performance
The annual maintenance and development works plan outcomes are achieved.	95% of annual maintenance and development works plan outcomes are achieved.	97% (99%)
Services Cemeteries will be maintained in accordance with the Standard of Care agreement. (2017 : Services Cemeteries will be maintained to the satisfaction of Local Authorities, the RSA and veterans' representative organisations.)	Meet	Met (Met)

# NON-DEPARTMENTAL BENEFITS OR RELATED EXPENSES

## VETERANS' INDEPENDENCE PROGRAMME

This appropriation is limited to the provision of services and support to assist eligible veterans and their families.

2017		2018		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
7,458	Appropriation	9,821	10,919	11,246

### What is intended to be achieved with this appropriation

This appropriation currently supports over 3,800 veterans to allow them to live independently in their homes.

Veterans' Independence Programme (VIP)		
Deliverable	Target	Performance
Services and support provided will be to the satisfaction of the veteran and/or the veteran's family.	95% of the services provided will be to the satisfaction of the veteran and/ or the veteran's family.	An external survey on veteran satisfaction with VIP service was conducted in September 2017.  87% of veterans are satisfied with the VIP services they are receiving. (94% based on an internal survey of Veterans satisfaction in 2016/17)
Contracted services and support complies with agreed contract standards.	n/a	n/a (100%)  This performance measure was ceased in 2016/17 and not required for 2017/18.

# **Appendix 2**

**Financial statements of the Veterans'  
Medical Research Trust Fund for the  
years ended 31 March 2015, 2016,  
2017 and 2018**

VETERANS' MEDICAL RESEARCH TRUST FUND  
FINANCIAL STATEMENTS

FOR THE YEAR ENDED  
31 MARCH 2018

Handwritten initials or signature in the bottom right corner, consisting of a stylized 'M' and some other characters.

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## VETERANS' MEDICAL RESEARCH TRUST FUND FOR THE YEAR ENDED 31 MARCH 2018

### Statement of Responsibility

The financial statements of the Veterans' Medical Research Trust Fund have been prepared in accordance with Part 8, Subpart 3 of the Veterans' Support Act 2014.

I am responsible for:

- The preparation of the financial statements and the judgements expressed in them;
- Having in place a system of internal control design to provide reasonable assurance as to the integrity and reliability of the financial reporting; and
- The accuracy of any end-of-year performance information prepared by the Veterans' Medical Research Trust Fund, whether or not that information is included in this annual report

In my opinion, the financial statements fairly reflect the financial position and operations of the Veterans' Medical Research Trust Fund for the reporting period ended 31 March 2018.

Veterans' Affairs has complied with all statutory provisions relating to the operations of the Veterans' Medical Research Trust Fund during the period ended 31 March 2018.

Signed by:



Bernadine Mackenzie  
Head of Veterans' Affairs  
Veterans' Affairs New Zealand  
~~13 August 2018~~

5 September 2018



# **VETERANS' MEDICAL RESEARCH TRUST FUND STATEMENT OF ENTITY INFORMATION FOR THE YEAR ENDED 31 MARCH 2018**

## **Legal Name**

Veterans' Medical Research Trust Fund (the Trust)

## **Type of entity and legal basis**

The War Pensions Medical Research Trust Fund was established under a 1968 amendment to the War Pensions Act 1954 and is continued under the Veterans' Support Act 2014 (the Act) under the name Veterans' Medical Research Trust Fund. The Trust is a Registered Charity under the Charities Act 2005 that is administered by Veterans' Affairs New Zealand (VANZ) in accordance with the Act.

## **The Trust's Purpose**

The Trust exists to make grants or awards for the purpose of research into any field of medicine beneficial for veterans.

## **Structure of the Trust's operations, including governance arrangements**

The Trust comprises a Board of two Trustees (the Head of Veterans' Affairs and the National President of the Royal New Zealand Returned and Services' Association). An independent statutory panel established under the Act, the Veterans' Health Advisory Panel, decides in accordance with the Act, how the income of the Trust is to be applied for grants and awards. VANZ makes the grants and awards in accordance with the recommendations of the Panel.

## **Source of the Trust's cash and resources**

The only current source of income is annual investment returns from a managed investment portfolio held with the Bank of New Zealand.

**VETERANS' MEDICAL RESEARCH TRUST FUND STATEMENT OF FINANCIAL PERFORMANCE FOR ENDED 31 MARCH 2018**

	Notes	Actual 2018	Actual 2017
<b>Revenue</b>			
Interest		1,924	877
Investment Income		6,247	27,351
Realised Gains on Disposal of Investments		10,036	9,494
Unrealised Gain on Investment Portfolio		36,392	10,491
Exchange Gain on FX Cash Accounts		8	0
Donations and other incomes		200	0
<b>Total Revenue</b>		<b>54,807</b>	<b>48,213</b>
<b>Expenses</b>			
Research Grants Paid		91,839	0
Realised Loss on Disposal of Investments		3,122	3,957
Unrealised Loss on Investment Portfolio		7,219	10,951
Portfolio Fees		8,589	8,392
Exchange Loss on FX Cash Accounts		0	96
Bank Charges		80	80
Audit Fees	1		
<b>Total Operating Expenses</b>		<b>110,849</b>	<b>23,476</b>
<b>Operating Surplus or (Deficit)</b>		<b>(56,042)</b>	<b>24,737</b>

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# VETERANS' MEDICAL RESEARCH TRUST FUND

## STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2018

	Notes	Actual 2018	Actual 2017
<b>Assets</b>			
<b>Current Assets</b>			
Cash and Bank	2	31,566	15,855
Debtors		6,708	184
Tax Receivable		0	23,598
Term Deposits		0	20,000
<b>Total Current Assets</b>		<b>38,274</b>	<b>59,637</b>
<b>Non-Current Assets</b>			
Investments	3	846,110	880,819
<b>Total Non-Current Assets</b>		<b>846,110</b>	<b>880,819</b>
<b>Total Assets</b>		<b>884,384</b>	<b>940,456</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Creditors and accrued expenses		698	728
<b>Total Current Liabilities</b>		<b>698</b>	<b>728</b>
<b>Total Liabilities</b>		<b>698</b>	<b>728</b>
<b>Net Assets</b>		<b>883,686</b>	<b>939,728</b>
<b>Trust Equity</b>			
Opening Balance of accumulated funds		939,728	914,991
Accumulated Surpluses		(56,042)	24,737
<b>Total Trust Equity</b>		<b>883,686</b>	<b>939,728</b>

## VETERANS' MEDICAL RESEARCH TRUST FUND

### STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2018

	Notes	Actual 2018	Actual 2017
<b>Cash Flows from Operating Activities*</b>			
<i>Cash was received from:</i>			
Interest Received		1,960	926
Investment Income		5,552	27,351
Other Operating Income		23,807	0
<i>Cash Disbursed to:</i>			
Research Grants Paid		(91,839)	0
Other Operating Expenses		(14,564)	(8,421)
<b>Net Cash Flows from Operating Activities*</b>	4	<b>(75,084)</b>	<b>19,856</b>
<b>Cash flows from Investing and Financing Activities*</b>			
<i>Cash Received from:</i>			
Sale of Investments		517,554	141,279
Receipts from Cash Management accounts			
Decrease in Term Deposit		20,000	0
<i>Cash Disbursed to:</i>			
Purchase of Investments		(446,759)	(205,181)
Increase in Term Deposit		0	0
<b>Net Cash Inflow (Outflow) from Investing Activities</b>		<b>90,795</b>	<b>(63,902)</b>
<b>Net Increase (Decrease) in Cash</b>		<b>15,711</b>	<b>(44,046)</b>
Revaluation of Overseas Bank Accounts		0	(57)
Opening Cash Balance		15,855	59,958
<b>Closing Cash Balance</b>		<b>31,566</b>	<b>15,855</b>

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## **VETERANS' MEDICAL RESEARCH TRUST FUND STATEMENT OF ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH 2018**

### **Accounting Policies Applied**

#### Basis of Preparation

The Trust has elected to apply PBE SFR - A (PS) Public Benefit Entity Simple Format Reporting – Accrual on the basis that the Trust does not have public accountability (as defined) and has total annual expenses of less than \$2 million.

All transactions in the financial statements are reported using the accrual basis of accounting.

The financial statements are prepared on the assumption that the Trust will continue to operate in the foreseeable future.

#### GST

The financial statements are prepared inclusive of GST, as the Trust is not required to register for GST

### **Significant Accounting Policies**

#### Investments

Investments are comprised of fixed interest investments, and listed equities.

Listed equities are initially recorded and subsequently measured at the stated fair value, which is approximate to market value or determined using quoted market prices in an active market. Any write downs in value are recognised in the statement of financial performance.

#### Revenue

##### Interest and dividend revenue

Interest and dividend revenue is recorded as it is earned during the year.

##### Research grants

Research grants are accounted for on a percentage completion basis.

#### Debtors

Debtor is initially recorded at the amount owed. When it is likely the amount owed (or some portion) will not be collected, a provision for impairment is recognised and the loss is recorded as a bad debt expense.

### Income Taxation

The Trust is exempt from paying income tax as a charity.

### Financial instruments

The Trust is party to financial instruments as part of its normal operations. These financial instruments include bank accounts, investments, short-term deposits, debtors, and creditors. All financial instruments are recognised in the statement of financial position and all revenues and expenses in relation to financial instruments are recognised in the statement of financial performance.

### Statement of cash flows

Cash means cash balances on hand, held in bank accounts, demand deposits and other highly liquid investments in which the Trust invest as part of its day-to-day cash management.

Operating activities include all activities other than investing activities. The cash inflows include all revenue that supports the Trust's operating activities. Cash outflows include payments made to grant recipients, suppliers and for other operating activities.

Investing activities are those activities relating to the acquisition and disposal of current and non-current securities.

### Creditors and accruals

Provision has been made for all known and identifiable liabilities existing at balance date. Creditors and accruals are measured at the amount owed.

### Changes in Accounting Policies

There have been no changes in accounting policy, since the date of the last audited financial statements.

**VETERANS' MEDICAL RESEARCH TRUST FUND NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018**

**Note 1: Audit Fees to Audit New Zealand for audit of financial statements**

Veterans' Affairs New Zealand will meet the cost of the audit for this financial year under section 262 of the Veteran's Support Act 2014.

2015:	\$6,038
2016:	\$4,364
2017:	\$4,385
2018:	\$4,697
<b>Total</b>	<b>\$19,484</b>

**Note 2: Cash and Bank**

Cash and Bank comprises cash balances held with the Bank of New Zealand, Wellington:

	<b>2018</b>	<b>2017</b>
BNZ Bank – Cheque account	24,841	4,412
Bank – Autocall account	0	0
Cash management account (NZD)	6,725	11,021
Cash management account (AUD)	0	372
Cash management account (USD)	0	50
	<b>31,566</b>	<b>15,855</b>

**Note 3: Investing activities**

Investing activities comprised the purchase and sale of a portfolio of investments managed by the BNZ Investment Management Limited.

Below is the Investment Portfolio held at year end.

	<b>2018</b>	<b>2017</b>
Cash management account	28,372	44,571
NZ and International Fixed Interest	520,576	525,359
NZ Property		
NZ Equities		
Australasian Equities	98,203	171,728
International Equities	181,214	95,448
Hedge Funds and Commodities	17,745	43,713
<b>Grand Total</b>	<b>\$ 846,110</b>	<b>\$ 880,819</b>

**Note 4: Reconciliation of Statement of Financial Performance with the Statement of Cash Flows**

	2018	2017
Net Surplus (Deficit) from Operations	<u>(56,042)</u>	<u>24,737</u>
<b><u>Add (Less) Non Cash Movements</u></b>		
(Increase) Decrease in Research in Advance		
(Gain) Loss on Investment Portfolio	(36,087)	(4,980)
Unrealised (Gain) / Loss on Cash Balances		
Realised Gains/loss on Disposal of Investments		
<b><u>Add (Less) Movements in Other Working Capital Items:</u></b>		
Increase (Decrease) in Creditors	(30)	51
(Increase) Decrease in Receivables	17,074	49
<b>Net Cash flow Operating Activities</b>	<b><u>(75,085)</u></b>	<b><u>19,855</u></b>

**Note 5: Contingent Liabilities**

No Contingent Liabilities existed as at 31 March 2018 (Nil 2017).

**Note 6: Commitments**

No Commitments existed as at 31 March 2018 (Nil 2017).

**Note 7: Related Party Transactions**

The Trust is considered a related party of Veterans' Affairs NZ (VANZ), which is a part of the New Zealand Defence Force. The only transactions with the related party in 2017/18 have been the free secretarial and administration services provided to the Fund by VANZ.

## Report on Veterans' Health Advisory Panel, 31 March 2018

The Veterans' Health Advisory Panel (the Panel) has met six times since 1 April 2017. At all times the Panel has acted fairly and transparently. It has:

- declared actual or perceived conflicts of interest at the start of each meeting, as required by its ministerial Terms of Reference, and determined whether or not those declarations represented a conflict.
- agreed that each member also complete a conflict of interest form for each call for funding research proposals, to be reviewed by the Chair and a plan agreed for how the conflict will be managed.
- recommended the Minister; revoke and replace 86 statements of principles, make minor amendments to 261 statements of principles, and introduce 22 new statements of principles.
- made a public call in 2017 for research proposals, and published the call on the Veterans' Affairs website, as required under the Veterans' Support Act 2014
- assessed the 2017 applications received against funding criteria, including the *Guiding Principles for Investment*
- advised all applicants of the outcome of their applications for research funding.

## Independent Auditor's Report

### To the readers of Veterans' Medical Research Trust Fund financial statements for the year ended 31 March 2018

The Auditor-General is the auditor of the Veterans' Medical Research Trust Fund (the Trust). The Auditor-General has appointed me, Karen Young, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements of the Trust on his behalf.

#### Opinion

We have audited the financial statements of the Trust on pages 5 to 11 that comprise the statement of financial performance, statement of financial position and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information.

In our opinion, the financial statements of the Trust on pages 5 to 11:

- present fairly, in all material respects:
  - its financial position as at 31 March 2018; and
  - its financial performance and cash flows for the year then ended; and
- comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Simple Reporting Format – Accrual (Public Sector) Standard.

Our audit was completed on 5 September 2018. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Head of Veterans' Affairs and our responsibilities relating to the financial statements, we comment on other information, and we explain our independence.

#### Basis for our opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



## **Responsibilities of the Head of Veterans' Affairs for the financial statements**

The Head of Veterans' Affairs is responsible on behalf of the Trust for preparing financial statements that are fairly presented and that comply with generally accepted accounting practice in New Zealand.

The Head of Veterans' Affairs is responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Head of Veterans' Affairs is responsible on behalf of the Trust for assessing the Trust's ability to continue as a going concern. The Head of Veterans' Affairs is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless the Trustees intend to wind-up the Trust or to cease operations, or have no realistic alternative but to do so. The Head of Veterans' Affairs' responsibilities arise from Part 8, Subpart 3 of the Veterans' Support Act 2014.

## **Responsibilities of the auditor for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers taken on the basis of these financial statements.

We did not evaluate the security and controls over the electronic publication of the financial statements.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control.

- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Head of Veterans' Affairs.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Trustees and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Trust's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Trust to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Head of Veterans' Affairs regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

## **Other information**

The Head of Veterans' Affairs is responsible for the other information. The other information comprises the information included on pages 3 and 4, and 12, but does not include the financial statements, and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## **Independence**

We are independent of the Trust in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board.

Other than the audit, we have no relationship with, or interests in, the Trust.

*Karen Young*

Karen Young  
Audit New Zealand  
On behalf of the Auditor-General  
Wellington, New Zealand

VETERANS' MEDICAL RESEARCH TRUST FUND  
FINANCIAL STATEMENTS

FOR THE YEAR ENDED  
31 MARCH 2017

A handwritten signature in blue ink, consisting of a stylized initial 'K' followed by a cursive name.

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# VETERANS' MEDICAL RESEARCH TRUST FUND FOR THE YEAR ENDED 31 MARCH 2017

## Statement of Responsibility

The financial statements of the Veterans' Medical Research Trust Fund have been prepared in accordance with Part 8, Subpart 3 of the Veterans' Support Act 2014.

I am responsible for:

- The preparation of the financial statements and the judgements expressed in them;
- Having in place a system of internal control design to provide reasonable assurance as to the integrity and reliability of the financial reporting; and
- The accuracy of any end-of-year performance information prepared by the Veterans' Medical Research Trust Fund, whether or not that information is included in this annual report

In my opinion, the financial statements fairly reflect the financial position and operations of the Veterans' Medical Research Trust Fund for the reporting period ended 31 March 2017.

Veterans' Affairs has complied with all statutory provisions relating to the operations of the Veterans' Medical Research Trust Fund during the period ended 31 March 2017.

Signed by:



Bernadine Mackenzie  
Head of Veterans' Affairs  
Veterans' Affairs New Zealand  
10 August 2018

# VETERANS' MEDICAL RESEARCH TRUST FUND STATEMENT OF ENTITY INFORMATION FOR THE YEAR ENDED 31 MARCH 2017

## Legal Name

Veterans' Medical Research Trust Fund (the Trust)

## Type of entity and legal basis

The War Pensions Medical Research Trust Fund was established under a 1968 amendment to the War Pensions Act 1954 and is continued under the Veterans' Support Act 2014 (the Act) under the name Veterans' Medical Research Trust Fund. The Trust is a Registered Charity under the Charities Act 2005 that is administered by Veterans' Affairs New Zealand (VANZ) in accordance with the Act.

## The Trust's Purpose

The Trust exists to make grants or awards for the purpose of research into any field of medicine beneficial for veterans.

## Structure of the Trust's operations, including governance arrangements

The Trust comprises a Board of two Trustees (the Head of Veterans' Affairs and the National President of the Royal New Zealand Returned and Services' Association). An independent statutory panel established under the Act, the Veterans' Health Advisory Panel, decides in accordance with the Act, how the income of the Trust is to be applied for grants and awards. VANZ makes the grants and awards in accordance with the recommendations of the Panel.

## Source of the Trust's cash and resources

The only current source of income is annual investment returns from a managed investment portfolio held with the Bank of New Zealand.

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**VETERANS' MEDICAL RESEARCH TRUST FUND STATEMENT OF FINANCIAL PERFORMANCE FOR ENDED 31 MARCH 2017**

	Notes	Actual 2017	Actual 2016
<b>Revenue</b>			
Interest		877	1,498
Investment Income		27,351	40,419
Realised Gain from Disposal of Investments		9,494	0
Unrealised Gains on Investment Portfolio		10,491	32,526
Exchange Gain on FX Cash Accounts		0	82
<b>Total Revenue</b>		<b>48,213</b>	<b>74,525</b>
<b>Expenses</b>			
Research Grants Paid		0	0
Realised loss on Maturity		3,957	1,172
Unrealised Loss on Investment Portfolio		10,951	10,136
Portfolio Fees		8,392	7,969
Exchange Loss on FX Cash Accounts		96	0
Bank Charges		80	91
Audit Fees	1		
<b>Total Expenses</b>		<b>23,476</b>	<b>19,368</b>
<b>Surplus / (deficit)</b>		<b>24,737</b>	<b>55,157</b>



**VETERANS' MEDICAL RESEARCH TRUST FUND STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2017**

	Notes	Actual 2017	Actual 2016
<b>Assets</b>			
<b>Current Assets</b>			
Bank accounts and cash	2	15,855	59,958
Tax Receivable		23,598	23,598
Term Deposit		20,000	20,000
Debtors		184	233
<b>Total current assets</b>		<b>59,637</b>	<b>103,789</b>
<b>Non-current assets</b>			
Investments	3	880,819	811,879
<b>Total non-current assets</b>		<b>880,819</b>	<b>811,879</b>
<b>Total assets</b>		<b>940,456</b>	<b>915,668</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Creditors and accrued expenses		728	677
<b>Total current liabilities</b>		<b>728</b>	<b>677</b>
<b>Non-current liabilities</b>			
<b>Total non-current liabilities</b>		<b>0</b>	<b>0</b>
<b>Total liabilities</b>		<b>728</b>	<b>677</b>
<b>Total assets less total liabilities</b>		<b>939,728</b>	<b>914,991</b>
<b>Trust Equity</b>			
Opening balance		914,991	859,834
Accumulated surpluses		24,737	55,157
<b>Total Trust equity</b>		<b>939,728</b>	<b>914,991</b>

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**VETERANS' MEDICAL RESEARCH TRUST FUND STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2017**

	Notes	Actual 2017	Actual 2016
<b>Cash flows from operating activities</b>			
Interest		926	1,498
Investments Income		27,351	40,419
Research Grants paid		0	0
Other operating expenses		(8,421)	(9,223)
Net cash flow from operating activities	4	19,856	32,694
<b>Cash flows from investing and financing activities</b>			
Receipts from sale of investments		141,279	102,035
Payments to acquire investments		(205,181)	(95,698)
Net cash flow from investing and financing activities		(63,902)	6,337
<b>Net increase / (decrease) in cash for the year</b>		<b>(44,046)</b>	<b>39,031</b>
Revaluation of overseas bank accounts		(57)	651
Add opening bank accounts and cash, including bank overdraft		59,958	20,276
Closing bank accounts and cash, including bank overdraft		15,855	59,958

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# VETERANS' MEDICAL RESEARCH TRUST FUND STATEMENT OF STATEMENT OF ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH 2017

## Accounting Policies Applied

### Basis of Preparation

The Trust has elected to apply PBE SFR-A Public Benefit Entity Simple Format Reporting – Accrual on the basis that the Trust does not have public accountability (as defined) and has total annual expenses of less than \$2 million.

All transactions in the financial statements are reported using the accrual basis of accounting.

The financial statements are prepared on the assumption that the Trust will continue to operate in the foreseeable future.

### GST

The financial statements are prepared inclusive of GST, as the Trust is not required to register for GST

### Significant Accounting Policies

#### Investments

Investments are comprised of fixed interest investments, and listed equities.

Listed equities are initially recorded and subsequently measured at the stated fair value, which is approximate to market value or determined using quoted market prices in an active market. Any write downs in value are recognised in the statement of financial performance.

#### Revenue

##### Interest and dividend revenue

Interest and dividend revenue is recorded as it is earned during the year.

##### Research grants

Research grants are accounted for on a percentage completion basis.

#### Debtors

Debtor is initially recorded at the amount owed. When it is likely the amount owed (or some portion) will not be collected, a provision for impairment is recognised and the loss is recorded as a bad debt expense.

#### Income Taxation

The Trust is exempt from paying income tax as a charity.

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### Financial instruments

The Trust is party to financial instruments as part of its normal operations. These financial instruments include bank accounts, investments, short-term deposits, debtors, and creditors. All financial instruments are recognised in the statement of financial position and all revenues and expenses in relation to financial instruments are recognised in the statement of financial performance.

### Statement of cash flows

Cash means cash balances on hand, held in bank accounts, demand deposits and other highly liquid investments in which the Trust invest as part of its day-to-day cash management.

Operating activities include all activities other than investing activities. The cash inflows include all revenue that supports the Trust's operating activities. Cash outflows include payments made to grant recipients, suppliers and for other operating activities.



Investing activities are those activities relating to the acquisition and disposal of current and non-current securities.

### Creditors and accruals

Provision has been made for all known and identifiable liabilities existing at balance date. Creditors and accruals are measured at the amount owed.

### Changes in Accounting Policies

There have been no changes in accounting policy, since the date of the last audited financial statements.

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## VETERANS' MEDICAL RESEARCH TRUST FUND NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

### Note 1: Audit Fees to Audit New Zealand for audit of financial statements

Veterans' Affairs New Zealand will meet the cost of the audit for the following four year period under section 262 of the Veteran's Support Act 2014.

2014: \$5,865

2015: \$6,039

2016: \$4,364

2017: \$4,364

Total \$20,632

### Note 2: Cash and Bank

Cash and Bank comprises cash balances held with the Bank of New Zealand, Wellington:

	2017	2016
	\$	\$
Bank – Cheque account	4,412	3,819
Bank – Autocall account	0	0
Cash management account (NZD)	11,021	50,095
Cash management account (AUD)	372	5,659
Cash management account (USD)	50	385
	<b>15,855</b>	<b>59,958</b>

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### Note 3: Investing activities

Investing activities comprised the purchase and sale of a portfolio of investments managed by the BNZ Investment Management Limited.

Below is the Investment Portfolio held at year end.

	2017	2016
	\$	\$
Cash	44,571	29,349
NZ and International Fixed Interest	525,359	469,747
NZ Property	0	72,306
NZ Equities		119,780
Australasian Equities	171,728	
International Equities	95,448	84,500
Hedge Funds and Commodities	43,713	36,197
<b>Grand Total</b>	<b>880,819</b>	<b>811,879</b>

### Note 4: Reconciliation of Statement of Financial Performance with the Statement of Cash Flows

	2017	2016
	\$	\$
Net Surplus (Deficit) from Operations	24,737	55,157
<u>Add (Less) Non Cash Movements</u>		
(Increase) Decrease in Research in Advance		
(Gain) Loss on Investment Portfolio	(4,981)	(22,389)
Unrealised (Gain) / Loss on Cash Balances		(82)
<u>Add (Less) Movements in Other Working Capital Items:</u>		
Increase (Decrease) in Creditors	51	8
(Increase) Decrease in Receivables	49	0
<b>Net Cashflow Operating Activities</b>	<b>19,856</b>	<b>32,694</b>

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**Note 5: Contingent Liabilities**

No Contingent Liabilities existed as at 31 March 2017 (Nil 2016).

**Note 6: Commitments**

No Commitments existed as at 31 March 2017 (Nil 2016).

**Note 7: Related Party Transactions**

The Trust is considered a related party of Veterans' Affairs NZ (VANZ), which is a part of the New Zealand Defence Force. The only transactions with the related party in 2016/17 have been the free secretarial and administration services (including audit fees) provided to the Fund by VANZ.

**Note 8: Breach of legislation**

Preparation and audit of the financial statements was delayed due to the complexity involved in interpreting the Trust Fund's legislative reporting requirements under the Veterans' Support Act 2014.

The delay in preparing and auditing the accounts resulted in a breach of Section 41 of the Charities Act 2005 which requires the annual return to be completed within 6 months of balance date. The Trust Fund was also unable to meet the timing requirements of Section 44 (presentation and publication of the annual report) and 45D (preparation and audit of the financial statements) of the Public Finance Act 1989.

## Report on Veterans' Health Advisory Panel 31 March 2017

The Veterans' Health Advisory Panel (the Panel) has met 10 times since 28 August 2014, including 3 times in 2016/17.

At all times the Panel has acted fairly and transparently in the implementation of systems and procedures. It has:

- developed and adopted formal Procedures to govern how it operates and how it exercises its powers
- declared actual or perceived conflicts of interest at the start of each meeting, as required by its ministerial Terms of Reference, and determined whether or not those declarations represented a conflict
- developed and adopted *Guiding Principles for Investment*, against which research proposals are assessed for grant funding from the Veterans' Medical Research Trust Fund
- made a public call in 2016 for research proposals, and published the call on the Veterans' Affairs website, as required under the Veterans' Support Act 2014
- assessed the 2016 applications received against funding criteria, including the *Guiding Principles for Investment*
- advised all applicants of the outcome of their applications for research funding.



## Independent Auditor's Report

### To the readers of Veterans' Medical Research Trust Fund financial statements for the year ended 31 March 2017

The Auditor-General is the auditor of the Veterans' Medical Research Trust Fund (the Trust). The Auditor-General has appointed me, Karen Young, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements of the Trust on his behalf.

#### Opinion

We have audited the financial statements of the Trust on pages 5 to 12, that comprise the statement of financial performance, statement of financial position and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information.

In our opinion, the financial statements of the Trust on pages 5 to 12:

- present fairly, in all material respects:
  - its financial position as at 31 March 2017; and
  - its financial performance and cash flows for the year then ended; and
- comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Simple Reporting Format – Accrual (Public Sector) Standard.

Our audit was completed on 10 August 2018. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Head of Veterans' Affairs and our responsibilities relating to the financial statements, we comment on other information, and we explain our independence.

#### Basis for our opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## **Responsibilities of the Head of Veterans' Affairs for the financial statements**

The Head of Veterans' Affairs are responsible on behalf of the Trust for preparing financial statements that are fairly presented and that comply with generally accepted accounting practice in New Zealand.

The Head of Veterans' Affairs are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Head of Veterans' Affairs are responsible on behalf of the Trust for assessing the Trust's ability to continue as a going concern. The Head of Veterans' Affairs are also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless the Trustees intend to wind-up the Trust or to cease operations, or have no realistic alternative but to do so. The Head of Veterans' Affairs responsibilities arise from Part 8, Subpart 3 of the Veterans' Support Act 2014.

## **Responsibilities of the auditor for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers taken on the basis of these financial statements.

We did not evaluate the security and controls over the electronic publication of the financial statements.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control.

- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Head of Veterans' Affairs.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Trustees and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Trust's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Trust to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Head of Veterans' Affairs regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

## **Other information**

The Head of Veterans' Affairs are responsible for the other information. The other information comprises the information included on pages 3 to 4 and 13, but does not include the financial statements, and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## **Independence**

We are independent of the Trust in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board.

Other than the audit, we have no relationship with, or interests in, the Trust.

*Karen Young*

Karen Young  
Audit New Zealand  
On behalf of the Auditor-General  
Wellington, New Zealand

VETERANS' MEDICAL RESEARCH TRUST FUND  
FINANCIAL STATEMENTS

FOR THE YEAR ENDED  
31 MARCH 2016

A handwritten signature in blue ink, consisting of a stylized 'M' and 'R' followed by a flourish.

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**VETERANS' MEDICAL RESEARCH TRUST FUND  
STATEMENT OF RESPONSIBILITY FOR THE YEAR ENDED 31 MARCH 2016**

**Statement of Responsibility**

The financial statements of the Veterans' Medical Research Trust Fund have been prepared in accordance with Subpart 3, Part 8 of the Veterans' Support Act 2014.

I am responsible for

- The preparation of the financial statements and the judgements expressed in them;
- Having in place a system of internal control design to provide reasonable assurance as to the integrity and reliability of the financial reporting; and
- The accuracy of any end-of-year performance information prepared by the Veterans' Medical Research Trust Fund, whether or not that information is included in this annual report

In my opinion, the financial statements fairly reflect the financial position and operations of the Veterans' Medical Research Trust Fund for the reporting period ended 31 March 2017.

Veterans' Affairs has complied with all statutory provisions relating to the operations of the Veterans' Medical Research Trust Fund during the period ended 31 March 2016.

Signed by



Bernadine Mackenzie  
Head of Veterans' Affairs  
Veterans' Affairs New Zealand

10 August 2018

**VETERANS' MEDICAL RESEARCH TRUST FUND  
ENTITY INFORMATION FOR THE YEAR ENDED 31 MARCH 2016**

**Legal Name**

Veterans' Medical Research Trust Fund (the Trust)

**Type of entity and legal basis**

The War Pensions Medical Research Trust Fund was established under a 1968 amendment to the War Pensions Act 1954 and is continued under the Veterans' Support Act 2014 (the Act) under the name Veterans' Medical Research Trust Fund. The Trust is a Registered Charity under the Charities Act 2005 that is administered by Veterans' Affairs New Zealand (VANZ) in accordance with the Act.

**The Trust's Purpose**



The Trust exists to make grants or awards for the purpose of research into any field of medicine beneficial for veterans.

**Structure of the Trust's operations, including governance arrangements**

The Trust comprises a Board of two Trustees (the Head of Veterans' Affairs and the National President of the Royal New Zealand Returned and Services' Association). An independent statutory panel established under the Act, the Veterans' Health Advisory Panel, decides in accordance with the Act, how the income of the Trust is to be applied for grants and awards. VANZ makes the grants and awards in accordance with the recommendations of the Panel.

**Source of the Trust's cash and resources**

The only current source of income is annual investment returns from a managed investment portfolio held with the Bank of New Zealand.

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**VETERANS' MEDICAL RESEARCH TRUST FUND STATEMENT OF FINANCIAL PERFORMANCE FOR ENDED 31 MARCH 2016**

	Notes	Actual 2016
<b>Revenue</b>		
Interest		1,498
Investment Income		40,419
Realised Gains on Disposal of Investments		0
Unrealised Gains on Investment Portfolio		32,526
Exchange Gain on FX Cash Accounts		82
<b>Total Revenue</b>		<b>74,525</b>
<b>Expenses</b>		
Research Grants Paid		0
Realised Loss on disposal of investments		1,172
Unrealised Loss on disposal of investments		10,136
Portfolio Fees		7,969
Exchange Loss on FX Cash Accounts		0
Bank Charges		91
Audit Fees	1	
<b>Total Expenses</b>		<b>19,368</b>
<b>Surplus / (deficit)</b>		<b>55,157</b>

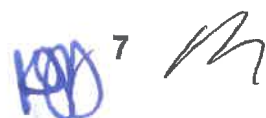
**VETERANS' MEDICAL RESEARCH TRUST FUND STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2016**

	Notes	Actual 2016
<b>Assets</b>		
<b>Current Assets</b>		
Bank accounts and Cash	2	59,958
Tax Receivable		23,598
Term Deposit		20,000
Debtors		233
<i>Total current assets</i>		103,789
<b>Non-current assets</b>		
Investments	3	811,879
<i>Total non-current assets</i>		811,879
<b>Total assets</b>		915,668
<b>Liabilities</b>		
<b>Current liabilities</b>		
Creditors and accrued expenses		677
<i>Total current liabilities</i>		677
<b>Total liabilities</b>		677
<b>Trust Equity</b>		
Opening balance		859,834
Accumulated surpluses		55,157
<b>Total Trust equity</b>		914,991

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**VETERANS' MEDICAL RESEARCH TRUST FUND STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 MARCH 2016**

	Notes	Actual 2016
<b>Cash flows from operating activities</b>		
Interest		1,498
Investments Income		40,419
Research Grants paid		0
Other operating expenses		(9,223)
<i>Net cash flow from operating activities</i>	4	32,694
<b>Cash flows from investing and financing activities</b>		
Receipts from sale of investments		102,035
Payments to acquire investments		(95,698)
<i>Net cash flow from investing and financing activities</i>		6,337
<b>Net increase / (decrease) in cash for the year</b>		<b>39,031</b>
Revaluation of overseas bank accounts		651
Add opening bank accounts and cash, including bank overdraft		20,276
<b>Closing bank accounts and cash, including bank overdraft</b>		<b>59,958</b>



# VETERANS' MEDICAL RESEARCH TRUST FUND STATEMENT OF STATEMENT OF ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH 2016

## Accounting Policies Applied

### Basis of Preparation

The Trust has elected to apply PBE SFR-A (PS) Public Benefit Entity Simple Format Reporting – Accrual (Public Sector) on the basis that the Trust does not have public accountability (as defined) and has total annual expenses of less than \$2 million.

All transactions in the financial statements are reported using the accrual basis of accounting.

The financial statements are prepared on the assumption that the Trust will continue to operate in the foreseeable future.

### GST

The financial statements are prepared inclusive of GST, as the Trust is not required to register for GST

### Significant Accounting Policies

#### Investments

Investments are comprised of fixed interest investments, and listed equities.

Listed equities are initially recorded and subsequently measured at the stated fair value, which is approximate to market value or determined using quoted market prices in an active market. Any write downs in value are recognised in the statement of financial performance.

#### Revenue

##### Interest and dividend revenue

Interest and dividend revenue is recorded as it is earned during the year.

##### Research grants

Research grants are accounted for on a percentage completion basis

##### Debtors

Debtor is initially recorded at the amount owed. When it is likely the amount owed (or some portion) will not be collected, a provision for impairment is recognised and the loss is recorded as a bad debt expense.

### Income Taxation

The Trust is exempt from paying income tax as a charity.

### Financial instruments

The Trust is party to financial instruments as part of its normal operations. These financial instruments include bank accounts, investments, short-term deposits, debtors, and creditors. All financial instruments are recognised in the statement of financial position and all revenues and expenses in relation to financial instruments are recognised in the statement of financial performance.

### Statement of cash flows

Cash means cash balances on hand, held in bank accounts, demand deposits and other highly liquid investments in which the Trust invest as part of its day-to-day cash management.

Operating activities include all activities other than investing activities. The cash inflows include all revenue that supports the Trust's operating activities. Cash outflows include payments made to grant recipients, suppliers and for other operating activities.

Investing activities are those activities relating to the acquisition and disposal of current and non-current securities.

### Creditors and accruals

Provision has been made for all known and identifiable liabilities existing at balance date. Creditors and accruals are measured at the amount owed.

### Changes in Accounting Policies

This is the first set of financial statements prepared using the new PBE SFR-A (PS) standard. The opening balance sheet as at 1 April 2015 has been restated to comply with the new standard. The significant adjustments arising on transition to the new standard are disclosed under note 8.

Under PBE-SFR-A (PS) B2, the Trust is considered a 'Group 4' entity. We have applied the option in PBE-SFR-A (PS) B10 (a) to apply the new standard from the start of the current period and not included comparative information. We have attached the 2015 financial statements and accounting policies to this report.

Tier 2 PBE Accounting Standards applied

The Trust in this transitional year has opted to apply the Tier 2 Accounting Standard PBE IPSAS 29 Financial Instruments: Recognition and Measurement for the valuation of the investment portfolio at market value for this asset class. Refer to note 8

## VETERANS' MEDICAL RESEARCH TRUST FUND NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016

### Note 1: Audit Fees to Audit New Zealand for audit of financial statements

Veterans' Affairs New Zealand will meet the cost of the audit for the following three year period under section 262 of the Veteran's Support Act 2014.

2014: \$5,865

2015: \$6,039

2016: \$4,364

Total \$16,267

### Note 2: Cash and Bank

Cash and Bank comprises cash balances held with the Bank of New Zealand, Wellington:

	\$
Bank – Cheque account	3,819
Bank – Autocall account	0
Cash management account (NZD)	50,095
Cash management account (AUD)	5,659
Cash management account (USD)	385
	<b>59,958</b>

### Note 3: Investing activities

Investing activities comprised the purchase and sale of a portfolio of investments managed by BNZ Investment Management Limited.

Below is the Investment Portfolio held at year end.

	\$
Cash	29,349
NZ and International Fixed Interest	469,747
NZ Property	72,306
NZ Equities	119,780
International Equities	84,500
Hedge Funds and Commodities	36,197
<b>Grand Total</b>	<b>811,879</b>

### Note 4: Reconciliation of Statement of Financial Performance with the Statement of Cash Flows

	\$
Net Surplus (Deficit) from Operations	55,157
<u>Add (Less) Non Cash Movements</u>	
(Increase) Decrease in Research in Advance	
(Gain) Loss on Investment Portfolio	(22,389)
Unrealised (Gain) / Loss on Cash Balances	(82)
<u>Add (Less) Movements in Other Working Capital Items:</u>	
Increase (Decrease) in Creditors	8
(Increase) Decrease in Receivables	0
<b>Net Cashflow Operating Activities</b>	<b>32,694</b>

**Note 5: Contingent Liabilities**

No Contingent Liabilities existed as at 31 March 2016.

**Note 6: Commitments**

No Commitments existed as at 31 March 2016.

**Note 7: Related Party Transactions**

The Trust is considered a related party of Veterans' Affairs NZ (VANZ), which is a part of the New Zealand Defence Force. The only transactions with the related party in 2015/16 have been the free secretarial and administration services (Including audit fees) provided to the Fund by VANZ.

**Note 8: Reconciliation of opening equity balance**

Upon transition to PBE SFR-A Public Benefit Entity Simple Format Reporting – Accrual, and the application of PBE IPSAS 29 Financial Instruments: Recognition and Measurement from 1 April 2015, the revaluation of investments to fair value results in an adjustment to the opening equity balance to reflect the revaluation movement as at 1 April 2015.

Below is a reconciliation from the 31 March 2015 closing balance and 1 April 2015 opening balance for the recognition of fair value adjustments to the investments portfolio.

	\$
<b>Lower of cost or net realisable value of investments 31 March 2015</b>	737,576
<b>Fair value adjustment to market value of investments</b>	58,820
<b>Market balance of investments at 1 April 2015</b>	<b>796,396</b>

	\$
<b>Closing equity balance at 31 March 2015</b>	801,104
<b>Fair value adjustment</b>	58,820
<b>Opening equity balance at 1 April 2015</b>	<b>859,834</b>





**Note 9: Breach of legislation**

Preparation and audit of the financial statements was delayed due to the complexity involved in interpreting the Trust Fund's legislative reporting requirements under the Veterans' Support Act 2014.

The delay in preparing and auditing the accounts resulted in a breach of Section 41 of the Charities Act 2005 which requires the annual return to be completed within 6 months of balance date. The Trust Fund was also unable to meet the timing requirements of Section 44 (presentation and publication of the annual report) and 45D (preparation and audit of the financial statements) of the Public Finance Act 1989.

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## Independent Auditor's Report

### To the readers of Veterans' Medical Research Trust Fund financial statements for the year ended 31 March 2016

The Auditor-General is the auditor of the Veterans' Medical Research Trust Fund (the Trust). The Auditor-General has appointed me, Karen Young, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements of the Trust on his behalf.

#### Opinion

We have audited the financial statements of the Trust on pages 5 to 13, that comprise the statement of financial performance, statement of financial position and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information.

In our opinion, the financial statements of the Trust on pages 5 to 13:

- present fairly, in all material respects:
  - its financial position as at 31 March 2016; and
  - its financial performance and cash flows for the year then ended; and
- comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Simple Reporting Format – Accrual (Public Sector) Standard.

Our audit was completed on 10 August 2018. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Head of Veterans' Affairs and our responsibilities and explain our independence.

#### Basis for opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with the ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers' overall understanding of the financial statements. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including our assessment of risks and of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the preparation of the Trust's financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Trustees;
- the adequacy of the disclosures in the financial statements; and
- the overall presentation of the financial statements.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements. Also, we did not evaluate the security and controls over the electronic publication of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Responsibilities of the Head of Veterans' Affairs**

The Head of Veterans' Affairs is responsible for the fair presentation of financial statements for the Trust that comply with generally accepted accounting practice in New Zealand and the Public Benefit Entity Simple Format Reporting – Accrual (Public Sector).

The Head of Veterans' Affairs responsibilities arise from the Veterans' Support Act 2014.

The Head of Veterans' Affairs is responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Veterans' Support Act 2014 requires the New Zealand Defence Force to include the annual report of the Trust in the New Zealand Defence Force's annual report.

### **Responsibilities of the Auditor**

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you based on our audit. Our responsibilities arise from the Public Audit Act 2001.

## Independence

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

Other than the audit, we have no relationship with, or interests in, the Trust.

*Karen Young*

Karen Young  
Audit New Zealand  
On behalf of the Auditor-General  
Wellington, New Zealand

VETERANS' MEDICAL RESEARCH TRUST FUND  
FINANCIAL STATEMENTS

FOR THE YEAR ENDED  
31 MARCH 2015

A handwritten signature in blue ink, appearing to be 'RAM', located in the bottom right corner of the page.

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# VETERANS' MEDICAL RESEARCH TRUST FUND FOR THE YEAR ENDED 31 MARCH 2015

## Statement of Responsibility

The financial statements of the Veterans' Medical Research Trust Fund have been prepared in accordance with Part 8, Subpart 3 of the Veterans' Support Act 2014.

I am responsible for:

- The preparation of the financial statements and the judgements expressed in them;
- Having in place a system of internal control design to provide reasonable assurance as to the integrity and reliability of the financial reporting; and
- The accuracy of any end-of-year performance information prepared by the Veterans' Medical Research Trust Fund, whether or not that information is included in this annual report

In my opinion, the financial statements fairly reflect the financial position and operations of the Veterans' Medical Research Trust Fund for the reporting period ended 31 March 2015

Veterans' Affairs has complied with all statutory provisions relating to the operations of the Veterans' medical Research Trust Fund during the period ended 31 March 2015.

Signed by:



Bernadine Mackenzie  
Head of Veterans' Affairs  
Veterans' Affairs New Zealand

10 August 2018

# VETERANS' MEDICAL RESEARCH TRUST FUND STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 31 MARCH 2015

**Statement of Financial Performance**

2014	Notes	2015
\$		\$
2,011	Interest	1,559
31,877	Investment Income	38,097
10,608	Realised Gain from Sale of Investments	9,018
5,577	Gain on Investment Portfolio	13,616
0	Exchange Gain on FX Cash Accounts	27
<u>50,073</u>	Total Income	<u>62,317</u>
0	Research Grants Paid	0
1,210	Realised Loss on Maturity	0
10,329	Loss on Investment Portfolio	3,723
6,882	Portfolio Fees	7,521
3,139	Exchange Loss on FX Cash Accounts	20
96	Bank Charges	91
<u>21,656</u>	Total Operating Expenses	<u>11,355</u>
<u>28,417</u>	Net Surplus (Deficit)	<u>50,962</u>

The statement of Accounting Policies and Notes to the Financial Statements form part of and should be read in conjunction with these financial statements.


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# VETERANS' MEDICAL RESEARCH TRUST FUND STATEMENT OF MOVEMENT IN EQUITY FOR THE YEAR ENDED 31 MARCH 2015

<b>Statement of Movement in Equity</b>		Notes	
2014			2015
\$			\$
721,635	Opening Balance		750,052
28,417	Net Surplus (Deficit)		50,962
<u>750,052</u>	Closing Balance		<u>801,014</u>

The Statement of Accounting Policies and Notes to the Financial Statements form part of and should be read in conjunction with these financial statements



# VETERANS' MEDICAL RESEARCH TRUST FUND STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2015

<b>Statement of Financial Position</b>			
2014		Notes	2015
\$			\$
<u>750,052</u>	Accumulated Funds		<u>801,014</u>
75,984	Cash and Bank	1	20,276
12	Accounts Receivable		233
23,598	Tax Receivable		23,598
20,000	Term Deposits		20,000
	<b>Non-Current Assets</b>		
631,046	Investments	2	737,576
<u>750,640</u>	<b>Total Assets</b>		<u>801,683</u>
588	Creditors		669
<u>588</u>	<b>Total (Current) Liabilities</b>		<u>669</u>
<u><b>750,052</b></u>	<b>Net Assets</b>		<u><b>801,014</b></u>

The Statement of Accounting Policies and Notes to the Financial Statements form part of and should be read in conjunction with these financial statements.

  
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# VETERANS' MEDICAL RESEARCH TRUST FUND STATEMENT OF CASH FLOW FOR THE YEAR ENDED 31 MARCH 2015

<b>Statement of Cashflow</b>		Notes	2015
2014			\$
\$			\$
	<u>Operating Activities</u>		
	<i>Cash Received from:</i>		
2,460	Interest Received		1,338
31,877	Investment Income		38,097
<u>34,337</u>			<u>39,435</u>
	<i>Cash Disbursed to:</i>		
0	Research Grants Paid		0
6,986	Other Operating Expenses		7,531
<u>6,986</u>			<u>7,531</u>
<u>27,351</u>	Net Cash Inflow (Outflow) from Operating Activities	3	<u>31,904</u>

The Statement of Accounting Policies and Notes to the Financial Statements form part of and should be read in conjunction with these financial statements.

# VETERANS' MEDICAL RESEARCH TRUST FUND STATEMENT OF CASH FLOW (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2015

## Statement of Cashflow (continued)

2014	Notes	2015
\$		\$
	<u>Investing Activities</u>	
	<i>Cash Received from:</i>	
236,883	Sale of Investments	49,325
0	Decrease in Term Deposit	0
236,883		49,325
	<i>Cash Disbursed to:</i>	
274,168	Purchase of Investments	136,978
0	Increase in Term Deposit	0
(37,285)	Net Cash Inflow (Outflow) from Investing Activities	(87,653)
<b>(9,934)</b>	<b>Net Increase (Decrease) in Cash</b>	<b>(55,749)</b>
(3,140)	Revaluation of Overseas Bank Accounts	41
89,058	Opening Cash Balance	75,984
75,984	Closing Cash Balance	20,276
	<u>Cash Balance Comprises:</u>	
73,408	Cash Management Account	17,212
2,576	Bank	3,064
75,984		20,276

The Statement of Accounting Policies and Notes to the Financial Statements form part of and should be read in conjunction with these financial statements.

# VETERANS' MEDICAL RESEARCH TRUST FUND STATEMENT OF ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH 2015

## Changes to reporting requirements

Under the Veterans' Support Act 2014 legislation, the War Pensions Medical Research Trust Fund was renamed the Veterans' Medical Research Trust Fund. Under this legislation, the assets and transactions of the War Pensions Advisory Board and the War Pensions Medical Research Trust Fund were combined into Veterans' Medical Research Trust Fund going forward.

Prior to 7 December 2014 the Veteran's Medical Research Trust Fund as a reporting entity had no assets or liabilities or transactions. So for this set of financial statements covering the period 1 April 2014 to 31 March 2015 for the period up to 6 December 2014 the transactions are that of the War Pensions Medical Research Trust Fund and for the period from 7 December 2014 they cover the transactions of the renamed fund.

## **Accounting Policies Applied**

### Differential Reporting

The Veterans' Medical Research Trust Fund is a qualifying entity within the Chartered Accountants Australia and New Zealand Differential Reporting Framework. The Trust qualifies under the size criteria and because it is not publicly accountable. The Trust has taken advantage of all differential reporting exemptions available to it except for reporting a Statement of Cash Flows and the Statement of Movements in Equity.

### Statement of Compliance

The Veterans' Medical Research Trust Fund meets the criteria for deferral of NZ IFRS due to not being publicly accountable and its size. The financial statements have been prepared in accordance with NZ GAAP, consistent with previous periods. The Veterans' Medical Research Trust Fund does not intend to adopt NZ IFRS for the year ended 31 March 2015.

### Measurement base

The measurement base is historical cost, unless otherwise stated in the accounting policies.

### Functional and presentation currency

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest dollar. The functional currency of the Trust is New Zealand dollars (NZ\$).

### Investments

Investments are stated at the lower of cost or net realisable value. Any write downs in value are recognised in the statement of financial performance.

### Research grants

Research grants are accounted for on a percentage completion basis.

### Accounts Receivable

Accounts Receivable are stated at expected realisable value after providing for doubtful debts.

### Taxation

The Veterans' Medical Research Trust Fund is exempt from paying income tax as a charity.

### GST

The financial statements are prepared inclusive of GST, as the Veterans' Medical Research Trust Fund is not required to register for GST.

### Financial instruments

The financial instruments include bank accounts, investments, short-term deposits, debtors, and creditors. All financial instruments are recognised in the statement of financial position and all revenues and expenses in relation to financial instruments are recognised in the statement of financial performance.

### Statement of cash flows

Cash means cash balances on hand, held in bank accounts, demand deposits and other highly liquid investments invested as part of day-to-day cash management.

Operating activities include all activities other than investing activities. The cash inflows include all revenue that supports operating activities. Cash outflows include payments made to grant recipients, suppliers and for other operating activities.

Investing activities are those activities relating to the acquisition and disposal of current and non-current securities.

### Payables and accruals

Provision has been made for all known and identifiable liabilities existing at balance date.

### Changes in Accounting Policies

There have been no changes in accounting policy, since the date of the last audited financial statements.

# VETERANS' MEDICAL RESEARCH TRUST FUND NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015

## Note 1 Cash and Bank

Cash and Bank comprises cash balances held with the Bank of New Zealand, Wellington:

2014		2015
\$		\$
2,576	Bank – Cheque account	3,064
0	Bank – Autocall account	0
72,798	Cash management account (NZD)	16,245
441	Cash management account (AUD)	682
169	Cash management account (USD)	285
<u>75,984</u>		<u>20,276</u>

## Note 2 Investing activities

Investing activities comprised the purchase and sale of a portfolio of investments managed by BNZ Investment Management Limited.

Below is the Investment Portfolio held at year end. This is at market value at 31 March 2015. Investments in the Statement of Financial Position are at lower of cost or net realisable value.

	2014 \$	2015 \$
<b>NZ Cash</b>	<b>48,302</b>	<b>30,876</b>
<b>NZ and International Fixed Interest</b>	<b>373,247</b>	<b>467,540</b>
<b>NZ Property</b>	<b>52,200</b>	<b>64,485</b>
<b>NZ Equities</b>	<b>94,989</b>	<b>108,866</b>
<b>International Equities</b>	<b>92,574</b>	<b>87,642</b>
<b>Hedge Funds and Commodities</b>		<b>36,849</b>
<b>Grand Total</b>	<b>661,312</b>	<b>796,258</b>

**Note 3                      Reconciliation of Statement of Financial Performance with the Statement of Cash Flows**

2014 \$		2015 \$
28,417	Net Surplus (Deficit) from Operations	50,962
	<u>Add (Less) Non Cash Movements</u>	
	(Increase) Decrease in Research in Advance	
(4,646)	(Gain) Loss on Investment Portfolio	(18,911)
3,140	Unrealised (Gain) / Loss on Cash Balances	(8)
	<u>Add (Less) Movements in Other Working Capital Items:</u>	
(9)	Increase (Decrease) in Creditors	82
449	(Increase) Decrease in Receivables	(221)
<u>27,351</u>	Net Cashflow Operating Activities	<u>31,904</u>

**Note 4                      Contingent Liabilities**

No Contingent Liabilities existed as at 31 March 2015 (Nil 2014).



**Note 5            Commitments**

No Commitments existed as at 31 March 2015 (Nil 2014).

**Note 6:    Related Party Transactions**

The Veterans' Medical Research Trust Fund is considered a related party of Veterans' Affairs NZ (VANZ), which is a part of the New Zealand Defence Force. The only transactions with the related party in 2014/15 have been the free secretarial and administration services (including audit fees) provided by VANZ.

**Note 7:            Audit Fees**

Veterans' Affairs New Zealand will meet the cost of the audit for the year ended 31 March 2015 is \$6,039 (2014: \$5,865) under section 262 of the Veteran's Support Act 2014.

**Note 8:    Breach of legislation**

Preparation and audit of the financial statements was delayed due to the complexity involved in interpreting the Trust Fund's legislative reporting requirements under the Veteran's Support Act 2014, Charities Act 2005, and Public Finance Act 1989.

The delay in preparing and auditing the accounts resulted in non-compliance with Section 41 of the Charities Act 2005 which requires the annual return to be completed within 6 months of balance date. The Trust Fund was also unable to meet the timing requirements of Section 44 (presentation and publication of the annual report) and 45D (preparation and audit of the financial statements) of the Public Finance Act 1989.

## Independent Auditor's Report

### To the readers of Veterans' Medical Research Trust Fund financial statements for the year ended 31 March 2015

The Auditor-General is the auditor of the Veterans' Medical Research Trust Fund (the Trust). The Auditor-General has appointed me, Karen Young, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements of the Trust on his behalf.

#### Opinion

We have audited the financial statements of the Trust on pages 4 to 13, that comprise the statement of financial performance, statement of financial position and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information.

In our opinion, the financial statements of the Trust on pages 4 to 13:

- present fairly, in all material respects:
  - its financial position as at 31 March 2015; and
  - its financial performance and cash flows for the year then ended; and
- comply with generally accepted accounting practice in New Zealand in accordance with the Chartered Accountants Australia and New Zealand Differential Reporting Framework.

Our audit was completed on 10 August 2018. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Head of Veterans' Affairs and our responsibilities and explain our independence.

#### Basis for opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with the ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers' overall understanding of the financial statements. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including our assessment of risks and of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the preparation of the Trust's financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Trustees;
- the adequacy of the disclosures in the financial statements; and
- the overall presentation of the financial statements.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements. Also, we did not evaluate the security and controls over the electronic publication of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Responsibilities of the Head of Veterans' Affairs**

The Head of Veterans' Affairs is responsible for the fair presentation of financial statements for the Trust that comply with generally accepted accounting practice in New Zealand and the Public Benefit Entity Simple Format Reporting – Accrual (Public Sector).

The Head of Veterans' Affairs responsibilities arise from the Veterans' Support Act 2014.

The Head of Veterans' Affairs is responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Veterans' Support Act 2014 requires the New Zealand Defence Force to include the annual report of the Trust in the New Zealand Defence Force's annual report.

### **Responsibilities of the Auditor**

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you based on our audit. Our responsibilities arise from the Public Audit Act 2001.

## **Independence**

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

Other than the audit, we have no relationship with, or interests in, the Trust.

*Karen Young*

Karen Young  
Audit New Zealand  
On behalf of the Auditor-General  
Wellington, New Zealand



**A FORCE FOR  
NEW ZEALAND**

New Zealand Government