



New Zealand
DEFENCE FORCE
Te Ope Kātua O Aotearoa

AR 20

ANNUAL REPORT 2020

For the year ended 30 June 2020 and
Report by the Minister for Veterans on selected non-departmental appropriations for the year ended 30 June 2020 and
Financial statements of the Veterans' Medical Research Trust Fund for the year ended 31 March 2020.
Presented to the House of Representatives Pursuant to Section 44(1) of the Public Finance Act 1989 and Section 91 of the Defence Act 1990



AR 20

ANNUAL REPORT 2020

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

**Headquarters
New Zealand Defence Force**
34 Bowen Street
Wellington
New Zealand

Phone: +64 4 496 0999
Facsimile: +64 4 496 0869
NZDF Website: www.nzdf.mil.nz

The NZDF Annual Report is published online at www.nzdf.mil.nz/public-information pursuant to Section 44(4) of the Public Finance Act 1989.

© Crown Copyright



Chief of Defence Force Message

The past year has been remarkable for the challenges faced by New Zealand and the globe. In the face of unprecedented events, I am immensely proud of the response of the New Zealand Defence Force (NZDF).

We exist to secure the well-being of New Zealand and New Zealanders. In times of crisis, we provide Government with flexible options, unique capabilities, and professional, adaptable people.

When this reporting year began, no one would have predicted that we would see NZDF personnel wading through the toxic ash and mud of an active volcano, Whakaari/White Island, to recover the bodies of those tragically lost in the eruption.

Only weeks later, as most of us enjoyed the Christmas/New Year summer break, NZDF helicopters and crews, engineers, and firefighters were cutting their holidays short and deploying to Australia to help fight their devastating bushfires. As they did so, the first reports began to emerge of a novel coronavirus outbreak, and within the month the NZDF had established the first quarantine facility at our Navy site at Whangaparaoa for New Zealanders evacuated from Wuhan. If we had closed our Annual Report then, we would have considered this a remarkable year.

Rather, the global coronavirus pandemic saw us go on to engage in our largest 'deployment' since Timor Leste, with over 1,200 NZDF personnel currently assigned to run Managed Isolation and Quarantine Facilities. Along the way, the NZDF mobilised dozens of planning and logistics staff to support the all of government response, and conducted supporting tasks as diverse as repairing a commercial face-mask manufacturing machine, to staffing checkpoints in the cordon around Auckland.

In each of these examples I am brought back to the extraordinary flexibility and capacity of the personnel of our NZDF. In many ways, these extraordinary events have overshadowed the continued delivery of the 'core business' of a military force. In this reporting year we concluded our Building Partner Capacity training mission in Iraq. In almost five years, alongside our Australian allies, we trained over 47,000 Iraqis to defend their own nation against the scourge of ISIS, leaving the Iraqi forces with the skills to sustain their own training programs into the future.

Our peacekeeping missions around the world have continued, from the Sinai Peninsula in Egypt, to the demilitarized zone between North and South Korea. New Zealand continues to play its role as a good global citizen, supporting peace and security, and the international rules-based order. For NZDF personnel on such missions, our core role is unchanged, but the pandemic has added the complexity of lockdowns, travel restrictions and logistics challenges.

Closer to home, tasks such as delivering Humanitarian Assistance and Disaster Relief to Vanuatu after Tropical Cyclone Harold were also undertaken with the added constraints of the pandemic. This was evident both in the way we needed to protect the population of Vanuatu from possible exposure to COVID-19, but also in the way we needed to segregate and protect our aircrews from COVID-19 in New Zealand, so that they remained ready and able to perform when they were called upon.

Events such as tropical cyclones do not pause for a pandemic, and global security challenges do not 'go into lockdown' alongside civilian populations. This Annual Report reflects the core business of Defence, but with the added complexities of conducting operations in the midst of a constantly evolving pandemic. It also reflects the exceptional utility of the NZDF and our ability to step-up when called upon to meet the most unconventional tasks: from body recovery on a volcano, to running a quarantine facility.

The investment in the NZDF detailed in this Report buys more than ships and aircraft, more than search and rescue or patrols of our fisheries, more than our contribution to security on the world stage. New Zealanders' investment in the NZDF buys a unique contingent capability: women and men who stand ready to serve 24/7, equipped and trained for the conventional and the unconventional.

A Force with the flexibility, skills, and professionalism to deal with the unprecedented, and to provide our Government with options when they need them.

A Force for New Zealand.

“We exist to secure the well-being of New Zealand and New Zealanders. In times of crisis, we provide Government with flexible options, unique capabilities, and professional, adaptable people.”



K.R. Short
Air Marshal
Chief of Defence Force

01

About the New Zealand Defence Force 8

Who we are	11
What we do	12
Managing Our Business	16
Our People	20
Where we Work	24

02

Responding to COVID-19 26

03

Delivering Defence Outcomes 32

World	35
Nation	42
Community	50
What do our Key Stakeholders, Ministers and the Public say about us?	54

04

Honouring Our Veterans 56

05

Strategic Focus: An Integrated Defence Force 60

Joint Operational Excellence	63
Operational Domain Mastery	65
Organisational Excellence	71

06

Financial Highlights **78**

07

Accountability Reporting: Departmental Appropriations **84**

Navy Capabilities Prepared for Joint Operations and Other Tasks	88
Army Capabilities Prepared for Joint Operations and Other Tasks	90
Air Force Capabilities Prepared for Joint Operations and Other Tasks	92
Protection of New Zealand and New Zealanders	94
Operations Contributing to New Zealand's Security, Stability and Interests	101
Advice to the Government	104
Policy Advice and Other Services for Veterans	107

08

Financial Statements **120**

Statement of Responsibility	122
Independent auditor's report	123

Appendix 1

Report on selected non-departmental appropriations for the year ended 30 June 2020	200
--	-----

Appendix 2

Veterans' Medical Research Trust Fund Financial Statements for the year ended 31 March 2020	207
---	-----





01

**About the
New Zealand
Defence Force**

The New Zealand Defence Force is a combat-capable military force, ready to respond to domestic and international events that pose a real risk of harm.

Who we are

We are a modern, professional military that is ready and able to protect New Zealand and its interests at home and abroad across diverse geographical and operating environments. Our contributions to peace and security provide the national security our country needs to prosper as a nation, and allows us to go freely about our daily lives.

New Zealand has a proud history of contributing to international efforts to resolve conflict. We are a credible coalition partner committed to peace and security, and regularly work alongside international partners on operations and exercises throughout the world where interoperability is a key requirement.

We are a large and complex organisation that also includes Veterans' Affairs. As an operational unit within the NZDF, Veterans' Affairs upholds New Zealand's responsibility to honour the service of veterans. Veterans' Affairs does this through service delivery to the veteran community and the provision of policy advice to the Government. The Minister for Veterans is responsible for the appropriations for Veterans' Affairs within Vote Defence Force.



What we do

Our key role is to have military capability – people, equipment, and information – available for use when the Government needs it. The preparation and availability of a credible and effective armed force, capable of serving the Government's defence and national security policy objectives, is the NZDF's highest priority.

In addition, our technical skills, professional training, and high-end military equipment lend versatility to a range of security and humanitarian tasks.

We work in partnership with many other government agencies to conduct activities within New Zealand, the Pacific and the Southern Ocean to protect New Zealand's resources, enforce protected areas, build experience and capacity, and provide lifesaving aid when required.

We have strong partnerships with our Pacific partners and make a valuable contribution to Pacific regional security through capacity building, engagements, and humanitarian and disaster relief activities.

We are a key part of New Zealand's broader security system, and work alongside other government agencies to protect and advance New Zealand's security interests. We are part of the External Sector, which is administered by four departments – the NZDF, the Ministry of Defence, the Ministry of Foreign Affairs and Trade, and the New Zealand Customs Service.

Our operating environment

Defence planning and management must be undertaken in circumstances where there is a high degree of uncertainty compared with other government agencies where the operating environment is usually more predictable.

New Zealand's geographic location results in some unique challenges. Being a small landmass in the south of the world's largest ocean has significant implications for the specialist military equipment we require. The area for which New Zealand has Search and Rescue responsibility is the largest in the world, spanning over 30 million square kilometres. New Zealand's EEZ is the fourth largest in the world. Many of our operations in support of regional and global security are expeditionary and must be supported over long distance.

OUR PURPOSE

We are a combat-ready force keeping
New Zealand safe and secure

OUR MISSION

To secure New Zealand against external
threat, to protect our sovereign interests,
including in the Exclusive Economic
Zone, and be able to take action to meet
likely contingencies in our strategic
areas of interest

OUR VALUES

Tū Kaha | Courage
Tū Tika | Commitment
Tū Tira | Comradeship
Tū Māia | Integrity

Adding value to New Zealand's security, resilience and wellbeing across the Community, Nation and World

The Living Standards Framework is a Treasury-developed tool that emphasises the diversity of outcomes meaningful for New Zealanders. We provide value to the community, nation and world through the four capitals of the Living Standards Framework.

Natural Capital

The NZDF contributes to the sustainable use and awareness of the environment for the current and future wellbeing of New Zealanders, through the monitoring and surveillance of the maritime environment, including the Southern Ocean and New Zealand's exclusive economic zone.

Human Capital

The NZDF contributes to the personal, social and economic wellbeing of New Zealanders, through the generation of a skilled and diverse workforce and through stewardship roles with New Zealand youth and communities.

Social Capital

The NZDF protects the New Zealand way of life through strengthening New Zealand's international relationships and providing security to democratic norms and values.

The NZDF safeguards this social capital into the future by maintaining military capabilities which can respond to a broad range of security events.

Financial and Physical Capital

The NZDF protects New Zealand's financial and physical assets, and ensures that New Zealand's economic prosperity is sustained and remains resilient.

The NZDF invests in military infrastructure and equipment across a diverse range of New Zealand communities. The Defence business model ensures the NZDF is sustainable into the future.

Our activities contributing to the four capitals are illustrated in the Delivering Defence Outcomes section.

Te Tiriti o Waitangi – Partnership

The NZDF is committed to improving outcomes for Māori and meeting its partnership obligations under the Treaty of Waitangi.

The NZDF is currently introducing a Māori Strategic Framework led from the Office of the Chief of Defence Force to advance the rate of bicultural competency throughout all levels of the force. This includes a continued focus on biculturalism and enhancing Te Reo Māori skills across the NZDF. This will build capability across the force, affirm our partnership obligations under the Te Tiriti o Waitangi, develop and strengthen our relationships with iwi, and support increased collaboration and coordination within the Public Service.

In 2020, the NZDF was a partner with the Waitangi National Trust and other Crown agencies in marking the 180th anniversary of the signing of Te Tiriti o Waitangi. A number of major activities honoured Māori service in the Armed Forces, including the opening of Te Rau Aroha Museum and a public programme on the Treaty grounds.



Managing Our Business

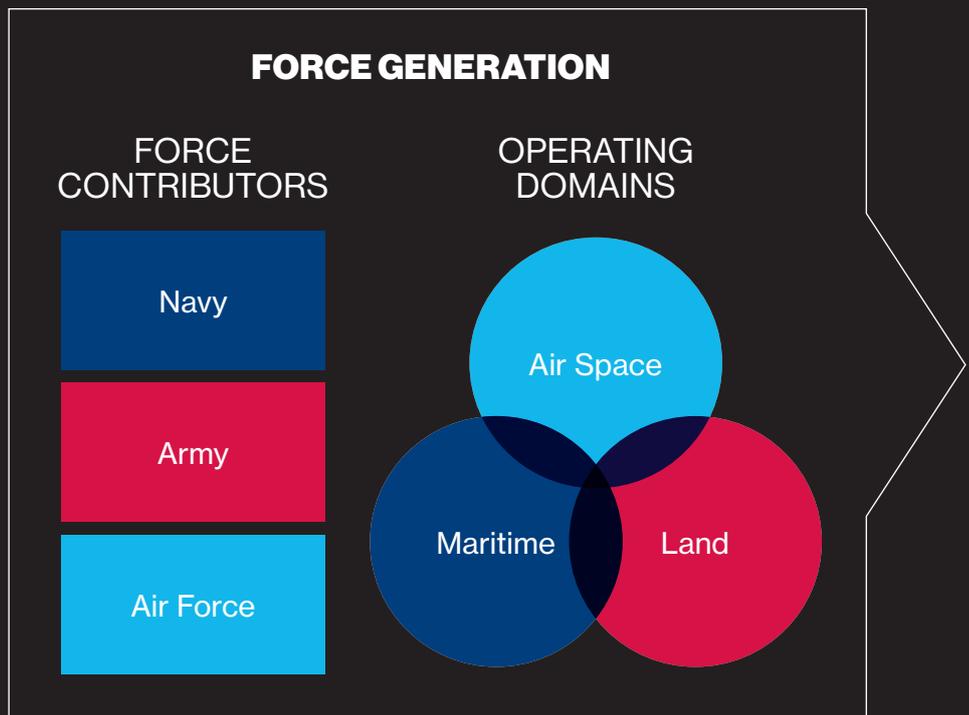
Operating model

Our operating model is a representation of the current way that we deliver military activities and Outputs.

The core of the operating model is a value chain linking military forces with the delivery of military effects and Outputs. This value chain consists of the following components:

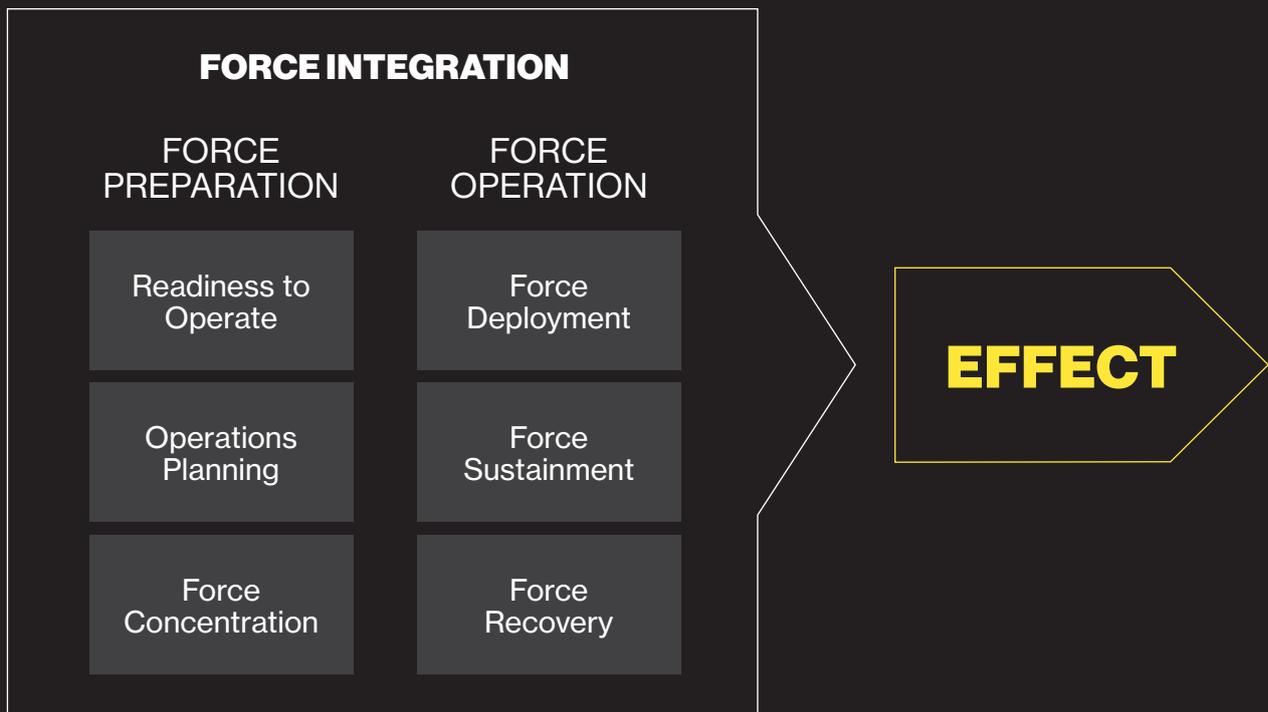
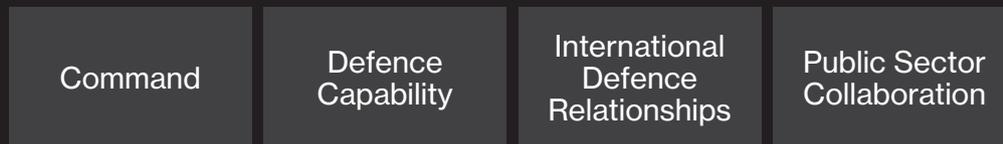
- Force Generation:** Navy, Army and Air Force are Force Contributors responsible for developing and generating force elements which combine into task forces. These are available for deployment in Operating Domains which are the environments that frame military activities.
- Force Integration:** Commander Joint Forces New Zealand is responsible for Force Integration. Force Integration comprises two parts: Force Preparation which is the process of planning and concentrating generated force elements; and Force Operation which is that of deploying and sustaining force elements or task forces on operations.
- Effects:** This component represents military effects to generate both 'Protection of New Zealand and New Zealanders' and 'Operations Contributing to New Zealand's Security, Stability and Interests' outputs.

The Enabling Functions component provides the business and integrated support required by the other components of the operating model. Some Enabling Functions also directly deliver effects.



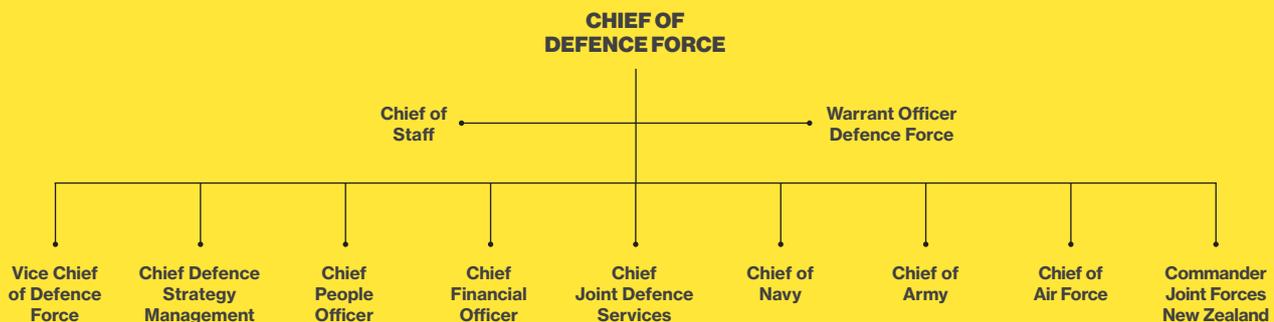
Strategy	Financial Management	Legal
Assurance & Controls	Procurement	People & Talent

DEFENCE LEADERSHIP



ENABLING FUNCTIONS





Leadership and Governance

Governance of the NZDF is supported by a number of boards and committees within a tiered structure.

The Tier One governance activities are delivered through a number of strategic-level bodies providing decision making forums and the provision of advice and assurance. The Executive Committee (EXCO) is chaired by the Chief of Defence Force (CDF) and is the highest decision-making body within the NZDF. EXCO provides executive-level governance, sets the strategic direction, provides investment governance, prioritises change initiatives, governs the portfolios and sets policy. CDF is supported by several committees including:

- The NZDF Advisory Board provides strategic advice to the CDF on specific issues. Chaired by an independent external member, the Advisory Board includes the key leadership of the NZDF as well as a number of independent external members including the Secretary of Defence. The Board helps ensure the long term success of the NZDF and provides oversight of performance against plans and key business risks. This Board does not have a decision-making mandate.
- The Risk and Assurance Committee provides advice on risk management frameworks, and assurance functions such as internal control mechanisms, internal audit functions, and policies and processes, to ensure compliance with legislative requirements and Central Agencies' policies. It has an external Chairperson who also sits on the NZDF Advisory Board.
- The Executive Health and Safety Committee provides assurance that health, safety and wellbeing matters are well managed including, but not limited to, the due diligence obligations as set out in section 44(4) of the Health and Safety at Work Act 2015.

The NZDF also has a number of other governance committees providing assurance to senior decision-makers and the government. This includes those which are responsible for ensuring that projects and programmes deliver expected outcomes and benefits. The capability management system is governed in partnership with the Ministry of Defence.



Organisational structure

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 Minister of Defence, down through the Chief of 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 NZDF Headquarters, and enabling functions. The executive management structure is set out in the diagram.

Risk management

To be a trusted, highly trained Defence Force that is combat capable, flexible and ready, we must ensure that risk is identified, understood, and managed so that our objectives are met.

By adopting and applying good practice in the identification, assessment, communication and management of risks, we will increase the likelihood of success and maximise the opportunities we choose to pursue.

We updated our Risk Management Framework in 2019, to ensure it is fit-for-purpose for a contemporary Defence Force. It is based upon, and consistent with, ISO 31000:2018 Risk Management, and integrates risk management into our strategy, governance, leadership, objectives and operations. The Risk and Assurance Committee has oversight of the NZDF Risk Management Framework.

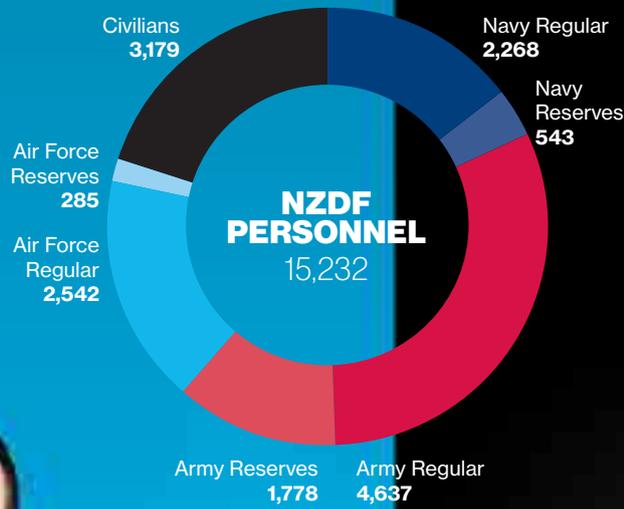
Our People

Regular Force is made up of service personnel who fill a wide variety of roles across the Navy, Army, and Air Force. Our soldiers, sailors and airmen are a diverse and capable group of people in ranks and roles: Privates to Generals, technicians to special operations troops, intelligence specialists to medics.

Our people are also trained in command, planning, leadership, operations, and logistics support. They participate in and support operational deployments, training, and recruitment. They have oversight, managerial and corporate functions on bases, camps, and at Headquarters Joint Forces New Zealand and Headquarters NZDF. They serve in New Zealand and around the world.

Reserves provide 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 additional forces ready to respond to a large-scale military deployment.



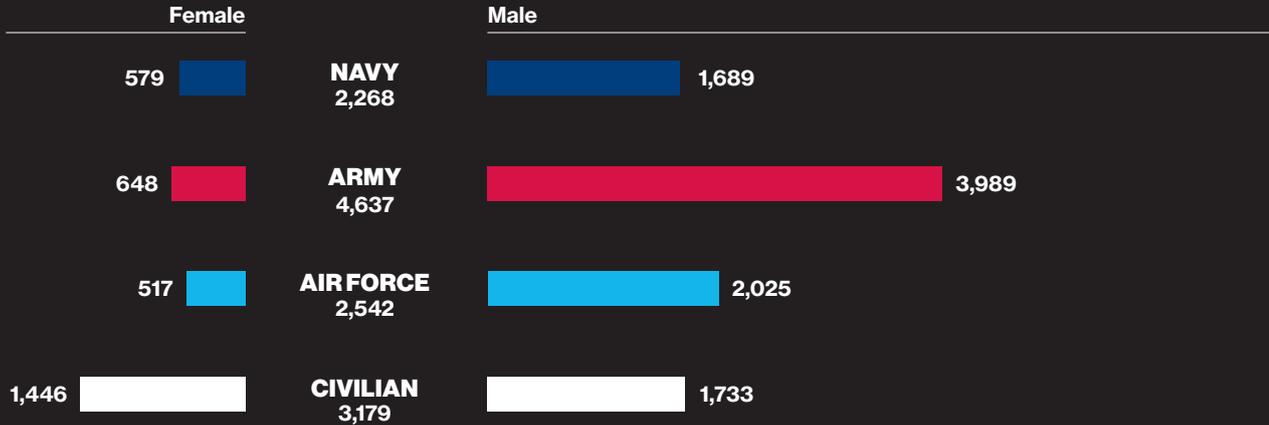


Civilian employees fill a wide range of specialist and corporate roles that do not require deployment in an operational environment. The work they do enables the NZDF to operate effectively. Some civilian personnel are former Regular Force, or are also currently-serving Reserves.

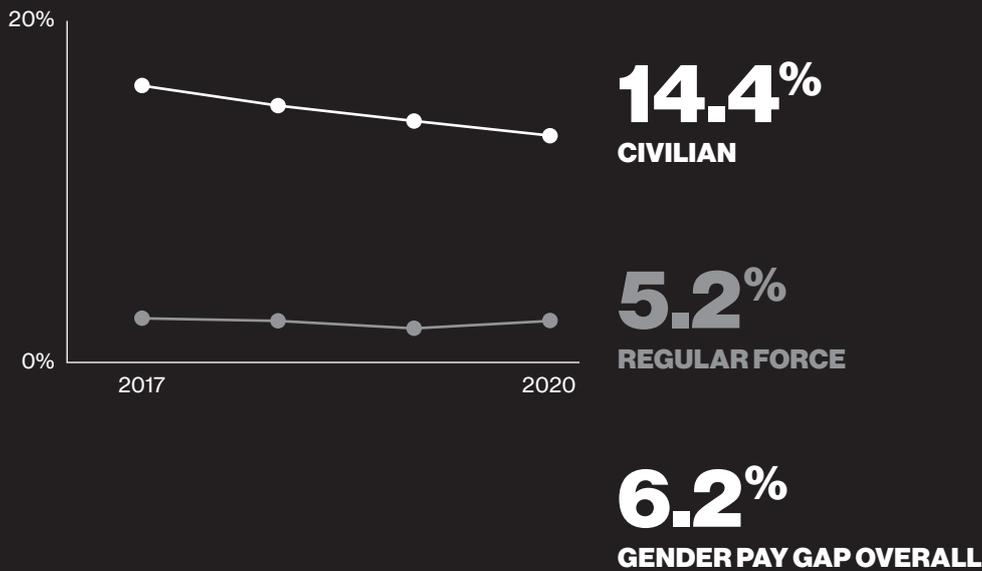


At a Glance*

Headcount by Service and Gender

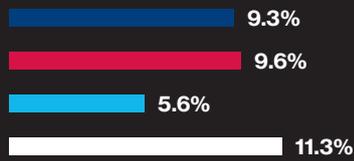


Regular Force and Civilian Gender Pay Gap 2017–2020



* Excluding Reserves

Attrition as at 30 June



9.2%

84%

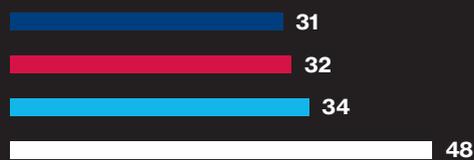
OF NZDF PERSONNEL
FEEL RESPECTED BY
THEIR COLLEAGUES

Ethnicities

	Regular Force	Civilian
NZ European	64.1%	52.3%
Other European	14.7%	17.8%
Māori	17.0%	8.1%
Pacific	5.4%	3.6%
Asian	2.7%	4.3%
Other	4.8%	20.2%



Average Age

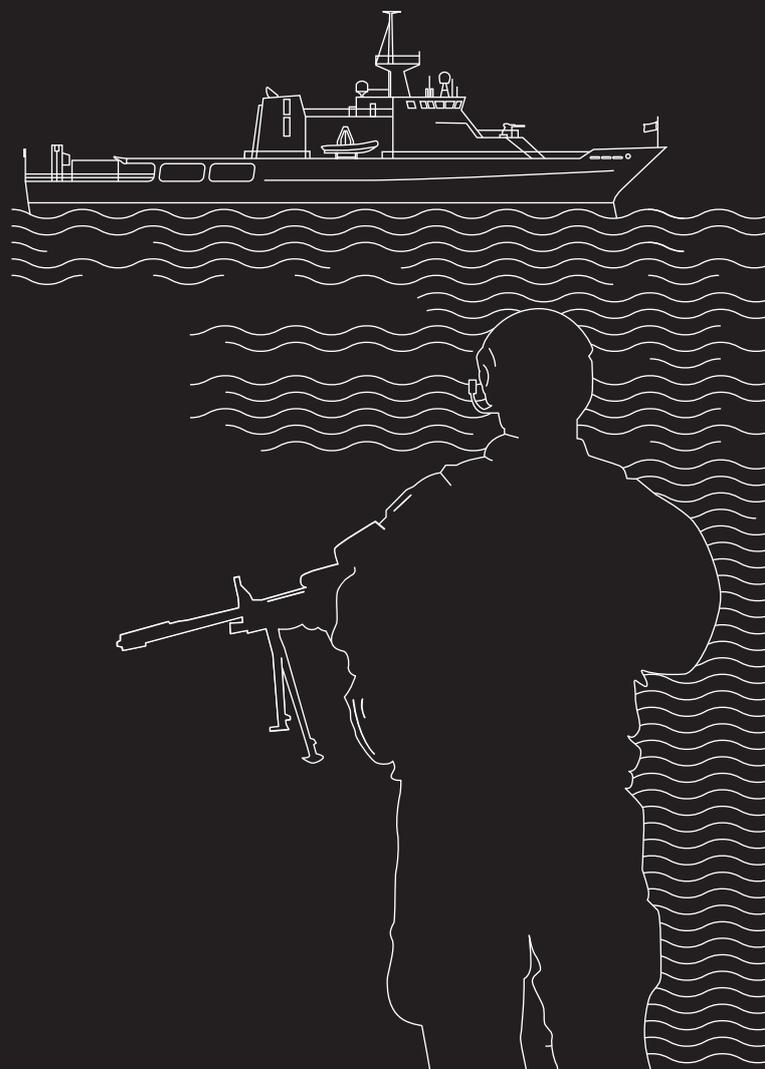


36 years

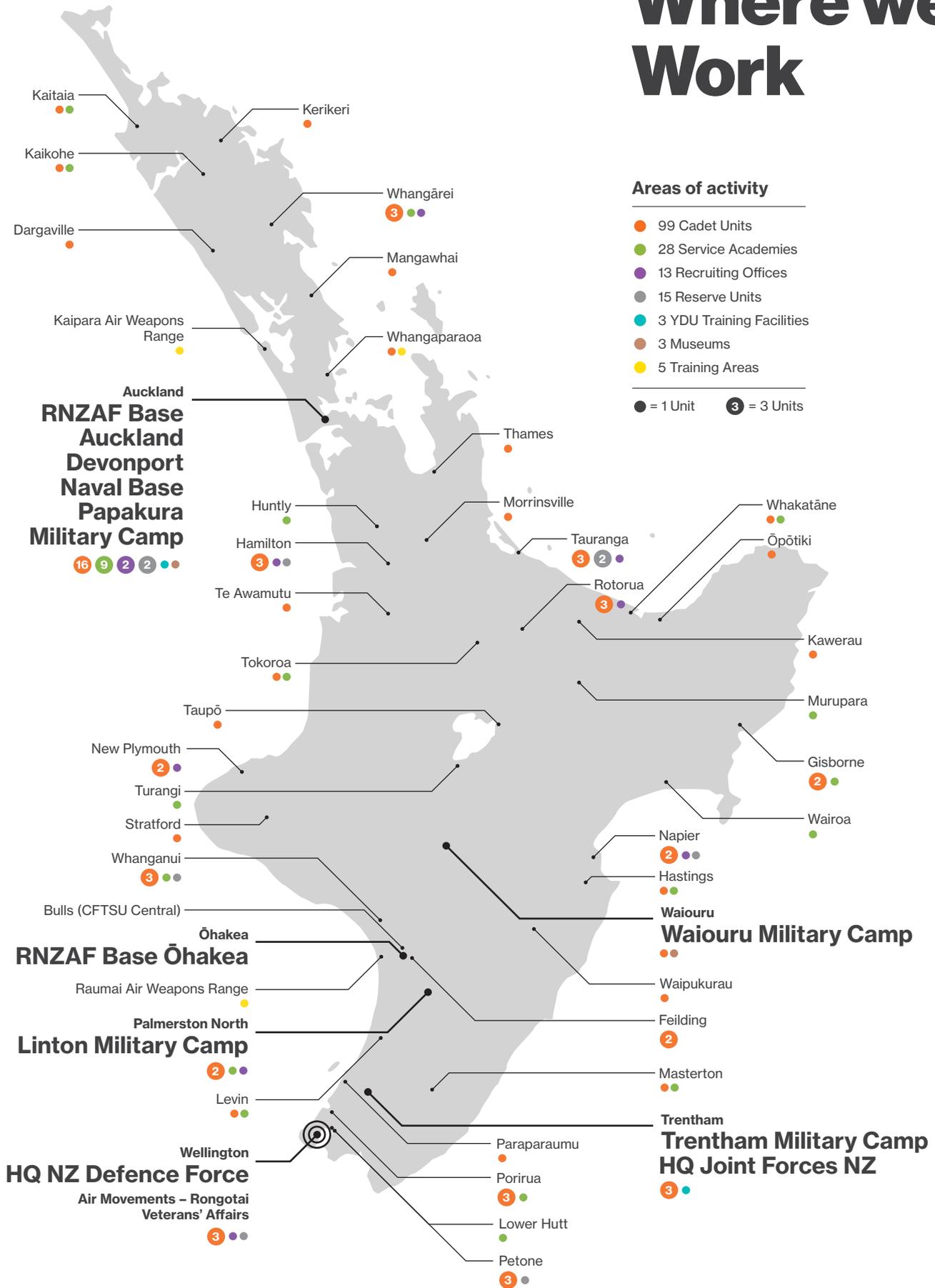
Service Length



10.3 years



Where we Work

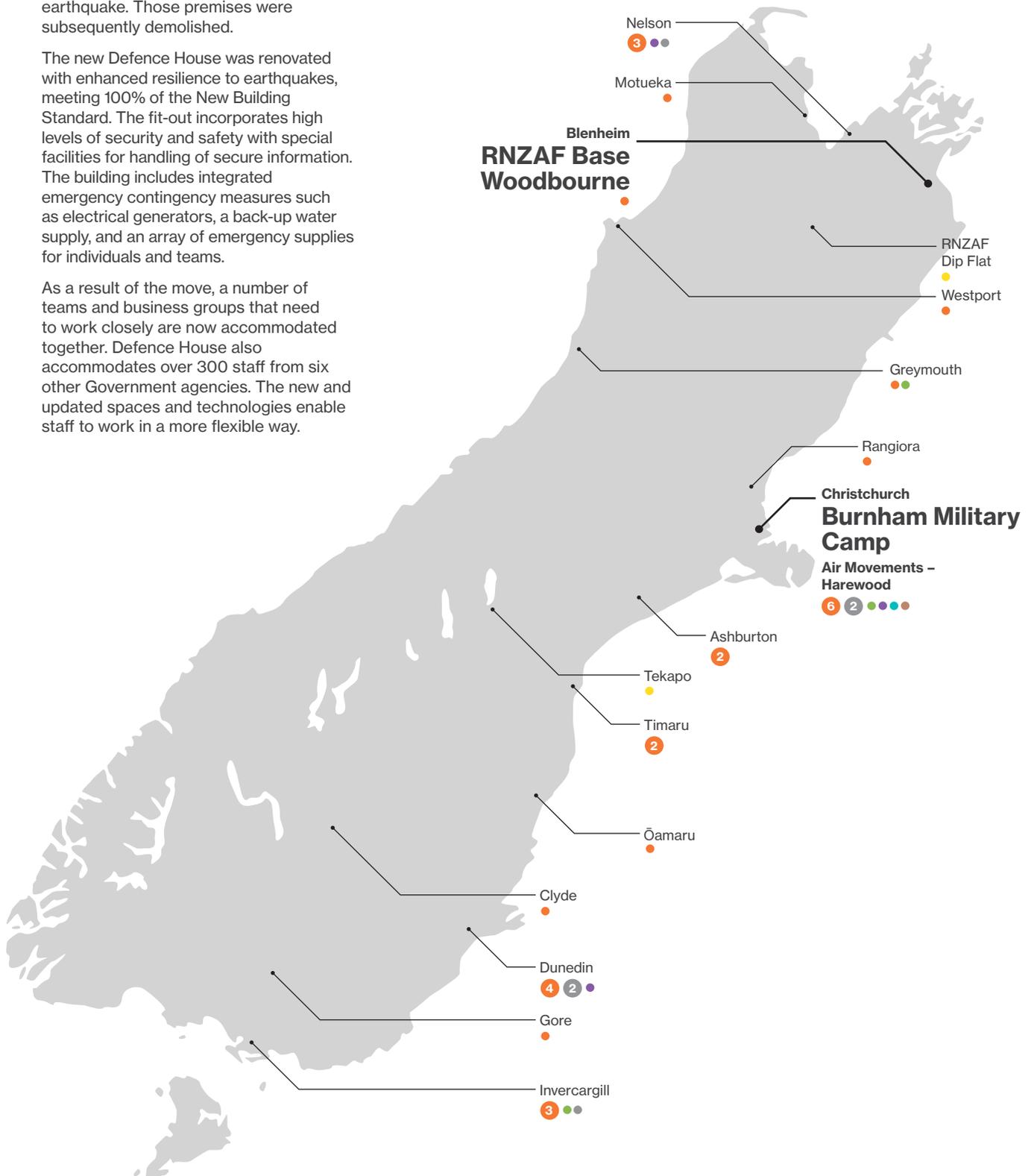


Move to the new Defence House

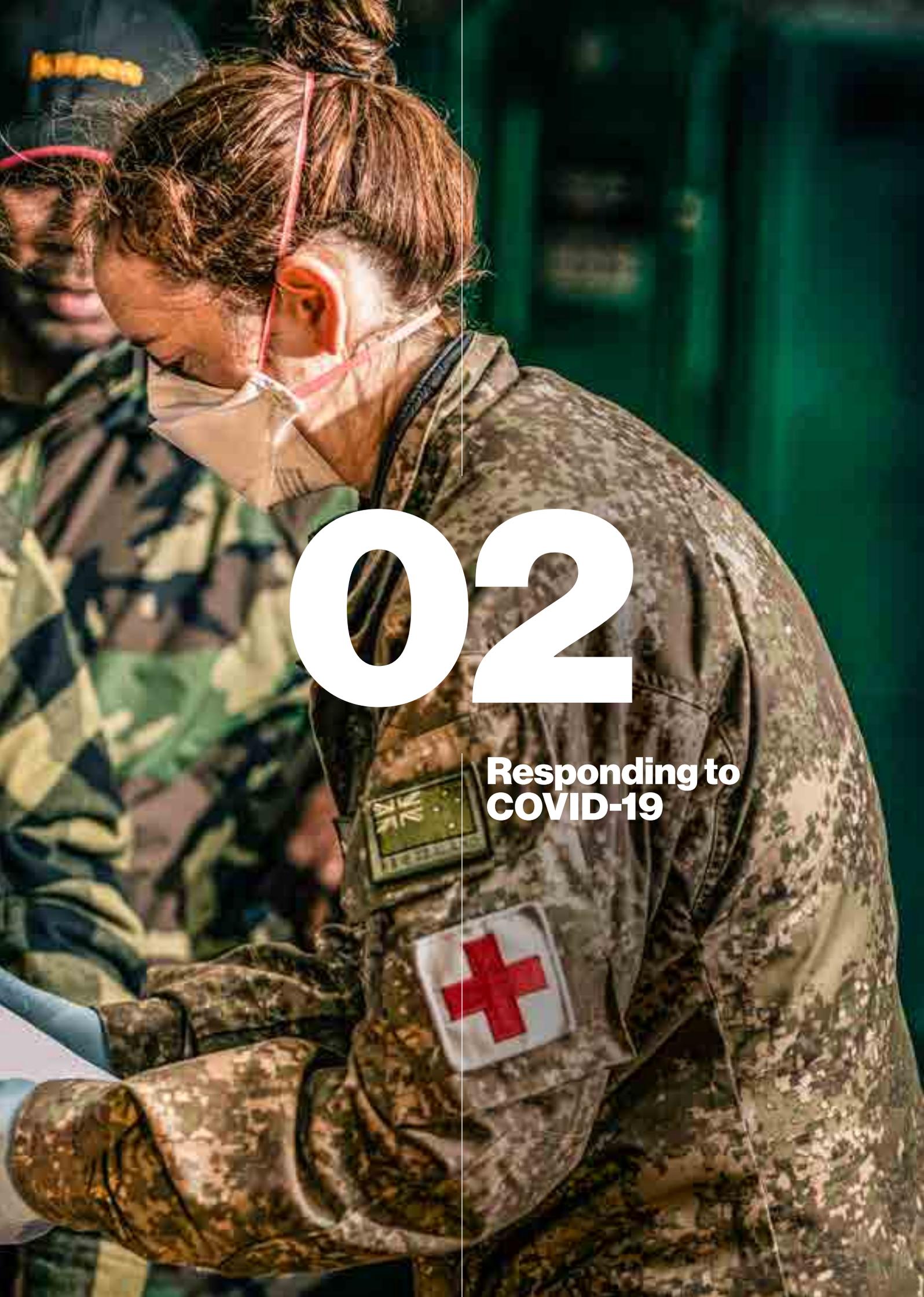
In October 2019, 1,200 Wellington-based personnel, including HQNZDF and a range of support functions moved to a refurbished building (the former Bowen State Building), now referred to as Defence House. This occurred three years after the former building was deemed unsafe following the 2016 Kaikōura earthquake. Those premises were subsequently demolished.

The new Defence House was renovated with enhanced resilience to earthquakes, meeting 100% of the New Building Standard. The fit-out incorporates high levels of security and safety with special facilities for handling of secure information. The building includes integrated emergency contingency measures such as electrical generators, a back-up water supply, and an array of emergency supplies for individuals and teams.

As a result of the move, a number of teams and business groups that need to work closely are now accommodated together. Defence House also accommodates over 300 staff from six other Government agencies. The new and updated spaces and technologies enable staff to work in a more flexible way.







02

**Responding to
COVID-19**

The NZDF maintains at high states of readiness skilled and talented people and specialised military equipment – fleets of ships, vehicles, and air transport – that can be drawn upon to help when needed. In times of crisis, we provide Government with flexible options, unique capabilities, and professional, adaptable people. This year, that flexibility was highlighted by the need for an agile response to COVID-19.

Introduction

In March 2020, the NZDF initiated Operation PROTECT contributing to the All-of-Government effort to respond to and manage the effects of COVID-19. Operation PROTECT also positioned the NZDF to meet the requirements Alert Level 4 placed on organisations and employers. The NZDF has responded promptly to the challenges of the pandemic, successfully executing Operation PROTECT whilst maintaining its readiness for other operational requirements. In general, business as usual, although adjusted, continued. The NZDF has reoriented to sustain Operation PROTECT as part of the ongoing COVID-19 response.

Our contribution

When early reports of the COVID-19 outbreak emerged, the first quarantine facility was set up by Navy at Whangaparaoa in March 2020. This temporary facility responded to rapid evacuation task.

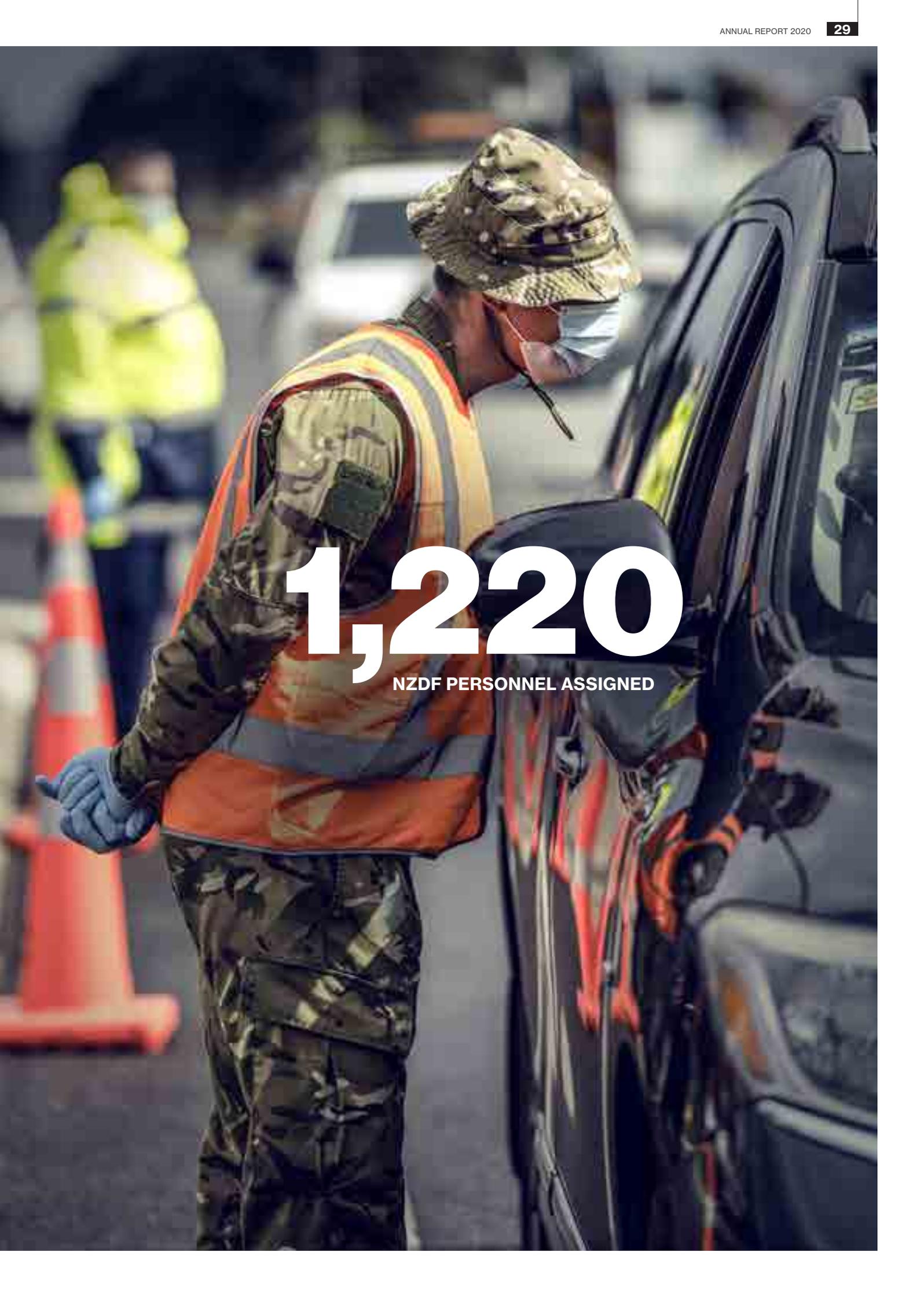
By September 2020, up to 1,220 personnel were assigned to assist the COVID-19 response, with 870 personnel on tasks at any one time. The NZDF was prepared to scale its response up and down as required. As a result of this ongoing commitment, our ability to maintain operational readiness and meet training requirements must be carefully balanced.

The NZDF provided approximately 80 planners and specialists to the All-of-Government centres, and liaison officers to Emergency Coordination Centres around New Zealand.

The NZDF is providing support to Managed Isolation and Quarantine Facilities (MIQFs) in Auckland, Hamilton, Wellington, Rotorua and Christchurch

and to the central command and management centre in Wellington. Their duties include providing information to people in isolation, coordination between facility and other agency staff, and oversight and guidance on procedures at the MIQFs.

The NZDF provided a team of personnel to help plan the repatriation of foreigners from New Zealand and to assist New Zealanders who were overseas wanting to return home. For example, the NZDF provided airlift and planned the repatriation of seasonal workers from Vanuatu who were in New Zealand and unable to return home due to travel restrictions. Other support also included HMNZS *Canterbury* taking Department of Conservation staff off Raoul Island and returning them to mainland



1,220
NZDF PERSONNEL ASSIGNED



New Zealand prior to the Alert Level 4 lockdown.

Health and wellbeing of our people

A COVID-19 Wellbeing Check was introduced in May to gain insights about the NZDF community's wellbeing and potential areas of need. A total of 3,006 completed the survey. The results indicated the majority of respondents were adapting well. The impact on working life, and life more broadly, varied according to roles and personal circumstances.

Stress on family and home life, including partner unemployment and financial pressures, seemed to be the most significant enduring impact resulting from COVID-19. Further surveys will be undertaken to monitor wellbeing.

The NZDF provides support, such as the Employee Assistance Programme counselling service, for all our personnel to access. Wellbeing related information provided to personnel and

their families via the Force4Families website was widely accessed by the Defence community.

Impacts and mitigations

The NZDF remained prepared to meet a wide course of operational outputs. However, the large scale of Operation PROTECT is being carefully managed to maintain capability for other operations, such as disaster relief in the South Pacific. The NZDF has been reallocating and reprioritising its resources and personnel to minimise the impact on responses to other security challenges.

Training for Military readiness

While the NZDF was able to satisfy the levels of Directed Readiness, training was disrupted. The NZDF took steps to ensure that safe and effective training could, as far as possible, ensure our readiness states were maintained.

The recruitment pipeline experienced a growing backlog of candidates. In the meantime, NZDF bridged staffing gaps with lateral recruitment and short-term

engagements. The NZDF focused on a sustainable balance of initial recruitment and re-enlisting trained regular force personnel in significant trades and priority units.

Delivery of military capabilities

Most Defence capability projects have experienced some degree of delay; challenges have included the impact of travel and border restrictions within and between countries, and global supply chain issues. Many companies and organisations around the world have taken steps to secure the safety of their staff and personnel through reducing or closing down access to worksites.

Integrated project teams, which are comprised of staff from the Ministry of Defence and the NZDF, work closely with the companies delivering new capability. Throughout the first half of 2020 those efforts had to be agile in nature, adapting project plans and approaches to the situation as it has



unfolded. Maintaining regular contact is critical to success and teams have adapted traditional or new technology to overcome travel restrictions.

Supply chain

The NZDF continuously monitors the impact of the worldwide COVID-19 restrictions on logistics supply chains, support to capability, and equipment repair. Of note was the response and coordination between the NZDF and our strategic partners who provided exceptional support during the period.

Active management of workplace routines and personnel employment ensured that Engineering and Logistical support was maintained. However, the global supply chain system was significantly impacted with limited equipment arriving by air or sea freight due to both manufacturing and transport delays. This is forecast to

remain as a challenging environment for our supply chain over the coming year. The full impact of COVID-19 on supply chains is yet to be realised.

International engagement

COVID-19 significantly impacted the opportunities to engage with our international partners. On one hand, the Government's foreign policy objectives through recognised alliances and other arrangements were not affected. However, participation in exercises and activities which directly support these objectives has been severely limited. Wherever possible,

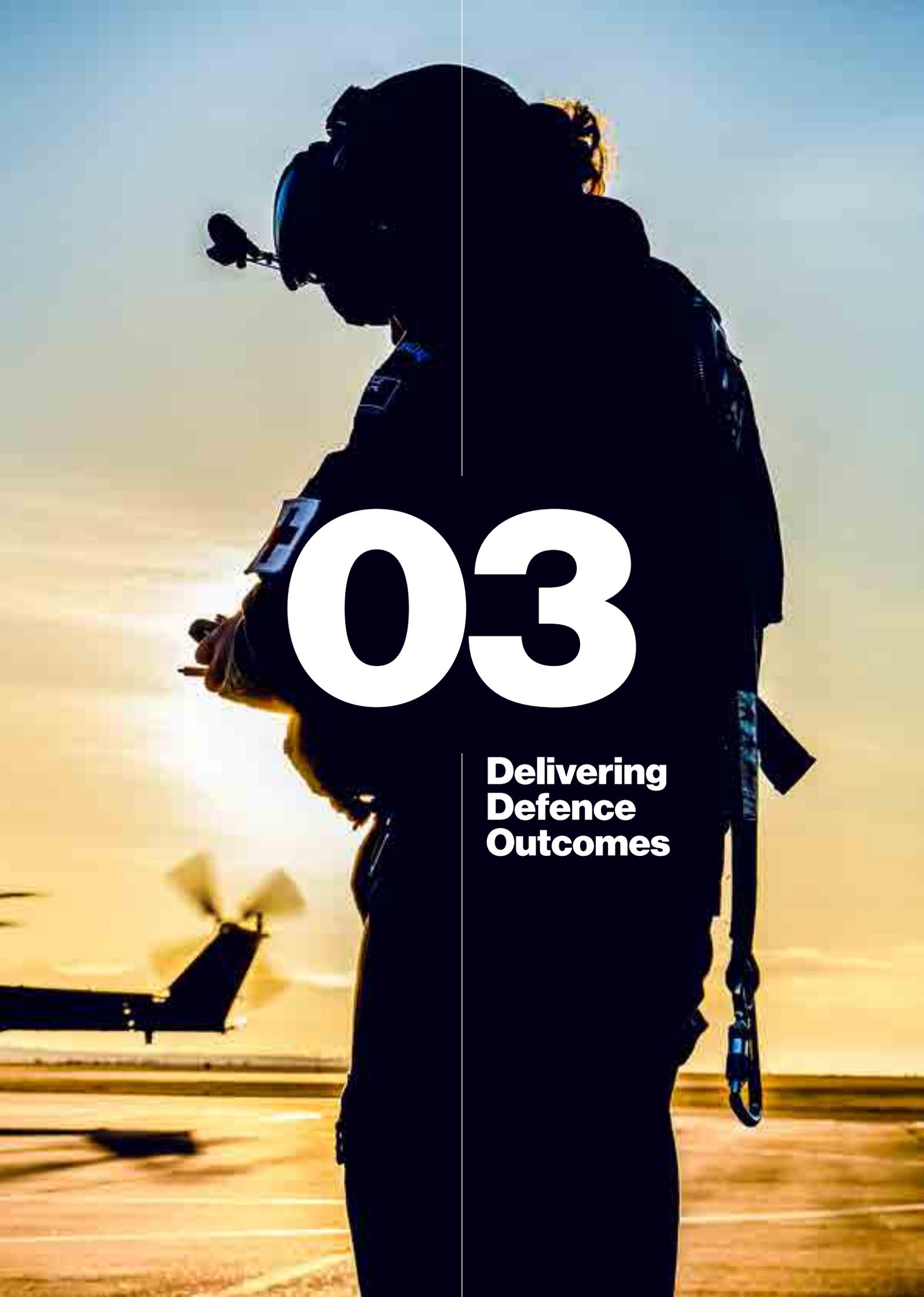
liaison and engagement with overseas partners was maintained virtually. The NZDF's network of Defence Attaches, Advisors and Liaison Officers continued to provide valuable engagement, coordination and advice.

Veterans

The majority of the veterans who are clients of Veterans' Affairs New Zealand (VA) are in the age group which is high risk for COVID-19. VA prioritised their response on the wellbeing of this group.

Operation VETERAN CONNECT during Alert Levels 4 and 3 saw more than 8,000 veterans receiving personal phone calls to check on their wellbeing. In addition, specific COVID-19 information was communicated through email newsletters, veteran advocacy groups, and social media channels. Communication from VA was rated highly in a subsequent survey of veterans which measured their satisfaction with the support received during the Alert Level 4 lockdown.





03

**Delivering
Defence
Outcomes**



This section discusses how the NZDF supported and delivered the wider Defence Outcomes – New Zealand’s security, resilience and wellbeing, in particular across the World, Nation and Community that are set out in its Policy Framework in 2019/20.

The NZDF’s outcomes contained in the Statement of Intent are:

New Zealand’s interests are secured

International rules-based order is supported

Veterans’ service is honoured (set out in the separate *Honouring Our Veterans*’ section)

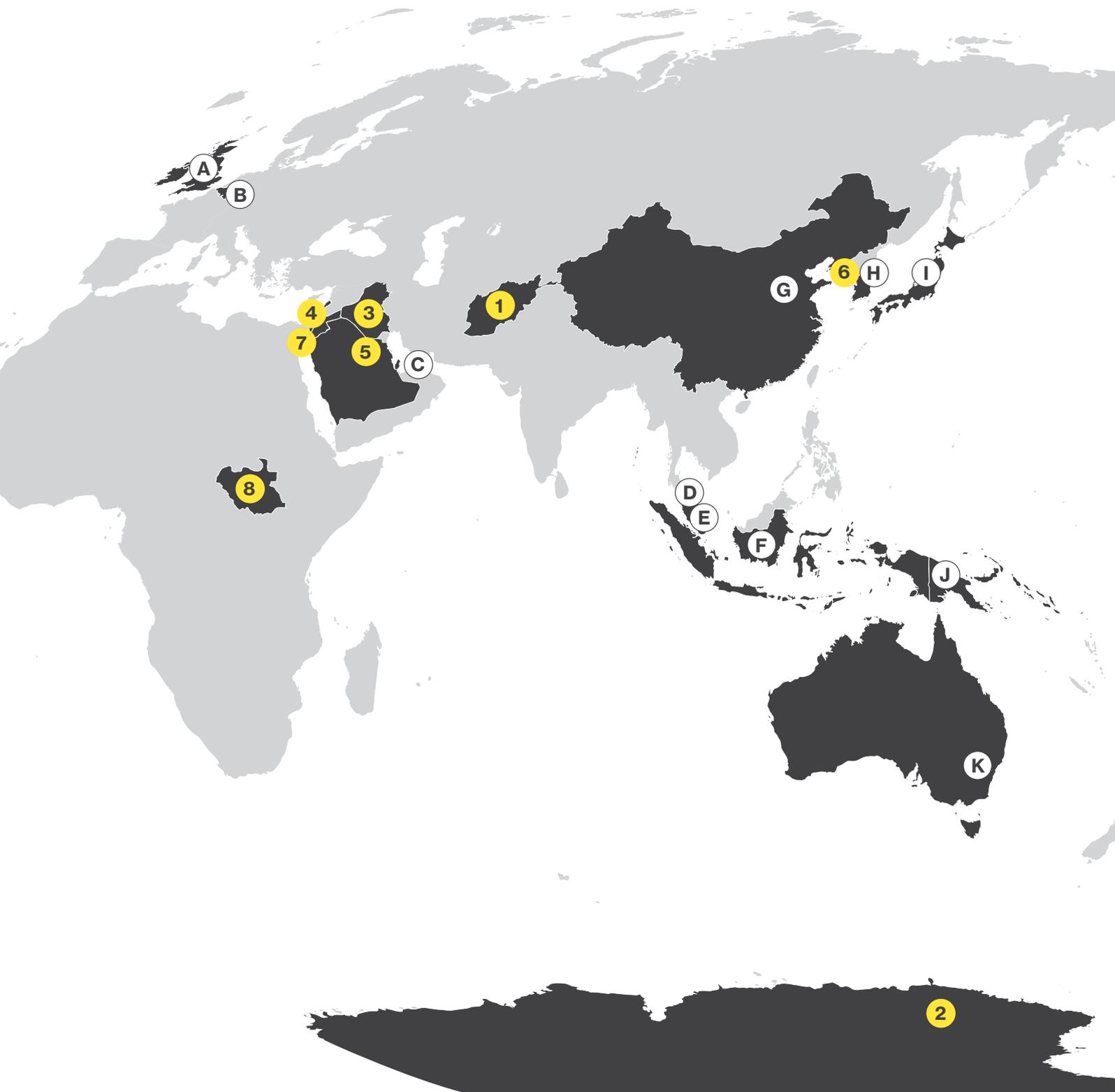


World

The NZDF delivers value to New Zealand by contributing to the maintenance of the international rules-based order and New Zealand's network of strong international relationships.

The international rules-based order is fundamental to New Zealand's national security. It supports New Zealand's independent foreign policy and broad access to global markets, affords the protection and support of multilateral institutions and collective arrangements, and allows New Zealand to contribute to international peace and security. Enjoying the benefits of such an order means New Zealand has an obligation to support the prevention or resolution of conflicts within and between states. The NZDF provides a range of options to Government to contribute to international security.

New Zealand has an enduring interest in fostering and maintaining a network of strong international relationships. These relationships amplify New Zealand's international influence while enabling New Zealand to continue to make independent decisions consistent with its interests, values and size. Defence and security cooperation are a core component of New Zealand's international relationships. Through continued, meaningful defence and security engagement, New Zealand develops familiarity with states with which its relationships may be less established, and deepens the trust of those partners to which it is already close.



Operations (Op) and Other Deployed Personnel

- | | | | |
|---|-----------------------------|---|--------------------------------------|
| 1 | Afghanistan (Op RUA II) | 5 | Middle East (Ops TROY, PUKEKO, TEAL) |
| 2 | Antarctica (Op ANTARCTICA) | 6 | Republic of Korea (Op MONITOR) |
| 3 | Iraq (Ops MANAWA, MOHUA) | 7 | Sinai Peninsula (Op FARAD) |
| 4 | Israel, Lebanon (Op SCORIA) | 8 | South Sudan (Op SUDDEN) |

NZDF Global Footprint in 2019/20

- Operations
- Defence Attachés

Defence Attachés (DA)

- | | | |
|--|--|--|
| <p>A Head of Defence Staff and Defence Advisor United Kingdom</p> <p>B DA Belgium</p> <p>C DA Abu Dhabi</p> <p>D Defence Advisor Malaysia, HQIADS</p> <p>E Defence Advisor Singapore, NZDSU</p> | <p>F DA Indonesia</p> <p>G DA China</p> <p>H DA Korea</p> <p>I DA Japan</p> <p>J Defence Advisor Papua New Guinea</p> <p>K Head of Defence Staff and Defence Advisor Australia</p> | <p>L Defence Advisor Fiji</p> <p>M Defence Advisor Tonga</p> <p>N Defence Advisor Canada</p> <p>O DA Head of Defence Staff USA</p> <p>P Military and Police Advisor NZ Permanent Representative to the United Nations</p> |
|--|--|--|

WORLD CASE STUDY

Operation MANAWA

The tenth and final rotation of NZDF troops to Iraq returned to New Zealand in March 2020. This brought to an end almost five years engagement training and mentoring Iraqi Security Force (ISF) personnel. In this time over 900 NZDF personnel deployed to Taji as part of the combined training mission with the Australian Defence Force.

“Our efforts to help develop a self-reliant ISF have been hugely successful,” said Commander Joint Forces New Zealand, Rear Admiral Jim Gilmour. “We have seen those we trained not only take part in the campaign to retake parts of their country but also develop the confidence to plan and deliver training to the Iraqi Army without coalition assistance. This after all is what building partner capacity (BPC) is about.”

During this time, the combined New Zealand Australian task group to Taji trained or mentored in excess of 47,000 ISF personnel. This mission supported the School of Infantry Non-Commissioned Officer Number Two (SINCO II) in Taji, one of five coalition-led BPC sites. Training included instruction on individual soldier skills, through combat first aid and obstacle breaching techniques, to fundamental aspects of international human rights and the law of armed conflict.

“Of significant note,” said Rear Admiral Gilmour, “is that SINCO II was the first of the five coalition-led BPC sites to transition to Iraqi lead”. It achieved this in November 2019, with Iraqi Army instructors taking over the planning and delivery of ISF training. “I’m extremely proud of our men and women and what they achieved over the five years we were there.”

“I’m extremely proud of our men and women and what they achieved over the five years we were there.”

– Rear Admiral Jim Gilmour



Contributing to the maintenance of the international rules-based order

Operation RUA II

The NZDF has supported the United Kingdom-led international training mission at the Afghan National Army Officer Academy since 2013. The NZDF mentors support the delivery of training to the future leadership of the Afghan National Army (ANA). Graduate officers serve in missions across Afghanistan and currently make up 70% of the leadership pool in the ANA.

One of the successes for the NZDF team was work done to integrate women into the ANA. Graduating classes now have 5-10% female, providing a leading example to other ANA institutions.

Operation MONITOR

Operation MONITOR is the NZDF contribution to the United Nations Command (UNC) in the Republic of Korea, and represents New Zealand's ongoing commitment to the maintenance of security and stability on the Korean Peninsula. The NZDF currently commits ten personnel from all three services, serving in the mission from between six to twelve months. The primary role of UNC through the Military Armistice Commission is to maintain the Armistice Agreement signed at the end of the Korean War in 1953. Tasks include monitoring, educating and providing advice on the Armistice Agreement.

Operation TROY

To support New Zealand's contribution to operations throughout the Middle East, the NZDF maintains a National Support Element in the region to provide logistical support.

Operation TIKI

The NZDF provided support to the Combined Maritime Forces counter-piracy and counter-narcotics operations through liaison officers posted to Combined Task Force Headquarters in Bahrain.

Other contributions

The NZDF has a long history of supporting United Nations (UN) missions around the world. The NZDF currently supports the United Nations Truce Supervision Organisation (UNTSO) which covers five Middle Eastern countries (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.

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. The NZDF provides a transport section required by the MFO.

The NZDF continued 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 transported freight and personnel primarily to Egypt, Iraq and Afghanistan. This mission contributed to the New Zealand and international community's resolve to preserve security and stability in the region.



Contributing to New Zealand's network of strong international relationships

Engaging with the key international partners

Defence international engagement supports the Government's foreign policy objectives and maintains important relationships. Engaging with key partners builds confidence between nations, fosters alliances and partnerships to ensure cooperation, interoperability and information sharing, as well as access to equipment, technology, and training opportunities. It also enhances international peace and security, contributing to a rules-based international order.

In 2019/20, to support the provision of military capability and promotion of security, the NZDF provided in-country representation through Defence Attachés, Defence Advisors, and resident staff in operational headquarters. We also completed an overseas training programme that

enhanced military-to-military relationships with security partners, providing professional development and improving interoperability between the NZDF and our partners. The NZDF participated in a wide range of multinational forums and exercises, conducted a programme of ship visits to international ports, and maintained membership in a range of military and defence-related technology organisations. In the last quarter of the reporting year activities were significantly impacted due to COVID-19.

Regional security and engagement

The NZDF's regional engagement helps improve the resilience, economic and social wellbeing of Pacific Island nations as well as shaping the security environment. In 2019/20, the NZDF:

- deployed NH90s, C-130, B757, combat engineers, health teams (primary and environmental), air load teams, and command elements in support of the Australian Defence Force's bush fires efforts;
- provided firefighting personnel to support Fire and Emergency New Zealand assistance to Queensland bushfires suppression efforts;
- responded to Tropical Cyclone Harold by providing a C-130 aircraft to transport aid to Vanuatu and Fiji;
- delivered personal protective equipment supplies to the Solomon Islands;
- maintained a close defence partnership with the Australian Defence Force. The capacity of the two countries to act together was enhanced by participation in combined activities such as Exercises TALISMAN SABRE, RED BACK, and PACIFIC REACH, plus personnel exchanges and professional training courses;
- attended Exercise EQUATEUR 19 in New Caledonia – a Command Post Exercise and Field Training Exercise focusing on Humanitarian Aid and Disaster Relief and Non-Combatant Evacuation Operations;
- supported regional security with attendance at activities such as the Association of Southeast Asian Defence Ministers Meeting, the Shangri-La Dialogue, NATO alliance and French Armed Forces New Caledonia talks; and
- managed the Mutual Assistance Programme to enhance the defence and security capabilities of regional nations, including support to regional nations' efforts to manage marine resources.

WORLD CASE STUDY

Australian Fires

During the summer of 2019/2020 the NZDF sent firefighters, engineers and medics as part of the Fire and Emergency New Zealand effort to help its Australian Defence Force (ADF) counterparts when fires ravaged Nowra in New South Wales, and the Adelaide Hills and Kangaroo Island off the coast of South Australia.

Army engineers and plant operators were on Kangaroo Island, clearing routes and removing trees that were blocking roads, allowing support services to check buildings and infrastructure. NZDF plant operators, working with their counterparts in the ADF, created more than 120 kilometres of fire breaks. NZDF engineers set up a reverse-osmosis water-purification unit to turn seawater into fresh drinking water for the community of Stokes Bay.

Troop commander for the composite engineer troop, Lieutenant Brad Geen, took sappers, plant operators,

maintenance fitters and support staff to the south west of Kangaroo Island where they pushed down to a remote area to allow emergency services through.

The conditions were challenging, he said. "We knew what had happened but had no real idea of the scope of the work. But when we hit the Island we were ready to go, we just got stuck in."

The Air Force sent across firefighters, air and ground crews, three NH90 helicopters, a Boeing 757 and a C-130 Hercules in response to a request for help from the Australian Government.

NZDF firefighters worked mainly in Nowra. They worked to contain the blazes, sometimes working up to 20-hour days, in air clogged with thick smoke and watching massive flames approach communities and containment lines. "Our role was to maintain boundaries to contain the fire. We were running containment lines and protecting those as well," Corporal Matty Cameron said.

“Our role was to maintain boundaries to contain the fire. We were running containment lines and protecting those as well.”

– Corporal Matty Cameron



Nation

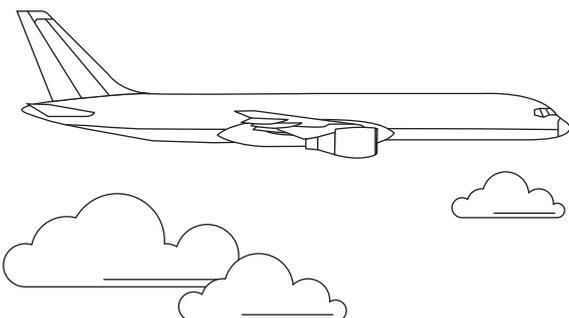
The NZDF delivers value to the nation by: promoting a safe, secure, and resilient New Zealand, including its borders and approaches; and contributing to maintaining New Zealand's prosperity via secure air, sea and electronic lines of communication, and secure access to space-based services.

It is a fundamental responsibility of the New Zealand Government to protect New Zealand's people, prosperity, territory, sovereignty and resources; uphold New Zealand's constitutional obligations to the Cook Islands, Niue, and Tokelau; and maintain New Zealand's claim to territorial sovereignty in the Ross Dependency of Antarctica. The NZDF maintains military forces and capabilities that allow it to detect, deter and counter threats to New Zealand.

Repatriation

53.2

flying hours transporting 1,040 Vanuatu citizens from New Zealand to Vanuatu



Supporting Conservation

45.3
FLYING HOURS

TRANSPORTING
EQUIPMENT FROM SHIP
TO LAND IN THE SUB-
ANTARCTIC ISLANDS



45

scientists and researchers transported to the Sub-Antarctic Islands by ship

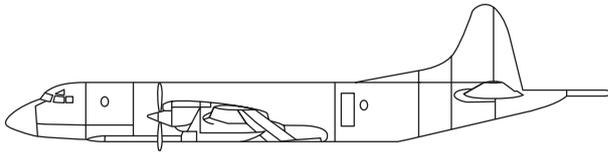
50 tons

of oyster shell from Te Rau Puriri regional park to Kaipara Air Weapons range for fairy tern breeding site

AERIAL PHOTOGRAPHY

to capture imagery of the Southern Royal, White Capped and Antipodean Albatross

Maritime Surveillance



131
FLYING HOURS



PATROLLING THE SOUTH WEST
PACIFIC IN SUPPORT OF THE
FORUM FISHERIES AGENCY

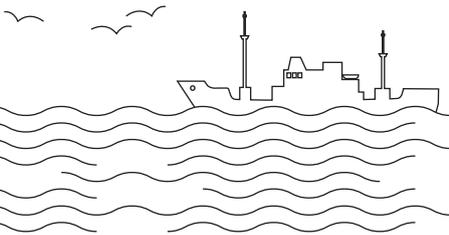
21.5

flying hours patrolling the Southern Oceans

Biosecurity

64
DAYS AT SEA

CARRYING OUT
FISHERIES PATROLS



28.7

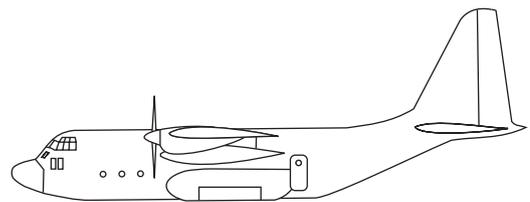
flying hours carrying out forestry surveys

315.8

flying hours carrying out maritime patrols

Antarctica

87,946^{kg}
OF FREIGHT
TRANSPORTED

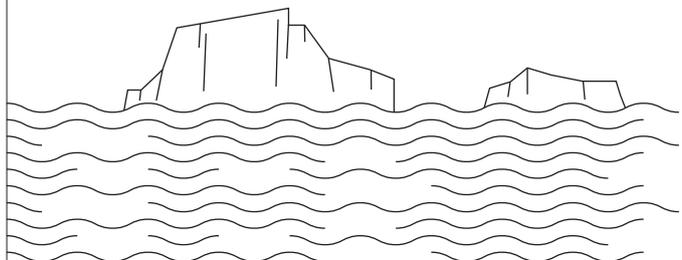


942

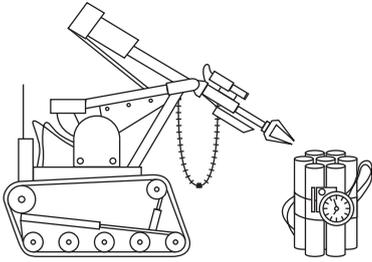
passengers transported

152

flying hours



Domestic Support



164
EOD callouts

67.5
flying hours for cannabis recovery

84.5
flying hours for transport and training

Border Security

38.7
FLYING HOURS

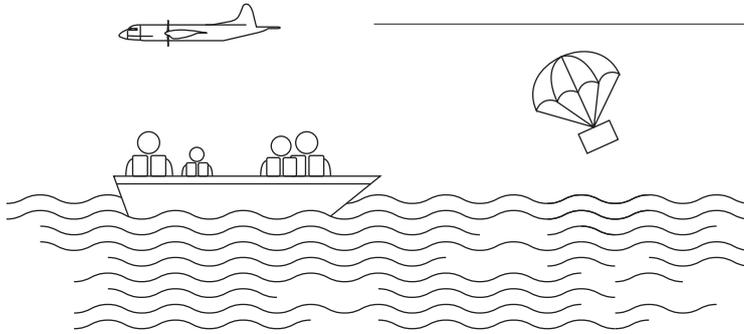
CARRYING OUT
SURVEILLANCE
ON SHIPPING

Search and Rescue

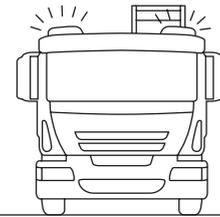
22
SEARCHES

18
air-based searches, 174.1 flying hours,
6 on land and 12 at sea

4
sea-based searches



Firefighting



207
CALLOUTS

77
calls to vehicle accidents,
8 requests for medical assistance

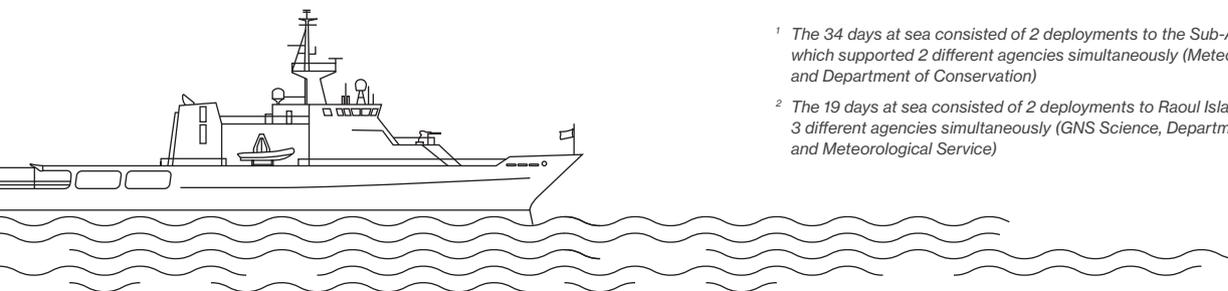
Environmental Surveillance

34
DAYS AT SEA

TRANSPORTING
STAFF &
EQUIPMENT
TO THE SUB-
ANTARCTIC
ISLANDS¹

19
DAYS AT SEA

TRANSPORTING
STAFF &
EQUIPMENT
TO AND FROM
RAOUL ISLAND
BY SHIP²



¹ The 34 days at sea consisted of 2 deployments to the Sub-Antarctic Islands which supported 2 different agencies simultaneously (Meteorological Service and Department of Conservation)

² The 19 days at sea consisted of 2 deployments to Raoul Island which supported 3 different agencies simultaneously (GNS Science, Department of Conservation and Meteorological Service)

NATION CASE STUDY

Whakaari/White Island

Twenty-one people died as a result of the eruption of Whakaari/White Island on 9 December 2019. Twenty-six others suffered injuries, including severe burns. At the time of the eruption 47 people were on the island including 38 cruise ship passengers.

The rescue and recovery operation was a tri-Service effort, with Army personnel working alongside the Navy and the Air Force in the New Zealand Police-led mission. The NZDF's support and contribution included transportation of key personnel, patient transfers, command and control, small boat support, diving support and exclusion zone patrols.

Squadron Leader Chris Ross said when the information about the disaster came through, two NH90 helicopters with medical staff on board were immediately directed by Headquarters Joint Forces New Zealand to deploy to Whakatane. The injured people had already been brought to the mainland and the NH90s were tasked with flying some of them to Hutt Hospital for treatment. "The trauma that people had experienced was well beyond what anybody had seen, from a military point of view," he said.

An Air Force P-3K2 Orion aircraft and crew was diverted from another task to carry out surveillance and reconnaissance over Whakaari/White Island and gather imagery. That was the first of several flights the Orion aircraft did, adding vital information from its surveillance to the rescue and recovery effort. Later in the week, an Orion carried out an aerial search over a large area of ocean near the island as part of the search for two missing deceased.

A recovery team including six NZDF Explosive Ordnance Disposal specialists and a ground commander, with medical staff on small boats nearby, recovered the bodies of six people who died when the volcano erupted.

HMNZS *Wellington*, which had been in Devonport after being at sea for six weeks on fisheries patrols provided support. The ship remained on station near Whakaari/White Island for eight days.

Military liaison officers worked with Police and the National Crisis Management Centre as well as the Emergency Operations Centre in Whakatane to coordinate information, assets and personnel movements.

The NZDF's support and contribution included transportation of key personnel, patient transfers, command and control, small boat support, diving support and exclusion zone patrols.

Promoting a safe, secure and resilient New Zealand including on its borders and approaches

Safe, secure and resilient New Zealand

The NZDF's specialist military capabilities and resources save lives and prevent human suffering in emergency situations. The NZDF provides assistance for search and rescue, recovery operations and maritime incidents. In addition to natural disasters and civil emergencies, NZDF high-readiness capabilities are on hand to respond to threats or other incidents that could impact on public safety. In order to ensure safety and security of New Zealand, the NZDF holds two capabilities permanently available at immediate readiness:

- **Counter-Terrorist Group (CTG):** The CTG provides counter-terrorist response capacity support and specialist tactical support to sensitive operations. This includes planning and training support to the development of complementary national capabilities for the Government. Fortunately, the immediate response capability of the CTG was not activated in 2019/20, despite the elevation of the National Terrorist Threat Level from previous years.
- **Explosive Ordnance Disposal Task Unit (EODTU):** The EODTU supports the New Zealand Police responses to threats to public safety from chemical, biological, radiological, explosive or improvised devices. The NZDF responded to over 160 requests for the EODTU during 2019/20.

Under the Protection of New Zealand and New Zealanders output, a wider range of military capabilities are made available to support other Government agencies. Such requests are balanced with the task of sustaining deployed military operations and preparation for future missions.

Resource and border protection

The NZDF contributes to All-of-Government efforts to secure New Zealand's sovereign and economic borders. This includes detecting, reporting and responding to unlawful activities in accordance with the Government's direction. The NZDF's resource and border protection operations have two main effects:

- increased Government awareness of activities within New Zealand's territorial waters and maritime domain; and
- improved ability for New Zealand civil authorities to respond to any illegal or unauthorised maritime activities.

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 covers those nations for which New Zealand has constitutional obligations (Cook Islands, Niue and Tokelau), as well as the Southern Ocean and the Ross Dependency.

The NZDF collaborates with the NMCC by using information from its 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 the *Ministry for Primary Industries (MPI)*, the *New Zealand Customs*

Service (Customs), *Department of Conservation*, *Ministry of Foreign Affairs and Trade (MFAT)*, the *MetService* and *GNS Science*. There were 124 pre-planned air and maritime tasks conducted, each contributing to the protection of New Zealand's borders and off-shore maritime interests.

The NZDF's Inshore Patrol Vessels worked with Customs to monitor pleasure craft arriving off the Northland coastline and supporting MPI through patrols of the inshore fisheries. The NZDF's helicopters supported the MPI inspections of inshore fisheries in the Northland, Coromandel, Taranaki, Hawkes Bay, Wairarapa, Cook Strait, Wellington, Gisborne and Whakatane regions.

The sealift and airlift capabilities of Navy ships, SH-2G(I) and NH90 helicopters provided logistical support to the Department of Conservation for their domestic and offshore island operations. In addition the P-3K2 Orion provided wildlife monitoring in the Southern Ocean, Raoul and Chatham Islands.

During the year, the NZDF assisted the New Zealand Antarctic Programme. This programme supports Antarctic New Zealand to provide a continuous presence and science programme on the Antarctic continent. The NZDF Harewood Terminal Team in Christchurch continued to support Antarctic flights in support of operations for the United States, New Zealand and Italian bases. The NZDF's C-130H Hercules and Boeing 757-2K2 aircraft conducted 12 airlift missions to Antarctica, while NZDF personnel provided support on the Continent for the loading and unloading of ships and aircraft.

To support New Zealand's obligation as a member of the Commission for the Conservation of Antarctic Marine Living Resources, the NZDF provided the surveillance capabilities of the P-3K2 Orion to conduct patrols in the Southern Ocean to monitor for illegal, unreported and unregulated fishing vessels.

Search and rescue

The NZDF is committed to its national search and rescue role in support of civil authorities with on-call search and rescue coverage for maritime and land environments. The New Zealand search and rescue area covers 30 million square kilometres. To meet this commitment and to respond to requests from the Rescue Coordination Centre, the NZDF maintains:

- fixed-wing aircraft, rotary-wing aircraft, and ships on call 24/7, 365 days a year; and
- the capacity to conduct land search and rescue activities with response groups in the North and South Islands.

During 2019/20, the NZDF's search and rescue activities included:

- HMNZS *Wellington* was directed to assist a boat off the East Coast of the North Island. In stormy conditions, HMNZS *Wellington* met with the boat and recovered an injured crew member who was taken to Devonport for transfer to an Auckland hospital. This mission was supported by a P-3K2 flight and the New Zealand Police.
- Search and rescue activities by No. 5 Squadron P-3K2 Orion aircraft included searching for missing people in Samoa, Tarawa, Whangarei, Taranaki and the Northland coast.
- Air Force helicopters from No. 3 Squadron searched in the Ruahine Range, Kaweka Range, Tararua Ranges, Rimutaka Range and Kahurangi National Park for missing people. NH90 aircraft were used to insert and extract search teams.
- During a routine Northern Patrol, a severely damaged fishing vessel was discovered with 14 crew on board and four crew missing overboard. The P-3K2 Orion aircraft directed a vessel to the scene to recover the personnel.
- After a sailing vessel activated its beacon in severe weather off the Northland Coast, two SH-2G(I) Seasprite helicopters and a P-3K2

Orion aircraft were tasked to support civilian rescue helicopters. The two civilian helicopters safely rescued all personnel from the liferaft. The P-3K2 and civilian rescue helicopter crews were nominated for and received New Zealand Search and Rescue Certificates of Achievement.

- HMNZS *Hawea* responded to two incidents within 24 hours. The first involved a missing eight foot inflatable off Omaha Beach. The inflatable was located but there was no sign of life or evidence of distress. HMNZS *Hawea* then responded to another incident regarding a potentially missing kayaker who had activated their locator beacon in the Firth of Thames. The kayaker was located before the ship reached the area.

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

Non-emergency situations

The NZDF advises and assists 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 (eg, ceremonial guards, military bands). In 2019/20, the NZDF supported:

Significant military anniversaries and nationally recognised commemorative events	<ul style="list-style-type: none"> • Waitangi Day • Commemoration of the Battle of Britain Anniversary • National Commemoration of Merchant Navy Day • Anniversary of the Korean War ceasefire • Anniversary Commemoration – Operational Service Malaya/Malaysia • INTERFET Anniversary Commemorations (Timor Leste) • Vietnam Veterans Day • Armistice Day Commemorations • HMS <i>Neptune</i> Services
Transport for members of the Government and guests of the State	<ul style="list-style-type: none"> • HRH Prince of Wales and the Duchess of Cornwall • Secretary General of NATO • Prime Minister of the Kingdom of the Netherlands • Prime Minister of Papua New Guinea
The Governor-General	<ul style="list-style-type: none"> • 2019 Royal Tour air transport for the Governor-General • Credentials Parade held at Government House
The Government's transportation requirements	<ul style="list-style-type: none"> • East Asia Summit in Bangkok • Pacific Island Forum • Additional tasks for the Prime Minister and other Government Ministers completed as requested

Military bands

The Royal New Zealand Navy Band, consisting of 33 Regular Force Personnel and Reserves, is a central part of the Navy's contribution to Defence Diplomacy, performing throughout New Zealand in support of the Government. In 2019/20, the Band performed over 200 separate events within New Zealand as well as providing international support at the Naming Ceremony of HMNZS *Aotearoa* in Korea and for the King's Birthday in Tonga.

The New Zealand Army Band consists of 37 Regular Force personnel and a similar number of Reserves that are employed by the Band on an "as required" basis. The Band has been internationally recognised for its professional, versatile and innovative musical performance and is a key enabler in contributing to New Zealand Army, and wider NZDF, representational activities. Despite COVID-19, the Band has developed a considerable online presence, much of which has gained attention well beyond the NZDF. During the Alert Level 4 lockdown, the Band's videos received over two million views. It appeared that viewers appreciated the Band's optimistic and engaging approach as well as fulfilling their need for connection and entertainment.

The Royal New Zealand Air Force Band consists over 100 Reserve members mostly drawn from the Greater Wellington community. The band is often employed for ceremonial support for the Governor-General, Parliamentary, and other events. In 2019/20, the Band contributed to over 80 events and engagements, from interactions with schools in diverse regions as well as attending the Nanchang International Military Tattoo in China.

Contributing to maintaining New Zealand's prosperity via secure air, sea and electronic lines of communication and secure access to space-based services

Maritime surveillance – secure air and sea

Maritime surveillance activities detect and deter potentially unlawful activity that could be harmful to New Zealand's prosperity. The NZDF conducts surveillance activities in cooperation with Pacific nations, NMCC, MPI, Pacific Islands Forum Fisheries Agency and other agencies as part of New Zealand's efforts to detect and deter illegal activities.

Fisheries contribute approximately US\$1 billion annually to the economies of Pacific countries and generate about 25,000 jobs. Fisheries revenue was particularly important in 2019/20 due to the significant reduction in tourism revenue for many Pacific Island countries.

With border closures and other restrictions in place in 2019/20, there are increased concerns about illegal fishing activity. New Zealand contributes to international efforts to monitor the high seas (areas of ocean that fall outside EEZs) for illegal fishing. Restrictions in place to manage COVID-19 presented some challenges to that work. However, the NZDF was able to implement additional precautions to protect crews and Pacific partners.

Crew on a P-3K2 Orion aircraft covered more than 735,000 square nautical miles on Pacific patrols, including over the EEZ of Fiji, Niue, the Cook Islands and the Solomon Islands. Information on vessels of interest during these flights was passed to relevant authorities.

Working with our Pacific partners safely in a COVID-19 environment has been a real success for the NZDF. The safety, security and prosperity of the region is important for New Zealand and its neighbours.

Geospatial Intelligence

Geospatial Intelligence (GEOINT) supports various activities across the NZDF and All-of-Government requirements by providing effective leadership, products, services and solutions to ensure New Zealand's safety, security and success. These include operational support (safety of navigation), GEOINT Intelligence Mission Data, imagery analysis and GEOINT Mission Management.

In 2019/20, the importance of GEOINT was highlighted in the NZDF's response to three significant events – the White Island/Whakaari Volcanic Eruption, Tropical Cyclone Harold in Vanuatu and COVID-19. These events required significant GEOINT support and collaboration. This included geospatial analysis of the assessments of the damage, advising areas and people in need of assistance, the provision of spatial, statistical and predictive analysis of pandemic trends and insights via specifically tailored apps and dashboards.

A GEOINT capability contributes to the understanding of our complex operating environment. This in turn improves the effectiveness of the NZDF in both preparedness and crisis response operations.

Wide-Band Global Satellite constellation collaborative study

As part of a US-led FIVE EYES (FVEY) effort to make the Wide-band Global Satellite (WGS) constellation resistant to jamming, the Aerospace Corporation and the NZDF conducted a collaborative study on the feasibility of integrating the new enhanced modems into the NZDF's WGS ground terminals. The study was an important step in ensuring that the NZDF's ability to communicate between New Zealand and its deployed forces around the world is adequately protected against interference. The results of the study allow NZDF to make a number of informed decisions on the specific modem development and subsequent practical integration tests, ultimately enabling protected communications over WGS.

Wave characteristics for use in the design of ships operating in the Southern Ocean

Little is known about wave characteristics in the Southern Ocean. During 2019/20, a comprehensive report presenting previously unpublished data was prepared by the NZDF's Defence Technology Agency. The report included a proposed empirical model that predicts the behaviour of ships at sea to evaluate their motion as well as the impact of that motion on the ship's crew and hull, and the overall operation of the ship. The report will enable Naval architects to test the implications of wave characteristics on the design of the Southern Ocean Patrol Vessel.



Community

The NZDF delivers value to New Zealand by supporting New Zealand's community and environmental wellbeing and resilience.

New Zealanders value the long-standing relationship the NZDF has with our communities, both in terms of the services the NZDF delivers or supports, and in terms of the contribution the NZDF makes directly and indirectly as a part of New Zealand society.



Preservation of New Zealand's Military History

361,124

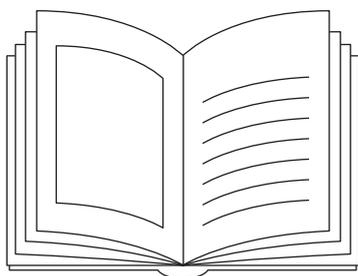
Museum site visitors

9,890

Education visitors

329,760

NZDF website visitors



Community & Youth Development Programmes

2,589

Reserves

1,011

Limited Service Volunteers

1,512

Service Academy Students

218

Young people attending Blue Light courses

3,200

Cadets

COMMUNITY CASE STUDIES

Youth Development

New unit for youth opens at Trentham

Everything was new at the Youth Development Unit (YDU) Central at Trentham in August 2019: the beds, the bathrooms, the desks, the drawers – and even the staff.

Heading the staff at the 90-bed facility is Major Barrett. The former nurse served in East Timor and Iraq and brings those skills, and his skills as a parent, to a role where his aim is “to do right by and for the trainees”.

The trainees who will go through the facility – four courses of 90 each year – are 18 to 24-year-olds who are not in work, training or study. Limited Service Volunteers (LSV) gives these young people a structure that develops their confidence, pride, and an ability to work in teams.

LSV is a Ministry of Social Development programme, part of which is a six-week course run by the New Zealand Defence Force at three sites nationwide: Trentham, RNZAF Base Auckland at Whenuapai and Burnham Military Camp.

Major Barrett said success for him is empowering trainees to be more confident in themselves, to take opportunities they may have otherwise not taken and to connect them with services in their home towns that they were not previously in touch with.

Youth Development Specialist trade

The Youth Development Specialist (YDS) trade sees previous trades of Youth Development Instructor and Cadet Force Advisors combined to create an overarching trade for Youth Development.

Lance Corporal Amber Parkinson changed her trade to a YDS. She said the YDS trade is important because she believes New Zealand has so many youth who are critically in need of guidance, both emotionally and financially.

“The YD Unit has the knowledge to enable youth to develop and grow into contributing members of society. Our youth are our future,” said Lance Corporal Parkinson.

Developing and supporting young New Zealanders

The NZDF is committed to building leadership, self-reliance, and resilience in young New Zealanders. In recent years, it has increased this commitment with the establishment of a NZDF dedicated employment group that focuses upon youth development. The NZDF continues to support the community through:

- Limited Service Volunteers (LSV):** LSV work with 18 to 24-year-olds who are either at risk of long-term unemployment or require further education and assistance to gain employment. Participants attend the NZDF-administered six-week LSV residential course at one of the three youth development units (YDU). This six-week residential course provides basic military training alongside learning life skills with the goal of developing self-discipline, cooperation, confidence and pride.
- Service Academies:** The Ministry of Education has 29 Service Academies with up to 20 students per Academy (target student group is Year 12 and 13 students) located within secondary schools throughout New Zealand. The NZDF provides five different types of courses (induction, basic and advanced leadership, bush craft, and adventure challenge) at the NZDF's YDU North, RNZAF Ohakea, and YDU South. This military-based programme helps trainees gain qualifications in preparation for the workforce, further education, or training. The NZDF delivers training for up to 580 Service Academy trainees per year via five block courses delivered across three regions.
- NZ Police for Blue Light Ventures:** The NZDF provides 12 courses per year nationwide for up to 360 trainees that cover a range of leaderless and adventure activities focusing on leadership, practical life skills, and self-confidence. Blue Light Ventures is a charity supported by New Zealand Police to which NZDF provides support through the delivery of the Youth Life Skills programme.

• New Zealand Cadet Forces:

The Cadet Forces is a voluntary, disciplined, uniformed youth leadership training organisation, for people aged 13 to 18. The three branches: Sea Cadet, New Zealand Cadet, and Air Training Corps, mirror the three services in the NZDF. Of the Cadet Forces, 13-15% go on to join the NZDF. As at 30 June 2020, the Cadet Forces consist of 430 Cadet Force Officers and 3,200 Cadets, distributed across New Zealand. These community based Cadet Forces provide ceremonial and community support ranging from maintenance of service cemeteries through to ANZAC Day support.

During January 2020, Exercise CADET 2020 was held in Waiouru. Approximately 1,200 NZDF and New Zealand Cadet Forces personnel from around New Zealand gathered for a week of disciplined activities and experiences designed to challenge and help develop both cadets and officers.

Exercise CADET 2020 embodied the Cadet Forces' vision of 'preparing New Zealand's successful leaders of tomorrow', and the Cadet Forces' mission of 'developing and enabling self-disciplined, confident and responsible young New Zealanders'.

New Youth Facilities and Staff Training

The NZDF commenced operations at its 160-bed facility at RNZAF Base Auckland in August 2019. This facility is providing support to LSV, Service Academy, Blue Light and New Zealand Cadet Forces. During the COVID-19 lockdown, the facility was used as a quarantine facility for NZDF personnel who had returned from operations. The 90-bed facility at Trentham Military Camp was opened by the Minister of Defence in August 2019. This facility now supports four courses per year.

The Youth Development Specialist trade was established to consolidate NZDF's people, training, and infrastructure resources to support LSV, Service Academy, Blue Light Venture and New Zealand Cadet Forces commitments. Subsequently the NZDF embarked on a two year project to formalise, improve and deliver specialist training for YDS that recognises the complexity, sensitivity, and legislative requirements of the work. The completion of this training project is planned to be concluded in 2020/21.

Supporting New Zealand's community and wellbeing and resilience

The NZDF support to the community promotes national identity, improves civil-military relations, provides visibility of the role of the armed forces, improves recruitment, and preserves New Zealand's military history for future generations to enjoy.

In October 2019 the Torpedo Bay Navy Museum participated in an international community event, Fun Palace, giving 2,350 people from the wider Auckland region the opportunity to learn new skills such as 'heaving the line' and 'rope tying' with the Seamanship School. The Museum also organised three workshops, supported by Naval personnel, introducing naval navigation and how to use a sextant. More of these popular workshops are planned for 2021, with a waitlist in place.

On 24 February 2020, the National Army Museum Te Mata Toa marked the second 'Purple Poppy Day' to remember and honour all those military animals which served and continue to serve in times of conflict. Since a New Zealand War Animal Memorial was unveiled on 24 February 2018, the Museum has decided 24 February each year will be 'Purple Poppy Day'. This concept has quickly caught on and many countries now also recognise 24 February as an annual day to commemorate military animals, including Australia, United States of America, France, the United Kingdom and Canada.

The Air Force Museum of New Zealand Photo Archives unit went online with digitised photographs in February 2020. Researchers can now browse and download thousands of images of New Zealand's military aviation history. This is the culmination of 25 years of behind-the-scenes planning and effort. The digitised archive represents a considerable new resource for everyone from military historians and researchers, through to model makers.

Reserve Forces

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. Their presence encourages enlistment, as well as supporting local government and civil contingencies.

Sports

Teams and individuals from within the NZDF have participated at local and national sports tournaments. Events included the 2019 Hockey New Zealand National Association Tournament and the Volleyball New Zealand National Club Championships. Teams support local communities with visits and coaching workshops.

Supporting environmental wellbeing and resilience

The Climate Crisis: Defence Readiness and Responsibilities, released in November 2018, identified climate change as one of the greatest security challenges facing the NZDF in the coming decades. As a consequence of the impacts of climate change, the NZDF will be called upon to provide more humanitarian assistance and disaster relief, stability operations, and search and rescue missions. The Defence Force may be required to conduct more frequent and concurrent operational responses to the effects of climate change.

Following release of the *Climate Crisis*, and working with the Ministry of Defence, a joint Defence implementation plan was developed. *Responding to the Climate Crisis: An Implementation Plan* was released in November 2019. This document describes the goals for each of the four pillars of Defence's approach to the challenges created by climate change:

Respond	Adapt	Mitigate	Engage
We are prepared to sustain multiple concurrent complex response operations	We are continuously adapting to operate effectively in an environment impacted by climate change	We have reduced our impact on the climate and the wider natural environment	We are a trusted partner on climate change and security in the Pacific and internationally

The Implementation Plan also sets out the NZDF activity currently underway to achieve these goals. In addition, it outlines the next steps to be commenced in 2021 and beyond.

The Defence Capability Plan 2019 was developed with full recognition of the consequences of climate change. The improved capacity provided through the planned sealift and airlift capabilities, as well as the increase in the size of the Army, will ensure that the NZDF is prepared to respond to the challenges arising from climate change. Improved aerial surveillance and maritime domain awareness in the Pacific and Southern Ocean will also ensure that New Zealand is better informed about the impacts and implications of climate change as they unfold.

Work is continuing to further embed considerations surrounding climate change into the NZDF's strategy, plans, governance and reporting. In 2019/20:

- The Chief of Defence Force issued an Environmental Sustainability and Climate Change Policy Statement to set the overarching approach to these matters.
- Reporting on NZDF sustainability metrics was introduced and will continue to mature.
- Preparation of an NZDF Climate Change Risk Assessment is well underway, and is scheduled for completion during 2020/21.
- Preparation of a Carbon Emissions Inventory for the NZDF is nearing completion and will be verified by an external agency during 2020/21.

What do our Key Stakeholders, Ministers and the Public say about us?

Agency satisfaction

We collaborate and partner with other government agencies.

Understanding the expectation and satisfaction with our support is essential as it enables us to deliver better support and to reach the level of performance that we strive to achieve.

The key agencies that we support are surveyed annually. The key measure for the survey is “the degree of satisfaction expressed by agencies requesting support and assistance”.

In 2019/20, we included the Ministry of Health to understand our contribution to responding to COVID-19. We are also reporting:

- Three separate results (*Cabinet Office, Government House and National Security Group*) for the Department of the Prime Minister and Cabinet (DPMC)
- Two separate results (*New Zealand Customs Service and National Maritime Coordination Centre*) for the New Zealand Customs Service
- Two separate results (*New Zealand Police and New Zealand Police Blue Light Trust*) for the New Zealand Police.

This is to better understand the broad range of support that we provide.

The results were positive with an average score of 87% satisfaction which is similar to 2018/19 (88%).

The survey asked five questions and each question has five ratings. Of 95 questions responded to by 19 agencies, over 90% (87 responses) of the responses were either 4 or 5 (ie, Good or Outstanding) and no ratings of 1 or 2 (ie, Unacceptable or Poor).

The results also indicated a growing demand for our support in New Zealand. Where the rating was 3 it was largely due to another commitment precluding our immediate attention.

Agencies surveyed and responded

Antarctica New Zealand
 Cabinet Office, DPMC
 Department of Conservation
 Department of Internal Affairs
 Fire and Emergency New Zealand
 GNS Science
 Government House, DPMC
 Maritime New Zealand
 MetService
 Ministry for Primary Industries
 Ministry of Education
 Ministry of Foreign Affairs and Trade
 Ministry of Health
 Ministry of Social Development
 National Maritime Coordination Centre
 National Security Group, DPMC
 New Zealand Customs Service
 New Zealand Police
 New Zealand Police Blue Light Trust

AVERAGE SATISFACTION

87%

MINISTER OF DEFENCE

90%

MINISTER FOR VETERANS

86%

	Target	Defence	Veterans' Affairs
2019/20	70%	90%	86%
2018/19	70%	80%	75%

The Ministerial Satisfaction Survey was refreshed by the Department of the Prime Minister and Cabinet in 2019/20. Agencies with a policy appropriation such as the NZDF are required to report on a ministerial policy satisfaction score. The NZDF provides policy advice in the areas of Defence (with the Ministry of Defence) and Veterans' Affairs.

The NZDF exceeded its target of 70% for both Defence and Veterans' Affairs and also improved on the previous year.

The Minister also took this opportunity to express his confidence in the NZDF's officials and leadership team advising him on policy and all other matters.

Veteran satisfaction

Each year Veterans' Affairs New Zealand (VA) seeks feedback from veteran clients through a survey run by an independent survey company. In 2019, survey invitations were sent by mail to 3,000 veterans, randomly selected by the external survey company from amongst VA clients residing in New Zealand. They were invited to complete and return the 35-question survey.

The results were very positive, with VA being given an overall satisfaction rating of 95%, and a score of 96% for the interaction veterans had with their case managers. The survey company commented that positive comments and messages of gratitude outweighed those that were not.

Public trust and confidence – Colmar Public Sector Reputation Index

The Colmar Public Sector Reputation Index measures the public reputations of 54 New Zealand public sector agencies based on 2,750 online interviews with a nationally representative sample by age, gender, region, ethnicity and income conducted in March.

Colmar Brunton released their annual Public Sector Reputation Index in May 2020. The NZDF recorded one of the largest moves by any agency, improving from the tenth position of the 54 public sector agencies rated in 2019 to the second position in 2020. The NZDF scored highly in all four areas of the research which are Fairness, Trust, Leadership and Social Responsibility.

The research was conducted as COVID-19 was starting to increase significantly in March 2020. At that time, the NZDF made a largely behind-the-scenes contribution to the All-of-Government response. But as public awareness and concern about COVID-19 intensified the Government's use of the NZDF's Whangaparaoa training centre as an isolation facility garnered much media coverage.



04

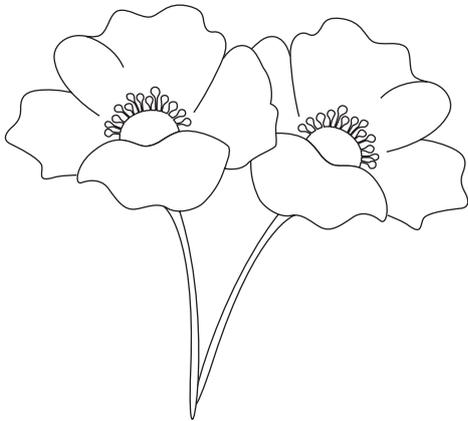
**Honouring Our
Veterans**



Activities to Honour our Veterans

12,000+

CLIENTS (VETERANS AND WHĀNAU)



\$113 million

paid out in financial entitlements
(19% increase compared to last year)

4,130

Veterans receive VIP Home Services
(15% increase compared to last year)

29,000

phone calls each year to our Enquiry Line

95% Satisfaction

183

Services cemeteries we help maintain

Veterans' Affairs New Zealand (VA) provides services and support to veterans who have served New Zealand at time of war or in deployments where they have been placed at significant risk of harm. They may receive financial entitlements, services to help maintain their independence, and health and rehabilitation support. VA also maintains Services cemeteries, and provides policy advice to the Minister for Veterans.

VA continues to look at ways to improve veterans' uptake of their entitlements. The focus over the past year has been on activities and messaging which encourage wellness, so that veterans can keep themselves fit and healthy, and fully participate in the life of their communities.

Speeding up claims management

One of the most significant issues for veterans is the time taken to process their claims. VA undertook a project in 2019 to address the backlog of more than a thousand applications which had been building up over some time. Over

a period of four months, two-thirds had been cleared and the remainder were dealt with over the following few months.

During 2020, representative groups of veterans were invited to work with VA to develop better services. As part of our ongoing 'Make it Easy' work programme to simplify processes, a reference group has been convened to provide information about the veteran experience, and to give feedback on proposed changes.

Re-engaging with Vietnam Veterans

The Crown has a Memorandum of Understanding with those who served in Vietnam, which provides for particular services to them to recognise the environment in which they served and the lack of support and recognition when they returned to New Zealand.

One of the focuses for VA in 2019/20 was on identifying as many Vietnam veterans as possible to ensure they were getting all of their entitlements. The register of Vietnam veterans has been updated and contact made with a number who had not previously

been receiving support. VA's project to continue to identify members of this group will continue in the coming year.

Paterson review

The Veterans' Support Act 2014 included a requirement that its operation be reviewed after two years, and Professor Ron Paterson was appointed to do this review. He reported to the Chief of Defence Force in March 2018 and his report was tabled in Parliament in May of that year. The report contained 64 recommendations.

VA re-oriented its activities in response and developed new approaches to address the recommendations. Changes were made to policies and procedures, and some changes were also proposed to the legislation under which VA operates. The Veterans' Support Amendment Bill No 2 was introduced to the House in April 2020. Its provisions address a number of Paterson recommendations and will have positive impacts for both veterans and their families. They are due to come into effect on 1 October 2020.



Korean Vision camp

The close relationship on veterans' matters between New Zealand and the Republic of Korea continued in 2019/20.

VA and the Korean Ministry for Patriots and Veterans' Affairs signed a Statement of Intent in September 2019, committing to ongoing cooperation between the two agencies on veterans' matters. One of the outcomes of this cooperation was a Korean Vision camp, which was held in Wellington and Waikanae in February 2020.

The camp brought together young people between 18 and 22 from both countries, some of whom were descendants of Korean War veterans. Its aim was to build on the friendship that was first established between service personnel during the Korean War.

There were four days of commemorative activities. Korean War veterans joined the participants for services at Ōtaki School and Pukeahu National War Memorial. Participants thanked the veterans for their service and acknowledged their sacrifices.

Statutory boards

VA supports three independent boards, appointed by the Minister for Veterans. All boards were active during the year.

The Veterans' Advisory Board completed work in 2019 on an interim report to the Minister which examined who should be considered a veteran in New Zealand. At the Minister's request the Board began follow-up work in December 2019 to examine the possibility of establishing a covenant, or kawenata, between those who have served and the Government and people of New Zealand. This work included a "national conversation" or consultation with a selection of the New Zealand public, and was due to be reported to the Minister in August 2020.

Collaborating with others

VA has close working relationships with other organisations, agencies and departments who share the same commitment for making life better for veterans.

Expos were held in Lower Hutt (for Vietnam veterans) and Auckland (for service personnel transitioning out of service into civilian life). VA worked on these events with the Ranfurly Veterans' Trust and the Auckland University of Technology.

VA provided a grant to the Royal New Zealand Returned and Services Association and the Australasian Services Care Network in Christchurch, which enabled a positive ageing programme to be run for veterans, spouses, and partners.

A further grant sponsored the Australasian Services Care Network to run webinars presenting up-to-date international research on issues relating to veterans transitioning to civilian life.

Monthly case management clinics are held at the Ranfurly Veterans' Centre in Auckland, with VA case managers meeting with local veterans to discuss their cases and arrange support.

VA also collaborates with the Department of Corrections to provide information about entitlements to staff who have eligibility, and to support veterans who have been imprisoned, once they have completed their sentences.

An information sharing agreement was signed with the Inland Revenue Department in December 2019. This benefits veterans by enabling VA to set levels for compensation payments more quickly.

Keeping in touch with veterans

VA emphasises the importance of keeping in touch with veterans and veteran support and advocacy organisations. The aim is to ensure that veterans are kept aware of entitlements that could be available to them, any changes that could affect them, and make it easy for them to contact VA when they need to.

VA uses multiple channels to communicate, through quarterly newsletters, emails, website, Facebook, surveys, expos, and community forums.

The VA website is accessed by almost 8,000 people each month and VA's Facebook page, launched at the end of 2018/19, has been viewed each month by more than 3,500 people from 24 countries.

In 2019/20, website pages were created for New Zealand veterans living in Australia, and for Vietnam veterans. VA also worked with the Australian Department of Veterans' Affairs to produce a brochure with information that would be helpful for the several hundred New Zealand veterans who live in that country.

Services cemeteries

VA helps to maintain the 183 services cemeteries across New Zealand, where those who have taken part in specified operational service, and their spouses or partners, can be buried. An annual budget of \$746,000 enabled work on capital projects and grants to local authorities, to keep Services cemeteries maintained to a standard that honours the Service of those buried there.

In 2019/20, more than 2,000 bases and plaques were replaced at various cemeteries. VA also began work to formalise agreements with the New Zealand Remembrance Army (a voluntary body that helps to maintain Service graves) and the New Zealand Cemeteries and Crematoria Collective.





05

**Strategic Focus:
An Integrated
Defence Force**

In November 2019, the NZDF launched the *Strategic Plan 2019–2025* (Plan25) to reflect changes in defence policy that have occurred since the release of *Strategy25* in 2017. Government policy reinforces the NZDF’s need to be combat capable, flexible, able to lead combined operations in the South Pacific, to operate in a more integrated way with partners, and be ready to respond with more frequency to events in New Zealand’s neighbourhood.

Plan25 is the action plan to turn *Strategy25* and the rallying point of a Networked Combat Force into a reality as part of the NZDF’s vision to be an Integrated Defence Force. An Integrated Defence Force is a connected, coordinated, and agile military organisation. Being integrated means providing value more than just the sum of parts; acting as ‘one force’. The NZDF will value diversity of skill, thought, and function.

Plan25 sets out:

- the framework to show how the NZDF will deliver change in the short to medium term to support the defence and security sector and achieve long-term outcomes
- the three goals which are required to deliver the outcomes: the primary goal that will achieve a networked combat force is Joint Operational Excellence. Operational Domain Mastery and Organisational Excellence are enabling goals that support the achievement of the primary goal. While each of the three goals are key in themselves, they are interrelated, and all are required to achieve the Strategy.

INTEGRATED DEFENCE FORCE

2025 Networked Combat Force

Operating as a networked combat force is the peak operational expression of the NZDF’s ability to lead the delivery of a Combined Joint Effect. The NZDF will maintain a range of capabilities and relationships that will mean it can deliver and enable a broad range of military and other effects across a range of joint operational scenarios, acting independently or with partners



Plan25 is also used to structure this 2019/20 Annual Report to tell the NZDF’s performance story in light of the refreshed goals. Over the next year, measures of effectiveness and performance will be improved to track the achievement of *Plan25*.

Joint Operational Excellence

Joint Operational Excellence is the need to be proficient and combat-capable as a joint force and operate in an integrated, networked manner with key partners to deliver military effect, NZDF force elements individually and collectively must be capable of operating across a range of joint operational scenarios.

A networked and integrated joint force

The NZDF has continued to refine and formalise its approach to operations, exercises and activities in the Pacific.

Pacific Reset

In 2019, the NZDF refreshed its approach following the Government's Pacific Reset. The Commander Joint Forces New Zealand, provides coordination and oversight and executes NZDF activities in the Pacific. This is in order to:

- Contribute to regional resilience and nation building
- promote regional security, stability and prosperity
- strengthen relationships with allies and partners through cooperation in the region.

Headquarters Joint Forces New Zealand is the conduit to link all activities in the Pacific conducted by the NZDF's three Services (Navy, Army and Air Force) as well as other portfolios to enable enhanced situational understanding. As a result, the NZDF makes efficient use of resources and enables enhanced cooperation with Pacific Island nations, allies and partners.

Pacific Leader Development Programme

Leadership across the Pacific is a particular area of focus for New Zealand as part of Pacific Reset.

In 2019, the MFAT and the NZDF entered into a Memorandum of Understanding (MOU). The MOU funds the NZDF to establish the Pacific Leader Development Programme (PLDP) with the support of our Pacific partners. The PLDP aims to establish a common belief and practice in ethical and positive leadership within the South Pacific security sector agencies, with an emphasis on those countries with military forces.

Between 2020 and 2023, the NZDF plans to build leadership centres in four countries. The NZDF is focusing on supporting Pacific Partners to design and develop their own leadership frameworks, grow their leadership development staff capacity, develop, deliver and continuously improve their own courses and lessons.

During 2019, 263 Pacific leaders participated in the PLDP and approximately 850 more leaders are expected to participate in 2020.

	Papua New Guinea	Fiji	Tonga	Vanuatu	Total
Actual number of participants in 2019	193	43	3	24	263
Expected number of participants in 2020	255	232	181	181	849

A trusted strategic and operational partner

International Defence Engagement Strategy

The NZDF has focused on building and maintaining the right conditions that will allow it to act and be seen as a trusted strategic and operational partner. Strategically, the NZDF has maintained its schedule of dialogues with international partners consistent with the International Defence Engagement Strategy (IDES). With the advent of COVID-19, IDES was re-examined and engagement priorities were reset to allow for new conditions and restrictions impacting on commitments and engagements. Virtual engagement became the 'new normal' form of engagement, and continues as COVID-19 endures. In the current strategic environment, the NZDF places great importance on retaining its standing as a trusted strategic partner. Its ability to deliver joint efforts to a high standard in support of regional and global initiatives gives the NZDF strategic credibility as it continues to engage with its international partners.

Operationally in 2019/20, the NZDF faced the challenge of transitioning from a relatively open global environment for commitments and engagements, to one significantly restricted by COVID-19. The NZDF found new ways to work jointly to demonstrate its ongoing commitment to operational excellence. Activities that demonstrate this have been Pacific personnel repatriation and contactless equipment delivery, ongoing maritime and air surveillance activities in the Exclusive Economic Zones, and ongoing virtual planning with partners to find new opportunities and ways to continue to deliver outcomes. The NZDF also maintained its tempo in existing operations around the globe.

Towards the end of 2019/20, the NZDF began to consider opportunities for in-person deployments to Pacific partners, to support their ongoing needs, despite COVID-19. Deployment of a composite Mutual Assistance Training Team to Fiji in September 2020 will demonstrate NZDF's commitment to remaining a trusted and valued partner, and may lay the groundwork for future, similar teams in other Pacific countries. Finally, the NZDF worked in a joint fashion to meet the domestic response requirements to COVID-19. This is an evolving commitment at the direction of the New Zealand Government, and the NZDF continues to demonstrate joint operational excellence in the quality of its response and its ability to remain agile as requirements change.

Working with Our Domestic Partners

The NZDF partners with other government agencies as part of New Zealand's all-hazards approach to national security. This means New Zealand has a security system designed to bring government agencies together to respond to all risks to national security whether internal or external, human or natural. The NZDF therefore is a key component of the wider national security system, including domestic security, civil defence and emergency management, border security, and foreign policy. The NZDF works in close coordination with the lead agencies for those areas to ensure that planned investment is appropriately geared and balanced across requirements. The defined roles and tasks for the NZDF reflect its contribution to the sector.

The Chief of Defence Force and the Secretary of Defence are members of the Officials Committee for Domestic and External Security Coordination (ODESC). The ODESC provides leadership, coordination and support to all-of-government responses to national security issues. The ODESC also considers advice on some major defence capabilities before it is submitted to Ministers.

The NZDF also provides general support to a wide range of multiagency operations and the wider community as well as tasks in support of foreign and defence policy objectives. Government departments and agencies regularly supported are shown at the "What do our Key Stakeholders, Partners, Ministers and the Public say about us?" section.

The NZDF also has a close relationship with the Employer Support Council to facilitate employer relations between reserve personnel and the New Zealand business community and any organisation employing reserve personnel.

The NZDF and the Ministry of Defence are active partners of the Defence Industry, providing many hundreds of millions of dollars annually for capital projects, and goods and services for sustainment activities.

Operational Domain Mastery

Operational Domain Mastery is the need for the NZDF to have combat-ready domain force elements and capabilities that are interoperable, and are networked through relationships and systems. This is also requires the NZDF to think and operate in an integrated way across all of the operating elements.

Combat-ready force: Maritime, Land and Air

The Navy, Army and the Air Force are the core components of the NZDF. The Chiefs of Service have primary responsibility for generating force elements, and ensuring that force elements are ready for operational employment.

Force Generation

Navy

The Navy generates and sustains maritime capabilities. It is able to utilise these capabilities across a spectrum of activities from non-combat interagency operations in New Zealand to military operations in threat areas responding to a range of security events. Maintaining units at directed states of readiness for operations is achieved by ensuring a managed cycle of individual, unit and collective training, ship engineering and maintenance, and effective logistical support. The Navy provides the sealift and maritime advance forces (Hydrographic Survey, Mine-countermeasures and diving) to the Joint Amphibious Task Force. Throughout the year, the Maritime Operational Evaluation Team conducted a cycle of evaluation activities across the Fleet ensuring that required readiness states were being met.

Collective and individual training in preparation for operations continued, although COVID-19 protocols had some impact in the latter stages of 2019/20. The Navy Leadership Development Group continued with new entry training to sustain the Fleet. In addition to personnel conducting professional training overseas in the United Kingdom, Canada and Australia, the Navy had personnel serving on foreign ships and staffs to maintain currency and develop experience whilst the Anzac frigates are unavailable. This included: a contingent working in the Australian Commander Task Force 150

staff in Bahrain; Officers of the Watch, Engineering Officers and Principal Warfare Officers serving on United Kingdom, Australian and Canadian ships; and a variety of personnel undertaking specific training courses overseas.

Army

The Army generates and prepares multi-purpose, combat-capable land forces and special operations forces that are internationally benchmarked and optimised for joint land combat. The Multi-Role Battalion Group enables the Army to sustain an all-arms battalion-sized task group capable of joint land combat operations. This is complemented by sustaining a Special Operations Task Group for employment regionally or globally and a Special Operations Task Unit for short notice regional response. As part of the joint approach, the Army generates the capability to integrate joint units and to command landing forces as part of a Joint Amphibious Task Force, in order to conduct national or coalition operations and exercises.

Collective and individual training in preparation for operations continued while observing COVID-19 protocol in 2019/20. Initial training was conducted to qualify and prepare recruits for acceptance into the Army. 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 Army conducted final assessment and mission specific training for troops and units about to deploy on operations. Key training activities included Exercises SARI BAIR 19 in New Zealand and TALISMAN SABRE 19 in Australia. The latter was an ADF Brigade certification exercise which assessed and provided a benchmark for the Army Force Elements to operate within a coalition complex warfighting activity.

Air Force

The Air Force generates and sustains air capabilities for military operations and is able to utilise these same capabilities for non-combat tasks to assist the civil power and support other government agencies. This is accomplished by bringing specified air capabilities to the directed states of readiness for operations by organising personnel, equipment, materiel and supplies, as well as the provision of individual, unit, collective and joint training.

In addition to maintaining the ability to commit expeditionary forces to mid-intensity conventional combat operations, all three services are ready to respond to a wide range of security events, such as regional crises and non-combat interagency operations and tasks in New Zealand.

List of Capabilities

The NZDF is prepared for the following, when directed by the Government:

- Naval air combat capability for embarkation aboard surface ships;
- Strategic air mobility capability to deploy, sustain and recover deployed forces;
- Theatre air mobility capability for personnel movement and cargo airlift operations within a designated theatre of operations;
- Tactical air mobility capability to support land operations, special operations forces, aeromedical evacuation and joint personnel recovery;
- High readiness land capability that can quickly respond to a regional crisis or security event;
- Land combat capabilities able to operate within a global mid intensity conventional coalition operation
- Humanitarian and disaster relief capability that can respond to a regional disaster;
- Airborne counter sea operations which support maritime warfare operations;
- Airborne intelligence, surveillance and reconnaissance operations in support of maritime security operations, and support of Special Operations Forces and other specified forces in the land and maritime environments;
- Special operations forces to operate in high intensity environments across the spectrum of conflict that delivers a credible contribution to special operations. These forces are capable of employment domestically, regionally or globally and in order to expand the government's options to achieve strategic goals;
- Maritime security operations, including supporting other government agencies through regional border patrol operations and maritime patrols in the South West Pacific;
- Maritime warfare operations; sustainment, sealift and amphibious operations in support of maritime and Joint Forces New Zealand.

Readiness

Readiness is a critical part of being an effective defence force. The NZDF's core role is to protect New Zealand's interests. The NZDF does this both independently and in conjunction with security partners on a range of operations from constabulary through to combat. The NZDF is funded to maintain 'readiness' to deploy military capabilities as part of a networked combat force.

The measurement of readiness is an assessment of the time it would take for a designated force element, unit or task force to be ready to deploy, appropriately resourced, trained, equipped and supported, to meet the defined conditions and standards for the designated operation. A force element or 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.

Readiness is assessed by NZDF's ability to:

- maintain personnel at the required strength and individual 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
- 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.

Defence is often required to respond to events that cannot be anticipated, such as the December 2019 Whakaari/ White Island eruption or support to COVID-19. These require an immediate and significant response. It is likely that events will increasingly be linked to climate change and its impact at home and in the South Pacific. Being able to respond to adverse events in our region is a key driver of capability.

Readiness performance is included in the *Accountability Reporting: Departmental Appropriations* section of this report.

Improving Military Capabilities

The term 'military capability' is broader than a ship, weapon or aircraft. It is the complete integration of Personnel; Research; Infrastructure; Concepts, Doctrine and Training; Information Technology; Equipment and Logistics. The NZDF has a range of military capabilities within its three Services. In support of the three Services there are four capability domains: maritime, land, aerospace and information. The first three reflect the primary focus of the three Services while the information domain cuts across the three. For each mission, the best combination of capabilities is selected to create a tailored task force.

Diving and Hydrographic Capability

HMNZS Manawanui

A Diving and Hydrographic vessel (DHV) was bought by the Government to fill the gap in the two significant Defence capabilities of Diving and Hydrography.

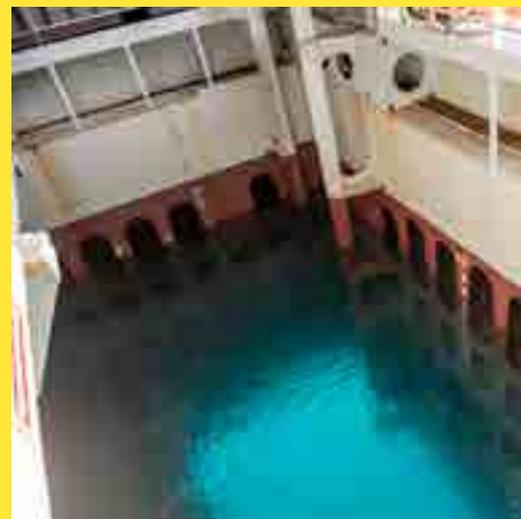
The Project Team investigated the used ship market and after a world-wide search utilising a brokering firm, identified a suitable vessel. The requirement itself was significant; provide support for diving and hydrographic survey outputs (with appropriate modifications), meet all NZDF seaworthiness requirements, last at least 15 years and be deliverable quickly and within the set budget amount.

The EDDA FONN was a proven high-quality Norwegian built and operated vessel working in the subsea oil industry in the North Sea. This vessel had an excellent reputation, was sought after as a lease vessel and had been maintained very well under a recognised ship survey regime. Østensjø, the owners of the vessel, were identified as a professional company who were willing to work with the Crown to assist in the modifications and deliver a successful ship.

The ship went into a Danish shipyard where it was modified with pre-manufactured equipment from around Europe. This included adding two mezzanine decks to the ship, installation of a dive system and decompression chamber, installation of a Remotely Operated Vehicle system, hydrographic survey system and a new engine.

The vessel was delivered to New Zealand on schedule and budget in 2019. It has some very unique capabilities including a surface supplied breathing air diving system that is deployed through a 'moonpool' (access in the middle of the ship to the sea) and a propulsion system that allows the ship to 'hover' over a precise point (to within 0.4 metres) so complex underwater tasks can be carried out.

The project is a good example of the flexibility of thought and adaptability of a combined NZDF and Ministry of Defence team to deliver a credible capability within a set budget. The DHV project is the first to deliver under the new Integrated Project Team and whilst initial release of capability has occurred and the ship is already contributing to Government outcomes, the project team continues to work with the NZDF to fully introduce the new HMNZS *Manawanui* into operational service.



Implementation of the Defence Capability Plan

The NZDF in partnership with the Ministry of Defence has begun implementing the Defence Capability Plan approved in June 2019.

Each investment initiative undertakes an assessment against a 'Scale and Risk' tool which helps inform the portfolio management and governance of the risk profile for each investment as well as the overall portfolio risk. This is being further developed to map dependencies between the projects to ensure any one project is not compromised by difficulties encountered by another project in the portfolio.

Platforms, equipment systems, technologies and material identified within the plan that are considered significant and which represent high scale and high-risk are managed as "Defence-led" projects using joint NZDF and Ministry of Defence teams. Other capabilities, including refreshment of existing capabilities, are managed as "NZDF-led" projects or programmes.

Maritime Domain Capability

Navy's fleet modernisation programme started in 2012. In 2019/20, work continued to introduce the dive and hydrographic vessel HMNZS *Manawanui*, the new fleet tanker HMNZS *Aotearoa*, and to upgrade Anzac Class frigates. Each of these vessels provide a strong foundation for the Navy out to 2030 and ensure that its regional and global reach is maintained. The Joint Amphibious Task Force is able to operate anywhere in the South West Pacific or provide combat and logistic support to global military operations. Having an effective naval combat force allows the government of New Zealand the ability to enact its policy agenda on the international stage. The focus for the Navy has been on sustaining existing capabilities to agreed end-of-life timeframes, and maximising capabilities through life until they are beyond economical repair and need replacing.

Land Domain Capability

The Army's capability modernisation continues to ensure that the Army is equipped to succeed as part of an integrated defence force. Network Enabled Army capabilities, Protected Mobility and Soldier Modernisation are key deliverables to this transformation. Land capabilities are also people-centric. They are based around a diverse range of functions which collectively form a bespoke combined arms task group designed for a specific mission or task. These bespoke functions become the land platform. Many of these investments also provide utility domestically (for example, the domestic counter-explosives capability). However, these capabilities are primarily focused on supporting expeditionary missions.

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, stability and support to host nation governments, and the evacuation of nationals. To successfully deploy, our ground forces require a range of integrated support and force protection capabilities.

Air Domain Capability

The main focus in air capabilities is the replacement of the air surveillance and fixed-wing air mobility fleets as well as investments to maintain compliance with emerging air traffic management requirements. With regional and global movement of personnel and equipment being key to many of the roles of the NZDF, these fleets will allow for a high readiness first response. Following the replacement of C130H Hercules aircraft in 2024, the RNZAF will have completed a generational update of all capabilities with effective, proven modern aircraft.

Projects and Programmes

- **Communication systems upgrades** in the sealift and patrol ships HMNZS *Canterbury*, *Otago* and *Wellington* are underway. This will ensure their communications capabilities avoid obsolescence until the end of their service lives.
- **Both Anzac frigates** are currently undergoing a significant upgrade to their surveillance, combat and self-defence capabilities. This will ensure that HMNZ ships *Te Kaha* and *Te Mana* remain viable and effective maritime combat platforms until replacement and can continue to operate safely in medium and high threat environments. HMNZS *Te Kaha* has completed her industrial refit and is now undergoing harbour and sea trials. HMNZS *Te Mana* is over halfway through her industrial refit in Canada. In 2021, HMNZS *Te Mana* will conduct harbour and sea trials on the new equipment and complete her upgrade at the end of 2021.
- **Maritime sustainment capability** maintains maritime, air and land forces with fuel, fresh water, ammunition and a modest amount of equipment and non-perishable stores. HMNZS *Aotearoa* incorporates ice-strengthening and winterisation features, supporting New Zealand's continued civilian presence in Antarctica through a contribution to the Joint Logistics Pool. It will be able to deliver specialised Antarctic fuel, and transport containerised scientific material and supplies to McMurdo Sound. The ship was delivered to New Zealand in June 2020 and military customisation is underway prior to the commencement of introduction to service trials and training.

- **The Network Enabled Army (NEA) programme** represents a transformational change for the land forces through enabling them to operate in a modern digital and network enabled environment. As a major investment over 12 years, the NEA programme is a vital mechanism to make improvements across the land forces. The first tranche of the NEA has made significant progress towards providing the Army with digitised command and communication technology, battlefield management systems (BMS) and satellite communication bearers.

The second tranche will focus on rolling out more of these capabilities to the Army and providing enhanced capabilities across intelligence, surveillance and reconnaissance.

- **The Protected Mobility Capability Project (PCMP)** will replace operational land vehicle fleets, providing New Zealand troops with improved armoured, high mobility and tactical transport options. The PCMP is being run in stages over ten years, ensuring that New Zealand's land forces remain properly equipped to operate across a range of environments up to, and including, a mid-intensity land combat setting. It will replace the operational vehicles such as Pinzgauer (including the special operations and armoured variants) and Unimog and then consider upgrading or replacing the New Zealand Light Armoured Vehicle. A recent delivery of Polaris MRZR vehicles, along with specialised tools, test equipment and spares, fulfils the project's High Mobility vehicle category. The PCMP is now working on the acquisition of the Bushmaster Protected Mobility Vehicle and will shortly commence work to determine the next generation of medium and light utility vehicles and protect mobility vehicles (light).
- **The Counter Explosive Hazards (CEH) Project** delivers an expeditionary Explosive Ordnance Disposal (EOD) capability across Navy, Army and Special Operations as well as a permanent Explosive Detector Dog (EDD) capability. The CEH Project has delivered a capability that exploits today's technology, consolidates systems, and has ensured that the capability can operate with our partners.

The EOD and EDD training is built on a new framework that is relevant in today's complex threat environment. The training has been accredited to an international standard and has had the effect of lifting the standards across the entire New Zealand system. The EOD capability has graduated three courses of newly trained EOD and improvised EDD operators. A new EDD handlers' training course was completed in 2020, increasing the number of handlers and dogs in the NZDF.

- **The Garrison and Training Support project** will provide specialist vehicles to support emergency situations and NZDF personnel.

A contract has been signed with Hamilton-based Action Manufacturing for a fleet of six Iveco Daily 4x4 based Medical Rescue Vehicles to replace 30 year old vehicles. Delivery of the first vehicles is expected in late 2020. Work continues on replacing the Mobile Bulk Aviation Fuelling capability, Airfield Response Appliances, Rural Fire Appliances and Domestic Fire Appliances, the latter to meet NZDF's commitment to assist Fire and Emergency New Zealand. The project will be delivered in phases beginning in 2020.

- **The purchase of four Boeing P-8A Poseidon maritime patrol aircraft** announced in 2018, provides a substantial commitment towards meeting the challenge of identifying and responding to activity within New Zealand's maritime domain. The P-8As provide sophisticated, technologically advanced military capability which is of value to New Zealand and our partners. This may be supported by an Enhanced Maritime Awareness Capability. These aircraft will replace the six P-3K2s Orion aircraft which will be progressively retired from 2023.
- **The replacement of the C130H Hercules fleet with the latest C-130J-30 Super Hercules** (Theatre Air Mobility Capability) was approved by Cabinet in June 2020. The replacement fleet will retain the capability to airlift personnel and cargo within the South Pacific, to Antarctica and in support of coalition operations further afield, supporting missions from humanitarian and disaster relief to operations in high-risk conflict zones.

- **Air Warfare Officer (AWO) training** returned to New Zealand based training in early 2018 to ensure that it met specific NZDF requirements. New aircraft and equipment were delivered by May 2020. The new aircraft fleet enables provision of consolidation training of Air Force graduate pilots on fixed wing multi-engine aircraft and initial training of AWO. Two aircraft were fitted with a multi-mode radar and Electro-Optic and Infra-Red camera system. The sensor suite provides the ability to investigate further training opportunities and trial new procedures. It is expected that the first new AWO training course will be completed in 2021.

- **The NZDF is acquiring an NH90 Flight Training Device (simulator)** to allow both initial and ongoing training of pilots. The simulator will increase the availability for operational outputs and cut costs by reducing the flying hours required for training. It will remove the need to travel offshore to use synthetic training devices and therefore increase the NZDF's ability to sustain a sufficient number of trained pilots:

- Installers from Canada and Australia could not arrive as scheduled due to COVID-19. However the NZDF and CAE New Zealand Pty Ltd. developed a plan to install the simulator using New Zealand-based CAE staff and NZDF personnel.
- The NZDF anticipates the NH90 capability will be delivered in a configuration which will allow a wide range of training activities to take place. An interim training capability will be available by October 2020. The final configuration is expected to be available in 2021, once CAE specialists are able to travel to New Zealand.

- **A number of regulatory changes** will come into effect during 2020 such as improvements to navigation systems in civil airspace and changes to military communications requirements. The NZDF is assessing the impact of these changes on the Air Force and will progressively implement changes as required, to ensure continued compliance of the Air Force fleet of aircraft.

Integrated information and cyber capabilities

Information has changed the character of warfare and the way in which militaries around the world operate. It is imperative that the NZDF is able to exploit and protect information through technology capabilities such as cyber, intelligence and electronic warfare to maintain interoperability with partners and to achieve decision making advantage.

The speed and effectiveness with which the NZDF is able to respond to events is dependent on its ability to collect, analyse, distribute and exploit the immense quantities of information generated by modern information technologies. The major platforms outlined elsewhere in this document for future investment are dependent on information capabilities and will be unable to provide their full benefits without the corresponding investments in information technologies that support, inform and connect them.

The Information Domain Review will introduce a framework across Defence to deliver and sustain these information-based activities.

- **The NZDF is enhancing its defensive cyber capabilities** to keep pace with evolving threats to information security. This ensures New Zealand remains a credible and trusted partner that is prepared to protect information that is central to our national security, while also adhering to the security needs of our defence partners.
- **Cryptographic refresh** ensures the continued protection of data on classified networks and interoperability with our defence partners.
- **High frequency radio network** provides a critically important option for communication with ships and aircraft within or near New Zealand, especially for operations in the Southern Ocean. It also provides communication resilience for ships and aircraft deployed further afield in the event that satellite connectivity becomes compromised.
- **A joint intelligence project** is underway to raise the performance of operationally focused intelligence, including an increased capacity to process and analyse data. The initiative involves organisational change within the NZDF as well as an increase to the number of dedicated intelligence personnel.

Organisational Excellence

Organisational Excellence is the need for the NZDF to have fit for purpose systems that enable the generation of military capability and the delivery of military effect. It also reflects that the NZDF needs to build trust by demonstrating how we deliver public value that is recognised through the ongoing support of the NZ public and our domestic stakeholders.

Baseline Review of Defence

The NZDF always seeks best value for money from its spending. At the same time, the NZDF needs to be properly resourced to achieve its outcomes. Baseline reviews support both of these purposes by seeking to better understand the returns from current spending and to assess future funding needs.

The Baseline Review of Defence completed in February 2020 by the Treasury and the NZDF highlighted the following areas:

- Personnel expenditure has been higher than expected. This is driven by growth in civilian staff, increasing seniority, low attrition of senior staff and additional remuneration and allowances.

- Operating expenditure supporting the use of military capabilities has remained flat. Providing additional funding for this could have a direct impact to lift activity levels, as well as overall efficiency, by improving asset utilisation.
- Maintenance, repair and overhaul (MRO) expenditure has been higher than expected, largely due to major NZDF platforms reaching the end or beginning of their service life. There are opportunities the NZDF can take to improve understanding and management of costs in the MRO environment.
- Historical underinvestment in infrastructure has created risks. The NZDF needs to continue progress implementing the Defence Estate Regeneration Plan.

Budget 2020 provided funding uplift for operating expenditure to enable the NZDF to continue to balance maintaining readiness with platform obsolescence and personnel challenges. A programme to enhance commercial relationships and strategic partnership with industry is in place to improve Maintenance, Repair and Overhaul. A programme to further enhance personnel sustainability is underway.

The NZDF is working with the Treasury to deliver a report on changes made against Baseline Review report recommendations.

Skilled and sustainable workforce

Workforce

To effectively perform its role, the NZDF has to maintain a sustainable and affordable workforce. This is reflected in the refreshed People25 strategy, developed in 2019.

Recent years have seen increasing expectations on the NZDF to balance workforce cost pressures while remaining agile, resilient and sustainable, as well as ensuring that a range of workforce initiatives support our future operating environment by attracting, developing and retaining the required talents.

In order to address rising costs and prepare the force for the introduction of new capabilities, the NZDF must continuously refocus resources. The medium and long-term strategic direction aims to achieve the following outcomes:

- Delivery of military outputs – in order to deliver effective military outputs, the NZDF needs to have the right number of people, with the right skills and experience, in the right place at the right time.

- Sustainable cost of the current and future workforce – the NZDF is responsible for ensuring public funding is spent in a fiscally efficient way to deliver results.
- Wellbeing of our people – the NZDF is committed to ensuring the health, safety, and wellbeing of its people, ensuring the workforce is inclusive and adds value to the Community, Nation, and the World.

Performance Management

In the last three years, the NZDF has invested in tools and training to support performance and development discussions and quality performance reporting. A key focus has been upskilling leaders to enable them to set expectations, be coach-like in their engagement with their personnel and manage performance.

A new performance management tool was released in January 2020, which has simplified the reporting process and increased the focus on expected behaviours. The focus for the next two years is to embed the new tool and ensure that quality and frequent discussions about performance and development are occurring, along with honest feedback.

The NZDF will continue to invest in training and reinforcement of expectations to ensure that its investment supports high performance.

Career and Talent Management

The career and talent management system is critical to succession planning, personnel appointments and professional development opportunities. A number of initiatives have been completed over the last two years to improve the system, including greater transparency of decision-making, minimisation of bias, empowerment of individuals to drive their own professional development and enhanced use of data and reporting to support decision-making.

Personnel Transition

The NZDF releases approximately 800 Regular Force personnel every year. The transition from military to civilian life has the potential to be challenging, due to the uniqueness of the military work environment, roles, lifestyle and identity.

The NZDF provides a range of services to support transition, with particular qualifying criteria. Anecdotal evidence suggests that the majority of leavers transition well and experience positive outcomes post their service careers.

A programme of work was initiated in 2019 to enhance NZDF's transition services, with a key focus on early preparation. International research shows that early preparation and personnel empowerment through the transition journey increases the likelihood of successful transition. In October 2019, a transition coaching team was established for an initial two-year pilot, with coverage on each camp and base. The team works with Regular Force personnel in a coaching capacity, as well as delivering transition seminars for personnel and family. Feedback to date has been positive.

Sport

Sport plays an important role in maintaining the fitness and health of NZDF personnel and contributes to developing team work and other skills relevant to the NZDF. For example, it supports military personnel to be fit for operations and civilian personnel to be fit to do their job.

In addition, sport is identified as an important adjunct to the linkages that strengthen relationships and support leadership, training and development activities across the NZDF as well as Community, Nation, and World environments. During 2019/20, sports teams represented the NZDF at various levels to advance New Zealand's international relationships. For example:

The NZDF participated in the Kings Cup at Henley Royal Regatta. Military crews from New Zealand, Australia, Canada, Germany, the Netherlands, the United Kingdom and the United States came together to honour the past, contribute to the alliances of today, and build towards the future.

The NZDF Women Sevens team participated at the Pacific Military and Police Women's Rugby Sevens Tournament in Canberra, involving officials and players from New Zealand, Australia, Tonga, Samoa, Cook Islands, Fiji, Papua New Guinea, and Vanuatu. Such participation highlights New Zealand's relationship with its Pacific Partners and also recognises regional military and police women and the role they play in the security of their respective and collective nations.

Health and Safety

The NZDF safety vision places the obligation on all personnel to be responsible for safety in everything we do. This reflects a commitment by the NZDF to taking steps to keeping our people and the public safe. A key focus over 2019/20 has been the continued development and implementation of the NZDF health and safety strategy which has identified NZDF significant safety risks. The strategy includes the management of contractors, diving, live field firing, fatigue, pandemic and safety across the NZDF vehicle fleet. Initiatives are also underway to address the high rate of sports and physical training injury events, specifically looking to reduce lower limb injuries; reducing safety incidents when working near electrical infrastructure; and setting the minimum requirements for safety across all construction and facility management activities. In 2019/20, the NZDF:

- reduced the number of reportable injuries. The reduction was influenced by the Alert Level 4 lockdown. However, excluding the months of March, April and May, there was a reduction of 2%, compared to 2018/19 (2,048 injuries in 2018/19 and 2,000 in 2019/20)¹;

¹ The total reportable injuries in 2019/20 were 2,364 (2,857 in 2018/19).

- improved its reporting, for example more near miss and minor events were reported than in previous years. This report will be utilised to target the risk areas;
- notified 53 events to WorkSafe NZ. The WorkSafe NZ investigations into the two fatalities in 2018/19 have resulted in charges being laid under the Health and Safety at Work Act 2015; and
- met the annual audit requirements for the ACC Accredited Employers Programme. This level applies until 31 March 2021.

Tailored Advanced Health and Safety Governance training was delivered to members of the NZDF Executive Health and Safety Committee covering due diligence, safety risk management and safety assurance. The NZDF has also maintained a close working relationship with the Government Health and Safety Lead group and this has assisted in managing sector critical risks and reducing reported rates of harm. In addition the Defence Force Instruction 0.74 'Contractor Safety Management' was published in early February 2020.

Diversity and Inclusion

In October 2019, the NZDF was awarded the Rainbow Tick. This recognises that the NZDF is committed to providing a safe and inclusive workplace for personnel of diverse gender identity and sexual orientation and was a significant milestone for the NZDF. In March 2020, the NZDF formally adopted the United Nations Women's Empowerment Principles. The principles and associated outcomes form the framework for NZDF's Wāhine Toa (formerly known as More Military Women) programme that is about increasing NZDF's gender diversity, including addressing retention barriers. Further information on the Wāhine Toa programme (measures and initiatives) can be found in the '2020 Women in the NZDF' report.

The NZDF is committed to increasing the number of women in the Regular Force by 2025.

- Navy: set a gender target of 30% women with a focus on Science, Technology, Engineering and Mathematics related trades and branches.
- Army: committed to an overall increase of women within its Service and of note a target of 40% women in a newly approved tertiary education scheme and commissioning course.
- Air Force: set a gender target of 25% women targeting strategically significant trades.

The NZDF's refreshed strategy identifies a more diverse and inclusive NZDF as the key people-oriented change for the NZDF to remain successful in an increasingly complex global security environment. The development of a more diverse and inclusive workforce is as vital to the NZDF's future success as is the acquisition of new technology and capability. This changed state will help us to maintain our operational excellence through being able to:

- ensure our people feel safe, included and valued,
- compete to attract and keep most talented people from the widest possible talent pool,
- seize the 'cognitive edge' through our agile thinking and innovative problem solving,
- ensure support from the people and partners we work among nationally and internationally, and
- work most closely and professionally together as one joint force.

The 2019 Pulse survey showed that:

- 84% feel respected by their colleagues,
- 81% agree the NZDF visibly supports diversity in the workplace, and
- 71% understand why increased diversity will make the NZDF better on military operations.

Gender pay gap

Ensuring women's pay reflects their skills, efforts and responsibilities, and is not affected by their gender, is about fundamental human rights. As at 30 April 2020, the overall gender pay gap (GPG) for NZDF is 6.1%.

The Regular Force GPG is 5.2%. This has remained relatively static over the last four years. The civilian GPG is 14.4%. The civilian GPG has reduced year-on-year from 16.9% in 2016/17.

	2016/17	2017/18	2018/19	2019/20
Regular Force	5.3	5.2	4.8	5.2
Civilian	16.9	15.9	15.2	14.4

For Regular Force, the GPG is impacted by what trade sector personnel are in (ie, more women are in the lower paid trade sectors relative to men). For Civilian personnel, the GPG is impacted by having more women in junior roles and more men in management roles.

The civilian GPG is higher than the Regular Force GPG. There are some key differences in the remuneration approach for military and civilian staff, as follows:

- Negotiation is removed from the military pay bands (eg. starting salaries are fixed and progression within the pay band is based on completion of courses).

- There is greater potential for bias within the pay grades for civilian personnel as they negotiate their starting salary.
- The NZDF has developed an action plan to address the gender pay gap. The Ministry of Women's 'Closing the Gender Pay Gap – Actions for Employers' guides the NZDF's action plan.

Operation RESPECT

Operation RESPECT is the NZDF's ongoing commitment to address harmful and inappropriate behaviour, including sexual violence. Its aim is to create a workplace where all NZDF people can perform their duties free from harmful and inappropriate behaviour in a safe and respectful environment. The NZDF has continued to promote and reinforce the expected standards and behaviours required of all personnel.

As at 30 June 2020, there have been 237 disclosures of harmful sexual behaviour reported to the Sexual Assault Response Team (SART) since its establishment in 2016.

The following table breaks down the number of disclosures that the SART has received by year:

	2016/17	2017/18	2018/19	2019/20
Restricted*	8	16	33	17
Unrestricted**	22	38	57	21

* The number of disclosures is not necessarily equal to the number of people who have made disclosures to the SART, as multiple incidents may be recorded for one person. Additionally, the number of disclosures does not equal the number of people allegations have been made against as there may be a number of disclosures relating to a single person.

** Restricted disclosures were introduced in 2016 to allow survivors access to support without triggering an investigation and disciplinary process unless the complainant decides this is what they want.

To support the NZDF to monitor the progress of Operation RESPECT, there are a series of questions about respectful behaviours in the annual internal staff engagement survey. Key results from 2019 include:

- The majority of respondents 'agreed' or 'strongly agreed' (83%) that they can perform their duties free from inappropriate and harmful behaviour, with 5% of respondents disagreeing or strongly disagreeing. The remaining 12% neither agreed nor disagreed.
- Most respondents 'agreed' or 'strongly agreed' (68%) a complaint about inappropriate behaviour would be handled effectively by the NZDF, while 12% disagreed or strongly disagreed. The remaining 19% neither agreed nor disagreed.

- The majority of respondents 'agreed' or 'strongly agreed' (89%) that if they experience inappropriate behaviour in the workplace they understand how they can raise the issue, while 3% disagreed or strongly disagreed. The remaining 8% neither agreed nor disagreed.

This data indicates that while the NZDF is making progress, there is more work to do so that all personnel have full trust that the system will respond to their needs in an effective way. In 2019, a communications refresh of Operation RESPECT was delivered across the organisation that included development of collateral and tools for managers to have conversations with their staff of expected behaviours. This was designed for our leaders to be able to localise the messages for their units and to reinforce the messages of Operation RESPECT.

As part of NZDF's continued commitment to Operation RESPECT, our Sexual Assault Prevention and Response Advisors began work on designing a Bystander Intervention pilot with the intent (depending on the results of the pilot) to roll out to NZDF.

The NZDF worked with the Independent Review Division of the Ministry of Defence and external contractors to support the review of Operation RESPECT. This was released in July and included 44 recommendations. The NZDF has welcomed the recommendations to guide further improvements to Operation RESPECT.

Integrated organisational systems

Information

The NZDF continued to implement its Defence Information Environment strategy with four areas of focus to achieve effective outcomes.

Areas of focus	Progress in 2019/20
Information capability achieves military effectiveness and enables collaboration with other agencies, allies and commercial partners to meet the expectations of the NZDF.	The NZDF has moved forward with the approval of a number of investments with decisions to invest in Cryptographic refresh, Electronic Warfare Capability, High Frequency Radio Network and has made significant progress with the Defence Intelligence uplift with the Joint Intelligence Programme.
Information management ensures we are managing our information as an asset, so that we have the right information in the right place at the right time.	The NZDF focused on improving the enterprise document management solution, delivery of analytics products for the NZDF's estate function, and development of the information management framework to support integrated information initiatives.
Management of technology revitalises the ICT infrastructure for NZDF through the Change Transformation Programme to enable a good ICT environment to support the NZDF and enable success in integrating a number of new military capabilities over the coming years.	Several tranches are being implemented. Most notably the establishment of a new 24/7 ICT operation centre to support NZDF deployed personnel, progressing the embedding of new delivery processes, progress towards better supporting the delivery of new platforms, and sourcing new information technology support services. Significant progress has also been made with the approval of the Enterprise Connectivity and Hybrid Cloud investment decisions.
Information and cyber security provide an appropriate level of protection, including strategy, policy, processes and technology ensuring that the NZDF meets its security obligations to both Government and our external partners.	The broader information domain and environment remains an ongoing challenge in an increasingly complex security environment. Progress includes the establishment of the Security Capability Programme which has been defining components of Protective Security Requirements to support the investment in an integrated security system across the NZDF.

The growth and use of technology, as recognised in the Strategic Defence Policy Statement 2018, has increased significantly for the Defence Force. The NZDF is focused on ensuring that information management is a crucial discipline to preserve the interoperability of the Defence Force and maintain the effectiveness and efficiency of the capabilities that are deployed.

Business Excellence

Business Excellence is a newly established function, focussing on improving management systems and the operating model. An internationally recognised method (the EFQM model – the most widely utilised quality management tool in Europe) will be used to benchmark the organisation and identify improvement opportunities.

Continuous Improvement

The NZDF Continuous Improvement program is an ongoing effort to improve services, processes and outputs. During 2019/20 there have been significant continuous improvement projects in Defence Logistics, Defence Estate and Infrastructure, and naval ships, as well as pan-NZDF improvements including Fuels Management, Training and Travel. Working across the NZDF and with our commercial partners, these projects have delivered benefits to support the military effect featuring risk reduction, enhanced integration and productivity gains of 22,682 hours.

Innovation

In September 2019, the Navy ran its inaugural Innovation Challenge at Devonport Naval Base and the Army ran its third Challenge at Linton Military Camp. These events help to foster a culture of innovation, and provide senior leadership with an opportunity to display support for innovation while recognising and rewarding the people who are developing solutions to deal with the issues and problems they are faced with in their work environment. The Air Force is holding its first Innovation Challenge in early 2020/21.

During the Level 4 lockdown, NZDF personnel took part in the inaugural Australia-New Zealand Defence Force Hackathon. This was a successful virtual event which focused on developing solutions around Defence Industry supply-chain resiliency. Ideas from the event are being explored within the NZDF.

Fit for purpose estate

Defence Estate

The Defence Estate is a critical enabler and strategic asset. It provides the working, training and living environments needed to generate and maintain the NZDF. The Government is investing an estimated \$2.1 billion up to 2030 to regenerate the Estate. Defence Estate and Infrastructure (DEI) is entering into a strategic alliance to support this regeneration.

Regeneration of the Estate continued at pace during 2019/20 despite COVID-19. Planned maintenance stopped when New Zealand went into Alert Level 4 but made a rapid recovery when New Zealand moved to Alert Level 3. The Planned Maintenance Programme delivered 8% more than 2018/19 and achieved \$1.1 million of additional regeneration and maintenance ahead of schedule. Acceptance by Cabinet of \$4 million of shovel-ready projects will support the Southern Region economy in the year ahead.

DEI supported the arrival of HMNZS *Aotearoa* with the completion of the extension to Calliope Wharf at Devonport during 2019/20. The Ohakea Infrastructure Programme Business Case for \$206 million was approved by the Government in December 2019. The programme will upgrade critical infrastructure to support the arrival of the P-8A Poseidon maritime patrol aircraft fleet. A new NH90 simulator building was completed earlier in the year. Whenuapai benefited from a new gymnasium, a youth development facility and a rifle range, and the Army Band facility in Burnham was upgraded.

Environmental sustainability

The NZDF plays a significant role in the visibility of sustainable change and leadership to ensure we protect and enhance our living legacy for future generations, and the future NZDF.

In 2019, the NZDF launched the Tuku Iho Sustainability Framework. This recognises that the NZDF is a steward for the estate on behalf of the nation, and we want to leave it, and the wider environment, in as good as, if not better, condition for future generations. The NZDF now has a range of work underway to help mature sustainability, tracking against the Tuku Iho Framework. Some of the key sustainability achievements are:

- **Kotahitanga** (unity, consensus and participation): The Sustainable Infrastructure Standards were finalised. These outline the essential and desired requirements of the full lifecycle of all new construction, infrastructure and refurbishment work on the Defence estate and require project-specific targets to be set for carbon emissions, indoor environmental quality, energy, water and waste.
- **Kaitiakitanga** (environmental stewardship): The Defence Waste Management Framework was developed and approved. This outlines key targets and actions to understand and minimise New Zealand Defence Force's waste impacts. Some of the targets are: zero contamination in waste and recycling bins; reduction in waste to landfill by 53% and reduction in waste generation by 50%.
- **Puawaitanga** (continual growth): The NZDF and the Energy Efficiency and Conservation Authority (EECA) entered into a Collaboration Agreement. This Agreement outlines our commitment to work with EECA to identify, implement and promote energy efficiency and renewable energy opportunities. Additionally, the NZDF was successful in the State Sector Decarbonisation Fund, attaining \$3.8 million from the State Sector Decarbonisation Fund to decommission and replace the coal boiler at Burnham Military Camp, with an alternative solution for heating. Work also continues to improve the water supplies at the NZDF's camps and bases. Burnham switched over to a new water supply during the year and we automated the Water Treatment Plant at Linton.
- **Rangatiratanga** (leadership and community role model): The NZDF started a pilot trial for an electric vehicle charging station at Trentham to ensure the process and security requirements were tested. The charging station is set up to cater for Defence personnel vehicles, fleet vehicles, contractors and visitors.





A hand wearing a black tactical glove is shown holding a rifle. The rifle is positioned horizontally across the middle of the frame. The background is a dense, green forest with many trees and foliage. The lighting is somewhat dim, suggesting an overcast day or a shaded area in the woods. The overall tone is serious and focused.

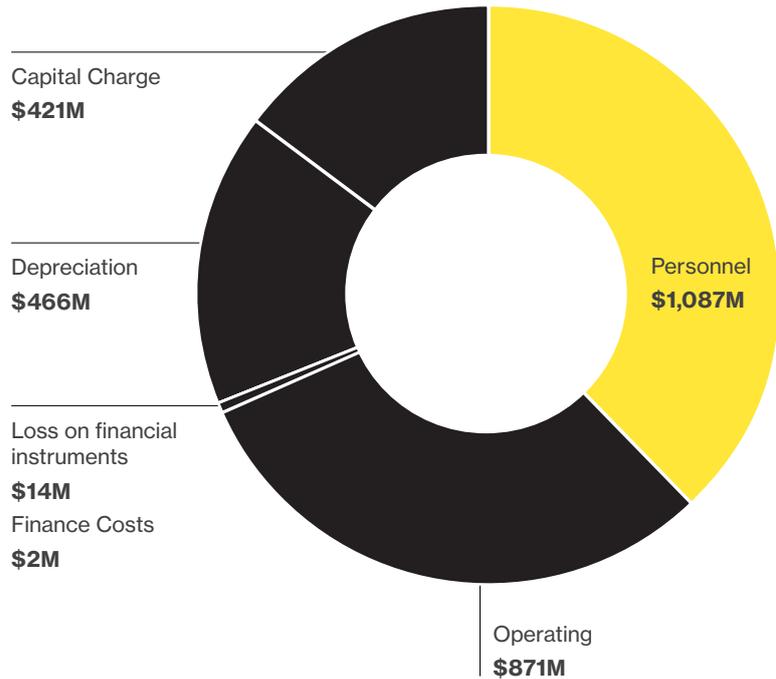
06

**Financial
Highlights**

The financial overview references NZDF Group numbers from the financial statements. The NZDF Group consists of the NZDF (the controlling entity) and the controlled entities. A list of the controlled entities and the basis of the consolidation is detailed in note A in the financial statements.

\$2,859 Million

GROUP OPERATING EXPENDITURE



Group revenue

Total Group revenue is \$3,021 million. NZDF is primarily funded by the Crown (\$2,867 million in 2020) to deliver outputs consistent with Defence Policy.

Other sources of revenue include:

- Revenue from delivery of the Limited Service Volunteer programme run in conjunction with the Ministry of Social Development. The NZDF is committed to building leadership, self-reliance and resilience in young New Zealanders and the programme has grown in 2020;

- Rental revenue from sub-lease of the new Defence House;
- The recovery of costs for service housing and barrack accommodation provided to service personnel;
- Insurance proceeds from the 2016 Kaikōura Hurunui Earthquakes;
- A non-cash gain on financial instruments of \$20 million; and

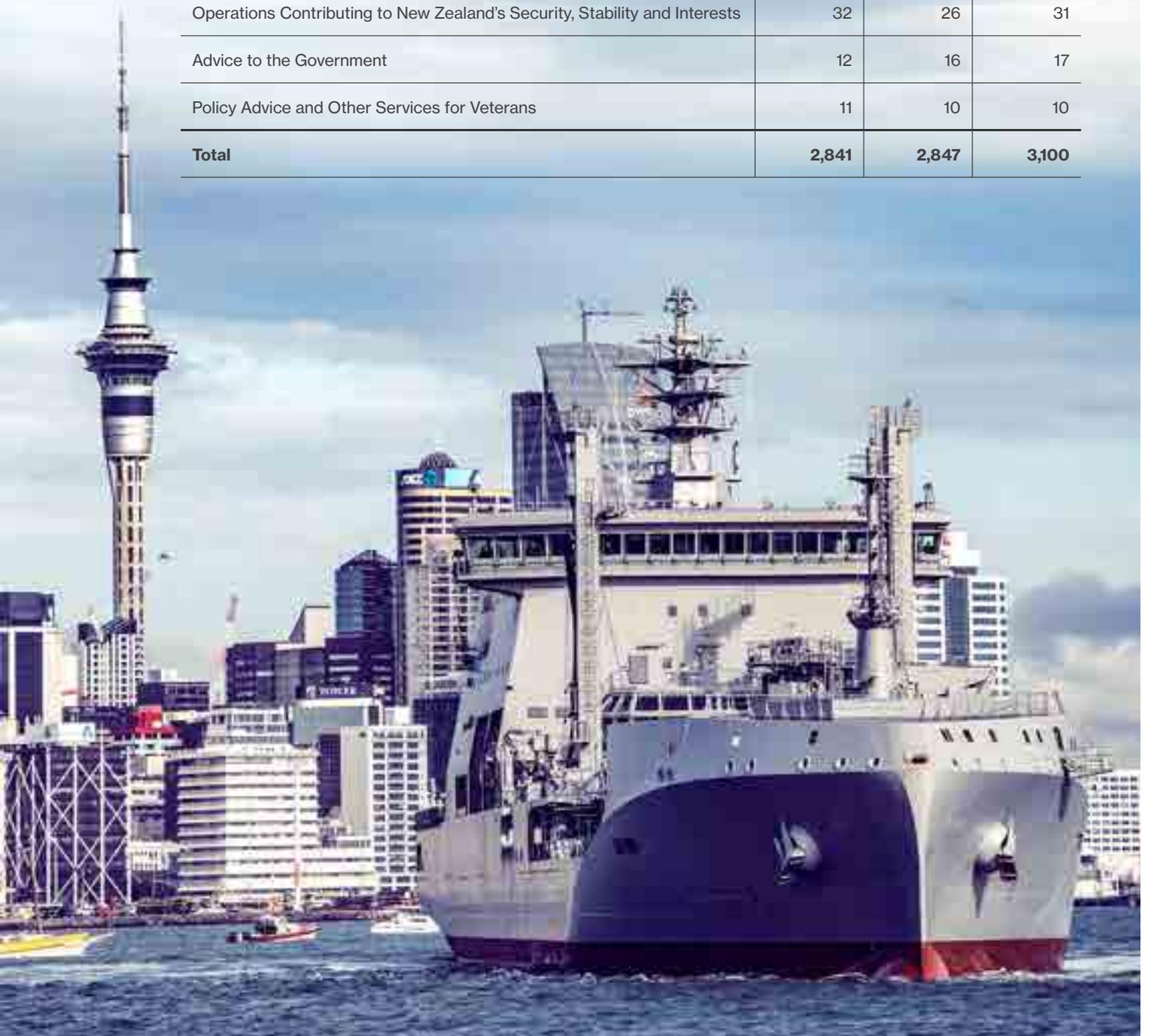
Other Group revenue from controlled entities of \$5 million.

Group operating expenditure of \$2,859 million largely comprises:

- Personnel costs of \$1,087 million, which is 38% of the NZDF Group operating expenditure, and primarily relates to the remuneration of military and civilian personnel;

- Operating costs of \$871 million, which is 30% of the NZDF Group operating expenditure and primarily relates to the operation and repair of military equipment, the training of personnel and the maintenance of Defence estate assets;
- Depreciation costs of \$466 million, which is 16% of the NZDF Group operating expenditure;
- Capital charge of \$421 million, which is 15% of the NZDF Group operating expenditure; and
- Loss on financial instruments of \$14 million.

	2019/20 (actual) \$m	2019/20 (budget) \$m	2020/21 (budget) \$m
Navy Capabilities Prepared for Joint Operations and Other Tasks	452	493	533
Army Capabilities Prepared for Joint Operations and Other Tasks	908	916	979
Air Force Capabilities Prepared for Joint Operations and Other Tasks	928	907	1,006
Protection of New Zealand and New Zealanders	498	478	523
Operations Contributing to New Zealand's Security, Stability and Interests	32	26	31
Advice to the Government	12	16	17
Policy Advice and Other Services for Veterans	11	10	10
Total	2,841	2,847	3,100



Actual output expenditure of \$2,841 million was \$113 million higher than 2018/19 and within \$6 million (0.2%) of the approved budget of \$2,847 million. Output expenditure was \$18 million lower than Departmental operating expenditure and excludes loss on financial instruments of \$14 million and expenditure by controlled entities of \$4 million.

Our asset base

The NZDF owns \$6,622 million of property, plant and equipment and intangible assets made up of the following:

- \$2,999 million of Land and Buildings
- \$3,338 million of Specialist Military Equipment;
- \$196 million of Other Property, Plant and Equipment;
- \$63 million of Intangibles; and
- \$26 million of Heritage assets.

The NZDF assets are held to achieve Government outcomes and to support the delivery of public services, contributing to national security and the current and future wellbeing of New Zealanders.

Land and building asset values were reviewed at 30 June 2020 and it was determined that no revaluation was necessary as the values were not materially different to the carrying values. An independent valuation was performed on our Land and Buildings effective as at 30 June 2019 which resulted in an increase to the asset carrying values of \$240 million.

Specialist Military Equipment asset values were reviewed as at 30 June 2020 and it was determined that no revaluation was necessary. The 2018 revaluation of Specialist Military Equipment resulted in a \$21 million increase in the carrying values.

Departmental capital expenditure

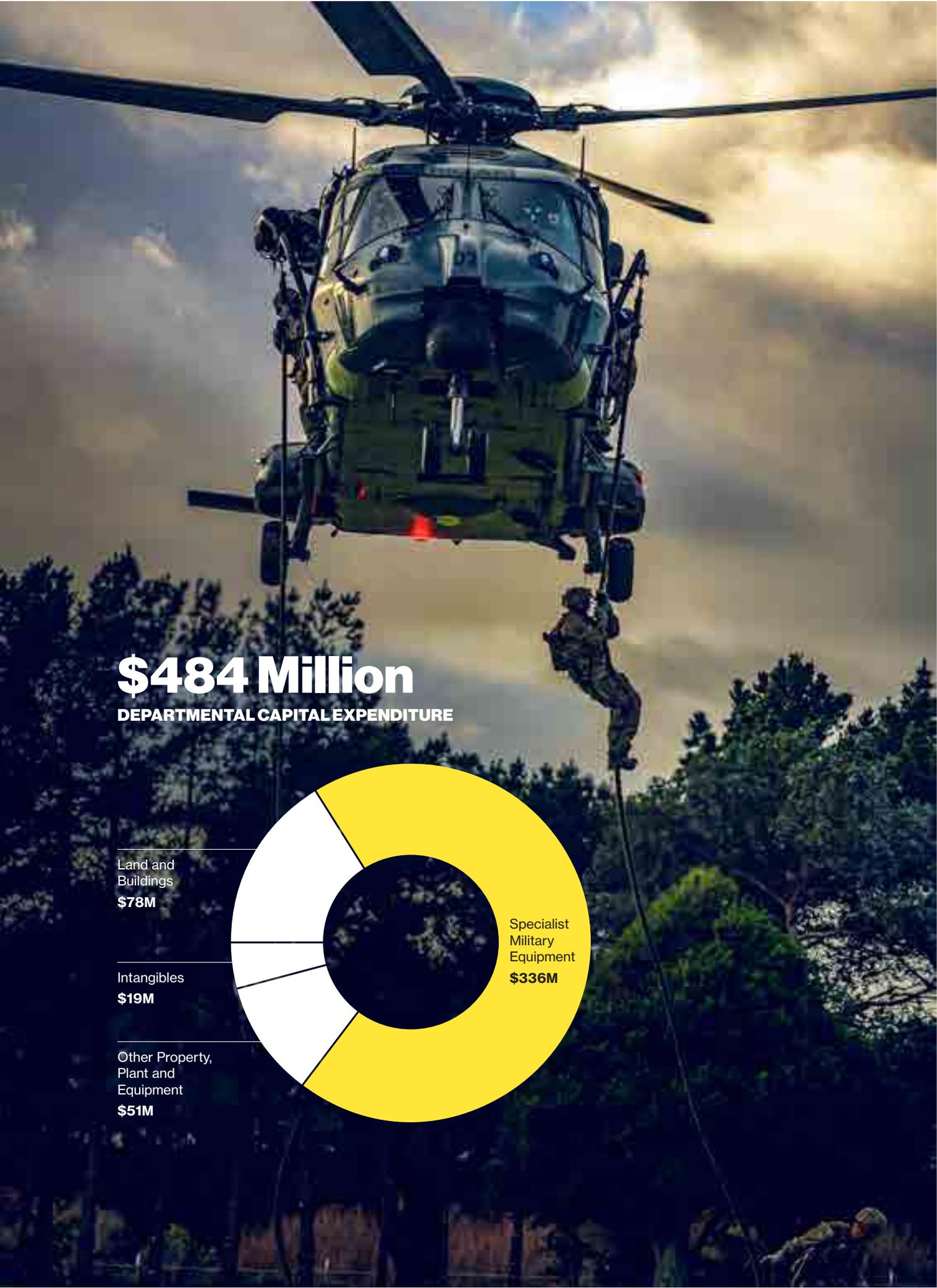
The NZDF incurred \$484 million of capital expenditure in 2019/20. This includes \$336 million (69%) of capital expenditure on Specialist Military Equipment and \$78 million (16%) on Land and Buildings.

The NZDF capital expenditure was lower than planned in 2019/20. This was mainly due to a change in the accounting treatment for the P-8A Poseidon acquisition project to reflect the value of work delivered rather than cash payments and the impact of the COVID-19 pandemic.

Non-Departmental annual appropriations

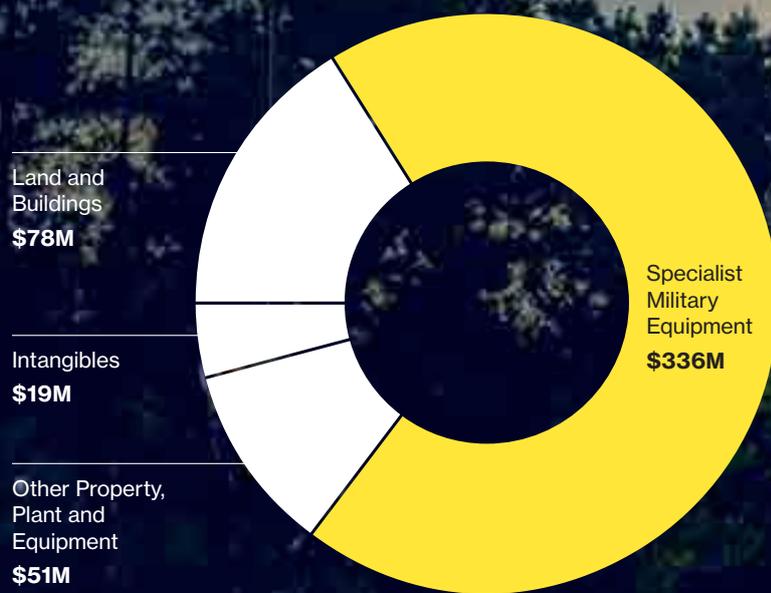
Services for Veterans paid under the NZDF Non-Departmental output and other expenses are administered by Veterans' Affairs.

During 2019/20, there was a change in the accounting treatment of Veterans' entitlements resulting from qualifying service or qualifying operational service. This change has resulted in the initial recognition of a liability as at 1 July 2018 of \$2,503 million, new appropriations for service costs and unwind of the discount rate and discontinuation of four appropriations from 1 April 2020. The Veterans Entitlements Liability has been valued at \$3,483 million as at 30 June 2020. The movement between 2019 and 2020 is mainly due to the interest rates over the period which has an impact on the discount rates used for the valuation.



\$484 Million

DEPARTMENTAL CAPITAL EXPENDITURE







07

**Accountability
Reporting:
Departmental
Appropriations**

THE NZDF PERFORMED CONSISTENTLY THROUGHOUT 2019/20

This section reports on the performance for the departmental output class appropriations in the Estimates of Appropriations 2019/20 for Vote Defence Force.

The order of the Output class set out in this section is different from Vote Defence Force but it fully complies with the reporting requirements in the Estimates of Appropriations 2019/20 for Vote Defence Force.

The section is laid out to demonstrate force readiness and force activities to protect New Zealand and New Zealanders as well as to contribute to global peace and security. The 'Advice to the Government' and 'Policy Advice And Other Services For Veterans' are set out after the outputs that relate to military activities. For more information about force readiness and generation, please see the Strategic Focus and Orientation: An Integrated Force, Operational Domain Mastery section.

The year-end non-financial performance is summarised in the tables following for the departmental and multi-category appropriations. The Minister's report for non-departmental appropriations is appended to the end of this report.

The NZDF performed consistently throughout 2019/20. The NZDF achieved 77 (or 83%) of its 94 performance measures that were assessed.

Unmet targets do not necessarily mean that the level of performance was not achieved but achieved with some risks or not in a manner that the NZDF wanted to achieve. For example, the NZDF maintained its military readiness throughout 2019/20 but with some risks such as temporary unavailability of key capabilities or personnel.

The level of the NZDF's performance was affected by COVID-19 restrictions such as border closure and physical distancing rules. Variance explanations are provided for measures that have not met their target.

Summary of Non-Financial Performance

	Number of measures and targets			
	Total	Target met	Target unmet	Not measured
Navy Capabilities Prepared for Joint Operations and Other Tasks	7	3	1	3*
Army Capabilities Prepared for Joint Operations and Other Tasks	3	2	1	-
Air Force Capabilities Prepared for Joint Operations and Other Tasks	5	4	1	-
Protection of New Zealand and New Zealanders**	43	33	10	-
Operations Contributing to New Zealand's Security, Stability and Interests**	19	18	-	1+
Advice to the Government**	8	6	2	-
Policy Advice and Other Services for Veterans**	13	11	2	-
Total	98	77	17	4

* Three Navy capabilities were not available in 2019/20 therefore could not be measured.

** Multi Category Appropriation.

+ One measure was not measured as there was no mandated operation.

OUTPUT 1

Navy Capabilities Prepared for Joint Operations and Other Tasks

Scope of Appropriation

Limited to the generation of Navy capabilities that achieve the levels of readiness for military operations and other tasks as directed by the Government of New Zealand.

Expenditure Summary

2019		2020		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
448,417	Total output expenses	451,985	468,185	492,818

Performance Measures and Standards

2019 Actual	Measures		2020 Standard	2020 Actual
Percentage of Government directed readiness levels achieved and maintained to provide capabilities prepared for:				
50%	Naval Combat	Maritime Warfare Operations	100%	No capability
50%		Maritime Security Operations	100%	No capability
100%	Projection and Sustainment	Amphibious Sealift	100%	100%
0%		Replenishment	100%	No capability
43%		Littoral Warfare Force	100%	40%
100%	Maritime Trade Operations	Naval Guidance and Supervision of Shipping	100%	100%
67%	Naval Patrol	Domestic and Regional Resource and Border Protection Operations	100%	100%

Performance Explanation

Naval Combat: Maritime Warfare and Security Operations

The naval combat capability is supported by two frigates, HMNZ ships *Te Mana* and *Te Kaha*. Neither frigate has been available as both have been undergoing a significant upgrade. They are scheduled to be released into operational service from 2020/21.

Replenishment

The new replenishment ship, HMNZS *Aotearoa* arrived in New Zealand in June 2020. She will be introduced into operational service from 2020/21.

Littoral Warfare Force

The Dive Hydrographic Vessel, HMNZS *Manawanui* completed its safety and readiness checks in February 2020, and is expected to complete introduction into service in 2021. HMNZS *Matataua* met the mandated states of readiness for hydrographic survey and Mine Countermeasures capabilities, but its diving capability was only partially completed due to temporary restrictions on diving. The Littoral Warfare System Regeneration Programme is being actively managed by the Navy to restore all diving capability and is expected to be completed by 2025.

OUTPUT 2

Army Capabilities Prepared for Joint Operations and Other Tasks

Scope of Appropriation

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.

Expenditure Summary

2019		2020			
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Appropriation Voted 2020 ¹ (\$000)	Main Estimates (\$000)
867,559	Total output expenses	908,365	931,095	930,595 ²	916,039

1 These are the appropriations from the Supplementary Estimates, adjusted for any transfers under section 26A of the Public Finance Act 1989.

2 A total of \$500,000 was transferred from Army Capabilities Prepared for Joint Operations and Other Tasks to Policy Advice, Policy Advice and Other Services to Veterans under section 26A of the Public Finance Act 1989.

Performance Measures and Standards

2019 Actual	Measures		2020 Standard	2020 Actual
	Percentage of Government directed readiness levels achieved and maintained to provide capabilities prepared for:			
100%	Land Combat	Special Operations	100%	100%
90%		Combined Arms Operations	100%	87%
72%		Regional Stabilisation Operations	100%	100%

Performance Explanation

Army's ability to meet directed readiness levels generally improved in 2019/20. This was achieved through improved management of resources to ensure short-notice capabilities for regional operations were prioritised for support over longer response combined arms operations.

Sustainment issues for both people and equipment impacted on all three of Army's capabilities, with impact being mitigated on the two high readiness military response options (Special and Regional Stabilisation Operations) by taking risks and drawing on low readiness (Land Combat Operations) personnel and equipment. However such mitigations are temporarily limited by having insufficient personnel to meet required rotational demands to field a force for 36 months for some specialised trades. Sustainment issues are further compounded by some equipment reaching obsolescence before its programmed replacement is introduced into service.

OUTPUT 3

Air Force Capabilities Prepared for Joint Operations and Other Tasks

Scope of Appropriation

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.

Expenditure Summary

2019		2020		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
856,870	Total output expenses	927,962	934,869	907,237

Performance Measures and Standards

2019 Actual	Measures		2020 Standard	2020 Actual
	Percentage of Government directed readiness levels achieved and maintained to provide capabilities prepared for:			
88%	Naval Operations	Maritime Warfare and Security Operations	100%	100%
100%	Air Surveillance and Response	Counter Sea and Surveillance Operations	100%	100%
97%	Fixed Wing Theatre Air Mobility	Intra-Theatre Air Transport and Air Manoeuvre Operations	100%	100%
96%	Tactical Air Mobility	Tactical Air Transport and Air Manoeuvre Operations	100%	100%
75%	Strategic Air Mobility	Inter-Theatre Air Transport Operations	100%	94%

Performance Explanation

Air Force achieved four of five capabilities standards fully and partly achieved the Inter-Theatre Air Transport Operation standard.

The Boeing aircraft were not available for Very High Readiness tasking for a period due to unforeseen maintenance issues between May and June, which have since been resolved. While below the standard, the expected risks with meeting readiness due to the pending Automatic Dependent Surveillance – Broadcast equipment upgrade were mitigated by planning for an aircraft to be available in the South Pacific area at all times.

OUTPUT 4

Protection of New Zealand and New Zealanders

Overarching Purpose of Multi-Category Appropriation

Protect New Zealand's sovereignty and provide security and other services for New Zealanders.

Expenditure Summary

2019		2020		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
481,015	Total output expenses	498,228	517,568	478,162

Performance Measures and Standards

2019 Actual	Measures	2020 Standard	2020 Actual
88%	The degree of satisfaction expressed by authorities requesting assistance in accordance with their annual programmes.	100%	87%
Met	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

Performance Explanation

The key agencies (19 in 2019/20) that the NZDF provides support to were surveyed in July 2020. See the 'What do our key stakeholders, partners, Ministers and the public say about us?' section for further information.

OUTPUT 4.1

Resource and border protection operations

Scope of Category: Limited to the sharing of information and provision of resources to support all-of-government efforts to protect New Zealand's borders and offshore maritime interests.

Expenditure Summary

2019		2020		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
212,411	Total category expenses	216,587	224,285	207,824

Performance Measures and Standards

2019 Actual	Measures	2020 Standard	2020 Actual
99%	Percentage of information on maritime traffic, suitably adapted for civil needs that is passed to the 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.	100%	99%
89%	Percentage of the total agreed pre-planned air surveillance tasks requested by the National Maritime Coordination Centre met.	Not less than 90%	92%
100%	Percentage 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.	Not less than 90%	100%
89%	Percentage of the total agreed pre-planned maritime tasks requested by the National Maritime Coordination Centre met.	Not less than 90%	100%
100%	Percentage 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.	Not less than 90%	100%
100%	Percentage of satisfaction of the NZDF's specialised military capabilities to support Antarctic 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.	Not less than 90%	96%
100%	Percentage of 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.	Not less than 90%	96%
100%	Percentage 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.	Not less than 90%	100%

Performance Explanation

All performance standards for this category were achieved in 2019/20, except for one. This was due to a number of minor information system outages and maintenance, which impacted on the availability of electronic information. Alternative processes were available to ensure there was no material impact on business operations. The detail of tasks involved in this category are found under the *'Delivering Defence Outcomes'* section.

OUTPUT 4.2

Defence International Engagement

Scope of Category: Limited to the provision of services and utility of the Defence Force to support foreign policy objectives that strengthen security and avert conflict.

Expenditure Summary

2019		2020		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
99,942	Total category expenses	96,288	104,111	101,968

Performance Measures and Standards

2019 Actual	Measures	2020 Standard	2020 Actual
Met	Ensure the programme of military engagement through a network of multilateral and bilateral military relationships provides for a range of interactions that informs Defence of emerging advances in military operations, provides for professional development, fosters interoperability and enhances the reputation of New Zealand and the NZDF.	Meet	Met
100%	Percentage of exercises and related activities participated in that support the Government's foreign policy objectives through recognised alliance and other arrangements that foster peace and security.	100%	42%
100%	Percentage of approved Senior Officer visit programme completed that maintains a strong network of professional relationships and complements the Government's broader foreign policy objectives.	100%	68%
100%	Percentage of maritime deployments, exercises with security partners and ship visits to selected nations completed that are cognisant of the Government's foreign policy and defence engagement priorities and satisfies all-of-government efforts to enhance New Zealand's reputation.	100%	100%
100%	Percentage of regional activities participated in that contribute to the Government's foreign policy objectives to improve the resilience, economic and social wellbeing of Pacific Island nations.	100%	72%
100%	Percentage of multilateral and bilateral confidence and security building activities participated in that contribute to initiatives that prevent the proliferation of weapons of mass destruction and further New Zealand's foreign policy objectives, as directed by the Government.	100%	42%

100%	Percentage of resident and non-resident Defence representation maintained through the assignment of Defence Attaches and Advisers in host nations and in accordance with the Government's direction.	100%	100%
<i>The NZDF remains well-informed about defence doctrine and advances in defence-related technology through:</i>			
Met	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.	Meet	Met
Met	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.	Meet	Met

Performance Explanation

In 2019/20, the NZDF met five out of nine standard requirements. All unmet targets were due to COVID-19 travel restrictions as follows:

- While the *Government's foreign policy objectives* through recognised alliances and other arrangements has not been affected, the NZDF participation in exercises and activities which directly support the Government's foreign policy objectives has been severely reduced.
- A total of 36 *Senior Officers visits* occurred in 2019/20, but 17 were cancelled.
- Some regional activities, including training were cancelled or postponed. The most significant activity affected was the Pacific Physical Training Instructors Course which was scheduled to be held in Tonga in April 2020 (postponed to 2020/21).
- Of 12 *multilateral and bilateral confidence and security building activities*, five were completed in 2019/20.

OUTPUT 4.3

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

Scope of Category: Limited to the costs of specialist military capabilities and Defence Force resources provided to the civil power in an emergency and for urgent work of national importance.

Expenditure Summary

2019		2020		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
82,772	Total category expenses	88,091	89,313	78,657

Performance Measures and Standards

2019 Actual	Measures	2020 Standard	2020 Actual
100%	Percentage of the levels of operational capability and readiness as directed met to maintain the national counter-terrorist capability.	100%	100%
100%	Percentage 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%
100%	Percentage of agreed notice to move met for the specialised Counter-Terrorist Group to respond to New Zealand Police requests for assistance.	100%	100%
100%	Percentage 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%
100%	Subject to the availability of resources, the percentage of requests met to assist New Zealand Police law enforcement operations.	100%	100%
100%	Percentage of contingency forces and specialised military capabilities available to assist the civil power deal with major disasters when not deployed on operations.	100%	100%
100%	Percentage of agreed notice to move met for specialised military capabilities to assist the civil power to conduct search and rescue and recovery operations within New Zealand and the maritime search and rescue and regional rescue coordination centre areas.	100%	100%
100%	Percentage of contingency plans in place to assist the civil power to evacuate persons from high-risk environments in New Zealand.	100%	100%
100%	Percentage of requests met to augment the capacity of Fire and Emergency New Zealand 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%
100%	Percentage 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%
100%	Percentage 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%	100%
100%	Subject to availability of resources, the percentage of requests met for specialised military capabilities to assist New Zealand Police operations to maintain law and order and public safety.	100%	100%
100%	Percentage 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%
100%	Percentage 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%

Performance Explanation

All measures and targets in this category were achieved in 2019/20. For further information, please see the 'Delivering Defence Outcomes' section.

OUTPUT 4.4

Military Assistance to Civil Authorities in Non-Emergency Situations

Scope of Category: Limited to the costs of Defence Force resources, services and non-emergency assistance periodically provided to the Government and civil authorities.

Expenditure Summary

2019		2020		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
36,909	Total category expenses	44,306	40,236	37,043

Performance Measures and Standards

2019 Actual	Measures	2020 Standard	2020 Actual
100%	Percentage 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%
100%	Percentage 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%
100%	Percentage of requests met to provide representational staff for the Viceregal House, military guards, suitably tailored for the occasion, military bands, air, land and sea transport and associated support for viceregal activities.	100%	100%
100%	Percentage 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%	100%

Performance Explanation

All measures and targets in this category were achieved in 2019/20. For further information, please see the 'Delivering Defence Outcomes' section.

OUTPUT 4.5

Defence Support to the Community

Scope of Category: Limited to the costs of providing 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.

Expenditure Summary

2019		2020		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
48,981	Total category expenses	52,956	59,623	52,670

Performance Measures and Standards

2019 Actual	Measures	2020 Standard	2020 Actual
85%	Percentage of 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. <i>Note that this measure is not correctly described. This measures percentage of leadership and skills training conducted as planned, not the level of satisfaction. The measure will be corrected in 2020/21.</i>	Not less than 90%	51%
100%	Percentage of 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.	Not less than 90%	84%
64%	Percentage of 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.	Not less than 90%	70%
100%	Percentage of satisfaction of the Police Blue Light Trust with NZDF services to enhance the Trust's youth development programmes nationwide.	Not less than 90%	100%
87%	Percentage of 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.	Not less than 90%	64%
100%	Percentage of satisfaction of support to 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 less than 90%	100%

Performance

The NZDF's performance in this category was mostly affected by COVID-19 with the cancellation or reduction of a large number of planned activities for the New Zealand Cadet Forces, and the Ministries of Social Development and Education.

Service Museum Trust Boards

The Boards expressed concern over delayed maintenance support. The NZDF will work with the Boards to address their concern.

OUTPUT 5

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

Overarching Purpose of Multi-Category Appropriation

The employment of New Zealand's Armed Forces overseas at the Government's direction.

Expenditure Summary

2019		2020		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
51,796	Total output expenses	31,564	43,219	26,297

Performance Measures and Standards

2019 Actual	Measures	2020 Standard	2020 Actual
Met	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

Performance Explanation

All performance standards for this category were met in 2019/20. The NZDF performed well throughout the year, as in 2018/19.

OUTPUT 5.1

Military Operations in Support of a Rules-Based International Order

Scope of Category: Limited to the costs of generating operational military capabilities and the employment of the New Zealand Armed Forces for the conduct of operations, as directed by the Government.

Expenditure Summary

2019		2020		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
50,733	Total category expenses	30,626	42,560	25,788

Performance Measures and Standards

2019 Actual	Measures	2020 Standard	2020 Actual
	<i>Government's military commitments to contribute to United Nations Mission and UNCMAC.</i>		
Met	UNTSO (Middle East) [Operation SCORIA]	Meet	Met
Met	UNMISS (South Sudan) [Operation SUDDEN]	Meet	Met
Met	UNCMAC (Republic of Korea) [Operation MONITOR]	Meet	Met
	<i>Lead and contribute to regional contingency military operations, as listed (there were no mandated operations).</i>		
Met	MFO Sinai (Operation FARAD)	Meet	Met
Met	ARIKI (Afghanistan) [Operation RUA II]	Meet	Met
Met	TROY (Middle East)	Meet	Met
Met	PUKEKO (Middle East)	Meet	Met
Met	MOHUA (Middle East)	Meet	Met
Met	MANAWA (Iraq)	Meet	Met
Met	TEAL (Middle East)	Meet	Met
	<i>Contribute to Operation</i>		
-	TAKAHE (Middle East)*	Meet	Met
-	TIKI (Middle East)*	Meet	Met
-	UNSCR-sanctions against North Korea*	Meet	Met

*New measures in 2019/20.

Performance Explanation

The NZDF successfully led and contributed to all operations as mandated and planned.

OUTPUT 5.2

Military Operations that Contribute to Regional Security

Scope of Category: Limited to the costs of providing specialised support to all-of-government efforts to maintain security and stability in New Zealand's immediate neighbourhood including responses to events that impact on the safety and wellbeing of regional populations, as directed by the Government.

Expenditure Summary

2019		2020		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
1,063	Total category expenses	938	659	509

Performance Measures and Standards

2019 Actual	Measures	2020 Standard	2020 Actual
100%	Percentage 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%
100%	Percentage 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%
100%	Percentage 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%

Performance Explanation

All standards in this category were achieved in 2019/20. For further information, please see the 'Delivering Defence Outcomes' section.

OUTPUT 6

Advice to the Government

Overarching Purpose of Multi-Category Appropriation

Support Ministers in discharging their portfolio responsibilities.

Expenditure Summary

2019		2020		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
9,884	Total output expenses	12,279	17,326	16,288

Performance Measures and Standards

2019 Actual	Measures	2020 Standard	2020 Actual
Met	The supply of high quality individual products, as shown in the tables* below.	Meet	Partially Met

*Refer to the sections under Policy Advice, Situational Awareness and Supporting Ministers. Of the six output measures for Advice to the Government, one did not meet the required standard; i.e. the technical quality of the policy advice papers.

OUTPUT 6.1

Policy Advice

Scope of Category: Limited to provision of advice (including second opinion advice and policy advice led by other agencies) to support decision-making by Ministers on Government policy matters relating to defence and the NZDF.

Expenditure Summary

2019		2020		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
3,816	Total category expenses	3,916	3,914	3,904

Performance Measures and Standards

2019 Actual	Measures	2020 Standard	2020 Actual
Met	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
80%	The satisfaction of the Minister of Defence with the policy advice service, as per the refreshed satisfaction survey.	At least 3.5 out of 5 or 70%	4.5 or 90%
	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).*		
-	Percentage of papers: score 3 or higher	At least 70%	100%
-	Percentage of papers: score 4 or higher	At least 30%	23%
-	Percentage of papers score 2.5 or less	No more than 10%	0%

*New measures in 2019/20.

Performance Explanation

Quality of policy advice papers

This is the first assessment which has been completed using the new Policy Quality Framework developed jointly by the Department of the Prime Minister and Cabinet and the Treasury.

NZIER, a specialist consulting firm that has been reviewing the quality of policy advice for central and local Government, using an evolving framework, was engaged again in 2020 to review the policy advice papers prepared by the NZDF and the Ministry of Defence. In 2019/20, 22 policy advice papers were randomly selected.

- All papers met the required standard to score 3 or higher.
- There were more papers that exceeded the required standard in 2019/20 (8% in 2018/19 and 23% in 2019/20).

NZIER made recommendations about further improving policy advice papers, which are being implemented.

OUTPUT 6.2

Situational Awareness

Scope of Category: Limited to the provision of effective military intelligence services to the Government in support of decision-making for the defence and security of New Zealand.

Expenditure Summary

2019		2020		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
3,562	Total category expenses	6,103	11,385	10,364

Performance Measure and Standard

2019 Actual	Measure	2020 Standard	2020 Actual
92%	The percentage 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.	Not less than 90%	92%

OUTPUT 6.3

Supporting Ministers

Scope of Category: Limited to the provision of services to Ministers to enable them to discharge their portfolio (other than policy decision-making) responsibilities.

Expenditure Summary

2019		2020		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
2,506	Total category expenses	2,260	2,027	2,020

Performance Measure and Standard

2019 Actual	Measure	2020 Standard	2020 Actual
95%	The percentage of timely, accurate and high-quality advice that meets expectations to support Ministers of Defence and Veterans' Affairs portfolios and meets legislative obligations.	Not less than 90%	95%

Performance Explanation

In 2019/20, the NZDF provided 1,435 items such as briefing notes, reports and ministerial correspondence. Only 67 of them required amendment.

OUTPUT 7

Policy Advice and Other Services for Veterans

Overarching Purpose of Multi-Category Appropriation

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.

Expenditure Summary

2019		2020			
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Appropriation Voted 2020 ¹ (\$000)	Main Estimates (\$000)
11,823	Total output expenses	10,569	10,312	10,812 ²	10,259

1 These are the appropriations from the Supplementary Estimates, adjusted for any transfers under section 26A of the Public Finance Act 1989.

2 A total of \$500,000 was transferred from Army Capabilities Prepared for Joint Operations and Other Tasks to Policy Advice under section 26A of the Public Finance Act 1989.

Overarching Performance Measures and Standards

2019 Actual	Measures	2020 Standard	2020 Actual
95%	The satisfaction of veterans, as expressed in the annual Veteran Survey rating of overall satisfaction with Veterans' Affairs	85%	95%
75%	The satisfaction of the Minister for Veterans with the policy advice service, as per the refreshed satisfaction survey.	At least 3.5 out of 5 or 70%	4.3 or 86%

Performance Explanation

Veterans' Affairs New Zealand performed consistently well in this multi-category appropriation throughout 2019/20. The satisfaction of the Minister for Veterans with policy advice was assessed against the new Policy Quality Framework for the first time in 2019/20.

OUTPUT 7.1

Administration Services

Scope of Category: Limited to 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 Service Cemeteries.

Expenditure Summary

2019		2020		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
1,259	Total category expenses	1,727	2,962	2,960

Performance Measures and Standards

2019 Actual	Measures	2020 Standard	2020 Actual
Provide Ministerial Servicing and Support			
95%	Replies to requests within 20 days of receipt of requests, if not otherwise agreed.	95%	98%
99%	Responses accepted without substantive amendment.	95%	100%
Provide Administration support to Boards and Panels as set out in the Veterans' Support Act 2014			
Met	Administrative support meets Board/Panel requirements	Meet	Met
Assist with the coordination of New Zealand's participation in the commemoration of significant military anniversaries			
Met	Participation will be delivered in accordance with agreed parameters and budget.	Meet	Met

OUTPUT 7.2

Policy Advice

Scope of Category: Limited to the provision of policy advice (including second opinion advice and contributions to policy advice led by other agencies) to support decision-making by Ministers on Government policy matters relating to Veterans' Affairs.

Expenditure Summary

2019		2020			
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Appropriation Voted 2020 ¹ (\$000)	Main Estimates (\$000)
207	Total category expenses	236	230	730 ²	230

¹ These are the appropriations from the Supplementary Estimates, adjusted for any transfers under section 26A of the Public Finance Act 1989.

² A total of \$500,000 was transferred from Army Capabilities Prepared for Joint Operations and Other Tasks to Policy Advice under section 26A of the Public Finance Act 1989.

Performance Measure and Standard

2019 Actual	Measure	2020 Standard	2020 Actual
Provide policy advice to support decision making by Ministers			
-	All revocations, replacements and new Statements of Principles are reported and decided by the Minister for Veterans and Cabinet Legislation Committee regarding adoption.*	100%	100%

*New measure in 2019/20.

OUTPUT 7.3

Services and Payments to Veterans

Scope of Category: Limited to the assessment, review and payment of entitlements and benefits (War Disablement Pensions and related concessions, and allowances and Surviving Spouse Pensions), the assessment and review of entitlement for burial in Service Cemeteries, the installation of ex-service memorials for eligible veterans, and the provision of case management for veterans and their families.

Expenditure Summary

2019		2020		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
7,533	Total category expenses	8,606	7,120 ¹	7,069

1. During the Budget Moratorium, \$40,000 was approved for Veterans Health connect for 2019/20. This change was made subsequent to the publishing of the Supplementary Estimates.

Performance Measures and Standards

2019 Actual	Measures	2020 Standard	2020 Actual
Assessments and Reviews			
87%	Where all information is provided, Veterans' Affairs will make a decision on the claim within 30 working days of it being received.	100%	98%
100%	All amendments to and replacements of, Statements of Principles (SOPs) are reported to the Veterans' Health Advisory Panel for consideration and decisions by the Minister for Veterans' Affairs regarding adoption.	100%	100%
37%	Reviews will be completed within three months of receipt.	100%	37%
Provide Case Management			
95%	Within five working days of accepting a veteran's claim for entitlements Veterans' Affairs must appoint a Case Manager.	95%	99%
97%	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.	100%	100%
Deal with Enquiries			
92%	Calls will be resolved on first contact.	90%	90%

Performance Explanation

Decision timeliness

There was a noticeable improvement in 2019/20 due to reallocation of resources to clear a backlog of claims.

Review timeliness

Decision reviews did not meet the target in 2019/20 due to staff shortage and re-prioritising resources to clear the claims backlog. Additional resources are now in place and it is expected that the target will be achieved in the first quarter of 2020/21.

Departmental Other Expenses

Loss on Sale of Physical Assets

Scope of Appropriation

Limited to providing for the loss on sale of certain New Zealand Defence Force commercial properties.

Expenses

2019		2020		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
650	Total category expenses	-	7,260 ¹	-

¹ Due to the potential timing of settlement whilst the Crown negotiates with the Marutūahu Collective, the NZDF sought in-principle expense transfer in the 2020 March Baseline Update to transfer this funding to 2020/21. The NZDF has requested confirmation of this transfer in the 2020 October Baseline Update.

Performance Measure and Standard

2019 Actual	Measures	2020 Standard	2020 Actual
Met	Expenditure reflects the loss on sale of certain New Zealand Defence Force commercial properties.	Meet	Met

Capital Expenditure and Management

Capital Expenditure Permanent Legislative Authority

Scope of Appropriation

Limited to the purchase or development of assets by and for the use of the New Zealand Defence Force, as authorised by section 24(1) of the Public Finance Act 1989.

Capital Expenditure

2019		2020		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
119,433	Land and Buildings	78,096	93,754	157,640
547,070	Specialist Military Equipment	335,708	727,703	1,114,227
40,033	Other Property, Plant and Equipment	51,371	25,283	40,418
15,182	Intangibles	19,217	8,329	17,750
721,718	Total appropriation	484,392	855,069	1,330,035

Land and Buildings

Capital expenditure for Land and Buildings was underspent by \$79.5 million on the Mains Estimates budget. An underspend of \$79.5 million for the Estate and infrastructure – Infrastructure Investment Programme Tranche 1 was due to:

- The COVID-19 pandemic including the lockdown period and reprioritisation of infrastructure expenditure for the camps and bases on planned and unplanned maintenance rather than capital projects.
- Resource constraints that existed prior to lockdown in the capital planning space resulting in fewer business cases than originally expected. Whilst this was rectified for the 4th quarter, the COVID-19 lockdown further restricted capital expenditure up to year end.

Specialist Military Equipment

The approval of the Defence Capability Plan 2019 provides an indicative Defence Force capital expenditure track. In 2020, capital expenditure for Specialist Military Equipment was underspent by \$778.5 million on the Mains Estimates budget. This variance was due to:

- An underspend of \$406.5 million for Future Air Surveillance Capability (Boeing P-8A Poseidon) due to the Main Estimates being based on contractual cash payments under the Foreign Military Sales agreement rather than the accounting value of the work delivered. Timing of recognition of these payments as capital expenditure for accounting purposes is dependent on the activities undertaken by third party suppliers and can vary significantly dependent on the nature and timing of activity completed. There has been no change to the timeframe for the expected delivery of the aircraft.
- An underspend of \$59.1 million for Maritime Sustainment Capability

(Replacement of the HMNZS *Endeavour* naval tanker with a new ice-strengthened and winterised tanker) from delays in customised equipment and spares due to COVID-19 and the purchasing of spares due to a change in procurement approach. This expenditure will now be incurred in 2020/21.

- The Defence Major Platform Restoration was also underspent by \$9.4 million due to COVID-19 requiring reprioritisation of overhaul activities in 2020/21.
- An underspend of \$303.5 million on other Defence projects due to the COVID-19 pandemic including limited availability of vendors, subject matter experts, delays in the signing of procurement contracts, production and travel schedules and other resources affecting the timing and value of expenditure.

Other Property, Plant and Equipment and Intangibles

- Capital expenditure for Other Property, Plant and Equipment and Intangibles was not materially different to the Mains Estimates budget.

Performance Measure and Standard

2019 Actual	Measures	2020 Standard	2020 Actual
Achieved	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	Achieved	Achieved

Asset Management

Defence assets are held to achieve Government outcomes and to support the delivery of public services. In turn, these outcomes contribute towards national security and the current and future wellbeing of New Zealanders, and guard against a range of risks to this wellbeing. These assets are:

Specialised Military Equipment which comprises the operational equipment required to enable the NZDF to function effectively and efficiently. It includes ships, aircraft, weapons systems, vehicles and protective equipment. Major equipment is purchased by the Ministry of Defence and becomes a capability when it is used by the NZDF.

Defence Estate which comprises the property, infrastructure and facilities required to generate and maintain military skills and capabilities.

Specialist Military Equipment

As detailed in the 'Accountability Reporting Departmental Appropriations' section, a number of Force Elements did not meet their readiness targets in 2019/20.

As shown in the table below, issues connected to the condition and/or functionality of Specialist Military Equipment (SME) were a factor in 83% of underperformance of SME assets in 2019/20. The underperformance of a particular piece of SME can affect the readiness of multiple force elements.

A number of the asset performance issues affecting readiness stem from the age of the asset base which increases the asset's maintenance burden. SME asset performance has also been adversely impacted by capability gaps arising between the decommissioning of HMNZS *Endeavour* and the commissioning and introduction into service of HMNZS *Aotearoa* as well as the impact of the frigate upgrade programme for HMNZ Ships *Te Mana* and *Te Kaha*. Defence's capability investment programme, which is detailed in the *Accountability Reporting: Departmental Appropriations* section is heavily focused on the replacement or extension of existing capabilities and is intended to help address these condition and functionality issues.

Performance Measures and Standards

2018 Actual	2019 Actual	Measures	2020 Target	2020 Actual
91%	78%	Force Elements with Readiness to deliver military operations not affected by condition and functionality of SME assets.	100%	83%
97%	99%	Force Elements for which the condition of SME assets is at or above target.	100%	96%
91%	79%	Force Elements for which the functionality of SME assets is at or above target.	100%	87%

Defence Estate

The NZDF continues to increase its ability to deliver increased investment to realise the benefits of estate regeneration. It is anticipated asset condition, functionality and utilisation indicators will show meaningful change once there is investment of \$250 million per annum for at least five years. In order to ensure Defence Estate

and Infrastructure provides the best value to the NZDF, the prioritisation of investment decisions is ongoing. Investment of \$78 million was made in critical infrastructure in 2019/20, including health and safety, compliance, supporting operational capability, and infrastructure which maintains site functionality.

Performance Measures and Standards

2018 Actual	2019 Actual	Measures	2020 Target	2020 Actual	
86%	88%	Critical estate assets with	actual utilisation rated as optimal or less.	>75%	87%
61%	68%		actual functionality of satisfactory or better.	>75%	67%
60%	55%		actual condition rated as average or better.	>70%	56%
92%	95%	Non-critical estate assets with	actual utilisation rated as optimal or less.	>80%	94%
59%	51%		actual functionality of satisfactory or better.	>80%	51%
89%	89%		actual condition rated as average or better.	>84%	88%

Appropriation Statements

Statement of Budgeted and Actual Expenses and Capital Expenditure incurred against Appropriations for the year ended 30 June 2020

Departmental Output Expenses Appropriations

2019						2020		
Actual Expenditure Including Re-measurements (\$000)	Output Class		Main Estimates (\$000)	Supplementary Estimates (\$000)	Appropriation Voted 2020 ¹ (\$000)	Actual Expenditure Excluding Re-measurements (\$000)	Re-measurements (\$000)	Actual Expenditure Including Re-measurements (\$000)
451,141	1	Navy Capabilities Prepared for Joint Operations and Other Tasks	492,818	468,185	468,185	451,985	1,997	453,982
874,613	2	Army Capabilities Prepared for Joint Operations and Other Tasks	916,039	931,095	930,595 ²	908,365	5,571	913,936
860,152	3	Air Force Capabilities Prepared for Joint Operations and Other Tasks	907,237	934,869	934,869	927,962	3,147	931,109
2,185,906		Appropriation total	2,316,094	2,334,149	2,333,649	2,288,312	10,715	2,299,027

Multi-Category Expenses Appropriations

2019						2020		
Actual Expenditure Including Re-measurements (\$000)	Output Class		Main Estimates (\$000)	Supplementary Estimates (\$000)	Appropriation Voted 2020 ¹ (\$000)	Actual Expenditure Excluding Re-measurements (\$000)	Re-measurements (\$000)	Actual Expenditure Including Re-measurements (\$000)
4. Protection of New Zealand and New Zealanders MCA								
213,585	4.1	Resource and Border Protection Operations	207,824	224,285	224,285	216,587	900	217,487
100,787	4.2	Defence International Engagement	101,968	104,111	104,111	96,288	692	96,980
83,494	4.3	Assistance to Civil Power and Provision of a Public Service in Emergency Situations	78,657	89,313	89,313	88,091	567	88,658
37,423	4.4	Military Assistance to Civil Authorities in Non-Emergency Situations	37,043	40,236	40,236	44,306	533	44,839
49,499	4.5	Defence Support to the Community	52,670	59,623	59,623	52,956	415	53,371
484,788		Appropriation total	478,162	517,568	517,568	498,228	3,107	501,335

¹ These are the appropriations from the Supplementary Estimates adjusted for any transfers under section 26A of the Public Finance Act 1989.

² A total of \$500,000 was transferred from Army Capabilities Prepared for Joint Operations and Other Tasks to Policy Advice (Output 7.2) under section 26A of the Public Finance Act.

Multi-Category Expenses Appropriations (continued)

2019						2020		
Actual Expenditure Including Re-measurements (\$000)	Output Class		Main Estimates (\$000)	Supplementary Estimates (\$000)	Appropriation Voted 2020 ¹ (\$000)	Actual Expenditure Excluding Re-measurements (\$000)	Re-measurements (\$000)	Actual Expenditure Including Re-measurements (\$000)
5. Operations Contributing to New Zealand's Security, Stability and Interests MCA								
50,733	5.1	Military Operations in Support of a Rules-Based International Order	25,788	42,560	42,560	30,626	-	30,626
1,063	5.2	Military Operations that contribute to Regional Security	509	659	659	938	-	938
51,796		Appropriation total	26,297	43,219	43,219	31,564	-	31,564
6. Advice to the Government MCA								
3,832	6.1	Policy Advice	3,904	3,914	3,914	3,916	13	3,929
3,593	6.2	Situational Awareness	10,364	11,385	11,385	6,103	25	6,128
2,519	6.3	Supporting Ministers	2,020	2,027	2,027	2,260	10	2,270
9,944		Appropriation total	16,288	17,326	17,326	12,279	48	12,327
7. Policy Advice and Other Services for Veterans MCA								
1,259	7.1	Administration Services	2,960	2,962	2,962	1,727	-	1,727
207	7.2	Policy Advice	230	230	730 ²	236	-	236
7,533	7.3	Services and Payments to Veterans	7,069	7,120 ³	7,120	8,606	-	8,606
2,824	7.4	Repatriation of New Zealanders Interred Overseas as a Result of a Military Burial: Te Auraki (The Return)	-	-	-	-	-	-
11,823		Appropriation total	10,259	10,312	10,812	10,569	-	10,569
558,351		Total Multi-Category Expenses and Capital Expenditure Appropriations	531,006	588,425	588,925	552,640	3,155	555,795

¹ These are the appropriations from the Supplementary Estimates adjusted for any transfers under section 26A of the Public Finance Act 1989.

² A total of \$500,000 was transferred from Army Capabilities Prepared for Joint Operations and Other Tasks to Policy Advice (Output 7.2) under section 26A of the Public Finance Act 1989.

³ During the Budget Moratorium, \$40,000 was approved for Veterans Health Connect for 2019/20. This change was made subsequent to the publishing of the Supplementary Estimates.

Departmental Other Expenses

2019					2020		
Actual Expenditure Including Re-measurements (\$000)		Main Estimates (\$000)	Supplementary Estimates (\$000)	Appropriation Voted 2020 ¹ (\$000)	Actual Expenditure Excluding Re-measurements (\$000)	Re-measurements (\$000)	Actual Expenditure Including Re-measurements (\$000)
650	Loss on sale physical assets	-	7,260	7,260	-	-	-
650	Total Departmental Other Expenditure	-	7,260	7,260	-	-	-
2,744,907	Total Appropriations for Departmental Expenses	2,847,100	2,929,834	2,929,834	2,840,952	13,870	2,854,822

Variance Explanation

Actual expenditure excluding re-measurements is \$6.1 million lower than the Mains Estimates budget. This lower than planned expenditure is predominately due to the impacts of the COVID-19 pandemic including disruption to planned recruitment activities, delayed maintenance due to pressures on the supply chain and reduced training and travel costs due to travel restrictions.

Capital Expenditure Permanent Legislative Authority

2019					2020		
Actual Expenditure Including Re-measurements (\$000)		Main Estimates (\$000)	Supplementary Estimates (\$000)	Appropriation Voted 2020 ¹ (\$000)	Actual Expenditure Excluding Re-measurements (\$000)	Re-measurements (\$000)	Actual Expenditure Including Re-measurements (\$000)
119,433	Land and Buildings	157,640	93,754	93,754	78,096	-	78,096
547,070	Specialist Military Equipment	1,114,227	727,703	727,703	335,708	-	335,708
40,033	Other Property, Plant and Equipment	40,418	25,283	25,283	51,371	-	51,371
15,182	Intangibles	17,750	8,329	8,329	19,217	-	19,217
721,718	Total Departmental Capital Expenditure	1,330,035	855,069	855,069	484,392	-	484,392

¹ These are the appropriations from the Supplementary Estimates adjusted for any transfers under section 26A of the Public Finance Act 1989.

Non-Departmental Output Expenses

2019						2020		
Actual Expenditure Including Re-measurements (\$000)	Output Class		Main Estimates (\$000)	Supplementary Estimates (\$000)	Appropriation Voted 2020 ¹ (\$000)	Actual Expenditure Excluding Re-measurements (\$000)	Re-measurements (\$000)	Actual Expenditure Including Re-measurements (\$000)
400	7.5	Development and Maintenance of Services Cemeteries	746	746	746	706	-	706
400		Total Non-Departmental Output Expenses	746	746	746	706	-	706

¹ These are the appropriations from the Supplementary Estimates adjusted for any transfers under section 26A of the Public Finance Act 1989.

Non-Departmental Other Expenses

2019						2020			
Actual Expenditure Including Re-measurements (\$000)	Output Class		Main Estimates (\$000)	Supplementary Estimates (\$000)	Appropriation Voted 2020 ¹ (\$000)	Actual Expenditure Excluding Re-measurements (\$000)	Other Reconciling Items (\$000)	Re-measurements (\$000)	Actual Expenditure Including Re-measurements (\$000)
75	7.6	Debt Write-Down for Benefits and Other Unrequited Expenses	250	250	250	43	-	-	43
1,100	7.7	Ex Gratia Payments and Comprehensive Medical Assessments for Vietnam Veterans	1,100	1,100	1,100	267	-	-	267
-	7.8	Fair Value Write Down on Veteran Trust Loans and Thirty-Year Endowments	203	203	203	-	-	-	-
114	7.9	Veterans Assistance to attend Commemoration and Revisit Battlefields	200	200	200	90	-	-	90
275	7.10	Grant Payments to Non-Government Organisations	275	275	275	275	-	-	275
-	7.15	Initial Recognition of Liability for Veterans' Entitlements	-	3,500,000	3,500,000	3,184,429	(3,184,429) ²	-	3,184,429
-	7.16	Service Cost – Veterans' Entitlements	-	20,000	20,000	4,000	12,000 ³	-	4,000
-	7.17	Unwind of Discount Rate – Veterans' Entitlements	-	50,000	50,000	10,250	30,750 ³	-	10,250
1,564		Total Other Expenses to be Incurred by the Crown	2,028	3,572,028	3,572,028	3,199,354	(3,141,679)	-	3,199,354

¹ These are the appropriations from the Supplementary Estimates adjusted for any transfers under section 26A of the Public Finance Act 1989.

² This appropriation was set up for the first time recognition of the Veterans' entitlement liability. This was recognised directly into Taxpayers funds so does not appear in the Non-Departmental Schedule of Expenditure.

³ The previous Benefits and other Related Expenses appropriations (Outputs 7.11, 7.12, 7.13 and 7.14) were disestablished and new ones (7.15, 7.16 and 7.17) set up on 1 April 2020. This has resulted in differences between the appropriated expenditure reported and the Non-Departmental Schedule of Expenditure.

Benefits or Related Expenses

2019						2020			
Actual Expenditure Including Re-measurements (\$000)	Output Class		Main Estimates (\$000)	Supplementary Estimates (\$000)	Appropriation Voted 2020 ¹ (\$000)	Actual Expenditure Excluding Re-measurements (\$000)	Other Reconciling Items (\$000)	Re-measurements (\$000)	Actual Expenditure Including Re-measurements (\$000)
11,671	7.11	Assessments, Treatment & Rehabilitation	11,996	12,052	12,052	9,264	(9,264) ³	-	9,264
90	7.12	Special Annuities	92	78	78	72	(72) ³	-	72
12,270	7.13	Veterans' Independence Programme	14,675	13,928	13,928	11,862	(11,862) ³	-	11,862
89,875	7.14	Veterans' Support Entitlements	84,480	68,383	68,383	65,511	(65,511) ³	-	65,511
113,906		Total Benefits or Related Expenses to be Incurred by the Crown	111,243	94,441	94,441	86,709	(86,709)	-	86,709
115,870		Total Non-Departmental Expenditure	114,017	3,667,215	3,667,215	3,286,769	(3,228,388)	-	3,286,769
3,582,495		Total Annual Appropriations and Forecast Permanent Appropriations	4,291,152	7,452,118	7,452,118	6,612,113	(3,228,388)	13,870	6,625,983

1 These are the appropriations from the Supplementary Estimates adjusted for any transfers under section 26A of the Public Finance Act 1989.

3 The previous Benefits and other Related Expenses appropriations (Outputs 7.11, 7.12, 7.13 and 7.14) were disestablished and new ones (7.15, 7.16 and 7.17) set up on 1 April 2020. This has resulted in differences between the appropriated expenditure reported and the Non-Departmental Schedule of Expenditure.

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 – Impairment of Debt for Benefits or Related 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
- Output 7.15 – Initial Recognition of Liability for Veterans' Entitlements
- Output 7.16 – Service Cost – Veterans' Entitlements
- Output 7.17 – Unwind of Discount Rate – Veterans' Entitlements

Statement of Departmental Capital Injections for the year ended 30 June 2020

2019		2020	
Actual (\$000)		Actual Capital Injection (\$000)	Supplementary Estimates (\$000)
-	Capital injection	822,768	975,358

Statement of Capital Injections without, or in excess of, authority for the year ended 30 June 2020

The NZDF has not received any capital injections during the year without, or in excess of, authority (2019: Nil).

Statement of Expenses and Capital Expenditure incurred without, or in excess of, appropriation or another authority for the year ended 30 June 2020

Expense Type	Appropriation Name	Actual Expenditure Excluding Re measurements (\$000)	Approved Appropriation (Supplementary Estimates) (\$000)	Unappropriated Expenditure (\$000)
Benefits or Related Expenses				
7.11	Assessments, Treatment and Rehabilitation	9,264	9,128	136
7.14	Veterans Support Entitlement	65,511	63,988	1,523

At each baseline update prior to 1 April 2020, the Ministry of Social Development provided a forecast of Veterans' benefits or other related expenses and approval was sought from joint Ministers for these changes. The forecasts included estimations of expenditure for Veterans' assessments, treatments and rehabilitation and support entitlements. Due to the operating environment at the time and uncertainties around the impact of the change in accounting standard, the forecast changes were not included in the March Baseline Update or approved by joint Ministers. Without approval, the New Zealand Defence Force incurred expenses in excess of appropriations.

From 1 April 2020, these appropriations were discontinued as a result of a change in accounting treatment, resulting from the introduction of a new accounting standard.

On 7 July, approval was received from joint Ministers for changes to the Supplementary Estimates as detailed in outputs 7.11 and 7.14 in the NZDF Statement of Budgeted and Actual Expenses and Capital Expenditure against Appropriations.





07

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 2020 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 2021 and its operations for the year ending on that date.

Signed by:



K.R. Short
Air Marshal
Chief of Defence Force

30 November 2020

Independent Auditor's Report

To the readers of the New Zealand Defence Force's annual report for the year ended 30 June 2020

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 126 to 176, that comprise the statement of financial position, statement of commitments, statement of contingent liabilities and contingent assets as at 30 June 2020, 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 and group for the year ended 30 June 2020 on pages 34 to 112;
- the statements of expenses and capital expenditure of the Defence Force and group for the year ended 30 June 2020 on pages 113 to 118;
- the schedules of non-departmental activities which are managed by the Defence Force and group on behalf of the Crown on pages 183 to 199 that comprise:
 - the schedules of assets; liabilities; commitments; and contingent assets and liabilities as at 30 June 2020;
 - the schedules of expenditure; and revenue for the year ended 30 June 2020; 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 126 to 176:
 - present fairly, in all material respects:
 - its financial position as at 30 June 2020; 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 the Public Benefit Entity Reporting Standards.
- The performance information of the Defence Force and group on pages 34 to 112:
 - presents fairly, in all material respects, for the year ended 30 June 2020:
 - 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.

- The statements of expenses and capital expenditure of the Defence Force and group on pages 113 to 118 are presented fairly, in all material respects, in accordance with the requirements of section 45A of the Public Finance Act 1989.
- The schedules of non-departmental activities which are managed by the Defence Force and group on behalf of the Crown on pages 183 to 199 present fairly, in all material respects, in accordance with the Treasury Instructions 2019:
 - the assets; liabilities; commitments; and contingent assets and liabilities as at 30 June 2020; and
 - expenditure; and revenue for the year ended 30 June 2020.

Our audit was completed on 30 November 2020. This is the date at which our opinion is expressed.

The basis for our opinion is explained below, and we draw attention to the impact of Covid-19 on the Defence Force and the activities it manages on behalf of the Crown. 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.

Emphasis of matters

Without modifying our opinion, we draw your attention to the following disclosures.

Significant uncertainties in the valuation of the veterans' entitlements liability

Note 5 on pages 188 to 191 of the non-departmental schedules, which outlines the significant uncertainties over the timing and amount of the future cash flows associated with the veterans' entitlements liability. The limited data available to form the assumptions increases the level of uncertainty.

Impact of Covid-19

Pages 48, 86 and 87, 100 and 111 of the performance information, Note A on pages 138 and 139, Note C on pages 144 to 146 and Note F2 on pages 174 to 176 of the financial statements, and page 190 of the non-departmental schedule outlines the impact of Covid-19 on the Defence Force.

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 and group, 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 and group 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 2018-2021 Statement of Intent, Budget 2019 Estimates and Supplementary Estimates of Appropriations, and the 2019/20 forecast financial figures included in the Defence Force's 2018/19 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 and group'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 obtain sufficient appropriate audit evidence regarding the financial statements and the performance information of the entities or business activities within the group to express an opinion on the

consolidated financial statements and the consolidated performance information. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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 2 to 199 and the financial statements of the Veterans' Medical Research Trust Fund for the year ended 31 March 2020, 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: International 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 2020

2019				2020			
Group Actuals (\$000)	Parent Actuals (\$000)		Note	Group Actuals (\$000)	Parent Actuals (\$000)	Group Unaudited Budget (\$000)	Group Unaudited Forecast (\$000)
Revenue from non-exchange transactions							
2,708,695	2,708,695	Crown		2,867,275	2,867,275	2,828,338	2,867,275
789	-	Other revenue	B2	1,115	-	-	-
Revenue from exchange transactions							
6,805	6,805	Departmental revenue	B1	16,083	16,083	10,202	19,368
54,181	49,086	Other revenue	B2	115,336	113,114	8,560	62,931
13,886	13,886	Gain on financial instruments	B3	19,688	19,688	-	25,000
1,247	7	Interest revenue		1,103	7	20	20
173	-	Dividend revenue		60	-	-	-
2,785,776	2,778,479	Total Revenue		3,020,660	3,016,167	2,847,120	2,974,594
Expenses							
1,042,908	1,041,799	Personnel costs	B4	1,086,698	1,085,766	1,057,339	1,107,282
859,833	857,349	Operating costs	B5	870,803	868,557	900,986	915,279
16,893	16,893	Loss on financial instruments	B6	13,870	13,870	-	25,000
1,055	658	Finance costs		1,783	1,428	571	1,611
430,581	429,574	Depreciation, amortisation and impairment	C1, C3	465,523	464,595	467,630	464,200
398,634	398,634	Capital charge	B7	420,606	420,606	420,574	420,957
2,749,904	2,744,907	Total Expenses		2,859,283	2,854,822	2,847,100	2,934,329
35,872	33,572	Net Surplus/(Deficit)		161,377	161,345	20	40,265
<i>Items that will not be reclassified to Net Surplus/(Deficit)</i>							
Other Comprehensive Revenue and Expense							
197,947	197,947	Gain/(Loss) on property, plant, and equipment revaluations	D2	(8,111)	(8,111)	-	-
197,947	197,947	Total Other Comprehensive Revenue and Expense		(8,111)	(8,111)	-	-
233,819	231,519	Total Comprehensive Revenue and Expense		153,266	153,234	20	40,265

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 2020

2019				2020			
Group Actuals (\$'000)	Parent Actuals (\$'000)		Note	Group Actuals (\$'000)	Parent Actuals (\$'000)	Group Unaudited Budget (\$'000)	Group Unaudited Forecast (\$'000)
Assets							
Current Assets							
53,965	52,271	Cash and cash equivalents	E1	38,063	36,288	50,000	50,000
38,700	37,924	Debtors and other receivables from exchange transactions	E2	51,255	50,354	34,107	25,437
391,685	391,685	Debtors and other receivables from non-exchange transactions	E2	1,004,620	1,004,620	536,569	1,077,574
66,588	66,582	Prepayments		98,069	98,066	56,542	72,898
91,986	91,839	Inventories	E3	95,321	95,167	94,541	79,352
25,320	1,063	Other financial assets	E4	24,755	1,734	27,993	27,993
-	-	Non – current assets held for sale	C4	8,813	8,813	-	-
668,244	641,364	Total Current Assets		1,320,896	1,295,042	799,752	1,333,254
Non-Current Assets							
6,478,956	6,420,473	Property, plant and equipment	C1	6,558,286	6,500,407	7,266,247	6,949,699
53,113	53,113	Intangible assets	C3	63,236	63,236	55,885	53,437
298,219	298,219	Inventories	E3	333,941	333,941	287,185	315,942
6,710	192	Other financial assets	E4	7,852	78	-	-
6,836,998	6,771,997	Total Non-Current Assets		6,963,315	6,897,662	7,609,317	7,319,078
7,505,242	7,413,361	Total Assets		8,284,211	8,192,704	8,409,069	8,652,332
Liabilities							
Current Liabilities							
417,967	414,108	Payables and deferred revenue under exchange transactions	E5	229,296	225,112	594,483	514,286
26,284	26,263	Payables and deferred revenue under non-exchange transactions	E5	29,356	29,360	25,372	36,042
38,088	38,088	Surplus repayable to the Crown	E6	161,262	161,262	20	40,265
13,892	13,892	Provisions	E7	13,890	13,890	10,991	13,478
56,412	56,358	Employee entitlements	E8	65,718	65,675	88,254	98,720
2,088	2,083	Finance leases	E9	4,078	4,076	1,795	3,926
1,854	1,854	Other financial liabilities	E10	2,049	2,049	4,387	5,206
556,585	552,646	Total Current Liabilities		505,649	501,424	725,302	711,923

Statement of Financial Position as at 30 June 2020 (continued)

2019				2020			
Group Actuals (\$000)	Parent Actuals (\$000)		Note	Group Actuals (\$000)	Parent Actuals (\$000)	Group Unaudited Budget (\$000)	Group Unaudited Forecast (\$000)
Non-Current Liabilities							
4,314	4,314	Employee entitlements	E8	4,203	4,203	5,293	5,005
16,966	16,966	Finance leases	E9	32,621	32,621	14,827	32,980
311	311	Other financial liabilities	E10	589	589	-	-
21,591	21,591	Total Non – Current Liabilities		37,413	37,413	20,120	37,985
578,176	574,237	Total Liabilities		543,062	538,837	745,422	749,908
6,927,066	6,839,124	Net Assets		7,741,149	7,653,867	7,663,647	7,902,424
Equity							
3,917,243	3,917,243	Taxpayers' funds	D1	4,745,097	4,745,097	4,856,561	4,892,603
2,951,377	2,921,881	Revaluation reserve	D2	2,938,266	2,908,770	2,751,066	2,951,375
55,749	-	Non-taxpayers' funds	D3	54,998	-	53,335	55,749
2,697	-	Restricted funds	D4	2,788	-	2,685	2,697
6,927,066	6,839,124	Total Equity		7,741,149	7,653,867	7,663,647	7,902,424
7,505,242	7,413,361	Total Liabilities and Taxpayers' Funds		8,284,211	8,192,704	8,409,069	8,652,332

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 2020

2019				2020			
Group Actuals (\$000)	Parent Actuals (\$000)		Note	Group Actuals (\$000)	Parent Actuals (\$000)	Group Unaudited Budget (\$000)	Group Unaudited Forecast (\$000)
Balance at 1 July							
3,925,971	3,925,971	Taxpayers' funds		3,917,243	3,917,243	4,287,994	3,917,243
2,749,218	2,719,722	Revaluation reserve		2,951,377	2,921,881	2,751,066	2,951,377
53,335	-	Non-taxpayers' funds		55,749	-	53,335	55,749
2,685	-	Restricted funds		2,697	-	2,685	2,697
6,731,209	6,645,693			6,927,066	6,839,124	7,095,080	6,927,066
35,872	33,572	Net surplus/(deficit) for the year		161,377	161,345	20	40,265
197,947	197,947	Total gain/(loss) on property, plant and equipment revaluation		(8,111)	(8,111)	-	-
233,819	231,519	Total Comprehensive Revenue and Expense for the Year		153,266	153,234	20	40,265
Owner Transactions							
(38,088)	(38,088)	Repayment of surplus	E6	(161,262)	(161,262)	(20)	(40,265)
(330)	-	Capital withdrawal		(794)	-	-	-
-	-	Capital injection		822,771	822,771	568,567	975,358
456	-	Owners contributions		102	-	-	-
6,927,066	6,839,124	Balance as at 30 June		7,741,149	7,653,867	7,663,647	7,902,424
3,917,243	3,917,243	Taxpayers' funds	D1	4,745,097	4,745,097	4,856,561	4,892,603
2,951,377	2,921,881	Revaluation reserve	D2	2,938,266	2,908,770	2,751,066	2,951,375
55,749	-	Non-taxpayers' funds	D3	54,998	-	53,335	55,749
2,697	-	Restricted funds	D4	2,788	-	2,685	2,697

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 2020

2019			2020			
Group Actuals (\$000)	Parent Actuals (\$000)		Group Actuals (\$000)	Parent Actuals (\$000)	Group Unaudited Budget (\$000)	Group Unaudited Forecast (\$000)
Cash Flow – Operating Activities						
2,940,927	2,940,927	Non-exchange receipts from Crown	2,254,340	2,254,340	2,968,453	2,319,791
54,187	49,418	Exchange receipts from departmental and other revenue	78,815	74,540	32,362	95,562
173	-	Dividends received from operating activities	60	-	-	-
893	-	Interest revenue from operating activities	1,096	-	-	-
(1,041,493)	(1,040,396)	Payments to employees	(1,068,532)	(1,066,596)	(1,055,716)	(1,096,919)
(901,289)	(899,680)	Payments to suppliers	(926,137)	(925,792)	(887,477)	(892,465)
(152)	-	Grants paid	(784)	-	-	-
(397)	-	Interest paid to members	(355)	-	-	-
(398,634)	(398,634)	Payments for capital charge	(420,606)	(420,606)	(420,574)	(420,957)
(759)	(750)	Goods and services tax (net)	3,072	3,100	-	9,758
653,456	650,885	Net Cash Flow from Operating Activities	(79,031)	(81,014)	637,048	14,770
Cash Flow – Investing Activities						
3,480	3,505	Receipts from sale of property, plant and equipment	397	397	-	-
192	(651)	Interest revenue and expense	(620)	7	20	20
9,800	-	Sale of investments	5	-	-	-
(12,500)	-	Purchase of investments	(251)	-	-	-
(1,191)	-	Repayment of advances	(20)	-	-	-
(580,128)	(579,800)	Purchase of property, plant and equipment	(706,891)	(706,571)	(1,170,990)	(798,292)
(15,182)	(15,182)	Purchase of intangible assets	(19,217)	(19,217)	(17,750)	(8,329)
(595,529)	(592,128)	Net Cash Flow from Investing Activities	(726,597)	(725,384)	(1,188,720)	(806,601)

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 2020 (continued)

2019			2020			
Group Actuals (\$000)	Parent Actuals (\$000)		Group Actuals (\$000)	Parent Actuals (\$000)	Group Unaudited Budget (\$000)	Group Unaudited Forecast (\$000)
Cash Flow - Financing Activities						
456	-	Capital injection	822,873	822,768	568,567	822,768
(330)	-	Capital withdrawal	(794)	-	-	-
(56,086)	(56,086)	Repayment of surplus	(38,088)	(38,088)	(16,895)	(38,088)
(55,960)	(56,086)	Net Cash Flow from Financing Activities	783,991	784,680	551,672	784,680
1,967	2,671	Net increase/(decrease) in cash	(21,637)	(21,718)	-	(7,151)
50,488	48,090	Cash at the beginning of the year	53,965	52,271	50,000	53,965
1,510	1,510	Effect of foreign exchange rates on cash and cash equivalents	5,735	5,735	-	3,186
53,965	52,271	Cash and Cash Equivalents at the End of the Year	38,063	36,288	50,000	50,000

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 2020 (continued)
Reconciliation of net surplus/(deficit) to net cash flow from operating activities

2019			2020	
Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)
35,872	33,572	Net Surplus/(Deficit)	161,377	161,345
		<i>Items included in the operating balance but not in net cash flows from operations</i>		
(Gains)/Losses				
3,007	3,007	Net (gains)/losses on financial instruments	(5,818)	(5,818)
1,070	1,045	Net (gains)/losses on non-financial instruments	1,111	1,106
4,077	4,052	Total (Gains)/Losses	(4,707)	(4,712)
Other Non-cash Items in Operating Balance				
430,581	429,574	Depreciation, amortisation and impairment	465,523	464,595
(12,134)	(12,134)	Non-cash movement in non-current inventories	(35,722)	(35,722)
16,618	16,618	Non-cash movement in non-current finance leases	15,655	15,655
(259)	(259)	Non-cash movement in non-current employee entitlements	(111)	(111)
(192)	651	Other	620	(7)
434,614	434,450	Total Other Non-cash Items in Operating Balance	445,965	444,410
Movements in Working Capital				
224,052	225,033	(Increase)/decrease in debtors and other receivables	(625,490)	(625,365)
77	106	(Increase)/decrease in current inventories	(3,335)	(3,328)
(18,391)	(18,412)	(Increase)/decrease in prepayments	(31,481)	(31,484)
14,095	13,041	Increase/(decrease) in creditors and other payables	(265,569)	(266,099)
1,699	1,694	Increase/(decrease) in current finance leases	1,990	1,993
(536)	(548)	Increase/(decrease) in current employee entitlements	9,306	9,317
3,267	3,267	Increase/(decrease) in provisions	(2)	(2)
(45,370)	(45,370)	Working capital movement related to cash flow from investing activities	232,915	232,911
178,893	178,811	Total Movements in Working Capital	(681,666)	(682,057)
653,456	650,885	Net Cash Flows from Operations	(79,031)	(81,014)

The accompanying notes form part of these financial statements.

Statement of Commitments as at 30 June 2020

2019			2020	
Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)
Capital Commitments				
23,267	23,267	Building	21,076	21,076
1,784,593	1,784,593	Specialist military equipment	3,138,440	3,138,440
36,907	36,907	Plant and equipment	56,293	56,293
1,844,767	1,844,767	Total Capital Commitments	3,215,809	3,215,809
Non-Cancellable Operating Lease Commitments				
55,929	55,929	Not later than one year	35,069	35,069
77,096	77,096	Later than one year and not later than five years	89,569	89,569
217,800	217,800	Later than five years	189,833	189,833
350,825	350,825	Total Non-Cancellable Operating Lease Commitments	314,471	314,471
2,195,592	2,195,592	Total Commitments	3,530,280	3,530,280

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 \$3,095.3 million (2019: \$1,738.8 million).

The significant increase in Specialist Military Equipment capital commitments largely relates to key capital projects with the Ministry of Defence including the acquisition of the P-8A Poseidon. NZDF has significant foreign currency risk exposure as a result of the increase in these capital commitments with Ministry of Defence. The capital commitments are impacted by fluctuations in foreign currencies.

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

Non-Cancellable Operating Lease Commitments

The lease commitments for premises, planes and simulators are based on lease review dates that range from 1 month to 30 years. Non-Cancellable Operating Lease Commitments decreased in 2020, due to fewer new leases being entered into and a reduction in the overall term of the leases.

Statement of Contingent Liabilities as at 30 June 2020

2019			2020	
Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)
1,500	1,500	Potential claims from legal proceedings and disputes	2,400	2,400
1,072	1,072	Restructuring cost	1,060	1,060
-	-	Historical Ex-gratia payment	500	500
2,572	2,572	Total Quantifiable Contingent Liabilities	3,960	3,960

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 2020, there are unquantifiable contingent liabilities in relation to a contractual dispute and the potential contamination of ground water (2019: unquantifiable).

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 2020

There were quantifiable contingent assets of \$nil at 30 June 2020 (2019: \$20.9 million for material damage and business interruption claims with NZDF insurers).

There are no unquantifiable contingent assets as at 30 June 2020 (2019: unquantifiable contingent assets in relation to claims for business interruption, loss of 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 performance or position.

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 2020

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 includes 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 (Airforce 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 2020. The financial statements were authorised for issue by the Chief of Defence Force on 30 November 2020.

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).

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the NZDF and its controlled entities as at 30 June 2020.

Controlled entities are all those entities that the NZDF (the controlling entity) is exposed to, or has the rights, to variable benefits from involvement with those entities, and has the ability to affect the nature or amount of those benefits through its power over the entities. NZDF has determined control over these entities, as NZDF is able to both establish and cease Non-Public Funds under section 58 of the Defence Act 1990. NZDF sets the policy for the management of the funds, and has NZDF personnel in key management positions of those funds. The funds primarily benefit members of the NZDF and thereby the funds provide indirect benefit to the NZDF. Service Museums are separate Charitable Trusts established by Trust Deed. NZDF have personnel in key management positions and heritage collections are held on NZDF owned property. No facts or circumstances in determining control have changed over the reporting period.

The controlled entities have been fully consolidated from the date on which control has been obtained. Assets, liabilities, revenue and expenses of the controlled entities are included in the financial statements from the date control is obtained until the date the NZDF ceases to be the controlling 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 the 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.

New standards Issued

Public Benefit Entity International Public Sector Accounting Standard (PBE IPSAS) 34–38

PBE IPSAS 34 *Separate Financial Statements*, PBE IPSAS 35 *Consolidated Financial Statements*, PBE IPSAS 36 *Investments in Associates and Joint Ventures*, PBE IPSAS 37 *Joint Arrangements*, and PBE IPSAS 38 *Disclosure of Interests in Other Entities* replace the previous standards for interests in other entities, PBE IPSAS 6–8. The new standards are effective for annual periods beginning on or after 1 January 2019. The NZDF has applied the new standards in preparing the 30 June 2020 financial statements. There has been limited impact on the Group as a result of the introduction of these standards, other than a change in the definition of control and some additional disclosure requirements.

In 2018, the External Reporting Board issued 2018 Omnibus Amendments to PBE Standards with annual periods beginning on or after 1 January 2019. NZDF has applied these amendments in preparing the 30 June 2020 financial statements. There is minimal effect in applying these amendments (they provide clarification only).

Standards issued not yet effective and not early adopted

Standards and amendments, issued but not yet effective, that have not been early adopted are:

Amendment to PBE IPSAS 2 Statement of Cash Flows

An amendment to PBE IPSAS 2 *Statement of Cash Flows* requires entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. This amendment is effective for annual periods beginning on or after 1 January 2021, with early application permitted. The NZDF does not intend to early adopt the amendment and no effect is expected as a result of this change.

PBE IPSAS 41 Financial Instruments

The XRB issued PBE IPSAS 41 *Financial Instruments* in March 2019. This standard supersedes PBE IFRS 9 *Financial Instruments*, which was issued as an interim standard. It is effective for reporting periods beginning on or after 1 January 2022. Although the NZDF has not assessed the effect of the new standard, it does not expect any significant changes as the requirements are similar to PBE IFRS 9.

PBE FRS 48 Service Performance Reporting

PBE FRS 48 replaces the service performance reporting requirements of PBE IPSAS 1 and is effective for reporting periods beginning on or after 1 January 2021. The NZDF has not yet determined how application of PBE FRS 48 will affect its statement of performance.

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.

Comparatives

When presentation or, classification of items in the financial statements is amended, comparative figures are restated to ensure consistency with the current period unless it is impracticable to do so.

Summary of Significant 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 2019 Annual Report. The forecast reflects the estimated actuals contained in the Supplementary Estimates as at 30 June 2020. 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 the NZDF and its controlled entities as at 30 June 2020. Controlled entities are all those entities that the NZDF (the controlling entity) is exposed to, or has the rights, to variable benefits from involvement with those entities, and has the ability to affect the nature or amount of those benefits through its power over the entities.

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 of Taxpayers' Funds and Revaluation Reserves. Equity is represented by net assets.

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

Although the NZDF is more asset intensive than most Government departments, this is managed using robust governance, systems and policies as well as 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 below:

- 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
- Inventory obsolescence – refer to note E3

Critical Judgements in Applying Accounting Policies

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

- Leases classification – refer to note E9

COVID-19

On 11 March 2020 the World Health Organisation declared a global pandemic as a result of the outbreak and spread of COVID-19 (the virus). On Wednesday 25 March the New Zealand Government implemented Alert Level 4 (full lockdown of non-essential services) for an initial 4 week period.

Following alert level 4, the New Zealand Government has progressively lowered and raised the alert level in response to the degree of containment of the virus within the community.

NZDF has considered the impact of COVID-19 on its financial statements. The table below provides an overview of the impact on NZDF assets and liabilities with further detail also provided in the notes to the financial statements.

Balance Sheet Item	COVID-19 Assessment	Note
Cash and cash equivalents	There was no impact on the carrying value of Cash and cash equivalents denominated in New Zealand Dollars (NZD) and minimal impact on Cash and Cash Equivalents denominated in foreign currency as a result of movements in foreign exchange rates impacted by the outbreak of COVID-19.	E1
Debtors and other receivables and Prepayments	The NZDF performed an assessment of expected credit losses as a result of the COVID-19 pandemic. The NZDF did not adjust the provision, as credit losses are not expected to increase as a result of the COVID-19 pandemic.	E2
Inventories	There is no impact on the net realisable value of inventory at balance date as a result of COVID-19.	E3
Other financial assets (Derivatives financial instruments)	Derivatives are recorded at fair value. The carrying value reflects quoted prices at balance date. Any market impacts as a result of COVID-19 are implied in those quoted prices.	E4
Property, plant and equipment (Land and Buildings)	<p>The NZDF's Land and Buildings asset classes are held at fair value less accumulated depreciation and impairment losses. NZDF engaged independent valuer WSP to provide a review of the impact of COVID-19 on NZDF's Land and Buildings asset classes at balance date. The review indicated no revaluation was necessary, as the value of the assets was not materially different to the carrying values.</p> <p>NZDF applied management judgement to the review and determined that there was no material impact as a result of COVID-19. The NZDF continues to use Land and Buildings to the fullest extent possible. There were no indications that NZDF's Land and Buildings are impaired as a result of COVID-19.</p>	C1
Property, plant and equipment (Specialist Military Equipment)	<p>The NZDF's Specialist Military Equipment is held at fair value less accumulated depreciation and impairment losses. NZDF performed a review of Specialist Military Equipment at balance date. The review indicated revaluation was not necessary, as the value of the assets was not materially different to the carrying values. NZDF applied management judgement to the review, which indicated no material impact as a result of COVID-19.</p> <p>The NZDF continues to use Specialist Military Equipment to the fullest extent possible. There were no indications that NZDF's Specialist Military Equipment is impaired as a result of COVID-19.</p>	C1

Balance Sheet Item	COVID-19 Assessment	Note
Intangible assets	There is no impact on the carrying value of Intangible assets as a result of COVID-19. The NZDF's Intangible assets are held at cost less accumulated amortisation and impairment losses. There are no indications NZDF's Intangible assets have been impaired as a result of COVID-19.	C3
Non-current assets held for sale	There is no impact on the carrying value of Non-Current Assets Held for Sale as a result of COVID-19. The NZDF's Non-Current Assets Held for Sale are measured at the lower of carrying amount and fair value less costs to sell.	C4
Payables and deferred revenue	There is no impact on the carrying value of Payables and deferred revenue as a result of COVID-19. The NZDF's Payables and deferred revenue are held at fair value.	E5
Surplus repayable to the Crown	The surplus repayable to the Crown was higher as a result of COVID-19. The COVID-19 pandemic has had an impact on the NZDF's operations and activities in the second half of the year resulting in lower than planned operating expenditure, which will be repaid to the Crown.	E6
Provisions	There is no impact on the carrying value of the NZDF's Provisions as a result of COVID-19. NZDF has recognised a provision where there is a present obligation as a result of a past event of uncertain timing or amount, the amount can be reliably estimated, and it is probable that NZDF will be required to settle the amount.	E7
Employee entitlements	There was an increase in the balance of the NZDF's Employee entitlements at balance date as a result of COVID-19. This increase in Employee entitlements was due to higher annual leave balances, as NZDF employees and service personnel took less annual leave over the lockdown period.	E8
Finance leases	There is no impact on the carrying value of the NZDF's Finance Leases as a result of COVID-19.	E9
Other financial liabilities (Derivatives financial instruments)	Derivatives are recorded at fair value. The carrying value reflects quoted prices at balance date. Market impacts as a result of COVID-19 are implied in those quoted prices.	E10

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

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 Non-Exchange Transactions

Revenue Crown

Revenue from the Crown is measured based on the 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 the 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 revenue until the liability is satisfied.

Revenue from Exchange Transactions

Other Revenue

Other revenue from exchange transactions are made on a normal commercial basis and largely comprises of cost recoveries, the miscellaneous provision of rentals, goods and services to third parties which are incidental to the NZDF Group's main activities and the provision of service housing and barracks to NZDF personnel. Revenue from exchange transactions is recognised when earned and is reported in the financial period to which it relates.

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.

Dividends

Dividend revenue is made up of revenue from dividends received by the various Service Museums and Non-Public Funds controlled by the NZDF. These are recognised on receipt.

B1 Departmental Revenue

2019			2020		
Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)	Group Unaudited Forecast (\$000)
5,260	5,260	Ministry of Social Development	8,349	8,349	19,368
850	850	Ministry of Defence	-	-	-
695	695	Other departments	7,734	7,734	-
6,805	6,805	Total Departmental Revenue	16,083	16,083	19,368

B2 Other Revenue

2019			2020		
Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)	Group Unaudited Forecast (\$000)
Revenue from non-exchange transactions					
789	-	Other revenue	1,115	-	-
789	-	Total revenue from non-exchange transactions	1,115	-	-
Revenue from exchange transactions					
13,660	13,660	Insurance claims	26,837	26,837	-
40,521	35,426	Other revenue	88,499	86,277	62,931
54,181	49,086	Total revenue from exchange transactions	115,336	113,114	62,931
54,970	49,086	Total Other Revenue	116,451	113,114	62,931

In 2020, there was an increase in other revenue of \$42 million as a result of the recording of inventory that was previously expensed.

The budget for other revenue was set for the 2019/20 year prior to NZDF's change in the accounting treatment of cost recoveries (primarily from service housing and barracks).

From 2019, these recoveries were reclassified to other revenue. Previously they had been offset against the related expenditure. The budget for the 2019/20 year was subsequently increased by \$26.6 million.

B3 Gain on Financial Instruments

2019			2020		
Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)	Group Unaudited Forecast (\$000)
12,688	12,688	Realised gain on foreign exchange	16,121	16,121	20,000
1,198	1,198	Unrealised gain on foreign exchange	3,567	3,567	5,000
13,886	13,886	Total Gain on Financial Instruments	19,688	19,688	25,000

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.

2019			2020		
Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)	Group Unaudited Forecast (\$000)
976,186	975,077	Salaries and wages	1,007,354	1,006,422	1,050,123
66,479	66,479	Superannuation contributions to defined contribution schemes	69,378	69,378	54,794
(807)	(807)	Retirement and accumulated leave adjustment	9,206	9,206	1,362
1,050	1,050	Accident Compensation Corporation (ACC) levies	760	760	1,003
1,042,908	1,041,799	Total Personnel Costs	1,086,698	1,085,766	1,107,282

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.

2019		2020
Parent	Salary Band	Parent
358	\$30,000 – \$40,000	8
1,257	\$40,001 – \$50,000	976
2,546	\$50,001 – \$60,000	2,524
1,878	\$60,001 – \$70,000	2,292
1,676	\$70,001 – \$80,000	1,860
1,254	\$80,001 – \$90,000	1,302
977	\$90,001 – \$100,000	943
768	\$100,001 – \$110,000	902
569	\$110,001 – \$120,000	675
287	\$120,001 – \$130,000	369
121	\$130,001 – \$140,000	131
214	\$140,001 – \$150,000	219
106	\$150,001 – \$160,000	109
74	\$160,001 – \$170,000	89
32	\$170,001 – \$180,000	37
50	\$180,001 – \$190,000	41
50	\$190,001 – \$200,000	52
80	Over \$200,001	97
12,297	Total	12,626

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. 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.

2019			2020		
Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)	Group Unaudited Forecast (\$000)
197,216	197,216	Materials	185,740	185,738	166,482
131,371	131,172	Premises cost	139,920	139,756	125,607
131,619	131,564	Repairs and maintenance	134,385	134,313	238,022
81,118	80,996	Training and travel	68,973	68,840	87,323
85,706	85,704	Operating lease rentals and other licence charges	101,164	101,164	111,838
7,780	7,755	Consultancy	12,421	12,399	8,875
508	508	Audit fees: Audit New Zealand	525	525	545
93	-	Fees to auditors other than Audit New Zealand	83	-	5
30	32	Increase in provision for doubtful debts	8	1	-
1,166	1,141	Loss on sale of property, plant, and equipment	900	895	8,021
223,226	221,261	Other operating costs	226,684	224,926	168,561
859,833	857,349	Total Operating Costs	870,803	868,557	915,279

B6 Loss on Financial Instruments

2019			2020		
Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)	Group Unaudited Forecast (\$000)
11,179	11,179	Realised foreign exchange losses	10,095	10,095	20,000
5,714	5,714	Unrealised foreign exchange losses	3,775	3,775	5,000
16,893	16,893	Total Loss on Financial Instruments	13,870	13,870	25,000

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 2020 was 6.0% (2019: 6.0%)

Notes to the Financial Statements

C Property, Plant and Equipment

Accounting Policy

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

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 (ODRC) 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.

Review of Land and Buildings

For 2020, NZDF have reviewed the Land and Buildings asset classes and determined that no revaluation was necessary. For 2019, the Land and Buildings asset classes were revalued by independent registered valuers from WSP New Zealand Limited (previously Opus International Consultants Limited) resulting in a fair value adjustment that increased the value of the Land and Building assets by \$239.6 million.

For 2020, NZDF engaged independent registered valuers from WSP to complete the review of the NZDF's Land and Buildings asset classes and provide a high level review of the market price of land and the construction costs of buildings and infrastructure for the period 1 July 2019 to 30 June 2020. WSP completed the review of building and infrastructure and sub-contracted to Telfer Young for land and standalone housing.

The review suggested an overall movement in the NZDF Land and Buildings portfolio of 0.2% for the period.

COVID-19 impacts on the value of Land and Buildings

The result of the detailed review of NZDF's Land and Buildings asset classes by WSP, Telfer Young and NZDF management has indicated that there is no material impact on the value of NZDF's Land and Buildings asset classes. The COVID-19 pandemic could have two potential impacts on the value of NZDF Land and Building assets. Firstly, the review considered the impact on market prices for construction costs and secondly the level of demand in use. COVID-19 is unlikely to lead to any reduction in the demand in use of NZDF assets and it is too early to quantify the impact on market prices of construction costs. NZDF will continue to monitor the impact of COVID-19 on the value of NZDF's Land and Buildings asset classes.

NZDF has undertaken the following sensitivity analysis:

Sensitivity Analysis – Land and Buildings asset classes

At 30 June 2020, if market prices and construction costs had strengthened by 5% against the current value of the NZDF Land and Buildings asset classes, the carrying value for the year would have been \$149.9 million higher.

Conversely, if market prices and construction costs had weakened by 5% against the current value of the NZDF Land and Buildings asset classes, the carrying value for the year would have been \$149.9 million lower.

Sensitivity Analysis – Land and Buildings asset classes

Assets	If the market strengthened by 5% (\$'000)	If the market weakened by 5% (\$'000)
Land	50,468	(50,468)
Buildings	99,461	(99,461)
Total Impact	149,929	(149,929)

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. 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 land is valued at fair value using ODRC, as there is no reliable market evidence available. The depreciation rate for land is 0%. On-base and specialised buildings are valued at fair value using ODRC because no reliable market data is available for such buildings. The valuers have 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.

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 the NZDF's ability to sell land would normally not impair the value of the land because the NZDF has operational use of the land for the foreseeable future and will substantially receive the full benefits of outright ownership.

Review of Specialist Military Equipment

Specialist Military Equipment (SME) was reviewed as at 30 June 2020, with the assistance of NZDF Subject Matter Experts. The NZDF applied management judgement to the review and determined that revaluation of Specialist Military Equipment was not necessary (2019: no revaluation), as the values were not materially different to the current carrying values. The review identified that specific assets had indicators of impairment. Information on these is provided under the Impairment of Revalued Assets section below.

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 review of SME. This is 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 review as well as market values.

The NZDF does not revalue SME assets capitalised within 2 years or SME assets with a value of less than \$2 million.

COVID-19 impacts on the value of Specialist Military Equipment

As SME is manufactured overseas, the SME asset class was impacted by volatility in foreign exchange rates. The COVID-19 pandemic may have resulted in movement in foreign exchange rates over the reporting period, most notably for those military capabilities sourced in the United States Dollar (USD). Movements in foreign exchange rates over the reporting period have been reflected in the review of Specialist Military Equipment. Similarly, changes in inflation rates and the military inflation factor have also been reflected in the review, where possible.

Sensitivity Analysis – Specialist Military Equipment asset class

At 30 June 2020, if exchange rates, inflation and the military inflation factor had strengthened by 5% against the current value of the NZDF Specialist Military Equipment asset classes, with all other variants remaining constant, the carrying value for the year would have been \$166.9 million higher.

Conversely, if exchange rates, inflation and the military inflation factor had weakened by 5% against the current value of the NZDF Specialist Military Equipment asset classes, with all other variants remaining constant, the carrying value for the year would have been \$166.9 million lower.

Sensitivity Analysis – Specialist Military Equipment asset class

Assets	If the market strengthened by 5% (\$000)	If the market weakened by 5% (\$000)
Specialist Military Equipment	166,919	(166,919)
Total Impact	166,919	(166,919)

Review of Heritage Assets

Heritage assets are comprised of 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.

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.

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.

For non-cash generating assets valued using the revaluation model, an impairment gain or loss is recognised as a revaluation in Other Comprehensive Revenue and Expenses 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.

Impairment of Revalued Assets

Under the XRB issued Impairment of Revalued Assets, a revalued asset can be impaired without having to revalue the entire class of asset to which the asset belongs.

Impairment Loss for the Remediation of Contaminated Land & Buildings

The review of land and buildings in 2020 has not resulted in an adjustment to fair value as a result of impairment for contaminated land and buildings (2019: \$28.6 million).

In 2019, as part of the revaluation of Land & Buildings, the independent valuers were engaged to provide a high level assessment of the remediation cost to the NZDF of contaminated land and buildings. The cost to remediate soil contamination across 22 sites was estimated to restore the land to its highest possible use. This was included in the fair value adjustment resulting from the independent valuation completed by Opus International Consultants Limited in 2019.

The NZDF accounts for land and buildings at fair value, measured at their revaluation amount, less any subsequent accumulated depreciation and accumulated impairment losses. Whilst the remediation of contaminated land and buildings does not constitute a commitment or a provision for remediation, it is however an indication that the land and buildings are impaired. The increase in the revaluation reserve for land and buildings is reduced by the cost of the impairment to provide the net book value.

The assessment was based on key data provided by NZDF including the areas affected, the contaminant and a Hazardous Activities and Industries List (HAIL) priority rating. The HAIL is a list of activities which have the potential to cause contamination due to use or storage of hazardous substances which was published by the Ministry for the Environment in 2011. The affected areas were assigned a priority rating of high, medium or low. Sites were ranked based on the contaminant type, the contaminant mobility and the soil type. The type is based on the chemistry and behaviour of the contaminant in the environment. The contaminant mobility is the susceptibility of the contaminant to leach or migrate away from the source of contamination. The soil type is defined as cohesive or granular with cohesive soil being

easier to remediate when compared to granular soil. Soil type was established using the Landcare Research S-map online. The depth of contamination is based on the contamination source and when combined with the area is used to calculate a volume of soil that is potentially contaminated and a volume to be remediated. The assumption is that it is unlikely the entire area would be affected to the level that would require full remediation. For most areas 50% was applied with 10% applied to some. Evacuation and disposal is considered the optimal method to restore the land to its highest possible use and the estimated rates for evacuation and disposal have been applied across all sites.

Impairment Loss for Specialist Military Equipment

As part of the annual review of Specialist Military Equipment, the following assets were identified as having indicators of impairment. These have been revalued to their fair value in use:

- 2 Seasprite helicopters utilised as parts for wider fleet maintenance.

In 2019, an impairment loss was recognised for 1 Texan Aircraft identified as damaged, the 2 Seasprite Helicopters utilised as parts to support maintenance of the wider fleet and 2 In-shore patrol vessels identified as under consideration for disposal.

Defence Major Platform Restoration

The Defence Major Platform Restoration (DMPR) is an ongoing restoration plan for the Navy and Air Force 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.

Status of Buildings and Land

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 45 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 45, there remain 5 buildings that needed adjustments immediately and these have been vacated.
- The remaining 40 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. The time begins from the date on which the Local Territorial Authority issues an Earthquake Prone Building notice. Consequently there will be a liability for seismic remediation work as a result of the seismic assessment programme, for approximately 35 years. Some buildings, due to a backlog of work within Territorial Authorities, have yet to be issued their Earthquake Prone Building notice. For these buildings then the strengthening liability exists as a latent commitment, with the time to rectify not yet recorded under the regulatory framework. Since the middle

of 2019 the need for strengthening or demolishing buildings has been included in the Estate Regeneration Programme. The NZDF will therefore incorporate much, but not all, of the seismic work to buildings in the course of its building development and replacement programme. The NZDF has recorded resolution time-frames that presumes a regulatory time has

begun. This is a conservative approach but one that may yet be modified. Defence Estate and Infrastructure has, and continues to address the highest priority buildings to reduce immediate risk to buildings and occupants and this process remains ongoing as part of business as usual development projects.

Given the ongoing 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 2019

	Land (\$000)	Buildings (\$000)	Specialist Military Equipment (\$000)	Plant and Equipment (\$000)	Office and Computer Equipment (\$000)	Heritage Assets (\$000)	Total (\$000)
Cost or Valuation							
Balance as at 1 July 2018	981,927	1,803,307	4,371,338	287,975	137,161	25,560	7,607,268
Additions	1,536	88,546	178,896	15,254	9,241	90	293,563
Revaluation	20,105	93,516	(41,673)	-	-	-	71,948
Disposals	(1,300)	(687)	(3,569)	(12,943)	(5,751)	-	(24,250)
Work in progress movement	-	29,372	287,974	11,859	3,895	-	333,100
Other asset movements	-	1,775	-	(1,775)	-	-	-
as at 30 June 2019	1,002,268	2,015,829	4,792,966	300,370	144,546	25,650	8,281,629
Accumulated Depreciation							
Balance as at 1 July 2018	-	(68,390)	(1,188,524)	(182,037)	(85,544)	(70)	(1,524,565)
Depreciation expense	-	(64,004)	(334,394)	(11,357)	(12,867)	(19)	(422,641)
Eliminated on disposal	-	39	2,795	12,877	2,943	-	18,654
Eliminated on Revaluation	-	125,999	-	-	-	-	125,999
Reverse accumulated impairment loss	-	-	(5)	22	(137)	-	(120)
Other asset movements	-	(737)	-	737	-	-	-
as at 30 June 2019	-	(7,093)	(1,520,128)	(179,758)	(95,605)	(89)	(1,802,673)
Carrying amount as at 30 June 2019	1,002,268	2,008,736	3,272,838	120,612	48,941	25,561	6,478,956

During the 2020 year, the Ministry of Defence identified some contractual payments in 2019 under the United States Foreign Sales programme that had previously been recognised as capital expenditure. As these payments were for work to be performed by the supplier in future reporting periods, the payments have been reclassified and capital expenditure in 2019 has been reduced by \$80.2 million.

C1 Property, Plant and Equipment (continued)

Group 2020

	Land (\$000)	Buildings (\$000)	Specialist Military Equipment (\$000)	Plant and Equipment (\$000)	Office and Computer Equipment (\$000)	Heritage Assets (\$000)	Total (\$000)
Cost or Valuation							
Balance as at 1 July 2019	1,002,268	2,015,829	4,792,966	300,370	144,546	25,650	8,281,629
Additions	5,146	106,824	172,007	6,985	17,763	259	308,984
Revaluation	1,946	(9,917)	(23)	-	-	-	(7,994)
Disposals	-	(749)	(15,737)	(4,335)	(337)	-	(21,158)
Work in progress movement	-	(33,874)	243,901	27,159	(795)	-	236,391
Other asset movements	-	-	(14)	1,492	(1,478)	-	-
as at 30 June 2020	1,009,360	2,078,113	5,193,100	331,671	159,699	25,909	8,797,852

Accumulated Depreciation

Balance as at 1 July 2019	-	(7,093)	(1,520,128)	(179,758)	(95,605)	(89)	(1,802,673)
Depreciation expense	-	(81,711)	(349,093)	(12,316)	(12,744)	(17)	(455,881)
Impairment	-	-	(546)	-	-	-	(546)
Eliminated on disposal	-	21	15,048	4,249	337	-	19,655
Eliminated on Revaluation	-	(117)	-	-	-	-	(117)
Reverse accumulated impairment loss	-	-	(3)	1	(3)	-	(5)
Other asset movements	-	1	4	(4)	-	-	1
as at 30 June 2020	-	(88,899)	(1,854,718)	(187,828)	(108,015)	(106)	(2,239,566)

Carrying amount as at 30 June 2020	1,009,360	1,989,214	3,338,382	143,843	51,684	25,803	6,558,286
---	------------------	------------------	------------------	----------------	---------------	---------------	------------------

Parent 2019

	Land (\$000)	Buildings (\$000)	Specialist Military Equipment (\$000)	Plant and Equipment (\$000)	Office and Computer Equipment (\$000)	Heritage Assets (\$000)	Total (\$000)
Cost or Valuation							
Balance as at 1 July 2018	974,623	1,771,510	4,371,338	285,685	136,642	-	7,539,798
Additions	1,536	88,525	178,896	15,077	9,202	-	293,236
Revaluation	20,105	93,516	(41,673)	-	-	-	71,948
Disposals	(1,300)	(687)	(3,569)	(12,943)	(5,751)	-	(24,250)
Work in progress movement	-	29,372	287,974	11,859	3,895	-	333,100
Other asset movements	-	1,775	-	(1,775)	-	-	-
as at 30 June 2019	994,964	1,984,011	4,792,966	297,903	143,988	-	8,213,832

Parent 2019 (continued)

	Land (\$000)	Buildings (\$000)	Specialist Military Equipment (\$000)	Plant and Equipment (\$000)	Office and Computer Equipment (\$000)	Heritage Assets (\$000)	Total (\$000)
Accumulated Depreciation							
Balance as at 1 July 2018	-	(62,109)	(1,188,524)	(180,257)	(85,368)	-	(1,516,258)
Depreciation expense	-	(63,192)	(334,394)	(11,190)	(12,858)	-	(421,634)
Eliminated on disposal	-	39	2,795	12,877	2,943	-	18,654
Eliminated on Revaluation	-	125,999	-	-	-	-	125,999
Reverse accumulated impairment loss	-	-	(5)	22	(137)	-	(120)
Other asset movements	-	(737)	-	737	-	-	-
as at 30 June 2019	-	-	(1,520,128)	(177,811)	(95,420)	-	(1,793,359)
Carrying amount as at 30 June 2019	994,964	1,984,011	3,272,838	120,092	48,568	-	6,420,473

Parent 2020

	Land (\$000)	Buildings (\$000)	Specialist Military Equipment (\$000)	Plant and Equipment (\$000)	Office and Computer Equipment (\$000)	Heritage Assets (\$000)	Total (\$000)
Cost or Valuation							
Balance as at 1 July 2019	994,964	1,984,011	4,792,966	297,903	143,988	-	8,213,832
Additions	5,146	106,824	172,007	6,929	17,754	-	308,660
Revaluation	1,946	(9,917)	(23)	-	-	-	(7,994)
Disposals	-	(749)	(15,737)	(4,335)	(337)	-	(21,158)
Work in progress movement	-	(33,874)	243,901	27,159	(795)	-	236,391
Other asset movements	-	-	(14)	1,492	(1,478)	-	-
as at 30 June 2020	1,002,056	2,046,295	5,193,100	329,148	159,132	-	8,729,731
Accumulated Depreciation							
Balance as at 1 July 2019	-	-	(1,520,128)	(177,811)	(95,420)	-	(1,793,359)
Depreciation expense	-	(80,965)	(349,093)	(12,169)	(12,728)	-	(454,955)
Impairment expense	-	-	(546)	-	-	-	(546)
Eliminated on disposal	-	21	15,048	4,249	337	-	19,655
Eliminated on Revaluation	-	(117)	-	-	-	-	(117)
Reverse accumulated impairment loss	-	-	(3)	1	(1)	-	(3)
Other asset movements	-	1	4	(4)	-	-	1
as at 30 June 2020	-	(81,060)	(1,854,718)	(185,734)	(107,812)	-	(2,229,324)
Carrying amount as at 30 June 2020	1,002,056	1,965,235	3,338,382	143,414	51,320	-	6,500,407

Restrictions

The NZDF has finance leases on Aircrew Training Capability fit out with a net carrying amount of \$36.0 million (2019: \$18.3 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

Accounting Policy

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 2020 was \$1,427.2 million (2019 restated \$1,190.8 million). This included \$1,245.2 million for work in progress for capital projects managed by the Ministry of Defence (2019 restated: \$961.7 million).

2019			2020	
Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)
69,870	69,870	Buildings	35,996	35,996
1,064,201	1,064,201	Specialist military equipment	1,308,102	1,308,102
36,324	36,324	Plant and equipment	63,483	63,483
20,431	20,431	Office and computer equipment	19,636	19,636
1,190,826	1,190,826	Total Work in Progress	1,427,217	1,427,217

C3 Intangibles

Accounting Policy

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.

2019			2020	
Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)
Cost or Valuation				
102,950	102,950	Opening balance	118,067	118,067
15,182	15,182	Additions	19,217	19,217
(65)	(65)	Disposals	(216)	(216)
118,067	118,067	Closing Balance	137,068	137,068
Accumulated Amortisation				
(57,079)	(57,079)	Opening balance	(64,954)	(64,954)
(7,940)	(7,940)	Less amortisation	(9,094)	(9,094)
65	65	Eliminated on disposal	216	216
(64,954)	(64,954)	Closing Balance	(73,832)	(73,832)
53,113	53,113	Net Intangible Assets	63,236	63,236

There are no restrictions under the title of the NZDF's intangibles. No intangible assets are pledged as security for liabilities.

C4 Non-Current Assets Held For Sale

The group classifies non-current assets as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. Non-current assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition, subject only to terms that are usual and customary for sales of such assets. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the sale

will be withdrawn. Management must be committed to the sale and expect the sale to be completed within one year from the date of the classification.

Any impairment losses for write-downs of non-current assets held for sale are recognised in the surplus or deficit. Any increases in fair value (less costs to sell) are recognised up to the level of any impairment losses that have been previously recognised.

Non-current assets held for sale (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale.

2019			2020	
Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)
Non-Current assets held for sale comprise:				
-	-	Specialist Military Equipment	8,813	8,813
-	-	Total non-current assets held for sale	8,813	8,813

NZDF has transferred 30 Lighted Armoured Vehicles (LAV III) to Held for Sale, as they are no longer required for the delivery of outputs. The Light Armoured Vehicles were transferred to non-current assets held for sale at carrying value and there was no gain or loss on classification. Due to conditions imposed on the sale that are outside of NZDF's control, the sale may or may not take longer than one year.

Notes to the Financial Statements

D Equity

Accounting Policy

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

2019			2020	
Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)
3,925,971	3,925,971	Opening balance as at 1 July	3,917,243	3,917,243
35,872	33,572	Net surplus for the year	161,377	161,345
(265)	(265)	Transfers from revaluation reserve on disposal of assets	5,000	5,000
(2,426)	-	Transfers to non-taxpayers' funds	660	-
(3,947)	(3,947)	Transfer of equity	-	-
-	-	Capital injection	822,771	822,771
456	-	Owners contributions	102	-
(330)	-	Capital withdrawal	(794)	-
(38,088)	(38,088)	Repayment of surplus	(161,262)	(161,262)
3,917,243	3,917,243	Closing Balance as at 30 June	4,745,097	4,745,097

D2 Revaluation Reserve for Property, Plant and Equipment

Group 2019		Group 2020					
(\$000)		Land (\$000)	Buildings (\$000)	Specialist Military Equipment (\$000)	Plant and Equipment (\$000)	Heritage Assets (\$000)	Total Group (\$000)
2,749,218	Opening balance as at 1 July	1,054,984	1,313,106	561,083	(200)	22,404	2,951,377
197,947	Revaluation gains/(losses)	1,946	(10,035)	(22)	-	-	(8,111)
3,947	Other revaluation movements	-	-	-	-	-	-
265	(Gains)/losses transferred to Taxpayers' funds for disposals	-	(2,731)	(2,269)	-	-	(5,000)
2,951,377	Closing Balance as at 30 June	1,056,930	1,300,340	558,792	(200)	22,404	2,938,266

Parent 2019

Parent 2020

(\$000)		Land (\$000)	Buildings (\$000)	Specialist Military Equipment (\$000)	Plant and Equipment (\$000)	Heritage Assets (\$000)	Total Group (\$000)
2,719,722	Opening balance as at 1 July	1,050,243	1,310,701	560,937	-	-	2,921,881
197,947	Revaluation gains/(losses)	1,946	(10,035)	(22)	-	-	(8,111)
3,947	Other revaluation movements	-	-	-	-	-	-
265	(Gains)/losses transferred to Taxpayers' funds for disposals	-	(2,731)	(2,269)	-	-	(5,000)
2,921,881	Closing Balance as at 30 June	1,052,189	1,297,935	558,646	-	-	2,908,770

This reserve reflects revaluation changes of asset classes carried at current valuation.

D3 Non-Taxpayers' Funds

2019

2020

Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)
53,335	-	Opening balance	55,749	-
2,756	-	Additional funds	134	-
(330)	-	Funds utilised	(794)	-
(12)	-	Transfers to restricted funds	(91)	-
55,749	-	Closing Balance as at 30 June	54,998	-

D4 Restricted Funds

2019

2020

Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)
2,685	-	Opening balance	2,697	-
12	-	Additional funds	91	-
2,697	-	Closing Balance as at 30 June	2,788	-

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 Cash and Cash Equivalents

Accounting Policy

Cash and cash equivalents include cash on hand, deposits held on call with banks, and other short-term, highly liquid investments with original maturities of three months or less.

The NZDF is only permitted to expend its cash and cash equivalents within the scope and limits of its appropriations.

2019			2020	
Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)
53,965	52,271	Cash at bank and on hand	38,063	36,288
53,965	52,271	Total Cash and Cash Equivalents	38,063	36,288

While cash and cash equivalents at 30 June 2020 are subject to the expected credit loss requirements of PBE IFRS 9, no loss allowance has been recognised because the estimated loss allowance for credit losses is insignificant.

E2 Debtors and Other Receivables

Accounting Policy

Short-term receivables are recorded at the amount due, less an allowance for credit losses. NZDF applies the simplified expected credit loss model of recognising lifetime expected credit losses for receivables.

In measuring expected credit losses, short-term receivables have been assessed on a collective basis as they possess shared credit risk characteristics. They have been grouped based on the days past due.

Short-term receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include the debtor being in liquidation.

2019			2020	
Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)
38,747	37,971	Trade Debtors (gross)	51,302	50,401
(47)	(47)	Less provision for doubtful debts	(47)	(47)
38,700	37,924	Net Debtors	51,255	50,354
391,685	391,685	Debtor Crown	1,004,620	1,004,620
430,385	429,609	Total Receivables	1,055,875	1,054,974
Total Receivables comprise:				
38,700	37,924	Receivables from exchange transactions	51,255	50,354
391,685	391,685	Receivables from non-exchange transactions	1,004,620	1,004,620
430,385	429,609	Total Debtors and Other Receivables	1,055,875	1,054,974

The expected credit loss rates for receivables at 30 June 2020 and 1 July 2019 are based on the payment profile of revenue on credit over the prior two years at the measurement date and the corresponding historical credit losses experienced for that period. The historical loss rates are adjusted for current and forward-looking macroeconomic factors that

might affect the recoverability of receivables. Given the short period of credit risk exposure, the impact of macroeconomic factors is not considered significant.

There have been no changes during the reporting period in the estimation techniques or significant assumptions used in measuring the loss allowance.

The allowance for credit losses at 30 June 2020 and 1 July 2019 was determined as follows:

Group 2019**Group 2020**

Gross (\$000)	Impairment (\$000)	Net (\$000)		Expected credit loss rate	Gross (\$000)	Lifetime expected credit loss (\$000)	Net (\$000)
429,253	-	429,253	Current	0%	1,053,042	-	1,053,042
761	-	761	Less than 6 months past due	0%	2,428	-	2,428
8	-	8	Between six months and one year past due	0%	308	-	308
256	-	256	Between one and two years past due	0%	(15)	-	(15)
154	(47)	107	Greater than 2 years past due	30%	159	(47)	112
430,432	(47)	430,385	Total		1,055,922	(47)	1,055,875

Parent 2019**Parent 2020**

Gross (\$000)	Impairment (\$000)	Net (\$000)		Expected credit loss rate	Gross (\$000)	Lifetime expected credit loss (\$000)	Net (\$000)
428,477	-	428,477	Current	0%	1,052,141	-	1,052,141
761	-	761	Less than 6 months past due	0%	2,428	-	2,428
8	-	8	Between six months and one year past due	0%	308	-	308
256	-	256	Between one and two years past due	0%	(15)	-	(15)
154	(47)	107	Greater than 2 years past due	30%	159	(47)	112
429,656	(47)	429,609	Total		1,055,021	(47)	1,054,974

Movements in the Provision for Doubtful Debts**2019****2020**

Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)
47	47	Opening Balance	47	47
4	4	Additional provisions made during the year	-	-
(4)	(4)	Charged against provisions for the year	-	-
47	47	Closing Doubtful Debt Provision	47	47

E3 Inventories

Accounting Policy

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.

2019			2020	
Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)
91,986	91,839	Total Current Inventories	95,321	95,167
298,219	298,219	Total Non-Current Inventories	333,941	333,941
390,205	390,058	Total Inventories	429,262	429,108

Inventories by Category

2019			2020	
Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)
241,080	241,080	Equipment and spares	277,284	277,284
124,805	124,805	Ammunition	115,092	115,092
45,342	45,195	General materials and consumables	62,778	62,624
12,244	12,244	Stock on board ships	8,795	8,795
11,871	11,871	Fuel, clothing and other inventories	22,316	22,316
(45,137)	(45,137)	Obsolescence	(57,003)	(57,003)
390,205	390,058	Total Inventories	429,262	429,108

The carrying amount of inventory held for distribution is at weighted average cost. The write-down of inventory held for distribution was nil (2019: nil). There have been no reversals of write-downs. The total amount of inventories recognised as an expense during the period was \$148.6 million (2019: \$163.8 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 2020. Inventories were determined obsolete, adding \$11.9 million of obsolescence provision (2019: \$14.4 million increase in provision). Total inventories are reported net of obsolescence.

No inventory has been pledged as security for liabilities (2019: nil). Some inventory is subject to retention of title clauses.

E4 Other Financial Assets

Accounting Policy

Derivative Financial Instruments

The NZDF uses derivative financial instruments to manage its exposure to foreign exchange risks. The NZDF does not hold or issue derivative financial instruments for trading purposes. The NZDF has not adopted hedge accounting.

Derivative financial instruments are initially recognised at fair value on the date a contract is entered into and are subsequently measured to their fair value every reporting date. Movements in the fair value of derivatives are recognised in the surplus or deficit.

A forward foreign exchange derivative is classified as current if the contract is due for settlement within 12 months of balance date. Otherwise, the full fair value of a forward foreign exchange derivative is classified as non-current.

2019			2020	
Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)
Mandatorily measured at fair value through surplus or deficit				
1,255	1,255	Derivative financial instruments	1,812	1,812
1,063	1,063	Current asset	1,734	1,734
192	192	Non-Current asset	78	78
1,255	1,255	Total	1,812	1,812

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.

Fixed Term Deposits

Bank term deposits are initially measured at the amount invested. Interest is subsequently accrued and added to the investment balance. A loss allowance for expected credit losses is recognised if the estimated loss allowance is not trivial.

No loss allowance for expected credit losses has been recognised because the estimated 12-month expected loss allowance for credit losses is trivial.

The carrying amounts of term deposits with maturities of 12 months or less approximate their fair value. The fair value of term deposits with remaining maturities in excess of 12 months is \$7.6m (2019: \$6.4m). The fair values are based on discounted cash flows using market quoted interest rates for term deposits with terms to maturity similar to the relevant investments.

2019			2020	
Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)
Financial assets measured at amortised cost				
371	-	Concessionary loans	277	-
30,404	-	Fixed term deposits and fixed interest bonds	30,518	-
30,775	-	Total	30,795	-
24,257	-	Current asset	23,021	-
6,518	-	Non-Current asset	7,774	-
30,775	-	Total	30,795	-
Total other financial assets classified as follows:				
25,320	1,063	Current asset	24,755	1,734
6,710	192	Non-Current asset	7,852	78
32,030	1,255	Total Other Financial Assets	32,607	1,812

Concessionary loans

2019			2020	
Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)
457	-	Opening balance	371	-
(86)	-	Repayments	(94)	-
371	-	Closing Balance	277	-
Total Concessionary loans classified as follows				
222	-	Current assets	152	-
149	-	Non-Current assets	125	-
371	-	Closing Balance	277	-

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 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.

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.

E5 Payables and Deferred Revenue

2019			2020	
Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)
Payables and Deferred Revenue under Exchange Transactions				
67,170	63,492	Trade creditors	37,400	33,318
72	72	Income in advance	464	464
316,964	316,783	Accrued expenses	143,346	143,244
33,640	33,640	Payroll liabilities	42,611	42,611
121	121	Other short term liabilities	5,475	5,475
417,967	414,108	Total Payables and Deferred Revenue under Exchange Transactions	229,296	225,112
Payables and Deferred Revenue under Non-Exchange Transactions				
26,284	26,263	GST payable	29,356	29,360
444,251	440,371	Total Payables and Deferred Revenue	258,652	254,472

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.

During the 2020 year, the Ministry of Defence identified amounts accrued by the NZDF in 2019 under the United States Foreign Sales programme. Some of these payments were for work that will be performed by the supplier in future reporting periods. Payables under exchange transactions should have been lower as a result, and NZDF has restated the 2019 accrued expenses balance by \$80.2 million.

E6 Surplus Repayable to the Crown

2019			2020	
Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)
33,572	33,572	Net operating surplus	161,345	161,345
4,516	4,516	Unrealised (gains)/losses in relation to forward foreign exchange	(83)	(83)
38,088	38,088	Net Surplus from Delivery of Outputs	161,262	161,262
38,088	38,088	Total Provision for Repayment of Surplus	161,262	161,262

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.

E7 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.

2019			2020	
Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)
848	848	Narrow Neck Lease	766	766
11,359	11,359	Soil and Range Remediation	11,359	11,359
1,670	1,670	Restructuring	1,205	1,205
-	-	Worksafe Claim	545	545
15	15	Other	15	15
13,892	13,892	Total Provisions	13,890	13,890

2019

	Narrow Neck Lease (\$000)	Soil and Range Remediation (\$000)	Restructuring (\$000)	Worksafe claim (\$000)	Other (\$000)	Group/Parent (\$000)
Opening balance 1 July 2018	716	9,909	-	-	-	10,625
Additional provisions made during the year	132	1,450	1,670	-	20	3,272
Changes against provisions during the year	-	-	-	-	(5)	(5)
Closing Balance as at 30 June 2019	848	11,359	1,670	-	15	13,892

2020

	Narrow Neck Lease (\$000)	Soil and Range Remediation (\$000)	Restructuring (\$000)	Worksafe claim (\$000)	Other (\$000)	Group/Parent (\$000)
Opening balance 1 July 2019	848	11,359	1,670	-	15	13,892
Additional provisions made during the year	-	-	-	545	-	545
Changes against provisions during the year	(82)	-	(465)	-	-	(547)
Closing Balance as at 30 June 2020	766	11,359	1,205	545	15	13,890

Narrow Neck Lease Provision

This provision is the spreading of lease payments on the Narrow Neck sale and lease back which was subject to a 15 year put option. This provision has started to reverse in 2020.

Soil and Range Remediation Provision

This provision is an estimate of NZDF's liability to remediate soil contamination and operational ranges that have been used in overseas deployments.

Restructuring Provision

This provision represents the estimated cost for redundancy payments arising from a portfolio restructure.

Worksafe Claim Provision

This provision represents the estimated cost of compensation as a result of a worksafe claim.

Other Provisions

This represents other minor provisions recorded by NZDF.

E8 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 life time cost of these claims. ACC calculates the life time cost of open claims at hand back. The NZDF liability for these claims ceases at the point of setting the life time 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.

2019			2020	
Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)
Current Entitlement				
2,631	2,631	Retirement, incentive and long service leave	2,647	2,647
52,837	52,783	Accrued and annual leave	62,126	62,083
944	944	Sick leave	945	945
56,412	56,358	Total Current Entitlement	65,718	65,675
Non-Current Entitlement				
3,482	3,482	Retirement, incentive and long service leave	3,391	3,391
59	59	Accrued leave	39	39
773	773	ACC self insurance liability	773	773
4,314	4,314	Total Non-Current Entitlement	4,203	4,203
60,726	60,672	Total Provision for Employee Entitlements	69,921	69,878

Annual leave is calculated using the number of days owing as at the end of June 2020. Incentive and long service leave are actuarially calculated by the NZDF based on inflation and discount rates advised by The 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 0.22% and 4.30% (2019: 1.03% and 4.30%) 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 0.22% and 4.30% (2019: 1.03% and 4.30%) 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 \$11.9 million which is 160% of the risk.

E9 Finance Leases

Accounting Policy

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.

2019			2020	
Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)
Total Minimum Lease Payments Payable				
3,018	3,013	Not later than one year	5,610	5,608
10,681	10,681	Later than one year and not later than five years	22,413	22,413
10,014	10,014	Later than five years	15,409	15,409
23,713	23,708	Total Minimum Lease Payments	43,432	43,430
(4,659)	(4,659)	Less future finance charges	(6,728)	(6,728)
19,054	19,049	Present Value of Minimum Lease Payments	36,704	36,702
Present Value of Minimum Lease Payments Payable				
2,067	2,062	Not later than one year PV	4,084	4,082
16,987	16,987	Later than one year and not later than five years PV	18,175	18,175
19,054	19,049	Total Present Value of Minimum Lease Payments Payable	36,704	36,702
Represented by:				
2,088	2,083	Current finance lease liabilities	4,078	4,076
16,966	16,966	Non-Current finance lease liabilities	32,621	32,621
19,054	19,049	Total Finance Lease Liabilities	36,699	36,697

Description of Leasing Arrangements

The NZDF has entered into finance leases for leases on Aircrew Training Capability fit out and 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.

E10 Other Financial Liabilities

2019			2020	
Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)
Mandatorily measured at fair value through surplus or deficit				
2,165	2,165	Derivative financial instruments	2,638	2,638
Total other financial liabilities classified as follows:				
1,854	1,854	Current liabilities	2,049	2,049
311	311	Non-Current liabilities	589	589
2,165	2,165	Total Other Financial Liabilities	2,638	2,638

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.

E11 Financial Instruments

Accounting Policy

The NZDF is party to financial instruments as part of its normal operations. These financial instruments include cash balances, receivables, payables, fixed term 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.

E11a Categories of Financial Instrument

The carrying amounts of financial assets and liabilities in each of the financial instrument categories are as follows:

2019			2020	
Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)
Financial assets measured at amortised cost				
53,965	52,271	Cash and cash equivalents	38,063	36,288
430,385	429,609	Debtors and other receivables	1,055,875	1,054,974
371	-	Concessionary loans	277	-
30,404	-	Fixed term deposits and fixed interest bonds	30,518	-
515,125	481,880	Total financial assets measured at amortised cost	1,124,733	1,091,262
Mandatorily measured at fair value through surplus or deficit				
1,255	1,255	Derivative financial instrument assets	1,812	1,812
(2,165)	(2,165)	Derivative financial instrument liabilities	(2,638)	(2,638)
(910)	(910)	Total mandatorily measured at fair value through surplus or deficit	(826)	(826)
Financial liabilities measured at amortised cost				
444,251	440,371	Creditors and other payables	258,652	254,472
19,054	19,049	Finance leases	36,699	36,697
463,305	459,420	Total financial liabilities measured at amortised cost	295,351	291,169

E11b 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 NZDF's foreign exchange derivatives at 30 June 2019 and 2020 were valued at fair value using observable inputs (level 2).

There were no transfers between the different levels of the fair value hierarchy.

E11c 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. These policies do not allow transactions that are speculative in nature to be entered into.

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.

The NZDF is exposed to credit risk from cash and term deposits with banks, receivables, and derivative financial instrument assets. For each of these, the maximum credit exposure is best represented by the carrying amount in the Statement of Financial Position.

Risk management

In the normal course of its business, the NZDF incurs credit risk from trade debtors, and transactions with various approved financial institutions and The Treasury – Capital Markets. The NZDF does not have significant concentrations of credit in financial instruments.

The Group's maximum credit exposure for each class of financial instrument 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 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 investments consist of term deposits made with various financial institutions and fixed interest stock with various companies or local Government organisations.

Security

No collateral or other credit enhancements are held for financial assets that give rise to credit risk.

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 Treasury – Capital Markets, as these entities have high credit ratings.

Impairment

Cash and cash equivalents (note E1), debtors and other receivables (note E2), and term deposit investments (note E4) are subject to the expected credit loss model. The notes for these items provide relevant information on impairment.

Credit risk exposure by credit risk rating grades, excluding concessionary loans and receivables

The gross carrying amount of financial assets, excluding concessionary loans and receivables, by credit rating is provided below by reference to Standard and Poor's credit ratings.

2019			2020	
Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)
Cash at bank and term deposits				
70,338	38,240	AA	57,123	24,830
14,031	14,031	A	11,458	11,458
84,369	52,271	Total cash at bank and term deposits	68,581	36,288
Derivative financial instrument assets				
1,255	1,255	AA	1,812	1,812
1,255	1,255	Total derivative financial instrument assets	1,812	1,812

All instruments in this table have a loss allowance based on 12-month expected credit losses.

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 \$190.0 million (2019: \$168.2 million).

Sensitivity Analysis – Cash and Cash Equivalents

At 30 June 2020, if the NZ dollar strengthened by 5% against the major currencies with all other variables held constant, the surplus for the year would have been \$0.99 million lower (2019: \$1.02 million lower).

Conversely, if the NZ dollar weakened by 5% against all the major currencies with all other variables held constant, the surplus for the year would have been \$0.99 million higher (2019: \$1.11 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 2020, if the NZ dollar had strengthened by 5% against all the hedged currencies with all other variables held constant, the surplus for the year would have been \$9.01 million lower (2019: \$8.54 million lower).

Conversely, if the NZ dollar had weakened by 5% against all the hedged currencies with all other variables held constant, the surplus for the year would have been \$9.96 million higher (2019: \$9.44 million higher). The movements are a result of the exchange gains or losses on translation of overseas currencies.

Sensitivity Analysis – Cash and Cash Equivalents and Derivative Financial Instruments

	If the NZD dollar strengthened by 5% against all significant hedged currencies (\$'000)	If the NZD dollar weakened by 5% against all significant hedged currencies (\$'000)
Australian Dollars (AUD)	(1,456)	1,574
Canadian Dollars (CAD)	(371)	403
Euro (EUR)	(2,724)	2,993
Great British Pounds (GBP)	(1,192)	1,292
Norwegian Krone (NOK)	(4)	4
Swedish Krona (SEK)	(72)	79
United States Dollar (USD)	(4,131)	4,552
Other	(56)	56
Total Currency Impact	(10,006)	10,953

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 cash flow from its interest earning financial assets. The Group holds \$32.6 million (2019: \$32.0 million) of financial assets that are mostly interest bearing with interest revenue generated of \$1.1 million (2019: \$1.2 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 draw downs from The Treasury-Capital Markets. 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)
--	--------------------------	---------------------------------	-----------------------------	--------------------------------------	-------------------------------------	-----------------------

2020**Group**

Payables	258,652	258,652	258,652	-	-	-
Finance Leases	36,699	43,432	-	5,610	22,413	15,409

Parent

Payables	254,472	254,472	254,472	-	-	-
Finance Leases	36,697	43,430	-	5,608	22,413	15,409

2019**Group**

Payables	444,251	444,251	444,251	-	-	-
Finance Leases	19,054	23,713	-	3,018	10,681	10,014

Parent

Payables	440,371	440,371	440,371	-	-	-
Finance Leases	19,049	23,708	-	3,013	10,681	10,014

	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)
--	------------------------------------	--------------------------------	---------------------------------	-----------------------------	----------------------	--------------------

2020**Group/Parent**

Gross settled forward foreign exchange contracts:	2,638	1,812				
- Outflow			189,987	94,488	67,418	28,081
- Inflow			189,161	94,282	67,335	27,544

2019**Group/Parent**

Gross settled forward foreign exchange contracts:	2,165	1,255				
- Outflow			168,278	89,485	49,295	29,498
- Inflow			167,369	88,851	49,138	29,380

E11d Derivative Financial Instruments

The notional principal amounts of outstanding forward exchange contracts as at 30 June 2019 and 30 June 2020 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.

2019		2020
Group/Parent (\$000)		Group/Parent (\$000)
Currency		
22,691	Australian Dollars (AUD)	23,488
3,116	Canadian Dollars (CAD)	6,601
52,170	Euro (EUR)	53,696
18,094	Great British Pounds (GBP)	20,597
217	Norwegian Krone (NOK)	64
901	Swedish Krona (SEK)	1,484
71,089	United States Dollar (USD)	84,058
168,278	Total Fair Value of Derivative Financial Instruments	189,988

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.

Key Management Personnel

2019			2020	
Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)
Executive Group, including the Chief of Defence Force				
4,310	4,310	Remuneration	4,410	4,410
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

Impact of COVID-19

The COVID-19 pandemic has had a material impact on the NZDF's operations and activities in the second half of the year. The below note outlines the effect of Covid-19 on the NZDF's group financial statements.

Personnel costs

Salaries and wages are \$42.8 million (4%) below forecast due to disruption to planned recruitment activities and contractor engagement as New Zealand moved up the Covid-19 Alert Levels. This has been partially offset by an increase in accumulated leave as travel restrictions have caused a reduction in annual leave taken, contributing to a \$7.8 million over forecast variance.

Operating costs

The unavailability of strategic partners and restrictions on activities significantly delayed planned maintenance activities scheduled for the second half of the year. The NZDF were able to surge activity in June to partially catch up on the full year plan, however the repairs and maintenance expense is \$103.6 million (44%) below forecast for the year.

The travel restrictions imposed in response to COVID-19 caused delays and cancellations of training and travel activities, which are \$18.4 million (21%) under forecast for the year. Materials that would normally be consumed during training activities have also been impacted, including ammunition, fuel and food which overall are \$19.6 million (23%) below forecast.

Property, plant and equipment

COVID-19 has also resulted in delays to some capital projects due to the unavailability of strategic partners and activity restrictions. However this is expected to be caught up in the next financial year.

Land, buildings and specialist military equipment are carried at fair value, so are sensitive to changes in the market and economic environment. The NZDF have assessed the impact of COVID-19 on the fair value of these asset classes, including consultation with independent valuers, and have determined that there has been no material impact (refer to note C for more information).

The COVID-19 outbreak has introduced a level of uncertainty in the estimation of the fair value of NZDF assets at the reporting date. The uncertainty results from a lack of market transactions that reflect the current environment

at 30 June 2020. In relation to Land and Buildings, COVID-19 could have two potential impacts on the value of NZDF assets. Firstly these include impacts on market prices as a result of construction costs and secondly impacts on the level of demand. As Specialist Military Equipment is largely manufactured overseas, the values at 30 June 2020 have been impacted by significant movements in foreign exchange rates as a result of the COVID-19 outbreak (refer to note C).

The changes in the budgets between the Main Estimates (budget) and Supplementary Estimates (forecast), together with explanations for the significant variances between actual expenditure and the Supplementary Estimates, are detailed by output in Accountability Reporting.

Explanations of major variances from the NZDF's actuals to the Main Estimates (2020 budget) are as follows:

Statement of Comprehensive Revenue and Expense

Changes approved by Cabinet or Joint Ministers

The factors contributing to the overall increase in the appropriations between the Main Estimates and Supplementary Estimates included changes approved by Cabinet or the joint Ministers of \$75.4 million.

Approved changes between Main Estimates and Supplementary Estimates	(\$000)
Increase in appropriation funded by Revenue Crown for the implementation of Tranche 2 of the Network Enabled Army programme.	6,538
Increase in appropriation funded by Revenue Crown to extend the Building Partner Capability deployment in the Middle East.	17,282
Increase in appropriation for service housing costs and other costs to be recovered from third parties.	26,571
Increase in appropriation for the delivery of the Pacific Leaders Development programme with the Ministry of Foreign Affairs and Trade.	2,389
Increase in appropriation funded by Revenue Crown to assist with cleaning up the Fox Fiver.	200
Increase in appropriation funded by Revenue Crown for an increase in capital charge as a result of 2018/19 asset revaluations.	11,877
Increase in appropriation for the provision of an alternate commercial runway at Base Ohakea for emergency purposes funded by revenue from third parties.	100
Increase in appropriation to provide increased fire rescue services to Marlborough Airport funded by revenue from third parties.	550
Increase in appropriation for costs related to the new Defence Headquarters recovered from other tenants	6,577
Increase in appropriation for costs recovered from external parties as part of NZDF's support of the response to the Australian Bushfires.	150
Increase in appropriation funded by Revenue Crown for Tranche 2 of the Wellington Accommodation Project.	3,200
Increase in appropriation funded by Revenue Crown for Veterans Health Connect	40
Total Movements	75,474

Variations between Main Estimates and 2019/20 Actuals

Revenue Crown

Revenue Crown increased by \$38.9 million when compared to the budget as a result of funding approved by Cabinet and joint Ministers, as outlined above. In addition to the Supplementary Estimates, a further \$40,000 was approved for Veterans Health Connect by joint Ministers to improve access to treatment for Veterans.

Departmental Revenue

Departmental Revenue was \$5.9 million above budget due to rent received from sub-tenants in the new Defence Headquarters building and a change in NZDF's accounting treatment of rental income. The budget was set prior to NZDF adopting the change in accounting treatment. Previously, the rent was offset against the expenses to which it relates.

Other Revenue

Other Revenue was \$106.8 million above budget. Of this increase, \$35.0 million relates to revenue from insurance recoveries from damage caused in the 2016 Kaikoura/ Hurunui Earthquakes. A further \$26.5 million of this increase relates to a change in NZDF's accounting treatment of cost recoveries primarily for service housing and barracks. Previously, NZDF's treatment for both actuals and budget was to offset the cost recoveries against the related expense. The change to budget was approved by joint Ministers and is outlined in the changes to appropriations above. The other drivers for this increase include a \$42.0 million increase in other revenue as a result of the recording of inventory that had previously been expensed, a \$2.2 million increase in revenue, not in the budget from the Non-Public Funds; and a \$0.8 million increase in revenue from the recovery of expenses approved by joint Ministers and outlined above. The remaining increase is mainly from other rents received.

Gain on Financial Instruments

Gains on financial instruments were \$19.7 million above budget, as any gains on financial instruments at the time of setting the budget in the Mains Estimates are assumed to be offset by losses on financial instruments.

Personnel Expenditure

Personnel expenditure was \$29.4 million above budget. This is largely a result of an increase in funding of \$28.8 million that was included under operating expenditure in the Main Estimates. The new funding is to enable the targeted re-growth of personnel in critical military capabilities and to maintain a remuneration strategy in line with Defence policy. There is an offsetting variance on budget under operating expenditure, as explained below. An additional \$0.9 million relates to personnel expenditure for Non-Public Funds.

Operating Costs

Operating Costs are \$30.2 million below budget. This is largely the result of new funding of \$28.8 million for personnel expenditure that was included in the Mains Estimates under operating funding. This amount has since been transferred to personnel funding.

Premises costs are \$14.1 million above budget. This relates to a change in the accounting treatment of cost recoveries, as outlined in Other Revenue. The budget amounts are those submitted in the Main Estimates, which was prior to the change in NZDF's accounting treatment. A subsequent budget adjustment has been made to increase premises costs by \$16.6 million and other operating expenses by \$9.9 million.

Repairs and maintenance costs are \$7.8 million below budget. Training and travel costs are \$18.5 million below budget. These decreases are largely due to the cessation of non-essential training and travel as a result of the COVID-19 pandemic and lockdown. Consultancy costs are \$4.1 million above budget.

Loss on financial instruments

Losses on financial instruments have been driven by losses on foreign currency transactions of \$13.9 million due to fluctuations in exchange rate. These are not forecasted as part of the Main Estimates.

Depreciation

Depreciation was \$2.1 million below budget due to delays in the implementation of capital projects. The depreciation impact of these delays was largely offset by the impact of the 2018/19 revaluation of assets.

Capital Charge

Capital Charge was on budget, as NZDF effectively managed the timing of capital injections to minimise the impact of capital charge.

Statement of Financial Position

Variations between Main Estimates and 2019/20 Actual

Debtors and Other Receivables – Exchange and Non-Exchange

Debtors are \$485.2 million higher when compared to budget. This is made up of an increase in Debtor Crown of \$468 million largely due to delayed capital expenditure of \$697.4 million in 2019/20, as a result of a change in the timing of capital projects. This is partially offset by a decrease in capital contributions compared to budget of \$152.9 million. The capital contributions were deferred to 2020/21 to align with the delivery of capital projects. The balance of the increase in Debtor Crown relates to offsetting movements in working capital accounts such as debtors, inventory and payables.

Other Debtors increased by \$17.1 million when compared to budget. This is largely a result of a change in NZDF's accounting treatment of payments for capital projects to the Ministry of Defence, which has resulted in a new debtor of \$40.2 million. This increase was partially offset by insurance recoveries of \$20 million, resulting from damage incurred during the Kaikoura/ Hurunui earthquakes. The insurance proceeds were included in the budget as a receivable, but were received prior to 30 June 2019.

The balance is due to movements in Non-Public Funds and other receivables expected by NZDF.

Inventories

Total Inventories are \$47.5 million higher when compared to budget. This is largely a result of an adjustment to inventory of \$42.0 million for inventory items that had been previously expensed. The adjustment was not included in the budget.

Property, Plant and Equipment

Property, Plant and Equipment and intangibles are \$700.6 million lower when compared to budget. Delays in capital expenditure of \$886.0 million when compared to budget, are comprised of \$41.5 million from 2018/19 and \$844.5 million from 2019/20. This includes a \$220.7 million change in NZDF's accounting treatment of Ministry of Defence led capital projects. This was offset by 2018/19 revaluations which increased the value of Property, Plant and Equipment by \$197.9 million. The Land and Building revaluation of \$239.6 million was partially offset by the impairment of revalued Specialist Military Equipment assets of \$41.7 million.

The remaining reduction in Property, Plant and Equipment largely relates to asset disposals and movements in Non Public Funds that were not included in the budget.

Creditors and Other Payables

Total Creditors and Other Payables are lower by \$365.2 million when compared to budget. Delays in capital expenditure and a change in NZDF's accounting treatment of payables for the acquisition of the P-8A capability has resulted in a nil payable to the Ministry of Defence at 30 June, compared to a payable of \$406.2 million in the original budget. GST payable is \$4.0 million lower than budget due to the timing of invoices received following delays in expenditure.

Additionally, Other Accounts Payable increased by \$37.0 million when compared to budget. This primarily relates to \$42.6 million of payroll payables that were included under employee entitlements in the budget. The balance relates to Non-Public Funds and payroll liabilities.

Surplus repayable to the Crown

The surplus repayable to the Crown increased by \$161.2 million as a result of additional revenue of \$131.3 million that is offset by increased operating expenditure of \$12.1 million, as outlined in the revenue and expenditure variances above.

Additionally, an adjustment to inventory resulted in an increase in revenue of \$42.0 million. The inventory had previously been expensed.

Employee Entitlements

Employee entitlements are \$22.5 million lower than budget. This variance is primarily due to the budget for payroll liabilities of \$32.2 million being included in payables under exchange. This is offset by a \$10.3 million increase in Accumulated Leave when compared to budget. This is a result of the COVID-19 pandemic and lockdown.

Taxpayers' Funds

Taxpayers' funds is lower than budget by \$111.5 million. A total of \$152.5 million of capital injections were transferred forward to 2020/21 to align with capital project funding requirements. Of these injections, \$29.2 million of new funding was not in the budget. An additional \$13.6 million of the 2018/19 surplus from insurance proceeds was retained and not in the budget until it was confirmed in the 2019 October Baseline Update. The remaining variance is related to re-measurement of financial instruments.

Revaluation Reserve

The revaluation reserve increased by \$187.2 million during the year when compared to budget primarily due to the 2018/19 asset revaluations. The 2018/19 asset revaluations resulted in an increase of \$239.6 million for land and buildings that was offset by a decrease of \$41.7 million for Specialist Military Equipment. The revaluation was incomplete at the time of submitting the Main Estimates budget.

Statement of Cash Flows

Variances between Main Estimates and 2019/20 Actual

Non-Exchange Receipts from Crown

Non-exchange receipts from Crown are lower than budget by \$714.1 million and is largely driven by an increase in Debtor Crown of \$468.1 million and capital contributions of \$254.2 million to align to the delivery of capital projects.

Exchange Receipts from Departmental and Other Revenue

Exchange receipts from departmental and other revenue is higher than budget by \$46.4 million and is largely driven by an increase in other revenue and departmental revenue due to insurance recoveries of \$35 million, cost recoveries for service housing and barracks of \$26.5 million and higher than budget revenue for rentals and delivery of the Limited Service Volunteer programme. This is offset by higher than budget debtors and receivables from exchange transactions at 30 June 2020 of \$16.2 million.

Payments to Suppliers

Payments to suppliers are lower than budget by \$38.7 million due to the timing of payments made. This is largely the result of new funding of \$28.8 million for personnel expenditure that was included in the Mains Estimates under payments to suppliers. This amount has since been transferred to payments to employees.

Capital Injections

Capital contributions are \$254.3 million higher than budget. This can be explained by capital transfers of \$363.9 million from 2018/19 that have been deferred to 2019/20 and offset by \$152.6 million of capital contributions deferred from 2019/20 to 2020/21 to align with the delivery of capital projects.

F3 Events After Balance Date

In August 2020, the Minister of Defence and Minister of Finance approved NZDF to retain \$39.9 million of the surplus from the 2019/20 year to fund capital expenditure for the fitout of the new Defence House and for the capitalisation of labour to acquire and introduce into service new strategic capabilities.

There have been no other significant events after balance date.

2021 Forecast Financial Statements

Forecasted Statement of Comprehensive Revenue and Expense for the year ended 30 June 2021

	2021
	Group Unaudited Forecast (\$'000)
Revenue from non-exchange transactions	
Crown	3,043,109
Revenue from exchange transactions	
Departmental revenue	22,255
Other revenue	34,960
Interest revenue	20
Total Revenue	3,100,344
Expense	
Personnel costs	1,147,601
Operating costs	976,112
Finance costs	1,611
Depreciation and amortisation	483,400
Capital charge	491,600
Total Expense	3,100,324
Net Surplus/(Deficit)	20
<i>Items that will not be reclassified to Net Surplus/(deficit)</i>	
Other Comprehensive Revenue and Expense	
Total Other Comprehensive Revenue and Expense	-
Total Comprehensive Revenue and Expense	20

Forecasted Statement of Financial Position as at 30 June 2021

2021

	Group Unaudited Forecast (\$000)
Assets	
Current Assets	
Cash and cash equivalents	50,000
Debtors and other receivables from exchange transactions	6,437
Debtors and other receivables from non-exchange transactions	1,234,608
Prepayments	72,898
Inventories	79,352
Other financial assets	27,993
Total Current Assets	1,471,288
Non-Current Assets	
Property, plant and equipment	7,272,187
Intangible assets	55,620
Inventories	315,942
Total Non-Current Assets	7,643,749
Total Assets	9,115,037
Liabilities	
Current Liabilities	
Creditors and other payables under exchange transactions	461,038
Creditors and other payables under non-exchange transactions	36,042
Surplus repayable to the Crown	20
Provisions	13,478
Employee entitlements	93,720
Finance leases	4,026
Other financial liabilities	5,206
Total Current Liabilities	613,530
Non-Current Liabilities	
Employee entitlements	5,005
Finance leases	28,954
Total Non-Current Liabilities	33,959
Total Liabilities	647,489
Net Assets	8,467,548
Equity	
Taxpayers' funds	5,460,153
Revaluation reserve	2,951,375
Non-taxpayers' funds	53,335
Restricted funds	2,685
Total Equity	8,467,548
Total Liabilities and Taxpayers' Funds	9,115,037

Forecasted Statement of Changes in Equity for the year ended 30 June 2021

	2021
	Group Unaudited Forecast (\$'000)
Balance at 1 July	
Taxpayers' funds	4,742,439
Revaluation reserve	2,951,375
Non-taxpayers' funds	53,335
Restricted funds	2,685
	7,749,834
Net surplus for the year	20
Total Comprehensive Revenue and Expense for the Year	20
Owner Transactions	
Repayment of surplus	(20)
Capital injection	717,714
Balance as at 30 June	8,467,548
Taxpayers' funds	5,460,153
Revaluation reserve	2,951,375
Non-taxpayers' funds	53,335
Restricted funds	2,685

Forecasted Statement of Cash Flow for the year ended 30 June 2021

	2021
	Group Unaudited Forecast (\$'000)
Cash Flow – Operating Activities	
Non-exchange receipts from Crown	2,747,670
Exchange receipts from departmental and other revenue	76,215
Payments to employees	(1,151,598)
Payments to suppliers	(985,077)
Payments for capital charge	(491,600)
Net Cash Flow from Operating Activities	195,610
Cash Flow – Investing Activities	
Interest revenue	20
Purchase of property, plant and equipment	(851,150)
Purchase of intangible assets	(10,169)
Net Cash Flow from Investing Activities	(861,299)
Cash Flow – Financing Activities	
Capital injection	717,714
Repayment of surplus	(52,025)
Net Cash Flow from Financing Activities	665,689
Net increase/(decrease) in cash	-
Cash at the beginning of the year	50,000
Cash and Cash Equivalents at the End of the Year	50,000

Notes to the 2021 Forecast Financial Statements

1

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 2019/20 budgeted figures are based on management's judgements, estimates and assumptions of the final 2019/20 outcome and are used as the opening position for 2020/21 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 2021 was budgeted to be 6.0% per annum. The Treasury has subsequently reduced the capital charge rate to 5.0% per annum from 1 July 2020.
- 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 the 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 the NZDF and 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 9 April 2020. 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 2020 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	2–25 years
Furniture and office equipment	2–20 years
Specialist Military Equipment	5–55 years
Other Plant and Equipment	2–50 years
Heritage assets	10+ years.

Revaluation

Land, Buildings and Specialist Military Equipment asset classes are subject to revaluation at least once every five 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.

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 2020

2019		2020
Actual (\$000)		Actual (\$000)
Revenue		
136	Interest revenue	146
259	Gain on financial instruments	610
395	Total Non-Departmental Revenue	756

Schedule of Non-Departmental Expenditure for the year ended 30 June 2020

2019			2020
Actual (\$000)		Note	Actual (\$000)
Expense			
10,156	Veterans' entitlements – current service cost	5	16,000
44,556	Veterans' entitlements – unwind of discount rate	5	41,000
-	Medical Treatment		107
114	Attendance at Commemorations		90
275	Grants Subsidies		275
400	Works Maintenance		706
1,100	Non-Recurring Expenses		160
2,992	Non-Deductible GST		3,482
75	Debt Write-Down for Benefits		43
655	Losses on financial instruments		210
60,323	Total Non-Departmental Expenditure		62,073

Schedule of Non-Departmental Other Comprehensive Income and Expenditure for the year ended 30 June 2020

2019		2020
Actual (\$000)		Actual (\$000)
784,453	Net actuarial (gains)/losses recognised in the year	311,000
784,453	Total Other Comprehensive (Income)/Expense	311,000

Schedule of Non-Departmental Assets for the year ended 30 June 2020

2019		2020	
Actual (\$000)		Note	Actual (\$000)
Current Non-Departmental Assets			
17,714	Cash and cash equivalents	2	17,693
1,144	Debtors and other receivables	3	1,446
777	Prepayments	3	-
-	Derivative financial instruments		39
-	Investments	4	412
19,635	Total Current Non-Departmental Assets		19,590
Non-Current Non-Departmental Assets			
2,083	Debtors and other receivables	3	2,229
1,201	Investments	4	1,145
7	Derivative financial instruments		78
3,291	Total Non-Current Non-Departmental Assets		3,452
22,926	Total Non-Departmental Assets		23,042

Schedule of Non-Departmental Liabilities for the year ended 30 June 2020

2019		2020	
Actual (\$000)		Note	Actual (\$000)
Current Non-Departmental Liabilities			
111,000	Veterans' entitlements	5	110,000
219	Trade creditors		71
290	Derivative financial instruments		44
1,497	Other short term liabilities		1,896
113,006	Total Current Non-Departmental Liabilities		112,011
Non-Current Non-Departmental Liabilities			
3,117,389	Veterans' entitlements	5	3,373,290
92	Derivative financial instruments		10
3,117,481	Total Non-Current Non-Departmental Liabilities		3,373,300
3,230,487	Total Non-Departmental Liabilities		3,485,311

Schedule of Non-Departmental Commitments for the year ended 30 June 2020

There are no non-departmental non cancellable capital or lease commitments at 30 June 2020 (2019: nil).

Schedule of Non-Departmental Contingent Assets and Liabilities for the year ended 30 June 2020

There are no non-departmental contingent assets or contingent liabilities at 30 June 2020 (2019: nil).

The accompanying notes form part of these financial statements.

Actual expenditure against the non-departmental appropriations can be found following this section.

Notes to the Non-Departmental Schedules

1

Statement of Accounting Policies for the year ended 30 June 2020

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 2020. For a full understanding of the Crown's financial performance, financial position and cash flows for the year, refer to the Financial Statements of the Government for the year ended 30 June 2020.

Section 262(5) of the Veterans' Support Act 2014 requires the NZDF 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 the year ended 31 March 2020 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.

Standard Adopted

PBE IPSAS 39 Employee Benefits is effective for periods beginning on or after 1 January 2019 and so has been adopted by the NZDF for the first time this financial year. PBE IPSAS 39 replaces PBE IPSAS 25 Employee Benefits. Information about the adoption of PBE IPSAS 39 is provided in note 7.

Summary of Significant 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.

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 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.

2019		2020
Actual (\$000)		Actual (\$000)
Cash and cash equivalents		
17,623	Administered by the NZDF	17,571
91	Administered by the Veterans' Medical Research Trust Fund	122
17,714	Total Cash and Cash Equivalents	17,693

3 Debtors and Other Receivables

Accounting Policy

Short-term receivables are recorded at the amount due, less an allowance for credit losses. NZDF applies the simplified expected credit loss model of recognising lifetime expected credit losses for receivables.

In measuring expected credit losses, short-term receivables have been assessed on a collective basis as they possess shared credit risk characteristics. They have been grouped based on the days past due.

Short-term receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include the debtor being in liquidation.

Previous accounting policy for impairment of receivables

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.

2019		2020
Actual (\$000)		Actual (\$000)
1,143	Debtors and other receivables	1,440
1	Debtors and other receivables administered by the Veterans' Medical Research Trust Fund	6
777	Prepayments	-
1,921	Total Current Debtors and Other Receivables	1,446
2,083	Loan to Vietnam Veterans' and their Families Trust	2,229
2,083	Total Non-Current Debtors and Other Receivables	2,229
4,004	Total Debtors and Other Receivables	3,675

The expected credit loss rates for receivables at 30 June 2020 and 1 July 2019 are based on the payment profile of revenue on credit over the prior two years at the measurement date and the corresponding historical credit losses experienced for that period. The historical loss rates are adjusted for current and forward-looking macroeconomic factors that

might affect the recoverability of receivables. Given the short period of credit risk exposure, the impact of macroeconomic factors is not considered significant.

There have been no changes during the reporting in the estimation techniques or significant assumptions used in measuring the loss allowance.

Concessionary loans

2019		2020
Actual (\$000)		Actual (\$000)
Vietnam Veterans' and their Families Trust Loan		
1,946	Opening balance	2,083
136	Interest Unwind	146
2,083	Closing balance at 30 June	2,229

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% (2019: 7%) has been used to calculate the present value of 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.

2019		2020
Actual (\$000)		Actual (\$000)
Investments		
409	Fixed interest investments administered by the Veterans' Medical Research Trust Fund	412
792	Equity investments administered by the Veterans' Medical Research Trust Fund	1,145
1,201	Total Investments	1,557

5 Veterans' Entitlements

Accounting Policy

The NZDF administers the payment of Veterans' entitlements on behalf of the Crown. Veterans who have suffered a service-related injury or illness as defined in the Veterans' Support Act 2014 are eligible to receive financial support from the Crown. This is primarily provided through the payment of disablement pensions and allowances, covering the cost of rehabilitation and medical treatments and providing services to help Veterans to live independently.

Veterans' entitlements are treated as a post-employment benefit under PBE IPSAS 39 Employee Benefits. A long-term liability is recognised to represent the obligation at the reporting date.

The obligation arises when the service-related injury or illness occurs. Actuarial models and assumptions are used to value the obligation by estimating future cash flows for the next 85 years, which are then discounted to present value. The liability is reduced over time as payments are made to Veterans.

The liability is revalued at the end of each year by the NZDF's actuary using the projected unit credit method. The following key terms are used to define movements in the liability between valuations:

Current service cost. This is calculated at the start of the year to represent the present value of the entitlements expected to accrue to eligible Veterans over the following year.

Unwind of discount rate. This predominately reflects the time value of money. It is calculated as the risk free rate at the start of the year times the defined benefit liability at the start of the year.

Actuarial gains/losses. This is the change in the value of the liability due to changes in actuarial assumptions such as discount rates, demographic and financial variables and changes to assumptions based on experience over the last year.

The current service cost and unwind of discount rate are recognised as expenditure in the surplus or deficit of the Financial Statements of the Government of New Zealand. Actuarial gains or losses are recorded within other comprehensive income and expenditure.

Amounts recognised in the Non-Departmental Schedules

Amounts recognised in the Schedule of Non-Departmental Liabilities in respect of Veterans' entitlements are as follows:

2019		2020			
Total (\$000)		Veterans' Support Entitlements (\$000)	Assessments, Treatments & Rehabilitation (\$000)	Veterans' Independence Programme (\$000)	Total (\$000)
2,503,130	Opening defined benefit obligation at 1 July	1,724,492	675,411	828,485	3,228,389
10,156	Current service cost	5,000	6,000	5,000	16,000
44,556	Unwind of discount rate	22,000	9,000	10,000	41,000
(113,816)	Benefits paid	(86,339)	(12,306)	(14,453)	(113,099)
155,332	Actuarial (gains)/losses arising from changes in demographic assumptions	(57,000)	18,000	100,000	61,000
626,565	Actuarial (gains)/losses arising from changes in financial assumptions	100,000	84,000	93,000	277,000
2,466	Actuarial (gains)/losses – liabilities	(16,000)	(7,000)	(4,000)	(27,000)
3,228,389	Closing defined benefit liability at 30 June	1,692,153	773,105	1,018,032	3,483,290
111,000	Veterans' entitlements – Current portion				110,000
3,117,389	Veterans' entitlements – Non-current portion				3,373,290
3,228,389	Closing defined benefit liability at 30 June				3,483,290

Amounts recognised in the Schedule of Non-Departmental Expenditure in respect of Veterans' entitlements are as follows:

2019		2020
Total (\$'000)		Total (\$'000)
Expenses		
10,156	Veterans' entitlements – current service cost	16,000
44,556	Veterans' entitlements – unwind of discount rate	41,000
54,712	Total included in Expenses	57,000

Other Comprehensive Income and Expenses		
784,453	Net actuarial (gains)/losses recognised in the year	311,000
784,453	Total included in Other Comprehensive Income and Expenses	311,000

Valuation model and uncertainty

There is significant uncertainty over the timing and amount of the future cash flows associated with Veterans' entitlements. The limited data available to form the assumptions increases the level of uncertainty. The following are considered to be the key areas of uncertainty in the valuation:

Defining the eligible population

There is no comprehensive list available of all current and ex-service personnel who are eligible to receive Veterans' entitlements. The population has been estimated using the limited information available.

The total number of armed forces personnel has been estimated based on information included in the Statistics New Zealand yearbooks and the NZDF annual report. The proportion of this population expected to meet the definition of a Veteran under the Veterans Support Act 2014 has then been estimated based on available data on deployments and current personnel records.

Utilisation rates

Not all eligible Veterans who are entitled to benefits will access them. The number of Veterans expected to use each benefit type in the future has been estimated by applying a percentage to the eligible population defined above. The percentage has been determined for each type of benefit based on trends identified in recent payment data from July 2017 to date, with some adjustments based on research and trends identified overseas. The limited amount of historic data available makes it difficult to identify trends over time, which may lead to volatility in future estimates as the data matures.

Timing of future payments

There are a range of factors that influence when entitlement payments will start and end. Payments to eligible Veterans start when they submit an application to Veterans Affairs. This is not back-dated to the date of the service-related illness or injury, which can be many years prior to application. This means there can be a significant period of time between the illness or injury and the payment start date. Recent payment data from July 2017 to date has been used to estimate the expected age that Veterans will access each entitlement type. This is limited by the small amount of data available.

Veterans will often continue to receive entitlements for their lifetime, which means the end date of payments depends on life expectancy assumptions. The mortality of Veterans has been estimated using the cohort mortality tables and New Zealand life tables published by Statistics New Zealand. The relevant data is only available up to 2014 and represents the entire New Zealand population. The only adjustment made for Veteran mortality being different to population mortality is to adjust the mortality of Veterans in the immediate post-World War II period. There is no evidence available to indicate any further adjustments are appropriate.

Considering all of the uncertainties that arise from the lack of accurate data, the provision could be under or over-stated by 20% or more.

Although the uncertainty of the liability will decrease over time as more data becomes available, work is being undertaken by the NZDF and Veterans' Affairs to improve the quality of Veterans' data. Funding has been allocated to Veterans' Affairs to upgrade their customer relationship management system in the next two years, which will improve the quality of the data collected from Veterans. The NZDF are investigating the possibility of establishing a register of all Veterans, their service and their deployments, as recommended by the Paterson Report in 2017.

Key assumptions and judgements

Key actuarial assumptions used for the purposes of the Veterans' entitlements valuation are the discount rate and inflation rates. As the benefits are very long-term, the value of the liability is heavily influenced by economic assumptions such as the discount and inflation rates. The rates used to value the liability can be found in the Summary of Economic Assumptions table below.

The following are considered to be the key assumptions:

Discount rate

The discount rate used to calculate the present value of the entitlements is a risk-free rate based on the market yield curve of New Zealand Government Bonds.

Inflation rate – CPI

Pension entitlements have been increased at the rate of increase in the Consumers Price Index (All Groups) (CPI) + 2.25%. The additional 2.25% is to reflect the actual increase in Disablement Pensions over recent years.

Inflation rate – Average wage inflation

Income compensation entitlements are based on recent average wage trends so have been inflated by the expected increase in the average wage.

Inflation rate – Medical cost inflation

The medical cost inflation rate has been applied to assessments, treatments and rehabilitation entitlements, excluding orthopaedic and private hospital costs. These have been inflated at a higher rate (see below).

Inflation rate – VIP inflation

VIP entitlements have a large wage component, however there is a wide range of services available under VIP which are expected to increase in use over time. The inflation rate is slightly higher than the average wage inflation.

Inflation rate – Orthopaedic and private hospitals

Orthopaedic and private hospital costs have been inflated at a higher rate than other medical costs based on historic trends that show these generally increase at a higher rate.

Impact of COVID-19

No explicit allowance has been made for the impact of the COVID-19 pandemic or associated economic downturn on the valuation of the liability. Whilst it is impossible to predict the actual outcomes, it is reasonable to expect that the future Veterans' benefits will be less impacted than many other assets and liabilities as the benefits are well defined and are linked to events that have already happened.

The liability has increased in the year to 30 June 2020 by \$255 million, mainly due to the reduction in the discount rate from 1.26% to 0.93%.

Summary of economic assumptions – 30 June 2020

2020

	Discount rate	CPI	Average wage inflation	Medical cost inflation	VIP inflation	Orthopaedic and private hospital inflation
Summary of assumptions						
For the following year	0.22%	0.83%	2.86%	3.79%	3.86%	4.94%
Between 2 and 21 years	0.25% to 2.22%	1.18% to 1.61%	(0.08%) to 3.66%	3.79% to 3.84%	0.92% to 3.83%	4.94% to 4.99%
Between 22 and 29 years	2.27% to 2.62%	1.62% to 1.69%	2.84% to 2.94%	3.86% to 3.96%	3.84% to 3.94%	5.01% to 5.11%
Between 30 and 36 years	2.67% to 2.97%	1.70% to 1.75%	2.96% to 3.00%	3.97% to 4.06%	3.96% to 4.00%	5.12% to 5.21%
Between 37 and 52 years	3.02% to 3.77%	1.76% to 1.90%	3.00%	4.07% to 4.25%	4.00%	5.22% to 5.40%
Between 53 and 62 years	3.82% to 4.26%	1.91% to 2.00%	3.00%	4.25%	4.00%	5.40%
From 63 years onwards	4.30%	2.00%	3.00%	4.25%	4.00%	5.40%

Summary of economic assumptions – 30 June 2019

2019

	Discount rate	CPI	Average wage inflation	Medical cost inflation	VIP inflation	Orthopaedic and private hospital inflation
Summary of assumptions						
For the following year	1.26%	1.72%	3.14%	3.97%	4.14%	5.12%
Between 2 and 21 years	1.03% to 2.71%	1.72% to 1.74%	2.97% to 3.48%	3.97% to 3.99%	3.97% to 4.48%	5.12% to 5.14%
Between 22 and 29 years	2.76% to 3.11%	1.75% to 1.81%	2.97% to 2.98%	4.00% to 4.06%	2.97% to 3.98%	5.15% to 5.21%
Between 30 and 36 years	3.16% to 3.46%	1.82% to 1.86%	1.86% to 2.99%	4.07% to 4.11%	3.98% to 3.99%	5.22% to 5.26%
Between 37 and 52 years	3.51% to 4.26%	1.87% to 1.99%	2.99% to 3.00%	4.12% to 4.24%	3.99% to 4.00%	5.27% to 5.39%
From 53 years onwards	4.30%	2.00%	3.00%	4.25%	4.00%	5.40%

Sensitivity Analysis

The present value of the Veterans' entitlements obligation is sensitive to changes in the underlying actuarial assumptions. Due to the long-term nature of the liability, the valuation is particularly sensitive to changes in financial assumptions including the inflation and discount rates.

The sensitivity analysis below has been determined at the reporting date:

	Change	2020		2019		
		\$m	%	\$m	%	
Sensitivity of assumptions						
Change in mortality rates	+ 2 years	(406)	(11%)	(367)	(11%)	
	- 2 years	439	12%	397	12%	
Future inflation	+ 1% pa	821	24%	651	20%	
Future increases in utilisation rates	+ 50% pa	333	9%	278	9%	
	No increase	(430)	(13%)	(357)	(11%)	
Discount rate	+ 1% pa	(595)	(17%)	(509)	(16%)	
	- 1% pa	821	24%	677	21%	

6 Financial Instruments

Accounting Policy

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 Revenue and Expenditure.

Derivative Financial Instruments

The NZDF uses derivative financial instruments to manage its exposure to foreign exchange risks. The NZDF does not hold or issue derivative financial instruments for trading purposes. The NZDF has not adopted hedge accounting.

Derivative financial instruments are initially recognised at fair value on the date a contract is entered into and are subsequently remeasured to their fair value every reporting date. Movements in the fair value of derivatives are recognised in the surplus or deficit.

A forward foreign exchange derivative is classified as current if the contract is due for settlement within 12 months of balance date. Otherwise, the full fair value of a forward foreign exchange derivative is classified as non-current.

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.

Risk management

In the normal course of its business, the NZDF incurs credit risk from trade debtors, and transactions with various approved financial institutions and The Treasury – Capital Markets. The NZDF does not have significant concentrations of credit in financial instruments.

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.

Security

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.

Impairment

Cash and cash equivalents (note 2), debtors and other receivables (note 3), and term deposit investments (note 4) are subject to the expected credit loss model. The notes for these items provide relevant information on impairment.

Credit risk exposure by credit risk rating grades, excluding concessionary loans and receivables

The gross carrying amount of financial assets, excluding concessionary loans and receivables, by credit rating is provided below by reference to Standard and Poor's credit ratings.

2019		2020
Actual (\$'000)		Actual (\$'000)
Cash at bank and term deposits		
18,626	AA	18,105
18,626	Total cash at bank and term deposits	18,105
Equity investments		
289	AA	1,145
289	Total equity investments	1,145
Derivative financial instrument assets		
7	AA	117
7	Total derivative financial instrument assets	117

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 Treasury – Capital Markets. 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. NZDF has a Treasury Management Policy that was approved by The Treasury.

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 \$13.9 million (2019: \$12.4 million). As NZDF 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.

6a Categories of Financial Instruments

2019		2020
Actual (\$'000)		Actual (\$'000)
Financial assets measured at amortised cost		
17,714	Cash and cash equivalents	17,693
4,004	Debtors and other receivables	3,675
912	Investments – fixed interest investments administered by the Veterans' Medical Research Trust Fund	412
22,630	Total financial assets measured at amortised cost	21,780
Mandatorily measured at fair value through surplus or deficit		
7	Derivative financial instrument assets	117
(382)	Derivative financial instrument liabilities	(54)
(375)	Total mandatorily measured at fair value through surplus or deficit	63
Financial assets at fair value through other comprehensive revenue and expense		
289	Investments – equity investments administered by the Veterans' Medical Research Trust Fund	1,145
289	Total financial assets at fair value through other comprehensive revenue and expense	1,145
Financial liabilities measured at amortised cost		
1,716	Creditors and other payables	1,967
1,716	Total financial liabilities measured at amortised cost	1,967

6b 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:

2020

Actual	Quoted market price (\$'000)	Observable inputs (\$'000)	Significant non-observable inputs (\$'000)	Total (\$'000)
Assets				
Derivative financial instruments	-	117	-	117
Equity investments	1,145	-	-	1,145
Liabilities				
Derivative financial instruments	-	54	-	54
Veterans' entitlements	-	-	3,483,290	3,483,290

There were no transfers between the different levels of the fair value hierarchy.

7 Adoption of PBE IPSAS 39 Employee Benefits

PBE IPSAS 39 Employee Benefits has replaced PBE IPSAS 25 Employee Benefits and, in accordance with the transitional provisions, has been applied retrospectively from 1 July 2018.

Accounting policies have been updated to comply with PBE IPSAS 39. The main update has been made to note 5: Veterans' Entitlements, which are treated as a post-employment benefit under the new standard.

Previously, Veterans' entitlements were recognised as an expense in the period the payment was due. Under PBE IPSAS 39, a long-term defined benefit liability has been recognised to represent the present value of expected future payments. The liability is reduced as payments are made to Veterans and is subject to actuarial revaluation at each reporting date. Refer to note 5 for accounting policy under PBE IPSAS 39.

The opening liability at 1 July 2018 of \$2.503 billion was recognised directly in opening taxpayers' funds, which are not disclosed in the Non-Departmental Schedules. The following transitional adjustments have been made to the prior year schedules:

2019

	Audited (\$000)	Adjustment (\$000)	Revised (\$000)
Schedule of Non-Departmental Expenditure			
Payment of Veterans Support Entitlement	89,875	(89,875)	-
Payment of Assessments, Treatment and Rehabilitation	11,671	(11,671)	-
Veterans Independence Programme	12,270	(12,270)	-
Special annuities	90	(90)	-
Veterans' entitlements – current service cost	-	10,156	10,156
Veterans' entitlements – unwind of discount rate	-	44,556	44,556
Total Impact on Non-Departmental Expenditure	113,906	(59,194)	54,712

Schedule of Non-Departmental Other Comprehensive Income and Expenditure

Net actuarial (gains)/losses recognised in the year	-	784,453	784,453
Total Impact on Non-Departmental Other Comprehensive Income and Expenditure	-	784,453	784,453

Schedule of Non-Departmental Liabilities

Veterans' entitlements – current	-	111,000	111,000
Veterans' entitlements – non-current	-	3,117,389	3,117,389
Total Impact on Non-Departmental Liabilities	-	3,228,389	3,228,389

Non-Departmental Appropriations

Non-Departmental Other Expenses

OUTPUT 7.6

Debt Write-Down for Benefits and Other Unrequited Expenses

Scope of Appropriation

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

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 Act 1989 as performance information is unlikely to be informative.

Expenditure Summary

2019		2020		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
75	Appropriation	43	250	250

OUTPUT 7.7

Ex Gratia Payments and Comprehensive Medical Assessments for Vietnam Veterans

Scope of Appropriation

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.

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 Act 1989 as the amount for this annual appropriation is less than \$5 million.

Expenditure Summary

2019		2020		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
1,100	Appropriation	267	1,100	1,100

OUTPUT 7.8

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

Scope of Appropriation

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.

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 Act 1989 as performance information is unlikely to be informative.

Expenditure Summary

2019		2020		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
-	Appropriation	-	203	203

OUTPUT 7.9

Veteran Assistance to Attend Commemorations or Revisit Battlefields

Scope of Appropriation

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

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 Act 1989 as the amount for this annual appropriation is less than \$5 million.

Expenditure Summary

2019		2020		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
114	Appropriation	90	200	200

OUTPUT 7.10

Grant Payments Non-Government Organisations

Scope of Appropriation

This appropriation is limited to grant payments to Non-Government Organisations in their support of 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 Act 1989 as the amount for this annual appropriation is less than \$5 million.

Expenditure Summary

2019		2020		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
275	Appropriation	275	275	275

OUTPUT 7.15

Initial Recognition of Liability for Veterans' Entitlements

Scope of Appropriation

This appropriation is limited to the initial recognition in accordance with the new accounting standard Public Benefit Entity – International Public Sector Accounting Standard (PBE IPSAS) 39 Employee Benefits of the liability at 1 July 2018 (and subsequently at 1 July 2019) for Veterans' entitlements

resulting from qualifying service or qualifying operational service in the current year or prior years provided for under Parts 3, 4 and 5 of the Veterans' Support Act and for annuities authorised by Cabinet to recognise a special contribution by the recipient to New Zealand society as part of their qualifying service or qualifying operational service.

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 Act 1989 as performance information is unlikely to be informative.

This appropriation is a new appropriation as of 1 April 2020.

Expenditure Summary

2019		2020		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
-	Appropriation	3,184,429	3,500,000	-

OUTPUT 7.16

Service Cost – Veterans' Entitlements

Scope of Appropriation

This appropriation is limited to the present value of entitlements resulting from qualifying service or qualifying operational service in the current year or prior years, provided for under

Parts 3, 4 and 5 of the Veterans' Support Act 2014, and annuities authorised by Cabinet to recognise a special contribution by the recipient to New Zealand society as a part of their qualifying service or qualifying operational service.

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 Act 1989 as performance information is unlikely to be informative.

This appropriation is a new appropriation as of 1 April 2020.

Expenditure Summary

2019		2020		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
-	Appropriation	4,000	20,000	-

OUTPUT 7.17

Unwind Of Discount Rate – Veterans' Entitlements

Scope of Appropriation

This appropriation is limited to the unwinding of the discount rate (interest expense) of the liability for the Veterans' entitlements provided for under Parts 3, 4 and 5 of the Veterans'

Support Act 2014, and annuities authorised by Cabinet to recognise a special contribution by the recipient to New Zealand society as a part of their qualifying service or qualifying operational service.

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 Act 1989 as performance information is unlikely to be informative.

This appropriation is a new appropriation as of 1 April 2020.

Expenditure Summary

2019		2020		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
-	Appropriation	10,250	50,000	-

Non-Departmental Benefits or Related Expenses

OUTPUT 7.11

Assessments, Treatment and Rehabilitation

Scope of Appropriation

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.

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 Act 1989 as performance information is unlikely to be informative.

This appropriation was discontinued by the Minister for Veterans and the Minister of Finance at the March Baseline Update 2020 as of 1 April 2020.

Expenditure Summary

2019		2020		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
11,671	Appropriation	9,264	12,052	11,996

OUTPUT 7.12

Special Annuities

Scope of Appropriation

This appropriation is limited to paying annuities authorised by Cabinet to recognise a special contribution by the recipient 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 Act 1989 as performance information is unlikely to be informative.

This appropriation was discontinued by the Minister for Veterans and the Minister of Finance at the March Baseline Update 2020 as of 1 April 2020.

Expenditure Summary

2019		2020		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
90	Appropriation	72	78	92

OUTPUT 7.14

Veterans Support Entitlement

Scope of Appropriation

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 grandparented 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.

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 Act 1989 as performance information is unlikely to be informative.

This appropriation was discontinued by the Minister for Veterans and the Minister of Finance at the March Baseline Update 2020 as of 1 April 2020.

Expenditure Summary

2019		2020		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
89,875	Appropriation	65,511	68,383	84,480

The Veterans' Independence programme and Development and Maintenance of Service Cemeteries appropriations are reported in the next section.

Appendix 1

Report on selected non-departmental appropriations for the year ended 30 June 2020



VOTE DEFENCE FORCE

**Report on selected non-departmental
appropriations for the year ended**

30 June 2020

**A FORCE FOR
NEW ZEALAND**

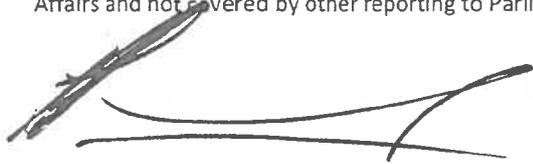
CONTENTS

MINISTER'S FOREWORD	2
STATEMENT OF PERFORMANCE	3
NON-DEPARTMENTAL OUTPUT EXPENSES	4
DEVELOPMENT AND MAINTENANCE OF SERVICES CEMETERIES	4
NON-DEPARTMENTAL BENEFITS OR RELATED EXPENSES	5
VETERANS' INDEPENDENCE PROGRAMME	5

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 and not covered by other reporting to Parliament.



Hon Ron Mark
Minister for Veterans

Date: *28 Oct 2020* .

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.

2019		2020		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
400	Appropriation	706	746	746

What is intended to be achieved with this appropriation

This appropriation is intended to develop and maintain Services Cemeteries.

Performance Summary Output

2019 Actual	Measures	2020	
		Standard	Actual
99%	The annual maintenance and development works plan outcomes are achieved.	95%	100%
Met	Services Cemeteries will be maintained in accordance with the Standard of Care agreements.	Meet	Met

NON-DEPARTMENTAL BENEFITS OR RELATED EXPENSES

VETERANS' INDEPENDENCE PROGRAMME

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

This appropriation was discontinued by the Minister for Veterans and the Minister of Finance at the March Baseline Update 2020 as of 1 April 2020.

2019		2020		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
12,270	Appropriation	11,862	13,928	14,675

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

2019 Actual	Measures	2020	
		Standard	Actual
89%	Services and support provided will be to the satisfaction of the veteran and/or the veterans' family	95%	91%

Appendix 2

Veterans' Medical Research Trust Fund Financial Statements for the year ended 31 March 2020

**VETERANS' MEDICAL RESEARCH TRUST FUND
FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED
31 MARCH 2020**

Contents

- REPORT ON THE IMPLEMENTATION OF SYSTEMS AND PROCEDURES 1**
- STATEMENT OF RESPONSIBILITY 2**
- STATEMENT OF ENTITY INFORMATION 3**
- STATEMENT OF FINANCIAL PERFORMANCE 4**
- STATEMENT OF FINANCIAL POSITION..... 5**
- STATEMENT OF CASH FLOWS 6**
- STATEMENT OF ACCOUNTING POLICIES 7**
- NOTES TO THE FINANCIAL STATEMENTS 9**
- NOTE 1: AUDIT FEES TO AUDIT NEW ZEALAND FOR AUDIT OF FINANCIAL STATEMENTS 9
- NOTE 2: CASH AND BANK..... 9
- NOTE 3: INVESTMENTS..... 9
- NOTE 4: PAYABLE AND ACCRUED EXPENSES..... 9
- NOTE 5: FINANCIAL INSTRUMENTS 10
- NOTE 6: RELATED PARTY TRANSACTIONS..... 10
- NOTE 7: REMUNERATION OF MEMBERS OF VETERANS' HEALTH ADVISORY PANEL..... 10
- NOTE 8: KEY MANAGEMENT PERSONNEL 10
- NOTE 9: EVENTS AFTER THE BALANCE DATE..... 11
- NOTE 10: CONTINGENCIES AND COMMITMENTS 11
- NOTE 11: IMPACT OF COVID-19..... 11

VETERANS' MEDICAL RESEARCH TRUST FUND FOR THE YEAR ENDED 31 MARCH 2020

REPORT ON THE IMPLEMENTATION OF SYSTEMS AND PROCEDURES Relating to the Veterans' Medical Research Trust Fund

One of the roles of the Veterans' Health Advisory Panel, under the Veterans' Support Act 2014, is to decide how the income of the Veterans' Medical Research Trust Fund should be used to make grants and awards.

In making these decisions, the Panel must act fairly and transparently; and have systems and procedures in place to enable this.

At all times it has acted fairly and transparently.

I confirm the Panel has:

- met three times since 1 April 2019 and considered the Fund at those meetings.
- made public calls in 2019 for research proposals which would be funded by the Trust relating to the following themes:
 - a) The transition journey from service to civilian life for the first 3-5 years post service.
 - b) The characteristics of Māori and Pasifika service persons' experience of life in service.
 - c) The effect of service life on spouses and families of veterans.
- published the calls for research proposals on the Veterans' Affairs website, as required under the Veterans' Support Act 2014.
- assessed applications against funding criteria, including using the Guiding Principles for Investment, and this process is currently ongoing.

No new research projects were awarded funding from the Fund in the 2019/20 financial year.

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 year ended 31 March 2020.

Veterans' Affairs has complied with all statutory provisions relating to the operations of the Veterans' Medical Research Trust Fund during the year ended 31 March 2020.

Signed by:



Bernadine Mackenzie
Head of Veterans' Affairs
Veterans' Affairs New Zealand
28 October 2020



VETERANS' MEDICAL RESEARCH TRUST FUND

STATEMENT OF ENTITY INFORMATION FOR THE YEAR ENDED 31 MARCH 2020

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 Chairperson of Veterans' Health Advisory Panel 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 current source of income includes annual investment returns from a managed investment portfolio held with the Bank of New Zealand and interest earned on short-term deposits. The Trust has also received \$450K funding from Veterans' Affairs New Zealand in its entirety for research on the health and wellbeing of contemporary veterans in New Zealand that will develop information on understanding of trends identified within the Vietnam cohort.

VETERANS' MEDICAL RESEARCH TRUST FUND

STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 31 MARCH 2020

	Notes	2020	2019
Revenue			
Net gain on Investment Portfolio		0	38,994
Interest		16,812	11,430
Investment Income		1,398	4,804
Donations and other incomes		0	0
Funding from Central Government		450,000	400,000
Total Revenue		468,210	455,228
Expenses			
Net loss on Investment Portfolio		1043	0
Research Grants Paid		38,152	67,484
Portfolio Fees		6,857	8,292
Bank Charges		45	40
Audit Fees	1	0	0
Total Expenses		46,097	75,816
Surplus/(deficit)		422,113	379,412

VETERANS' MEDICAL RESEARCH TRUST FUND

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2020

Assets	Notes	2020	2019
Current Assets			
Cash and Bank	2	44,974	47,584
Term Deposits		412,448	409,138
Receivable		5,091	1,120
Tax receivable		421	0
<i>Total Current Assets</i>		<i>462,934</i>	<i>457,842</i>
Non-Current Assets			
Investments	3	1,222,911	835,265
<i>Total Non-Current Assets</i>		<i>1,222,911</i>	<i>835,265</i>
Total Assets		1,685,845	1,293,107
Liabilities			
Current Liabilities			
Payables and Accrued Expenditure	4	634	30,009
<i>Total Current Liabilities</i>		<i>634</i>	<i>30,009</i>
Total Liabilities		634	30,009
Net Assets		1,685,211	1,263,098
Trust Equity			
Accumulated funds		1,685,211	1,263,098
Total Trust Equity		1,685,211	1,263,098

VETERANS' MEDICAL RESEARCH TRUST FUND

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2020

Cash Flows from Operating Activities	2020	2019
Funding received from central government	450,000	400,000
Interest Received	12,034	11,264
Investment Income	1,784	4,693
Other Operating Income	1	11
Research Grants Paid	(67,483)	(38,154)
Other Operating Expenses	(6,946)	(8,352)
<i>Net Cash Flows from Operating Activities</i>	<i>389,389</i>	<i>369,462</i>
Cash flows from Investing and Financing Activities		
Receipts from sale or maturity of investments	204,943	108,959
Receipts from Chq accounts	0	5,865
Decrease in Term Deposit	657,527	0
Purchase of Investments	(593,632)	(59,130)
Increase in Term Deposit	(660,837)	(409,138)
<i>Net Cash Inflow (Outflow) from Investing Activities</i>	<i>(391,999)</i>	<i>(353,444)</i>
Net Increase (Decrease) in Cash and cash equivalents	(2,610)	16,018
Cash and cash equivalents at the beginning of the year	47,584	31,566
Cash and cash equivalents at the end of the year	44,974	47,584

BR
M

VETERANS' MEDICAL RESEARCH TRUST FUND

STATEMENT OF ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH 2020

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.

The Trust has opted to apply the Tier 2 accounting standard PBE IPSAS 29: Financial instruments: Recognition and measurement for the valuation of the investment portfolio.

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 increases or write downs in value are recognised in the statement of financial performance.

Revenue

Interest

Interest revenue is recorded as it is earned during the year.

Funding from Central government

This revenue includes funding received from Veterans' Affairs New Zealand.

Revenue is recognised when it is received unless there are specific conditions attached that require repayment.

It will be used for a research programme that will support the development of better information the inter-generational health impacts of service in Viet Nam.

Receivables

Receivables are 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.

Payables 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 2020

Note 1: Audit Fees to Audit New Zealand for audit of financial statements

Veterans' Affairs New Zealand (VANZ) will meet the cost of the audit for this financial year under section 262 of the Veteran's Support Act 2014.

2019: \$4,155 (exclusive of GST)

2020: \$4,200 (exclusive of GST)

Note 2: Cash and Bank

Cash and Bank comprises cash balances held with the Bank of New Zealand, Wellington:

	2020	2019
Cash at bank and on hand	33,014	40,525
Cash management account (NZD)	11,960	6,974
Cash management account (AUD)	0	85
Total cash and cash equivalents	44,974	47,584

Note 3: Investments

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.

	2020	2019
Cash management account	77,248	43,087
NZ and International Fixed Interest	725,326	503,130
Australasian Equities/Equity fund	128,125	94,230
International Equities, Hedge Funds, Commodities	292,212	194,818
Total investments	1,222,911	835,265

Note 4: Payables and Accrued Expenses

Payables and Accrued Expenses include the following components:

	2020	2019
Portfolio Fee	634	678
Research payment	0	29,331
Total Payables	634	30,009

Note 5: Financial Instruments

The carrying amount of financial instruments presented in the statement of financial position relate to the following categories of assets and liabilities.

	2020	2019
Loans and Receivables		
Cash and Bank	44,974	47,584
Term Deposits	412,448	409,138
Receivables	5,091	1,120
Total loans and receivables	462,513	457,842
Financial Liabilities at amortised cost		
Payables and Accrued Expenditure	634	30,009
Financial assets at fair value through the surplus or deficit		
Investments	1,222,911	835,265

Note 6: Related Party Transactions

The Trust is considered a related party of Veterans' Affairs New Zealand (VANZ), which is a part of the New Zealand Defence Force. The transactions with the related party in 2019/20 have been the free secretarial and administration services provided to the Fund by VANZ.

The Trust has received funding of \$400K from VANZ in last financial year, which will be used for a research programme that will support the development of better information about the inter-generational health impacts of service in Viet Nam.

The Veterans' Health Advisory Panel has called for research proposals. Decision on applications are due to be made later in 2020.

The Trust has also received funding of \$450K from VANZ in this financial year, which will be used in its entirety for research on health and wellbeing of contemporary veterans in New Zealand that will support the development of better information on the group of Vietnam Veterans to assist the understanding of trends identified within Vietnam cohort.

Note 7: Remuneration of Members of Veterans' Health Advisory Panel

VANZ provide the resources and administrative support necessary to enable the Veterans' Health Advisory Panel (VHAP) to perform its functions under section 256 of the Veteran's Support Act 2014.

Members of the VHAP do not receive remuneration for their services from the Trust.

Note 8: Key Management Personnel

The key management personnel, as defined by PBE IPSAS 20: Related Party Disclosures, are the member of the governing body which is comprised of two Board of Trustees. The Trustees do not receive remuneration from the Trust.

Note 9: Events after the balance date

There were no significant events after the balance date.

Note 10: Contingencies and commitments

The Trust has no contingent assets or contingent liabilities.

The Trust has no operating or capital commitments.

Note 11: Impact of COVID-19

On 11 March 2020, the World Health Organisation declared the outbreak of COVID-19 a pandemic and two weeks later the New Zealand Government declared a State of National Emergency. From this, the country was in lockdown at Alert Level 4 for the period 26 March to 27 April and remained in lockdown at Alert Level 3, thereafter, until 13 May.

COVID-19 has not impacted significantly on the operations of the Trust. The Trust has no employees and the VHAP has continued to meet to review and make decisions on research funding.

The area of the financial statements that COVID-19 is most likely to impact is investments. Economic uncertainties have arisen from COVID-19 which may impact the future growth and earnings of the investment portfolio. A large portion of the investment portfolio is in fixed interest instruments which are unlikely to be significantly impacted by the economic situation. The Trust has concluded that there is no objective evidence that the investment portfolio is impaired at the reporting date.

Independent Auditor's Report

To the readers of the Veterans' Medical Research Trust Fund's financial statements for the year ended 31 March 2020

The Auditor-General is the auditor of Veterans' Medical Research Trust Fund (the Trust). The Auditor-General has appointed me, Bonar Robertson, 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 11, that comprise the statement of financial position as at 31 March 2020, statement of financial performance, statement of cash flows and statement of accounting policies for the year ended on that date and the notes to the financial statements that include other explanatory information.

In our opinion, the financial statements of the Trust on pages 4 to 11:

- present fairly, in all material respects:
 - its financial position as at 31 March 2020; 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 Public Benefit Entity Simple Format Reporting – Accrual (Public Sector) Standard.

Our audit was completed on 28 October 2020. This is the date at which our opinion is expressed.

The basis for our opinion is explained below, and we draw your attention to the impact of Covid-19 on the Trust. 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.

Emphasis of matter – Impact of Covid-19

Without modifying our opinion, we draw attention to the disclosures about the impact of Covid-19 on the Trust as set out in note 11 to the financial statements.

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 Head of Veterans' Affairs intends to wind-up the Trust or to cease operations, or has no realistic alternative but to do so.

The Head of Veterans' Affairs' responsibilities arise from 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 Head of Veterans' Affairs 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 1 to 3, 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: International 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.

A handwritten signature in black ink that reads "Bonar Robertson". The signature is written in a cursive style with a long horizontal stroke at the end.

Bonar Robertson
Audit New Zealand
On behalf of the Auditor-General
Wellington, New Zealand

**A FORCE FOR
NEW ZEALAND**

New Zealand Government