



MANATŪ KAUPAPA
WAONGA
NEW ZEALAND
MINISTRY OF DEFENCE

G4

TE PŪRONGO-Ā-TAU

2022/23

ANNUAL REPORT

2022/23



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Above: Sarah Minson, Deputy Secretary Capability Delivery, at the bullhead signing ceremony at Lockheed Martin factory in Georgia, USA for the production of the C-130-J-30 aircraft.

Cover page: the arrival of the fourth and final P-8A Poseidon at Base Ohakea on 17 July 2023.

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OVERVIEW BY THE SECRETARY OF DEFENCE

TE TIROHANGA WHĀNUI KI TĀ TE TUMU WHAKARAE MŌ TE WAONGA

For decades, New Zealand's defence policy has largely been framed around being ready to respond to events as they arise and contributing to collective security efforts where we can. That approach was appropriate for the more benign world that we enjoyed over previous decades, but it will not best serve New Zealand's interests today and into the future.

That is why the Government commissioned a review of defence policy last year and in August released the first two products designed to help shape the future of Defence.

A Defence Policy and Strategy Statement will guide Defence's planning, operations, engagements and investment to ensure that it is fit-for-purpose in an increasingly challenging and complex world. Our new Future Force Design Principles identify the requirements of the future Defence Force to respond to the strategic environment. Eleven principles and four assumptions will guide future force design and capability requirements to help Defence to address future challenges.

Together these documents provide a roadmap for the future and work has now commenced on a Defence Capability Plan.

We want to ensure that we have the necessary capabilities to deliver on the Government's policy goals, the outcomes sought are enabled with the right tools, and that we design and equip our Defence Force so that it can achieve what is asked of it.

We will continue to meet the demands of today with the force we have, however in the near term we need to orientate ourselves to the emerging future and evolving geopolitical context.

There is no doubt defence diplomacy is key when tensions are heightened. We know from experience that talking through issues with partners is vital to the safety and security of our region. New Zealand must continue to engage on a global stage, to work with our partners and be unflinching advocates for the international rules-based order. That is why one of the highlights for me this year has been the full return of in-person international engagement.

Earlier this year I hosted my South Pacific counterparts in Auckland. This was the first time we were able to meet in person after two years of virtual gatherings. Defence secretaries, or their equivalent, from Australia, Fiji, Papua New Guinea, and Tonga gathered to discuss common defence challenges, regional security issues and defence policy.

In addition, this year we worked with the Solomon Islands to support the drafting of its maritime security strategy, signed a status of forces agreement and statement of intent with Fiji, finalised a statement of intent with Japan, and attended the 11th Strategic Defence Dialogue between New Zealand and China.

This year's Shangri-La Dialogue, an important gathering of Defence ministers from the wider Indo-Pacific, was an excellent opportunity to once again discuss matters of mutual importance with key countries, and to hear first-hand the policy and positioning of others.

Opportunities for defence diplomacy, such as those presented at the Shangri-La Dialogue, have never been more important as we face threats to the international rules-based system, such as the illegal and unjustified invasion of Ukraine.

New Zealand's support for the people of Ukraine has been unwavering. From donated military supplies, personnel deployed to the UK to support training and logistics, delivery of medical supplies and aid, sanctions, and more, New Zealand has and will continue to work with our partners to provide support where it is best needed.

Closer to home, this year we welcomed all four of our new P-8A Poseidon aircraft. These aircraft replace the P-3K Orions and represent a significant investment in our maritime surveillance capabilities.

All four aircraft are now operating from Royal New Zealand Air Force's Base Ohakea, and will be conducting maritime surveillance, resource protection, natural disaster support, and search and rescue operations to support the security and stability of our region.

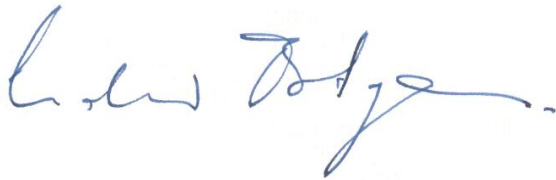
Defence also celebrated the arrival of new Bushmaster Protected Mobility Capability vehicles for the New Zealand Army and work on the new C-130-J-30 aircraft to replace the aging Hercules is also progressing well. We expect to see these aircraft beginning to arrive later next year.

Market research commenced for the Maritime Helicopter Replacement project – one of many engagements with industry that has occurred throughout the year. I'd also like to thank everyone from the defence industry who have provided feedback to help inform the Defence Policy Review – your ongoing support is very much appreciated.

In addition to industry, Defence also engaged with academics, veterans, key agencies and gathered more than 8,500 survey responses as part of our Policy Review. Interested members of the public have also submitted their views on the Inspector-General of Defence Bill which has now passed into law.

It has been heartening to receive such high interest and engagement with Defence issues this year. It is an important reminder that the safety and security of New Zealand is something so many of us care passionately about.

Ngā mihi maioha



Andrew Bridgman
Secretary of Defence | Te Tumu Whakarae mō te Waonga



Above: Secretary of Defence Andrew Bridgman at the launch of the Defence Policy Review's first two products in August 2023.

THE MINISTRY AT A GLANCE



Managing approx. **\$6 billion** worth of investment in military capability projects

194 total staff at the Ministry
40% are fixed term



32 inflight projects
8 in capability definition phase
24 in delivery phase

The Ministry has reduced its carbon emissions by **50%** since 2018/19



4.8 / 5

Minister of Defence's rating for the **quality of the Ministry's policy advice**

Average score of the Ministry's policy advice against **DPMC's Policy Quality Framework**

3.5 / 5

8,578

Responses to the Ministry's **public survey** on the future of Defence

Over **80 international bilateral engagements** in 2022/23 at officials' level and supported over **20** international Ministerial engagements



10 current overseas deployments

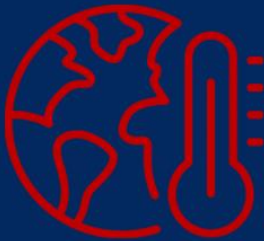
STRATEGIC ENVIRONMENT AT A GLANCE



Average impact of natural disasters on small island Pacific states is **3% of GDP**¹

Number of **UN peacekeeping missions** NZ has contributed to since 1950

40



Sea levels in the Southwest Pacific are rising **faster** than the global average²

55 state-based conflicts in 2022, the highest since 1946³



\$78M

NZ's contribution to **Ukraine's self-defence** over the past year

Approx. **700 personnel** contributed to the Cyclone Gabrielle response in February 2023



Global defence spending has surpassed **\$2 trillion USD** for the first time⁴

Data sources:

1. The World Bank, *Pacific Possible Report: Long-Term Economic Opportunities and Challenges for Pacific Island Countries*, 2017.
2. World Meteorological Organisation, *State of the Climate in the South-West Pacific*, 2022.
3. Peace Research Institute Oslo, *Conflict Trends: A Global Overview, 1946-2022*.
4. Stockholm International Peace Research Institute, *World military expenditure passes \$2 trillion for the first time*, 2022.

01

THE MINISTRY'S PERFORMANCE AND PRIORITIES

NGĀ MAHI ME NGĀ
WHAKAAROTAU A TE MANATŪ



THE ROLE OF THE MINISTRY

TE WĀHI KI TE MANATŪ

The Ministry of Defence is the Government's lead civilian advisor on defence to enhance the security and national interests of New Zealand and its people. The Ministry also purchases major capabilities to be used by the service personnel of the Defence Force.

Ko mātou ngā kaitohutohu matua ki te kāwanatanga mo ngā kaupapa waonga. Nā mātou hoki, ngā taputapu nunui i hoko, hei āheitanga i roto i ngā ringa o ngā tāne me ngā wahine o Te Ope Kātua o Aotearoa.

The Ministry's role is to

- **Provide** long and short-term analysis and advice on New Zealand's defence interests and the security environment we operate in.
- **Advise** the Government on how our Defence Force can meet current and future challenges.
- **Purchase** major defence equipment for use by the Defence Force as a defence capability.¹
- **Build** and maintain strong defence relationships internationally.
- **Advise** on Defence's performance and effectiveness as a system.

The Ministry also builds and maintains strong defence connections through diplomatic channels with other governments throughout the world, including our ally Australia. Our international relationships ensure New Zealand can play our part in addressing defence and security challenges in the Pacific and beyond.

The separation between the Ministry and the Defence Force – collectively referred to as 'Defence' – is part of New Zealand's constitutional arrangements. Our agencies work closely together, drawing on our distinct civilian and military perspectives to protect New Zealand's defence and national security interests.



Above: the Ministry's Strategic Leadership Team (left to right) – Huntley Wright, Anton Youngman, Sarah Minson, Pasanka Wickremasinghe, Andrew Bridgman, Melissa Thorn, Richard Schmidt, Mel Childs.

¹ In the Defence context, 'capability' refers to the personnel, equipment, platforms, and/or other resources that affect the capacity to undertake military operations.

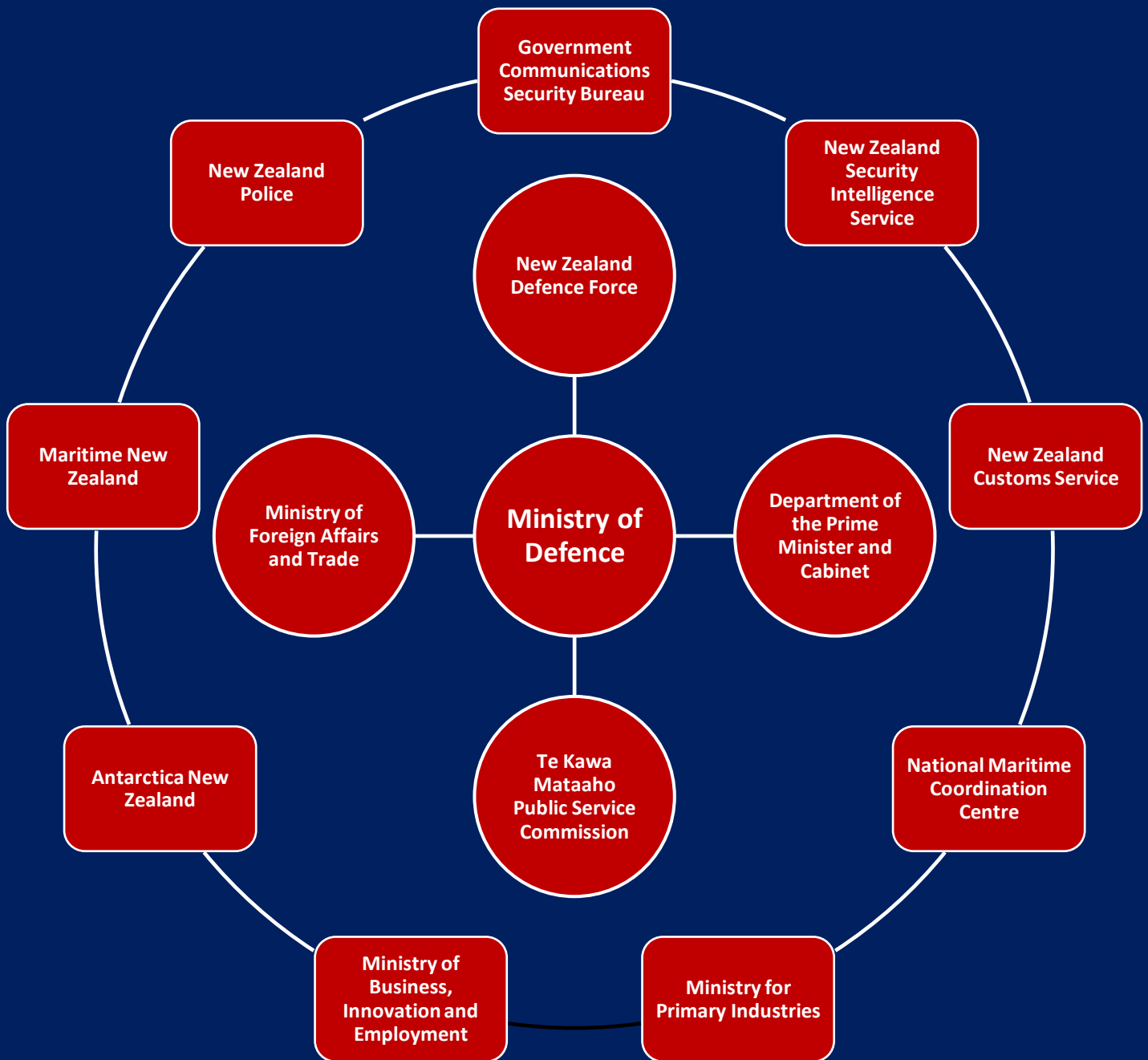


Figure 1: New Zealand Government agencies the Ministry of Defence works with

DEFENCE OUTCOMES

NGĀ HUANGA WAONGA

Defence is a key part of the broader New Zealand national security system, and works alongside other government agencies to protect and advance New Zealand's security interests. Defence provides value to New Zealand across five key outcomes:



Whilst the Ministry and the Defence Force have separate responsibilities and accountabilities, we work closely together to deliver Defence outcomes for New Zealand. An important element of the relationship between the two agencies is constructive contestability and challenge. This approach is strongly supported by the agencies' different cultures and shared commitment to the same goal – to effectively meet New Zealand's defence requirements and protect national security.

The Ministry contributes to the achievement of these outcomes by.

- **Providing** the Government with policy advice on defence and security issues, including on the security environment, the deployment of military forces, and the conduct of international defence relations.
- **Acquiring** and delivering the major platforms and military capabilities needed by the Defence Force in order to meet the Government's defence policy objectives.
- **Undertaking** audits and assessments to examine and help improve Defence efficiency and effectiveness.

The following pages outline the current strategic environment that Defence operates within, and how the Ministry ensures Defence policy remains fit-for-purpose.

MINISTERIAL PRIORITIES FOR DEFENCE

NGĀ KAUPAPA WHAKAAROTAU A TE MINITA MŌ TE WAONGA

The following are the **Ministerial Priorities** for the Defence portfolio, encompassing the work of both the Ministry of Defence and the New Zealand Defence Force:

PACIFIC AND BEYOND

New Zealand is in and of the Pacific, and our region's security and resilience is crucial to our own

INFRASTRUCTURE

Capability is delivered and operated to enable Defence personnel to respond and operate safely and with confidence

PEOPLE

People are Defence's greatest asset. Defence needs to ensure that personnel are equipped to face the challenges ahead



Four **Defence Principles** complement the three Defence priorities:

ANGITU

Success, effort and striving

KOTAHITANGA

Unity, togetherness, solidarity and collective action

MANA & PONO

Influence, prestige, authority: to be true, valid, honest and sincere

KAITIAKITANGA

Guardianship, stewardship and trust

THE MINISTRY'S ORGANISATIONAL STRATEGY

TE RAUTAKI WHAKAHAERE A TE MANATŪ

The Ministry's **2021-2024 Organisational Strategy** identifies our purpose and vision.

The complexity and risk of our strategic environment is well understood by New Zealanders. They have confidence New Zealand can respond, in a way that reflects the unique values of Aotearoa.

The Ministry strengthens the National Security System and our advice is sought after as a result of our thought leadership. Our impact comes from our people, who are talented, diverse, passionate and innovative.

He mea mārama te whīwhiwi me te tūraru o tō tātou taiao rautaki ki a Ngāi Aotearoa whānui. E whakamanawa ana rātou ki te āheinga urupare o Aotearoa, ā, ka whakaatu taua urupare i ngā mātāpono ahurei o Aotearoa. Ko mātou kei te tauihu ināianei, ā haere ake nei.

E whakakaha ana mātou i te Pūnaha Whakahaumarū ā-Motu, ā, ka kaha whāia ā mātou tohutohu nā tō mātou mahi tātaki whakaaro. Ka ahu mai tā mātou whakaaweawe i ā mātou kaimahi matahuhua, e mau pūkenga ana, e kaingākau ana, e auaha ana i te kaupapa.

OUR PURPOSE | TĀ MĀTOU KAUPAPA

Safeguarding New Zealand

Kia tū pakari ai te pā tūwatawata o Aotearoa

OUR VISION | TĀ MĀTOU WAWATA

Thought leaders strengthening national security in an uncertain world





Ko mātou ngā kaitātaki whakaaro e whakakaha ana i tō tātou haumarutanga ā-motu i tēnei ao pāhekeheke

To deliver this vision, the Ministry developed a Statement of Intent – a programme of objectives and activities framed around four focus areas:

- **Supporting** talented and diverse people
- **Delivering** to strengthen national security
- **Informing** decisions with strategic insight
- **Engaging** New Zealanders on Defence

This Annual Report addresses the progress and performance of delivery against these focus areas.

THE MINISTRY OF DEFENCE'S STATEMENT OF INTENT 2021-2025

 Supporting talented and diverse people Te taunaki i ngā tangata ihumanea matahuhua	 Informing decisions with strategic insight Te whakamōhio i ngā whakatau mā te rautaki	 Delivering to strengthen national security Te koke kia kaha ake ai te haumarutanga ā-motu	 Engaging New Zealanders on defence Te whakatoro i te kaupapa waonga ki a ngāi Aotearoa
1.1	2.1	3.1	4.1
A place where talented and diverse people feel included and able to do their best work	Everyone brings a whole of Ministry insight to their work	The Ministry is influential internationally and across the national security sector	New Zealanders understand security issues, Defence's role and the value of the Ministry
1.2	2.2	3.2	4.2
Ministry people are consistently supported and developed to be successful in their work	Our decisions are visibly evidence-based	A coherent and integrated policy and strategy system	We actively seek the input of New Zealanders on our work
1.3	2.3	3.3	
The Ministry is culturally competent	We bring a deep understanding of NZDF to decisions	Delivering capability as promised	
	2.4	3.4	
	We engage thoughtfully with our stakeholders	The impact of our delivery is measured to inform future decisions	
		3.5	
		Implement Operation Burnham Inquiry recommendations	

NEW ZEALAND'S STRATEGIC ENVIRONMENT

TE TAIAO RAUTAKI O AOTEAROA

New Zealand is facing a more challenging strategic environment than for decades, with increasing threats to our security. The effectiveness and stability of the post-war liberal rules-based international system is being undermined. Both the use, and threat of use, of military power are increasingly shaping states' interactions.

The **Defence Assessment 2021** identified **strategic competition** and the impacts of **climate change** as the two principal challenges facing New Zealand's national security interests. Developments since the Assessment's publication show that New Zealand's strategic environment is changing even more rapidly than previously anticipated.

In response, the Government's recently released **Defence Policy and Strategy Statement** sets out New Zealand's Defence goals and how they can be achieved, now and in the future.

STRATEGIC COMPETITION

Over recent years, growing strategic competition has challenged the effectiveness of the international rules-based system. Some states are increasingly seeking to advance competing visions for regional and global orders that are at odds with this system – demonstrated most keenly by Russia's invasion of Ukraine. This competition is prompting major powers and regional states to adopt more proactive postures and invest in defence and other instruments of national power. We are experiencing the effects of this intensifying competition in New Zealand, the Pacific, and the wider Indo-Pacific.

The wider Indo-Pacific is now the central global theatre for strategic competition. Indo-Pacific states are rapidly investing in their military and security capabilities in response to the range of security challenges they are facing. Intensifying strategic competition in the Indo-Pacific is increasing the risk of confrontation, potentially with little warning.

The Pacific has also become an increasingly significant theatre for strategic competition.

While growing interest in the Pacific can be positive, it also presents substantial risks to regional security, and the sovereignty and agency of Pacific Island countries.

CLIMATE CHANGE

Addressing the impacts of climate change will be one of the greatest global challenges for coming decades. The 2018 **Boe Declaration** agreed by leaders of the Pacific Islands Forum countries and territories recognised climate change as the single greatest threat to the security and wellbeing of the Pacific. The impacts of climate change will exacerbate existing fragilities within Pacific Island countries and across the region.

Countries experiencing climate change stresses may require greater external support, which can – in the context of increasing global strategic competition – increase their vulnerability to coercion. Responses to security events and humanitarian crises in the Pacific are already attracting growing interest from states outside the region. This will likely lead to an increase in opportunities for actors to act in ways that are counter to the interests of the Pacific and New Zealand.

It is estimated that natural disasters cost Pacific Island states on average 3% of their combined Gross Domestic Product annually. The average is similar to the original estimates of the cost of Cyclone Gabrielle which ravaged parts of New Zealand's North Island in February 2023, meaning Pacific Island states suffer the equivalent economic shock of a Cyclone Gabrielle every year.^{2 3}

² The World Bank, *Pacific Possible Report: Long-Term Economic Opportunities and Challenges for Pacific Island Countries*, 2017, p.81


³ The Treasury, *Impacts from the North Island weather events*, <https://treasury.govt.nz>, 27 April 2023

DEFENCE POLICY REVIEW

AROTAKE KAUPAPAHERE KAUPAPA WAONGA

The **Defence Policy Review** was commissioned by the Government in July 2022 to enable the delivery of a long-term strategic approach for New Zealand’s defence. The Review is focused on developing options for Government on defence policy, strategy, capability and resourcing.

Throughout the 2022/23 financial year, the Ministry and New Zealand Defence Force (NZDF) have focused on delivering the Defence Policy Review’s first two products: the **Defence Policy and Strategy Statement** and **Future Force Design Principles**. These products were released by the Minister of Defence in August 2023.

	<p><i>This contributes to the Ministry’s objectives</i></p> <p><i>A coherent and integrated policy and strategy system</i></p> <p><i>Everyone brings a whole of Ministry insight to their work</i></p>
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DEFENCE POLICY AND STRATEGY STATEMENT

The **Defence Policy and Strategy Statement** sets out New Zealand’s updated defence approach. It emphasises purposefully promoting and protecting New Zealand’s defence and wider security interests.

There are three objectives:

- **PROMOTING AND PROTECTING**
- **CONTRIBUTING**
- **RESPONDING**

This new proactive, strategy-led approach still requires the NZDF to anticipate and respond to events and disruptions in the strategic environment, including combat if required. The Defence Policy and Strategy Statement has three mutually reinforcing themes: **Understand, Partner** and **Act**.

FUTURE FORCE DESIGN PRINCIPLES

The **Future Force Design Principles** is a new document for Defence. It identifies what a Defence Force would need to look like to respond to the strategic environment set out in the Defence Policy and Strategy Statement.

It outlines broad parameters for making capability decisions for the next 15 years and the need to stabilise and grow the NZDF. These include assumptions and principles for guiding choices on force structure, for example relating to levels of operational concurrency.

The document states that immediate force stabilisation followed by growth in personnel and supporting capabilities is required for the NZDF to have the combat capability and resilience to meet future requirements.

The next step in the Defence Policy Review is developing options to inform a Defence Capability Plan.

3.5 / 5

Assessing Defence Policy Advice: the Ministry commissions an annual assessment of Defence policy advice by the New Zealand Institute of Economic Research. In 2022/23 the Ministry scored an average of **3.5** for a random selection of its policy advice, against the Department of the Prime Minister and Cabinet’s Policy Quality Framework.

The review included an assessment of the **Defence Policy Review: Future Force Design Principles**. This paper received a rating of **4.5**, with specific comments from the reviewer noting it was:

A solid piece of work setting out important strategic approaches [and a] difficult topic handled well. The context is also strong, with good use of the sliding scale options to be considered.

DEFENCE POLICY AND STRATEGY STATEMENT

OUR DEFENCE GOALS AND HOW WE WILL SEEK TO ACHIEVE THEM

The threats

A deteriorating strategic environment

New Zealand is facing a more challenging strategic environment than we have seen in decades, driven by **strategic competition** and the **impacts of climate change**. A range of other drivers are intersecting with these threats.

Our defence interests

Is increasing

A secure, sovereign, and resilient New Zealand

A stable, secure, and resilient region

Our policy objective

We will act early and deliberately to protect our defence interests, particularly in the Pacific region

- 1 Protecting and promoting New Zealand's defence interests
- 2 Contributing globally to collective security efforts that support our interests
- 3 Responding to events in New Zealand, our region and the Pacific

Our defence strategy

Understand

Defence will have increased awareness of our strategic and operating environments by maximising the use of defence capabilities and technologies.

- Expanding awareness of our territory and region
- Contributing to the development of situational awareness with Pacific partners
- Deepening our understanding of our region's security needs and amplifying Pacific voices

Partner

Defence will improve our regional security through partnerships with our allies and partners to support collective security and address shared challenges with security partners.

- Collaborating with our allies and partners on security challenges
- Maximising our regional security partnerships
- Interoperability with our allies and partners
- Partnering in the Pacific

Strategic environment...

...have for decades, with two principal challenges:
Climate change.



...mitigating the risk to:

Collective security through a strong network of partners

A strong and effective international rules-based system

...being more actively in pursuing and protecting our interests ...early in and for the Pacific by:

...interests in our region*, particularly in the Pacific
...to protect and promote New Zealand's interests and values
...globally where required

...improve and enhance our
...within and beyond New Zealand
...collective security approaches to
...challenges, and maximise interoperability
...with our partners.

...work more to address shared
...challenges
...opportunities with Australia
...cooperation and engagement with our
...partners
...in the Pacific

Act

Defence is more ready and able to promote and protect New Zealand's interests by shaping our security environment with a credible, combat-capable, deployable force able to operate across the spectrum of operations (from humanitarian assistance through to combat).

- Improving the effectiveness of our combat and other military capabilities
- Increasing our presence and strengthening defence resilience and security capacity in the Pacific
- Responding to security events in our region, including Humanitarian Assistance and Disaster Relief (HADR) activities, and Stability and Support Operations (SASO)
- Preventing actions counter to New Zealand's interests

* New Zealand's region encompasses the area from Antarctica and the Southern Ocean, through the Pacific, west towards Australia and north-west toward South-East Asia.

CASE STUDY: HAVING YOUR SAY ON THE FUTURE OF DEFENCE

As part of the Defence Policy Review process, a broad range of partners and stakeholders were asked for their input to help inform the first two products of the Defence Policy Review: the **Defence Policy and Strategy Statement** and the **Future Force Design Principles**.

One important element of this engagement process was an online survey open to all New Zealanders, available from 23 January to 4 April 2023. Its purpose was to gauge the public's views on what defence matters are important to them and how they believe the NZDF should operate in the future. The survey was administered by Kantar Public and received **8,578 responses**.



Participants rated all of the NZDF's roles as important – at least 50% rated each individual role as extremely or very important. Participants saw protecting people and territory as the primary purpose of a defence force and 'defending New Zealand's territory and critical lines of communication' was chosen as the most important role four times more often than the next most chosen.

The survey results were a valuable tool to test the analysis underpinning the policy objectives and strategic approach proposed in the Defence Policy and Strategy Statement.

In addition to the public survey, Defence hosted public webinars attended by over 100 people, and received further feedback via detailed submissions.

Consistent with work for the **National Security Strategy**, Defence is looking to better understand the interests of iwi/Māori in national security through continuing to build new and to foster existing relationships with iwi/Māori that endure beyond the completion of the Defence Policy Review.



This contributes to the Ministry's objectives ***We actively seek the input of New Zealanders in our work and New Zealanders understand security issues, Defence's role and the value of the Ministry***

02

PACIFIC AND
BEYOND



TE MOANA-NUI-A-
KIWA, Ā, KI TUA

PACIFIC AND BEYOND

TE MOANA-NUI-A-KIWA, Ā, KI TUA

New Zealand is facing a more challenging strategic environment than for decades, with increasing threats to our security in various ways. Defence must focus on the issues that matter most to New Zealand's security by strengthening our relationships within the international rules-based order. This includes making credible contributions to collective efforts within the Pacific and beyond to protect and promote security, stability and resilience.

New Zealand's updated defence approach, set out in the **Defence Policy and Strategy Statement**, emphasises a deliberate, proactive and strategy-led approach to the promotion and protection of New Zealand's defence and wider security interests.



Our new strategy emphasises deliberate Defence actions to shape our strategic environment and prevent threats to New Zealand's interests, with a particular emphasis on activities in and for the Pacific. The Pacific is also the area where Defence can have the greatest material impact. By global standards, New Zealand is a small state but a significant actor in its immediate region.

As a small but globally connected nation, New Zealand relies on partnerships to meet its defence interests. Defence needs to work with security partners and be able to contribute meaningfully in the region and beyond. The Ministry's focus on international defence engagement ensures our relationships with partners are resilient.

Kotahitanga reflects our whanaungatanga (family, relationships) with the Pacific region and the importance of ensuring that our partnerships with Pacific Island Countries reinforce a region of stable, secure, resilient and independent states.

The strong relationships we maintain in the Pacific and with wider partners work to amplify New Zealand's voice internationally and support our security.

This work connects to the following focus areas of the Ministry's strategy:

	INFORM	Informing decisions with strategic insight Te whakamōhio i ngā whakatau mā te rautaki
	DELIVER	Delivering to strengthen national security Te koke kia kaha ake ai te haumarutanga ā-motu

SUPPORTING A SECURE, STABLE, AND RESILIENT PACIFIC

KEI TE TAUTOKO I TE MOANA-NUI-A-KIWA KIA HAUMARU, KIA TAU, KIA WHAKAMĀROHIROHI HOKI

The Pacific has become increasingly significant as a theatre for strategic competition. New Zealand shares with other Pacific Island countries, Australia and our other security partners, a strong and enduring interest in maintaining a stable, secure, prosperous and resilient region.

We know that addressing the impacts of climate change will be one of the greatest global challenges of coming decades.

The significance of climate change for the Pacific in particular means Defence must support Pacific Island countries to build their climate change resilience and contribute to regional responses to natural disasters and other climate-driven events.

This includes supporting Pacific defence and security forces to increase their capacity and capability to respond to natural disasters.

The Ministry works with regional partners, particularly in the Pacific, to support engagement and regular dialogue – both bilaterally and through regional architecture (refer to page 23).

This regional architecture, with the Pacific Islands Forum at its centre, is critical to promoting shared understanding, formalising regular dialogue, and enabling practical cooperation across the region. The Ministry is an active participant in, and a strong advocate for this architecture.

Engagements help to amplify the voice of the Pacific and embed regional norms and values – as outlined in the **2050 Strategy for the Blue Pacific Continent**.

The value of enduring relationships is also central to the Ministry's work in the Pacific and opportunities to share knowledge and experiences is a key area of focus.

Every year, 50,000 people are permanently or temporarily displaced in the Pacific due to natural disasters and climate change. Sea levels in the Pacific are rising at a rate three times faster than the global rate. The tempo of extreme weather events is increasing. For example, the Pacific experienced a Category 5 storm once in the 1980s, three such storms in the 1990s, five in the 2000s, six in the 2010s, and in the 2020s to date three of the four years have experienced at least one Category 5 storm.⁴

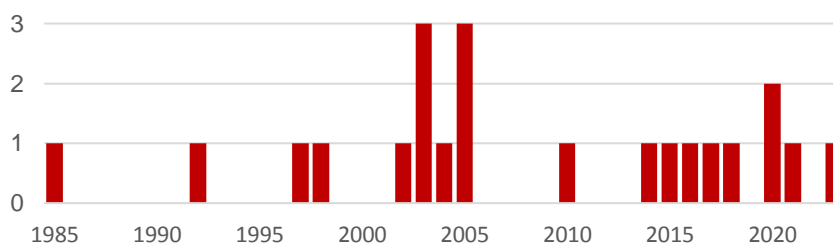


Figure 1: incidences of Category 5 South Pacific tropical cyclones

⁴ International Best Track Archive for Climate Stewardship, *National Centers for Environmental Information, Oceanic and Atmospheric Administration*, <https://www.ncei.noaa.gov/products/international-best-track-archive>.

CASE STUDY: SOUTH PACIFIC SECRETARIES OF DEFENCE DIALOGUE

Engaging with partners from the Pacific is a key focus for the Ministry of Defence and takes place across the Ministry, including at the Secretary of Defence level.

In late-February 2023, senior defence policy leaders from the Republic of Fiji, Papua New Guinea, Australia, New Zealand, and the Kingdom of Tonga met at Devonport Naval Base in Auckland for the inaugural South Pacific Secretaries of Defence Dialogue.

Hosted by New Zealand’s Secretary of Defence Andrew Bridgman, this meeting marked the first chance for the Secretaries to meet in person, following three years of virtual meetings due to COVID-19.

The meeting was an opportunity to discuss common defence challenges, regional security issues and defence policy across the region including the impacts of climate change.

“The ability to meet counterparts in person from around the Pacific was an invaluable chance to connect with the region,” said Andrew Bridgman. “Discussions with my counterparts emphasised the commonalities of issues we face as defence policy leaders and our shared interests on regional security issues.”

The South Pacific Secretaries of Defence Dialogue takes place biannually (once in-person and once virtually).



Front row, from left: **Captain Jon Beadsmore** – Royal New Zealand Navy - **Captain Fleet Operational Readiness, Val Alder** – Kaikaranga, **Manasa Lesuma** – Republic of Fiji – Permanent Secretary for Home Affairs, **Captain Sione Ulakai** – Kingdom of Tonga - Deputy Chief of Defence Staff His Majesty’s Armed Forces, **Hari (John) Akipe** – Papua New Guinea - Secretary of Defence, **Andrew Bridgman** – New Zealand - Secretary of Defence, **Greg Moriarty** – Australia - Secretary of the Department of Defence, **AEWS Caleb Kutia** – Royal New Zealand Navy – Kaiwero

Engagements with our Defence partners take place at both Ministerial and officials' level, and supporting these engagements is a key way the Ministry plays a role in fostering New Zealand's relationships with the Pacific.

In the reporting period, the Ministry supported the following visits by the Minister of Defence:

- A bilateral visit to the Republic of Fiji which saw the signing of both a Status of Forces Agreement and a Statement of Intent with Fiji.
- A bilateral visit to Solomon Islands to commemorate the 80th anniversary of the Battle of Guadalcanal.
- Both a bilateral visit to Australia, and a visit to New Zealand by Australia's Deputy Prime Minister and Minister of Defence Richard Marles, to discuss the Defence relationship and the region.
- A visit to Tonga for the South Pacific Defence Ministers' Meeting.

The Secretary of Defence also undertook more than 10 Pacific engagements in the reporting period.

NEW ZEALAND-FIJI STATUS OF FORCES AGREEMENT

The Status of Forces Agreement (SOFA) with the Republic of Fiji, signed in June this year, aims to further strengthen the defence relationship between the Pacific partners.

The SOFA is a legal framework for the New Zealand Defence Force and the Republic of Fiji Military Forces for closer cooperation within each other's territories.

Defence Minister Andrew Little and his Fiji counterpart, Minister for Home Affairs and Immigration Pio Tikoduadua, signed the agreement in Suva.

A Statement of Intent was also signed, outlining the priorities for defence cooperation between the two nations. The agreed priorities include training, maritime security, and disaster and humanitarian response co-ordination.



This work contributes to the Ministry's objective *the Ministry is influential internationally and across the national security sector*



Above: Minister of Defence Hon Andrew Little and Minister for Home Affairs and Immigration for Fiji, Pio Tikoduadua signing the Status of Forces Agreement in June 2023.

ANALYST SECONDMENT TO FIJI'S MINISTRY OF HOME AFFAIRS AND IMMIGRATION

One way the Ministry has fostered New Zealand's relationships in the Pacific is through the ongoing secondment of a senior analyst to work in the Policy division of Fiji's Ministry of Home Affairs and Immigration. These secondments help fortify people-to-people ties in the Pacific, support mutual capacity building and create opportunities to enhance both countries' understanding of our shared defence challenges.

The Policy division of the Fiji Ministry of Home Affairs and Immigration is responsible for all defence and security policy matters. This particular posting coincided with the Ministry's work to finalise the recently signed **Status of Forces Agreement between New Zealand and Fiji**, Ministry-led engagements such as the organisation of Fiji's annual Remembrance Day celebrations, and Fiji's elections in December 2022.

The third Ministry secondee to Fiji started in May 2023.



Above: the Ministry's senior analyst with her colleagues at Fiji's Ministry of Home Affairs and Immigration.

REAFFIRMING THE STRENGTH OF THE AUSTRALIA-NEW ZEALAND RELATIONSHIP

In October 2022 the Defence Ministers of both countries announced the refreshed bilateral **Australia – New Zealand Defence Dialogue Architecture**. This guides official-level cooperation between the respective Defence organisations to ensure it is coordinated and supports the priorities set by Ministers. It also delivers a dialogue structure that is better able to respond to the increasingly complex challenges of climate change and our strategic environment, both domestically and in the Pacific.

The Ministers agreed to explore a range of initiatives, including:

- closer cooperation of our respective defence reviews
- increasing personnel exchanges, postings and secondments at junior and senior levels
- strengthening the joint operational capabilities of our forces, and
- developing complementary and inclusive efforts and protocols with the region to enhance coordination on humanitarian assistance and disaster response.

Over the reporting period, the Ministry supported four formal Australia and New Zealand strategic senior-level engagements, with numerous other engagements occurring at operational and tactical levels. On top of discussing the bilateral defence relationship, these engagements allow Australia and New Zealand to discuss our shared ambition for a safe, stable and prosperous Pacific.

CASE STUDY: COLLABORATING WITH THE SOLOMON ISLANDS ON A NEW MARITIME SECURITY STRATEGY

Work to support the development of the Solomon Islands' first Maritime Security Strategy continues to progress following a successful workshop in Honiara in March 2023.

The Maritime Security Strategy Workshop was facilitated by a team from the New Zealand Ministry of Defence and Maritime New Zealand, following an invite from the Solomon Islands Ministry for Police, National Security and Correctional Services.

Andrew Bridgman and the New Zealand High Commissioner, Jonathan Schwass, hosted the one-day workshop, where New Zealand officials shared their learnings from developing our own Maritime Security Strategy: **Te Kaitiakitanga o Tangaroa**.



Above: Ministry of Defence and New Zealand High Commission staff with Solomon Islands officials in Honiara at the Maritime Security Strategy Workshop.

"It was a privilege to be able to meet face to face and offer our support to the Solomon Islands Government as it develops its own Maritime Security Strategy," Andrew Bridgman said.

"What became clear was how both New Zealand and the Solomon Islands face similar challenges in the maritime space. We are both Pacific countries with large territorial waters, facing a range of maritime security issues such as transnational crime and illegal fishing."

The workshop was attended by officials from across the Solomon Islands Government, including the Permanent Secretary for the Ministry of Police, National Security and Correctional Services, Karen Galokale. A representative from the New Zealand Defence Force was also part of the New Zealand delegation.

BEYOND THE PACIFIC

KI TUA O TE MOANA-NUI-A-KIWA

While the Pacific is a focus area, Defence also maintains regular engagement with nations outside the region. Throughout the reporting period the Ministry has supported various multilateral defence engagements.

The Ministry supported in-person Ministerial level multilateral meetings at the Association of Southeast Asian Nations Defence Ministers' Meeting-Plus and various engagements as part of the Shangri-La Dialogue – the premier forum for Defence Ministers in the Indo-Pacific region. The latter included the signing of a **Statement of Intent on Defence Cooperation in Maritime Security, Humanitarian Assistance and Disaster Relief and Climate Change in the Pacific Islands Region** with Japan.

Virtual multilateral meetings that took place during the reporting period include the Minister of Defence's attendance in multiple Ukraine Defence Contact Group meetings and the Copenhagen Conference for Ukraine.

Additionally, the Ministry has supported more than 80 international bilateral engagements in 2022/23 involving senior Defence officials or the Minister.

Outside the Pacific, this includes visits to Australia, United Kingdom, the United States, Singapore, Ukraine, Poland, Republic of Korea, Japan, China, Türkiye, Germany, the United Arab Emirates, and Jordan.

Additionally, New Zealand has hosted counterparts from Australia, Canada, the United States, Ukraine, Timor Leste, Botswana, Indonesia, the Netherlands, and Singapore.

The Ministry has supported senior Defence officials attending a broad range of multilateral meetings, including the Secretaries' of Defence Dialogue, the Indo-Pacific Chiefs of Defence meeting, Association of Southeast Asian Nations Defence Ministers' Meeting-Plus Senior Officials' Meeting, Defeat-ISIS Political Military Consultations, and the Shangri-La Dialogue Sherpa Meeting.

The Ministry's international defence engagement is guided by the Government and Defence priorities through our **International Defence Engagement Strategy**. The Strategy prioritises New Zealand's international defence relationships and determines the key initiatives to maintain and develop our defence relationships. Defence engagement with New Zealand's international partners advances our wider policy goals, builds and maintains our capability and supports our operations.

4.8 / 5

Assessing Defence Policy Advice: each year, the Ministry surveys the Minister of Defence on the quality of the Ministry's policy advice using a questionnaire set by the Department of the Prime Minister and Cabinet.

The Minister reviews our advice on international deployments, Defence policy and Defence major capability projects.

The Minister rated his **general satisfaction** of the Ministry's policy advice **4.8 out of 5** for the 2022/23 year.

CASE STUDY: CLOSER DEFENCE COOPERATION BETWEEN NEW ZEALAND AND JAPAN

In June 2023, Defence Ministers of New Zealand and Japan signed a statement of intent for closer defence cooperation between the two Pacific regional partners.

New Zealand Defence Minister Hon Andrew Little and Japan's Minister of Defence H. E. Yasukazu Hamada met to sign the **Statement of Intent on Defence Cooperation in Maritime Security, Humanitarian Assistance and Disaster Relief and Climate Change in the Pacific Islands Region** at the 20th Shangri-La Dialogue in Singapore.

The Statement of Intent was the culmination of more than two years of discussions including consultation with Pacific partners to ensure alignment with Pacific priorities. The Statement is a renewed commitment to cooperation in the Pacific between New Zealand and Japan based on shared interests and objectives underpinned by the countries' Strategic Cooperative Partnership.

The Statement of Intent and proposed priority areas of cooperation will be reviewed annually by Defence officials.



Above: Hon Andrew Little and H. E. Yasukazu Hamada signing the Statement of Intent at the Shangri-La Dialogue.

CASE STUDY: ASEAN DEFENCE POLICYMAKERS' COURSE AND FUTURE LEADERS SUMMIT

In May 2023, the Ministry of Defence hosted the Defence Policymakers' Course for the Association of South East Asian Nations (ASEAN) Partners and the Future Leaders' Summit on Security in the South Pacific.

These two programmes focused on supporting capacity-building, sharing policy best-practice, and encouraging all-of-government approaches in both the Pacific and the wider Indo-Pacific region. The two events provided opportunities for participants from ASEAN and South Pacific Defence Minister Meeting countries to discuss shared security challenges. Participants also gained an increased understanding of New Zealand's approaches to complex security issues and how government agencies can work collaboratively.

These courses enable a valuable exchange of approaches with international partners to best confront a rapidly evolving geostrategic environment – with a focus on building partnerships that support regional stability. They also contribute to the development of an emerging network of future defence leaders. Following their success, similar programmes will be held annually.

The **Defence Policymakers' Course for ASEAN partners** involved 11 Defence officials from Brunei Darussalam, Cambodia, Indonesia, Lao People's Democratic Republic, Malaysia, Philippines, Singapore, Thailand, Viet Nam, Timor Leste and the ASEAN Secretariat. It directly supports the ASEAN-NZ Plan of Action 2021-2025 by improving participants' understanding of, and ability to contribute to, defence policymaking. The event culminated in participants sharing regional and country-specific perspectives on a range of topics from multilateralism to the South China Sea.

The **Future Leaders Summit** involved 22 emerging leaders from countries that take part in the South Pacific Defence Ministers Meeting (Australia, Chile, Fiji, France, Papua New Guinea, Tonga, and New Zealand). The Summit focused on professional leadership development with discussions on emerging regional security issues and the need for a coordinated multilateral response to emerging issues across state boundaries. The Summit emphasised climate change as the primary security challenge facing the region.



Above: Secretary of Defence Andrew Bridgman and Chief of Defence Force AM Kevin Short with delegates of the Future Leaders' Summit.

DEPLOYMENT ADVICE IS COMPREHENSIVE AND ENABLES THE GOVERNMENT TO MAKE INFORMED DECISIONS

HE WHĀNUI TE AROĀ O NGĀ TOHUTOHU TUKU TAUA, MĀNA KA TAEA E TE KĀWANATANGA NGĀ KŌWHIRINGA WHAI MŌHIOHIO TE KŌWHIRI

The Ministry leads the development of advice to the Government on a range of deployments of NZDF personnel and assets.

In line with New Zealand's national security priorities, this advice supports Government decisions on a number of deployments that reinforce the international rules-based system, contribute to collective security efforts, and have foreign policy and operational benefits for New Zealand.

These deployments support peace and stability in our immediate region, such as extending the New Zealand deployment to Solomon Islands as part of the regionally-led Solomon Islands International Assistance Force. In the wider Indo-Pacific region, the Ministry also supported advice leading to the extension of the mandate of New Zealand's contribution to United Nations Command on the Korean Peninsula.

Further afield, our advice provided the basis for Cabinet's agreement to extend New Zealand's contribution to the Operation Gallant Phoenix multi-

national intelligence mission, where partners collect and share information about potential and existing terrorist threats.



This year Cabinet also extended the deployment of NZDF personnel involved in supporting and training the Ukrainian Armed Forces, including through the provision of artillery and infantry training based in the United Kingdom. New Zealand also continues to support the training of Ukrainian personnel in western-led space operations. Over the past year, New Zealand has contributed more than \$78 million of financial and military support to Ukraine.

4.8 / 5

Assessing Defence Policy Advice: each year, the Ministry surveys the Minister of Defence on the quality of the Ministry's policy advice using a questionnaire set by the Department of the Prime Minister and Cabinet.

The Minister reviews our advice on international deployments, Defence policy and Defence major capability projects (see the Infrastructure section).

The Minister rated the **quality** of the Ministry's policy advice **4.8 out of 5** for the 2022/23 year.

CURRENT INTERNATIONAL DEPLOYMENTS

Support to Ukraine



As of 30 June 2023 up to 95 NZDF personnel were approved by Cabinet to be deployed throughout Europe as part of Operation TTeke, contributing to international efforts to assist Ukraine in its self-defence.

Operation Gallant Phoenix – Jordan



Operation Gallant Phoenix is an intelligence fusion centre that enhances the capacity of New Zealand and member nations to share information and understand and respond to current, evolving and future violent extremist threats – regardless of ideology. Our participation supports and expedites the growth of several valuable capabilities for New Zealand.

United Nations Mission in South Sudan – Republic of South Sudan



UNMISS was established in 2011 and plays an important role in protecting civilians, peace-making and facilitating the delivery of humanitarian aid. New Zealand's participation in UNMISS contributes to our collective security responsibilities, addresses humanitarian concerns, and provides a small but tangible demonstration of New Zealand's commitment to peace and security in Africa.

Multinational Force and Observers – Egypt



New Zealand's contribution to the Multinational Force and Observers (MFO) is one of its longest standing deployments, participating in the MFO mission since it was established in 1982. The MFO mission aims to ensure compliance with the commitments of the 1979 Treaty of Peace between Egypt and Israel and supports regional peace and stability. New Zealand personnel perform a number of roles including drivers, driver trainers, electricians, engineers and command functions.

Combined Maritime Forces - Bahrain



New Zealand's economic prosperity depends on open sea, air and electronic lines of communication. This deployment contributes to international efforts supporting freedom of navigation, and multinational counter-piracy and maritime security operations in the Arabian Gulf and Indian Ocean. New Zealand contributes to the Combined Maritime Forces Headquarters in Bahrain, a multinational naval partnership that promotes security, stability and prosperity across approximately 8.3 million square kilometres of international waters encompassing some of the world's most important shipping lanes.

United Nations Truce Supervision Organisation – Golan Heights, Lebanon and Syria



UNTSO is the United Nations' oldest peacekeeping operation, and an important and visible demonstration of UN efforts to preserve peace between Israel and its neighbours. The NZDF has contributed to UNTSO since 1954, supporting the mission through the deployment of military observers based in the Golan Heights, Lebanon and Syria.

Deployed personnel patrol and monitor ceasefires and military activity in contested areas, supporting conflict prevention. It is our largest contribution to a United Nations-led peacekeeping mission.

United Nations Command and its Military Armistice Commission in the Republic of Korea – Republic of Korea



New Zealand's longstanding deployment to the Republic of Korea supports the maintenance of peace and stability on the Korean Peninsula, and more broadly, collective security in the Indo-Pacific region. NZDF personnel contribute to the planning and coordination functions of the United Nations Command Headquarters, and the administration of the Korean Armistice Agreement. NZDF personnel operating in the Demilitarised Zone perform a very visible role in upholding the Armistice Agreement. This important contribution also ensures that New Zealand remains well-connected to developments related to the security situation on the Korean Peninsula.

Operation Solomon Islands Assistance – Solomon Islands



Approximately four NZDF personnel are deployed to the Solomon Islands as part of the Pacific-led Solomon Islands

International Assistance Force (SIAF). The SIAF deployed to Honiara from late November 2021 to support the Royal Solomon Islands Police Force (RSIPF) in restoring peace and stability following a period of civil unrest. The SIAF has since continued to support the RSIPF in maintaining peace and stability including through community engagement and reassurance. The NZDF personnel deployed operate alongside their New Zealand Police colleagues to achieve this.

South Pacific and South East Asia Mutual Assistance Programme



The Mutual Assistance Programme (MAP) is an integral component of New Zealand's contribution to peace and security in the Asia Pacific. MAP activities include the

provision of training, technical and other support to South Pacific and Southeast Asian security and defence forces.

Support of United Nations Security Council Sanctions against North Korea – North Asia



Since 2018, New Zealand has deployed maritime patrol aircraft and personnel to North Asia in support of United Nations Security

Council sanctions against North Korea. Maritime surveillance patrols detect and deter sanctions-evasion activities such as ship-to-ship transfers of illicit goods at sea. Pursuing the complete, verifiable and irreversible denuclearisation of North Korea is an important part of New Zealand's strong stance on nuclear non-proliferation. This deployment is another example of New Zealand's active contribution to collective security efforts to address common security challenges in the Indo-Pacific region. The deployments are also beneficial to the NZDF, exposing personnel to operational environments not achievable within exercises, and enhancing interoperability with close partners.



This work contributes to the Ministry's objective *we bring a deep understanding of NZDF to decisions*



Above: Defence Force personnel deploying as part of New Zealand's support to Ukraine.

THE MINISTRY'S POLICY ADVISOR PROGRAMME

The Policy Advisor (POLAD) programme was set up in response to a recommendation by the Operation Burnham Expert Review Group to enable the provision of real time policy guidance throughout NZDF operations. The programme builds the experience of POLADs through various types of training, including participation in domestic and international military exercises. The first POLAD was deployed in November 2021 as part of the NZDF's response in the Solomon Islands and the programme has since evolved to encompass further exercises and trainings. Some examples of these international exercises within the reporting period are below.

EXERCISE ULCHI FREEDOM SHIELD 2022 took place on the Korean Peninsula in August to September 2022. A Ministry POLAD joined six NZDF staff in the United Nations Command's Headquarters during the exercise. Working alongside two international counterparts, our POLAD provided advice to senior coalition leaders, guided strategic communications and engagements, and challenged assumptions held by coalition military planners to assist the United Nations Command in navigating the exercise.

The POLAD deployed was awarded a commendation for their 'performance and dedication'.

EXERCISE SUMAN PROTECTOR 2022, a Five Power Defence Arrangements (FPDA) exercise, took place in Singapore in October 2022. Approximately 280 personnel from Singapore, the United Kingdom, Malaysia, Australia, and

New Zealand took part in the table top exercise. Our POLAD worked alongside three counterparts from other FPDA nations as part of the Commander's Advisory Group (CAG). This iteration of Suman Protector was the first ever to contain a CAG, which consisted of a number of specialist roles beyond POLADs, including Legal Advisors, Gender Advisors, and Public Affairs representatives. The Ministry's POLAD on this exercise worked alongside their CAG colleagues to provide specialist policy advice to the commander of the exercise on key considerations to factor into the military planning process.



This work contributes to the Ministry's objective *implement the Operation Burnham Inquiry recommendations*



Above: NZDF personnel partaking in Exercise Talisman Sabre in Queensland, August 2023.



03

PEOPLE

TANGATA

PEOPLE

TANGATA

People are Defence’s greatest asset, and we need to ensure our people are supported and equipped to face today’s challenges and those in the future. Defence is lifting its focus on culture and diversity to ensure our people reflect New Zealand and effectively serve our domestic and offshore communities. This work is in line with the changes to the Public Service Act 2020 that enable a more adaptive, agile and collaborative public service.



Key deliverables for the Ministry this year include taking the final steps in establishing an Inspector-General of Defence, establishing a new division with focus on strategy, assessment and data-driven decision making, and developing and implementing a new People Strategy.

A foundational element of Defence’s **angitu** is the *mana* afforded its people. Defence needs to support this *mana* by ensuring its people represent and reflect the communities from which they come and that the reputation and credibility of its people is supported and maintained.

Kotahitanga is expressed through ensuring diversity of people and equitable representation of women.

This work connects to the following focus areas for the Ministry’s Strategy:

	SUPPORT	Supporting talented and diverse people Te taunaki i ngā tangata ihumanea matahuhua
	INFORM	Informing decisions with strategic insight Te whakamōhio i ngā whakatau mā te rautaki
	DELIVER	Delivering to strengthen national security Te koke kia kaha ake ai te haumarutanga ā-motu

IMPLEMENTING THE RECOMMENDATIONS OF THE OPERATION BURNHAM INQUIRY

KO TE WHAKATINANA I NGĀ TŪTOHINGA O TE UIUINGA OPERATION BURNHAM

The Ministry is working with the NZDF and other relevant agencies to implement two recommendations from the **Report of the Government Inquiry into Operation Burnham and related matters** (the Inquiry) released in 2020.

The Inquiry made four recommendations:

1. to appoint an Expert Review Group
2. to establish, by legislation, an Inspector-General of Defence
3. to promulgate a Defence Force Order on how civilian casualties should be handled, and
4. to develop and promulgate effective detention policies and procedures.

Recommendation Three was led by NZDF and was completed in 2021.

Recommendation Four was led by the Ministry of Foreign Affairs and Trade and the policies were approved by Cabinet in July 2022.

Recommendations One and Two are ongoing – implementing the work of the Expert Review Group and establishing an **Inspector-General of Defence**.

The Ministry has led the development of policy advice to establish, by legislation, an Inspector-General of Defence which would provide independent external oversight of the NZDF. The Inspector-General of Defence Bill passed its third reading on 19 July 2023. For further detail, see the case study on page 39.

The Ministry's work implementing the recommendations of the Inquiry contributes to improving New Zealanders' confidence in the NZDF, enhances civilian oversight of the military, and contributes to the improvement of Defence processes and practices.



This work contributes to the Ministry's objective **implement the Operation Burnham Inquiry recommendations**

3.5 / 5

Assessing Defence Policy Advice: The Ministry commissions an annual assessment of Defence policy advice by the New Zealand Institute of Economic Research. In 2021/23 the Ministry scored an average of **3.5** for a random selection of its policy advice, against the Department of the Prime Minister and Cabinet's *Policy Quality Framework*.

The review included an assessment of **the Inspector-General of Defence Bill: Seeking direction on preparing a Supplementary Order Paper**. This paper received a rating of **4.5**, with specific comments from the reviewer noting it was:

A meaty analysis that allowed the reader to pick up the gist quickly... The purpose is straightforward, brief and clear... The background is clearly laid out and the issue is canvassed throughout the bundle.

EXPERT REVIEW GROUP

The work of the **Expert Review Group** (ERG) was wide ranging, covering four main areas:

1. legislative and working arrangements between the NZDF, Ministry of Defence, and other government agencies involved in complex operations
2. the structure, function and purpose of NZDF Headquarters
3. the role, culture, and structure of New Zealand's Special Forces, and
4. NZDF's information management systems and practices, and the flow of defence knowledge to the Minister of Defence.

Defence has established the **Operations Lifecycle Enhancement Programme** (OLEP) team, co-led by the NZDF and the Ministry, to ensure there is a cohesive and consistent approach to the implementation of the ERG recommendations.

These recommendations vary significantly in scale, scope and timeframe, from swiftly achievable to those underpinned by large-scale dependencies. The objectives of this programme span the breadth of 'Defence Inc.', and has a range of key stakeholders.

The recommendations are designed to:

- improve decision-making processes with regards to Defence operations,
- increase the provision of timely and transparent information to operational decision makers, and
- improve collaboration between NZDF operational and Ministry policy personnel.

Key work items completed jointly by the Ministry and NZDF in 2022-23 include:

- Designing an **Operations Lifecycle Framework** outlining Defence and other key agency roles and responsibilities throughout a comprehensive, and fully integrated, operations lifecycle (see case study on page 40).
- Establishing a **Defence Operations Consultation Committee** to regularly bring together the Ministry, NZDF, the Ministry of Foreign Affairs and Trade, Department of the Prime Minister and Cabinet, and other agency senior officials to address key issues around operations.
- Developing a system for the performance measurement of operations.
- Embedding the **Ministry of Defence Policy Advisor** capacity to provide policy support to NZDF operations in the field (see page 33).
- An uplift in strategic advice capacity within the Office of Chief of Defence.
- A new official records Disposal Authority approved by the Chief Archivist.
- Inclusion of the ERG Report recommendations in the finalised NZDF Information Management Programme.
- A new **NZDF Public Affairs Strategy** reflecting ERG expectations.

Ongoing work includes establishing system and information flows to ensure these mechanisms work together seamlessly to realise the ERG's intent. The final stage of implementation will be testing the new mechanisms and systems. The focal point for this will be the NZDF-led Joint Readiness Exercise, preparations for which begin this year and will progress throughout 2024.

CASE STUDY: ESTABLISHING THE INSPECTOR-GENERAL OF DEFENCE

*Work to establish an independent Inspector-General of Defence (IGD) is a significant step to implementing the recommendations of the **Inquiry into Operation Burnham and Related Matters**. Once implemented, the Inspector-General of Defence will help strengthen democratic accountability and civilian oversight of the military.*

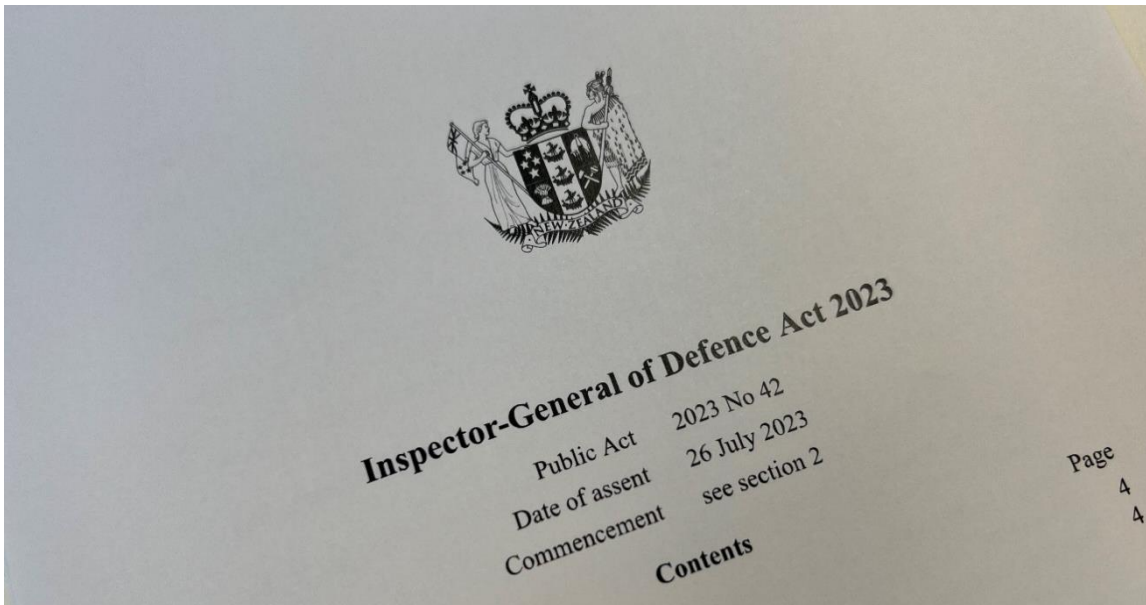
In October 2022, Cabinet agreed to introduce the **Inspector-General of Defence Bill** (the Bill) into Parliament. In the months preceding this decision, the Ministry of Defence worked closely with the Parliamentary Counsel Office to draft the Bill and give effect to Cabinet's policy decisions on the scope, functions, powers and organisational form of the IGD.

The Bill passed its first reading in November 2022, and was referred to the Foreign Affairs, Defence and Trade Select Committee for consideration. The Ministry was appointed as a departmental advisor to this Select Committee, and between February and June 2023 provided detailed advice to the Select Committee on the Bill, its development and the Government's policy objectives.

In particular, the Ministry supported the Select Committee by analysing the 13 submissions received from interested members of the public. In consultation with the Select Committee's independent advisor, Sir Kenneth Keith, the Ministry recommended a number of changes to the Bill, in response to the feedback in those submissions, to enhance the overall transparency and independence of the office. The most significant was a change to enable the Inspector-General to examine non-operational NZDF activities on its own initiative. Previously, the Inspector-General would have required a referral from the Minister of Defence, Secretary of Defence or Chief of Defence Force to examine those matters.

On 23 June 2023, the Select Committee reported the Bill back to Parliament with many of the Ministry's recommended changes. On 19 July, the Bill passed through its second reading, the Committee of the whole House, and third reading stages. The Bill received royal assent on 26 July 2023 and the project has now transitioned into the implementation phase.

Establishing the IGD will assure the New Zealand public and Parliament that NZDF activities are subject to dedicated independent oversight. The increased transparency and accountability resulting from the establishment of the IGD will ensure the trust, reputation and credibility of the NZDF's people is maintained.



CASE STUDY: DEVELOPING AN OPERATIONS LIFECYCLE FRAMEWORK

The Expert Review Group (ERG) recommended the “NZDF and Ministry of Defence strengthen integration throughout the deployment lifecycle and at all levels of both organisations... [and] develop and document an integrated deployment lifecycle with clear accountabilities and participation rights for NZDF and the Ministry of Defence across the whole deployment”.

To date, the lifecycle of complex NZDF operations has primarily focused on three stages:

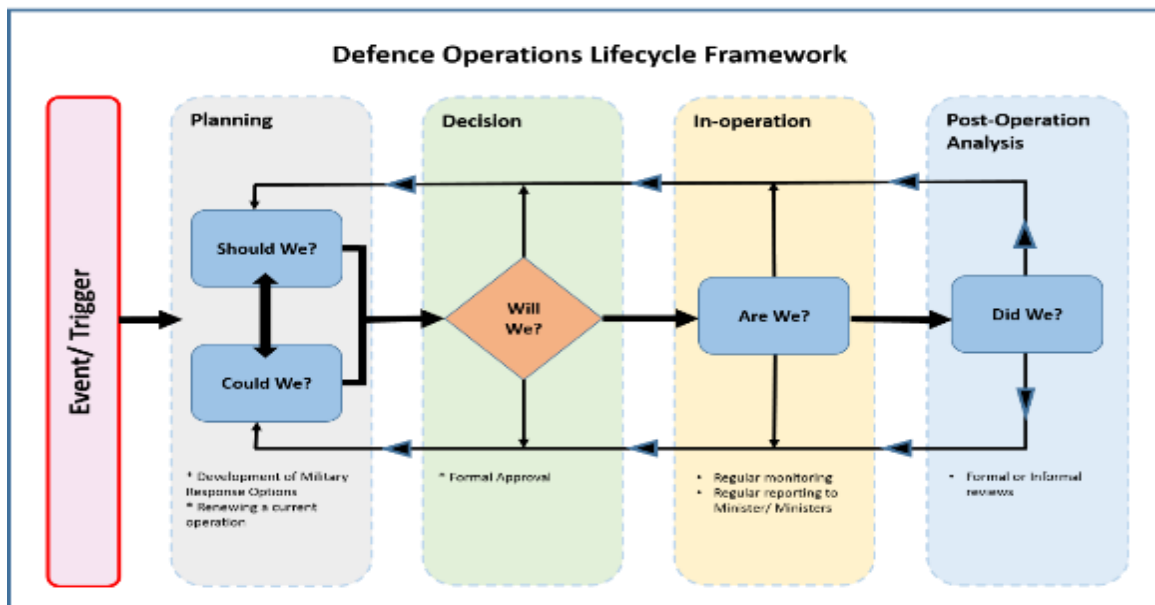
- **Should We?** Is the proposed operation in line with New Zealand’s strategic interests and policy?
- **Could We?** Do we have the capability and resources to do the operation?
- **Will We?** Authorisation of the operation by Cabinet or other authority.

Defence’s Operations Lifecycle Enhancement Programme team, set up to implement the ERG’s recommendations, conducted a series of inter-agency workshops towards the end of 2022 to determine a framework for roles and responsibilities across a comprehensive and fully integrated framework.

The workshops arrived at an expanded lifecycle with two new stages:

- **Are We?** Is the operation meeting its mandate?
- **Did We?** Identifying lessons and opportunities at the end of an operation.

These two stages will be integrated into the dynamic system, represented by Figure 3:



This Operations Lifecycle Framework provides an important foundation for ongoing Operations Lifecycle Enhancement Programme work regarding performance measurement and information flows and management. Since the completion of the Operations Lifecycle Framework, Defence has been developing the business systems, processes and information required to ensure the Framework will be effective and sustainable. Testing of the Framework will begin in 2024.

SECURITY POLICY

The Ministry works to ensure Defence's interests in space in are represented within major government policy products. This has been reflected in the **National Space Policy** released May 2023 and the August 2023–released **National Security Strategy, Future Force Development Principles 2023** and **Defence Policy and Strategy Statement 2023**. The Ministry works closely with our international partners to advance New Zealand's national security interests in space, which included hosting senior military and policy representatives from Australia, Canada, France, Germany, the United Kingdom and the United States at the Combined Space Operations initiative Principals' Board meeting in December 2022.

The Ministry also continues to provide policy advice to assist in the development and application of Defence's cyber capabilities. This work is set to increase along with rapid developments in cyber capabilities around the world.

ESTABLISHING A NEW STRATEGY MANAGEMENT AND ASSESSMENT DIVISION

*Following a review in mid-2022 commissioned by the Secretary of Defence, it was recommended a **Strategy Management and Assessment Division** be established.*

Under a new Deputy Secretary, the Division is supporting three pillars of overlapping work:

1. **Strategy Management** – to ensure Defence is clear and consistent about where it is going and how it will get there.
2. **Assessment** – to ensure Defence understands how the Defence system is performing, why, and that lessons are learned to inform future decision-making.
3. **Data** – to ensure Defence is using data and evidence to make better decisions.

The Division is leading the Ministry's audit and assessment work that supports the Secretary of Defence's statutory function under section 24(2)(e) of the Defence Act 1990, to "arrange for the assessment and audit of the NZDF in relation to any function, duty, or project...as and when required by the Minister, or in accordance with a programme of audit and assessment approved by the Minister". Each year's work programme is determined and prioritised in agreement with the Minister.

Alongside the Audit and Assessment team, the Division includes a new capability for the Ministry, the Strategy Management Office. That office works closely with NZDF's Defence Strategy Management Office to ensure the range of Defence strategies and policies are aligned and consistently demonstrate connection to Government's defence policy interests. It is also responsible for lifting the Ministry's data capability to ensure that Defence decisions and assessments are visibly evidence-based.

The Division will continue to develop its work programme under its three overlapping pillars and will work to assess, quantify and measure the success of the Defence System.



This work contributes to the Ministry's objectives **our decisions are visibly evidence-based** and **the impact of our delivery is measured to inform future decisions**

MINISTRY PEOPLE

NGĀ TĀNGATA O TE MANATŪ

In September 2022 **Te Rautaki Tangata ā Mātou | Our People Strategy (2022-2024)** was launched. The strategy articulates the Ministry's priorities for growing our people and organisational capability to collectively deliver on the Ministry's vision of **thought leaders strengthening national security in an uncertain world**.

Our people are policy makers, project specialists, analysts and expert advisors in defence matters. 40% of our staff are on fixed-term contracts.



DIVERSITY AND INCLUSION TE KANORAU ME TE WHAI WĀHITANGA

Diversity and inclusion is a key tenet of the Strategy and supporting talented and diverse people.

The Ministry offers new staff a suite of three workshops covering:

- cultural competence
- identifying and reducing unconscious bias, and
- identifying acceptable and unacceptable behaviours and how to address unacceptable ones.

As part of our broader focus on diversity and inclusion the Ministry actively contributes to a set of five public service **Papa Pounamu** priority commitments:

1. Strengthening cultural competence
2. Addressing bias and discrimination
3. Building inclusive leadership
4. Developing relationships that are responsive to diversity
5. Supporting and engaging with employee-led networks

Employee-Led Networks

The Ministry has five employee-led networks which help foster and strengthen the Ministry's sense of community and inclusion. The Social, Pride, Pacific Peoples', Women's, and Young Professionals' networks provide social opportunities, advocacy and support for staff and the communities they represent.

The networks share their employee experiences with the Strategic Leadership Team to support initiatives and engagements.



Above: leaders of the Ministry's employee-led networks.



WELLBEING ORANGA TONUTANGA

The Ministry's People Strategy highlights the fundamental importance of staff wellbeing. This year, the **Wellbeing Policy** was updated in recognition of the fact that wellbeing encompasses more than physical activity and that people engage in a range of activities to support their overall health and wellbeing.

This is consistent with the intent of the People Strategy to make improvements as they are identified for staff.



This work contributes to the Ministry's objectives

Ministry people are consistently supported and developed to be successful in their work



LEADERSHIP MANA WHAKATIPU

The Ministry and its people's success are inextricably linked to our people leader's success. Our leaders need to lead in an inclusive and collaborative way that consistently applies Ministry policies and practises. Their leadership must also deliver on public service Te Tiriti responsibilities.

The **Mana Whakatipu | Leadership** programme

has created an opportunity for leaders of all levels to discuss leadership challenges collectively and individually.

Throughout the last year, the programme has focused on how leaders can best support our people.



This work contributes to the Ministry's objective **a place where talented and diverse people feel included and able to do their best work**



PUBLIC SERVICE PAY GAPS ACTION PLAN KIA TOIPOTO

The Ministry is committed to reducing, and ultimately removing, pay gaps at all levels. Our ongoing efforts to address our gender pay gap have made an impact. The ongoing planning, reporting and initiatives below will continue as we broaden our focus to address ethnic pay gaps:

- Diverse and inclusive recruitment and attraction practices for all levels and occupational groupings.
- Transparent remuneration practices with built in checks and balances.
- Equitable career development support for women, Māori and Pasifika peoples.
- Promote hybrid working as our default practise.

Find more information on the **Pay Gaps Action Plan** on page 46.



MĀORI-CROWN RELATIONS CAPABILITY DEVELOPMENT

Throughout 2022/23 the Ministry has laid the foundations and developed a work programme that is reflective of the organisational strategy objective **the Ministry is culturally competent**.

In February 2023, an inaugural wānanga with representatives from across the Ministry was held to develop a phased implementation plan for Manatū Kaupapa Waonga's cultural capability. From the wānanga, the **Hīnātoke Rōpū** (a Ministry-wide working group) led the development of an initial work programme of three activities that will lift Manatū Kaupapa Waonga's cultural capability.

They are:

STAFF COMPETENCE: taking a coordinated approach to learning and development in te ao and te reo Māori, supported within Te Manatū Kaupapa Waonga by the learning and development leads, the Hīnātoke Rōpū and external resources and advice from agencies such as Te Arawhiti.

TE TIRITI O WAITANGI PRINCIPLES: completing the development and implementation of a set of principles and implementation guidance staff can use to guide the way mahi is undertaken in Te Manatū Kaupapa Waonga.

POU TIKANGA: scoping options for a Māori advisory function in Te Manatū Kaupapa Waonga that will be responsible for carrying on the work programme and being a key support to all staff in their responsibility to uphold Te Tiriti in the workplace.

The vision and work programme has been endorsed by the Senior Leadership Team.



This work contributes to the Ministry's objective **the Ministry is culturally competent**

Above: members of the Hīnātoke Rōpū.

Te Manatū Kaupapa Waonga has also found ways to embed meaningful elements of te ao Māori within the workplace, such as mihi whakatau for welcoming new staff, the use of karakia and waiata, and the celebration of significant calendar events such as Matariki. The creation the Māori cultural app **Taho Mai** has also been a significant milestone for the improvement of cultural capability across the organisation within the past year.

CASE STUDY: INTRODUCTION OF THE TĪAHO MAI APP

The public service is working to build and maintain its capability to engage with Māori and understand Māori perspectives, in support of the Crown being a good te Tiriti o Waitangi partner. One of the ways Manatū Kaupapa Waonga is supporting staff on this journey is through the establishment of Tiaho Mai, a Māori cultural application accessible to all staff.

Tiaho Mai is an easy to access resource for Manatū Kaupapa Waonga staff to support them in their journey to greater confidence and competence with te ao, te reo and tikanga Māori. The app was developed by Kiwa Digital in collaboration with the Hīnātore Rōpū, and went live in November 2022. Kiwa Digital's CEO Steven Renata was recognised for his work with a 2022 Minister of Defence Award of Excellence to Industry for Kōtahitanga.

Tiaho Mai has a comprehensive suite of te ao and te reo Māori 'basics'. Staff can access the history of Manatū Kaupapa Waonga, guidance on te reo pronunciation (including a handy tap-and-listen function), useful phrases and terminology, templates for generating personalised pepeha and mihi mihi, and the words for karakia, waiata and whakataukī (among many other things).

The app works as an integral workplace cultural tool. When welcoming new staff to Manatū Kaupapa Waonga, individuals can bring the words to a waiata up on their phone to practice in advance of a mihi whakatau. Before attending a Māori-focused workshop, staff can learn and practice their pepeha or mihi mihi. The use of whakataukī to open a meeting can encourage staff to dwell on meaningful statements that encourage and inspire excellence and positive engagement. In preparation for visiting local iwi or a New Zealand Defence Force marae, staff can read about tikanga and the pōwhiri process.



All of these functions support individual staff and Manatū Kaupapa Waonga to collectively build cultural confidence and competence, and engage appropriately in the relationship between tangata whenua and tangata Tiriti, between Māori and the Crown of which they are representatives.

Left: Secretary of Defence Andrew Bridgman with Steven Renata, CEO of Kiwa Digital.

KIA TOIPOPOTO | PAY GAP ACTION

The Ministry completed its eighth year of gender pay gap action planning this year. The three key changes were:

- the conclusion of the five year targets 2017 – 2022
- the introduction of two new targets, and
- the implementation of a step-based remuneration framework, which increases remuneration transparency for all employees.

A summary of the final 2017 – 2022 targets is below:

Target: To ensure that the gender makeup of the Ministry of Defence operates on a 40-40-20 basis. (40% men, 40% women and the balance of 20%)

Final Report: This target has been met year on year since 2017.

Target: To increase the percentage of female managers in the Ministry of Defence to a minimum of 40% over the next five years.

Final Report: In 2018 the Ministry reached and maintained 38% women managers until 2022 when this dropped to 26%.

The Ministry started measuring Tier 2 and Tier 3 managers as a cohort in 2019 and that has gained steadily year on year from 39% to 44% at June 2022.

Target: That 50% of appointments made to the Capability Delivery Division each year, over the next five years, will be women.

Final Report: The appointments target was exceeded most years.

The gender balance for the division levelled out at almost 50:50 for two consecutive years.

24% of women across the division achieved their next career step in the year to 30 June 2022.

The Ministry's gender pay gap currently sits at 24%. This is a reduction from 46% in 2016 – the year before the Ministry committed to an action plan with targets for the first time.

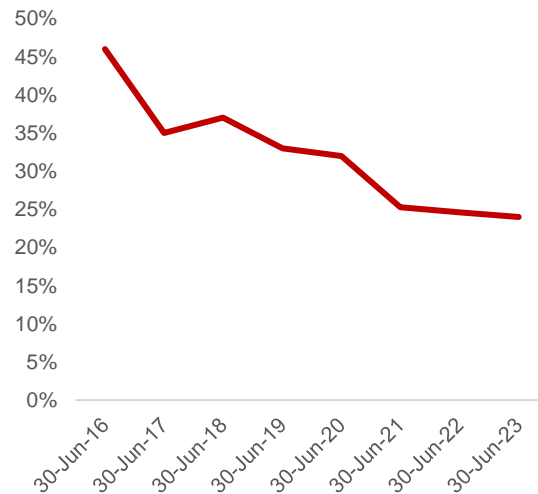


Figure 4: the Ministry's gender pay gap

New Kia Toipoto targets were set in November 2022:

Target: To increase the percentage of women in senior leadership roles (tier 2 and tier 3) to 50% over the next 3 years 2022 – 2025.

Result at 30 June 2022:

- Women 44%
- Men 66%

Result at 30 June 2023:

- Women 50%
- Men 50%

Target: To increase the percentage of women in tier 4 and lower management roles in the Ministry to a minimum of 40% over the next 5 years 2022 – 2027.

Result at 30 June 2022:

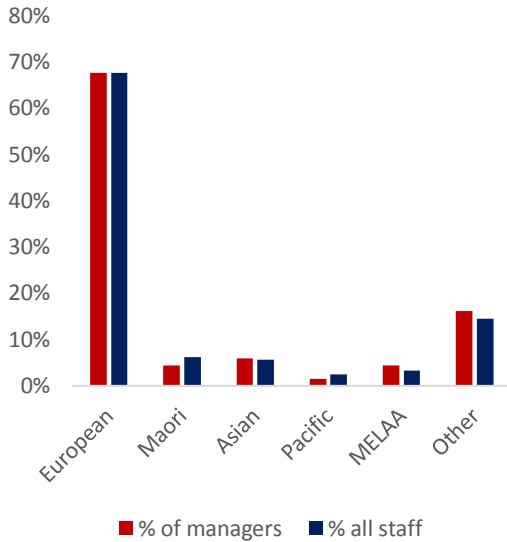
- Women 17%
- Men 83%

Result at 30 June 2023:

- Women 24%
- Men 76%.

MANAGEMENT AND ETHNICITY

The Ministry's data shows low numbers of ethnic representation across the workplace. However, the ethnicity of managers (Tier 2-5) is generally proportionate to the overall representation.



GENDER AND ETHNICITY

The Ministry has identified that some pay gaps exist with regards to ethnicity. However, the most significant gaps are attributable to gender. Pay rates for women are comparable across all ethnicities.



This work contributes to the Ministry's objectives

A place where talented and diverse people feel included and able to do their best work

Figure 4 (left): ethnicities that Ministry staff and managers identified with, as of 30 June 2022 (staff may identify with up to three ethnicities, 97% disclosure rate)



Above: the Ministry's Finance team.

04

DELIVERING DEFENCE CAPABILITY

TE WHAKARATO I TE
ĀHEINGA KAUPAPA
WAONGA



DELIVERING DEFENCE CAPABILITY

TE WHAKARATO I TE ĀHEINGA KAUPAPA WAONGA

One of the Ministry of Defence's primary responsibilities is to plan for, advise on, and purchase fit-for-purpose major defence capabilities, including equipment, systems and infrastructure that enable the Defence Force to perform their operations and meet Government expectations.

A portfolio of projects is being delivered, representing government investment of approximately **\$6.0 billion**. As at June 2023, the Ministry's inflight portfolio consisted of 32 projects; 9 in the capability definition phase and 23 in the delivery phase.

This section outlines the Ministry's projects, which are being delivered with the NZDF and industry partners.



For Defence to provide **kaitiakitanga** for capabilities into the future it must ensure that its people, its principal capability, are housed and equipped in a way that ensures their wellbeing, and that of their families and communities.

Defence's mana is maintained by its ability to respond credibly when it is needed. Ensuring defence capability is appropriate is a key enabler for this.



Above: Ministry staff and NZDF personnel at the arrival ceremony for the new NZ Army Bushmaster vehicles at Trentham Military Camp, 25 May 2023.

This work connects to the following focus areas for the Ministry's Strategy:

	INFORM	Informing decisions with strategic insight Te whakamōhio i ngā whakatau mā te rautaki
	DELIVER	Delivering to strengthen national security Te koke kia kaha ake ai te haumarutanga ā-motu

Most of the capability projects led by the Ministry are medium or high risk and medium or high scale. There are a number of reasons for this. Firstly, the Ministry's Project Teams acquire more than equipment. Delivering military capability involves training systems, infrastructure, platforms, and through-life support. Secondly, whilst the Ministry's default position is to acquire 'military-off-the-shelf capability', that capability is still at the leading edge of technological change, much of which is not in use in the conventional marketplace.

Modern military capability is also inherently complex, often requiring the integration of weapon systems, multiple sensors and communications. Integrating these components in an environment where there is no margin for error is a highly complex activity, particularly when it requires upgrading an existing platform.

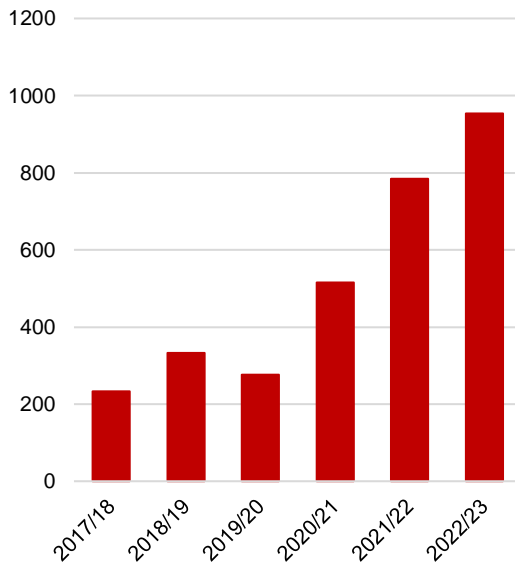


Figure 5: the Ministry's Crown capital expenditure on major Defence capability projects.



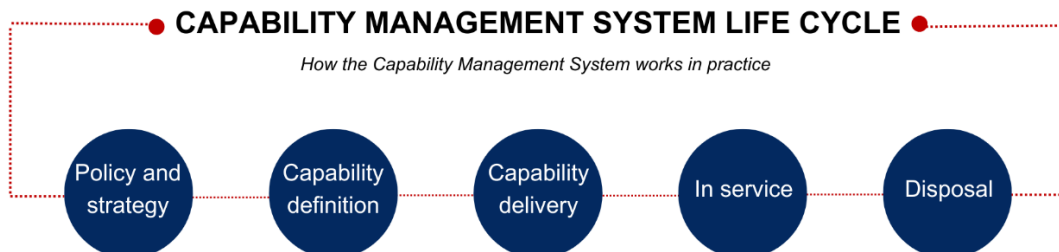
HOW WE OPERATE

The Ministry is actively delivering approximately **\$6.0 billion** of major Defence capability. Doing this effectively requires reliable policies, practices, and governance.

The Ministry and New Zealand Defence Force jointly operate a contemporary and fully integrated end-to-end **Capability Management System** that enables the cost-effective design, delivery, maintenance and eventual disposal of military capability.

The Defence agencies work together to define the future Defence capabilities that are required, and then prepare business cases to enable Government investment decision-making.

Integrated Project Teams (IPTs) are established for the highest risk and largest scale capability projects. They are led by Ministry staff and bring together professional project specialists and subject matter experts from the Ministry and Defence Force. IPTs are designed to deliver excellence in capability delivery and enable a collaborative way of working on major projects.



BENEFITS REALISATION

Benefits realisation is the measure of whether the Ministry is meeting the Government's investment objectives. Benefits are a measure of capability and quality. Benefit plans are generated in the early definition phase. They include lead indicators which identify the critical engineering and training inputs that will generate benefits once a capability is in service. They are a measure of quality during the delivery phase (design and build). Lag indicators are a look back at the material benefits actually achieved.

The delivery of benefits starts once a project achieves Interim Operational Release. Of the 26 projects covered by this section of the Annual Report, eight are past this point and are delivering material benefits for New Zealanders, including the Maritime Sustainment Capability (HMNZS *Aotearoa*), the Dive and Hydrographic Vessel (HMNZS *Manawanui*), the Frigate Systems Upgrade, and the Air Surveillance Maritime Patrol Capability (P-8A Poseidon).

INFRASTRUCTURE

The Ministry's largest infrastructure project is underway at RNZAF Base Ohakea, constructing a bespoke facility for the P-8A capability and 5 Squadron's operations. Te Whare Toroa will include two hangars, maintenance and support facilities, warehousing for spare parts and a mission support centre. The majority of the taxiway and apron works are complete. Construction of the new hangers and office space facility is well advanced with both hangar roofs raised and the hangar floors poured. The new building is expected to be occupied in late 2024. In the interim, 5 Squadron is operating out of prepared temporary facilities pending completion of the new building.

During the reporting period the Ministry, as part of the Future Air Mobility Capability – Tactical project, released a Request for Tenders for construction of a Full Flight Mission Simulator Building to support C-130J pilot and crew training. A delivery contract with NZ Force Construction was signed in April 2023. Work on site at RNZAF Base Auckland has commenced.



Above: New Zealand's C-130J-30 Hercules on Lockheed Martin's US-based production line in Marietta, Georgia June 2023.

3.5 / 5

Assessing Defence Policy Advice: The Ministry commissions an annual assessment of Defence policy advice by the New Zealand Institute of Economic Research. In 2021/22 the Ministry scored an average of 3.5 for a random selection of its policy advice, against the Department of the Prime Minister and Cabinet's *Policy Quality Framework*.

The review included an assessment of **Defence Force: Naval Helicopter Replacement**. This paper received a rating of **4**, with specific comments from the reviewer noting:

The Cabinet papers are well set out and easy-to-read at pace. It begins with a succinct purpose statement and smart executive summary. The headings assist readability. The business case efficiently describes in detail how they have gone from a long list to a shortlist.

ENGAGING WITH INDUSTRY

TE WHAKAHONO ATU KI TE RĀNGAI MAHI

Defence industry provides a fundamental input to military capability. It plays an intrinsic role in supporting Defence in purchasing capabilities and maintaining a modern, well-equipped, and capable Defence Force.

Engaging with industry was a key focus this year to inform the Defence Policy Review. This engagement helped Defence gain valuable insights into the current challenges faced by industry, potential solutions to those challenges, and opportunities for the future.

In November 2022 Defence held a round table with industry and a workshop with Amotai – the New Zealand Government’s intermediary for building supplier diversity – focused on improving engagement with Māori and Pasifika businesses. A bespoke industry survey was launched in March and received around 100 responses on behalf of companies and industry bodies. In addition, 16 qualitative in-depth interviews were also undertaken by Kantar Public with key industry leaders in the Defence sector.

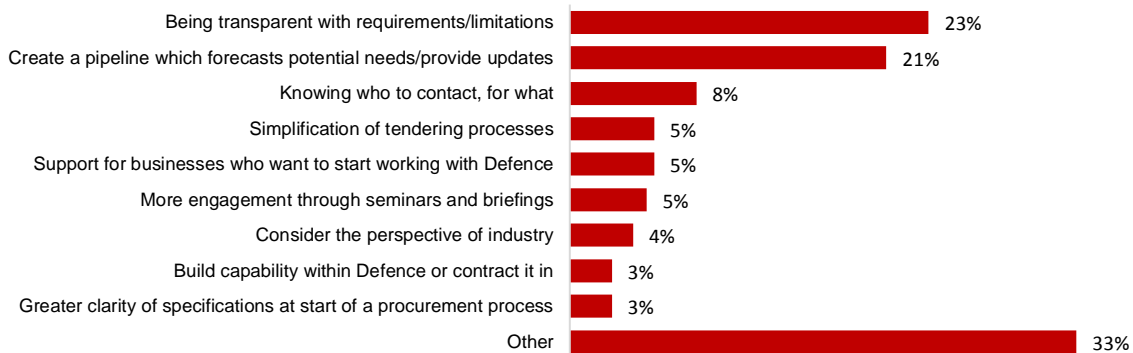


Figure 6: insights from the Industry survey when asked for suggested solutions to the challenges they're facing with Defence.

The research highlighted that industry was facing its own challenges; shortages of skilled labour, supply chain issues and rising costs all having an impact. Key issues raised by Industry were the need to have better clarity on Defence’s long-term investment pipeline and the ability to engage throughout the procurement process.

Despite respective challenges however, industry participants were very positive about their experiences working with Defence. Industry feedback has been incorporated into the opportunities and challenges analysis in the **Future Force Design Principles** and will also inform the next stages of the Review, particularly the development of a renewed Defence Capability Plan.

A theme during the reporting period has been the importance of having strong and resilient regional supply chains. This requires easy access for Australian and New Zealand businesses into our

respective Defence markets. In response, the new Australia-New Zealand Defence Architecture, stood up in April 2023, includes a Defence Industry Access Working Group to look at reducing any barriers to entry, real or perceived, starting with processes allowing for the mutual recognition of industry security clearance

Many participants had good feedback about their experience working with Defence:
“I’m very positive about [the relationship], in terms of the strength of the relationship we’ve got and the trust we’re building.”



This work contributes to the Ministry’s objective **we engage thoughtfully with our stakeholders**

CASE STUDY: INDUSTRY EXCELLENCE RECOGNISED

Seven New Zealand businesses and individuals working with the Ministry of Defence and New Zealand Defence Force received a Minister of Defence Award of Excellence for Industry in May 2023.

At an event at Parliament, recipients received their awards from the Secretary of Defence, Andrew Bridgman, and the Chair of the New Zealand Defence Industry Advisory Council, Greg Lowe. The work recipients do for Defence not only strengthens New Zealand's defence capabilities, but also embodies the Defence values of Tū Maia, Tū Tira, Tū Tika, Tū Kaha and Kotahitanga.

Minister of Defence Andrew Little, in his comments to the recipients, said this year's winners and finalists went above and beyond expectations. "They have shown a spirit of partnership with Defence that builds outstanding innovation and leadership. The range of businesses and people receiving awards shows just how varied and highly skilled the defence industry is".



Above: Secretary of Defence Andrew Bridgman with Inde Technology, recipients of category award for the provision of a product to Defence as a sub-contractor.

The award recipients were:

Category awards

- The provision of service to Defence as a prime contractor – Qioptiq
- The provision of a product to Defence as a sub-contractor or small to medium sized enterprise – Inde Technology Limited

Special awards

- Tū Māia (Integrity) - David Goodrich OAM – Silver Spirit Partners
- Tū Tira (Comradeship) – Lionel Ng – Auckland Regional Public Health Service
- Tū Kaha (Courage) – Mike Sheedy – Gemtech Solutions Limited
- Tū Tika (Commitment) – Patrick Power – Airbus New Zealand
- Kotahitanga (Unity) – Steven Renata – Kiwa Digital Limited

The goods and services acquired by Defence range from long-term maintenance and repair services to the provision of consultancy services, and everything in between. This broad set of industries and businesses was well represented by the 2022 award finalists and winners.

DELIVERY OF CAPABILITY PROJECTS TO STANDARDS

TE WHAKARATO I NGĀ KAUPAPA ĀHEINGA KIA KOUNGA AI

MANAGING FOREIGN EXCHANGE RISKS

The Ministry's purchases of specialist equipment from around the world are settled in multiple currencies. This can create a risk of overspend for the project from unfavourable foreign exchange movements. To mitigate the risk of foreign exchange movements, after budget approval the Ministry enters into foreign exchange forward contracts to gain certainty over the New Zealand dollar cost of the project.

New Zealand's accounting rules require payments in foreign currency to be recorded at exchange rates

at the date of the transaction ("spot rates"), rather than the hedged rate. This forms the total reported project cost. The tables for each project show the difference in project cost when measured at spot rates, compared to the project's hedged rates. This difference is described as "effect of foreign exchange movements".

Forecast expenditure is reported using the exchange rates at the end of the financial year.

CASE STUDY: KEEPING TO BUDGET IN AN INFLATIONARY ENVIRONMENT

The Ministry of Defence oversees and manages a significant investment by the Government. Driving this investment in Defence capability is an increasingly complex and dynamic strategic environment.

The Ministry has policies in place to ensure that financial risks are adequately managed and mitigated, ensuring our ability to respond to events in the strategic environment is not undermined by increases in cost.

- The Ministry uses experienced and independent risk management professionals to help the Ministry's project teams estimate an appropriate level of contingency prior to seeking an investment decision.
- The Ministry manages price uncertainty through fixed price contracts. Fixed priced contracts are a way of mitigating unforeseen increases in costs, although there are sometimes cases where we need to share some of the risks with our suppliers.
- Commercial agreements manage performance (schedule and quality) risks. Mitigations in commercial agreements can include milestone payments, liquidated damages, guarantees and performance bonds or securities.
- Hedging manages foreign currency risks. The Ministry requires hedging of all contracts with a value of \$200,000 or higher.

Why are these important?

During the first three quarters of 2022 the New Zealand Dollar fell 18 percent against the United States Dollar from 0.68 cents to 0.56 cents. Given the size of the Ministry's larger projects and the proportion of costs held in the United States Dollar and other currencies, foreign currency movements can have a significant impact on portfolio affordability. Having hedging contracts in place protects against this risk.

DELIVERING CAPABILITIES

KO TE WHAKAWHIWHI ĀHEINGA


The following pages outline major capability projects in delivery phase during the 2022/23 financial year, with a total approximate value of **\$6.0 billion**.

The risks associated with major projects are carefully managed through regular independent quality assurance as part of the Better Business Case process, and project governance.



- Future Air Surveillance – Maritime Patrol
- Frigate Sustainment Phase 1 - Communications
- Future Air Mobility Capability - Tactical
- Garrison and Training Support Vehicles: phase one
- HMNZS Canterbury and Offshore Patrol Vessel Communications Upgrade
- Network Enabled Army – tranche two
- Protected Mobility – Protected Vehicle Medium
- other

Figure 7: 2022/23 costs for capability projects in delivery



This work contributes to the Ministry's objective **delivering capability as promised**.

The Ministry's delivery of military capability is measured against the metrics of schedule, budget and benefits. We strive to meet budget and capability measures, which means schedule is often under pressure, resulting in project delays.

Contributing factors to project delays have included industry resource and labour shortages, manufacturing delays and gaps in availability of the

necessary Defence Force personnel required to achieve Operational Release. These challenges have been exacerbated by the ongoing effects of COVID-19 and the war in Ukraine.

Importantly, delays to achieving a governance milestone doesn't necessarily mean a capability is not available for use. The Ministry continues to take a pragmatic approach in the delivery of capability.

Whilst many projects are experiencing schedule pressure, all projects are to budget and Government requirements.

The Ministry's largest projects in definition phase are the **Maritime Helicopter Replacement, Naval Fleet Renewal** and the **Boeing 757 Replacement**.

At June 2023, 13 projects were reporting as having missed a governance milestone. Some result from longitudinal impacts of the COVID-19 pandemic (Dive and Hydrographic Vessel, Maritime Sustainment Capability, Garrison & Training Support Vehicles, Operational and Regulatory Aviation Compliance Sustainment and Protected Mobility projects). Other projects reporting schedule delays are the Anzac Frigate Systems Upgrade, Fixed High Frequency Radio Refresh, and Network Enabled Army C4.

The two tranches of funding for the Network Enabled Army (NEA) Programme are now delivering across six inter-linked capability sets across the C4 and ISR projects. These are explained in the NEA section below. For the remaining sets of work under C4, these are being approached as individual projects, achieving operational release independently. The Common Command Post Operating Environment is delivering equipment, applications and procedures for land forces; the Common Universal Bearer System is providing deployable infrastructure for voice and data communications. The Mobile Tactical Command Systems capability is delivering secure, networked mobile digital communication for voice and data and location systems.

SUPPORTING NEW ZEALAND DEFENCE FORCE PROJECT DELIVERY

Throughout the year the Ministry has managed some projects on behalf of the New Zealand Defence Force, which were funded from Vote Defence Force:

- Cyber Security and Support
- Joint Intelligence Project
- High Side Capability Update Project
- Information Warfare Academy
- Joint Electronic Warfare Project
- Littoral Warfare Systems Project
- NZDF J3 RHIB Replacement Project

Project Closure

Subsequent to the 2022/23 reporting period, the NH90 Flight Simulator project was closed in July 2023, and the Strategic Bearer Network in August 2023.

The following projects have been substantially delivered by the Ministry and are awaiting project closure:

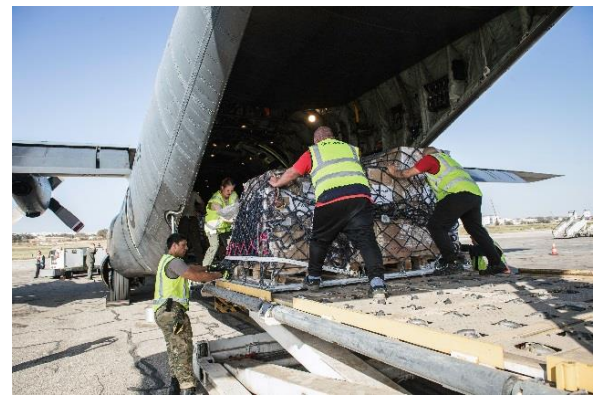
- Individual Weapons Replacement
- Special Operations Vehicles

Other considerations

Two projects and one programme contain more than one financial table, which reflects different capability work streams, timing and funding appropriations. Separation allows for better monitoring for these aspects of the project.

They are:

- Network Enabled Army programme
- Operational and Regulatory Aviation Compliance Sustainment
- Protected Mobility Capability



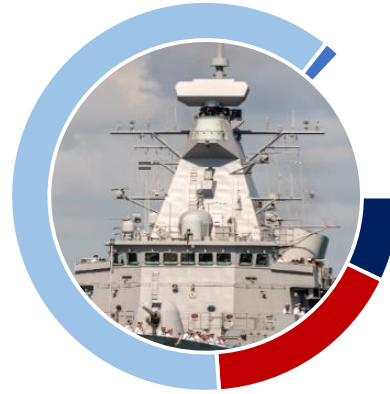
This work contributes to the Ministry's objective *we bring a deep understanding of NZDF to decisions*

SUMMARY OF MAJOR CAPABILITY PROJECTS

Below is a summary of spend on major capability projects in Delivery phase. The proportion of spend to date and forecasted expenditure for each project is depicted around the image, according to the below key. In some cases, separate charts are provided for different elements of the same project.



Anzac Frigate Systems Upgrade



Frigate Sustainment: Communications



Frigate Sustainment Programme: Phase One



**Dive and Hydrographic Vessel:
HMNZS *Manawanui***

- Spend in prior years
- 2022/23 spend
- Forecast Ministry spend
- Net foreign exchange allowance⁵
- Forecast NZDF spend

⁵ Details about the management of foreign exchange risk for major capability projects are provided on page 55.



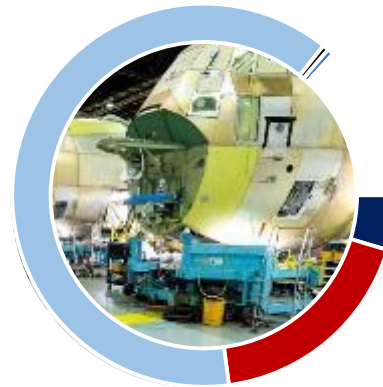
**HMNZS *Canterbury* and Offshore Patrol Vessels
Communications Upgrade**



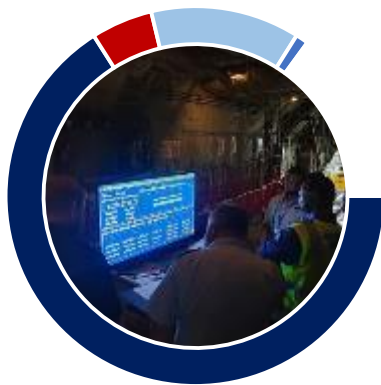
Maritime Sustainment Capability



**Air Surveillance Maritime Patrol – P-8A Poseidon
Maritime Patrol Aircraft**



**Future Air Mobility Capability – Tactical (C-130-J-
30 Super Hercules)**



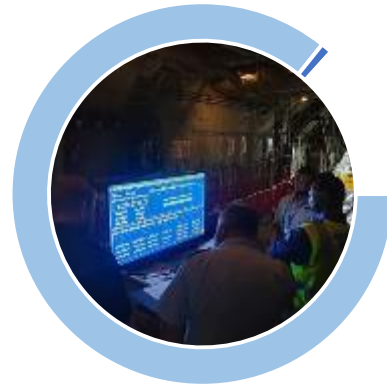
**Operational and Regulatory Aviation Compliance
Sustainment: Phase One (A)**



**Operational and Regulatory Aviation Compliance
Sustainment: Phase One (B)**



**Operational and Regulatory Aviation Compliance
Sustainment: Phase Two (A)**



**Operational and Regulatory Aviation Compliance
Sustainment: Phase Two (B)**



Garrison and Training Support Phase One



**Land Force Protection Electronic Counter
Measures**



**Network Enabled Army: Command, Control,
Communication and Computers T1**



**Network Enabled Army: Command, Control,
Communication and Computers T2**



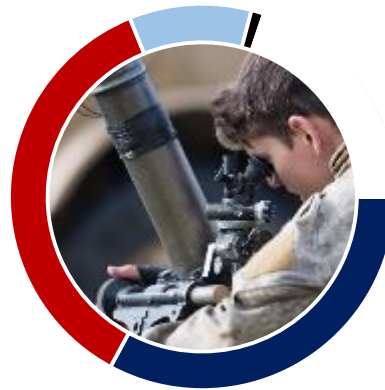
Network Enabled Army: Intelligence, Surveillance and Reconnaissance



Protected Mobility Capability: Phase One High Mobility-Light (Polaris MRZR)



Protected Mobility Capability: Medium (Bushmasters NZ5.5)



81mm Mortar Replacement



Fixed High Frequency Radio Refresh

- Spend in prior years
- 2022/23 spend
- Forecast Ministry spend
- Net foreign exchange allowance⁶
- Forecast NZDF spend

⁶ Details about the management of foreign exchange risk for major capability projects are provided on page 55.

CASE STUDY: THE PHASED RELEASE OF CAPABILITY

The Ministry's delivery portfolio is a maturing one. Of the approximate capital investment of \$6.0 billion under delivery, \$3.8 billion has been spent. This means the bulk of capabilities being delivered have arrived in New Zealand, and that the bulk of activities taking place are in the phases just prior to the achievement of Interim Operational Release or between this and Operational Release.

This is important because those capabilities that have achieved Interim Operational Release and/or are approaching Operational Release are available to undertake some or all of their expected tasks, as part of a progressive programme for releasing capability.

Capabilities in these later phases of delivery are below:

Approaching Operational Release

- Maritime Sustainment Capability (HMNZS *Aotearoa*)
- Dive & Hydrographic Vessel (HMNZS *Manawanui*)
- Frigate Systems Upgrade
- 81mm Mortar
- Protected Mobility Capability – Light
- ORACS 1A

Achieved Interim Operational Release

- Air Surveillance Maritime Patrol (P-8A Poseidon)

Approaching Interim Operational Release

- Garrison & Training Support Vehicles
- Network Enabled Army C4

Use of the NH90 Flight Simulator for pilot training commenced in October 2020 and it achieved Operational Release in December 2022.

The extent to which a capability is used in the phase between Interim Operational Release and Operational Release can sometimes delay formal achievement of the later. However, as noted in the introduction to this section, the Ministry takes a pragmatic approach. Having a capability available for use is the priority.

In addition to above projects, delivery to Aotearoa New Zealand of the Bushmaster NZ5.5 Medium Protected Vehicle commenced at the end of the reporting period. At 30 June 2023, 30 Bushmasters had been delivered (pictured below).



MARITIME DOMAIN PROJECTS

MAINTAINING THE ANZAC CLASS FRIGATES

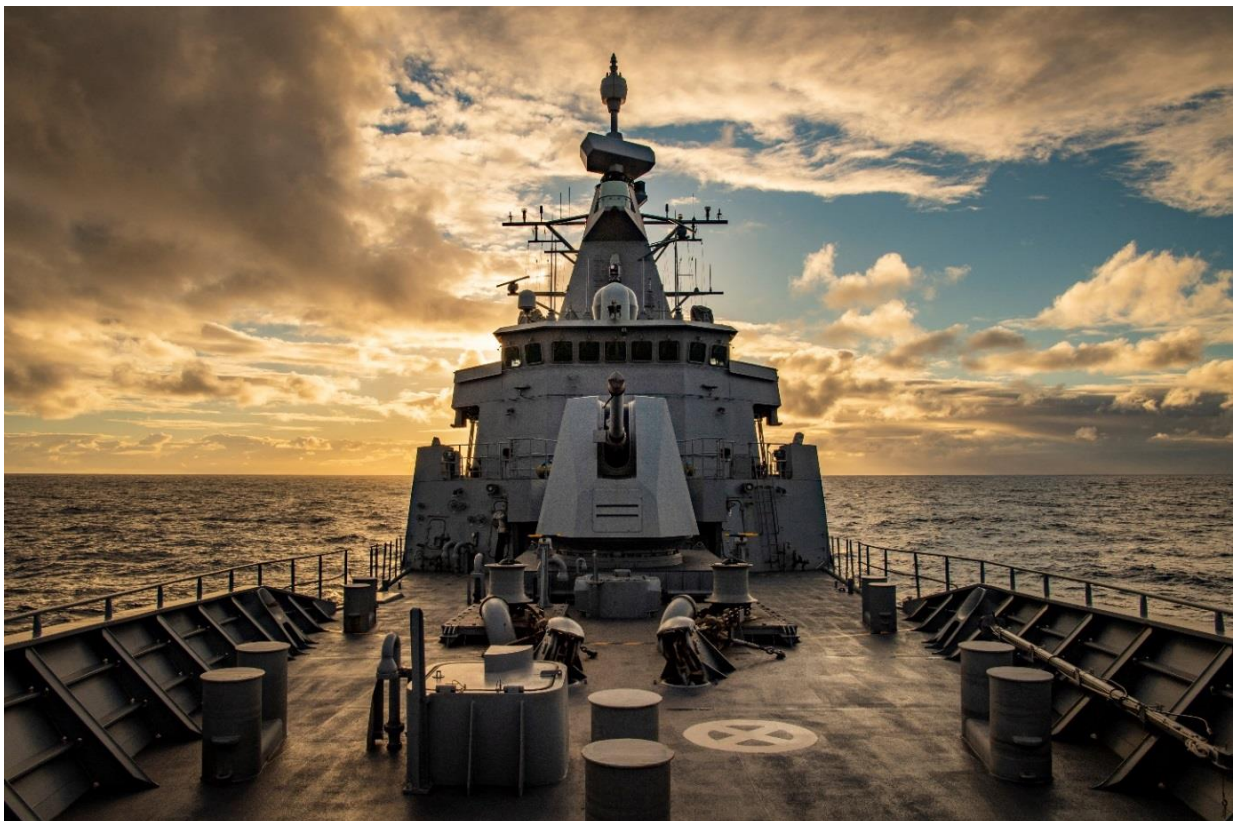
New Zealand's frigates – HMNZS *Te Kaha* and HMNZS *Te Mana* – are key for maritime patrols, border protection and other activities that further New Zealand's interests, including our support of the international rules-based order.

The ships were constructed in the 1990s and originally designed for a 30-year service life. At the time they were acquired it was understood that, like other major capability platforms, significant mid-life maintenance and upgrade projects would be required to ensure the ships would operate efficiently until their end of service life. These projects included the completed Phalanx Close-In Weapon System and Platform Systems Upgrade, and the Frigate Systems Upgrade (see on the following page) which is nearing completion.

Along with the Anzac Frigate Systems Upgrade project, two projects are outlined below that are part of the work to maintain the ships and upgrade systems as needed out to the mid-2030s: the Frigate Sustainment – Communications project and Phase 1 of the Frigate Sustainment Programme. Investment in the latter was approved in April 2023 so is still in the early delivery phase.

Funding for the design phase of the Frigate Sustainment – Communications project (previously called the Anzac Communications Upgrade project) was approved by Cabinet in August 2021. Funding for the build and installation phase was approved in April 2023.

These upgrades ensure that the frigates maintain credible maritime combat capabilities.



ANZAC FRIGATE SYSTEMS UPGRADE



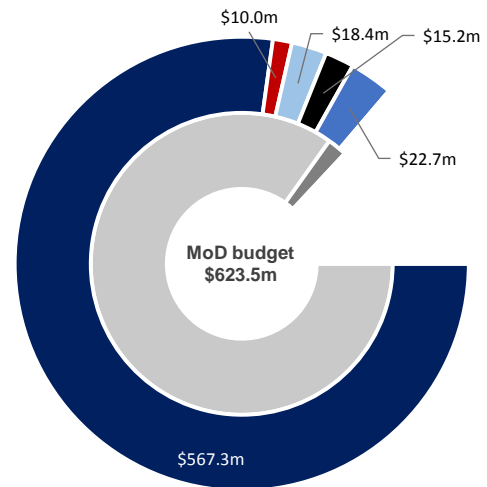
This project was designed to maintain the frigates' surveillance, combat and self-defence capabilities, and improve the support available to other naval and amphibious forces.

Installation work on HMNZS *Te Kaha* commenced in

Canada by Lockheed Martin Canada in 2018, and the ship returned to New Zealand in December 2020. HMNZS *Te Mana* returned in July 2022.

The project's latest round of Naval Operational Testing and Evaluation (NOTE) commenced with *Te Mana* undertaking a series of deployments to replicate operational parameters. This enables new equipment to be assessed as it operates with other ship systems to prove specific capabilities. NOTE is planned to conclude with a firing of the new Sea Ceptor Local Air Defence Missile system. This will be the final activity before Acceptance of Operational Release for the Frigate Systems Upgrade capability for both ships.

Over the 2022/23 year, *Te Kaha* underwent refit maintenance at Devonport Naval Base.



Upgrading the Anzac Frigates involved the removal of 44 tonnes of equipment and the addition of 67 tonnes of equipment. 55 kilometres of new cabling was pulled through each ship and over two million lines of code were written to link the ship's weapons and sensors to their new combat management system.

At 30 June 2023 expected project costs were:

		Ministry of Defence	NZDF	Consolidated project
		\$000	\$000	\$000
Budget	Current approved project budget	623,537	15,408	638,945
	Allowance for foreign exchange movements	44,752	-	44,752
	Original approved project budget	578,785	15,408	594,193
Forecast	Forecast total project cost	595,645	15,197	610,842
	Effect of foreign exchange movements	22,072	-	22,072
	Forecast cost using hedged rates	573,573	15,197	588,770
	Forecast project variance	5,212	211	5,423

FRIGATE SUSTAINMENT – COMMUNICATIONS



The Frigate Sustainment – Communications project is updating equipment to ensure ongoing interoperability of the frigates' communication technology both within the NZDF and with partners.

In August 2021 Cabinet approved funding for the

Project's design phase and the purchase of long lead items⁷. The Critical Design Review was completed at the end of 2022 and the long lead items were received in early 2023.

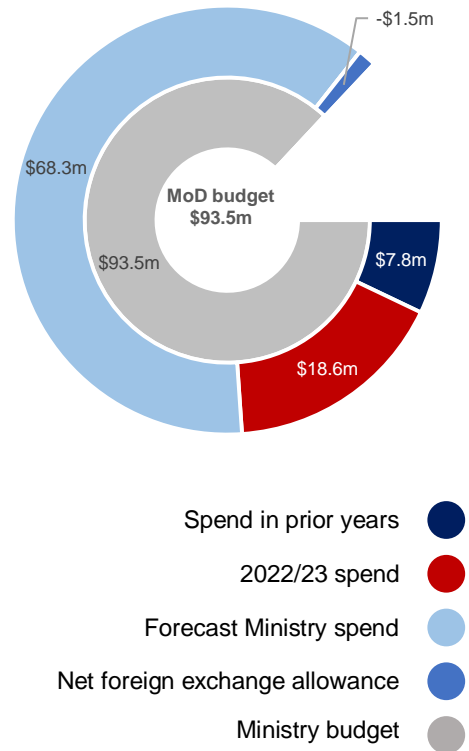
In April 2023, a paper detailing the subsequent Build and Installation phase proposal was approved by Cabinet. A fixed price contract was signed with the prime contractor, UK-based System Engineering and Assessment Ltd (SEA).

SEA is working with New Zealand-based companies, Beca, Marops, and McKay, to install and deliver the communications upgrade:

- Beca will test and validate the upgraded capability;
- Marops will develop and supply computer-based training packages for the maintainers and operators
- McKay will undertake the installation.

All three New Zealand companies were involved in the design phase.

Both frigates, *Te Mana* and *Te Kaha*, will receive the upgraded communications systems in the mid-2020s.



At 30 June 2023 expected project costs were:

		Ministry of Defence	NZDF	Consolidated project
		\$000	\$000	\$000
Budget	Current approved project budget	93,516	-	93,516
	Allowance for foreign exchange movements	675	-	675
	Original approved project budget	92,841	-	92,841
Forecast	Forecast total project cost	94,704	-	94,704
	Effect of foreign exchange movements	2,205	-	2,205
	Forecast cost using hedged rates	92,499	-	92,499
	Forecast project variance	342	-	342

⁷ Components or equipment that take the longest time to design and/or make. Funding these early can help to keep the build of a system or equipment, or the project as a whole to schedule.

FRIGATE SUSTAINMENT PROGRAMME: PHASE ONE



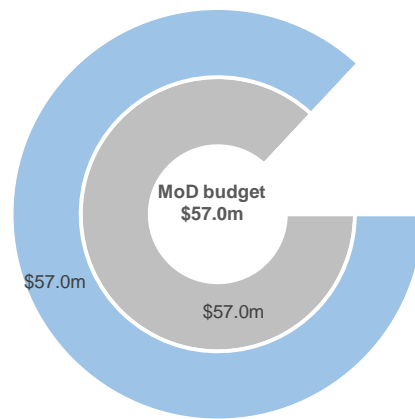
The Frigate Sustainment Programme (FSP) has been established to extend the service life of the Anzac frigates to the mid-2030s. This is the first phase of a four phase programme, each phase lasting between three to five years.

Rather than taking the ships out of service for a single extended period, the work is planned to take place incrementally through the extended service life during standard maintenance periods. This aims to ensure the frigates are available for training, operations, and contingencies while the programme is implemented. As the projects are a refresh or replacement with modern versions of existing systems, they are typically non-complex projects that can be delivered through the existing NZDF capability branch and logistics command management processes. In most cases, the dockyard support contract or existing supplier in service support contracts will be used.

Phase One of the programme was approved in April 2023 and is made up of eight projects that will deliver replacement of critical machinery, structural work, and control systems.

The majority of the Phase One work will be implemented on *Te Mana* during a planned maintenance period in 2024/2025, and on *Te Kaha* during a planned maintenance period in 2025/2026.

By delivering as a programme with multiple phases the overall benefits will be revisited and presented to Government at each point that an investment decision is being sought. This allows the planning and scope of the programme to be adjusted as the Defence strategic environment and the plan for future NZDF capability evolves.



Forecast Ministry spend ●
 Ministry budget ●

At 30 June 2023 expected project costs were:

		Ministry of Defence	NZDF	Consolidated project
		\$000	\$000	\$000
Budget	Current approved project budget	57,000	-	57,000
	Allowance for foreign exchange movements	-	-	-
	Original approved project budget	57,000	-	57,000
Forecast	Forecast total project cost	56,998	-	56,998
	Effect of foreign exchange movements	-	-	-
	Forecast cost using hedged rates	56,998	-	56,998
	Forecast project variance	2	-	2

DIVE AND HYDROGRAPHIC VESSEL – HMNZS *MANAWANUI*



HMNZS *Manawanui* has been in service since November 2021, enabling the dive and hydrographic capability of the NZDF to be delivered both domestically and in support of regional partners.

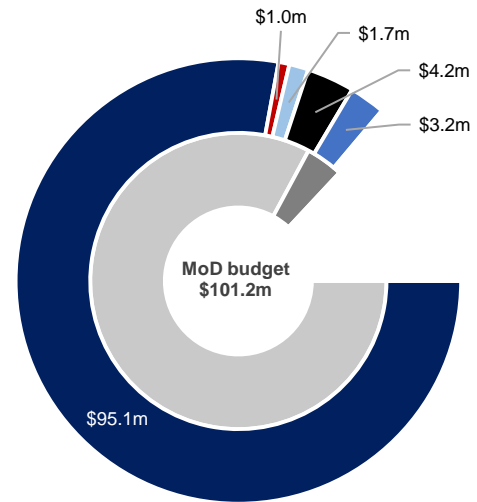
Since the vessel was acquired in 2018, a range of modifications have been completed, and progressive testing, evaluation, and release of the capability is underway.

In July 2022, *Manawanui* was deployed to the Southwest Pacific, sailing at the end of that month to spend August and September participating in Operations Mahi Tahī and Render Safe.

Under Operation Mahi Tahī, a hydrographic survey of the Tongatapu outer reef was made at the request of the Government of Tonga through Land Information New Zealand. *Manawanui* and HMNZS *Matataua* also conducted reconnaissance of waters around Tuvalu for Operation Render Safe, which finds and safely disposes of Explosive Remnants of War.

In February 2023, the ship supported relief efforts following Cyclone Gabrielle, checking on isolated coastal communities along the East Coast of the North Island, delivering supplies, water, and food to places such as Tolaga Bay, Waipiro Bay, Motuhina, and Waioue Stream.

Further modification work has continued as part of the lead up to Operational Release.



At 30 June 2023 expected project costs were:

		Ministry of Defence	NZDF	Consolidated project
		\$000	\$000	\$000
Budget	Current approved project budget	101,186	5,000	106,186
	Allowance for foreign exchange movements	2,770	-	2,770
	Original approved project budget	98,416	5,000	103,416
Forecast	Forecast total project cost	97,787	4,229	102,016
	Effect of foreign exchange movements	(405)	-	(405)
	Forecast cost using hedged rates	98,192	4,229	102,421
	Forecast project variance	224	771	995

HMNZS CANTERBURY AND OFFSHORE PATROL VESSELS COMMUNICATIONS UPGRADE



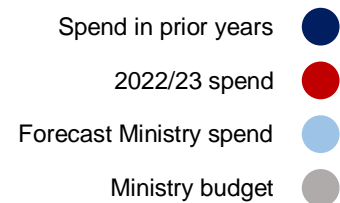
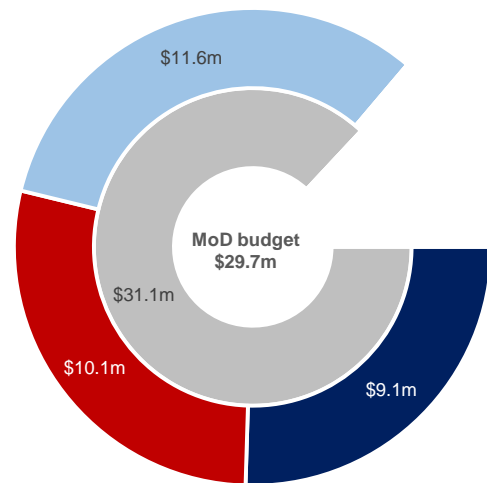
Upgraded communications systems on HMNZS *Canterbury* and the Offshore Patrol Vessels (OPV), HMNZS *Otago* and HMNZS *Wellington*, will enable better communication and networking with other ships, aircraft, ground forces, and coalition partners when deployed.

Canterbury deploys personnel, vehicles, and cargo using conventional port infrastructure or directly ship-to-shore using landing craft, boats, or helicopter airlift. The ship provides medical support from a self-contained hospital, and can manage military or civilian operations from an on-board command and control facility.

The two OPVs conduct a range of operations but their primary mission is to contribute to New Zealand's security and prosperity through surveillance, patrol, maritime interception, and search and rescue within New Zealand's Exclusive Economic Zone, the Southern Ocean, and the South Pacific.

Benefits will include an increased ability for *Canterbury* to conduct concurrent operations, lead joint and combined operations, and maintain interoperability. The OPVs availability for tasking will be maintained, with an improved ability to conduct tasks and maintain interoperability into the future.

Over the 2022/23 year, approval was received to commence the installation work, which continues on *Canterbury* and *Otago* with plans for acceptance trials to be completed in 2023/24.



At 30 June 2023 expected project costs were:

	Ministry of Defence	NZDF	Consolidated project	
	\$000	\$000	\$000	
Budget	Current approved project budget	31,144	-	31,144
	Allowance for foreign exchange movements	1,447	-	1,447
	Original approved project budget	29,697	-	29,697
Forecast	Forecast total project cost	30,872	-	30,872
	Effect of foreign exchange movements	1,370	-	1,370
	Forecast cost using hedged rates	29,502	-	29,502
	Forecast project variance	195	-	195

MARITIME SUSTAINMENT CAPABILITY



This project delivered the ship HMNZS *Aotearoa*, which provides maritime replenishment capability for the NZDF. This vessel supports maritime, air, and land forces by supplying fuel, fresh water, ammunition, equipment, and non-perishable stores.

Built in the Republic of Korea, the ship was delivered in June 2020 and commissioned the following month. *Aotearoa* was designed with ice strengthening and winterisation features, enabling the ship to support New Zealand's continued civilian presence in Antarctica.

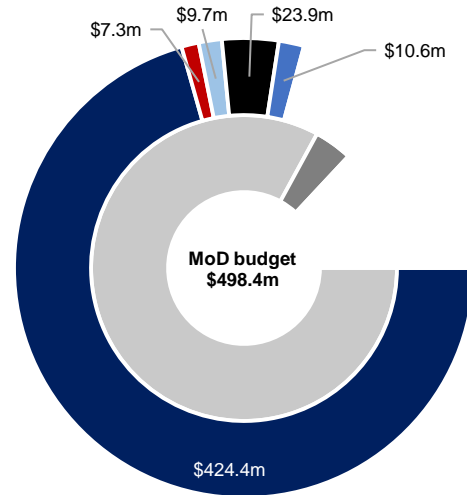
Aotearoa provides an independent and complementary maritime sustainment capability to New Zealand and its security partners. The ship also improves the ability to react and respond to events in New Zealand and throughout the South Pacific and Southern Ocean, and improves the flexibility of response options to threats and emergencies.

In 2022/23, *Aotearoa* participated in Exercise RIMPAC before heading to Singapore for dry-docking, during which the project had the anti-fouling hull paint replaced.

After this the ship participated in a series of exercises and port visits in Malaysia, South Korea, Japan, and Solomon Islands before returning to New Zealand in November.

Maintenance work was undertaken as scheduled and the ship underwent acceptance trials and training, including sea training along the west coast of the North Island and within the Marlborough Sounds.

Operational Release and project closure are expected to take place in the 2023/24 year.



At 30 June 2023 expected project costs were:

	Ministry of Defence	NZDF	Consolidated project	
	\$000	\$000	\$000	
Budget	Current approved project budget	498,447	24,160	522,607
	Allowance for foreign exchange movements	26,832	-	26,832
	Original approved project budget	471,615	24,160	495,775
Forecast	Forecast total project cost	441,477	23,889	465,366
	Effect of foreign exchange movements	16,188	-	16,188
	Forecast cost using hedged rates	425,289	23,889	449,178
	Forecast project variance	46,326	271	46,597

AIR DOMAIN PROJECTS

AIR SURVEILLANCE MARITIME PATROL – P-8A POSEIDON MARITIME PATROL AIRCRAFT



Four P-8A Poseidon aircraft are replacing the NZDF's P-3K2 Orions, which retired in January 2023. Those aircraft had supported maritime security, search and rescue, resource and border protection, disaster response, and engagement with New Zealand's key

security partners for more than 50 years.

The new fleet will deliver the maritime patrol function for the next generation, with new infrastructure and training systems also being delivered by this project.

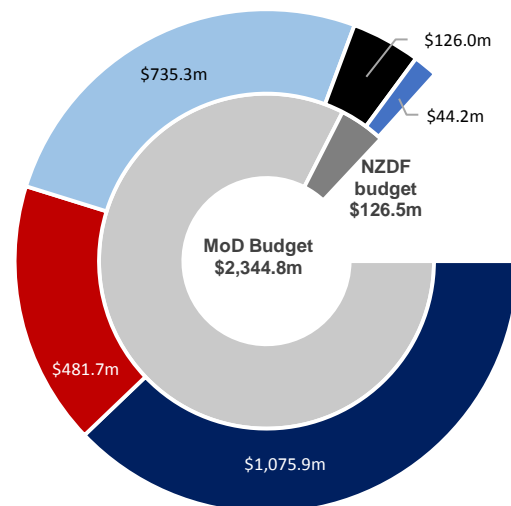
Aircraft, training systems, and a range of support equipment are being sourced through the US Government's Foreign Military Sales process, with the Letter of Offer and Acceptance signed by the Secretary of Defence on 9 July 2018. Infrastructure contracts at RNZAF Base Ohakea were awarded to prime contractors Fulton Hogan (horizontal works) and Hawkins Ltd (vertical works). Other equipment, such as ground support equipment like stands and stairs for aircraft maintenance access have been sourced through open tender processes.

Work progressed to schedule throughout the year on construction and fit out of New Zealand's P-8A Poseidons. The first aircraft – NZ4801 – arrived in country on 12 December 2022, and the first fully NZDF-controlled flight took place the following month. The second and third aircraft arrived at RNZAF Base Ohakea on 18 March and 19 May 2023 respectively. The final aircraft arrived on 17 July 2023.

A planned, phased process is being used to release the capability. In 2023, this included a focus on Interim Operational Release of the Search and Rescue (SAR) capability. SAR training was undertaken in March with the Royal Australian Air Force at RAAF Base Edinburgh, and operational trials were conducted out of Nadi, Fiji in early April.

The latter were designed to ensure all operating systems, including aircrew, maintenance, and mission support, were ready for missions. Interim Operational Release was achieved in June 2023.

As reported in 2022, construction of facilities at Base Ohakea was impacted by workplace restrictions (on site and in Auckland) in response to COVID-19 and supply chain disruptions, resulting in both schedule and cost pressures. Temporary facilities have been established to ensure capability delivery proceeds as planned.



- Spend in prior years
- 2022/23 spend
- Forecast Ministry spend
- Forecast NZDF spend
- Net foreign exchange allowance
- Ministry budget
- NZDF budget

At June 2023 expected project costs were:

		Ministry of Defence	NZDF	Consolidated project
		\$000	\$000	\$000
Budget	Current approved project budget	2,344,765	126,473	2,471,238
	Allowance for foreign exchange movements	125,140	-	125,140
	Original approved project budget	2,219,625	126,473	2,346,098
Forecast	Forecast total project cost:			
	- capital expenditure	2,292,924	125,986	2,418,910
	- non-capitalised expenditure	5,287	-	5,287
	Effect of foreign exchange movements	80,920	-	80,920
	Forecast cost using hedged rates	2,217,291	125,986	2,343,277
	Forecast project variance	2,334	487	2,821

At \$2.346 billion, the project to acquire the P-8A Poseidon maritime patrol capability is the largest Defence re-equipment programme in over three decades.



FUTURE AIR MOBILITY CAPABILITY – TACTICAL (C-130-J-30 SUPER HERCULES)

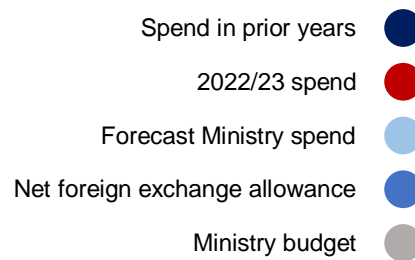
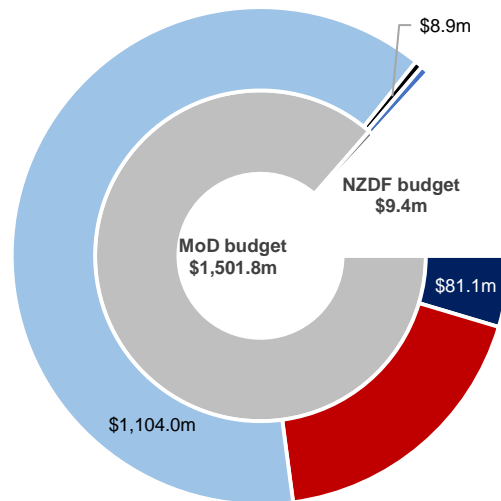


This project is replacing the Defence Force's C-130H Hercules fleet, ensuring the ongoing ability to transport people and equipment by air. This capability is essential for a broad range of military and government tasks, including military

operations in distant locations and responses to security events and natural disasters in New Zealand and the South Pacific.

Five C-130J-30 Super Hercules aircraft, a full flight simulator, training, and sustainment support are being acquired through the US Government Foreign Military Sales programme, with aircraft deliveries scheduled to take place in 2024/25.

Over the 2022/23 year, construction of the first aircraft commenced and progressed to schedule, with the aircraft nose and fuselage joined in 2023. Personnel training commenced in the United States, and site infrastructure work commenced at RNZAF Base Auckland for the flight simulator, following a Request for Proposals process. The project remains on schedule for delivery of the first aircraft by the end of 2024.



At 30 June 2023 expected project costs were:

	Ministry of Defence	NZDF	Consolidated project	
	\$000	\$000	\$000	
Budget	Current approved project budget	1,501,753	9,392	1,511,145
	Allowance for foreign exchange movements	7,498	-	7,498
	Original approved project budget	1,494,255	9,392	1,503,647
Forecast	Forecast total project cost	1,506,401	8,871	1,515,272
	Effect of foreign exchange movements	17,015	-	17,015
	Forecast cost using hedged rates	1,489,386	8,871	1,498,257
	Forecast project variance	4,869	521	5,390

OPERATIONAL AND REGULATORY AVIATION COMPLIANCE SUSTAINMENT: PHASE ONE AND TWO



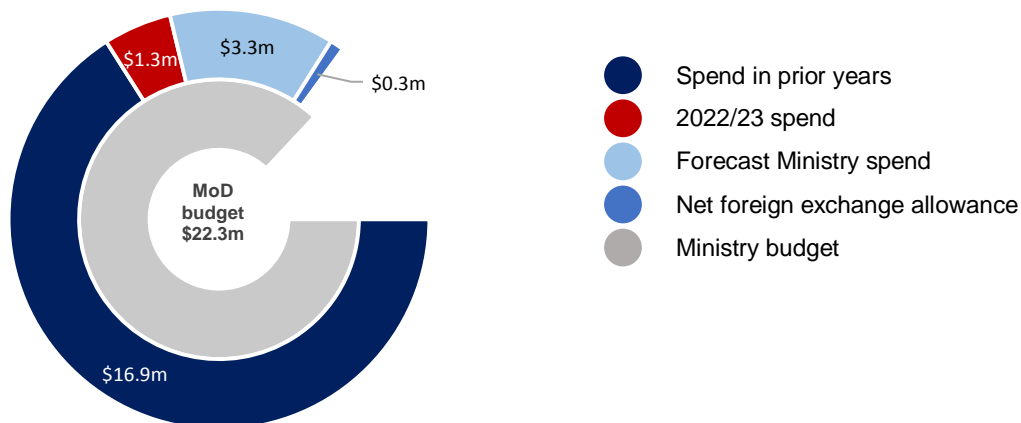
Communications, navigation and air traffic management and identification systems in NZDF aircraft fleets are being upgraded to meet improving aviation regulations. Aircraft will continue to be effective, safe, and secure and unrestricted air operations will continue to be conducted in military and civil airspaces within New Zealand's immediate region and further afield.

The complex programme was split into multiple phases to allow for work to be delivered subject to fleet availability, planned maintenance schedules, and timeframes for the providers who are delivering the work, particularly where global upgrades are underway.

Over 2022/23, the project delivered the initial phase of civil systems Automatic Dependent Surveillance – Broadcast Out (ADS-B). ADS-B is an aircraft position broadcast system used by air traffic management services to ensure aircraft remain at safe distances. A Civil Aviation Authority rule change confirmed ADS-B would be mandatory for all aircraft in controlled airspace from 2023. Phase One ADS-B compliance was achieved across agreed fleets ahead of the deadline.

The project also progressed work on the NH90 helicopter fleet, in line with the global upgrade programme being delivered by NATO Helicopter Industries, and progressed communications upgrades across a range of fleets.

At 30 June 2023 expected ORACS: Phase One (A) project costs were:



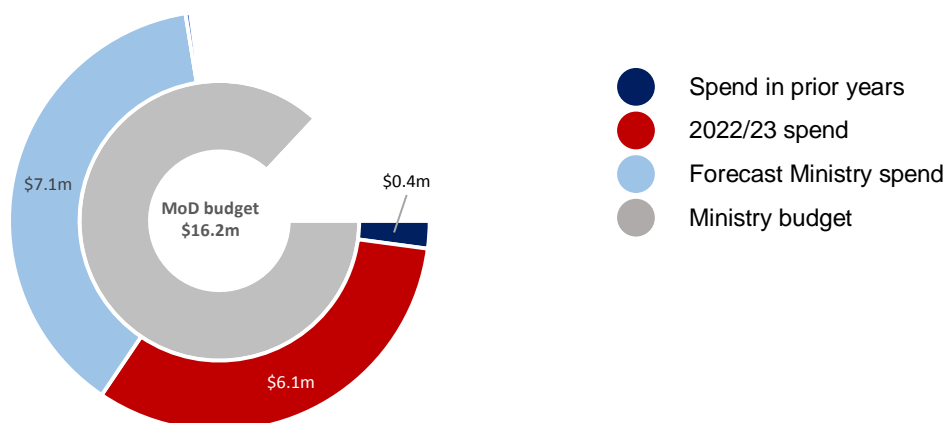
	Ministry of Defence \$000	NZDF \$000	Consolidated project \$000	
Budget	Current approved project budget	22,292	-	22,292
	Allowance for foreign exchange movements	-	-	-
	Original approved project budget	22,292	-	22,292
Forecast	Forecast total project cost	21,521	-	21,521
	Effect of foreign exchange movements	(276)	-	(276)
	Forecast cost using hedged rates	21,797	-	21,797
	Forecast project variance	495	-	495

At 30 June 2023 expected ORACS: Phase One (B) project costs were:



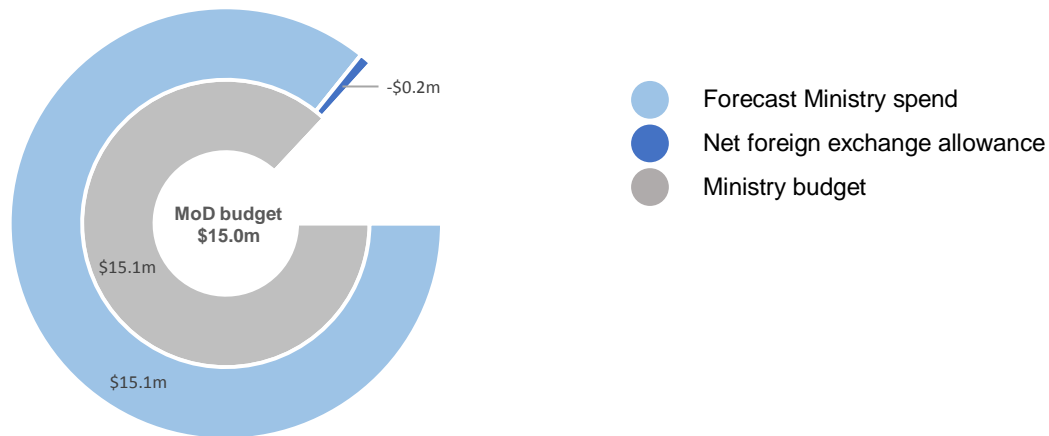
	Ministry of Defence	NZDF	Consolidated project	
	\$000	\$000	\$000	
Budget	Current approved project budget	43,344	-	43,344
	Allowance for foreign exchange movements	608	-	608
	Original approved project budget	42,736	-	42,736
Forecast	Forecast total project cost	37,654	-	37,654
	Effect of foreign exchange movements	538	-	538
	Forecast cost using hedged rates	37,116	-	37,116
	Forecast project variance	5,620	-	5,620

At 30 June 2023 expected ORACS: Phase Two (A) project costs were:



	Ministry of Defence	NZDF	Consolidated project	
	\$000	\$000	\$000	
Budget	Current approved project budget	16,174	-	16,174
	Allowance for foreign exchange movements	1,216	-	1,216
	Original approved project budget	14,958	-	14,958
Forecast	Forecast total project cost	13,571	-	13,571
	Effect of foreign exchange movements	1,286	-	1,286
	Forecast cost using hedged rates	12,285	-	12,285
	Forecast project variance	2,673	-	2,673

At 30 June 2023 expected ORACS: Phase Two (B) project costs were:



	Ministry of Defence	NZDF	Consolidated project	
	\$000	\$000	\$000	
Budget	Current approved project budget	15,070	-	15,070
	Allowance for foreign exchange movements	-	-	-
	Original approved project budget	15,070	-	15,070
Forecast	Forecast total project cost	15,147	-	15,147
	Effect of foreign exchange movements	166	-	166
	Forecast cost using hedged rates	14,981	-	14,981
	Forecast project variance	89	-	89

LAND DOMAIN

GARRISON AND TRAINING SUPPORT PHASE ONE



A number of the Defence Force's domestic operational and training support vehicle fleets, such as fire appliances and aircraft bulk refuelling vehicles, need to be replaced due to age and obsolescence issues. Whilst

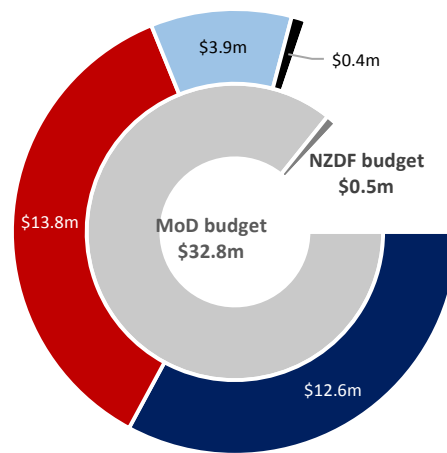
not intended for use outside New Zealand, these vehicles support domestic operations, such as rural fire fighting, and/or enable operations, for example by re-fuelling aircraft. This first phase addresses vehicles that need immediate replacement to preserve output delivery.

Phase One will deliver improved availability and reliability of domestic operational and training support vehicle fleets, increasing operating safety and efficiency and reducing maintenance costs.

For the fleets being replaced under Phase One, at 30 June:

- **Domestic Fire Appliances:** six appliances have been delivered through Lower Hutt based company, Fraser Engineering Ltd (NZ).
- **Medical Response Vehicle:** 11 of 12 vehicles have been delivered through Hamilton based company, Action Manufacturing. A training simulator has also been acquired. Interim Operational Release was achieved in June 2022.
- **Rural Fire Appliances:** a contract was signed with Volvo (Australia) in December 2020 for 11 appliances. All 11 were accepted during the reporting period.

- **Mobile Bulk Aviation Fuel Capability:** all six fuel tanker trucks have been accepted and interim operational release was achieved in May 2023. A through life contract has been signed.
- **Airfield Response Appliance:** the two vehicles are undergoing introduction into service and work has been underway on delivery of a through life support contract.



At 30 June 2023 expected project costs were:

	Ministry of Defence	NZDF	Consolidated project	
	\$000	\$000	\$000	
Budget	Current approved project budget	32,842	456	33,298
	Allowance for foreign exchange movements	460	-	460
	Original approved project budget	32,382	456	32,838
Forecast	Forecast total project cost	30,293	409	30,702
	Effect of foreign exchange movements	485	-	485
	Forecast cost using hedged rates	29,808	409	30,217
	Forecast project variance	2,574	47	2,621

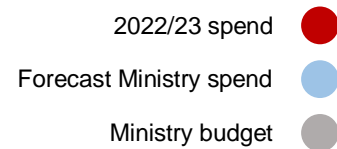
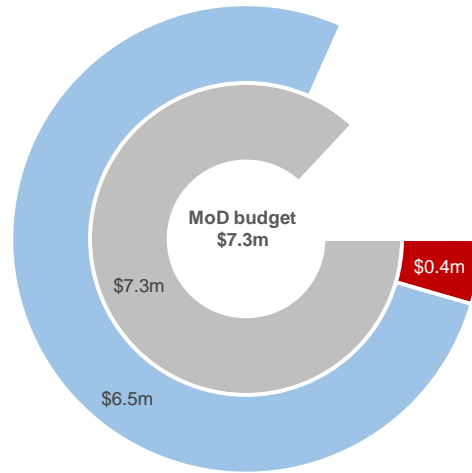
LAND FORCE PROTECTION ELECTRONIC COUNTER MEASURES



Electronic Counter Measures are devices used to act against detections systems – like radar and sonar, infrared, or lasers. The devices can be used defensively or offensively, disrupting targeting information.

This project will deliver an equipment fleet of sufficient size to support simultaneous land missions across the range of likely operational environments.

Phase 1 will deliver a new domestic capability. Phase 2 will deliver a new expeditionary capability. The funding below is for Phase 1.



At 30 June 2023 expected project costs were:

		Ministry of Defence	NZDF	Consolidated project
		\$000	\$000	\$000
Budget	Current approved project budget	7,326	-	7,326
	Allowance for foreign exchange movements	526	-	526
	Original approved project budget	6,800	-	6,800
Forecast	Forecast total project cost	6,894	-	6,894
	Effect of foreign exchange movements	534	-	534
	Forecast cost using hedged rates	6,360	-	6,360
	Forecast project variance	440	-	440

NETWORK ENABLED ARMY

The Network Enabled Army (NEA) Programme is moving the Army's planning, intelligence, and communications functions to modern, interoperable, digital-based systems. It is being rolled out through a series of funding tranches, with two tranches approved to date. The Ministry is delivering capability for NEA Command, Control, Communications, and Computers (C4), and NEA Intelligence, Surveillance, and Reconnaissance (ISR).



NEA Command, Control, Communication, and Computers (C4)

This project, funded through the first two tranches, will improve the NZDF's land forces' interoperability of systems and equipment, the digital-based common operating picture, and information management system. There will be an increased ability to pass and receive data, and improved situational awareness. It is establishing the basic network for the future NEA programme. This is a combination of hardware (servers, routers, and long distance communications links) and software (such as a battle management system that enables all the functions across the network), along with industry specialist support.

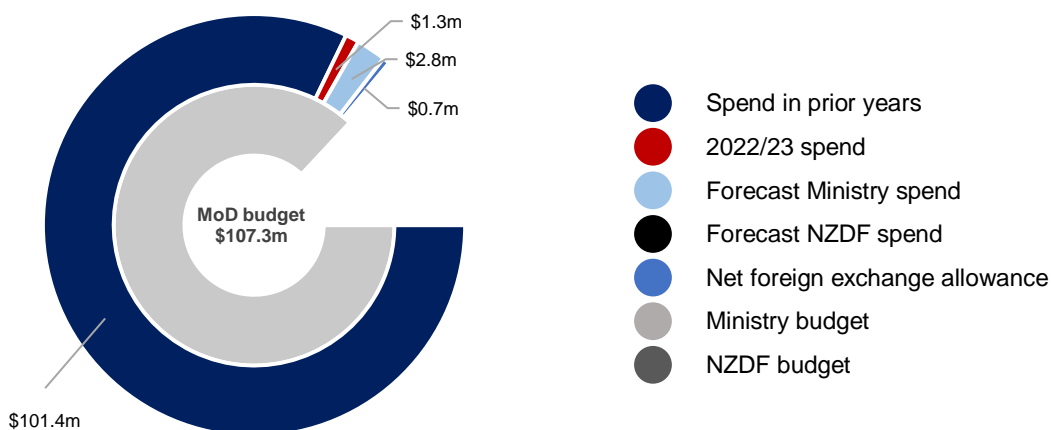
A testing, experimentation, and evaluation facility has been established to assess hardware and software prior to making an investment decision. This reduces risk and ensures new systems can be integrated with other Defence Force systems and are compatible with those of partners. A capability integration facility has also been established to assist with embedding the new capabilities within the Army as part of the introduction to service.

The Network Enabled Army project has acquired over 500 radios which transmit the data that operationalises the Battle Management System.

Over the 2022/23 year, the remaining C4 workstreams (below) have been managed as independent projects, although financials are reported on at the C4 project level. The Common Command Post Operating Environment (CCPOE) is delivering physical modular command post and information technology systems. A full, supportable CCPOE capability has been delivered, and Operational Testing and Evaluation has been underway.

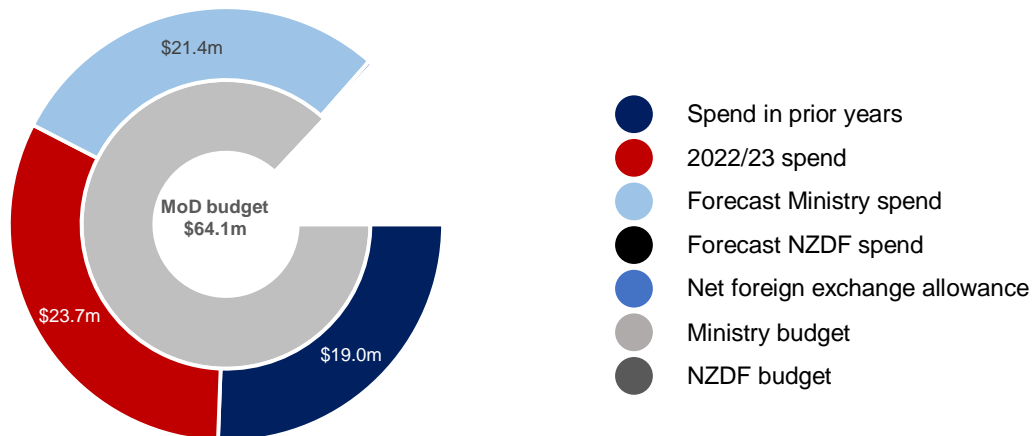
The Common Universal Bearer Systems supports tactical and strategic communications and has been undergoing testing and training delivery. The Mobile Tactical Communication Systems has been delivering network-capable combat radios, a Battle Management System, and a range of software. Overall the first tranche of C4 capability will be in service with Army in late-2023.

At 30 June 2023 expected project costs for C4 T1 were:



		Ministry of Defence \$000	NZDF \$000	Consolidated project \$000
Budget	Current approved project budget	107,253	-	107,253
	Allowance for foreign exchange movements	1,253	-	1,253
	Original approved project budget	106,000	-	106,000
Forecast	Forecast total project cost	105,473	-	105,473
	Effect of foreign exchange movements	585	-	585
	Forecast cost using hedged rates	104,888	-	104,888
	Forecast project variance	1,112	-	1,112

At 30 June 2023 expected project costs for C4 T2 were:



		Ministry of Defence \$000	NZDF \$000	Consolidated project \$000
Budget	Current approved project budget	64,091	-	64,091
	Allowance for foreign exchange movements	2,069	-	2,069
	Original approved project budget	62,022	-	62,022
Forecast	Forecast total project cost	64,148	-	64,148
	Effect of foreign exchange movements	2,311	-	2,311
	Forecast cost using hedged rates	61,837	-	61,837
	Forecast project variance	185	-	185

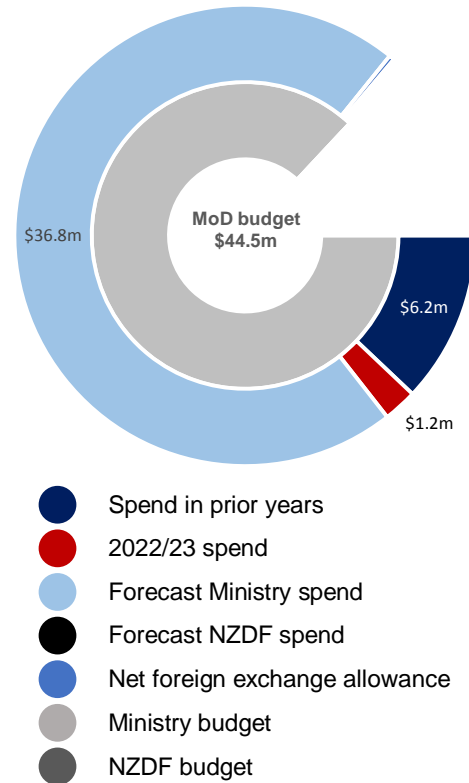
NEA Intelligence, Surveillance and Reconnaissance

Funded through the second tranche of funding, NEA ISR will deliver a system, including sensors and intelligence processing capability, to the New Zealand Army to improve situational awareness and support deployed commanders' decision-making at all levels. The focus includes Information and Intelligence and Reconnaissance and Surveillance capability.

A request for proposals, released to the market in the 2021/22 financial year, closed in July 2022. Proposals were sought from suppliers for military-off-the-shelf capabilities across four different types of equipment for the New Zealand Army.

1. Nano Remotely Piloted Aircraft System (small pocket sized systems)
2. Micro Remotely Piloted Aircraft System (small multi-rotor systems)
3. Fixed Wing Unmanned Aircraft System (long range, beyond visual range systems)
4. Ground sensors

During the year the evaluation of proposals was completed and an outcome of the acquisition process is expected in the 2023/24 year.



At 30 June 2023 expected project costs for NEA ISR 2 were:

	Ministry of Defence	NZDF	Consolidated project	
	\$000	\$000	\$000	
Budget	Current approved project budget	44,459	-	44,459
	Allowance for foreign exchange movements	-	-	-
	Original approved project budget	44,459	-	44,459
Forecast	Forecast total project cost	44,192	-	44,192
	Effect of foreign exchange movements	190	-	190
	Forecast cost using hedged rates	44,002	-	44,002
	Forecast project variance	457	-	457

PROTECTED MOBILITY CAPABILITY PHASE ONE

The New Zealand Army uses a range of vehicles to support operations across what can be diverse environments. This includes vehicles with high levels of ballistic and blast protection, and highly mobile vehicles that can operate in rugged and hostile terrain.

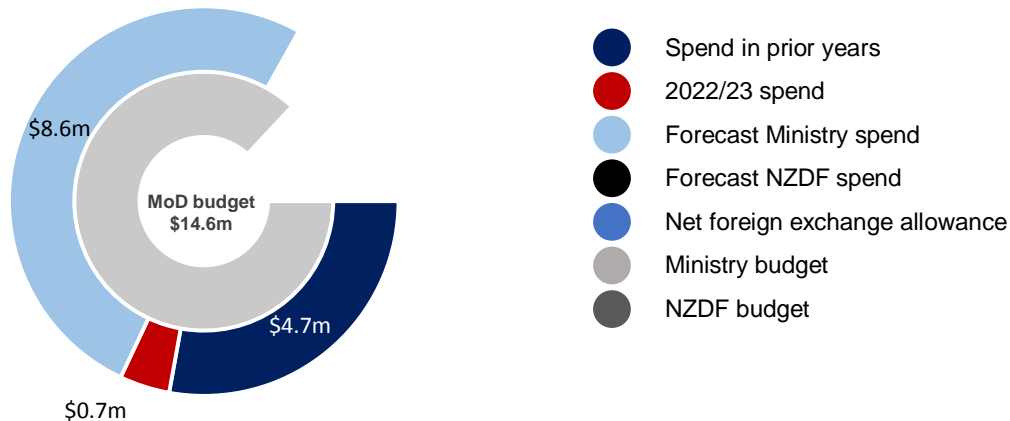


Phase One of the Protected Mobility Capability project is replacing the capability of the armoured Pinzgauer and operational Unimog fleets with a Protected Vehicle – Medium fleet comprised of 43 Bushmaster NZ5.5 vehicles. Phase One also introduces Polaris MRZR vehicles as the High Mobility – Light fleet.

During 2022/23, delivery of the Bushmasters commenced and as at the end of June, 30 vehicles had been delivered with each batch progressing through acceptance and compliance testing. All vehicles are expected to be delivered by the end of September 2023.

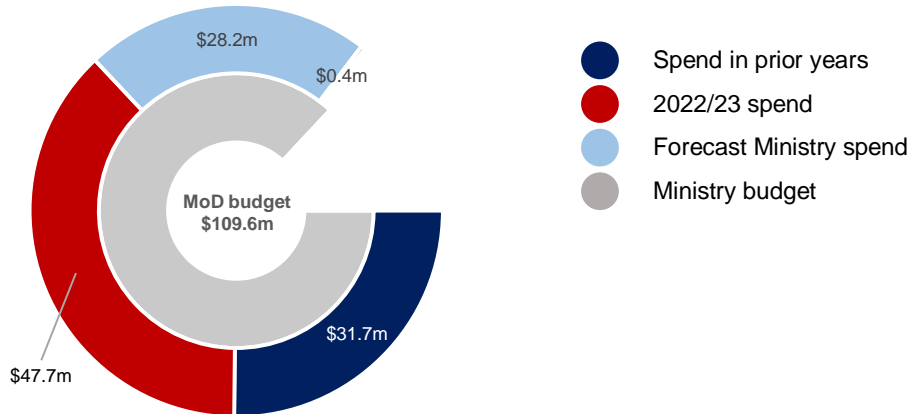
At 30 June the High Mobility – Light Fleet was on schedule for Operational Release in 2023.

At 30 June 2023 expected project costs for Protected Mobility Capability: High Mobility-Light (Polaris MRZR) were:



	Ministry of Defence	NZDF	Consolidated project	
	\$000	\$000	\$000	
Budget	Current approved project budget	14,619	-	14,619
	Allowance for foreign exchange movements	-	-	-
	Original approved project budget	14,619	-	14,619
Forecast	Forecast total project cost	13,976	-	13,976
	Effect of foreign exchange movements	-	-	-
	Forecast cost using hedged rates	13,976	-	13,976
	Forecast project variance	643	-	643

At 30 June 2023 expected project costs for Protected Mobility Capability: Medium (Bushmasters NZ5.5) were:



	Ministry of Defence	NZDF	Consolidated project	
	\$000	\$000	\$000	
Budget	Current approved project budget	109,633	-	109,633
	Allowance for foreign exchange movements	2,760	-	2,760
	Original approved project budget	106,873	-	106,873
Forecast	Forecast total project cost	107,634	-	107,634
	Effect of foreign exchange movements	2,357	-	2,357
	Forecast cost using hedged rates	105,277	-	105,277
	Forecast project variance	1,596	-	1,596



Above: Bushmasters at their arrival ceremony in Trentham on 17 July 2023.

81MM MORTAR REPLACEMENT



The Ministry is replacing the New Zealand Army's existing 81mm medium mortar capability, which has been in service since the 1980s. While the current capability

remains operational, it is coming to the end of its life. This is an opportunity to replace and enhance the capability.

In 2017, the Minister of Defence approved the purchase of three components: new medium mortars, sighting systems and weapons-locating radar.

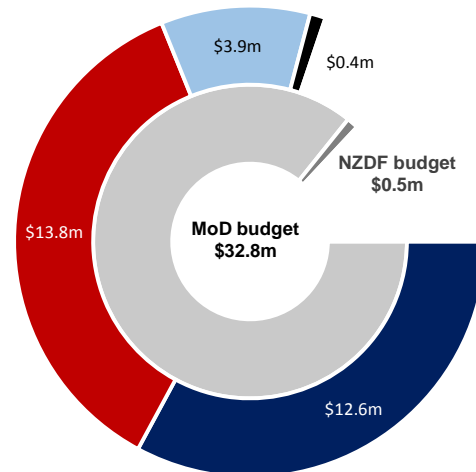
Mortars and radars were expected to be sourced through the US Government's Foreign Military Sales (FMS) process, and the sighting systems through a direct commercial sales contract.

When the price for the mortars was confirmed, it was higher than the approved budget and the Ministry went to the market for alternatives, with a request for quotation issued in January 2019. The three components have now all been delivered:

- **Sights:** the contract with Hall & Watts Defence Optics (UK) was signed in October 2017 and delivery was completed in December 2019.
- **Mortars:** in May 2019 the contract was signed with New Zealand-based company Hirtenberger Defence Technology Ltd. Mortars were delivered in October 2020.

- **Radars:** FMS Letter of Offer and Acceptance signed in July 2018. The majority of the radars were delivered in November 2021, with one further radar being used for Maintainer and Operator Training in the United States ahead of its delivery in July 2022.

During the year, Mortar radar acceptance was completed, along with train-the-trainer and maintainer training. The Ministry of Defence has handed the project over to the New Zealand Defence Force.



- Spend in prior years
- 2022/23 spend
- Forecast Ministry spend
- Forecast NZDF spend
- Ministry budget
- NZDF budget

At 30 June 2023 expected project costs were:

	Ministry of Defence	NZDF	Consolidated project	
	\$000	\$000	\$000	
Budget	Current approved project budget	12,919	850	13,769
	Allowance for foreign exchange movements	769	-	769
	Original approved project budget	12,150	850	13,000
Forecast	Forecast total project cost	8,025	434	8,459
	Effect of foreign exchange movements	85	-	85
	Forecast cost using hedged rates	7,940	434	8,374
	Forecast project variance	4,210	416	4,626

INFORMATION DOMAIN

FIXED HIGH FREQUENCY RADIO REFRESH



Fixed High Frequency (HF) radio is an important part of the Defence Force's communications network. Used to communicate across long distances, it is a backup to satellite communications and enables deployed forces to remain in

contact if they are not equipped with satellite communications capability. It is also an alternative communications capability for other agencies, and our partners. The system is now 40 years old and is being upgraded.

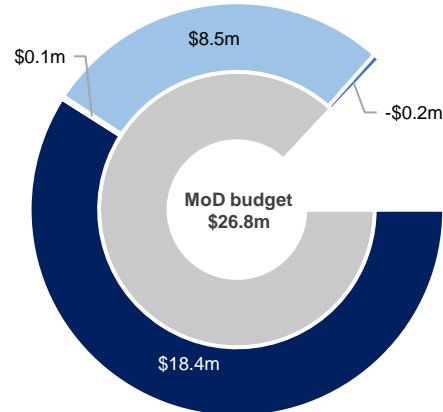
Approved in February 2020, the project will consolidate and upgrade all fixed, owned, or leased Defence Force high frequency communications installations, facilities, and stations. It will also replace the system that controls high frequency equipment.

The modern HF radio communication systems will improve the safety and success of operations, and enhance data transmission and system availability.

The project is working with Babcock New Zealand, with the design solution and build of the new system being undertaken by Babcock UK.

The design was completed in July 2021 and work has continued throughout 2022/23 on the build, review, and testing phases.

The date for Factory Acceptance Testing, the next key milestone for the project, has been delayed. At 30 June the revised date was yet to be confirmed.



- Spend in prior years
- Forecast Ministry spend
- Net foreign exchange allowance
- Ministry budget

At 30 June 2023 expected project costs were:

	Ministry of Defence	NZDF	Consolidated project	
	\$000	\$000	\$000	
Budget	Current approved project budget	26,790	-	26,790
	Allowance for foreign exchange movements	210	-	210
	Original approved project budget	26,580	-	26,580
Forecast	Forecast total project cost	26,961	-	26,961
	Effect of foreign exchange movements	382	-	382
	Forecast cost using hedged rates	26,579	-	26,579
	Forecast project variance	1	-	1

REDUCING THE MINISTRY'S CARBON EMISSIONS

KO TE WHAKAITI I NGĀ PUTANGA HAUWARO O TE MANATŪ

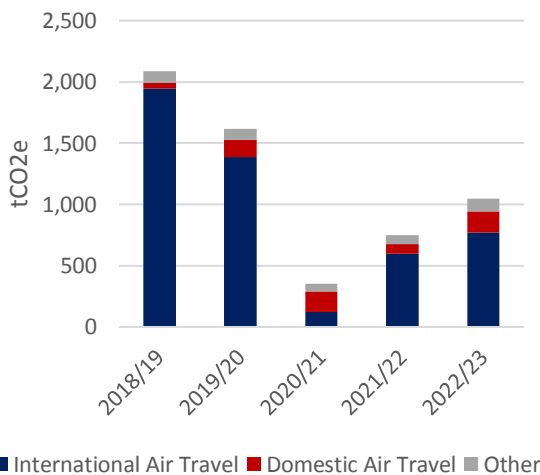


The Ministry is committed to meeting the Carbon Neutral Government Programme requirements. The Ministry will measure, reduce and report its emissions profile, and have its data externally validated.

In 2022/23, the Ministry emitted 1,046 tonnes of carbon dioxide equivalent (tCO₂e), a 50% reduction from 2018/19 (the Ministry's base year).

The Ministry's greenhouse gas emissions measurement (emissions data and calculations) have been independently verified against ISO14064-1:2018 by Toitū Envirocare. The Ministry has achieved the Toitū 'carbonreduce' certification for the five years from 2018/19 to 2022/23.

The Ministry's largest emissions source is air travel, and more specifically international air travel. The Ministry's emissions for the last 5 years are illustrated in the graph to the right.



Following the closure of New Zealand's international borders in March 2020, the Ministry's travel, and resulting emissions, reduced significantly. 2018/19 and 2022/23 were the only years included in Figure 8 where New Zealand's borders were fully open for the whole 12 months.

The comparison between these two years therefore provides the best illustration of the Ministry's reduction in carbon emissions.

Figure 8: the Ministry's carbon emissions from 2018/19 to 2022/23.

The emissions for 2022/23 are further broken down below.

Source	Category	Scope ⁸	tCO ₂ e	% of total
International Flights	Indirect Emissions from transportation	3	771.5	73.8%
Domestic Flights	Indirect Emissions from transportation	3	170.6	16.3%
Other	Indirect emissions from other sources	3	67.8	6.5%
Accommodation	Indirect Emissions from transportation	3	14.3	1.4%
Electricity Generation	Indirect Emissions from imported energy	2	21.4	2.0%
Total Emissions for 2022/23			1,045.6	100%

Above: 2022/23 emissions broken down by scope and source.

⁸ Scope 1 and 2 emissions are those that are owned or controlled by the entity, whereas scope 3 emissions are a consequence of activities of the entity but from sources not controlled or owned by it.

The intensity of the Ministry's emissions by the number of Full Time Equivalents (FTE) and the value of expenditure incurred each year is illustrated in the following table:

KPI	2018/19	2019/20	2020/21	2021/22	2022/23
FTEs	150	162	165	166	197
Expenditure ⁹ (\$M)	354	298	537	811	982
Emissions Intensity					
Total gross emissions per FTE in tCO ₂ e	14	10	2	5	5
Total gross emissions per million dollars of expenditure in tCO ₂ e	5.9	5.4	0.7	0.9	1.1

Above: emission intensity by FTE and expenditure.

The Ministry's expenditure can vary significantly depending on the stage, size and number of major projects the Ministry is delivering in any given year. Expenditure has increased in recent years. Gross emissions per million dollars of expenditure increase in 2022/23, mainly as a result of New Zealand's borders being open for the full 12 months in 2022/23, and emissions from air travel increasing as a result.

EMISSIONS CONTEXT

Ministry staff travel overseas for two main reasons:

- to engage with international defence partners in order to maintain and enhance relationships with these partners, and
- to meet with suppliers of defence equipment that the Ministry is procuring equipment from.

International travel continues to be an important aspect of the Ministry's business. The Ministry has, however, proactively changed its approach to international travel to reduce carbon emissions, whilst maintaining critical international travel. The Ministry's travel policy has resulted in reduced emissions, through the below changes:

- ensuring travel is necessary and justifiable and the objectives of the engagement cannot be met remotely
- setting clearer guidelines on the appropriate class of travel to meet business needs whilst minimising emissions, and
- reporting monthly to the Strategic Leadership Team on emissions and travel statistics and continuing with higher approval thresholds for international travel introduced during COVID-19.

OUR REDUCTION TARGETS

In line with the requirements of the Carbon Neutral Government Programme, the Ministry has set the following targeted emissions levels:

- In **2024/25** – the Ministry will emit no more than 1,650 tCO₂e (a 21% reduction from 2018/19).
- In **2029/30** – the Ministry will emit no more than 1,211 tCO₂e (a 42% reduction from 2018/19).

The Ministry expects to achieve these targets through its new approach to international travel as noted above.

EMISSIONS SOURCES

The Ministry is meeting the requirements of the Carbon Neutral Government Programme by capturing emissions from all mandated sources. The quality of the source data is considered sound, with some minor improvements to data-collection practices planned for the coming year.

The Ministry has not reported emissions generated from its procurement of major defence capabilities on behalf of NZDF. Most of the Ministry's procurement contracts are with overseas suppliers, and information on the emissions generated during the construction process is not currently available. However, once these capabilities have been procured and transferred to NZDF, the emissions generated from their use will be tracked and monitored by NZDF as part of their obligations under the Carbon Neutral Government Programme.

⁹ Includes both departmental operating expenditure and non-departmental capital expenditure.



05

**ORGANISATIONAL
HEALTH AND
CAPABILITY**

**TE HAUORA Ā-WHAKAHAERE
ME TE ĀHEINGA**

ABOUT THE MINISTRY'S OPERATIONS

MŌ NGĀ MAHI A TE MANATŪ

The Ministry's Spirit and Character is to be:



Influential Kia whai mana

Our work shapes the agenda and our advice is persuasive.



Collaborative Kia mahi tahi

We work together and in partnership. We build trusted relationships to understand what's going on and get things done.



Courageous Kia kaha

We do the right thing, even when that is personally and professionally hard.



Dynamic Kia hihiri

We see where change will improve results, we self-start it, and we see it through.



Pragmatic Kia whai kiko

We find a way; we are practical, resourceful, and hard-nosed.



Professional Kia ngaio

People know us for our integrity, skills and attitude.

The Ministry receives property services from the Defence Force, who are the primary tenant of Defence House in Wellington. The Ministry also receives communications, ICT, and some security services from the Defence Force. This enables the Ministry to leverage economies of scale and supports collaboration in developing advice on Defence policy and deployments and delivery of military capability.

The Ministry utilises a range of all of government tools provided by the government's functional leads, including the use of the common web platform for the Ministry's website, the Government Electronic Tender Service and benefits from all of government procurement contracts.

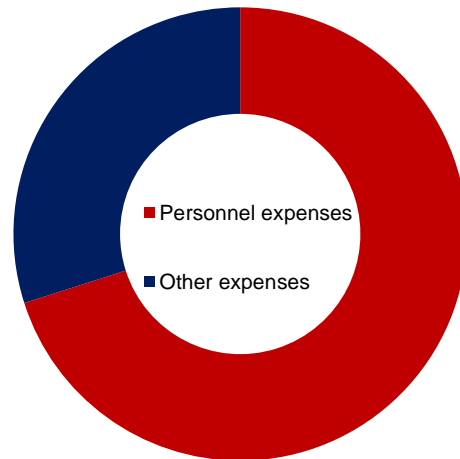


Figure 9: the majority of the Ministry's departmental costs are on personnel, as at 30 June 2023

Health and Safety

The Ministry remains committed to providing a safe and healthy working environment for its staff, contractors and visitors. We participate in a range of government-wide health and safety initiatives. Alongside the NZDF, the Ministry is also responsible for the delivery of capabilities that are safe to operate, and that are operated safely, and guidance is provided to ensure this responsibility is met.

The Ministry's *Health and Safety Policy*, updated in September 2022, sets out the Ministry's Safety Management System. The system is comprised of

leadership, risk management, assurance, training and engagement with our people.

In October 2022, the Secretary of Defence released a *Health and Safety Statement*, sharing the Secretary's commitments to our peoples' health and safety, and our collective responsibility to promote health and safety in the workplace.

The Ministry's Health and Safety Committee meets regularly, and throughout the 2022/23 reporting period has focused on implementing a new health and safety risk assessment process for Ministry staff travelling or posting to higher risk locations.

In October, the Committee also launched the first issue of the Health and Safety Committee Newsletter. The newsletter shares relevant updates and resources and promotes upcoming activities and events to support staff safety and wellbeing.

Also established this year was the Mental Health Hub which provides Ministry staff with easy access to wellbeing guides, helpful tools, and connections to external organisations such as the Mental Health Foundation to encourage mental wellbeing at all levels of the organisation.

New Zealand Business Number

The Ministry has implemented the New Zealand Business Number into its process. System upgrades during the year now allow the Ministry to receive electronic invoices (e-invoicing). Further system enhancements are planned to allow the creation and sending of electronic invoices.

Operating in a High Integrity Environment

The Ministry regularly communicates with its staff on the importance of acting ethically, with integrity and honesty, and in accordance with expectations of the public service. Staff are required to demonstrate probity and good judgement when committing funds.

The Strategic Leadership Team provides governance of the policies and procedures that comprise the internal control and fraud control frameworks. Policies are regularly reviewed to ensure they are based on contemporary practice.

The Ministry undertakes a targeted programme of regular training on financial controls. It covers the importance of the Ministry's internal controls and the key topics that underpin it, including conflicts of interest, delegations, and sensitive expenditure.

A session on Ministry internal controls forms part of two formal induction courses for new staff.

All capability projects have independent probity support prior to investment.





06

VOTE DEFENCE BY APPROPRIATION

TE PŪTEA KAUPAPA
WAONGA: NGĀ MAHI KEI IA
RĀRANGI PŪTE

VOTE DEFENCE BY APPROPRIATION

TE PŪTEA KAUPAPA WAONGA: NGĀ MAHI KEI IA RĀRANGI PŪTE

The Ministry of Defence is a New Zealand government department as defined by section 5 of the Public Service Act 2020. The relevant legislation governing the Ministry's operations includes the Defence Act 1990, the Public Finance Act 1989, and the Public Service Act. The Ministry's ultimate parent is the New Zealand Crown.

Under the Defence Act, the Ministry is the Government's lead civilian advisor on defence. It provides civilian advice on defence matters to enhance the security and national interests of New Zealand and its people. The Ministry also purchases major capabilities to be used by the service personnel of the New Zealand Defence Force. Page 8 provides further context on the Ministry's role.

SIGNIFICANT NEW INITIATIVES

The table below illustrates the significant projects that the Ministry has gained funding approval for over the last three years, and how the performance of these projects are being tracked. These projects are all being delivered under the Defence Capabilities non-departmental multi-category appropriation.

Policy Initiative	Funding (\$000)	Year of approval	Reference to performance measures
Frigate Sustainment - Communications	92,841	2020/21 and 2022/23 ¹⁰	
Frigate Sustainment Programme - Phase 1	57,000	2022/23	
Operational and Regulatory Aviation Compliance Sustainment: Phase Two	19,588	2021/22	Performance measures for all capability projects are included within the non-departmental measures below.
Tactical Future Air Mobility Capability	1,494,255	2020/21	
Operational and Regulatory Aviation Compliance Sustainment: NH90 Upgrade	21,050	2020/21	Further descriptions on each project can be found on pages 63 to 84.
Protected Mobility Capability - Medium	102,900	2020/21	
HMNZS <i>Canterbury</i> , Offshore Patrol Vessels Communications Upgrade	29,697	2020/21	

STATEMENT OF COMPLIANCE

This performance report of the Ministry has been prepared in accordance with the requirements of the Public Finance Act, which includes the requirement to comply with New Zealand generally accepted accounting practice (NZ GAAP) and complies with PBE Standards Reduced Disclosure Regime.

The performance report set out on pages 56–84 and 92–99 provides service performance information. In preparing this report, the Ministry has made judgements on the application of reporting standards and has made estimates and assumptions concerning the future. The estimates and assumptions may differ from subsequent actual results.

¹⁰ Project approved in two phases – funding for design in 2020/21, and then the build and installation phase was approved in 2022/23

The main judgements, estimates, and assumptions are discussed below.

STRATEGIC INTENTIONS

The Ministry's high-level outcomes are set by Government strategic defence policy, including the **Strategic Defence Policy Statement 2018** and the **Defence Capability Plan 2019**. The Government is currently undertaking a Defence Policy Review, and in August 2023 launched updated policy in the form of the **Defence Policy and Strategy Statement 2023** and **Future Force Design Principles 2023**. These are informing development of an updated Defence Capability Plan.

The Ministry's own organisational strategy is set in its **Statement of Intent 2021–2025**. This outlines Ministerial priorities for the Defence portfolio, and provides a series of milestone objectives framed around four focus areas.

	Supporting talented and diverse people Te taunaki i ngā tangata ihumanea matahuhua
	Informing decisions with strategic insight Te whakamōhio i ngā whakatau mā te rautaki
	Delivering to strengthen national security Te koke kia kaha ake ai te haumarutanga ā-motu
	Engaging New Zealanders on defence Te whakatoro i te kaupapa waonga ki a ngāi Aotearoa

Pages 14–86 report progress against Ministerial priorities, as well as showing delivery against the objectives in the Statement of Intent.

In order to deliver its work, the Ministry has two departmental appropriations, and a non-departmental appropriation for the delivery of the defence capability to the NZDF on behalf of the Minister of Defence.

This section provides details of the appropriations under Vote Defence that fund the delivery of the Ministry's work, including the performance measures and targets for delivering this work. The Ministry's Strategic Leadership Team receives quarterly reporting on progress against these measures. The measures are reviewed annually to ensure they remain fit-for-purpose and accurately reflect our work, and to review if targets are appropriate. Additional detail about the specific projects delivering major defence capabilities are provided on pages 56–84.

CRITICAL REPORTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

Performance measures have been selected for each of the activities that the Ministry performs. In selecting performance measures for these activities, judgements must be made in determining which aspects of performance are relevant and material to users of the performance report.

There is also judgement involved in determining how to measure performance against the measures selected. The judgements that have the most significant impact on selection and measurement are disclosed below.

The Ministry has grouped its activities under the following subsets, which broadly describes what the Ministry does. To disclose material judgements, the Ministry has aggregated performance into the following subsets:

- policy advice, policy support, Ministerial servicing, and audit and assessment
- the delivery of major defence capabilities.

POLICY ADVICE AND RELATED SERVICES TO MINISTERS

Policy advice

The Ministry:

- provides long and short-term analysis and advice on New Zealand's defence interests and the security environment we operate in
- advises the Government on how our Defence Force can meet current and future challenges (such as potential deployments)
- provides advice on the purchase of major defence equipment for use by the Defence Force as a defence capability

As part of assessing the performance of Defence policy advice, the Ministry annually:

- commissions a technical review of a sample of its advice to the Minister of Defence and
- surveys the Minister on his satisfaction with the policy advice provided by the agency.

The technical review draws on experienced independent reviewers using common standards of what good quality policy advice looks like set in the Department of the Prime Minister and Cabinet's *Policy Quality Framework*. The Ministry commissions external experts to review at least 22 randomly-selected items of policy advice from the period. The advice is reviewed against the all-of-government *Policy Quality Framework* and provides both a score for each piece of policy advice and an average score across all of the randomly-selected items. This is assessed using a scale from 1 (unacceptable) to 5 (outstanding). Results are reviewed by Ministry and policy leadership, as well as the individual authors, and drive the focus for work to improve the Ministry's policy advice.

The satisfaction survey contains a common set of questions to assess the Minister's satisfaction with the services provided by the policy advice function, also aligned with the *Policy Quality Framework*. The publication of the Ministry's score and target provides external accountability and supports the Ministry's work to improve the way it engages with the Minister. The score reflects an average across themes of general satisfaction, quality of policy advice, overall trust and overall confidence, on scale from 1 (never) to 5 (always). Results are reviewed by Ministry and policy leadership, as well as the individual authors, and drive the focus for work to improve the Ministry's policy advice.

These shared performance measures are used by departments with appropriations for policy advice. Additional details are provided on the Department of the Prime Minister and Cabinet's webpages about The Policy Project: <https://dpmc.govt.nz/our-programmes/policy-project/progress-and-performance>.

An element of the Ministry's policy work is advice to the Minister of Defence on options for investment in defence capabilities – including business cases for decisions on the refurbishment or procurement defence equipment. As part of maintaining performance in this work, the Ministry sets targets that all capability advice will:

- meet high level user requirements and be affordable within the Defence Capital Plan that is agreed annually through the Budget process
- be managed to the agreed schedule, except where there are circumstances beyond the control of the Ministry.

Both of these measures are managed within the Ministry. At the point that a business case is submitted to the Minister it is judged against requirements, and this is considered as part of the shared capability governance between the Ministry and NZDF. The schedule of business cases is managed as part of regular reporting to the Minister of Defence on major capability projects, based on information provided by project teams and reviewed by shared capability governance bodies.

Policy support

The Ministry provides a range of policy support to the Minister of Defence. This includes background briefings, briefings to support international engagement, and regular reporting on Defence portfolio developments.

To assess the performance of this work, the Ministry conducts an annual survey on the Minister's perception of the Ministry's policy support. The survey was developed by the Ministry. On a scale of 1-10 (extremely dissatisfied

to extremely satisfied), the survey asks about the Minister's perception of the quality and timeliness of the policy support received. The results are reviewed by Ministry leadership as a feeder for continuous improvement.

Audit and assessment

In accordance with section 24(2)(e) of the Defence Act 1990, the Ministry arranges audit and assessments to examine and help improve Defence efficiency and effectiveness.

To assess the performance of this work, the Ministry conducts an annual survey on the Minister's perception of the Ministry's audit and assessment work. The survey was developed by the Ministry. On a scale of 1-10 (extremely dissatisfied to extremely satisfied), the survey asks about the Minister's perception of the quality and timeliness of the work received. The results are reviewed by Ministry leadership as a feeder for continuous improvement.

Ministerial servicing

The Ministry provides support to the Minister of Defence for Ministerial correspondence, parliamentary questions and other information requests to the Minister. To assess and support improvement of performance in Ministerial servicing, the Ministry sets targets and tracks performance in relation to the quality and timeliness of proposed responses.

Quality is assessed by identifying the proportion of first drafts accepted by the Minister. Timeliness is assessed by identifying the proportion of proposed responses provided to the Minister's Office within timeframes set by the Official Information Act 1982 or as agreed with the Minister's Office. The Ministry tracks these statistics on an ongoing basis.

Departmental Expenses: Ministry Of Defence Outputs

This appropriation is limited to the development, procurement and delivery of defence capability for the New Zealand Defence Force and providing policy advice, audit and assessments, and other support to Ministers to discharge their policy decision-making and other portfolio responsibilities relating to defence.

Performance Measures	2021/22	2022/23	
	Actual	Budget	Actual
Quality of Ministerial Support Papers: as assessed by the percentage of first draft of all correspondence accepted by the Minister.	99% (331 of 335 items unchanged)	≥90%	96% (254 of 264 items unchanged)
Timeliness of Ministerial Support: assessed by the percentage of papers that were submitted by the timeframe set in legislation, or otherwise agreed with the Minister.	97% (325 of 335 on time)	≥95%	97% (257 of 264 items on time)
Technical Quality of Policy Advice: as assessed by independent review of a sample of policy papers.	3.8 / 5	≥3.5 / 5	3.5 / 5
Minister's Satisfaction with Quality of Policy Advice: as assessed by survey.	4.6 / 5	≥3.5 / 5	4.8 / 5 ¹
Minister's Satisfaction with Quality of Policy Support: as assessed by survey.	90%	≥70%	93% ¹
Minister's Satisfaction with Quality of Audits and Assessments: as assessed by survey.	100%	≥70%	N/A ²

Performance Measures	2021/22	2022/23	
	Actual	Budget	Actual
Quality of Capability Advice: options presented to the Minister for each refurbishment or procurement project up to the preferred tenderer stage will meet the high-level user requirements and will be affordable within the Defence Capital Plan.	100%	100%	100%
Schedule of Capability Advice: each refurbishment or procurement project up to the identification of the preferred tenderer will be managed to the agreed schedule, except when there are circumstances beyond the control of the Ministry.	100%	100%	100%

Note 1: This is the weighted average from an annual survey completed by each of the two Ministers of Defence during the reporting period.

Note 2: The Minister of Defence reprioritised the Ministry's 2022/23 audit and assessment funding and resources to the implementation of the External Review Group findings and establishing the Inspector-General of Defence, as well as supporting the Defence Policy Review.

Expenditure for the year ended 30 June 2023:

Actual	Appropriation	Main estimates	Supp estimates	Actual
2022		2023	2023	2023
\$000		\$000	\$000	\$000
22,577	Ministry of Defence Outputs	25,540	31,040	28,580

DEPARTMENTAL CAPITAL EXPENDITURE

The Ministry manages a relatively small appropriation for departmental capital expenditure, recognising that it receives property, ICT and some security services from NZDF.

As part of assessing the effectiveness of its modest departmental capital expenditure, the Ministry ensures expenditure is within the Ministry's agreed capital plan.

Departmental capital: Ministry of Defence – Capital expenditure permanent legislative authority

This appropriation is limited to the purchase or development of assets by and for the use of the Ministry of Defence, as authorised by section 24(1) of the Public Finance Act 1989.

Performance Measures	2021/22	2022/23		
	Actual	Budget	Actual	
Capital expenditure is within Capital Plan	Within Capital Plan	Within Capital Plan	Within Capital Plan	
Expenditure for the year ended 30 June 2023:				
Actual	Appropriation	Supp estimates	Main estimates	Actual
2022		2023	2023	2023
\$000		\$000	\$000	\$000
18	Ministry of Defence – capital expenditure PLA	350	350	-

DELIVERING MAJOR DEFENCE CAPABILITIES

Once policy decisions are made on the procurement, modification or refurbishment of a defence capabilities, the Ministry manages the delivery of the projects and programmes on behalf of the Minister of Defence.

Details about the performance of each individual projects are provided in the project pages on pages 56–84, which includes details about the progress of the project or programme over the year. This draws from ongoing shared capability management governance by the Ministry and NZDF, and regular reporting on the progress of projects and programmes to the Minister of Defence.

The Ministry also assesses the performance of the capability delivery portfolio as a whole through a series of performance measures covering all projects and programmes that are in delivery:

- **Cost:** All projects must operate within the approved appropriation.
- **Quality:** All projects must meet the high level user requirements set by an Acquisition Review Board. This is assessed as part of test and evaluation of the capability.
- **Schedule:** The Ministry sets a target for the number of projects that will be delivered to schedule milestones. Each project has a colour: Green, Yellow, Amber or Red. Projects with a Green or Yellow status are counted as on-track, and those with an Amber or Red status are not. The result is the proportion of relevant projects on-track at the end of the reporting period. This is tracked throughout the year through shared Defence governance for major capability projects, and reported in regular reporting to the Minister of Defence. Assessments of schedule have a process for considering where delays are beyond the control of the Ministry.
- **Benefits:** a benefits realisation plan is approved for each project. This plan forecasts the timeframe over which benefits are expected to be delivered. Benefits are forecast to be realised incrementally, usually over a period of years. Reporting of the aggregate proportion of benefits realised shows progress against the project's plans. Benefits realisation looks at a range of measures to assess whether a project has delivered the benefits to Government identified in the case for investment. It has both post-delivery measures, and pre-delivery indicators. The Ministry's performance measure is focused on the benefits indicators – specific, measureable, and time-bound milestones that describe the completion of activity that ensures projects are on a trajectory to realise their intended benefits through their delivery.
- **Reporting on cost forecasting** supports the efficient use of the Government funding allocated for defence capability projects and programmes. The Ministry identifies the effectiveness of Ministry forecasting across the portfolio by comparing actual spend against the most recent Crown forecast.

Non-departmental Multi-Category Appropriation: Defence Capabilities

The single overarching purpose of this appropriation is to purchase, modify or refurbish defence capabilities for the New Zealand Defence Force.

Performance Measures	2021/22	2022/23	
	Actual	Budget	Actual
<i>Overarching Measure for Multi-category Appropriation</i>			
The performance of the MCA as a whole will be assessed by the aggregate percentage of planned benefits expected to have been realised by quarter, as set out in approved project benefits realisation plans.	77%	≥80%	73% ¹
Non-Departmental Other Expenses – Procurement Expenses			
Cost: Each procurement or refurbishment project will be managed within its approved budget, inclusive of approved variations to the contract price and project budget	100%	100%	100%
Measured by the percentage of all projects that have project-related capital or other expenditure incurred in the year within the approved project expenditure budget.			
Non-Departmental Other Expenses – Defence Capability Delivery			
Cost: Each procurement or refurbishment project will be managed within its approved budget, inclusive of approved variations to the contract price and project budget.	100%	100%	100%
Measured by the percentage of all projects that have project-related expenditure incurred in the year within the approved project expenditure budget.			
Quality of Deliverable: Each procurement or refurbishment project will achieve on delivery the agreed/contracted specifications that are critical to acceptance.	100%	100%	100%
Measured by the percentage of all projects in the delivery phase that meet all specifications that are critical to acceptance.			
Schedule: Each procurement or refurbishment project will be managed to schedule, without avoidable schedule over-run.	45%	≥80%	46%
	(9 of 20 projects to schedule)		(11 of 24 projects to schedule) ²
Measured by the percentage of all projects in the delivery phase progressed within agreed schedule.			
Cost forecasting: The aggregate capital expenditure on procurement and refurbishment projects compared to the forecast capital expenditure.	(8.2%)	Within ±10% of forecast	(0.2%)
Measured by comparing actual expenditure in the year with the most recent Crown forecast. It is calculated at hedged exchange rates to remove the impact of movements in exchange rates.			

Note 1: The schedule impact of COVID-19 continues to create resourcing, operational, and supply chain issues for many of the main vendors involved in the projects, resulting in delays to benefits realisation.

Note 2: The schedule impact of COVID-19 continues to create resourcing, operational, and supply chain issues for many of the main vendors involved in the projects, resulting in delays to benefits realisation. The following projects have missed a governance milestone: 81 mm Mortar Replacement; Anzac Frigate Systems Upgrade; Dive and Hydrographic Vessel; Fixed High Frequency Radio Refresh; Garrison and Training Support – Phase One; Land Force Electronic Counter Measures; Maritime Sustainment Capability; Network Enabled Army: Common Command Post Operating Environment; Network Enabled Army: Common Universal Bearer Systems; NH90 Flight Simulator; Operational and Regulatory Aviation Compliance Sustainment: Phase 1(A); Operational and Regulatory Aviation Compliance Sustainment: Phase 1(B); Protected Mobility Capability – Medium. Further details are provided on the relevant project pages.

Expenditure for the year ended 30 June 2023:

Actual	Appropriation	Supp estimates	Main estimates	Actual
2022		2023	2023	2023
\$000		\$000	\$000	\$000
3,933	Other expenses – Procurement expenses	2,000	4,567	-
783,963	Capital expenditure – Defence capability delivery	1,150,069	1,257,261	953,352
787,896	Defence capabilities MCA	1,152,069	1,261,828	953,352

PERFORMANCE MEASURES FOOTNOTES

The Ministry includes footnotes for some of its non-financial performance measures where they provide meaningful additional information. These provide context, such as the projects covered by an aggregate measure, or where there have been:

- major variances between the current and prior year results, or
- material changes in performance measures for an appropriation.

07

STATEMENT OF RESPONSIBILITY AND AUDIT REPORT

TE TAUĀKĪ TAKOHANGA ME TE
RIPOATA AROTAKE



STATEMENT OF RESPONSIBILITY

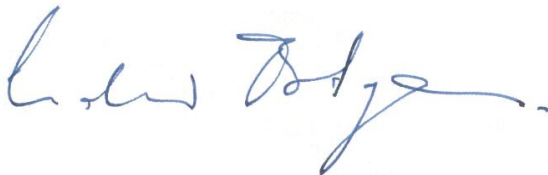
I am responsible, as Chief Executive of the Ministry of Defence (the Ministry), for:

- the preparation of the Ministry'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 Ministry 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 Ministry, whether or not that information is included in the Annual Report.

In my opinion:

- the financial statements fairly reflect the financial position of the Ministry as at 30 June 2023 and its operations for the year ended on that date
- the annual report fairly reflects the operations, progress, and the organisational health and capability of the Ministry, and
- the forecast financial statements fairly reflect the forecast financial position of the Ministry as at 30 June 2024 and its operations for the year ending on that date.

Signed by:



Andrew Bridgman
Secretary of Defence
Te Tumu Whakarae mō te Waonga

29 September 2023

Countersigned by:



Pasanka Wickremasinghe
Chief Financial Officer

29 September 2023

INDEPENDENT AUDITOR'S REPORT

To the readers of the Ministry of Defence's Annual Report for the year ended 30 June 2023

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

- the financial statements of the Ministry on pages 111 to 128 that comprise the statement of financial position, statement of commitments, statement of contingent liabilities and contingent assets as at 30 June 2023, 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 for the appropriations administered by the Ministry for the year ended 30 June 2023 on pages 56 to 84 and 92 to 99;
- the statements of expenses and capital expenditure of the Ministry for the year ended 30 June 2023 on pages 108 to 109;
- the schedules of non-departmental activities which are managed by the Ministry on behalf of the Crown on pages 131 to 142 that comprise:
 - the schedules of assets; liabilities; capital commitments; and contingent liabilities and contingent assets as at 30 June 2023;
 - the schedules of expenses; and revenue; capital receipts; and capital expenditure for the year ended 30 June 2023; and
 - the notes to the schedules that include accounting policies and other explanatory information.

Opinion

In our opinion:

- the financial statements of the Ministry:
 - present fairly, in all material respects:
 - its financial position as at 30 June 2023; and
 - its financial performance and cash flows for the year ended on that date; and
 - comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Standards Reduced Disclosure Regime.
- the performance information for the appropriations administered by the Ministry for the year ended 30 June 2023:
 - presents fairly, in all material respects:
 - what has been achieved with the appropriation; and
 - the actual expenses or capital expenditure incurred as compared with the expenses or capital expenditure that were appropriated or forecast to be incurred; and
 - complies with generally accepted accounting practice in New Zealand.
- the statements of expenses and capital expenditure of the Ministry 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 Ministry on behalf of the Crown present fairly, in all material respects, in accordance with the Treasury Instructions:
 - the assets; liabilities; capital commitments; and contingent liabilities and contingent assets as at 30 June 2023; and
 - expenses; revenue; capital receipts; and capital expenditure for the year ended 30 June 2023.

Our audit was completed on 29 September 2023. This is the date at which our opinion is expressed.

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

Basis for our opinion

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

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

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

Responsibilities of the Secretary of Defence for the information to be audited

The Secretary of Defence is responsible on behalf of the Ministry for preparing:

- financial statements that present fairly the Ministry'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 Ministry, that are presented fairly, in accordance with the requirements of the Public Finance Act 1989.
- schedules of non-departmental activities, in accordance with the Treasury Instructions, that present fairly those activities managed by the Ministry on behalf of the Crown.

The Secretary of Defence 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 Secretary of Defence is responsible on behalf of the Ministry for assessing the Ministry's ability to continue as a going concern. The Secretary of Defence 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 Ministry, or there is no realistic alternative but to do so.

The Secretary of Defence'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 Ministry's 2021-2025 Statement of Intent, Estimates and Supplementary Estimates of Appropriation 2022/23 for Vote Defence, and the 2022/23 forecast financial figures included in the Ministry's 2021/22 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 Ministry's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Secretary of Defence.
- We evaluate the appropriateness of the reported performance information for the appropriations administered by the Ministry.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Secretary of Defence and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Ministry'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 Ministry to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the information we audited, including the disclosures, and whether the information we audited represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Secretary of Defence 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 Secretary of Defence is responsible for the other information. The other information comprises the information included on pages 2 to 89, 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.

Independence

We are independent of the Ministry 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 (including International Independence Standards) (New Zealand) (PES 1)* issued by the New Zealand Auditing and Assurance Standards Board.

In addition to this audit, we carried out an assurance review of the Major Projects Report 2022 prepared by the Ministry of Defence and the New Zealand Defence Force and provided probity assurance on the process used for the tenders in the Reconnaissance and Surveillance Capabilities procurement and Electronic Warfare procurement as part of the ISREW (Intelligence, Surveillance and Reconnaissance and Electronic Warfare programme).

Other than in our capacity as auditor, we have no relationship with, or interests, in the Ministry.



John Whittal
Audit New Zealand
On behalf of the Auditor-General
Wellington, New Zealand

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APPROPRIATION STATEMENTS

TE TAUĀKĪ ROHENG
PŪTEA



Statement of expenses and capital expenditure against appropriations

For the year ended 30 June 2023 (refer to pages 95-99 for performance information on these appropriations)

Actual		Main estimates not audited	Supp estimates not audited	Actual	Main estimates not audited
2022		2023	2022	2023	2023
\$000		\$000	\$000	\$000	\$000
Vote: Defence					
Departmental Appropriations					
Output expenses					
22,577	Ministry of Defence outputs	25,540	31,040	28,580	26,050
22,577	Total appropriations for output expenses	25,540	31,040	28,580	26,050
Departmental capital expenditure					
18	Ministry of Defence – capital expenditure PLA	350	350	-	350
22,595	Total Departmental appropriations	25,890	31,390	28,580	26,400
Non-Departmental Appropriations					
Multi-category appropriations (MCA)					
Defence capabilities MCA					
Other expenses					
3,933	Procurement expenses	2,000	4,567	-	2,000
Capital expenditure					
783,963	Defence capability delivery	1,150,069	1,257,261	953,352	1,339,869
787,896	Total Non-Departmental appropriations	1,152,069	1,261,828	953,352	1,341,869
810,491	Total annual appropriations administered by the Ministry of Defence	1,177,959	1,293,218	981,932	1,368,269

Notes to the Statement of Expenses and Capital Expenditure Against Appropriations

Ministry of Defence – capital expenditure PLA

The departmental capital expenditure appropriation is given by permanent legislative authority (PLA) under section 24(1) of the Public Finance Act 1989.

Accounting Policies

Cost allocation policy: The Ministry has determined the cost of outputs using a cost allocation system:

- Direct costs are those costs directly attributable to an output. Direct costs are charged directly to outputs.
- Indirect costs are those costs that cannot be attributed to a specific output in an economically feasible manner. Indirect costs are charged to outputs based on a predetermined ratio, which is assessed annually based on the services expected to be provided for each output over the ensuing year.

There have been no changes in cost allocation policies since the date of the last audited financial statements.

PERFORMANCE INFORMATION

Performance information for all departmental appropriations are reported in this Annual Report.

Performance information for all non-departmental appropriations are reported on page 95-99 in this Annual Report.

Statement of expenses and capital expenditure incurred without, or in excess of, appropriation or other authority

For the year ended 30 June 2023

The Ministry has not incurred any expenses or capital expenditure without, or in excess of, appropriation or other authority (2022 – Nil).

Statement of departmental capital injections without, or in excess of, authority

For the year ended 30 June 2023

The Ministry has not received any capital injections during the year without, or in excess of, authority (2022 – Nil).

Transfers under section 26A of the Public Finance Act 1989

For the year ended 30 June 2023

The Ministry has not made any transfers under Section 26A of the Public Finance Act 1989 (2022 – Nil)



09

**DEPARTMENTAL
FINANCIAL
STATEMENTS
TE TAUĀKĪ PŪTEA Ā-TARI**

Statement of comprehensive revenue and expense

For the year ended 30 June 2023

Actual		Note	Forecast not audited	Actual	Forecast not audited
2022			2023	2023	2024
\$000			\$000	\$000	\$000
Revenue					
24,676	Revenue Crown	2	25,540	25,540	26,050
3,221	Other revenue	2	-	5,456	-
27,897	Total revenue		25,540	30,996	26,050
Expenses					
15,821	Personnel expenses	3	18,880	19,238	19,272
6,469	Operating expenses	4	6,436	9,135	6,578
89	Depreciation and amortisation expense	7,8	83	89	80
198	Capital charge	5	141	118	120
22,577	Total expenses		25,540	28,580	26,050
5,320	Surplus		-	2,416	-
-	Other comprehensive revenue and expense		-	-	-
5,320	Total comprehensive revenue and expense		-	2,416	-

The accompanying notes form part of these financial statements. Explanations of major variances against the 2023 forecast financial statements are shown in note 15.

Statement of financial position

As at 30 June 2023

Actual	Note	Forecast not audited	Actual	Forecast not audited
2022		2023	2023	2024
\$000		\$000	\$000	\$000
Assets				
Current assets				
9,687		3,575	6,693	3,371
674	6	712	1,506	1,846
-		2	40	34
10,361		4,289	8,239	5,251
Non-current assets				
115	7	115	38	61
23	8	12	11	-
138		127	49	61
10,499	Total assets	4,416	8,288	5,312
Liabilities				
Current liabilities				
1,687	9	832	2,230	1,704
5,320	10	-	2,416	-
977	11	936	1,106	943
7,984		1,768	5,752	2,647
Non-current liabilities				
162	11	295	183	312
162		295	183	312
8,146	Total liabilities	2,063	5,935	2,959
2,353	Net assets	2,353	2,353	2,353
Equity				
2,353	12	2,353	2,353	2,353
2,353	Total equity	2,353	2,353	2,353

The accompanying notes form part of these financial statements. Explanations of major variances against the 2023 forecast financial statements are shown in note 15.

Statement of cash flows

For the year ended 30 June 2023

Actual		Forecast not audited	Actual	Forecast not audited
2022		2023	2023	2024
\$000		\$000	\$000	\$000
Cash flows from operating activities				
24,676	Receipts from Revenue Crown	25,540	25,540	26,050
3,073	Receipts from other revenue	-	4,995	-
(15,822)	Payments to employees	(18,855)	(19,089)	(19,272)
(6,076)	Payments to suppliers	(6,461)	(9,221)	(6,578)
(198)	Payments for capital charge	(141)	(118)	(120)
(79)	Goods and services tax (net)	-	219	-
5,574	Net cash flow from operating activities	83	2,326	80
Cash flows from investing activities				
-	Receipts from sale of property, plant and equipment	-	-	-
(19)	Purchase of property, plant and equipment	(60)	-	(60)
-	Purchase of intangible assets	-	-	-
(19)	Net cash flow from investing activities	(60)	-	(60)
Cash flows from financing activities				
(3,665)	Return of operating surplus	(3,839)	(5,320)	(1,216)
(3,665)	Net cash flow from financing activities	(3,839)	(5,320)	(1,216)
1,890	Net increase/(decrease) in cash	(3,816)	(2,994)	(1,196)
7,797	Cash at the beginning of the year	7,391	9,687	4,567
9,687	Cash at the end of the year	3,575	6,693	3,371

The accompanying notes form part of these financial statements. Explanations of major variances against the 2023 forecast financial statements are shown in note 15.

Statement of changes in equity

For the year ended 30 June 2023

Actual	Note	Forecast not audited	Actual	Forecast not audited
2022		2023	2023	2024
\$000		\$000	\$000	\$000
2,353	Balance at 1 July	2,353	2,353	2,353
5,320	Total comprehensive revenue and expense	-	2,416	-
(5,320)	Return of operating surplus to the Crown	10	(2,416)	-
2,353	Balance at 30 June	2,353	2,353	2,353

Statement of contingent liabilities and contingent assets

As at 30 June 2023

Contingent Liabilities

The Ministry has no quantifiable or unquantifiable contingent liabilities (2022 – Nil).

Legal proceedings and disputes

The Ministry has no pending legal proceedings and disputes (2022 – Nil).

Contingent Assets

The Ministry has no contingent assets (2022 – Nil).

The accompanying notes form part of these financial statements. Explanations of major variances against the 2023 forecast financial statements are shown in note 15.

Statement of commitments

As at 30 June 2023

Capital Commitments

Capital commitments are the aggregate amount of capital expenditure contracted for the acquisition of property, plant and equipment and intangible assets that have not been paid for or not recognised as a liability at the balance date.

The Ministry has no capital commitments (2022 – Nil).

Non-cancellable Operating Lease Commitments

The Ministry leases property, plant and equipment in the normal course of its business. In October 2019 the Ministry moved to its long-term accommodation in Defence headquarters (Defence House). The sublease with the New Zealand Defence Force has a non-cancellable leasing period of around 15 years remaining. The commitments below all relate to this accommodation lease, which includes the associated fit-out and furniture:

Actual 2022 \$000		Actual 2023 \$000
Non-cancellable operating lease commitments		
2,110	Not later than one year	2,103
2,128	Later than one year and not later than two years	2,117
6,457	Later than two years and not later than five years	6,421
22,070	Later than five years	19,634
32,765	Total non-cancellable operating lease commitments	30,275

The accompanying notes form part of these financial statements. Explanations of major variances against the 2023 forecast financial statements are shown in note 15.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: STATEMENT OF ACCOUNTING POLICIES

Reporting entity

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

In addition, the Ministry has reported on Crown activities that it administers in the non-departmental statements and schedules on pages 131 to 143.

The Ministry's primary objective is to provide services to the New Zealand public. The Ministry does not operate to make a financial return. The Ministry has designated itself as a public benefit entity (PBE) for the purposes of complying with generally accepted accounting practice.

The financial statements of the Ministry are for the year ended 30 June 2023 and were approved for issue by the Secretary of Defence of the Ministry on 29 September 2023.

Basis of preparation

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

Statement of compliance

The financial statements of the Ministry 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 practice (NZ GAAP), and Treasury Instructions.

The financial statements have been prepared in accordance and comply with Tier 2 PBE accounting standards. The Ministry meets the requirements of Tier 2 and is eligible for reduced disclosure reporting as its expenses are less than \$30 million and does not have public accountability.

Presentation currency and rounding

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars (\$000). The functional currency of the Ministry is New Zealand dollars.

Changes in accounting policies

PBE IPSAS 41 *Financial Instruments* superseded PBE IFRS 9 *Financial Instruments* and PBE FRS 48 *Service Performance Reporting* replaced the service reporting requirements of PBE IPSAS 1. There were no material effects from either change.

There have been no other changes in the Ministry's accounting policies since the date of the last audited financial statements.

Standards issued and not yet effective and not early adopted

There are no relevant financial accounting standards and amendments issued but not yet effective that have not been early adopted.

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.

Foreign currency transactions

Foreign currency transactions (including those for which forward foreign exchange contracts are held) are translated into New Zealand dollars using the exchange rates prevailing at the dates of the transactions.

Goods and Services Tax

All items in the financial statements, including appropriation statements, are stated exclusive of goods and services tax (GST), except for receivables and payables, which are stated on a GST inclusive basis. Where GST is not recoverable as input tax, then it is recognised as part of the related asset or expense.

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

The net GST paid 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.

Income tax

The Ministry is a public authority and consequently is exempt from income tax. Accordingly, no provision has been made for income tax.

Forecast figures

The 2023 forecast figures are for the year ended 30 June 2023 and were published in the 2021/22 Annual Report. They are consistent with the Ministry's best estimate financial forecast information submitted to the Treasury for the Budget Economic and Fiscal Update (BEFU) for the year ending 30 June 2023.

The 2024 forecast figures are for the year ending 30 June 2024, which are consistent with the best estimate financial forecast information submitted to the Treasury for the BEFU for the year ending 30 June 2024.

The forecast financial statements have been prepared as required by the Public Finance Act 1989 to communicate forecast financial information for accountability purposes. Forecast figures are unaudited and have been prepared using the accounting policies adopted in preparing these financial statements.

The 2024 forecast financial statements ("Forecast") are prepared in accordance with and comply with PBE FRS 42 Prospective Financial Statements.

The forecast financial statements were authorised for issue by the Secretary of Defence of the Ministry on 5 April 2023.

While the Ministry regularly updates its forecasts, updated forecast financial statements for the year ended 30 June 2024 will not be published.

The significant assumptions underlying the forecast financial statements are:

- the functions performed and the appropriations administered by the Ministry will not change over the forecast period
- the Ministry will not receive any additional funding beyond that voted in the Estimates of Appropriations during the forecast period.

The actual financial results achieved for 30 June 2024 are likely to vary from the forecast information, and the variations may be material.

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. There are no estimates or assumptions that are considered to have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Critical judgements in applying the Ministry's accounting policies

The Ministry has not exercised any critical judgements in applying the Ministry's accounting policies for the year ended 30 June 2023.

Comparative information

Comparatives have been restated where necessary to maintain consistency with current year amounts.

NOTE 2: REVENUE

Accounting policy

Revenue Crown

Revenue from the Crown is measured based on the Ministry'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 Ministry may only incur expenses 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

Costs incurred by the Ministry in the pre-acquisition stages of acquisition projects are recovered from the Defence Force. This is classified as an exchange transaction.

Other cost recoveries relate to contributions from other government agencies to reimburse costs incurred by the Ministry for activities contributing to both agencies.

Breakdown of other revenue

Actual 2022 \$000		Actual 2023 \$000
3,217	Project costs recovered from NZDF	5,358
-	- Other cost recoveries	80
1	Proceeds from insurance claims	-
3	Other gains	18
3,221	Total other revenue	5,456

NOTE 3: PERSONNEL EXPENSES

Accounting policy

Salaries and wages

Salaries and wages are recognised as an expense as employees provide services.

Superannuation schemes

Employee contributions to the State Sector Retirement Savings Scheme, KiwiSaver, and the Government Superannuation Fund are accounted for as defined contribution superannuation schemes and are expensed in the surplus or deficit as incurred.

Actual 2022 \$000		Actual 2023 \$000
15,264	Salaries and wages	18,441
516	Employer contributions to defined contribution plans	576
41	Increase/(decrease) in employee entitlements	221
15,821	Total personnel expenses	19,238

NOTE 4: OPERATING EXPENSES

Accounting policy

Operating expenses are recognised when goods and services are received.

Actual 2022 \$000		Forecast not audited 2023 \$000	Actual 2023 \$000	Forecast not audited 2024 \$000
176	Audit fees for financial statements	166	190	204
26	Fees paid to Audit New Zealand for other services	35	49	35
1,979	Consultants and contractors	1,137	4,401	1,245
53	Professional services	29	271	29
564	Travel and related costs	1,361	982	1,140
265	Courses, conferences and exhibitions	288	324	256
1,561	Rental of premises	2,195	1,393	1,954
120	Legal	160	251	165
312	Grants and contributions	320	209	288
1,413	Other operating costs	745	1,065	1,262
6,469	Total operating expenses	6,436	9,135	6,578

Fees paid to Audit New Zealand for other services are for a \$49,000 annual assurance review of the Major Projects Report prepared jointly by the Ministry and the Defence Force (2022 - \$26,000).

In addition, included in non-departmental capital expenditure is \$33,000 paid to the Ministry's auditors, Audit New Zealand, for probity assurance on the process used for various tenders in the Network Enabled Army project (2022 – \$10,000).

NOTE 5: CAPITAL CHARGE

Accounting policy

The capital charge is recognised as an expense in the period to which the charge relates.

Further information

The Ministry pays a capital charge to the Crown on its equity as at 30 June and 31 December each year. The capital charge rate for the year ended 30 June 2023 was 5.0% (2022 5.0%).

NOTE 6: RECEIVABLES

Accounting policy

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

In measuring expected credit losses, short-term receivables have been assessed on a collective basis where they possess shared credit risk characteristics.

Short-term receivables are written-off when there is no reasonable expectation of recovery.

Actual 2022 \$000		Actual 2023 \$000
	Receivables from exchange transactions	
674	Debtors	1,506
-	- Less allowance for credit losses	-
674	Net debtors	1,506
674	Total receivables from exchange transactions	1,506
-	- Receivables from non-exchange transactions	-
674	Total receivables	1,506

The carrying value of debtors and other receivables approximates their fair value.

NOTE 7: PROPERTY, PLANT AND EQUIPMENT

Accounting policy

Property, plant and equipment consists of leasehold improvements, furniture and office equipment.

Property, plant and equipment is measured at cost, less accumulated depreciation and impairment losses.

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 associated with the item will flow to the Ministry and the cost of the item can be measured reliably.

Individual assets, or groups of assets, are capitalised if their cost is greater than \$5,000. The value of an individual asset that is less than \$5,000 and is part of a group of similar assets is capitalised.

In most instances, an item of property, plant and equipment is recognised at its cost.

Disposals

Gains and losses on disposals are determined by comparing the net disposal proceeds with the carrying amount of the asset. Gains and losses on disposals are included in the surplus/deficit.

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 Ministry and the cost of the item can be measured reliably.

Depreciation

Depreciation is provided on a straight-line basis on all property, plant and equipment at rates that will write off the cost of the assets to their estimated residual values over their useful lives. The useful lives and associated depreciation rates of major classes of assets have been estimated as follows:

Furniture	2½-10 years
Office equipment	5-10 years
Computer equipment	3-5 years

Leasehold improvements are depreciated over the unexpired period of the lease or the estimated remaining useful lives of the improvements, whichever is the shorter.

The residual value and useful life of an asset is reviewed, and adjusted if applicable, at each financial year-end.

Impairment

The Ministry does not hold any cash-generating assets. Assets are considered cash-generating where their primary objective is to generate a commercial return.

Property, plant and equipment and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

If an asset's carrying amount exceeds its recoverable amount, the asset is impaired and the carrying amount is written down to the recoverable amount.

Any impairment loss or reversal of an impairment loss is recognised in the surplus or deficit.

Restrictions on title

There are no restrictions over the title of the Ministry's property, plant and equipment, nor is any property, plant and equipment pledged as security for liabilities.

	Actual	
	Office and computer equipment \$000	Total \$000
Cost or valuation		
Balance at 1 July 2021	349	349
Additions	18	18
Disposals	-	-
Balance at 30 June 2022	367	367
Balance at 1 July 2022	367	367
Additions	-	-
Disposals	-	-
Balance at 30 June 2023	367	367
Accumulated depreciation and impairment losses		
Balance at 1 July 2021	179	179
Depreciation expense	73	73
Eliminate on disposal	-	-
Balance at 30 June 2022	252	252
Balance at 1 July 2022	252	252
Depreciation expense	77	77
Eliminate on disposal	-	-
Balance at 30 June 2023	329	329
Carrying amounts		
At 30 June and 1 July 2022	115	115
At 30 June 2023	38	38

The sublease from the Defence Force in Defence headquarters (the former Bowen State Building) includes all required building fit-out and furniture. As a result, from 30 June 2020 onwards the Ministry has not purchased any leasehold improvements or furniture.

NOTE 8: INTANGIBLE ASSETS

Accounting policy

Additions

Software development costs, including licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Costs associated with maintaining computer software are recognised as an expense when incurred.

Amortisation

The carrying value of an intangible asset with a finite life is amortised on a straight-line basis over its useful life. Amortisation begins when the asset is available for use and ceases at the date that the asset is derecognised. The amortisation charge for each period is recognised in the surplus or deficit.

The useful lives and associated amortisation rates of major classes of intangible assets have been estimated as follows:

Computer software	3-5 years
-------------------	-----------

Impairment

Refer to the policy for impairment of property, plant, and equipment in Note 7. The same policy applies to the impairment of intangible assets.

Critical accounting estimates and assumptions

Useful lives of software

The useful life of software is determined at the time the software is acquired and brought into use and is reviewed at each reporting date for appropriateness. For computer software licences, the useful life represents management's view of the expected period over which the Ministry will receive benefits from the software, but not exceeding the licence term.

Restrictions on title

There are no restrictions over the title of the Ministry's intangible assets, nor are any intangible assets pledged as security for liabilities.

	Actual	
	Software \$000	Total \$000
Cost		
Balance at 1 July 2021	637	637
Additions	-	-
Disposals	-	-
Balance at 30 June 2022	637	637
Balance at 1 July 2022	637	637
Additions	-	-
Disposals	-	-
Balance at 30 June 2023	637	637
Accumulated amortisation and impairment losses		
Balance at 1 July 2021	598	598
Amortisation expense	16	16
Disposals	-	-
Balance at 30 June 2022	614	614
Balance at 1 July 2022	614	614
Amortisation expense	12	12
Disposals	-	-
Balance at 30 June 2023	626	626
Carrying amounts		
At 30 June and 1 July 2022	23	23
At 30 June 2023	11	11

NOTE 9: CREDITORS AND OTHER PAYABLES

Accounting policy

Short-term creditors are recorded at the amount payable.

Actual 2022 \$000		Actual 2023 \$000
-	Creditors	2
1,471	Accrued expenses	1,714
216	GST payable	514
1,687	Total creditors and other payables	2,230

Creditors and other payables are non-interest bearing and are normally settled on 30-day terms, therefore the carrying value of creditors and other payables approximates their fair value.

NOTE 10: RETURN OF OPERATING SURPLUS

Actual 2022 \$000		Actual 2023 \$000
5,320	Net surplus	2,416
-	Approved retention of surplus	-
5,320	Total return of operating surplus	2,416

The return of operating surplus to the Crown is required to be paid by 31 October of each year.

NOTE 11: EMPLOYEE ENTITLEMENTS

Accounting policy

Short-term employee entitlements

Entitlements expected to be settled within twelve months of balance date are measured at nominal values based on accrued entitlements at current rates of pay.

These include salaries and wages accrued up to balance date, annual leave earned but not yet taken at balance date, retiring and long service leave entitlements expected to be settled within twelve months, and sick leave.

Long-term employee entitlements

Employee entitlements that are due to be settled beyond twelve months after the end of the reporting period in which the employee renders the related service, such as long service leave and retiring leave, are calculated on an actuarial basis. The calculations are based on:

- likely future entitlements accruing to staff, based on years of service, years to entitlement, contractual entitlement information and the likelihood that staff will reach the point of entitlement
- the present value of the estimated future cash flows.

Critical accounting estimates and assumptions

Long service leave and retirement gratuities

The measurement of the long service leave and retirement gratuities obligations depend on a number of factors that are determined on an actuarial basis using a number of assumptions. Two key assumptions used in calculating this liability include the discount rate and the salary inflation factor. Any changes in these assumptions will affect the carrying amount of the liability.

Expected future payments are discounted using a weighted average discount rate of 5.04% (2022 3.78%) and an inflation factor of 3.35% (2022 2.51%) based on Treasury discount rates.

If either the discount rate or the salary inflation factor were to change by 1% from the Treasury's discount rates, with all other factors held constant, the carrying amount of the liability and the surplus/deficit would change by less than \$14,000 (2022 less than \$11,000).

Actual 2022 \$000		Actual 2023 \$000
	Current provisions are represented by:	
805	Annual leave	915
37	Sick leave	39
135	Retirement and long service leave	152
977	Total current provision	1,106
	Non-current employee entitlements are represented by:	
162	Retirement and long service leave	183
1,139	Total employee entitlements	1,289

NOTE 12: EQUITY

Actual 2022 \$000		Actual 2023 \$000
	Taxpayers' funds	
2,353	Balance at 1 July	2,353
5,320	Net surplus/(deficit)	2,416
-	Capital contribution from the Crown	-
(5,320)	Provision for repayment of surplus to the Crown	(2,416)
2,353	Taxpayers' funds at 30 June	2,353

NOTE 13: RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT PERSONNEL

The Ministry is a wholly-owned entity of the Crown.

All transactions with related parties have been undertaken either:

- within a supplier/client relationship on terms and conditions no more or less favourable than those it is reasonable to expect of the Ministry would have adopted in dealing with the party on an arm's length basis, and/or
- with other government agencies consistent with the usual operating arrangements between the Ministry and those agencies.

Key management personnel compensation

Actual 2022 \$000		Actual 2023 \$000
Leadership team, including the Secretary of Defence		
1,822	Remuneration	2,280
4.8	Full-time equivalent staff	6.7

Key management personnel include the Secretary of Defence and the seven members (2022 – four) of the Leadership Team. From 1 August 2022, two other non-executive leaders who were existing employees at the Ministry was included as part of the leadership team to enable the Ministry to be better equipped, and to provide for more diverse thinking and a broader range of experiences.

The above key management personnel compensation excludes the remuneration and other benefits received by the Minister of Defence. The Minister's remuneration and other benefits are not received only for his role as a member of key management personnel of the Ministry. The Minister's remuneration and other benefits are set by the Remuneration Authority under the Members of Parliament (Remuneration and Services) Act 2013 and are paid under Permanent Legislative Authority, and not paid by the Ministry of Defence.

NOTE 14: FINANCIAL INSTRUMENTS

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

Actual 2022 \$000		Actual 2023 \$000
Financial assets measured at amortised cost		
9,687	Cash and cash equivalents	6,693
674	Debtors and other receivables	1,506
-	Prepayments	40
10,361	Financial assets measured at amortised cost	8,239
Financial liabilities measured at amortised cost		
1,687	Creditors and other payables	2,230

NOTE 15: EXPLANATION OF MAJOR VARIANCES AGAINST FORECAST

Explanations for major variances from the forecast financial statements for 2022/23 are as follows:

Statement of comprehensive revenue and expense

Other revenue

The increase in Other Revenue primarily results from the recovery of costs from the New Zealand Defence Force for costs incurred in the definition and pre-acquisition stages of acquisition projects.

Personnel expenses

Overall Personnel Expenses were higher than forecast due to the Ministry employing fixed term staff to work on time-limited projects including the Defence Policy Review, and the establishment of the Inspector General of Defence. In addition, fixed term staff were also hired to work on Information Domain projects in the pre-acquisition phase, with the cost of these staff being recovered from NZDF.

Operating expenses

Overall Operating Expenses were higher than forecast. Departmental expenditure on Rental of Premises was lower than expected due to the allocation of rental costs to non-departmental capital projects utilising departmental floor space. Consultants and Contractors and Other Operating Costs increased relative to forecast as pre-acquisition stage acquisition projects are not forecasted at the start of the year as the budget for these is confirmed with NZDF subsequently with the costs being reimbursed to the Ministry by the NZDF.

Statement of financial position

Cash and cash equivalents

The value of Cash and cash equivalents is higher than forecast due to the timing of payments and receipts.

Statement of cash flows

Variances in cashflows largely reflect the above explanations.

NOTE 16: EVENTS AFTER BALANCE DATE

There are no events after balance date (2022 – Nil).

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**NON-DEPARTMENTAL
STATEMENTS
AND SCHEDULES**

**TE TAUĀKĪ ME NGĀ HŌTAKA
EHARA NĀ TE TARI**



The following non-departmental statements and schedules record the revenue, expenses, assets, liabilities, commitments, contingent liabilities and contingent assets that the Ministry manages on behalf of the Crown.

SCHEDULE OF NON-DEPARTMENTAL REVENUE

For the year ended 30 June 2023

Actual 2022 \$000		Actual 2023 \$000
92,159	Realised foreign exchange gains	24,687
38,492	Realised gains on derivatives	19,011
166,793	Unrealised gains on derivatives	19,246
4	Interest	1,431
297,448	Total non-departmental revenue	64,375

SCHEDULE OF NON-DEPARTMENTAL EXPENSES

For the year ended 30 June 2023

Actual 2022 \$000		Actual 2023 \$000
7,132	Realised foreign exchange losses	23,467
4,207	Realised losses on derivatives	148
18,190	Unrealised losses on derivatives	13,119
3,933	Other expenses	-
31,703	GST input expense	177,470
65,165	Total non-departmental expenses	214,204

The accompanying notes form part of these financial statements. For a full understanding of the Crown's financial position and the results of its operations for the period, reference should be made to the consolidated Financial Statements of the Government for the year ended 30 June 2023.

SCHEDULE OF NON-DEPARTMENTAL ASSETS

As at 30 June 2023

Actual 2022 \$000		Note	Actual 2023 \$000
Current assets			
710,501	Cash and cash equivalents		361,570
373,042	Receivables from exchange transactions	2	601,434
354,776	Prepayments		661,385
33,081	Derivative financial instruments	4	20,193
1,471,400	Total current assets		1,644,582
Non-current assets			
14,638	Derivative financial instruments	4	13,586
14,638	Total non-current assets		13,586
1,486,038	Total non-departmental assets		1,658,168

SCHEDULE OF NON-DEPARTMENTAL LIABILITIES

As at 30 June 2023

Actual 2022 \$000		Note	Actual 2023 \$000
Current liabilities			
34,414	Creditors and other payables	3	44,517
240	Derivative financial instruments	4	5,809
34,654	Total current liabilities		50,326
Non-current liabilities			
18,096	Derivative financial instruments	4	25,301
18,096	Total non-current liabilities		25,301
52,750	Total non-departmental liabilities		75,627

SCHEDULE OF NON-DEPARTMENTAL CAPITAL RECEIPTS

For the year ended 30 June 2023

The accompanying notes form part of these financial statements. For a full understanding of the Crown's financial position and the results of its operations for the period, reference should be made to the consolidated Financial Statements of the Government for the year ended 30 June 2023.

Actual 2022 \$000		Actual 2023 \$000
2,096	81mm Mortar Replacement	1,292
614,822	Air Surveillance Maritime Patrol	481,710
20,066	Anzac Frigate Systems Upgrade	9,995
3,670	Dive and Hydrographic Vessel	964
4,911	Fixed High Frequency Radio Refresh	67
7,362	Frigate Sustainment Phase 1 - Communications	18,603
51,797	Future Air Mobility Capability - Tactical	321,255
7,800	Garrison and Training Support Vehicles: phase one	13,783
5,284	HMNZS <i>Canterbury</i> and Offshore Patrol Vessel Communications Upgrade	10,139
	- Land-Force Electronic Counter Measures	376
8,440	Maritime Sustainment Capability	7,321
8,525	Network Enabled Army - tranche one	1,291
10,996	Network Enabled Army - tranche two	24,942
754	NH90 Simulator	1
3,544	Operational and Regulatory Aviation Compliance Sustainment: Phase One (A)	1,345
13,127	Operational and Regulatory Aviation Compliance Sustainment: Phase One (B)	5,675
397	Operational and Regulatory Aviation Compliance Sustainment: Phase Two (A)	6,060
	- Operational and Regulatory Aviation Compliance Sustainment: Phase Two (B)	2
1,678	Protected Mobility	701
17,249	Protected Mobility – Protected Vehicle Medium	47,713
347	Special Operations Vehicles	-
1,098	Strategic Bearer Network	117
783,963	Total non-departmental capital receipts	953,352

The accompanying notes form part of these financial statements. For a full understanding of the Crown's financial position and the results of its operations for the period, reference should be made to the consolidated Financial Statements of the Government for the year ended 30 June 2023.

SCHEDULE OF NON-DEPARTMENTAL CAPITAL EXPENDITURE

For the year ended 30 June 2023

Actual 2022 \$000		Actual 2023 \$000
2,096	81mm Mortar Replacement	1,292
614,822	Air Surveillance Maritime Patrol	481,710
20,066	Anzac Frigate Systems Upgrade	9,995
3,670	Dive and Hydrographic Vessel	964
4,911	Fixed High Frequency Radio Refresh	67
7,362	Frigate Sustainment Phase 1 - Communications	18,603
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7,800	Garrison and Training Support Vehicles: phase one	13,783
5,284	HMNZS <i>Canterbury</i> and Offshore Patrol Vessel Communications Upgrade	10,139
	- Land-Force Electronic Counter Measures	376
8,440	Maritime Sustainment Capability	7,321
8,525	Network Enabled Army - tranche one	1,291
10,996	Network Enabled Army - tranche two	24,942
754	NH90 Simulator	1
3,544	Operational and Regulatory Aviation Compliance Sustainment: Phase One (A)	1,345
13,127	Operational and Regulatory Aviation Compliance Sustainment: Phase One (B)	5,675
397	Operational and Regulatory Aviation Compliance Sustainment: Phase Two (A)	6,060
	- Operational and Regulatory Aviation Compliance Sustainment: Phase Two (B)	2
1,678	Protected Mobility	701
17,249	Protected Mobility – Protected Vehicle Medium	47,713
347	Special Operations Vehicles	-
1,098	Strategic Bearer Network	117
783,963	Total non-departmental capital receipts	953,352

The accompanying notes form part of these financial statements. For a full understanding of the Crown's financial position and the results of its operations for the period, reference should be made to the consolidated Financial Statements of the Government for the year ended 30 June 2023.

SCHEDULE OF NON-DEPARTMENTAL CAPITAL COMMITMENTS

As at 30 June 2023

Actual 2022 \$000		Actual 2023 \$000
	Non-cancellable capital commitments	
1,121,425	Not later than one year	750,092
564,906	Later than one year and not later than two years	195,979
419,560	Later than two years and not later than five years	100,864
88	Later than five years	-
2,105,979	Total non-cancellable capital commitments	1,046,935

Capital commitments are the aggregate amount of capital expenditure contracted for the purchase, modification or refurbishment of defence capabilities for the New Zealand Defence Force that have not been paid for or not recognised as a liability at the balance date.

SCHEDULE OF NON-DEPARTMENTAL CONTINGENT LIABILITIES AND CONTINGENT ASSETS

As at 30 June 2023

Contingent Liabilities

The Ministry on behalf of the Crown has no contingent liabilities (2022 – Nil).

Contingent Assets

The Ministry on behalf of the Crown has no contingent assets (2022 – Nil).

The accompanying notes form part of these financial statements. For a full understanding of the Crown's financial position and the results of its operations for the period, reference should be made to the consolidated Financial Statements of the Government for the year ended 30 June 2023.

NOTES TO THE NON-DEPARTMENTAL SCHEDULES

NOTE 1: STATEMENT OF ACCOUNTING POLICIES

Reporting entity

These non-departmental statements and schedules present financial information on public funds managed by the Ministry on behalf of the Crown.

These non-departmental balances are consolidated into the Financial Statements of the Government for the year ended 30 June 2023. For a full understanding of the Crown's financial position, results of operations and cash flows for the year, reference should also be made to the Financial Statements of the Government for the year ended 30 June 2023.

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 statements and schedules are consistent with New Zealand generally accepted accounting practice (Tier 1 Public Sector Public Benefit Entity Accounting Standards) as appropriate for public benefit entities.

Changes in accounting policies

PBE IPSAS 41 *Financial Instruments* superseded PBE IFRS 9 *Financial Instruments* and PBE FRS 48 *Service Performance Reporting* replaced the service reporting requirements of PBE IPSAS 1. There were no material effects from either change.

There have been no other changes in the Ministry's accounting policies since the date of the last audited financial statements.

Standards issued and not yet effective and not early adopted

There are no relevant financial accounting standards and amendments issued but not yet effective that have not been early adopted.

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.

Revenue

Interest income is recognised using the effective interest method.

Foreign currency transactions

Foreign currency transactions (including those for which forward foreign exchange contracts are held) are translated into New Zealand dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the schedule of non-departmental income or expenses.

Goods and Services Tax

All items in the financial statements, including appropriation statements, are stated exclusive of goods and services tax (GST), except for receivables and payables, which are stated on a GST inclusive basis.

In accordance with Treasury instructions, GST is returned on revenue received on behalf of the Crown, where applicable. However, an input tax deduction is not claimed on non-departmental expenditure. Instead, the amount of GST applicable to non-departmental expenditure is recognised as a separate expense and eliminated against GST revenue on consolidation of the Financial Statements of the Government.

Commitments

Expenses yet to be incurred on non-cancellable contracts that have been entered into on or before balance date are disclosed as commitments to the extent that there are equally unperformed obligations.

Cancellable commitments that have penalty or exit costs explicit in the agreement on exercising that option to cancel are included in the statement of commitments at the value of that penalty or exit cost.

Comparative information

Comparatives have been restated where necessary to maintain consistency with current year amount.

NOTE 2: RECEIVABLES

Accounting policy

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

In measuring expected credit losses, short-term receivables have been assessed on a collective basis where they possess shared credit risk characteristics.

Short-term receivables are written-off when there is no reasonable expectation of recovery.

Actual 2022 \$000		Actual 2023 \$000
	Receivables from exchange transactions	
373,042	Debtors	601,434
-	Less allowance for credit losses	-
373,042	Net debtors	601,434
373,042	Total receivables from exchange transactions	601,434
-	Receivables from non-exchange transactions	-
373,042	Total receivables	601,434

The carrying value of receivables approximates their fair value.

At 30 June 2023 the Ministry had no past due debtors (2022 – Nil). Due to the credit quality of debtors no allowance for credit losses was made at balance date (2022 – Nil).

NOTE 3: CREDITORS AND OTHER PAYABLES

Actual 2022 \$000		Actual 2023 \$000
25	Creditors	540
34,389	Accrued expenses	43,977
34,414	Total creditors and other payables	44,517

NOTE 4: FINANCIAL INSTRUMENTS

Accounting policy

The Ministry uses derivative financial instruments to hedge its exposure to foreign exchange movements. In accordance with its Foreign Exchange Management Policy, the Ministry does not hold or issue derivative financial instruments for trading purposes. The Ministry has not adopted hedge accounting.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value at each balance date. Movements in the fair value of derivative financial instruments are recognised in the schedule of non-departmental income or schedule of non-departmental expenses.

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

Financial instrument categories

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

Actual 2022 \$000		Actual 2023 \$000
Financial assets measured at amortised cost		
710,501	Cash and cash equivalents	361,570
373,042	Receivables from exchange transactions	601,434
354,776	Prepayments	661,385
1,438,319	Financial assets measured at amortised cost	1,624,389
Fair value through surplus or deficit – designated as such upon initial recognition		
47,719	Derivative financial instrument assets	33,779
18,336	Derivative financial instrument liabilities	31,110
Financial liabilities measured at amortised cost		
34,414	Creditors and other payables	44,517

The notional principal amount of outstanding forward exchange contract derivatives at 30 June 2023 is NZD 902.3 million (2022 – NZD 1,732.3 million). The contracts consist of the purchase of (amounts in foreign currency):

Actual 2022 fx 000		Actual 2023 fx 000
4,600	Australian dollars	8,225
900	Canadian dollars	-
510	Great British pounds	7,143
4,555	Euros	3,483
854,797	United States dollars	530,753

Fair value hierarchy disclosures

For those 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 technique 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.

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 valuation of classes of financial instruments measured at fair value in the statement of financial position.

	Total	Valuation technique		
		Quoted market price	Observable inputs	Significant non-observable inputs
	\$000	\$000	\$000	\$000
2023				
Financial assets				
Derivative financial instruments	33,779	-	33,779	-
Financial liabilities				
Derivative financial instruments	31,110	-	31,110	-
2022				
Financial assets				
Derivative financial instruments	47,719	-	47,719	-
Financial liabilities				
Derivative financial instruments	18,366	-	18,366	-

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

Financial instrument risks

The Ministry's activities expose it to a variety of financial instrument risks, including market risk, credit risk and liquidity risk. The Ministry has a series of policies to manage the risks associated with financial instruments and seeks to minimise exposure from financial instruments. These policies do not allow any transactions that are speculative in nature to be entered into.

Market risk

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Ministry purchases capital equipment internationally and is exposed to currency risk arising from various currency exposures, primarily with respect to the United States, Canadian and Australian dollars, British pounds and Euro. Currency risk arises from future capital purchases and recognised liabilities, which are denominated in a foreign currency.

The Ministry's Foreign Exchange Management Policy requires the Ministry to manage currency risk arising from future transactions and recognised liabilities by entering into foreign exchange forward contracts to hedge the entire foreign currency risk exposure. The Ministry's policy has been approved by the Treasury and is in accordance with the requirements of the Treasury *Guidelines for the Management of Crown and Departmental Foreign Exchange Exposure*.

Credit risk

Credit risk is the risk that a third party will default on its obligation to the Ministry, causing the Ministry to incur a loss. In the normal course of its business, credit risk arises from debtors, deposits with banks and derivative financial instrument assets.

The Ministry is only permitted to deposit funds and enter into foreign exchange forward contracts with approved counterparties. These entities have high credit ratings. For its other financial instruments, the Ministry does not have significant concentrations of credit risk.

The Ministry's maximum credit exposure for each class of financial instrument is represented by the total carrying amount of cash and cash equivalents, net debtors (note 2), and derivative financial instrument assets. There is no collateral held as security against these financial instruments, including those instruments that are overdue or impaired.

Liquidity risk

Liquidity risk is the risk that the Ministry will encounter difficulty raising liquid funds to meet commitments as they fall due.

In meeting its liquidity requirements, the Ministry closely monitors its forecast cash requirements with expected cash drawdowns from the New Zealand Debt Management Office. The Ministry maintains a target level of available cash to meet liquidity requirements.

Contractual maturity of financial liabilities, excluding derivatives

The table below analyses the Ministry's financial liabilities (excluding derivatives) into relevant maturity groupings based on the remaining period at balance date to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows.

At 30 June 2023	Less than 6 months \$000	6-12 months \$000	1-5 years \$000	Over 5 years \$000	Total \$000
2023					
Creditors and other payables	44,517	-	-	-	44,517
2022					
Creditors and other payables	34,414	-	-	-	34,414

Contractual maturity analysis of derivative financial instrument liabilities

The table below analyses the Ministry's forward foreign exchange contract derivatives into relevant maturity groupings based on the remaining period at balance date to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows.

	Carrying amount \$000	Contractual cash flows NZ \$000	Less than 6 months NZ \$000	6-12 months NZ \$000	1-2 years NZ \$000	2-5 years NZ \$000	Over 5 years NZ \$000
Gross settled forward foreign exchange contracts:							
2023							
Asset value	33,779						
Liability value	31,110						
- outflow		2,696,351	728,392	647,266	1,197,354	123,339	-
- inflow		2,696,086	738,456	651,128	1,182,715	123,787	-
2022							
Asset value	47,719						
Liability value	18,336						
- outflow		1,747,664	139,629	251,248	644,051	712,736	-
- inflow		1,760,013	151,722	271,211	644,128	692,952	-

Sensitivity analysis

The table below shows the net effect on the reported gains and losses from movements in exchange rates and derivative values if the New Zealand dollar had been either 5% stronger or weaker at balance date.

	2022			2023		
	Cash and cash equivalents	Derivatives	Net gain/(loss)	Cash and cash equivalents	Derivatives	Net gain/(loss)
	\$000	\$000	\$000	\$000	\$000	\$000
Effect on surplus if NZ dollar strengthened by 5%						
AUD	(3,765)	(240)	(4,005)	(1,482)	(423)	(1,905)
CAD	(679)	(53)	(732)	(321)	-	(321)
EUR	(1,320)	(365)	(1,685)	(1,589)	(290)	(1,879)
GBP	(336)	(47)	(383)	(494)	(680)	(1,174)
NOK	(9)	-	(9)	(9)	-	(9)
SEK	(4)	-	(4)	-	-	-
USD	(42,562)	(62,312)	(104,874)	(34,657)	(40,048)	(74,705)
Total	(48,675)	(63,017)	(111,692)	(38,552)	(41,441)	(79,993)
Effect on surplus if NZ dollar weakened by 5%						
AUD	4,162	266	4,428	1,638	467	2,105
CAD	751	59	810	355	-	355
EUR	1,459	403	1,862	1,756	321	2,077
GBP	371	52	423	546	752	1,298
NOK	10	-	10	10	-	10
SEK	4	-	4	-	-	-
USD	47,043	68,871	115,914	38,305	44,264	82,569
Total	53,800	69,651	123,451	42,610	45,804	88,414

NOTE 5: NON-DEPARTMENTAL CAPITAL EXPENDITURE

Included in non-departmental capital expenditure is \$33,000 paid to the Ministry's auditors, Audit New Zealand, for probity assurance on the process used for various tenders in the Network Enabled Army project (2022 – \$10,000).

In addition, included in departmental expenditure is \$49,000 paid to Audit New Zealand for an assurance review of the Major Projects Report prepared jointly by the Ministry and the New Zealand Defence Force (2022 – \$26,000).

NOTE 6: EVENTS AFTER BALANCE DATE

On 21 August 2023 Cabinet authorised the Bushmaster Communications capital project (2022 – no events).