



TE OPE KĀTUA O AOTEAROA  
**DEFENCE FORCE**

# 20 21

## **NZDF Annual Report**



# **NZDF Annual Report 2021**

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

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# Chief of Defence Force Message

This past year has been unsurprisingly dominated by COVID-19 and the pandemic's impact. For the New Zealand Defence Force (NZDF) and its personnel, there has been little business as usual as the organisation has put its main effort into helping the all of Government response to the pandemic.

This effort has centred on Operation PROTECT, with the work primarily involving staffing of the Managed Isolation and Quarantine Facilities (MIQF) throughout New Zealand, as well as various headquarters positions, and roles in MBIE. We have also contributed operational planners to support the Ministry of Health COVID-19 Pacific Vaccination planning, and in July despatched HMNZS *Wellington* to deliver vaccines to Tokelau and the Northern Cooks. It is a task that, looking further out, we will conduct into 2022.

With a recent uplift in numbers of personnel in security roles, we now have at any one time in the order of 1,300 personnel either preparing to deploy, on deployment, or on respite following deployment on Operation PROTECT. Our personnel have worked tirelessly and their skills have been highly valued. The level of commitment is significant and the NZDF continues to review its activities to ensure we can meet our obligations under Operation PROTECT while also maintaining training commitments, force generation activities, mandated operational deployments, introduction into service of new capabilities and responding to requests for aid to the civil power.

However, the fact is the NZDF is unable to deliver all Output readiness levels concurrently as a result of global pandemic impacts, we have had lost training and exercising opportunities, had constrained supply chains, and managed the impact of Operation PROTECT resourcing requirements. While high readiness forces in the Army, Navy and Air Force are being maintained, and are able to respond to a short duration crisis, there is reduced capacity to support a large scale response operation, such as after a regional cyclone or Tsunami, major earthquake, or Pacific security crisis.

One of the factors that is not readily apparent from just looking at the raw number of personnel deployed on Operation PROTECT is the types of personnel needed. The sensitive and high profile nature of this deployment requires experienced people generally Corporal to Major rank equivalents. These are the same people who are involved in the "raise, train and sustain" functions of the NZDF – i.e. those key to delivering Outputs, conducting training and preparing the force for future contingencies.

Once Op PROTECT is complete, and the wider effects of the pandemic ease, it will take some time to regenerate the full range of military skills, particularly for the Army.

I want to mention the Defence Force's own COVID-19 vaccination campaign. The NZDF has put considerable effort into its own programme to vaccinate all uniformed personnel. Good progress was made in the year in review, and this effort has continued into the current financial year. Most serving personnel have been fully immunised. The rate of personnel who have declined the vaccination is about 2%.

We are vaccinating the entire uniformed force firstly because there is a Government requirement that all border workers get the vaccine, and secondly the expectation that we are safely prepared for other tasks that may be required of us either domestically or internationally. The ability to deploy on operations is not optional – it is a requirement of the Government and the reason the NZDF exists. We also have a responsibility to keep our people safe and healthy.

The NZDF has also offered vaccinations to Reserve personnel, and civilian employees from both NZDF and the Ministry of Defence.

Besides the COVID response, the NZDF has been busy preparing for the introduction of new capabilities, including the upgraded Anzac Frigates, Network Enabled Army (NEA), P-8A Poseidon maritime patrol aircraft and the C-130J Hercules. Regardless of the pandemic, we must continue to prepare ourselves for the future, just as we must continue to respond to the full range of tasks for which the NZDF exists. Some notable examples of that activity over the course of the year in review include:

- Undertaking a P-3K2 Orion deployment to North Asia to help enforce United Nations sanctions against North Korea. This is the fourth such deployment since late 2018.
- Finishing our long running involvement in Afghanistan, bringing home the last six personnel. The 20 year deployment effort came at a cost, with 10 soldiers losing their lives amongst the more than 3,500 personnel that served there.
- Continuing our commitments to long running deployments – the Multinational Force and Observers (MFO) in Egypt, the UN Truce Supervision Organisation (UNTSO) in the Golan Heights/ Lebanon/Syria, the UN Mission in South Sudan (UNMISS), and supporting the UN Armistice Agreement between North and South Korea.
- Supporting our Pacific neighbours such as by providing emergency relief to Fiji following Cyclone Ana, flying personal protective equipment to Timor-Leste and Papua New Guinea and repatriating over 1,000 Vanuatu nationals home to aid in the response to the pandemic in those countries. Including complex infrastructure delivery to Tokelau's atolls and water tanks to the Chathams.

- Contributing to the civil defence response to Canterbury's floods. Troops from Burnham undertook a range of tasks, including delivery of drinking water to Ashburton, and transporting medical patients. Air Force NH90 helicopters undertook a night rescue of a person who was trapped and ended up in floodwaters. The two NH90s helicopters also transported civilian engineering personnel and carried supplies to affected areas.

I want to thank all uniformed personnel and civilian employees for their continued hard work and service to the Defence Force across all areas of our activity. The global pandemic has both added to our list of tasks and missions we undertake, and made our 'standard' tasks much more difficult.

I acknowledge that there is pressure on us across all areas as a result, but I can assure you that the contribution the Defence Force has made, and continues to make, is valued by the NZDF senior leadership and the Government.

Ko tātou hei Mana mō Aotearoa –  
We are A Force for New Zealand.



**K.R. Short**  
Air Marshal  
Chief of Defence Force

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# 01

**About the  
New Zealand  
Defence Force**



**The New Zealand  
Defence Force is  
a combat-capable  
military force,  
ready to respond  
to domestic and  
international events.**



# Who we are

The New Zealand Defence Force (NZDF) is a modern, professional military, ready and able to protect New Zealand and its interests at home and abroad across diverse geographical and operating environments. It contributes to peace and security, provides the national security the country needs to prosper as a nation, and gives New Zealanders the freedom to go about their daily lives.

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

The Minister of Defence is the responsible Minister for the NZDF and the appropriations for the Defence Force within Vote Defence Force. The NZDF provides the Government with defence Outputs in conjunction with the Ministry of Defence and in accordance with the Defence Act 1990, the Veterans' Support Act 2014, and other regulations.

The Minister for Veterans is responsible for the appropriations for Veterans' Affairs within Vote Defence Force. As a Unit within the NZDF, Veterans' Affairs upholds New Zealand's responsibility to honour and respect the service of its veterans. Veterans' Affairs does this through service delivery and support to the veteran community and providing policy advice to the Government.

**OUR PURPOSE**

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

**OUR MISSION**

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

**OUR VALUES**

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

# What we do

The core task of the Defence Force is to conduct military operations. Its key role in supporting this task is to have military capability – delivered through people, research and development, infrastructure, concepts and doctrine, information, and equipment – ready for use when the Government needs it. The preparation and availability of a credible and effective armed force, capable of serving the Government's defence and national security policy objectives, is the NZDF's highest priority.

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

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

The NZDF has built strong partnerships with New Zealand's Pacific partners and made a valuable contribution to Pacific regional and global security through capacity building, peacekeeping, engagements, and humanitarian and disaster relief activities.

The Defence Force is a key part of New Zealand's broader security system, and works alongside other government agencies, including the GCSB and NZSIS, to protect and advance New Zealand's security interests. The External Sector is administered by four departments – the NZDF, the Ministry of Defence, the Ministry of Foreign Affairs and Trade, and the New Zealand Customs Service. Collectively, these departments manage most of New Zealand's official relationships with the rest of the world and protecting its security beyond the border.

## Our operating environment

Defence planning and management must be undertaken in circumstances where there is a high degree of uncertainty.

New Zealand's geographic location results in some unique challenges. Being a small island state with significant maritime responsibilities has compelling implications for the specialist military equipment we require. New Zealand's Search and Rescue Region is one of the largest in the world, spanning over 30 million square kilometres. New Zealand's Exclusive Economic Zone is the 5th largest in the world. Many of the operations in support of regional and global security are expeditionary and must be supported over long distances.

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

The Living Standards Framework is a Treasury-developed tool that emphasises the diversity of outcomes that are meaningful for New Zealanders. The NZDF provides value to the community, nation and world through the four capitals of the Living Standards Framework. Activities contributing to the four capitals are illustrated in the *Delivering Defence Outcomes* section.

### Natural Capital

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

### Human Capital

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

### Social Capital

The NZDF protects the New Zealand way of life through providing security to democratic norms and values.

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

### Financial and Physical Capital

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

The NZDF invests in military infrastructure and equipment across a diverse range of New Zealand communities.

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

## The NZDF and Te Tiriti o Waitangi – Partnership

The NZDF is committed to improving outcomes for Māori and meeting its partnership obligations under Te Tiriti o Waitangi/Treaty of Waitangi. The NZDF Māori Strategic Framework (Kia Eke) continues to be developed and implemented to advance the rate of bicultural competency throughout all levels of the force. The NZDF's Bicultural Policy provides guidance to develop the cultural skills and knowledge of all personnel and staff within the organisation, aimed specifically at Te Tiriti o Waitangi, te reo Māori, kawa, and tikanga.

The NZDF established a Senior Māori Advisor role in October 2020 to support the development of plans that meet its obligations under Te Tiriti o Waitangi and requirements contained within the Public Service Act 2020. The single Services continue to develop plans to better support Māori-Crown relationships.

The NZDF provides opportunities for all members of the Defence Force to learn te reo Māori and tikanga. Te Tiriti o Waitangi is covered in some single Service courses, however this needs to be developed further to better afford opportunities across the whole of NZDF that is integrated and common.



Examples of actions occurring throughout the NZDF are as follows:

- Te reo Māori classes are available within camps, bases and at headquarters locations. This is either provided by marae staff, volunteers within speaker communities and/or an external provider. Full immersion te reo Māori programmes are also available on application.
- New Zealand Defence Force service personnel are exposed to te reo Māori (words, some comprehension, mihimihi and waiata) during formal coursing conducted throughout their career.
- Single Services conduct wānanga and noho marae, focussing on te reo Māori, tikanga and kawa. Services also conduct wānanga for Kaikaranga and Mau rākau.
- Planning continues to support Whāinga Amorangi Organisational Plan, Phase One.
- The NZDF and single Services have updated their respective logos to improve the balance between te reo Māori and English names.
- The NZDF has developed signage standards that align to Te Puni Kōkiri Māori-English Bilingual Signage guidelines.

# Managing Our Business

## Operating model

The NZDF Operating Model is a representation of the current way that military activities and Outputs are delivered.

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

### Force Generation

Navy, Army and Air Force are Force Contributors responsible for developing and generating force elements which combine into task forces. These are available for deployment in Operating Domains which are the environments that frame military activities.

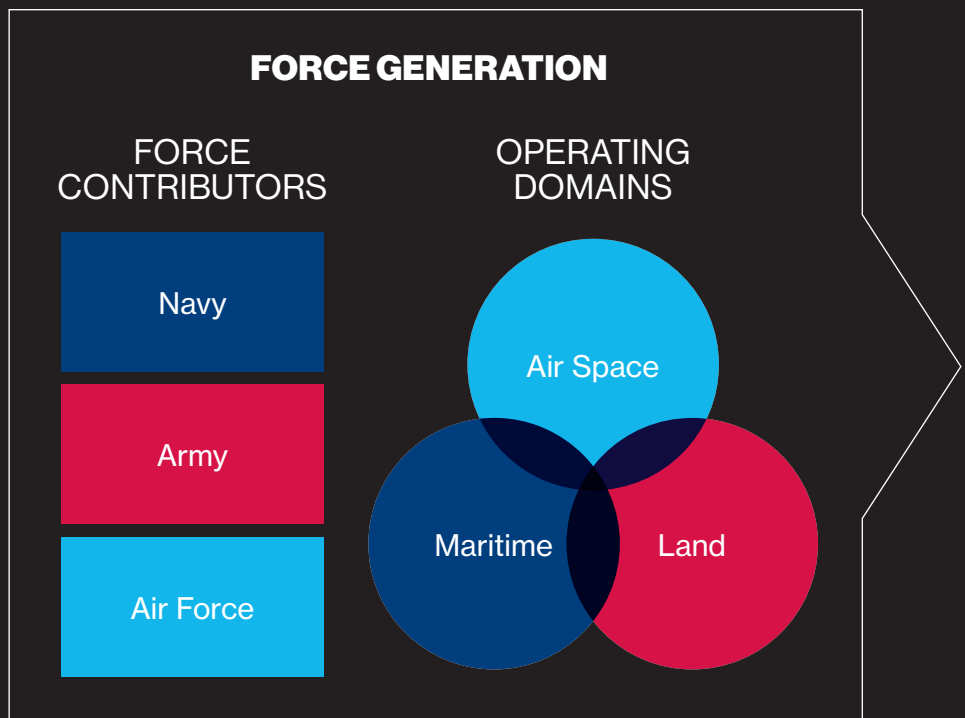
### Force Integration

Commander Joint Forces New Zealand is responsible for Force Integration. Force Integration comprises two parts. Force Preparation is the process of planning and concentrating force elements. Force Operation is the process of deploying and sustaining force elements or task forces on operations.

### Effects

This component represents military effects to generate both 'Protection of New Zealand and New Zealanders' and 'Operations Contributing to New Zealand's Security, Stability and Interests' Outputs.

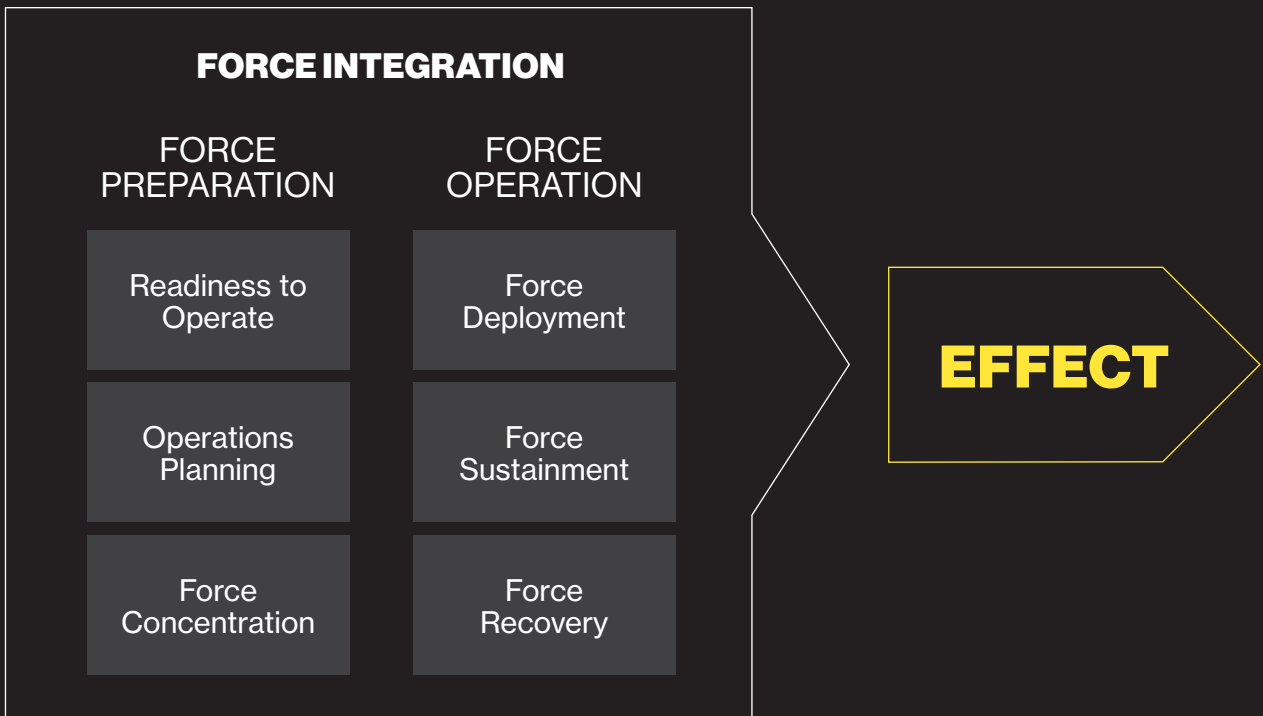
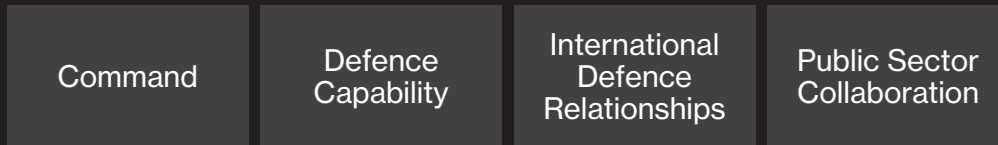
The Enabling Functions component provides the business and integrated support required by the other components of the operating model. Some Enabling Functions also directly deliver effects.



Strategy	Financial Management	Legal
Assurance & Controls	Procurement	People & Talent

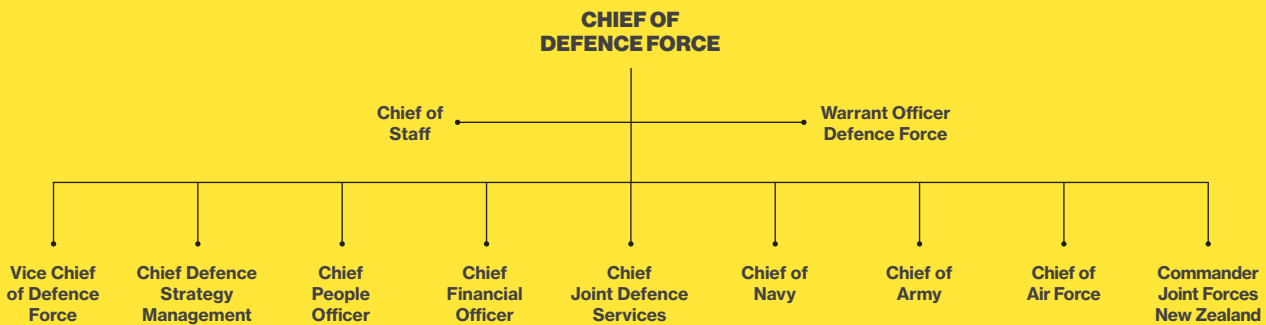


## DEFENCE LEADERSHIP



## ENABLING FUNCTIONS





## Leadership and Governance

The command chain of the NZDF emanates from the Crown, through the Chief of Defence Force to the three Services: the Royal New Zealand Navy (RNZN), the New Zealand Army, and the Royal New Zealand Air Force (RNZAF), as well as Joint Forces New Zealand (JFNZ), and the Headquarters NZDF (HQ NZDF). The executive management structure is set out in the diagram above.

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

The CDF is supported by three other committees:

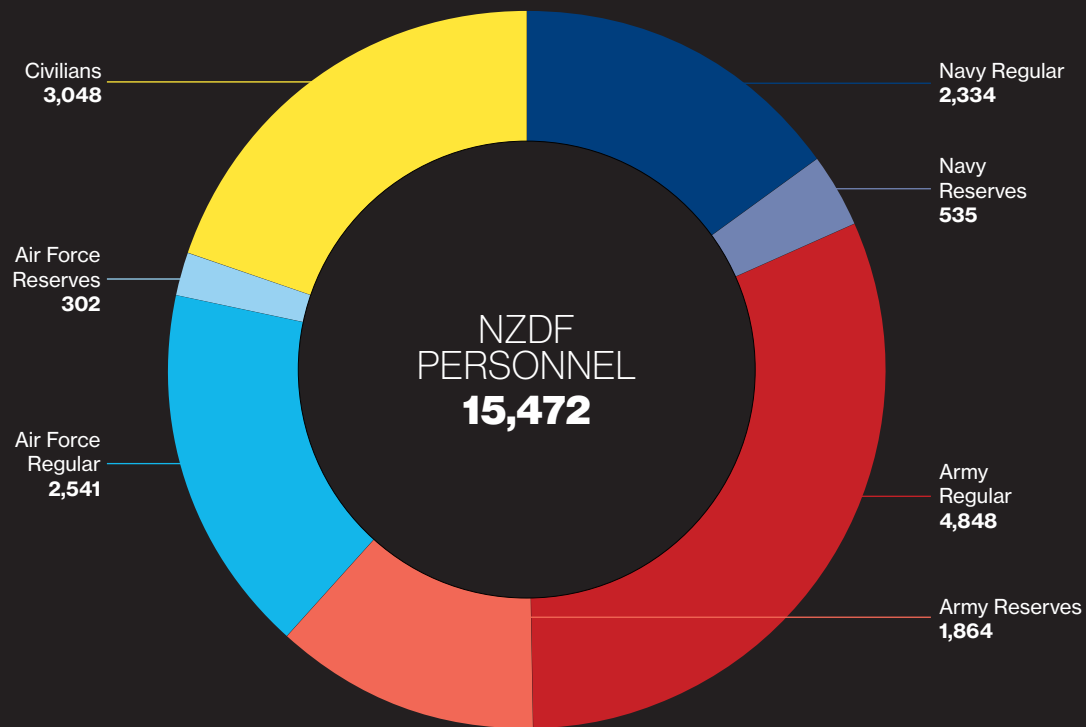
- The NZDF Advisory Board provides strategic advice to the CDF on specific issues. Chaired by an independent external member, the Advisory Board includes the key leadership of the NZDF as well as number of independent external members, including the Secretary of Defence. The Board helps ensure the long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

The CDF and Secretary of Defence co-chair the Capability Governance Board, which, along with the detailed business case process, provides ongoing assurance that projects and the capital portfolio will successfully deliver the expected outcomes and benefits.

Sitting underneath EXCO, an organisation-wide perspective is provided to key areas through separate sub-committees.

- The Organisation Governance Committee (ORG) provide performance monitoring, oversight, and direction on behalf of the Executive Committee (EXCO) to assure that the Annual Plan is delivered effectively. ORG also provides oversight and, where appropriate, direction regarding organisational output performance measures, in particular change programmes.
- The Estate Investment Committee (EIC) provide performance monitoring, oversight, and direction on behalf of the Executive Committee (EXCO) regarding Defence Estate and Infrastructure (DEI) portfolio of initiatives, and programmes/projects (DERP) being delivered through the Estate Investment Portfolio are in accordance with Strategy 2025 priorities.
- The Information Communication & Technology Governance Committee (ICT GC) focus on the NZDF's Enterprise-level ICT environment, portfolio of initiatives, and programmes of work being delivered by Defence Joint Services (DJS), ensuring alignment with Strategy 2025 priorities.





# Our People

The Defence Force comprises 15,472 military personnel, Reserves and civilian employees as of 30 June 2021. Regular Force is made up of Service personnel who fill a wide variety of roles across the Navy, Army, and Air Force. The soldiers, sailors and airmen are a diverse and capable group of people in ranks and roles: Privates to Generals, technicians to special operations troops, intelligence specialists to medics.

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

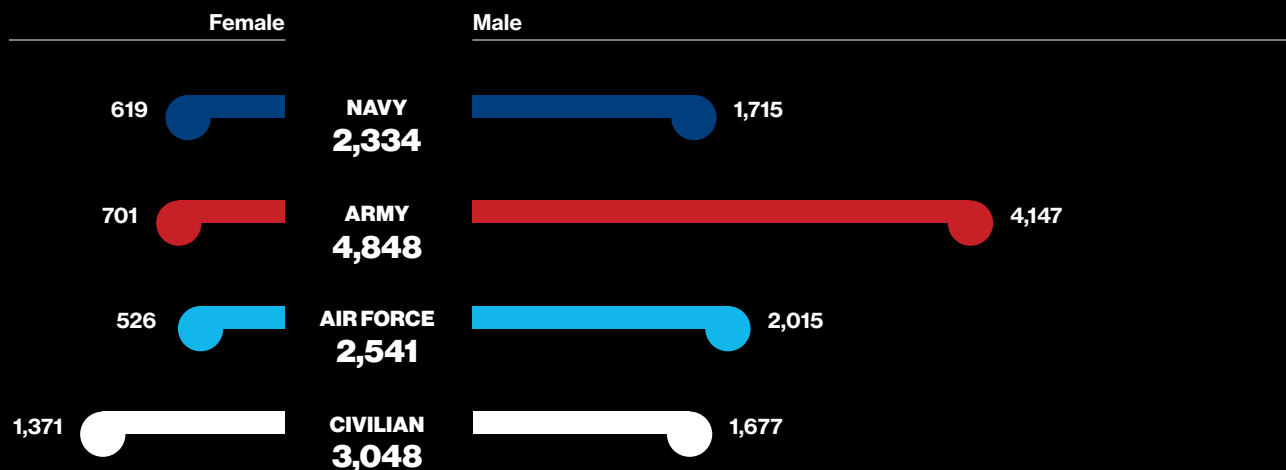
Reserves provide extra military capacity through the Navy, Army and Air Force Reserves, who work and train part-time. These Reserves supplement the Regular Force by providing specialist roles and additional forces ready to respond to a large-scale military deployment.

Civilian employees fill a wide range of specialist and corporate roles that do not require deployment in an operational environment. The work they do enables the NZDF to operate effectively.

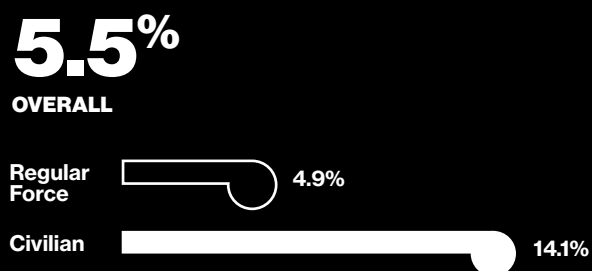


# At a Glance\*

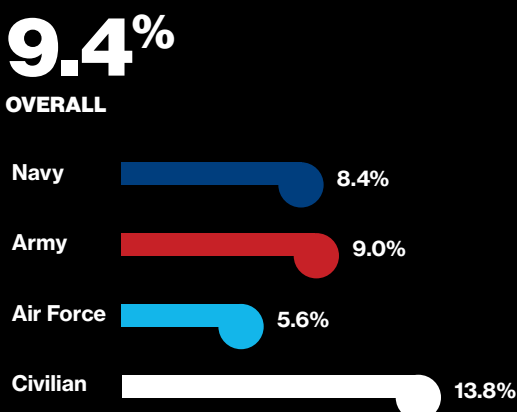
## Headcount by Service and Gender



## Gender Pay Gap



## Attrition as at 30 June



\* Excluding Reserves

## Ethnicities

	Regular Force	Civilian
NZ European	<b>63.9%</b>	<b>50.9%</b>
Other European	<b>15.0%</b>	<b>17.6%</b>
Māori	<b>17.7%</b>	<b>8.0%</b>
Pacific	<b>5.6%</b>	<b>3.6%</b>
Asian	<b>3.1%</b>	<b>4.6%</b>
MELAA	<b>0.4%</b>	<b>0.4%</b>
Other	<b>4.5%</b>	<b>21.8%</b>

Percentages do not add to 100% as personnel are able to provide multiple responses.

NZ European – This classification is based on the 2013 Statistics NZ categories and includes New Zealander.

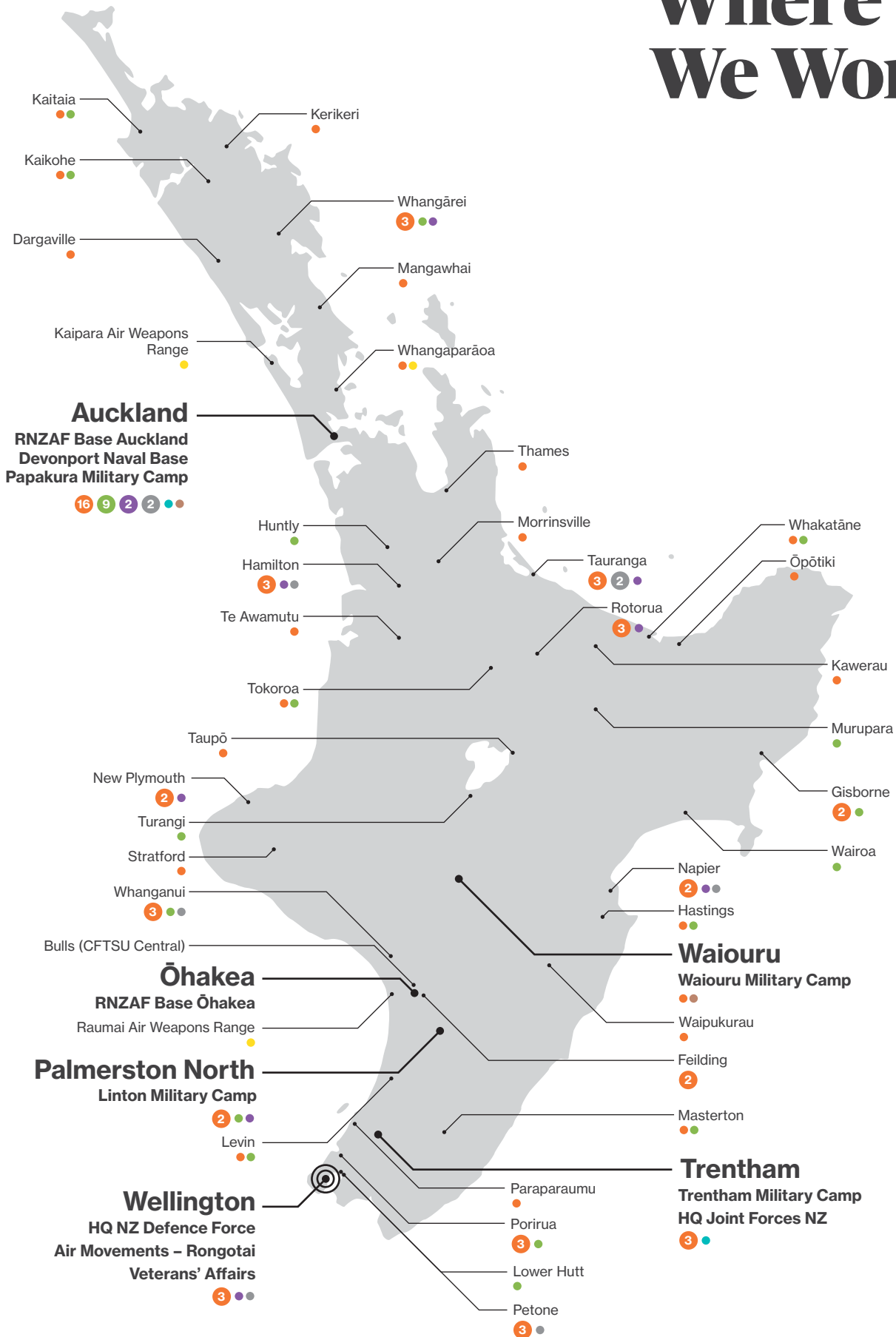
MELAA – Middle Eastern, Latin American, African.

Other – includes personnel who did not declare their ethnicity.

More information on workforce and wellbeing initiatives is provided in the *Organisational Excellence* section.



# Where We Work

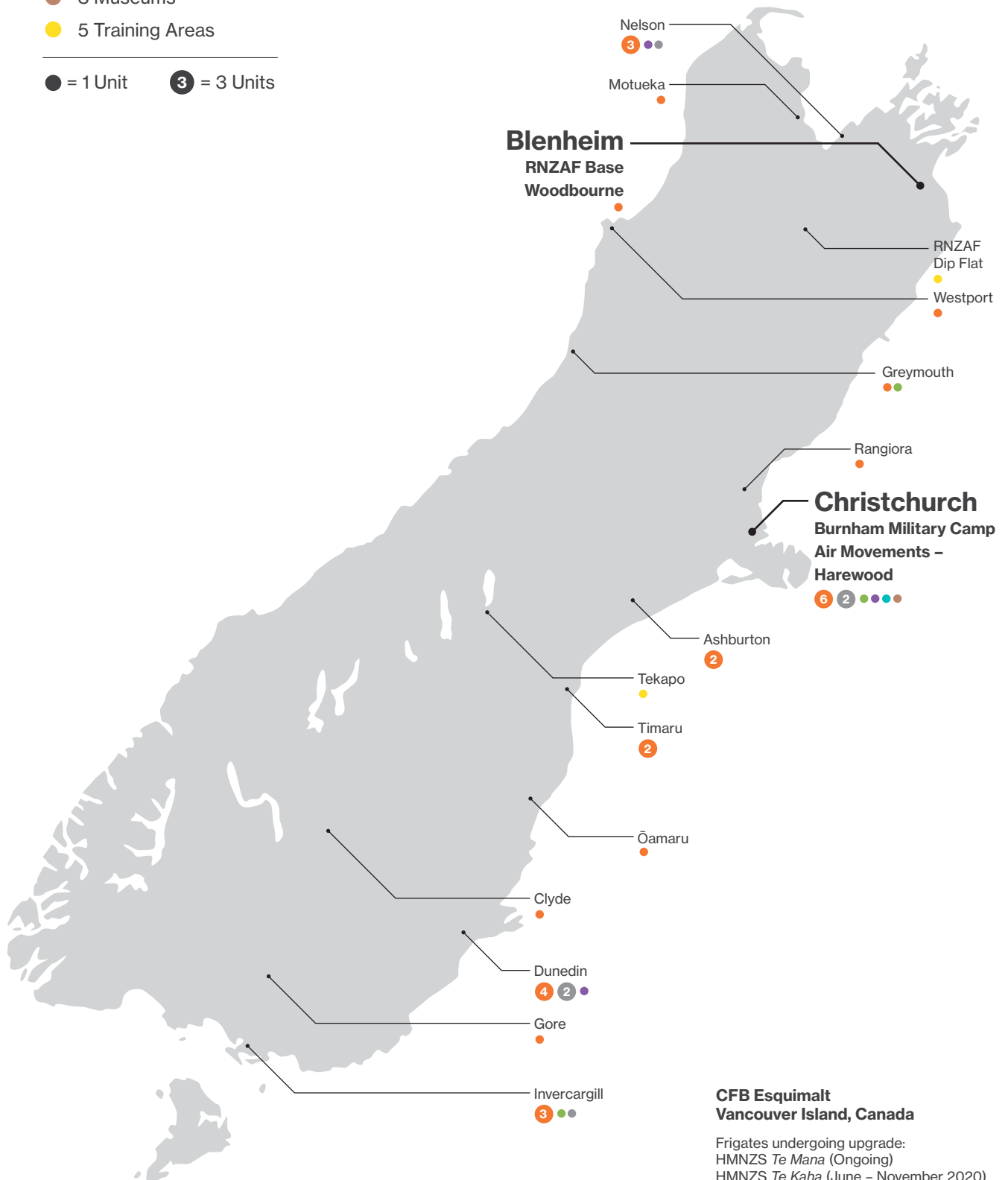




## Areas of activity

- 99 Cadet Units
- 29 Service Academies
- 13 Recruiting Offices
- 15 Reserve Units
- 3 LSV Training Facilities
- 3 Museums
- 5 Training Areas

● = 1 Unit    **3** = 3 Units

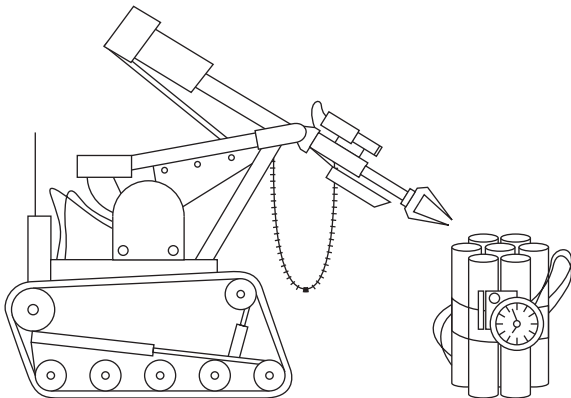


# Our Major Activities

## Domestic Support

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**145**  
EOD CALLOUTS



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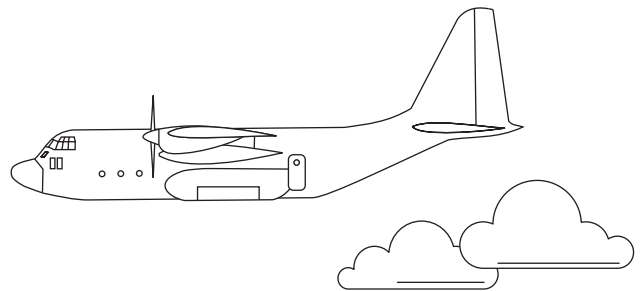
**140**  
FLYING HOURS

FOR TRANSPORT  
AND TRAINING

## Antarctica

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**61,759<sup>kg</sup>**  
OF FREIGHT  
TRANSPORTED

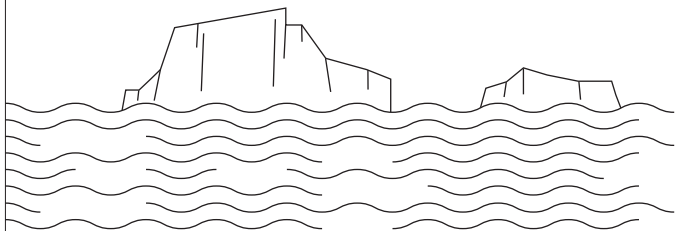


**42**  
passengers transported

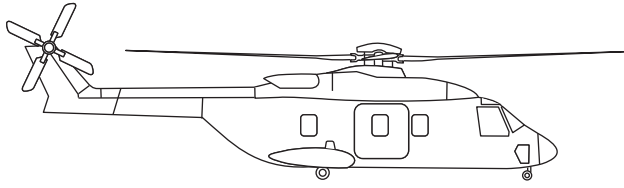
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**67.6**  
flying hours

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## Humanitarian Missions



**64**

flying hours transporting materials from ship to shore in Tokelau

**53.8**

flying hours patrolling the South West Pacific in support of the Forum Fisheries Agency

**25.8**

flying hours patrolling the Southern Oceans

**48**  
**WATER TANKS**



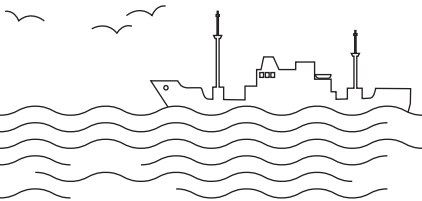
AND 150 TONNES OF EQUIPMENT TRANSPORTED AND INSTALLED AS PART OF A TRI-SERVICE EFFORT TO DELIVER NEW INFRASTRUCTURE TO TOKELAU

## Biosecurity

**140**

**FLYING HOURS**

CARRYING OUT FISHERIES PATROLS



**11.5**

days at sea providing training to MPI staff

**8**

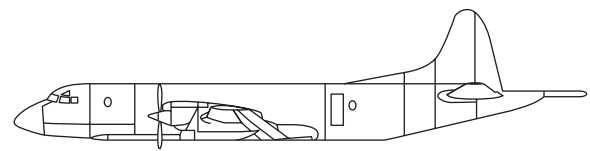
flying hours carrying out forestry surveys

## Supporting Conservation

**33.9**

**FLYING HOURS**

CAPTURING IMAGERY OF ANTIPODEAN ALBATROSS NEAR FISHING VESSELS TO SUPPORT REPORTING\*



**45**

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

**50 tons**

of oyster shells transported to Kaipara & Mangawhai Harbours for fairy tern breeding sites

## Honouring our Veterans

**13,000+**

clients (veterans & whānau)

**\$113.2 million**

paid out in financial entitlements

**6,529**

veterans receive VIP Home Services (30% increase compared to last year)

**33,576**

phone calls each year to our Enquiry Line (16% increase compared to last year)

**97% Satisfaction**

**183**

services cemeteries we help maintain

## Search and Rescue

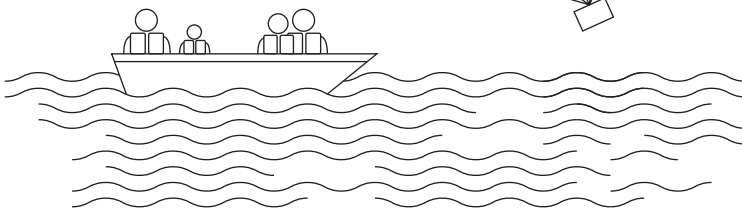
**19**  
**SEARCHES**

**17**

air-based searches, 244.1 flying hours, 4 on land and 13 at sea

**2**

sea-based searches



## Environmental Surveillance

**11**  
**DAYS AT SEA**

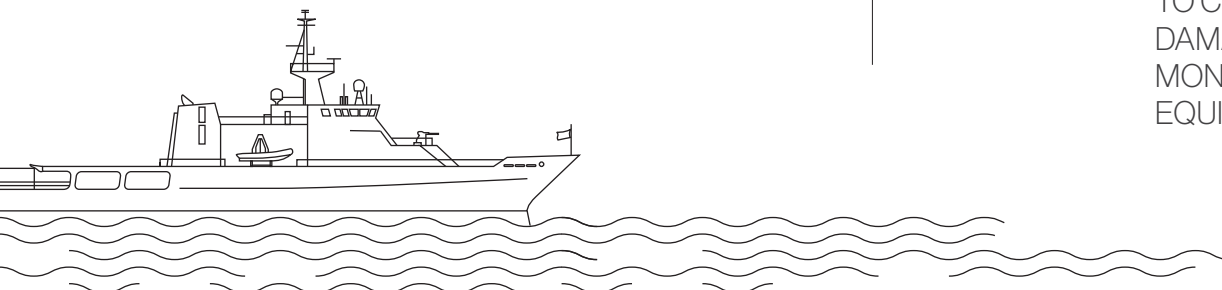
RETRIEVING WAVE BUOY

**2**

Air Force Aviation Technicians repaired failed Automatic Weather Station on Nukunonu Atoll, Tokelau after being trained by MetService technicians

**19**  
**FLYING HOURS**

CARRYING OUT AERIAL SURVEILLANCE OF RAOUL ISLAND AFTER EARTHQUAKES TO CHECK FOR DAMAGE OF MONITORING EQUIPMENT

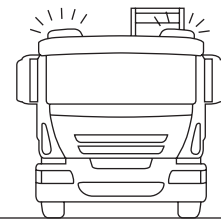


## Border Security

**40.6**  
**FLYING HOURS**

CARRYING OUT SURVEILLANCE ON SHIPPING

## Firefighting



**188**  
**CALLOUTS**

**61**

Calls to vehicle accidents, 14 requests for medical assistance







# 02

**Operation  
PROTECT:  
Responding  
to COVID-19**



During 2020/21, the NZDF continued its ongoing commitment to the all of Government COVID-19 response: Operation PROTECT. COVID-19 has had an impact on nearly every aspect of the organisation, requiring the NZDF to reorient resources to contribute to the COVID-19 response and at the same time maintain other aspects of NZDF's readiness for operations. NZDF support to the Government's management of the pandemic is the most significant deployment of NZDF capabilities since East Timor (1999–2012), as measured by the number of people committed.



The assistance and provision of public service in an emergency is an important element of the NZDF's work. The NZDF maintains skilled and talented people and fleets of ships, vehicles, and aircraft at high states of readiness, that can be drawn upon when needed. In times of crisis, the NZDF provides the Government with flexible options, unique capabilities, and professional, adaptable people.

## Managed Isolation and Quarantine

In early 2020, the Government directed NZDF to conduct a range of pandemic response tasks leveraging flexible staff, logistics, command and administration systems. These included establishing the first quarantine facility at Whangaparāoa, providing logistics and planning expertise, and supporting NZ Police road checkpoints. The NZDF became essential to running the Managed Isolation and Quarantine Facilities (MIQF), providing staff to assist in the leadership, planning and administrative tasks of the four aspects of the MIQF system:

### Managed Isolation and Quarantine Headquarters (MIQ HQ)

MIQ HQ provides strategy and policy, operations and planning, coordination, logistics, communications and public engagement. The Ministry of Business, Innovation and Employment (MBIE) is the lead agency for Managed Isolation and Quarantine, supported by senior military officers rotating through the role of Joint Head of MIQ.

### Regional Isolation and Quarantine Coordination Centres (RIQCC Auckland, Rotorua and Christchurch)

The RIQCCs directly support the processes to allocate returnees to Managed Isolation Facilities, facilitate their arrival into New Zealand, process their entry to New Zealand, transport them to these facilities, and manage their stay. They also manage engagement with local iwi and communities.

### Managed Isolation Facility (MIF) management tasks

An NZDF Manager, Coordinator and two Assistants are assigned to each of the 31 Managed Isolation Facilities. Their primary responsibility is to ensure the smooth function of the facility whilst ensuring high standards of security, checking, and cross-infection control are maintained. The MIF Manager acts as a liaison between guests, the various other government agencies, hotel management and staff.

### Managed Isolation Facility security tasks

The NZDF contributes to the security force, providing three rotating shifts per day over a six-week deployment per contingent. The security role is to control visitors to the facility including contractors, maintenance workers and deliveries.

On any one day approximately 1,200 personnel are employed on Operation PROTECT duties, and are not available for other NZDF tasks. This figure includes personnel preparing to deploy and those required to undertake an isolation period at the conclusion of their Operation PROTECT duties. The pool of Regular Force personnel available for Operation PROTECT is limited because the nature of the operation requires experienced personnel (Corporal to Major rank levels) for many roles.

Over the 2020/21 year, the NZDF facilitated more than 125,000 arriving passengers through the Managed Isolation process, of whom 972 tested positive for COVID-19 and were able to isolate before entering the New Zealand community.

## Tasks and Operations in Support of Other Government Agencies

### Support for New Zealand Customs Service

During August–November 2020, 82 Navy and Air Force personnel assisted New Zealand Customs Service officers in ports around New Zealand ensuring compliance with the COVID-19 Maritime Border Order by visiting vessels.

The Navy shadowed two vessels approaching New Zealand without clearance to arrive, and handed them over to a New Zealand Customs Service vessel on passing into New Zealand's territorial waters.

P-3K2 Orion aircraft were on call over the period September 2020 to March 2021, flying six sorties in support of New Zealand Customs Service totalling 41 flight hours.

### Support for New Zealand Police

NZDF personnel assisted New Zealand Police during Auckland regional lockdowns to conduct vehicle checkpoint tasks.

### Assistance to regional neighbours

Five COVID-19 Assistance Flights were conducted:

- Vanuatu: Repatriation of Recognised Seasonal Employer (RSE) scheme workers, the High Commissioner's family and one deceased individual
- Papua New Guinea: Delivery of 4,400 kg of COVID-19 personal protective equipment
- Timor Leste: Three flights transporting 53 students and aid workers and delivering 16,000 kg of COVID-19 personal protective equipment

The NZDF provided planning, operational, logistic and medical support to the Ministry of Health and other agencies enabling the Government to deliver COVID-19 vaccines to the Cook Islands, Niue, Tokelau, Samoa, Tonga and Tuvalu. A multi-agency maritime operation to deliver vaccines to Tokelau and Palmerston Island is scheduled for July 2021.

In June 2021 an NZDF doctor was deployed to Fiji as part of New Zealand's contribution to an Australian Medical Assistance Team (AUSMAT).

### Impacts on the delivery of NZDF Outputs

During 2020/21, the operating environment was characterised by global and domestic uncertainty, with impacts of COVID-19 on a significant part of the NZDF's activities, people, and readiness. Despite this, forces continued to be available and respond to emergency events, support operations with other Government agencies, and were prepared to meet low-level, short-term security threats in New Zealand's immediate region. At the same time, 10 overseas deployments were successfully accomplished. As well, veterans continued to be supported and honoured through Veterans' Affairs.

Maintaining the current levels of commitment to Operation PROTECT will have longer term impacts and trade-offs for the NZDF's capabilities across all aspects of readiness, particularly personnel, training, and equipment. As a result, during the reporting year Estimate Standards in performance for some Navy, Army and Air Force Output readiness levels were revised downwards to take account of the impact of Operation PROTECT and other COVID-19 impacts. Support provided under the Outputs relating to Defence International Engagement and Resource and Border Protection Operations were also revised.

While Outputs continued to be delivered over the reporting period, reduced NZDF capability meant that the NZDF was not in a position to conduct concurrent activities if additional significant unplanned events had occurred.

Readiness level reductions, and other Estimate Standard reductions, will likely continue for the foreseeable future until the NZDF is able to regenerate its readiness and sustainability capabilities.

The results of the Wellbeing surveys match the concerns raised by commanders regarding the wellbeing of members of the NZDF. A number of actions have been initiated including reviewing accommodation across the NZDF and reviewing allowances for those involved with Operation PROTECT.

Personnel deployed overseas have reported similar levels of wellbeing as those living in New Zealand. Personnel on both operational and non-operational roles noted "restrictions in what I can do" as the top challenge impacting their overall wellbeing.

Operation PROTECT personnel and their families can obtain a range of services and facilities including social workers, Defence health personnel, chaplains, and Defence Community Facilitators. Additionally, all members of the Defence community can access a 24/7 confidential support line and text service. Information and resources are available on the Defence Health and Force4Families websites. The latter includes information on support services, community support, and wellbeing, as well as financial and budgeting support and access to welfare funds.

## Delivery of military capabilities during the pandemic

The NZDF is reallocating and reprioritising its resources and personnel to minimise the impact of Operation PROTECT on military readiness and maintaining capability for other potential operations, including domestic and South Pacific disaster response.

## Maintained and ring-fenced capabilities

Resources have been prioritised to maintain short notice response capabilities across the NZDF, including Special Operations and high readiness forces, humanitarian assistance and disaster relief (HADR), and search and rescue (SAR) capabilities.

## Protection of the Force

Vaccination of members of the Armed Forces and some civilians began in February 2021 in order to protect the NZDF. This ensured that the NZDF was able to provide the Government with contingency response options in New Zealand and the South Pacific. Vaccinations were offered to all NZDF civilians and Reserves in June 2021. The vaccination programme was conducted with NZDF health resources, which allowed the public health system to focus on other essential workers.

## Training for Military readiness

Operation PROTECT and the global pandemic have caused significant disruptions to training plans. The main factors are training delays for personnel who support Operation PROTECT and a reduction of support capabilities to training activities for personnel who are not on Operation PROTECT. Deterioration of skill sets is being experienced, leading to a loss of capability and an increase in workforce gaps in significant trades. A significant timeframe will be required to regenerate skills and capabilities.

Examples include:

- Delayed Navy professional development courses, training for marine technicians, and basic branch training in other trades;
- The Army was unable to conduct combined arms collective training in which teams develop war-fighting capabilities as an integrated force;
- Workforce gaps in significant trade groups were exacerbated by the cancellation and delays of Army individual training courses across all ranks; and
- Maintenance of air crew and support team skills is impacted by restricted availability of international training exercises and reduced access to overseas simulators.



### Supply chain and logistics

The COVID-19 pandemic disrupted global supply chains, just-in-time manufacturing, lean inventory holdings, and the international freight network. This situation has had direct and indirect impacts on the NZDF supply chain.

The personnel impact to logistics was primarily diminished access to external and international subject matter experts. The effects of lost opportunities for training are expected to be felt in the medium term.

Impacts on equipment include a backlog of maintenance, the need to preserve under-utilised equipment during the pandemic, and the need to reactivate equipment after the pandemic to support regeneration of warfighting capabilities.

Sustainability is primarily affected by the reduced ability to obtain parts and inventory in the quantities and timeframe required, longer lead times, and significantly higher freight costs. Suppliers and international partners are increasingly holding onto stock, as a move from just-in-time stockholdings to just-in-case.

The recovery will likely extend into the mid-2020s, and the post-pandemic landscape will likely feature a decreased reliance on international suppliers and the global supply chain. For the NZDF, this will bring with it challenges of maintaining higher stock holdings for longer periods.

### International engagement

The pandemic has significantly reduced opportunities to engage with New Zealand's international partners. Government's foreign policy objectives through recognised alliances and other arrangements were not affected as the NZDF's network of Defence Attaches, Advisors and Liaison Officers continued to provide valuable engagement, coordination and advice. Wherever possible, liaison and engagement with overseas partners has been maintained virtually.

Training, exercises, overseas deployments, and introduction of capabilities into service have been severely affected. International exercises and training activities were cancelled by host nations, while isolation and quarantine requirements on personnel on essential international travel have added weeks to processes.

Not being able to train with allies and partners has complicated the ability to maintain a trained and responsive force. In the meantime, the NZDF is adjusting and adapting training plans with international partners where possible, for example by using contactless port call procedures for maritime operations and exercises.

### Health and wellbeing of our people

The impact of COVID-19 on the NZDF's personnel is two-fold. The pandemic has altered the work and lifestyles of personnel and their families, as it has for all New Zealanders. Operation PROTECT has also involved a significant proportion of the workforce in a long-term deployment, disrupting the lives and work of personnel and their families and whānau, more so than a normal operational deployment. Short deployment durations, rapid rotations and the uncertainty of timings have brought additional challenges for personnel and their families.

Three COVID-19 Wellbeing surveys have been conducted, most recently in March/April 2021, to monitor the wellbeing of the Defence community and identify areas of potential need. While the results indicated that the majority of respondents were doing well, levels of wellbeing varied according to roles and personal circumstances. There is an increasing trend in the percentage of respondents reporting struggling with job satisfaction, sleep, workload and finances.

Those supporting Operation PROTECT and personnel in junior ranks were more likely to report lower levels of self-rated wellbeing, experiencing life stressors and concerns about finances. In particular, those working away from their home location and those in the Army were more negatively impacted. Family/Whānau members are also doing less well across finances, psychological and overall wellbeing.

## CASE STUDY

# Managing an MIQF

Lieutenant Shaun McAuley is a Navy Reservist and a lawyer who shares working hours with the Auckland City Council and as Head of School for Maritime Trade Training. In 2021 he was assigned a manager's role at a Managed Isolation and Quarantine Facility.

"I had a team of four rotating NZDF personnel – everyone from aircraft mechanics, marine technicians to hydrographers who were checking people in, departing them, engaging with members of the public and doing a very good job of it. Nothing can really train you for that – you just get stuck in and do it."

His days could be up to 15 to 20 hours long. "Generally there were arrivals and departures from 6am onwards but this could happen 24 hours a day. When flights came through at 1.30am, you're processing it until 3am then back at your station by 7am."

The work involved a lot of soft skills, empathy and engagement with people and helping to identify what the problems were and how they could be solved within the limitations the team had. Lieutenant McAuley's dispute skills came to the fore. "As a lawyer, I was primarily involved with dispute resolution. I managed hundreds of court cases through alternative dispute resolution so I've got a lot of skills in that and was able to use that in the hotel."

It had challenging moments. "One time we had 54 guests arrive at once. We had to put a bit of a team together and figure out how we were going to manage that. Maintaining social distancing, there were hundreds of bags flying in all directions and some of the returnees didn't speak English. It was a challenge but afterwards we got really good feedback from the team that it worked really well, so I was happy with that."

He says his management at Auckland Council were very supportive. "I took some military and annual leave. During my times off I was able to work from home and kept on top of my Council work as much as I could. I was really grateful as it was such a rewarding experience and one of the most satisfying things I've done in my career."

**"I was really grateful as it was such a rewarding experience and one of the most satisfying things I've done in my career."**

– Lieutenant Shaun McAuley

# Operation PROTECT

## TASK UNIT NORTH

Auckland

**18 MIQFs**

looking after 3,701 returnees

## TASK UNIT CENTRAL

Hamilton

**3 MIQFs**

looking after 275 returnees

Rotorua

**3 MIQFs**

looking after 350 returnees

Wellington

**2 MIQFs**

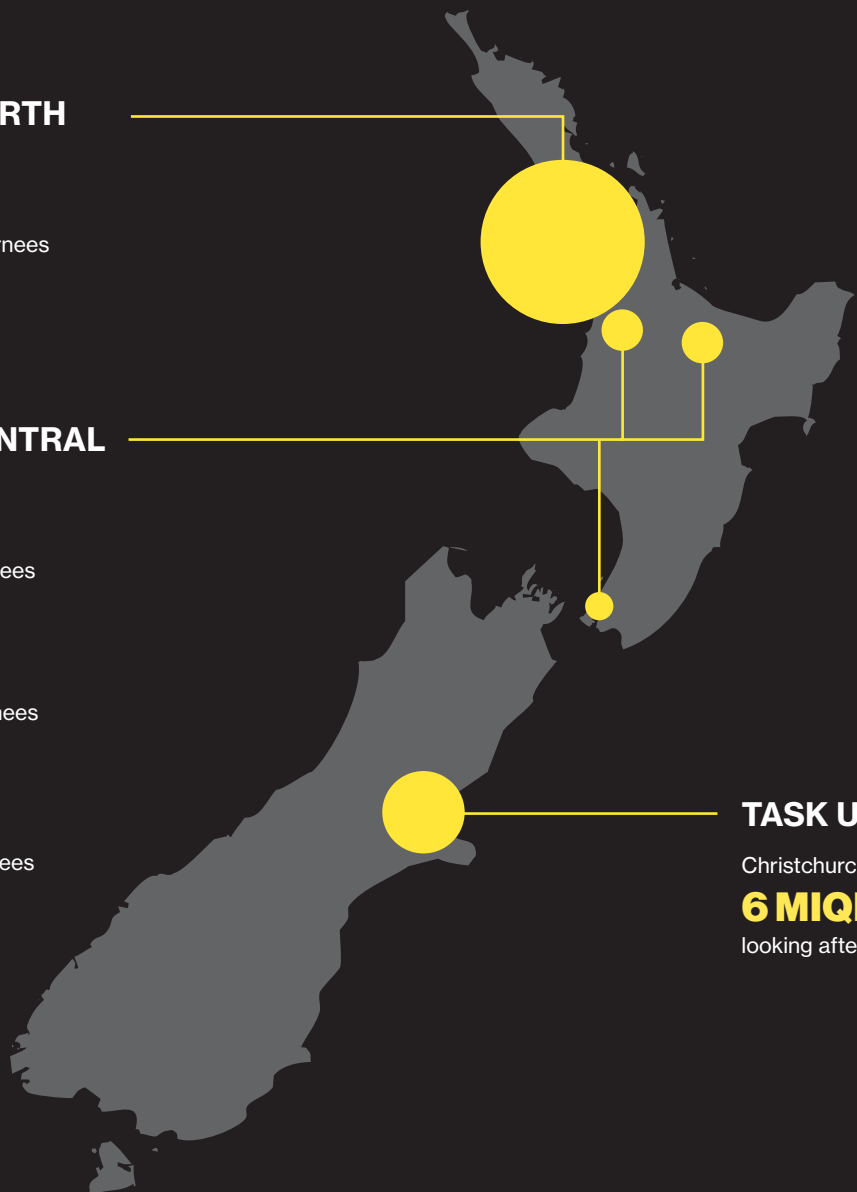
looking after 160 returnees

## TASK UNIT SOUTH

Christchurch

**6 MIQFs**

looking after 899 returnees



# 4,179

NZDF Personnel were tasked in support of the Government's action against COVID-19 during 2020–21

## DAILY COMMITMENTS

### ALL-OF-GOVERNMENT

# 17

#### Personnel

Planning and Logistics personnel supporting the All-of-Government response group

### JOINT HEAD OF MIQ OPERATIONS

# 1

#### Senior officer

Management of MIQ is from within MBIE and jointly lead by MBIE and NZDF

### COMMAND AND CONTROL

# 55

#### Personnel

The NZDF leadership cohort dedicated to the COVID-19 response

### REGIONAL ISOLATION QUARANTINE COMMAND CENTRES (RIQCC)

# 33

#### Personnel

These command centres coordinate the managed isolation and quarantine facilities in Auckland, central New Zealand and southern New Zealand

### MANAGED ISOLATION AND QUARANTINE FACILITIES (MIQFs)

# 789

#### Senior officers

These personnel are working shifts or are off shift in the 31 managed isolation and quarantine facilities

## TASKS COMPLETED DURING THE YEAR

### REGIONAL LOCKDOWN VEHICLE CONTROL POINTS

# 206

#### Personnel

Assisting NZ Police during the three Auckland regional lockdowns

### MARITIME SECURITY

# 82

#### Senior officers

Assisting NZ Customs at ports around NZ to assist with compliance checking

### MARITIME SECURITY

# 41

#### Flying hours

Surveillance of vessels entering NZ territorial waters

### REPATRIATION TO VANUATU

# 122

#### Passengers

RSE workers and High Commissioner's family

### ASSISTANCE TO REGIONAL NEIGHBOURS

# 7,000<sup>KG</sup>

#### COVID PPE

Transported to Solomon Islands and Timor Leste







# 03

**Delivering  
Defence  
Outcomes**



The NZDF supported and delivered the wider Defence Outcomes – New Zealand’s security, resilience and wellbeing, in particular across the Community, Nation and World – that are set out in the Strategic Defence Policy Statement 2018. The NZDF’s outcomes contained in the Statement of Intent 2018/19–2021/22 are:

- New Zealand’s National Interests are Secured
- International Order is Supported
- Veterans’ Service is Honoured



# Outcome 1 Outcome 2 Outcome 3

## New Zealand's National Interests are Secured

Secure New Zealand, including land, territorial waters, Exclusive Economic Zone, natural resources and critical infrastructure.

In 2020/21, the NZDF:

- Supported the all-of-Government response to the COVID-19 pandemic with a significant contribution of personnel and capabilities
- Worked with other Government agencies on surveillance, emergency responses and humanitarian missions

## International Order is Supported

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

In 2020/21, the NZDF:

- Supported Pacific neighbours with military assistance, humanitarian aid and repatriation missions
- Supported Pacific Island COVID responses
- Exercised with other defence partners, adapting to the pandemic environment
- Maintained support for contributions to global security

## Veterans' Service is Honoured

The service of veterans to New Zealand is recognised, respected and honoured.

In 2020/21, the NZDF:

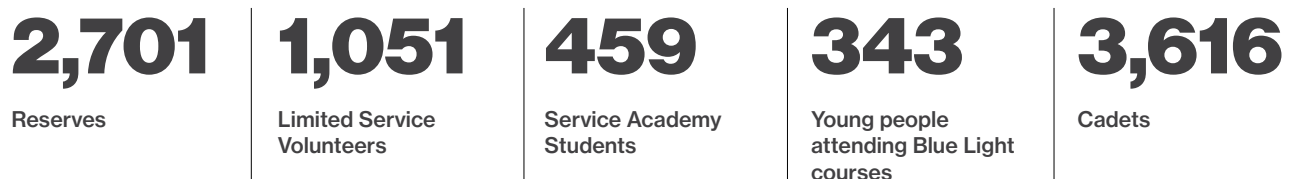
- Made it easier for veterans to contact Veterans' Affairs
- Reduced the waiting time for medical information from an average of 72 days to five days
- Assisted veterans to attend commemorations for the Korean War and for Jayforce

# Community

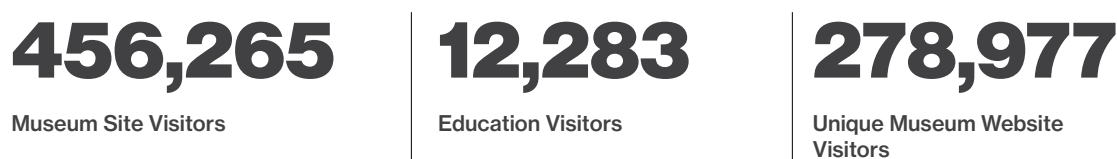
The NZDF supports New Zealand's community and environmental wellbeing and resilience.

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

## Community and Youth Development Numbers



## Preservation of New Zealand's military history Navy, Army and Air Force Museums



## CASE STUDY

# Rescue Training with the Searchers

Aircrew from No. 3 Squadron train around the country working with outside agencies to perfect their search and rescue skills.

One such exercise took place in the dense bush in Te Urewera, north of Wairoa. The team worked alongside Wairoa LandSAR staff and local police to find two trampers “lost” in the bush.

Flight Lieutenant (FLTLT) Lindsay Johnstone said the NH90 provided logistics for them, moving the search and rescue (SAR) members in and out of the field. “We did a bit of training with them first to familiarise them with working around the helicopter and winching. I guess 60–70% had never been winched before.

“We were winching them into the bush and then they conducted the SAR scenario from there.”

“The hills weren’t that tall, but they were sheer, with steep ridges and strong wind funnelling the crew had to deal with,” FLTLT Johnstone said. The scenario was to track and find two trampers who had been in the bush for a few days.

“They figured out where they were and narrowed it down and then managed to find them. We went in and winched a couple of people to them and then we winched the lost party up and then flew the teams back to the base for a debrief,” he said.

“Training alongside the LandSAR team is what it’s all about. We get experience with how they work and they get experience working with us. It sets everyone up in a much better place if they do get a real SAR up there.”

“There’s the day-to-day training that we’re always doing, but you can’t beat the experience, for the crews, working with actual SAR teams and working with civilians and working in the hills and bush and having big numbers of people to winch in and out.”

“Training alongside the LandSAR team is what it’s all about. We get experience with how they work and they get experience working with us.”

– Flight Lieutenant  
Lindsay Johnstone



## CASE STUDY

# Canterbury Floods

When the rivers rose and the rain kept pouring down soldiers from Burnham Military Camp quickly leapt into action.

Despite the heavy commitment of soldiers to Operation PROTECT, the Army was able to stand up a headquarters command and control team when called upon by Canterbury Civil Defence and Emergency Management (CDEM). A transport team and Emergency Operation Centre (EOC) Liaison Officer with seven vehicles, including Unimogs, HX58 operational vehicles and a LOV Ambulance were deployed to Ashburton within two hours of the call. As the situation developed, liaison officers and teams were in place with EOC's in Ashburton, Timaru, Selwyn, Waimakariri and at CDEM in Christchurch as well.

New Zealand Defence Force assets were critical in evacuating residents from inaccessible locations and adverse conditions where residents were deemed not safe.

Captain Jake Faber, who was the Liaison Officer in Ashburton, said the team was busy as soon as they got to Ashburton. They worked closely with the EOC controller and other emergency response agencies to establish essential tasks. "The first tasks for us were evacuations of people who were inaccessible to Fire and Emergency New Zealand and New Zealand Police."

He said personnel worked late into the first night to ensure residents affected by the floods were brought to safety, and were continuing to provide support where needed.

"Seeing the community overnight pull together and support the displaced residents who were evacuated from their homes was heartening.

"NZDF trucks were perfect for the job as most people took their animals with them. Police and Fire and Emergency did not have the ability to do what we could with our trucks, and to the scale we did. There were a lot of people in the back," he said.

**“Seeing the community overnight pull together and support the displaced residents who were evacuated from their homes was heartening.”**

– Captain Jake Faber







## Developing and supporting young New Zealanders

The NZDF is committed to building leadership, self-reliance, and resilience in young New Zealanders. This has been recognised by the formation of a Youth Development Specialist Trade within NZDF, professionalising NZDF's youth development work. The trade comprises 144 military personnel working alongside 40 NZDF civilian staff (social workers, nurses, administrative, and logistic staff), supporting more than 6,000 young New Zealanders aged between 13 to 25 as well as 690 Cadet Force Officers and supplementary staff. The specific programmes include the New Zealand Cadet Force, Service Academies, Blue Light Ventures, and Limited Service Volunteers.

### New Zealand Cadet Force

The New Zealand Cadet Force (NZCF) is a voluntary, disciplined, uniformed youth leadership training organisation for people aged 13 to 18. The three branches – Sea Cadets, Army Cadets and Air Cadets – mirror the three Services in the NZDF. The NZCF is a non-profit organisation for the youth of New Zealand and their youth leaders. As at June 30, the Cadet Forces consist of 99 units with 3,616 cadets with a gender balance of 69% male and 31% female.

Cadets represent NZDF at approximately 500 events per year. On Anzac Day 2021, 1,500 cadets supported commemorative events nation wide.

The NZCF is engaging with the Local Government Forum and selected mayors to strengthen relationships between cadet units and local communities via local councils. The intent is to develop mutually beneficial relationships for local cadet units and councils, and improve the standing of cadet units within their local communities.

While supported by the NZDF, the Cadet Force is critically dependent on its adult volunteers. Attracting and retaining suitable and capable adults is increasingly difficult as demands on their time affect their ability to continue volunteering.

### Service Academies

The NZDF supports 29 Service Academies with up to 20 students per Academy located within secondary schools throughout New Zealand. The academies are a programme fostering skills and values that enable students to take a positive role in society both in their career or future study of their choice, and in their community. The programme is aimed at Year 12 and 13 (16–18 age group) students, in particular Māori and Pacific students.

The NZDF supports five different types of courses (induction, basic/advanced leadership, bush craft, and advance challenge). These are conducted on at RNZAF Base Auckland, Trentham Military Camp and Burnham Military Camp, with some courses at RNZAF Base Ohakea.

## NZ Police for Blue Light Ventures

The NZDF supports Blue Light Ventures with 12 nationwide courses for up to 360 trainees covering a range of leaderless and adventure activities focusing on leadership, practical life skills, and self-confidence.

## Limited Service Volunteers

The Limited Service Volunteer (LSV) course is a residential motivational training course delivered by the NZDF on behalf of the Ministry of Social Development. The programme has up to 1,600 trainees annually supported by 44 military and 8 civilian personnel, however in 2020/21 COVID-19 restrictions meant fewer courses were able to be run.

## Supporting New Zealand's community, wellbeing and resilience

NZDF support to the community promotes national identity, improves civil-military relations, provides visibility of the role of the armed forces, improves recruitment, and preserves New Zealand's military history for future generations to enjoy. Overall, the three Service museums enjoyed an increased patronage compared with the previous year, which is all the more impressive when border closures and restrictions on movements are considered.

October 2020 marked the National Museum of the Royal New Zealand Navy's tenth year at Torpedo Bay in Devonport. Torpedo Bay is a site of exceptional heritage significance, with the Navy Museum housed in the buildings of the submarine mining base that occupied the site over a century ago. In February 2021 the Museum opened two new galleries and a new learning space in the newly restored historic Mine Stores. In Te Taua Moana gallery, visitors can explore the contemporary Navy; and in Te Haukapua gallery visitors can delve into the history of the Torpedo Bay site. Tūhura, the Museum's new learning space, welcomes learners of all ages and inspires them to engage with the stories of the Royal New Zealand Navy.

The National Army Museum Te Mata Toa added to the unique visitor experience with an immersive, themed experience of eating and drinking in the Mess Tent. In July 2020 the fully redesigned, new and improved Kids HQ space was opened. A range of temporary exhibitions opened throughout the year, a highlight of which was the Korean War commemorative exhibition, "Forever Peace". The opening was supported by the South Korean Ambassador and a turnout of veterans. The Museum continues to honour its unique place in the life of New Zealand soldiers and is privileged to continue hosting attestations in the Museum at Nga Roimata Pounamu Tears on Greenstone memorial wall.

The Air Force Museum encouraged local and domestic visitors to reconnect with the Museum through a revised marketing and activity programme. The community engagement programme included free, family-friendly activities such as children's book launches, and hosting major events such as the "Pop Up Penguins" art trail and "Van Gogh Alive" experience. This formula proved very successful in drawing people through the doors, resulting in a total of 151,046 people visiting the Museum. Not only did this exceed the annual target, but it came within 1,600 of the best pre-COVID total (in 2018/19). The figure does not include the additional 80,898 corporate visitors to the Museum's venue spaces. A strong programme of online engagement saw 96,439 'virtual visitors' to the Museum's website and a 13% increase in social media followers over the year.

## Reserve Forces

In addition to supplementing the Regular Forces, one of the strengths of the Defence Reserve Forces is the ability to respond to and support local communities during a Civil Defence Emergency. Defence Reserves are the NZDF footprint in regions across New Zealand, and Reservists often have skill sets that are well suited to duties that require interaction with people in New Zealand communities. Defence Reserves are a positive enabler for the NZDF providing a surge and sustainment capacity.

This capacity is illustrated by support for Operation PROTECT and Civil Defence States of Emergency. Since 1 April 2020, Reserve Force personnel have volunteered to support Operation PROTECT. Initially employed as part of Local Emergency Response Groups and as Liaison and Staff Officers, Reserve Force personnel are now employed as Management and Security Staff within Managed Isolation and Quarantine Facilities across New Zealand. Defence Reserves also supported local communities in response to the States of Emergency in the Northland Region in July 2020 and in the Canterbury Region in May/June 2021.

## Progressive Procurement Policy

In 2020, Cabinet approved an important milestone policy to increase the diversity of Government suppliers, starting with Māori businesses. Known as the Progressive Procurement Policy, it is being implemented by Te Puni Kōkiri and the Ministry of Business, Innovation and Employment to support Māori businesses and enterprise. The NZDF will update procurement processes and take the opportunity to look how it supports the policy. The first action is to identify current NZDF providers that identify as Māori.

## Supporting environmental wellbeing and resilience

The Defence Force continues to embed considerations surrounding climate change into the strategy, plans, governance and reporting. During 2020/21:

- A multi-year Carbon Emissions Inventory was completed.
- The emissions inventory for 2018/19 was verified by an external agency. Verification of an additional four years of emissions will be completed during 2021/22.
- The initial draft assessment of climate change risks to Defence Force camps and bases was further developed. Work is continuing to more widely consult with local subject matter experts about the risks and their consequences. The NZDF will also identify cascading risks (risks which can be triggered by other risks being realised) and develop adaptation plans.
- Work was initiated to bring together workstreams focused on complying with the Carbon Neutral Government Programme announced in December 2020. This includes laying the foundations for an organisation-wide Climate Change Response Programme.

# Nation

The NZDF promotes a safe, secure, and resilient New Zealand, including on its borders and approaches.

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

The NZDF promotes a safe, secure, and resilient New Zealand, including its borders and approaches; and contributes to maintaining New Zealand's prosperity via secure air, sea and electronic lines of communication, and secure access to space-based services.

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

## CASE STUDY

# Infrastructure to Tokelau

A complex infrastructure delivery to Tokelau's atolls without wharves or runways was a success for a tri-service team operating from HMNZS *Canterbury* in November 2020, showcasing South Pacific cooperation in a COVID world.

The ship, with an embarked Army Movements team and three helicopters and flight crews, had to deliver 48 water tanks, 15,000 litres each, and around 150 tonnes of materials, cargo deck to flight deck, from ship to shore, while at the same time having no physical contact with the Tokelau people. It was largely done via the ship's cranes and aircraft movement – 103 flights – but in some instances the ship's seaboats towed the water tanks to shore. The heaviest items were solar panels and a replacement generator for Atafu atoll, after their last one self-destructed. The islanders were desperate for a new generator to keep power going at the local hospital and school.

Much of the work was carried out in 35-plus degree heat, with personnel having to wear protective clothing, gloves, long sleeves and helmets. Despite a lack of interpersonal contact due to COVID-19 the Task Group were able to build a real connection with the people of Tokelau and ultimately the NZDF and Government of New Zealand reputation in the region has been greatly enhanced.

The operation shows that with a robust plan and system in place, the New Zealand Defence Force can operate in a COVID-19 environment in a safe and effective manner with minimal loss of capability. The lessons learned will be invaluable if *Canterbury* is called to a Humanitarian Assistance and Disaster Relief mission in the Pacific.

Delivered  
48 water  
tanks, 15,000  
litres each,  
and around  
150 tonnes of  
materials, cargo  
deck to flight  
deck, from ship  
to shore.

## CASE STUDY

# Remembering the Fallen – On Both Sides

Te Ruapekapeka was remembered as one of New Zealand's most precious and significant sites during commemorations at the Bay of Islands pa earlier this year.

The commemorations were attended by dignitaries from throughout New Zealand, as well as NZDF personnel, and marked the 175th anniversary of the Battle at Te Ruapekapeka. The theme of the commemoration was *Kawea a Pūiri mai* – in reverence, remembrance and respect.

The memorial to the twelve British soldiers, sailors and Royal Marines who died in the battle was unveiled as a lasting symbol of remembrance, courage, determination and sacrifice for all those who fought. Their resting place was rediscovered in 2017 following years of investigation and excavation of the site. Among the find was a clay pipe, as well as items of uniform and personal equipment. All these items were left exactly where they were found when the gravesite was re-closed.

The battle itself saw a force of 1,700 British troops, Royal Navy sailors, and Māori warriors allied to the Crown, fight 500 Ngāpuhi and Ngāti Hine warriors in the last battle of the Northern War of 1845–846.

The unveiling of the memorial allowed the opportunity for those who attended to remember and honour the courage, determination and sacrifice for all those who fought on both sides at Te Ruapekapeka.

The Governor General Dame Patsy Reddy told those gathered that Ruapekapeka was part of a series of battles that began at Kororareka. "It was actually the first significant engagement of perhaps the most infamous of my predecessors, Governor George Gray. The battle began with British shellfire directed onto Ruapekapeka Pa on the morning of 10 January 1846. By the evening of the 11th approximately 20 Ngāpuhi and 12 British lay dead, and the pa itself was alight.

"The headstone marks the site where those 12 British soldiers, sailors and Royal Marines were buried by their comrades-in-arms after the dust of battle had settled.

"The text etched into the stone reads: "Although these fallen men lie not in the heart of their own land they are in honoured company for their remembrance will be as lasting as the land in which they gave their all and where their remains are kept."

The battle saw a force of 1,700 British troops, Royal Navy sailors, and Māori warriors allied to the Crown, fight 500 Ngāpuhi and Ngāti Hine warriors in the last battle of the Northern War of 1845–1846.



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

### Safe, secure and resilient New Zealand

NZDF high-readiness capabilities are on hand to respond to threats or other incidents that could impact public safety. The NZDF holds two capabilities permanently available at immediate readiness to respond in situations where the ensure safety and security of New Zealand are threatened:

- **Counter-Terrorist Group (CTG):** The CTG provides counter-terrorist response capacity support and specialist tactical support to sensitive operations led by the New Zealand Police. This includes planning and training support to the development of national capabilities for the Government.
- **Explosive Ordnance Disposal Task Unit (EODTU):** The EODTU supports the New Zealand Police responses to threats to public safety from chemical, biological, radiological, explosive or improvised devices. The EODTU responded to 145 requests during 2020/21.

### Resource and border protection

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

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

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

The NZDF collaborates with the NMCC by using information from its intelligence, surveillance and reconnaissance assets to enhance the compilation of New Zealand's maritime picture. This information enables the NMCC to plan and coordinate patrol and surveillance missions to support the requirements of a range of agencies, including the Ministry for Primary Industries (MPI), Customs Service, Department of Conservation, Ministry of Foreign Affairs and Trade (MFAT), MetService and GNS Science.

During 2020/21:

- 124 pre-planned air and maritime tasks were conducted, contributing to the protection of New Zealand's borders and off-shore maritime interests,
- The NZDF's Inshore Patrol Vessels worked with the New Zealand Customs Service to monitor pleasure craft arriving off the Northland coastline and supported MPI through patrols of the inshore fisheries,
- The NZDF's helicopters supported MPI inspections of inshore fisheries in the Northland, Coromandel, Taranaki, Hawkes Bay, Wairarapa, Cook Strait, Wellington, Gisborne and Whakatane regions,
- The sealift and airlift capabilities of Navy ships with embarked helicopters provided logistical support to the Department of Conservation for their domestic and offshore island operations. In addition, the P-3K2 Orion assisted wildlife monitoring in the Southern Ocean, Raoul and Chatham Islands,
- The NZDF assisted the New Zealand Antarctic Programme. The NZDF Harewood Terminal Team in Christchurch serviced flights supporting United States, New Zealand and Italian bases. The C-130H Hercules aircraft conducted five airlift missions, while NZDF personnel provided support on the continent for the loading and unloading of ships and aircraft. A team of military hydrographers carried out an underwater survey to assist Antarctica New Zealand with planning for the Scott Base redevelopment project, and
- The P-3K2 Orion conducted patrols in the Southern Ocean to monitor for illegal, unreported and unregulated fishing vessels to support New Zealand's obligations as a member of the Convention for the Conservation of Antarctic Marine Living Resources.



## Search and rescue

New Zealand's Search and Rescue (SAR) region covers 30 million square kilometres and stretches from the South Pole to north of the Equator. The NZDF supports the Rescue Coordination Centre with on-call coverage for maritime and land environments through:

- fixed and rotary-wing aircraft, and ships on call 24/7, 365 days a year;
- the capacity to conduct land SAR activities with response groups in the North and South Islands; and
- specialist expertise, including side-scan sonar searches and diving operations, to augment the Police Dive Squad during challenging search and recovery operations.

The number of SAR incidents decreased in 2020/21 compared to previous years, due to COVID-19 restrictions on higher risk activities such as tramping and boating. The NZDF's search and rescue activities included:

- RNZAF aircraft flew SAR missions in the Pacific and around New Zealand.
- HMNZ Ships assisted in several SAR incidents in the New Zealand Search and Rescue region.

## Non-emergency situations

The NZDF advises and assists the Government and civil authorities in non-emergency situations for specific events or occasions. Requests for NZDF services may involve formal, pre-planned support to individual government departments and agencies, or one-off special occasions such as ceremonial activities for state events (eg, ceremonial guards, military bands). In 2020/21, the NZDF supported:

### Significant military anniversaries and nationally recognised commemorative events

- Waitangi Day
- Commemoration of the Battle of Britain Anniversary
- Credential ceremonies
- Battle of Te Ruapekapeka Commemoration
- Visit of the Australian Prime Minister
- National Commemoration of Merchant Navy Day
- 71st Anniversary of the Korean War ceasefire
- Memorial service for HRH Duke of Edinburgh
- Anniversary Commemoration - Operational Service Malaya/Malaysia
- Armistice Day Commemorations
- Commemoration Services for the loss of *HMS Neptune*

### Transport for members of the Government and guests of the State

- Minister of Defence to attend the funeral of last Māori Battalion member

### The Government's transportation requirements

- Transport PPE to Honiara
- Vanuatu Repatriation flight including NZ High Commission Staffber

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

### Maritime surveillance – secure air and sea

Maritime surveillance activities detect and deter potentially unlawful activity that could be harmful to New Zealand's prosperity and sovereignty.

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

The Navy provides maritime domain awareness through the presence of Navy vessels in the South Pacific and ability to provide a near real time surveillance picture to the National Maritime Coordination Centre. The Air Force conducts surveillance flights across the South Pacific. Crews on P-3K2 Orion aircraft covered more than 735,000 square nautical miles on Pacific patrols, covering the EEZ of Fiji, Niue, the Cook Islands and the Solomon Islands.

## CASE STUDY

# An Icy Mission

A team of Defence Technology Agency (DTA) scientists is working to mitigate one of the biggest risks to vessels travelling in the Southern Ocean and Ross Sea: the threat of hitting an undetected iceberg.

In 2021 the specialists, including a Navy Combat System Specialist, carried out a preliminary ice detection trial at Tasman Lake in Aoraki/Mount Cook National Park, with support from Department of Conservation and local tour boat operator Glacier Explorers. The five-day trial was undertaken to test current and new ice detection systems, ahead of a vessel-based trial on HMNZS *Aotearoa* on its first voyage to the Antarctic in January 2022.

Tasman Lake is a large glacier lake with floating pieces of ice and also has a lake shore suitable for installing temporary sensors, making it the ideal testing ground. Floating pieces of ice, which are often too small to see at a distance but large enough to cause substantial damage, pose a very real threat to the success of NZDF maritime operations in the Southern Ocean and Ross Sea.

There have been multiple collisions with icebergs in the past 15 years in Antarctic waters. Two recent incidents include a polar research ship that sustained significant damage after hitting an iceberg in foggy conditions, and a cruise ship that ploughed into an icy mass and sank after all passengers and crew were evacuated.

It is hoped that sensor-based ice detection, coupled with sea ice forecasting, will reduce or even prevent future incidents. The eventual *Aotearoa* trial will involve ice detection sensors as well as drones, ice tracking devices, atmospheric measurements and data collection, and is expected to take around two days to complete. But doing the initial trials in Tasman Lake means all systems can be tested thoroughly, decreasing the risk to *Aotearoa* when her time comes.

Floating pieces of ice, which are often too small to see at a distance but large enough to cause substantial damage, pose a very real threat to the success of NZDF maritime operations in the Southern Ocean and Ross Sea.



# World

The NZDF contributes to the maintenance of the international rules-based order.

The NZDF contributes to New Zealand's network of strong international relationships.

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

The international rules-based order is fundamental to New Zealand's national security and prosperity. It supports New Zealand's independent foreign policy and broad access to global markets, affords the protection and support of multilateral institutions and collective arrangements, and means New Zealand exists in an environment of relative international peace and security. Enjoying the benefits of such an order obliges New Zealand to contribute to its maintenance by supporting the prevention or resolution of conflicts within and between states. The Government has a range of options to achieve this, some of which are military options provided by the NZDF.

Defence and security cooperation are a core component of New Zealand's international relationships. These relationships amplify New Zealand's international influence while enabling New Zealand to continue to make independent decisions consistent with its interests, values and size. Engaging with key partners builds confidence between nations, fosters alliances and partnerships to ensure cooperation, interoperability and information sharing, as well as access to equipment, technology, and training opportunities.

Flexibility has been needed to ensure that defence and security engagement can continue through the COVID-19 pandemic where face to face interaction is not feasible. Virtual platforms have been used to maintain relationships and hold defence and security themed conferences and workshops. Phone calls between NZDF senior leadership and their counterparts form an important element of maintaining relationships. Where the local COVID-19 environment permits, Defence Attachés or Advisors have represented the Minister of Defence and CDF at events. While these approaches have been manageable, resuming in-person engagements will be critical to sustaining international relationships in the coming year as borders reopen.

## CASE STUDY

# Air Force Continues Monitoring UN Sanctions

The New Zealand Defence Force deployed a P-3K2 Orion maritime patrol aircraft to support the implementation of United Nations Security Council (UNSC) resolutions imposing sanctions against North Korea. The sanctions resolutions, adopted unanimously by the UNSC between 2006 and 2017, are intended to persuade North Korea to denuclearise and abandon its ballistic missile capabilities.

Commander Joint Forces New Zealand Rear Admiral (RADM) Jim Gilmour said the P-3K2 was carrying out maritime surveillance patrols to detect and deter attempts to evade sanctions, such as through illicit ship-to-ship transfers at sea of sanctioned goods such as oil and coal.

“We were working alongside military partners as part of the international efforts to enforce the sanctions against North Korea. This was an important mission that contributed to regional stability and security.”

It was the third deployment of a P-3K2 in support of the implementation of the UNSC resolutions, following previous deployments in September-October 2018 and October-November 2019. As with the previous deployments, the aircraft was based at Kadena Air Base in Japan. Maritime surveillance patrols have been flown over international waters in North Asia.

During patrols, the aircrew detected and monitored vessels of interest and gathering information on illicit ship-to-ship transfers to deter future sanctions evasions. There had been additional requirements to meet in light of the COVID-19 pandemic, which had added to the duration of the deployment, RADM Gilmour said.

The personnel involved undertook the Japanese Government’s required 14-day quarantine period on arrival in Japan and 14 days’ managed isolation on their return to New Zealand. All personnel had the necessary equipment and support so they are able to minimise risks from COVID-19 during their deployment.

“We were working alongside military partners as part of the international efforts to enforce the sanctions against North Korea.”

– Rear Admiral Jim Gilmour



## Operations (Op)

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



# NZDF Global Footprint in 2020/21

- Operations
- Defence Attachés

## Defence Attachés (DA)

- A** Head of Defence Staff and Defence Advisor United Kingdom
- B** DA Belgium
- C** DA Abu Dhabi
- D** Defence Advisor Malaysia, HQIADS
- E** Defence Advisor Singapore, NZDSU
- F** DA Indonesia

- G** DA China
- H** DA Korea
- I** DA Japan
- J** Defence Advisor Papua New Guinea
- K** Head of Defence Staff and Defence Advisor Australia
- L** Defence Advisor Fiji

- M** Defence Advisor Tonga
- N** Defence Advisor Canada
- O** DA Head of Defence Staff USA
- P** Military and Police Advisor NZ Permanent Representative to the United Nations

## CASE STUDY

# HMNZS Manawanui at RIMPAC

In August 2020 one of the Navy's newest vessels, Dive Hydrographic ship HMNZS *Manawanui* combined the development of her capabilities with her attendance at the biggest maritime exercise in the world, Rim of the Pacific (RIMPAC) 2020.

The biennial exercise was drastically scaled back due to the COVID-19 outbreak in Hawaii. With minimal interaction between the exercise and the Hawaiian people, the exercise became an 'at-sea-only' event, without the substantial amphibious operations, diver mine clearance exercises, or the air surveillance serials involving international partners. Crews remained on the ships they arrived in, and no "cross-decking" (helicopter landings between ships) was allowed.

Prior to her arrival, *Manawanui* made the most of other arriving ships in the vicinity. She joined up with Australian destroyer HMAS *Hobart* and frigate HMAS *Stuart* for Officer of the Watch manoeuvres, then joined Royal Brunei Navy offshore patrol vessel KDB *Darulehsan* and Republic of Singapore Navy frigate RSS *Supreme* for an exercise.

Running from 17 to 31 August, RIMPAC involved 22 surface ships, one submarine, multiple aircraft and approximately 5,300 personnel from Australia, Brunei, Canada, France, Japan, Republic of Korea, New Zealand, Republic of the Philippines, Singapore, and the United States. It included several realistic, high-end warfighting training events, including live gunnery and missile firings, a sinking exercise, multinational anti-surface warfare, anti-submarine warfare, air defence, replenishment at sea, manoeuvring and maritime interdiction operations where all nations functioned as interoperable task forces.

RIMPAC underscores the importance of bringing as many navies together as possible at a time when maritime challenges in the Pacific – fisheries management, law enforcement and territorial disputes – have the potential to spark conflict.

Running from 17 to 31 August, RIMPAC involved 22 surface ships, one submarine, multiple aircraft and approximately 5,300 personnel.





## Contributing to New Zealand's network of strong international relationships

### Regional security and engagement

The NZDF's regional engagement helps improve the resilience, economic and social wellbeing of Pacific Island nations as well as shaping the security environment. In 2020/21, the NZDF:

- delivered personal protective equipment supplies to Timor Leste and Fiji,
- maintained a close defence partnership with the Australian Defence Force through personnel exchanges and professional training courses,
- supported regional security with virtual attendance at activities such as the Association of Southeast Asian Defence Ministers Meeting, and
- managed the Mutual Assistance Programme to enhance the defence and security capabilities of regional nations, including support to regional nations' efforts to manage marine resources.

## Contributing to the maintenance of the international rules-based order

### Operation MONITOR

Operation MONITOR is the NZDF contribution to the United Nations Command (UNC) in the Republic of Korea representing New Zealand's commitment to the maintenance of security and stability on the Korean Peninsula. The primary role of UNC is to maintain the Armistice Agreement signed at the end of the Korean War in 1953. Ten NZDF personnel are currently serving for between six to twelve months tasked with monitoring, educating and providing advice on the Armistice Agreement.

### Operation TROY

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

### Operation PUKEKO

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

## Other contributions

The NZDF has a long history of supporting United Nations (UN) missions around the world. The NZDF currently supports the United Nations Truce Supervision Organisation (UNTSO) covering Israel, Lebanon, Syria, Jordan and Egypt. UNTSO seeks to ensure peace agreements or ceasefires are observed and report activities which violate these agreements or could threaten international peace and security in the region.

New Zealand is a member of the Multinational Force and Observers (MFO) in Sinai, which supervises the implementation of the security provisions of the Egyptian-Israeli Treaty of Peace. NZDF has been a member of the MFO since its inception in 1982, providing a transport section. A New Zealand Major General officer currently commands the MFO.

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

## Agency satisfaction

It is essential that the NZDF understands the expectations of partners and other Government agencies, and their satisfaction with the delivery of its support. This ensures its efforts are effective, and enables the NZDF to identify areas for improvement to reach and maintain the required level of performance.

The key agencies the NZDF supports are surveyed annually. The key measure for the survey is "the degree of satisfaction expressed by agencies requesting support and assistance".

The results for 2020/21 were positive with an average score of 90% satisfaction, compared with 87% in 2019/20.

The survey asked five questions and each question has five ratings. Of 105 questions responded to by 20 agencies, over 95% (101 responses) of the responses were either 4 or 5 (ie, Good or Outstanding) and no ratings of 1 or 2 (ie, Unacceptable or Poor).

## Agencies surveyed and responded

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

## AVERAGE SATISFACTION

# 90%

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## MINISTER OF DEFENCE

# 88%

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## MINISTER FOR VETERANS

# 84%



	Target	Defence	Veterans' Affairs
2020/21	70%	88%	84%
2019/20	70%	90%	86%

Agencies with a policy appropriation such as the NZDF are required to report on a ministerial policy satisfaction score. The NZDF provides policy advice in the areas of Defence (with the Ministry of Defence) and Veterans' Affairs.

The NZDF exceeded its target of 70% for both Defence and Veterans' Affairs.

### Veteran satisfaction

Each year Veterans' Affairs seeks feedback from veteran clients through a 35-question survey run by Public Voice Ltd, an independent survey company. In 2020, telephone interviews were conducted with a random selection of Veterans' Affairs clients. The results were very positive, with Veterans' Affairs being given an overall satisfaction rating of 97%.

### Public trust and confidence – Colmar Brunton Public Sector Reputation Index

The Colmar Brunton Public Sector Reputation Index measures the public reputations of 58 New Zealand public sector agencies based on 3,500 online interviews with a nationally representative sample by age, gender, region, ethnicity and income conducted in March.

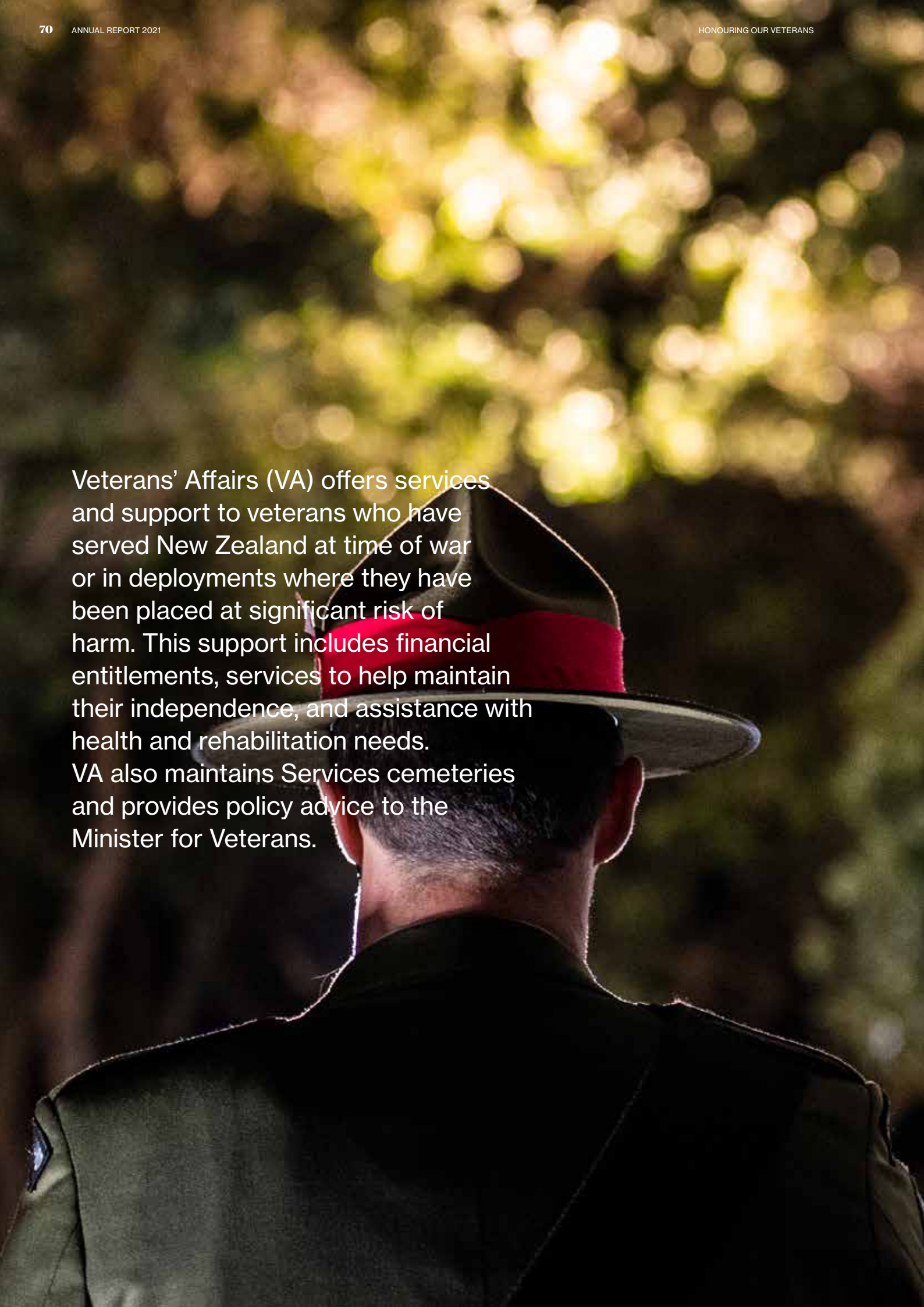
Colmar Brunton released their annual Public Sector Reputation Index in May 2021. The NZDF remained in the top 10 of the 58 public sector agencies included in the survey. The NZDF scored highly in Fairness and Social Responsibility.





# 04

**Honouring  
Our Veterans**



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

## Support where it is needed

A number of amendments to the Veterans' Support Act 2014 came into effect in October 2020. They included improvements to how mental health applications are managed, and new support for families and whānau.

Several projects are underway, aimed at making it easier for veterans to get in touch with Veterans' Affairs and receive speedy responses to enquiries and applications. Early registration is encouraged (before veterans actually need help) and claim forms have been simplified. Work continues on a substantial upgrade to application and case management systems, designed to support improved efficiency and greater responsiveness. A new system was implemented to enable medical information to be securely sought and received from General Practitioners. This has reduced the waiting times for medical information that is needed to determine claims from an average of 72 days down to five days.

## Collaborating with others

Veterans' Affairs has close working relationships with other organisations, agencies and departments who share the same commitment for making life better for veterans. More than 700 veterans and their families attended forums over the past year in the Bay of Plenty, Northland, Gisborne and Hamilton. These were delivered in partnership with the Ranfurly Veterans' Trust, and focused on the wellbeing of veterans and whānau, and connecting them with services and support available from a variety of agencies and organisations within local communities. Veterans' Affairs also worked with Ranfurly to offer monthly case management clinics for veterans in Auckland.

Veterans interested in exploring new employment opportunities were offered the chance to learn about agricultural work through courses at the Taratahi Agricultural Training Centre in the Wairarapa. These were developed in partnership with the Ministry for Primary Industries and UCOL. Thirty-five veterans attended four courses between December 2020 and June 2021.

The relationship Veterans' Affairs has with the Department of Corrections developed further in the past year, with a Statement of Intent signed in April 2021. This confirmed the intention to work together to give support to veterans when they are in the care, management, or supervision of Corrections.

Veterans' Affairs has a productive long-term relationship with the Royal New Zealand Returned and Services' Association (RNZRSA). The RNZRSA received a grant of \$2.53 million from the COVID-19 Response and Recovery Fund in September 2020. \$2 million of these funds were available to help relieve hardship amongst veterans and their families. VA administered this grant, and worked with the RNZRSA to publicise it.

## Keeping in touch with veterans

Veterans' Affairs emphasises the importance of keeping in touch with veterans and veteran support and advocacy organisations. Around 3,100 people globally subscribe to a monthly e-Newsletter that was introduced in 2020. The VA Facebook page has almost 3,000 followers from 45 countries, with an average of 80 new followers each month. More than 900 people visit the VA website each month to check their eligibility for services and support. A series of client experience videos is being produced, letting veterans know how VA makes decisions, what a veteran can do if they disagree with a decision, and how VA can assist veterans living overseas.

## Commemorations

COVID-19 has affected the holding of national commemorations of significant military anniversaries, or the form in which these are held, but wherever possible Veterans' Affairs has supported veterans to safely attend these events.

Ten Korean War veterans were present at the 70th Anniversary of the Commencement of the Korean War in July 2020. The following month, however, the ceremony to mark the 75th Anniversary of the end of the Second World War was cancelled because of COVID-19 restrictions.

Twenty-six men and women of Jayforce from throughout New Zealand attended a national commemoration in March 2021 marking 75 years since the main body of Jayforce arrived in Japan. Their service was honoured in the presence of Her Excellency the Governor-General and other dignitaries.

Veterans can apply for commemorative funding to return to their places of qualifying operational service. COVID-19-related restrictions on overseas travel have, however, prevented this over the past year. The eligibility criteria for this funding were expanded to include travel to attend events within New Zealand (such as reunions) which commemorate a veteran's qualifying operational service.

## Services cemeteries

Veterans' Affairs helps to maintain the 183 services cemeteries across New Zealand, where those who have taken part in specified operational service, and their spouses or partners, can be buried. Grants to be made local authorities and others who manage these cemeteries, so that they can be maintained to a standard that honours the service of those buried there. Significant projects in 2020/21 included the refurbishment of the Ōtaki services cemetery, including the installation of a new entrance archway. At the Taita services cemetery in Lower Hutt more than 500 damaged memorial bases were repaired and 644 services plaques were re-secured.

## Statutory boards

Veterans' Affairs supports three independent boards, appointed by the Minister for Veterans.

In July 2020, the Veterans' Advisory Board reported to the then Minister for Veterans on a national conversation he had asked them to undertake about a possible Covenant or Kawenata between those who serve in the Defence Force, and the Government and people of New Zealand. The Board has since begun work on options to better recognise New Zealand veterans.

The Veterans' Entitlements Appeal Board met five times in the past year to consider appeals. Four of the five appeals that were heard were dismissed, and one was upheld.

The Veterans' Health Advisory Panel met six times in the past year. The Minister for Veterans has asked the Panel to provide her with a review and summary of the most up-to-date information on the health impacts of exposure to nuclear radiation on veterans and their descendants.











# 05

**Strategic Focus:  
An Integrated  
Defence Force**

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

Plan25 is the action plan to implement Strategy25 and deliver the NZDF's vision to be an Integrated Defence Force. An Integrated Defence Force is a *connected, coordinated, and agile military organisation*. Being integrated means providing value more than just the sum of parts; acting as 'one force'. The NZDF will value diversity of skill, thought, and function.

Plan25 sets out:

- the framework to show how the NZDF will deliver change in the short to medium term to support the defence and security sector and achieve long-term outcomes, and

- the three goals which are required to deliver the Outcomes. The primary goal that will deliver the ability to operate as a networked combat force is Joint Operational Excellence. The other goals, Operational Domain Mastery and Organisational Excellence, are enabling goals. While each of the three goals are essential in themselves, they are interrelated, and all are required to achieve the strategic outcome of an Integrated Defence Force.

A review of Plan25 has commenced to evaluate the impacts of the pandemic and Operation PROTECT on the capability plan and achievement of objectives. This may result in decisions on prioritisation and allocation of resources that require the original Plan25 timeframes to be adjusted.

# STRATEGY25

## INTEGRATED DEFENCE FORCE



**OUR PURPOSE** We Are A Combat Ready Force Keeping New Zealand Safe And Secure

**OUR VALUES** TŪKAHA COURAGE | TŪTIKA COMMITMENT | TŪTIRA COMRADESHIP | TŪMĀIA INTEGRITY

# Joint Operational Excellence

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

## A networked and integrated joint force

The NZDF has joint force elements that are combat ready and can deliver military effects as part of an integrated New Zealand Government approach to security. The NZDF can integrate with military and civilian partners, both within New Zealand and internationally.

The NZDF continues to refine and formalise its approach to operations, exercises and activities in the Pacific, subject to the influence of COVID-19 on the region.

## Pacific Reset

Building on the Government's 2019 Pacific Reset, the NZDF contributes to regional resilience and nation building; promotes regional security, stability and prosperity; and strengthens relationships with allies and partners through cooperation in the region.

In 2020/21 the NZDF provided:

- Direct support to Tokelau with the delivery of water tanks, solar panels and other construction equipment to assist with their effort to improve their resilience to the effects of climate change;
- A Military Assistance Training Team to Fiji conducting courses and providing training support over an extended period;
- Direct support to Fiji following the impacts of Cyclone Yasa;

- Comprehensive support to Ministry of Health-led planning to deliver COVID-19 vaccines to the Polynesian health corridor with a particular focus on Tokelau and the Northern Cook Islands; and
- Continued support to Forum Fisheries Agency (FFA) activities throughout the Pacific region in efforts to counter Illegal - Unregulated - Unreported (IUU) fishing activities.

## Pacific Leadership Development Programme

Leadership across the Pacific is a particular area of focus for New Zealand as part of Pacific Reset. This is demonstrated by NZDF and its Pacific partners Papua New Guinea, Fiji, Tonga and Vanuatu through the Pacific Leadership Development Programme (PLDP), supported by the Ministry of Foreign Affairs and Trade through a 2019 Memorandum of Understanding.

In 2020, an NZDF Technical Advisor Leadership Mentor (TALM) was embedded in each of the four participating nation's security forces. The TALMs assist each country to design and develop their own leadership frameworks, grow their leadership development staff capacity, develop, deliver and continuously improve their own courses and lessons.

Under the PLDP, leadership centres are to be built in each of the four countries, according to the security forces' requirements. Construction of the Papua New Guinea leadership centre started in June 2021.

During 2020/21, 691 Pacific leaders participated in the PLDP and approximately 810 more are expected to participate in 2021/22.

	Papua New Guinea	Fiji	Tonga	Vanuatu	Total
Actual number of participants in 2020/21	202	116	97	276	<b>691</b>
Expected number of participants in 2021/22	305	305	100	100	<b>810</b>

## A trusted strategic and operational partner

### International Defence Engagement Strategy

The NZDF places importance on its standing as a trusted strategic and operational partner. NZDF's ability to deliver a high standard of support for regional and global initiatives gives the NZDF strategic credibility as it continues to engage with international partners. The NZDF maintained its schedule of engagement with international partners and also maintained its tempo in existing operations around the globe.

During 2020/21, the NZDF continued in-person deployments where feasible to Pacific partners through the Pacific Reset. The NZDF also worked jointly with partners in a COVID-19 environment in ways that did not require in-person deployments, including contactless equipment delivery, ongoing maritime and air surveillance activities in the Exclusive Economic Zones, and ongoing virtual planning.

### Working with Domestic Partners

The NZDF is a key component of New Zealand's wider national security system, that includes domestic security, civil defence and emergency management, border security, and foreign policy. The NZDF works in close coordination with the lead agencies for those areas to ensure that planned investment is appropriately geared and balanced across requirements.

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

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

The NZDF has a close relationship with the Employer Support Council to facilitate employer relations between reserve personnel and the New Zealand business community and any organisation employing reserve personnel. The NZDF and the Ministry of Defence are active partners of the Defence Industry, providing many hundreds of millions of dollars annually for capital projects, and goods and services for sustainment activities.

# Operational Domain Mastery

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

## Combat-ready force: Maritime, Land and Air

The Navy, Army and the Air Force are the core components of the NZDF. The Chiefs of Service are responsible for generating their respective force elements, and ensuring they are ready for operational employment by the Commander Joint Forces New Zealand (COMJFNZ) at Government's direction.

## Force Generation

### Navy

The Royal New Zealand Navy (RNZN) generates and sustains combat-capable, multi-purpose maritime forces which can also be deployed for non-combat tasks to assist other Government agencies. Those capabilities include combat, patrol, sealift, replenishment, littoral warfare, and naval control and guidance for shipping.

The Navy prepares the following capabilities, to be deployed at Government direction:

- Maritime security operations, including supporting other government agencies through regional border patrol operations and maritime patrol operations in the South West Pacific; and
- Maritime warfare operations, sustainment, sealift and amphibious operations in support of maritime security operations and Joint Forces New Zealand.

Key activities for the Navy in 2020/21 have been supporting Operation PROTECT, regenerating core capabilities of the Naval workforce, and sustaining equipment to ensure it can be made available through life until beyond economical repair. Maintaining maritime capabilities requires careful management of training, engineering, and maintenance, as well as effective logistic support. This has been complicated by a significant programme of upgrading ships and introducing new capabilities into service in a worldwide pandemic environment.

The Frigate System Upgrade programme has been delayed by pandemic conditions. HMNZS *Te Kaha* returned to New Zealand in December 2020 and is undergoing trials and maintenance, while HMNZS *Te Mana* is continuing her upgrade programme in Canada.

HMNZS *Aotearoa* commissioned into the RNZN on 29 July 2020. The primary mission of HMNZS AOTEAROA is to provide global sustainment to New Zealand and coalition maritime, land, and air units, and United Nations security operations through resupply of ship and aviation fuel, dry goods, water, spare parts, and ammunition. HMNZS *Manawanui* delivered a number of key capabilities, including Humanitarian Assistance and Disaster Relief, survey search and recovery, and components of maritime explosive ordnance disposal.

The Naval Patrol Force – the Inshore and Offshore Patrol Vessels – continued to deliver domestic and South Pacific Resource Protection, naval training and support to other government agencies. The demands of Operation PROTECT have limited the availability of personnel for these vessels.



## Army

The New Zealand Army generates, prepares and sustains combat-capable, multi-purpose Land and Special Operations Forces able to operate globally in complex combat environments with New Zealand's ally and partners. These same forces can also be deployed for non-combat tasks to assist other Government agencies domestically, regionally and globally. Army's suite of conventional and Special Operations military capabilities include high and very high readiness response forces (including Counter Terrorist, Explosive Ordnance Disposal, combat and Humanitarian and Disaster Relief). The Army generates Command and Control, Intelligence, Combat, Security, Reconnaissance, Surveillance, Engineering, Logistics, Policing and Health capabilities to integrate into a Joint Amphibious Task Force.

The Army prepares the following capabilities, to be deployed at Government direction:

- Special Operations Forces to operate in high intensity environments across the spectrum of conflict. These forces are capable of deploying domestically, regionally or globally in order to expand the government's options to achieve strategic goals;
- Land combat capabilities able to conduct global complex warfighting operations in a mid-intensity environment, as part of a coalition;
- Land capabilities prepared to lead and conduct independent regional Stability and Support Operations or as part of a coalition or multi-national response; and, as a subset of this
- High readiness land capability prepared to respond to a regional security event or humanitarian assistance and disaster relief crisis.

Throughout 2020/21 the Army has deployed a large scale force on Operation PROTECT. Army personnel account for more than 85% of the total NZDF commitment to the all-of-government COVID-19 pandemic response.

While sustaining this large scale commitment impacts all parts of the Army, the Special Operations Component has been able to conduct the individual and collective training necessary to maintain special operations forces required to meet directed Outputs. The Land Component has only been able to maintain vital *ab-initio* training required to qualify and prepare recruits for acceptance into the Army, conduct the mandatory pre-deployment training needed to sustain all enduring operational commitments, and deliver essential career and trade courses.

As a direct result of sustaining current operational commitments, the Land Component is unable to conduct collective training. The primary focus for training throughout 2020/21 has been to preserve fundamental military capabilities. As a result, the Army has lost the ability to generate, prepare and sustain combat-capable, multi-purpose land forces for complex global combat operations, and regional stability and support operations beyond ring-fenced, albeit reduced, high readiness capabilities.

Regenerating military capability will be an incremental process over several annual training cycles. The COVID-19 global pandemic has also caused a significant reduction in international engagements and training activities essential to provide a benchmark against which Army Force Elements can train and be assessed in complex warfighting activities in a coalition environment.

## Air Force

The Royal New Zealand Air Force is responsible for the preparation and readiness of air and space power capabilities for use by the joint force in support of New Zealand's security objectives. Military Air Bases focus on generating and projecting Force Elements to undertake air power roles of intelligence, surveillance and reconnaissance, strike, and air mobility. Air power is used as an integral part of the National Security System to protect New Zealand's sovereignty, reputation and community.

The Air Force prepares the following capabilities, to be deployed at Government direction:

- Naval air combat capability to be embarked aboard surface ships;
- Strategic air mobility capability to deploy, sustain and recover deployed forces;
- Theatre air mobility capability for personnel movement and cargo airlift operations within a designated theatre of operations;
- Tactical air mobility capability to support land operations, Special Operations Forces, aeromedical evacuation and joint personnel recovery;
- Airborne surveillance and response capability to conduct Counter Sea operations which support maritime warfare operations; and
- Intelligence, surveillance and reconnaissance operations in support of maritime security operations, Special Operations Forces, and other specified forces in the land and maritime environments.



Restrictions on international travel during 2020/21 limited the Air Force's access to collective and/or joint training activities with partner nations, resulting in losses of aircrew currency in some warfare roles.

The Tactical air mobility capability conducted or took part in several New Zealand-based exercises, and was able to maintain combat currency. The Air surveillance and response capability participated in the Australian Defence Force Fleet Certification Period to restore the maritime warfare role.

The surveillance role has been maintained by conducting New Zealand border protection operations and deployment in support of United Nations sanctions enforcement activities in North East Asia. The naval helicopter capability was unable to take part in any maritime warfare exercises and was limited in the number of utility role opportunities. The Theatre air mobility capability conducted New Zealand-based training to reinforce night vision equipment operations, but otherwise was unable to complete airborne manoeuvre training to restore warfare currencies.

## Readiness

The NZDF is funded to maintain 'readiness' to deploy military capabilities as part of a networked combat force. Readiness is the ability to deploy appropriately resourced, trained, equipped and supported capabilities within a specified time and is critical to being an effective defence force. Readiness is assessed by the ability to:

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

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

The NZDF is often required to respond to events that cannot be anticipated and that require an immediate and significant response, and the ability to respond to adverse events in the region is a key driver of capability. Events will increasingly likely be linked to the impact of climate change at home and in the South Pacific.

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

## Improving Military Capabilities

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

## CASE STUDY

# HMNZS Aotearoa – First Replenishment at Sea

In March 2021 HMNZS *Aotearoa* executed her first Replenishment at Sea (RAS) procedures, passing fuel to Royal Australian Navy ships while underway. RAS is a difficult and dangerous manoeuvre, last performed from the now-decommissioned tanker HMNZS *Endeavour* in October 2017.

*Aotearoa*, departing under Auckland's COVID-19 Level 3 conditions, had a 14-day quarantine countdown for the crew before entering Australian waters. It allowed the ship with HMNZS *Te Kaha* plenty of time to practice RAS approaches, where two ships close up and run parallel together.

Off the coast of Australia, *Aotearoa* joined company with frigates HMA Ships *Stuart* and *Paramatta* and Air Warfare Destroyer HMAS *Hobart*. The ships followed a measured, deliberate and controlled progression from initial RAS approaches, progressing to passing a distance line, then moving to 'dry' hook-ups and eventually actual pumping of fuel, all while the ships were moving at speed in close proximity.

Successful completion of the RAS demonstrates *Aotearoa's* ability to fuel a joint force and keep it operating for a sustained period of time, and proves how well Australia and New Zealand operate with common procedures and the same exacting standards. The ability to work together as like-minded regional partners helps ensure Indo-Pacific stability.

It is traditional, when passing a line across two ships, for gifts to be exchanged across the line. HMAS *Hobart* passed a ship's cap, coin and packet of Tim Tams to *Aotearoa's* Commanding Officer.

The ability to work together as like-minded regional partners helps ensure Indo-Pacific stability.

The Defence Capability Plan (DCP) was approved in June 2019. Platforms, equipment systems, technologies and material identified within the plan that are considered significant and which represent high scale and high-risk are managed as “Defence-led” projects using joint NZDF and Ministry of Defence teams. Other capabilities, including refreshment of existing capabilities, are managed as “NZDF-led” projects or programmes.

The following progress was made on implementation of capabilities in 2020/21:

### Maritime Domain Capability

- Very Shallow Water Rebreather project supplied new diving equipment for both the NZ Special Operations Force and the RNZN Clearance Dive Group to support diving operations to 24 metres.
- Littoral Warfare capability introduced new workboats along with upgrades to existing underwater search and survey equipment.
- Diving and Hydrographic Vessel project (HMNZS *Manawanui*) The ship is scheduled to reach Operational Release in April 2022. Remotely Operated Vehicle (ROV) operations and wet-bell diving capability were released with the final combination of diving, ROV and sub-sea crane operations to be released at the end of 2021.
- Maritime Sustainment Capability HMNZS *Aotearoa* was delivered to New Zealand in June 2020. Additional customisation activities are now being prior to undertaking her first Antarctic Resupply Operation in early 2022.
- Frigate Systems Upgrade HMNZS *Te Kaha* returned to New Zealand in December 2020 to progress training and evaluation. On completion, she will deploy for exercise with the Royal Australian Navy. HMNZS *Te Mana* is scheduled to be accepted off contract in Canada in December 2021.
- Communication systems upgrades for Anzac frigates and HMNZ Ships *Canterbury*, *Otago* and *Wellington* are underway. This will ensure their communications capabilities avoid obsolescence until the end of their service lives.
- A Southern Ocean Patrol Vessel (SOPV) project will develop options to enhance the ability of the New Zealand Government to maintain a presence, and undertake enforcement activities in the Southern Ocean and Ross Sea. The Ministry of Defence and NZDF issued a Request For Information for the design and build of the SOPV in May 2021. This is preliminary work, and no decision on this capability has been made by Government.

## Land Domain Capability

- Counter Explosive Hazards Project has provided an expeditionary Explosive Ordnance Disposal (EOD) capability across Navy, Army and Special Operations as well as a permanent Explosive Detector Dog capability.
- Logistics Over the Shore (LOTS) Project delivered a range of equipment to enable the Army's Amphibious Beach Team (ABT) to support deployment of personnel and materiel via landing craft from HMNZS *Canterbury*.
- The Network Enabled Army (NEA) Programme has established a testing, experimentation and evaluation facility to assess hardware and software. A capability integration centre was opened in Linton Military Camp to assist with the embedding of new capabilities within the Army.
- The Protected Mobility Capability Project (PCMP) will replace operational land vehicle fleets. In June 2020, a contract was signed for 43 Bushmaster NZ 5.5 armoured vehicles with Thales Australia. PMCP has recently commenced work to determine the next generation of medium and light utility vehicles and protect mobility vehicles (light).
- The Garrison and Training Support (GATS) is focused on domestic fire appliances, rural fire appliances, airfield response appliances, medical response vehicles and mobile bulk aviation fuelling capability used for refuelling large aircraft. Vehicles in this phase are expected to be delivered over a period of from late 2020 to 2023.

## Air Domain Capability

- Four Boeing P-8A Poseidon maritime patrol aircraft will replace the six P-3K2 Orion aircraft. Infrastructure works at RNZAF Base Ohakea are in progress. Personnel are embedded with international partners in Australia and the United States for training and development. The first P-8A is due to be delivered in late 2022.
- Five Lockheed Martin C-130J Super Hercules airlift aircraft will replace the five C-130H(NZ) Hercules aircraft. Planning continues for the infrastructure and training that will be required to bring these aircraft into service when they begin to be delivered in mid 2024.
- Air Crew Training Capability (ACTC) Project: New aircraft (Beechcraft KA-350) and equipment were delivered in May 2020 to replace the legacy B200 and provide a platform for multi-engine conversion training for pilots graduating from the T-6 Texan. Air Warfare Officer training was repatriated from Australia, with the first domestic course graduates progressing to operational squadrons in March 2021.
- The NH90 Flight Training Device (simulator) increases the NZDF's ability to sustain sufficient trained NH90 pilots to meet operational requirements. Final configuration has been delayed due to COVID-19 travel restrictions and is due to be certified by the end of 2021.
- A number of national airspace system regulatory changes will come into effect in the next 2-3 years. The Operational and Regulatory Aviation Compliance Sustainment (ORACS) project is a series of phased initiatives across multiple aircraft types to address these changes. The initial phase of this project – airspace requirements – is underway.

## Integrated information and cyber capabilities

Obtaining, protecting and utilising information are crucial to achieving the NZDF's Outputs. The emergence of information as a medium where military effects can be generated is a significant risk to New Zealand's national security. The scale at which information has come to hold influence and effect over defence functions has significantly increased in recent years, leading to the need to develop a domain framework.

In the past 12 months the NZDF has worked towards developing an Information Warfare Domain to address these challenges and to enable the NZDF to generate information effects that can "Assure, Advise and Affect" through strategic direction, policy, process and capabilities. This activity currently consists of three high level initiatives which will continue to evolve over the next year, being:

- The appointment of a Chief of Information Warfare to develop the framework to integrate information warfare capabilities into the NZDF operating model and establish a fully aligned Military Strategic Effects Framework. A significant future milestone is the development of a business case for Information Warfare Domain Implementation.
- Development of an Information Warfare Domain Delivery Strategy. This Ministry of Defence led activity will establish a vision and approach for the Domain to ensure broad coherence across the services.
- The establishment of the Information Warfare Domain Capability Portfolio staffed and co-led by the Ministry of Defence and the NZDF.

The Information Domain will enable the NZDF to use information related capabilities, tools and competencies while defending information from adversarial collection, compromise or denial of service. The Information Domain will work collaboratively with other government agencies, industry, military partners and academia in order to maintain pace with evolving threat information and work together to develop, share and deploy effective countermeasures.

# Organisational Excellence

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

## Estate and Environment

### Defence Estate

The Defence Estate provides the working, training and living environments needed to generate and maintain the NZDF. Through the Defence Estate Regeneration Programme, the Government has indicated an estimated \$5.88 billion out to 2030 that is required to regenerate the Estate. The funding is subject to the annual budget process.

In 2020/21 the planned maintenance programme delivered 76% more maintenance expenditure than the prior year. This included \$3.5 million (87%) of \$4 million accepted by Cabinet for shovel-ready projects to support the Southern Region economy, including Glentunnel Road maintenance and Burnham Military Camp barrack refurbishment. These projects were completed on-time and on-budget.

The NZDF has entered a strategic alliance with professional services businesses EY and Beca to support this regeneration with additional expertise and capacity. The alliance was officially launched in November 2020.

### Environmental sustainability

The NZDF launched the Tuku Iho Sustainability Framework in 2019. Some of the key sustainability achievements are:

- *Kotahitanga (unity, consensus and participation)*: The Sustainable Infrastructure Standards for new construction, infrastructure and refurbishment work on the Defence Estate are now being implemented on all new projects that start from 1 March 2021. Where feasible, key aspects of the standards are being introduced into projects that started prior to 1 March 2021. Lessons learned are being managed during projects and after completion to ensure that the Standards remain applicable.
- *Kaitiakitanga (environmental stewardship)*: The NZDF continued to implement activities aimed at meeting the targets set in the Defence Waste Management Framework. A pilot project is underway at Waiouru Military Camp which will set the standard for waste management and recycling for all other camps and bases.

- *Puāwaitanga (continual growth)*: Work continues to decommission and replace the coal boiler at Burnham Military Camp, which is a project funded through the State Sector Decarbonisation Fund. Studies are underway to determine alternatives for decommissioning and replacement of coal boilers at Waiouru Military Camp and RNZAF Base Woodbourne.
- *Rangatiratanga (leadership and community role model)*: Following a successful trial for an electric vehicle charging station at Trentham Military Camp, work commenced to install charging stations at the eight other main camps and bases.

### Contamination management

The contamination management programme has focussed on three key initiatives:

- Improving the management of asbestos on the Defence Estate,
- Investigating the presence and risk of potential soil contamination on NZDF residential properties, and
- Updating the Hazardous Activity and Industry List (HAIL) sites for each camp and base.

The NZDF is improving the management of asbestos using centralised management of asbestos data and Estate-wide asbestos surveying of structures constructed prior to 2000. The NZDF has also developed an overarching asbestos management framework for all asbestos-related activities on the Estate.

Investigation of potential soil contamination in the NZDF residential property portfolio continues, with soil sampling and data analysis underway to enable a focus on specific properties where soil management and/or remediation may be necessary.

The mapping of sites used for activities described on the Ministry for the Environment's Hazardous Substances and Activities List has been systematically updated to amend or record any new sites. This enables improved compliance with contaminated site regulations and enables planning for the Defence Estate Regeneration Programme to be informed with up-to-date site contamination information.

## Workforce and Wellbeing

### Skilled and sustainable workforce

The NZDF must evolve its 'people' systems to ensure it has a workforce that is skilled, sustainable, and affordable and so that it can continue to deliver defence Outputs. The NZDF workforce must become more diverse, better reflecting the diversity that exists in New Zealand society. It needs to attract, retain, develop, and support a more diverse workforce in terms of gender, ethnic and experiential diversity, and harness this diversity for operational advantage. A focus in 2020/21 has been on the impacts of the COVID-19 pandemic on the wellbeing of our people.

In 2020/21 the NZDF delivered:

- A range of wellbeing resources and services to support the Defence community through the COVID-19 pandemic and NZDF's commitments to New Zealand's national response,
- Enhanced mental health training and shared operating models for health professionals
- A new civilian code of conduct, translated to Te Reo Māori, and
- Continuation of culture change programmes across the NZDF, underpinned by a focus on inclusion, respectful behaviour and high performance.

### Health and Safety

The NZDF safety vision places the obligation on all personnel to be responsible for safety in everything they do. This reflects an ongoing commitment by the NZDF in taking steps to keep people and the public safe. A key focus has been the continued management of the NZDF significant safety risks. This includes the management of safety for pandemics, diving, live field firing, contractors, fatigue and the NZDF vehicle fleet.

The NZDF delivered, through engagement with the safety community, a number of significant strategic safety priorities including:

- the NZDF Safety Management System (SMS) Framework. The SMS Framework enables the delivery of the objectives set out in the Chief of Defence Force (CDF) Safety Policy Statement. The framework is based on four safety pillars: Governance and Leadership, Risk Management; Assurance, and Training, Promotion and Engagement; and
- the Safety Event Management Tool (SEMT) for identifying and managing workplace safety risks. The SEMT enables reporting and triage of safety events, recording safety investigations and safety risk activities, setting and tracking safety actions and safety assurance activities. The SEMT enables the NZDF to reduce the cost of safety related harm and contribute to a stronger organisational safety culture.

In 2020/21 the NZDF:

- reduced the number of reportable injuries. Although the operating tempo of the NZDF has increased, largely based around support to Operation PROTECT, there has been a reduction in the level of collective training activities conducted. The majority of safety events had previously been attributed to training activities;
- notified 41 events to WorkSafe NZ, which is a significant reduction from 53 in the previous year. WorkSafe NZ investigated one significant injury event during this period with the outcome of their investigation still to be advised. The NZDF and WorkSafe NZ continue to build a sound relationship through collaboration, cooperation and the coordination of activities to support each other's safety objectives;
- met the annual audit requirements for the ACC Accredited Employers Programme. The level applies until 31 March 2022;
- established the Safety Training Cell to design and deliver consistent safety training. An initial focus is on raising worker health and safety competence across the NZDF; and
- was recognised for its work around mental health, with Colonel Clare Bennett, Director Integrated Wellness, receiving the 2020 New Zealand Workplace Health & Safety Lifetime Achievement Award.

## Mental Health and Wellbeing

The NZDF has continued to progress a range of mental health and wellbeing initiatives over the last year. Key achievements have been the delivery of a range of wellbeing resources and services to support the defence community. A further two wellbeing checks have been conducted over this period to monitor the wellbeing of our defence population and families who support them and to respond to identified areas of need. A peer aid mental health training programme has been rolled out across the NZDF.

## Reduction of Harm from Substance Abuse

The NZDF is committed to the reduction of harm from substance misuse. The implementation of the harm minimisation framework was started in 2017 and this work was mostly completed by 2021.

The main areas of progress were:

- An online training package was provided in December 2020 with over 70% completion rate,
- A revised business case will be prepared by the end of 2021 proposing an increase in scope to include a dedicated focus on the culture and behavioural change elements and presenting an updated timeline, and
- Random drug testing for military personnel will be reinstated in July 2021. Testing for civilian personnel in safety and security sensitive roles will begin by first quarter 2022.

## Diversity and Inclusion

A more diverse and inclusive organisation is a strategic people change needed for the NZDF to remain successful in an increasingly complex global security environment. This objective is delivered through programmes of work relating to gender, gender identity, sexuality, ethnicity, and disability.

### Breakdown of the workforce by gender and Service

	Female	Female %	Male	Male %
Navy	619	26.5%	1715	73.5%
Army	701	14.5%	4147	85.5%
Air Force	526	20.7%	2015	79.3%
Regular Force	1846	19.0%	7877	81.0%
Civilian	1371	45.0%	1677	55.0%
Total	3217	25.2%	9554	74.8%

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

- Navy: set a gender target of 30% women with a focus on Science, Technology, Engineering and Mathematics related trades and branches;
- Army: committed to an overall increase of women within its Service with specific targets of at least 40% women entering its tertiary education scheme and commissioning courses, and targets of 25% for combat support and 35% for combat service support trades; and
- Air Force: set a gender target of 25% women with a focus on trades that have low female representation and which are growing to support future capability demands.

The NZDF has held the Rainbow Tick accreditation since 2019. This accreditation is recognition that NZDF is committed to providing a safe and inclusive workplace for personnel of diverse gender identity and sexual orientation. In the last year, the NZDF has developed a LGBTTIQ+ inclusion plan.

The NZDF is also committed to increasing cultural diversity, and has developed a Pacific Peoples Strategy with a focus on retention and advancement of Pacific Peoples and increasing cultural competency within the NZDF.

## Gender pay gap

Ensuring women's pay reflects their skills, efforts and responsibilities, and is not affected by their gender, is about fundamental human rights. NZDF has an action plan to reduce the gender pay gap (GPG).

As at 30 June 2021, the overall GPG based on mean salary for NZDF is 5.5%. The Civilian GPG is higher than the Regular Force GPG. The Regular Force GPG has remained relatively static over the last five years while the Civilian GPG has reduced gradually since 2016/17.



### Gender pay gap (%)

	2016/17	2017/18	2018/19	2019/20	2020/21
Regular Force	5.3	5.2	4.8	5.2	4.9
Civilian	16.9	15.9	15.2	14.4	14.1

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

### Ethnic pay gaps

This is the first year NZDF has measured its Ethnic Pay Gaps. NZDF will be developing a specific plan to address the Ethnic Pay Gaps. As at 30 June 2021, the Ethnic Pay Gaps for NZDF are shown below:

### Ethnic pay gaps (%)

	NZDF	Regular Force	Civilian
Māori	11.8	9.7	16.7
Pacific	15.2	13.4	19.7
Asian	9.7	13.5	4.5

The Ethnic Pay Gaps, like the GPG, can relate to the occupational profile of certain ethnic groups (e.g. predominantly being in certain trades and/or roles that are lower paid).

### Operation RESPECT

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

In 2020 the NZDF received the Ministry of Defence independent review of Operation RESPECT's progress against its action plan. The review found three fundamental challenges that NZDF will need to address in order to make the required culture change:

1. Greater transparency and accountability are required of the NZDF's progress in addressing and preventing the harm that continues to be experienced as a result of sexual violence and/or discrimination, harassment and bullying,
2. A 'code of silence' prevails and many personnel will not raise a complaint or report serious issues such as sexual violence because they fear the repercussions and do not trust the NZDF processes and systems, and
3. The culture of military discipline and command makes it difficult for personnel to raise concerns or speak out against the behaviour or decisions made by their immediate manager or others more senior in the hierarchy.

The report made 44 recommendations to address the fundamental challenges. The Chief of Defence Force has accepted all recommendations and seven recommendations have been closed. These include definition of the scope of Operation RESPECT to be the elimination of sexual violence and the elimination of harassment, bullying and discrimination; the appointment of a military lead; the appointment of Service and Portfolio champions; and repositioning of the programme within the NZDF organisation.

The NZDF took a systematic change approach to implement the recommendations from the review, rather than looking at each recommendation in isolation. Operation RESPECT is working with the organisation's culture change initiatives and portfolios to embed the change across the organisation.

Work has commenced with the Office of the Auditor-General to develop a Terms of Reference to audit Operation RESPECT's progress over the next 20 years. Camps and Bases have developed their local action plans, and work continues on the implementation of a comprehensive data reporting tool and the feasibility of an external avenue to report harmful and inappropriate behaviour.

The NZDF approved two additional resources to support the delivery of the programme; an additional Sexual Assault Prevention and Response Advisor and a project advisor to progress specific recommendations from the review.

In addition to progressing recommendations from the review, the NZDF commenced work to develop a process to support ex-serving members who experienced sexual violence.

## Alignment to Papa Pounamu

Papa Pounamu sets the diversity and inclusion work programme for the wider public sector. The NZDF is aligned to the Papa Pounamu five mandatory Diversity and Inclusion areas:

**Cultural Competence** – The NZDF provides access to full year Te Reo Māori immersion courses for a small number of personnel each year, and also regular Te Reo Māori lessons at Defence House. Additionally in 2020/21 NZDF has provided training on Pacific cultural competency and cultural empathy. More training is planned for 2021/22.

**Addressing Bias** – An internal stocktake of pan-NZDF work to reduce bias was undertaken. The NZDF provides ad hoc training on bias using both in-house and external providers. Online bias training modules are being set up in the Learning Management System and will be available for all NZDF personnel to access. All appointment boards have a legal briefing about discrimination, including bias. Changes are being made to reduce bias, for example, having 30% gender targets on decision making boards, and having external representation on boards including appointment boards. Addressing bias is an important part of the Gender Pay Gap Action plan.

**Inclusive Leadership** – A virtual library of Diversity and Inclusion resources is available, including materials on Inclusive leadership. The NZDF Institute of Leadership Development (ILD) has a seven level framework and associated leadership courses. The aim is to grow effective and inclusive leaders within NZDF and also externally (other Public Sector Agencies are able to have their personnel participate in NZDF leadership courses). As well as the central ILD, each Single Service also has its own Service-specific leadership development centre.

**Employee-led Networks** – The NZDF has employee-led networks including for Māori, Pacific, Women, Gender Champions, and LGBTTIQ+. The NZDF supports the networks in a number of ways including time off work to attend meetings and events, as well as with communications support and resource provision or development. In 2021 a virtual gender network (Kawau Mārō) was established for different cohorts within NZDF during lockdown. This network continues post-lockdown in person and also virtually. Members of the Pacific network contributed to the development of the NZDF Pacific Peoples strategy, and also held the first pan-NZDF Pasifika festival.

**Building Relationships** – The NZDF encourages relationship building through its values-led approach and has *comradeship* as one of its four values. The NZDF recognises the importance of diverse and inclusive teams and how inclusivity supports effective teams and outcomes. The employee-led networks foster relationship building across various groups, as does the coaching culture that NZDF has adopted in relation to performance management. The NZDF provides many opportunities for relationship building through internal networking events, and sporting and cultural events.

## Integrated organisational systems

### Capability Management System

The NZDF and Ministry of Defence's Capability Management System (CMS) provides an effective and fully integrated system to deliver Defence capability for the Government and ensures value for money from the Government's investments. The system sets out the roles, responsibilities, guidance, standards, enablers, tools, processes and procedures involved in managing defence capability. The CMS is aligned with the Government's Investment Management System.

The NZDF and Ministry of Defence conducted an Investor Confidence Rating (ICR) Mid-Point Review in September – October 2020 using three of the nine ICR indicators: Portfolio, Programme and Project Management Maturity Model (P3M3); Treasury project performance model and Treasury Benefits performance model. This ICR review showed that maturity of the system has improved. The Capability 'A' ICR rating and Defence overall 'B' ICR rating were maintained.

## Business Excellence and Continuous Improvement

The NZDF has adopted an internationally recognised methodology, the EFQM Excellence Model developed by the European Foundation for Quality Management, to benchmark business performance and identify improvement opportunities. Functions within the NZDF are using the EFQM Model to compare themselves against practices used by outstanding organisations around the world. The New Zealand Best Practice Competition is another resource being used to promote business excellence practices. The collaboration between the NZDF and Babcock New Zealand to provide services to the naval fleet won a runner-up award in the 2021 competition.

The NZDF Continuous Improvement programme is an ongoing effort to improve services, processes and results. During 2020/21 significant continuous improvement projects were completed in logistics, travel management and the Cadet Forces, and 411 people were trained. Working across the NZDF and with commercial partners, these projects have delivered benefits to support the military effect, focussing on risk reduction and enhanced integration. Productivity gains of 60,000 hours saved and operating cost savings of \$2.4 million were achieved through the projects.

## Information Technology and Information Management

The NZDF is implementing a multi-year transformation programme to create a lean, agile, and integrated digital ecosystem, which enables the Networked Combat Force:

- Embedding a new operating model. A new operating model for information technology and information management is being implemented to continuously integrate and evolve information capabilities for the NZDF. This will enhance the ability to govern, operate, defend and evolve the information environment.
- Delivering the Defence Information Platform. The Defence Information Environment (DIE) will be underpinned by cloud-centric platforms that are coherent, adaptive and resilient. The NZDF has received Interim Authority to Operate for a public cloud platform and intends to commence migrating applications and technologies next year.

## External Reviews

### Baseline Review of Defence

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

The Baseline Review of Defence was completed in February 2020 by the Treasury and the NZDF. The implementation programme carried out through 2020/21 is resulting in organisational management changes across maintenance, repair, overhaul and engineering (MROE), contracting, travel, workforce management, information and communications technology (ICT), estate and capital funding.

The full impact of the Baseline Review recommendations will not be measurable until a post-COVID-19 stable operating environment is achieved.

### Expert Review Group arising from the Operation Burnham Inquiry

The Expert Review Group was established in October 2020 to review aspects of the NZDF structure, information management and record-keeping processes. The work arises from a recommendation from the Report of the Government's Inquiry into Operation BURNHAM. The Expert Review Group report is expected in late 2021.





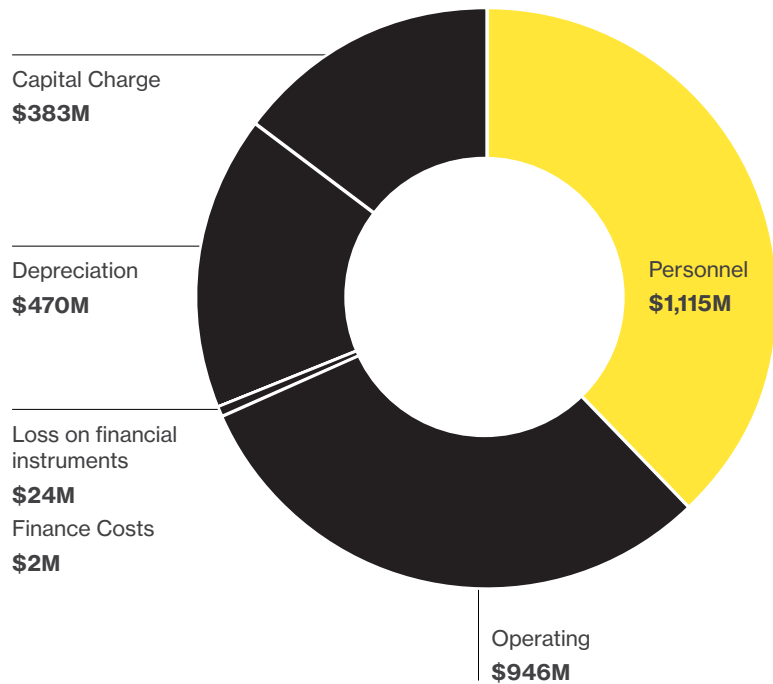
# 06

## Financial Highlights

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

# \$2,941 million

## DEPARTMENTAL OPERATING EXPENDITURE BY CATEGORY



The NZDF incurred group operating expenditure of \$2,941 million during the 2020/21 year which was \$82 million higher than 2019/20 and within \$74 million of the approved budget of \$3,015 million. Output expenditure was \$29 million lower than Departmental operating expenditure and excludes loss on financial instruments of \$25 million and expenditure by controlled entities of \$4 million.

### Departmental expenditure by category

Operating expenditure was lower than planned due to the impact of COVID-19. The impact of COVID-19 was mainly evident in an inability to meet normal training requirements and the disruption to supply chains through the unavailability of equipment manufacturers, vendors and subject matter experts to deliver capabilities and other resources.

The NZDF reallocated \$98 million of financial resources from the Navy, Army and Air Force capabilities prepared for Joint Operations to Protection of New Zealand and New Zealanders during the 2020/21 financial year as part of Operation PROTECT and the all of Government's response to COVID-19.

## Departmental annual appropriations

	2020/21 (actual) \$m	2020/21 (budget) \$m	2021/22 (budget) \$m
Navy Capabilities Prepared for Joint Operations and Other Tasks	499	500	500
Army Capabilities Prepared for Joint Operations and Other Tasks	880	886	886
Air Force Capabilities Prepared for Joint Operations and Other Tasks	908	966	985
Protection of New Zealand and New Zealanders	594	605	629
Operations Contributing to New Zealand's Security, Stability and Interests	9	31	31
Advice to the Government	12	17	17
Policy Advice and Other Services for Veterans	10	10	10
<b>Total</b>	<b>2,912</b>	<b>3,015</b>	<b>3,058</b>



## Our asset base

The NZDF owns \$7,746 million of non-current assets made up of the following:

- \$3,796 million of Land and Buildings,
- \$3,649 million of Specialist Military Equipment,
- \$211 million of Other Property, Plant and Equipment,
- \$64 million of Intangibles, and
- \$26 million of Heritage assets.

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

Land, building and infrastructure asset values were revalued at 30 June 2021 resulting in a 27% increase in net book values. This increase was driven by a general market increase across the land and buildings portfolio and an increase in construction costs for NZDF infrastructure.

Following a detailed review of the Specialist Military Equipment (SME) asset values, it was concluded that no changes to the asset values were required.

Departmental capital expenditure

- The NZDF incurred \$798 million of capital expenditure in 2020/21 compared to a final budget of \$856 million.
- Expenditure during the year included \$659 million (83%) on Specialist Military Equipment and \$86 million (11%) on Estate regeneration projects.
- Expenditure was for projects to enhance and maintain the capability of the NZDF in line with the Strategic Defence Policy Statement 2018 and the Defence Capability Plan Review 2019.

## Non-Departmental annual appropriations

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

During 2020/21, Cabinet approved an increase to the Service Cost – Veterans' Entitlements appropriation from \$20 million to \$99 million to account for the retrospective declaration of qualifying operational services and amendments to the Veterans' Support Act 2016. The Veterans' Entitlements Liability has been valued at \$3,036 million as at 30 June 2021 (\$3,483 million as at 30 June 2020). The movement between 2020 and 2021 is mainly due to an increase in future forecasted interest rates which has an impact on the discount rates used for the valuation.





# \$798 million

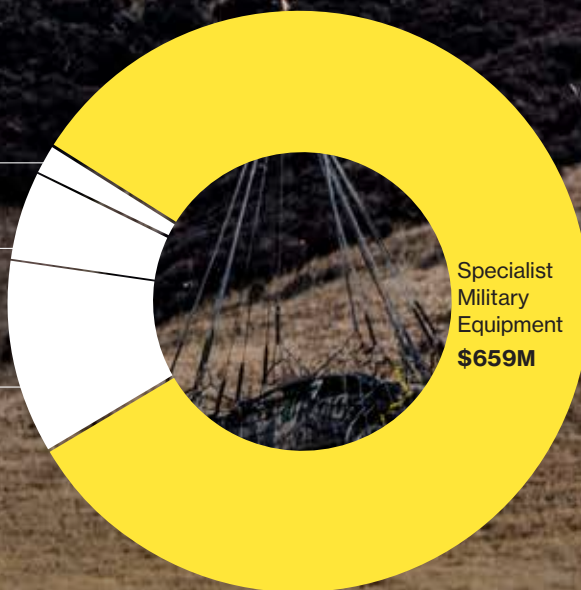
## DEPARTMENTAL CAPITAL EXPENDITURE

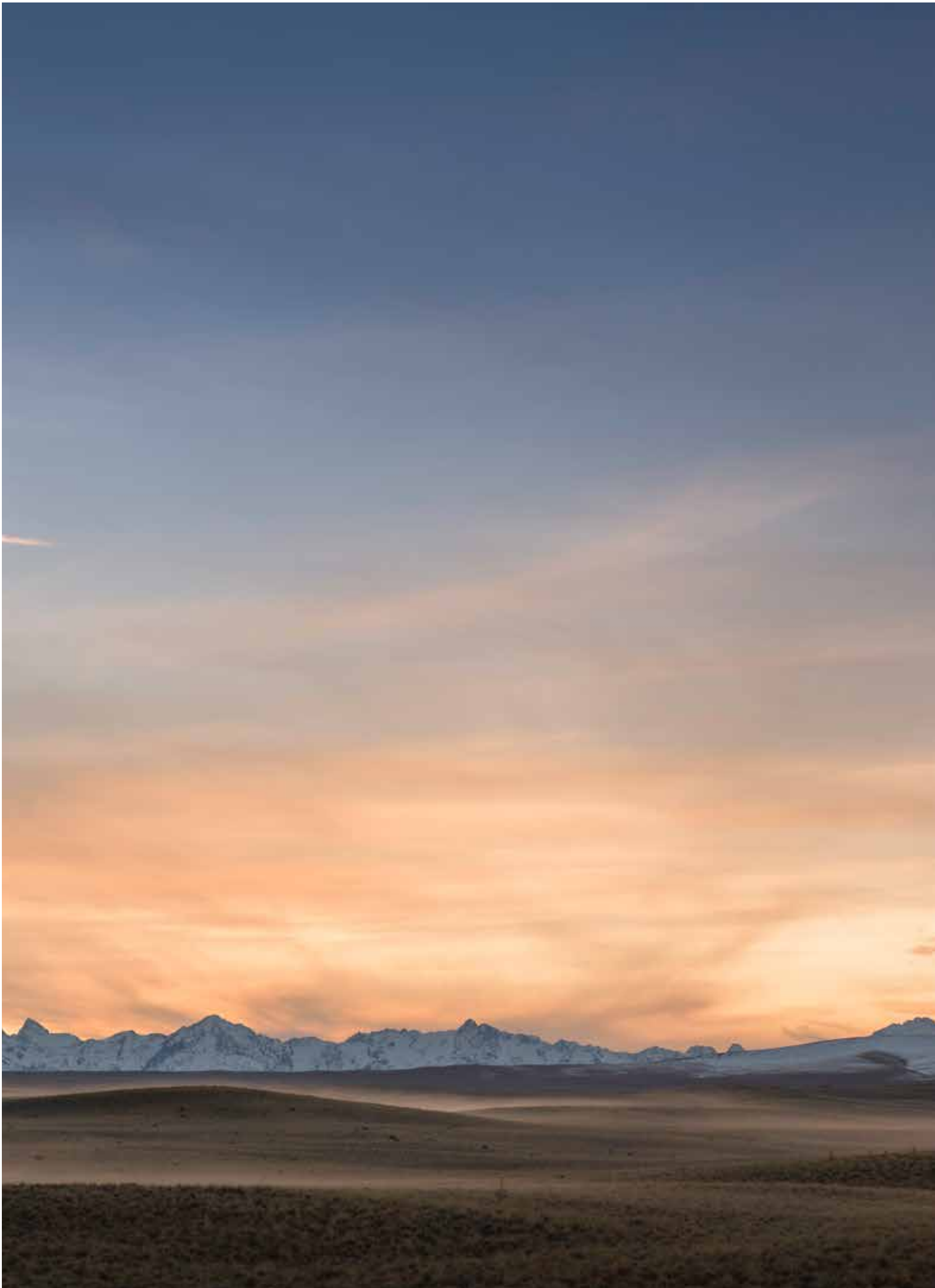
Intangibles  
**\$12M**

Other Property,  
Plant and  
Equipment  
**\$41M**

Land and  
Buildings  
**\$86M**

Specialist  
Military  
Equipment  
**\$659M**





# 07

**Accountability  
Reporting:  
Departmental  
Appropriations**



# THE NZDF ACHIEVED 71 (78%) OF THE 91 PERFORMANCE MEASURES THAT WERE ASSESSED

This section reports on the performance for the departmental Output class appropriations in the Estimates of Appropriations 2020/21 for Vote Defence Force.

The order of the Output class set out in this section is different from Vote Defence Force but it fully complies with the reporting requirements in the Estimates of Appropriations 2020/21 for Vote Defence Force.

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

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

The NZDF achieved 71 (or 78%) of the 91 performance measures that were assessed.

The level of the NZDF's performance was affected by COVID-19 restrictions and Operation PROTECT. Variance explanations are provided for measures that have not met their target.

## Summary of Non-Financial Performance

	Number of measures and targets			
	Total	Target met	Target unmet	Not measured
Navy Capabilities Prepared for Joint Operations and Other Tasks	7	5	-	2*
Army Capabilities Prepared for Joint Operations and Other Tasks	3	1	1	1*
Air Force Capabilities Prepared for Joint Operations and Other Tasks	5	2	3	-
Protection of New Zealand and New Zealanders**	41	31	10	-
Operations Contributing to New Zealand's Security, Stability and Interests**	14	14	-	-
Advice to the Government**	7	6	1	-
Policy Advice and Other Services for Veterans**	14	12	2	-
<b>Total</b>	<b>91</b>	<b>71</b>	<b>17</b>	<b>3</b>

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

\*\* Multi Category Appropriation.

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

## OUTPUT 1

# Navy Capabilities Prepared for Joint Operations and Other Tasks

### Scope of Appropriation

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

### Expenditure Summary

2020		2021		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
451,985	Total output expenses	499,020	499,784	533,367

## Performance Measures and Standards

2020 Actual	Measures		2021 Standard	2021 Actual
Percentage of Government directed readiness levels achieved and maintained to provide capabilities prepared for:				
No capability	Naval Combat	Maritime Warfare Operations	0%	No capability
No capability		Maritime Security Operations	0%	No capability
100%	Projection and Sustainment	Amphibious Sealift	100%	100%
No capability		Replenishment	100%	100%
40%		Littoral Warfare Support	100%	100%
100%	Maritime Trade and Operations	Naval Guidance and Supervision of Shipping	100%	100%
100%	Naval Patrol	Domestic and Regional Resource and Border Protection Operations	58%	58%

## Performance Explanation

The naval combat capability is provided by two frigates, HMNZ Ships *Te Mana* and *Te Kaha*. Both frigates are undergoing a significant upgrade programme and are due to commence release into operational service during 2021/22.

## OUTPUT 2

# Army Capabilities Prepared for Joint Operations and Other Tasks

### Scope of Appropriation

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

### Expenditure Summary

2020		2021		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
908,365	Total output expenses	879,513	885,994	979,154



## Performance Measures and Standards

2020 Actual	Measures		2021 Standard	2021 Actual
	Percentage of Government directed readiness levels achieved and maintained to provide capabilities prepared for:			
100%	Land Combat	Special Operations	100%	100%
87%		Combined Arms Operations	0%	0%
100%		Regional Stabilisation Operations	33%	28.5% <sup>1</sup>

(1) 28.5% reflects the available land capabilities able to meet high readiness regional response Outputs.

### Performance Explanation

Throughout 2020/21, the Army has deployed personnel as part of the all-of-government effort to secure the Nation's borders and protect the community from the COVID-19 pandemic threat. Performance targets for capabilities to be held for possible deployment have been subsumed by the commitment of personnel to Operation PROTECT and the NZDF vaccination programme. This large scale commitment has been declared to government under Output 4.3: *Assistance to the Civil Power and Provision of a Public Service in Emergency Situations*. In addition to sustaining a large scale force deployed on Operation PROTECT, the Army has sought to ring-fence the ability to generate high readiness task units prepared to respond to regional security events or humanitarian and disaster relief crises.

The immediate impact of committing large numbers of personnel to Operation PROTECT means that the Army is unable to provide trained forces to meet the Global Combat, and Regional Stability and Support Outputs beyond ring-fenced regionally focussed high readiness task units. The Output forecast is expected to remain reduced until Operation PROTECT is concluded and the Army is able to undertake regeneration training.

## OUTPUT 3

# Air Force Capabilities Prepared for Joint Operations and Other Tasks

### Scope of Appropriation

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

### Expenditure Summary

2020		2021		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
927,962	Total output expenses	907,902	965,764	1,005,959

## Performance Measures and Standards

2020 Actual	Measures		2021 Standard	2021 Actual
	Percentage of Government directed readiness levels achieved and maintained to provide capabilities prepared for:			
100%	Naval Operations	Maritime Warfare and Security Operations	100%	100%
100%	Air Surveillance and Response	Counter Sea and Surveillance Operations	95%	91%
100%	Theatre Air Mobility	Intra-Theatre Air Transport and Air Mobility Operations	100%	97%
100%	Tactical Air Mobility	Tactical Air Transport and Air Mobility Operations	100%	100%
94%	Strategic Air Mobility	Inter-Theatre Air Transport Operations	85%	73%

### Performance Explanation

The Air Surveillance and Response standard was partly achieved due to reduced availability of combined, anti-surface/subsurface warfare training activities in Quarter 1 and 3 of FY2020/21, resulting in expiration of P-3K2 Orion aircrew counter sea competency. This deficiency was mitigated in Quarter 3 of FY2020/21, through qualification of one crew to meet the Output Specification.

The Theatre Air Mobility standard was partly achieved due to reduced availability of combined air mobility training activities in Quarter 3 and 4 of FY2020/21, resulting in expiry of C-130H Hercules aircrew air mobility competency. This deficiency is expected to be resolved in Quarter 1 of FY2021/22, through qualification of two crews to meet the Output Specification.

The Strategic Air Mobility standard was partly achieved due to unforeseen maintenance issues with Boeing 757 aircraft engines in Quarter 1 of FY2020/21, and increased maintenance, repair and overhaul timelines at overseas facilities exacerbated by the COVID-19 pandemic.

## OUTPUT 4

# Protection of New Zealand and New Zealanders

### Overarching Purpose of Multi-Category Appropriation

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

### Expenditure Summary

2020		2021		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
498,228	Total output expenses	593,794	605,249	523,494

### Performance Measures and Standards

2020 Actual	Measures	2021 Standard	2021 Actual
87%	The degree of satisfaction expressed by authorities requesting assistance in accordance with their annual programmes.	100%	87%
Met	Regular evaluation of significant issues, the capacity to react to requests for assistance and the provision of adequate support from the limited resources available.	Meet	Met

### Performance Explanation

The key agencies the NZDF supports were surveyed in July 2021. See the *What do our key stakeholders, partners, Ministers and the public say about us?* section for further information.

## OUTPUT 4.1

### Resource and Border Protection Operations

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

#### Expenditure Summary

2020		2021		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
216,587	Total category expenses	209,961	221,094	229,684

#### Performance Measures and Standards

2020 Actual	Measures	2021 Standard	2021 Actual
92%	Percentage of the total agreed pre-planned air surveillance tasks requested by the National Maritime Coordination Centre met.	Approx. 80-90%	86%
100%	Percentage of the total air surveillance response tasks requested by the National Maritime Coordination Centre within the agreed notice to move to meet the Centre's requirement to investigate vessels of interest and respond to actual or potential non-compliance with New Zealand and international legislation met.	Approx. 80-90%	100%
100%	Percentage of the total agreed pre-planned maritime tasks requested by the National Maritime Coordination Centre met.	Approx. 80-90%	56%
100%	Percentage of the total response tasks requested by the National Maritime Coordination Centre within the agreed notice to move to meet the Centre's requirement to investigate vessels of interest and respond to actual or potential non-compliance with New Zealand and international legislation met.	Approx. 80-90%	100%
96%	Percentage of satisfaction of the NZDF's specialised military capabilities to support Antarctica New Zealand's operations in New Zealand and on the Antarctic continent, including contributions to the joint United States/New Zealand logistics pool to support New Zealand's right to sovereignty over the Ross Dependency and continuous presence on the Antarctic Continent.	Not less than 90%	80%
96%	Percentage of satisfaction of the Ministry of Foreign Affairs and Trade for the NZDF's provision of specialised military capabilities to support New Zealand's efforts to manage marine living resources on and about the Antarctic continent.	Not less than 90%	90%
100%	Percentage of total pre-planned tasks requested by the National Maritime Coordination Centre to conduct pre-planned missions to service the offshore islands and demonstrate New Zealand's sovereignty met.	Not less than 90%	100%

#### Performance Explanation

Some pre-planned maritime tasks requested by NMCC were not conducted due to serviceability, crew availability, other priority tasking, and restrictions imposed by COVID-19.

## OUTPUT 4.2

### Defence International Engagement

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

#### Expenditure Summary

2020		2021		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
96,288	Total category expenses	94,535	101,183	104,499

#### Performance Measures and Standards

2020 Actual	Measures	2021 Standard	2021 Actual
Met	Ensure the programme of military engagement through a network of multilateral and bilateral military relationships provides for a range of interactions that informs Defence of emerging advances in military operations, provides for professional development, fosters interoperability and enhances the reputation of New Zealand and the NZDF.	Meet	Partially met <sup>1</sup>
42%	Percentage of exercises and related activities participated in that support the Government's foreign policy objectives through recognised alliance and other arrangements that foster peace and security.	60%	63%
68%	Percentage of approved Senior Officer visit programme completed that maintains a strong network of professional relationships and complements the Government's broader foreign policy objectives.	60%	7% <sup>2</sup>
100%	Percentage of maritime deployments, exercises with security partners and ship visits to selected nations completed that are cognisant of the Government's foreign policy and defence engagement priorities and satisfies all-of-government efforts to enhance New Zealand's reputation.	60%	35% <sup>3</sup>
72%	Percentage of regional activities participated in that contribute to the Government's foreign policy objectives to improve the resilience, economic and social wellbeing of Pacific Island nations.	80%	78% <sup>4</sup>
42%	Percentage of multilateral and bilateral confidence and security building activities participated in that contribute to initiatives that prevent the proliferation of weapons of mass destruction and further New Zealand's foreign policy objectives, as directed by the Government.	100%	0% <sup>5</sup>

100%	Percentage of resident and non-resident Defence representation maintained through the assignment of Defence Attaches and Advisors in host nations and in accordance with the Government's direction.	100%	100%
<i>The NZDF remains well-informed about defence doctrine and advances in defence-related technology through:</i>			
Met	Maintaining active participation in specific military fora to enable the NZDF to remain well-informed about military doctrine, current military operations, and future changes and exchanges of information related to the profession-of-arms.	Meet	Met
Met	Maintaining a network of relationships with external scientific and technology organisations that contribute to the development of solutions for the Government, the Defence Force, and New Zealand's national security agencies and supports the provision of military capability and promotion of security.	Meet	Met

### Performance Explanation

In 2020/21, the NZDF met four out of nine standard requirements. All unmet targets were due to COVID-19 travel restrictions as follows:

- 1) The military engagement standard was not met. NZDF participation in the programme of multilateral and bilateral military engagement and relationships was reduced due to international travel restrictions.
- 2) The Senior Officer visit standard was not met. Two Senior Officers visits occurred in 2020/21, both of which were conducted in Australia following the commencement of the Trans-Tasman travel bubble. No other Senior Officers visits were planned for 2020/21 due to the effects of the global pandemic. In lieu of visits, virtual meetings were held.
- 3) The maritime deployments, exercises and visits standard was not met because the number of activities was reduced from the plan, and those conducted had reduced scope. The reasons for reduced activity and scope were mainly due to COVID-19 and also personnel deficiencies from the Navy and New Zealand Customs Service, ship capability/Introduction into Service and prolonged maintenance requirements.
- 4) The regional activities standard was not met because of a reduction of regional activities due to the effects of the global pandemic. A Mutual Assistance Training Team course was conducted in Fiji. The Instructors Course has been postponed to 2021/22. Pacific Leadership Development Programme courses were conducted in Fiji, Papua New Guinea, Tonga and Vanuatu.
- 5) The standard on participation in international activities that contribute to the prevention of proliferation of weapons of mass destruction was not met because the scheduled activity was not conducted.

## OUTPUT 4.3

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

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

#### Expenditure Summary

2020		2021		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
88,091	Total category expenses	189,166	185,114	89,214

## Performance Measures and Standards

2020 Actual	Measures	2021 Standard	2021 Actual
100%	Percentage of agreed notice to move met for the specialised Counter-Terrorist Group to respond to New Zealand Police requests for assistance.	100%	100%
100%	Percentage of agreed notice to move met for the specialised Explosive Ordnance Disposal Squadron to respond to requests to assist New Zealand Police operations.	100%	100%
100%	Subject to the availability of resources, the percentage of requests met to assist New Zealand Police law enforcement operations.	100%	100%
100%	Percentage of contingency forces and specialised military capabilities available to assist the civil power deal with major disasters when not deployed on operations.	100%	100%
100%	Percentage of agreed notice to move met for specialised military capabilities to assist the civil power to conduct search and rescue and recovery operations within New Zealand and the maritime search and rescue and regional rescue coordination centre areas.	100%	100%
100%	Percentage of contingency plans in place to assist the civil power to evacuate persons from high-risk environments in New Zealand.	100%	100%
100%	Percentage of requests met to augment the capacity of Fire and Emergency New Zealand to deal with a wide range of incidents involving safety of life, protection of property and related actions to mitigate the effects of fire.	100%	100%
100%	Percentage of contingency plans in place to assist the civil power mitigate the effects of a maritime disaster and degradation of the marine environment.	100%	100%
100%	Percentage of contingency plans in place to assist the civil power within the agreed notice to move to conduct aeromedical evacuation and medical rescue at sea at the Government's direction.	100%	100%
100%	Subject to availability of resources, the percentage of requests met for specialised military capabilities to assist New Zealand Police operations to maintain law and order and public safety.	100%	100%
100%	Percentage of contingency plans in place to mobilise the Armed Forces to assist the Department of Corrections to maintain the integrity of prisons when normal custodial arrangements fail.	100%	100%
100%	Percentage of NZDF participation in central and local governments' planning and multi-agency training exercises to enhance the all-of-government preparedness for responses to community-scale crises.	100%	100%

### Performance Explanation

All measures and targets in this category were achieved in 2020/21. The significant increase from Mains Estimates to Supplementary Estimates is due to the funding of Operation PROTECT under Output 4.3. Detail on the NZDF contribution to the Government response to the COVID-19 pandemic is in the section *Responding to COVID-19*.



## OUTPUT 4.4

### Military Assistance to Civil Authorities in Non-Emergency Situations

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

#### Expenditure Summary

2020		2021		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
44,306	Total category expenses	45,458	38,834	39,939

#### Performance Measures and Standards

2020 Actual	Measures	2021 Standard	2021 Actual
100%	Percentage of requests met to provide military guards, suitably tailored for the occasion, military bands and associated support to support State ceremonial activities that represent the nation and meet the Government's direction.	100%	100%
100%	Percentage of requests met to provide military guards, suitably tailored for the occasion, military bands and associated support to support significant military anniversaries, nationally recognised commemorative events and significant commemorative events overseas.	100%	100%
100%	Percentage of requests met to provide representational staff for the Viceregal House, military guards, suitably tailored for the occasion, military bands, air, land and sea transport and associated support for viceregal activities.	100%	100%
100%	Percentage of requests met to provide air, land and sea transport for members of the Government and guests of the State to support the Government's internal and external transportation requirements.	100%	100%

## OUTPUT 4.5

### Defence Support to the Community

**Scope of Category:** Limited to the costs of providing Defence Force resources for the betterment of the community at large and to inform the public's awareness of the proficiency and practice of the Armed Forces.

#### Expenditure Summary

2020		2021		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
52,956	Total category expenses	54,674	59,024	60,158

#### Performance Measures and Standards

2020 Actual	2020 Measures	2021 Standard	2021 Actual
51%	Percentage of NZDF leadership and skills training activities completed for the New Zealand Cadet Forces to develop confident, responsible young citizens, who are valued in their community, by providing them with safe, enjoyable and challenging opportunities.	Not less than 90%	92%
84%	Percentage of satisfaction of the Ministry of Social Development requirements for trainees selected for Limited Service Volunteer courses to gain life skills, develop core values, teamwork and trust, which boost self-esteem and confidence.	Not less than 90%	100%
70%	Percentage of satisfaction of the Ministry of Education Youth Life Skills programme requirements for Service Academies and the provision of leadership development and outdoors adventure-based training opportunities within high schools.	Not less than 90%	86%
100%	Percentage of satisfaction of the Police Blue Light Trust with NZDF services to enhance the Trust's youth development programmes nationwide.	Not less than 90%	100%
64%	Percentage of satisfaction of Service Museum Trust Boards with NZDF support to Service Museums and the development, management and display of New Zealand's military history collections for the preservation of New Zealand's military history and culture for the enjoyment of future generations.	Not less than 90%	58%
100%	Percentage of satisfaction of support to significant national and local events that benefit the community through the provision of services at hui of national significance, national and local events, including ceremonial and military displays that contribute to the success of the occasion and enhances the identity and professional reputation of the NZDF.	Not less than 90%	100%

#### Performance

The Ministry of Education noted that the effect of the COVID-19 pandemic had impacted the NZDF's delivery of support, and while this was taken into consideration it may have had a slightly negative impact on scores.

The Service Museum Trust Boards again expressed concern over delayed maintenance support. In addition, there was a common theme that unfilled vacancies within the museums' staff were causing significant detrimental effects on museum performance. The NZDF is engaged with the Museum Trust Boards on how these issues can be addressed.

## OUTPUT 5

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

### Overarching Purpose of Multi-Category Appropriation

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

### Expenditure Summary

2020		2021		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
31,564	Total output expenses	9,305	30,795	30,797

### Performance Measures and Standards

2020 Actual	Measures	2021 Standard	2021 Actual
Met	Achieve the conduct of military operations and other tasks that support the Government's strategic interests.	Meet	Met
Met	Enhance all-of-government capacity to respond to regional crises.	Meet	Met

## OUTPUT 5.1

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

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

#### Expenditure Summary

2020		2021		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
30,626	Total category expenses	9,198	30,286	30,288

The significant underspend on the appropriation is due to the reduction in deployments during the year, primarily due to COVID-19.

#### Performance Measures and Standards

2020 Actual	Measures	2021 Standard	2021 Actual
<i>Government's military commitments to contribute to United Nations Mission and UNCMAC.</i>			
Met	UNTSO (Middle East) [Operation SCORIA]	Meet	Met
Met	UNMISS (South Sudan) [Operation SUDDEN]	Meet	Met
Met	UNCMAC (Republic of Korea) [Operation MONITOR]	Meet	Met
<i>Lead and contribute to regional contingency military operations, as listed (there were no mandated operations).</i>			
Met	MFO Sinai (Operation FARAD)	Meet	Met
Met	ARIKI (Afghanistan) [Operation RUA II]	Meet	Met
Met	TROY (Middle East)	Meet	Met
Met	PUKEKO (Middle East)	Meet	Met
Met	MOHUA (Middle East)	Meet	Met
Met	MANAWA (Iraq)	Meet	Met
Met	TEAL (Middle East)	Meet	Met
<i>Contribute to Operation</i>			
-	TAKAHE (Middle East)	Meet	Met
-	TIKI (Middle East)	Meet	Met
-	WHIO (UNSCR-sanctions against North Korea)	Meet	Met

#### Performance Explanation

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

## OUTPUT 5.2

### Military Operations that Contribute to Regional Security

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

#### Expenditure Summary

2020		2021		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
938	Total category expenses	107	509	509

#### Performance Measures and Standards

2020 Actual	Measures	2021 Standard	2021 Actual
100%	Percentage of the agreed notice to move met for a Joint Task Force comprising relevant force elements and military capabilities to assist with regional humanitarian assistance and disaster relief missions when directed.	100%	100%
100%	Percentage of the agreed notice to move met for strategic airlift and sealift capabilities to assist with regional non-combatant evacuation operations when not deployed on military operations elsewhere.	100%	100%
100%	Percentage of the agreed notice to move met for a specialised, high readiness task group, with integral airlift and/or sealift capabilities available to act independently or with regional security partners, to assist regional nations restore law and order and provide immediate aid to the population.	100%	100%

#### Performance Explanation

All standards in this category were achieved in 2020/21. For further information, please see the *Delivering Defence Outcomes* section.

## OUTPUT 6

# Advice to the Government

### Overarching Purpose of Multi-Category Appropriation

Support Ministers in discharging their portfolio responsibilities.

### Expenditure Summary

2020		2021		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
12,279	Total Output expenses	12,026	17,168	17,258

### Performance Measures and Standards

2020 Actual	Measures	2021 Standard	2021 Actual
Partially Met	The supply of high quality individual products, as shown in the tables* below.	Meet	Partially Met

## OUTPUT 6.1

### Policy Advice

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

#### Expenditure Summary

2020		2021		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
3,916	Total category expenses	2,944	3,889	3,914

#### Performance Measures and Standards

2020 Actual	Measures	2021 Standard	2021 Actual
Met	The provision of policy advice to the Government and contribution to policy advice led by other agencies is accurate, timely and offers practical and cost-effective approaches to fulfil the Government's defence priorities.	Meet	Met
4.5 or 90%	The satisfaction of the Minister of Defence with the policy advice service, as per the refreshed satisfaction survey.	At least 3.5 out of 5 or 70%	4.4 or 88%
	Technical quality of policy advice papers assessed by a survey with a methodical robustness of 90%. (The higher the robustness score, the stronger the methodical quality of the completed assessment).		
100%	Percentage of papers: score 3 or higher	At least 70%	95%
23%	Percentage of papers: score 4 or higher	At least 30%	24%
0%	Percentage of papers score 2.5 or less	No more than 10%	5%

#### Performance Explanation

##### Quality of policy advice papers

The NZDF is improving the quality of policy advice papers based on the Policy Quality Framework developed jointly by the Department of the Prime Minister and Cabinet and the Treasury, and on recommendations made by NZIER, a specialist consulting firm that has been reviewing the quality of policy advice for central and local Government.

## OUTPUT 6.2

### Situational Awareness

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

#### Expenditure Summary

2020		2021		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
6,103	Total category expenses	7,239	11,268	11,315

#### Performance Measure and Standard

2020 Actual	Measure	2021 Standard	2021 Actual
92%	The percentage of timely and high-quality reports that meet expectations to inform the Government of matters of foreign defence interest and support the Government's decision-making processes.	Not less than 90%	97%

## OUTPUT 6.3

### Supporting Ministers

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

#### Expenditure Summary

2020		2021		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
2,260	Total category expenses	1,843	2,011	2,029

#### Performance Measure and Standard

2020 Actual	Measure	2021 Standard	2021 Actual
95%	The percentage of timely, accurate and high-quality advice that meets expectations to support Ministers of Defence and Veterans' Affairs portfolios and meets legislative obligations.	Not less than 90%	95%

#### Performance Explanation

The NZDF provided 192 briefing notes and responded to 191 items of ministerial correspondence.



## OUTPUT 7

# Policy Advice and Other Services for Veterans

### Overarching Purpose of Multi-Category Appropriation

Provide policy advice and other support to Ministers in discharging their policy decision-making and other portfolio responsibilities, and the provision of services and payments to veterans.

### Expenditure Summary

2020		2021		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
10,569	Total Output expenses	10,331	10,424	10,295

### Overarching Performance Measures and Standards

2020 Actual	Measures	2021 Standard	2021 Actual
95%	The satisfaction of veterans, as expressed in the annual Veteran Survey rating of overall satisfaction with Veterans' Affairs	85%	97%
4.3 or 86%	The satisfaction of the Minister for Veterans with the policy advice service, as per the refreshed satisfaction survey.	At least 3.5 out of 5 or 70%	4.2 or 85%

### Performance Explanation

Veterans' Affairs New Zealand performed consistently well in this multi-category appropriation.

## OUTPUT 7.1

### Administration Services

**Scope of Category:** Limited to the provision of services to Ministers to enable them to discharge their portfolio (other than policy decision-making) responsibilities, the coordination of commemorations, the provision of administration services to relevant boards and committees and the administration of contracts for service for maintenance and development work carried out in Service Cemeteries.

#### Expenditure Summary

2020		2021		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
1,727	Total category expenses	1,331	2,889	2,960

#### Performance Measures and Standards

2020 Actual	Measures	2021 Standard	2021 Actual
<b>Provide Ministerial Servicing and Support</b>			
98%	Replies to requests within 20 days of receipt of requests, if not otherwise agreed.	95%	100%
100%	Responses accepted without substantive amendment.	95%	100%
<b>Provide Administration support to Boards and Panels as set out in the Veterans' Support Act 2014</b>			
Met	Administrative support meets Board/Panel requirements	Meet	Met
<b>Assist with the coordination of New Zealand's participation in the commemoration of significant military anniversaries</b>			
Met	Participation will be delivered in accordance with agreed parameters and budget.	Meet	Met

## OUTPUT 7.2

### Policy Advice

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

#### Expenditure Summary

2020		2021		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
236	Total category expenses	241	230	230

## Performance Measure and Standard

2020 Actual	Measure	2021 Standard	2021 Actual
<b>Provide policy advice to support decision making by Ministers</b>			
-	Replies to requests within 20 working days, if not otherwise specified.	95%	100%
-	The first drafts of all policy products presented to the Minister will be accepted.	95%	100%
100%	All revocations, replacements and new Statements of Principles are reported and decided by the Minister for Veterans and Cabinet Legislation Committee regarding adoption.	100%	100%

## OUTPUT 7.3

## Services and Payments to Veterans

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

## Expenditure Summary

2020		2021		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
8,606	Total category expenses	8,759	7,305	7,105

## Performance Measures and Standards

2020 Actual	Measures	2021 Standard	2021 Actual
<b>Assessments and Reviews</b>			
98%	Where all information is provided, Veterans' Affairs will make a decision on the claim within 30 working days of it being received.	100%	100%
37%	Reviews will be completed within 65 days of receipt.	100%	61%
<b>Provide Case Management</b>			
99%	Within five working days of accepting a veteran's claim for entitlements Veterans' Affairs must appoint a Case Manager.	95%	95%
100%	Within 13 weeks after Veterans' Affairs accepts a veteran's claim for entitlements under Scheme One or Two, Veterans' Affairs in association with the Rehabilitation Advisor must determine whether the veteran is likely to need social or vocational rehabilitation and if so prepare a rehabilitation plan in consultation with the veteran.	100%	100%
<b>Deal with Enquiries</b>			
90%	Calls will be resolved on first contact.	90%	89%

## Performance Explanation

Calls resolved on first contact with the Enquiry line did not meet the target due to a staffing gap, exacerbated by unplanned outages in June 2021.

Decision reviews did not meet the target due to reviews backlog from last year.

# Departmental Other Expenses

## Loss on Sale of Physical Assets

### Scope of Appropriation

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

### Expenses

2020		2021		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
-	Appropriation	-	7,260 <sup>1</sup>	-

<sup>1</sup> Due to the potential timing of settlement whilst the Crown negotiates with the Marutūahu Collective, the NZDF sought in-principle expense transfer in the 2021 March Baseline Update to transfer this funding to 2021/22. The NZDF will request confirmation of this transfer in the 2021 October Baseline Update.

### Performance Measure and Standard

2020 Actual	Measures	2021 Standard	2021 Actual
Met	Expenditure reflects the loss on sale of certain New Zealand Defence Force commercial properties.	Meet	Met

# Capital Expenditure and Management

## Capital Expenditure Permanent Legislative Authority

### Scope of Appropriation

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

### Capital Expenditure

2020		2021		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
78,096	Land and Buildings	85,568	126,576	98,521
335,708	Specialist Military Equipment	658,812	677,082	647,332
51,371	Other Property, Plant and Equipment	41,298	39,761	52,049
19,217	Intangibles	11,858	12,976	10,169
<b>484,392</b>	<b>Total appropriation</b>	<b>797,536</b>	<b>856,395</b>	<b>808,071</b>

The underspend compared to the Supplementary Estimates is due to the ongoing delays to capital projects from the ongoing supply chain disruption as a result of COVID-19.

#### Land and Buildings

Capital expenditure for Land and Buildings was not materially different to the Main Estimates budget.

#### Specialist Military Equipment

The approval of the Defence Capability Plan 2019 provides an indicative Defence Force capital expenditure track. Capital expenditure for Specialist Military Equipment was not materially different to the Main Estimates budget.

#### Other Property, Plant and Equipment and Intangibles

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

### Performance Measure and Standard

2020 Actual	Measures	2021 Standard	2021 Actual
Achieved	Expenditure supports the delivery of the department's Output performance measures in accordance with the Defence Mid-Point Rebalancing Review, 2016 Defence White Paper and the Defence Capability Plan Review 2019.	Achieved	Achieved

## Asset Management

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

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

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

### Specialist Military Equipment

As detailed in the *Accountability Reporting: Departmental Appropriations* section, a number of Force Elements did not meet their readiness targets in 2020/21. The underperformance of a particular piece of SME can affect the readiness of multiple force elements.

A number of the asset performance issues affecting readiness stem from the age of the asset base increasing the asset's maintenance burden. It also results from introduction into service issues that arise as new assets work towards the release of operational capability. SME asset performance and a gap in capability continues to exist as seen with a gap between the decommissioning of HMNZS *Endeavour* and the introduction into service and operational release of HMNZS *Aotearoa*, as well as the impact to the Naval Combat Force due to the frigate system upgrade programme which continued throughout the year. Defence's capability investment programme, which is detailed in the *Accountability Reporting: Departmental Appropriations* section, is heavily focussed on the replacement or extension of existing capabilities and is intended to help address these condition and functionality issues.

## Performance Measures and Standards

2020 Actual	Measures	2021 Target	2021 Actual
83%	Force Elements with Readiness to deliver military operations not affected by condition and functionality of SME assets.	100%	72%
96%	Force Elements for which the condition of SME assets is at or above target.	100%	91%
87%	Force Elements for which the functionality of SME assets is at or above target.	100%	81%

### Defence Estate

The NZDF is increasing its delivery on investment in order to realise the benefits of estate regeneration. It is anticipated that asset condition, functionality and utilisation indicators will show meaningful change once there is investment of \$250 million

per annum for at least five years. Investment of \$86 million was made in critical infrastructure in 2020/21, including health and safety, compliance, supporting operational capability, and infrastructure which maintains site functionality.

## Performance Measures and Standards

2020 Actual	Measures	2021 Target	2021 Actual	
56%	Critical estate assets with	actual utilisation rated as optimal or less.	>75%	87%
		actual functionality of satisfactory or better.	>75%	67%
		actual condition rated as average or better.	>70%	53%
94%	Non-critical estate assets with	actual utilisation rated as optimal or less.	>80%	95%
51%		actual functionality of satisfactory or better.	>80%	53%
88%		actual condition rated as average or better.	>84%	88%

# Appropriation Statements

## Statement of Budgeted and Actual Expenses and Capital Expenditure incurred against Appropriations for the year ended 30 June 2021

### Departmental Output Expenses Appropriations

2020					2021		
Actual Expenditure Including Re-measurements (\$000)	Output Class		Main Estimates (\$000)	Supplementary Estimates (\$000)	Actual Expenditure Excluding Re-measurements (\$000)	Re-measurements (\$000)	Actual Expenditure Including Re-measurements (\$000)
453,982	1	Navy Capabilities Prepared for Joint Operations and Other Tasks	533,367	499,784	499,020	3,693	502,713
913,936	2	Army Capabilities Prepared for Joint Operations and Other Tasks	979,154	885,994	879,513	9,926	889,439
931,109	3	Air Force Capabilities Prepared for Joint Operations and Other Tasks	1,005,959	965,764	907,902	5,129	913,031
2,299,027		Appropriation total	2,518,480	2,351,542	2,286,435	18,748	2,305,183

### Multi-Category Expenses Appropriations

2020					2021		
Actual Expenditure Including Re-measurements (\$000)	Output Class		Main Estimates (\$000)	Supplementary Estimates (\$000)	Actual Expenditure Excluding Re-measurements (\$000)	Re-measurements (\$000)	Actual Expenditure Including Re-measurements (\$000)
<b>4. Protection of New Zealand and New Zealanders MCA</b>							
217,487	4.1	Resource and Border Protection Operations	229,684	221,094	209,961	1,664	211,625
96,980	4.2	Defence International Engagement	104,499	101,183	94,535	1,272	95,807
88,658	4.3	Assistance to Civil Power and Provision of a Public Service in Emergency Situations	89,214	185,114	189,166	1,143	190,309
44,839	4.4	Military Assistance to Civil Authorities in Non-Emergency Situations	39,939	38,834	45,458	757	46,215
53,371	4.5	Defence Support to the Community	60,158	59,024	54,674	764	55,438
501,335		Appropriation total	523,494	605,249	593,794	5,600	599,394

## Multi-Category Expenses Appropriations (continued)

2020					2021		
Actual Expenditure Including Re-measurements (\$000)	Output Class		Main Estimates (\$000)	Supplementary Estimates (\$000)	Actual Expenditure Excluding Re-measurements (\$000)	Re-measurements (\$000)	Actual Expenditure Including Re-measurements (\$000)
<b>5. Operations Contributing to New Zealand's Security, Stability and Interests MCA</b>							
30,626	5.1	Military Operations in Support of a Rules-Based International Order	30,288	30,286	9,198	-	9,198
938	5.2	Military Operations that contribute to Regional Security	509	509	107	-	107
31,564		Appropriation total	30,797	30,795	9,305	-	9,305
<b>6. Advice to the Government MCA</b>							
3,929	6.1	Policy Advice	3,914	3,889	2,944	24	2,968
6,128	6.2	Situational Awareness	11,315	11,268	7,239	46	7,285
2,270	6.3	Supporting Ministers	2,029	2,011	1,843	19	1,862
12,327		Appropriation total	17,258	17,168	12,026	89	12,115
<b>7. Policy Advice and Other Services for Veterans MCA</b>							
1,727	7.1	Administration Services	2,960	2,889	1,331	-	1,331
236	7.2	Policy Advice	230	230	241	-	241
8,606	7.3	Services and Payments to Veterans	7,105	7,305	8,759	-	8,759
10,569		Appropriation total	10,295	10,424	10,331	-	10,331
<b>555,795</b>		<b>Total Multi-Category Expenses and Capital Expenditure Appropriations</b>	<b>581,844</b>	<b>663,636</b>	<b>625,456</b>	<b>5,689</b>	<b>631,145</b>



## Departmental Other Expenses

2020				2021		
Actual Expenditure Including Re-measurements (\$000)		Main Estimates (\$000)	Supplementary Estimates (\$000)	Actual Expenditure Excluding Re-measurements (\$000)	Re-measurements (\$000)	Actual Expenditure Including Remeasurements (\$000)
-	Loss on sale physical assets	-	7,260	-	-	-
-	Total Departmental Other Expenditure	-	7,260	-	-	-
<b>2,854,822</b>	<b>Total Appropriations for Departmental Expenses</b>	<b>3,100,324</b>	<b>3,022,438</b>	<b>2,911,891</b>	<b>24,437</b>	<b>2,936,328</b>

## Variance Explanation

Actual expenditure excluding re-measurements is \$164 million lower than the Mains Estimates budget. This lower than planned expenditure is due to the impacts of the COVID-19 pandemic, mainly evident in an inability to meet normal training requirements and the disruption to supply chains through the unavailability of equipment manufacturers, vendors and subject matter experts to deliver capabilities and other resources.

## Capital Expenditure Permanent Legislative Authority

2020				2021		
Actual Expenditure Including Re-measurements (\$000)		Main Estimates (\$000)	Supplementary Estimates (\$000)	Actual Expenditure Excluding Re-measurements (\$000)	Re-measurements (\$000)	Actual Expenditure Including Re-measurements (\$000)
78,096	Land and Buildings	98,521	126,576	85,568	-	85,568
335,708	Specialist Military Equipment	647,332	677,082	658,812	-	658,812
51,371	Other Property, Plant and Equipment	52,049	39,761	41,298	-	41,298
19,217	Intangibles	10,169	12,976	11,858	-	11,858
484,392	Total Departmental Capital Expenditure	808,071	856,395	797,536	-	797,536

## Non-Departmental Output Expenses

2020				2021			
Actual Expenditure Including Re-measurements (\$000)	Output Class		Main Estimates (\$000)	Supplementary Estimates (\$000)	Actual Expenditure Excluding Re-measurements (\$000)	Re-measurements (\$000)	Actual Expenditure Including Re-measurements (\$000)
706	7.5	Development and Maintenance of Services Cemeteries	746	746	744	-	744
706		Total Non-Departmental Output Expenses	746	746	744	-	744

## Non-Departmental Other Expenses

2020				2021			
Actual Expenditure Including Re-measurements (\$000)	Output Class		Main Estimates (\$000)	Supplementary Estimates (\$000)	Actual Expenditure Excluding Re-measurements (\$000)	Re-measurements (\$000)	Actual Expenditure Including Re-measurements (\$000)
43	7.6	Debt Write-Down for Benefits and Other Unrequited Expenses	203	203	103	-	103
267	7.7	Ex Gratia Payments and Comprehensive Medical Assessments for Vietnam Veterans	1,100	1,100	82	-	82
-	7.8	Impairment of Debt for Benefits or Related Expenses	250	250	-	-	-
90	7.9	Veterans Assistance to attend Commemorations and Revisit Battlefields	200	200	72	-	72
275	7.10	Grant Payments to Non-Government Organisations	275	2,805	2,805	-	2,805
3,184,429	7.15	Initial Recognition of Liability for Veterans' Entitlements	-	-	-	-	-
4,000	7.16	Service Cost – Veterans' Entitlements	20,000	98,904	94,148	-	94,148
10,250	7.17	Unwind of Discount Rate – Veterans' Entitlements	40,000	40,000	7,842	-	7,842
3,199,354		Total Other Expenses to be Incurred by the Crown	62,028	143,462	105,052	-	105,052

## Benefits Or Related Expenses

2020			2021				
Actual Expenditure Including Re-measurements (\$000)	Output Class		Main Estimates (\$000)	Supplementary Estimates (\$000)	Actual Expenditure Excluding Re-measurements (\$000)	Re-measurements (\$000)	Actual Expenditure Including Re-measurements (\$000)
9,264	7.11	Assessments, Treatment & Rehabilitation	-	-	-	-	-
72	7.12	Special Annuities	-	-	-	-	-
11,862	7.13	Veterans' Independence Programme	-	-	-	-	-
65,511	7.14	Veterans' Support Entitlements	-	-	-	-	-
86,709		Total Benefits and Other Related Expenses to be Incurred by the Crown	-	-	-	-	-
3,286,769		Total Non-Departmental Expenditure	62,774	144,208	105,796	-	105,796
<b>6,625,983</b>		<b>Total Annual Appropriations and Forecast Permanent Appropriations</b>	<b>3,971,169</b>	<b>4,023,041</b>	<b>3,815,223</b>	<b>24,438</b>	<b>3,839,661</b>

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

- Output 7.6 – Impairment of Debt for Benefits or Related Expenses
- Output 7.7 – Ex Gratia Payments and Comprehensive Medical Assessments for Vietnam Veterans
- Output 7.8 – Fair value Write-down on Veteran Trust Loans and Thirty Year Endowment
- Output 7.9 – Veteran Assistance to Attend Commemorations and Revisit Battlefields
- Output 7.10 – Grant Payments to Non-Government Organisations
- Output 7.11 – Assessments, Treatments and Rehabilitation
- Output 7.12 – Special Annuities
- Output 7.14 – Veterans Support Entitlement
- Output 7.15 – Initial Recognition of Liability for Veterans' Entitlements
- Output 7.16 – Service Cost – Veterans' Entitlements
- Output 7.17 – Unwind of Discount Rate – Veterans' Entitlements

## Statement of Departmental Capital Injections for the year ended 30 June 2021

2020		2021	
Actual (\$000)		Actual Capital Injection (\$000)	Supplementary Estimates (\$000)
822,768	Capital injection	471,740	471,740

## Statement of Capital Injections without, or in excess of, authority for the year ended 30 June 2021

The NZDF has not received any capital injections during the year without, or in excess of, authority (2020: Nil).

## Statement of Expenses and Capital Expenditure incurred without, or in excess of, appropriation or another authority for the year ended 30 June 2021

Expense Type	Appropriation Name	Actual Expenditure Excluding Re measurements (\$000)	Supplementary Estimates (\$000)	Unappropriated Expenditure (\$000)
<b>Benefits or Related Expenses</b>				
7.16	Service Cost – Veterans' Entitlements	94,148	98,904	78,904

The treatment of veterans' entitlements changed in the 2020 financial year following a change in accounting standards. A liability is now required to be recognised to represent the expected future entitlements owed to veterans. Increases to this liability as a result of policy changes are recorded as an expense in the Non-Departmental Other Expense appropriation 'Service Cost - Veterans' Entitlements'. The following two policy decisions were made in the financial year which resulted in an increase to the liability:

1. In July 2020, a number of historic deployments were declared to be qualifying operational service under the Veterans' Support Act 2016. This gave eligibility for veterans' entitlements to approximately 850 personnel who served on these deployments, increasing the veterans' entitlements liability by \$78.384 million.
2. In October 2020, the Veterans Support Amendment Bill 2020 was granted royal assent. The Bill introduced new services to existing veterans, which increased the liability by \$10.520 million.

The above policy decisions were costed under the old accounting treatment, under which the financial implications were minimal. As a result, NZDF incurred unappropriated expenditure from July 2020 until March 2021.

On 24 March 2021, Cabinet approved an uplift in the appropriation of \$78.9m, noting the difference of \$10.0 million was funded from the existing appropriation.





# 08

## Financial Statements



# Statement of Responsibility

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

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

**In my opinion:**

- the annual report fairly reflects the operations, progress, and the organisational health and capability of the New Zealand Defence Force;
- the financial statements fairly reflect the financial position of the New Zealand Defence Force as at 30 June 2021 and its operations for the year ended on that date; and
- the forecast financial statements fairly reflect the forecast financial position of the New Zealand Defence Force as at 30 June 2022 and its operations for the year ending on that date.

Signed by:



**K.R. Short**  
Air Marshal  
Chief of Defence Force  
29 October 2021



# Independent Auditor's Report

## To the readers of the New Zealand Defence Force's annual report for the year ended 30 June 2021

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

- the financial statements of the Defence Force and group on pages 140 to 190, that comprise the statement of financial position, statement of commitments, statement of contingent liabilities and contingent assets as at 30 June 2021, the statement of comprehensive revenue and expense, statement of changes in equity, and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information;
- the performance information prepared by the Defence Force and group for the year ended 30 June 2021 on pages 100 to 126;
- the statements of expenses and capital expenditure of the Defence Force for the year ended 30 June 2021 on pages 127 to 132;
- the schedules of non-departmental activities which are managed by the Defence Force on behalf of the Crown on pages 197 to 211 that comprise:
  - the schedules of assets; liabilities; commitments; and contingent liabilities and assets as at 30 June 2021;
  - the schedules of expenses; and revenue for the year ended 30 June 2021; and

- the notes to the schedules that include accounting policies and other explanatory information.

### Opinion

In our opinion:

- the financial statements of the Defence Force and group on pages 140 to 190:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2021; and
    - its financial performance and cash flows for the year ended on that date; and
  - comply with generally accepted accounting practice in New Zealand in accordance with the Public Benefit Entity Reporting Standards.
- the performance information of the Defence Force and group on pages 100 to 126:
  - presents fairly, in all material respects, for the year ended 30 June 2021:
    - what has been achieved with the appropriation; and
    - the actual expenses or capital expenditure incurred compared with the appropriated or forecast expenses or capital expenditure; and
  - complies with generally accepted accounting practice in New Zealand.

- the statements of expenses and capital expenditure of the Defence Force on pages 127 to 132 are presented fairly, in all material respects, in accordance with the requirements of section 45A of the Public Finance Act 1989.
- the schedules of non-departmental activities which are managed by the Defence Force on behalf of the Crown on pages 197 to 211 present fairly, in all material respects, in accordance with the Treasury Instructions:
  - the assets; liabilities; commitments; and contingent liabilities and assets as at 30 June 2021; and
  - expenses; and revenue for the year ended 30 June 2021.

Our audit was completed on 29 October 2021. This is the date at which our opinion is expressed.

The basis for our opinion is explained below, and we draw attention to the significant uncertainties in the valuation of the veterans' entitlements liability that is included in the schedules of non-departmental activities. In addition, we outline the responsibilities of the Chief of Defence Force and our responsibilities relating to the information to be audited, we comment on other information, and we explain our independence.

### Emphasis of matter – Significant uncertainties in the valuation of the veterans' entitlements liability

Without modifying our opinion, we draw your attention to Note 5 on pages 202 to 205 of the non-departmental schedules, which outlines the significant uncertainties over the timing and amount of the future cash flows associated with the veterans' entitlements liability. The limited data available to form the assumptions increases the level of uncertainty.

### Basis for our opinion

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

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

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

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

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

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

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

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

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

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

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

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

For the budget information reported in the information we audited, our procedures were limited to checking that the information agreed to the Defence Force's information in its 2019-2022 Statement of Intent, Budget 2020 Estimates and Supplementary Estimates of Appropriations, and the 2020/21 forecast financial figures included in the Defence Force's 2019/20 Annual Report.

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

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

- We identify and assess the risks of material misstatement of the information we audited, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Defence Force and group's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Chief of Defence Force.
- We evaluate the appropriateness of the reported performance information within the Defence Force and group's framework for reporting its performance.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Chief of Defence Force and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Defence Force and group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the information we audited or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Defence Force to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the information we audited, including the disclosures, and whether the information we audited represents the underlying transactions and events in a manner that achieves fair presentation.

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

Our responsibilities arise from the Public Audit Act 2001.

## Other information

The Chief of Defence Force is responsible for the other information. The other information comprises the information included on pages 3 to 211 and the financial statements of the Veterans' Medical Research Trust Fund for the year ended 31 March 2021, 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 Defence Force and group in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1: International Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board.

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

*Karen Young*

### **Karen Young**

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

# NZDF Financial Statements

## Statement of Comprehensive Revenue and Expense for the year ended 30 June 2021

2020				2021			
Group Actuals (\$000)	Parent Actuals (\$000)		Note	Group Actuals (\$000)	Parent Actuals (\$000)	Group Unaudited Budget (\$000)	Group Unaudited Forecast (\$000)
<b>Revenue from non-exchange transactions</b>							
2,867,275	2,867,275	Crown		2,959,566	2,959,566	3,043,109	2,959,566
1,115	-	Other revenue	B2	2,811	-	-	-
<b>Revenue from exchange transactions</b>							
16,083	16,083	Departmental revenue	B1	19,102	19,102	22,255	19,457
115,336	113,114	Other revenue	B2	36,873	36,873	34,960	36,155
19,688	19,688	Gain on financial instruments	B3	17,965	17,965	-	15,000
1,103	7	Interest revenue		965	7	20	20
60	-	Dividend revenue		74	-	-	-
3,020,660	3,016,167	Total Revenue		3,037,356	3,033,513	3,100,344	3,030,198
<b>Expenses</b>							
1,086,698	1,085,766	Personnel costs	B4	1,115,211	1,113,932	1,147,601	1,136,304
870,803	868,557	Operating costs	B5	946,023	943,845	976,112	974,729
13,870	13,870	Loss on financial instruments	B6	24,438	24,438	-	15,000
1,783	1,428	Finance costs		1,902	1,469	1,611	1,527
465,523	464,595	Depreciation, amortisation and impairment	C1, C3	469,540	469,148	483,400	485,479
420,606	420,606	Capital charge	B7	383,497	383,497	491,600	384,399
2,859,283	2,854,822	Total Expenses		2,940,611	2,936,329	3,100,324	2,997,438
161,377	161,345	Net Surplus/(Deficit)		96,745	97,184	20	32,760
<i>Items that will not be reclassified to Net Surplus/(Deficit)</i>							
<b>Other Comprehensive Revenue and Expense</b>							
(8,111)	(8,111)	Gain/(Loss) on property, plant, and equipment revaluations	D2	796,212	796,373	-	-
(8,111)	(8,111)	Total Other Comprehensive Revenue and Expense		796,212	796,373	-	-
<b>153,266</b>	<b>153,234</b>	<b>Total Comprehensive Revenue and Expense</b>		<b>892,957</b>	<b>893,557</b>	<b>20</b>	<b>32,760</b>

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

## Statement of Financial Position as at 30 June 2021

2020				2021			
Group Actuals (\$'000)	Parent Actuals (\$'000)		Note	Group Actuals (\$'000)	Parent Actuals (\$'000)	Group Unaudited Budget (\$'000)	Group Unaudited Forecast (\$'000)
<b>Assets</b>							
<b>Current Assets</b>							
38,063	36,288	Cash and cash equivalents	E1	77,946	63,196	50,000	60,000
51,255	50,354	Debtors and other receivables from exchange transactions	E2	6,008	5,181	6,437	19,864
1,004,620	1,004,620	Debtors and other receivables from non-exchange transactions	E2	1,381,625	1,381,625	1,234,608	1,281,625
98,069	98,066	Prepayments		98,868	98,866	72,898	94,986
95,321	95,167	Inventories	E3	147,039	146,910	79,352	95,322
24,755	1,734	Other financial assets	E4	22,747	3,153	27,993	24,833
8,813	8,813	Non – current assets held for sale	C4	8,813	8,813	-	-
1,320,896	1,295,042	<b>Total Current Assets</b>		1,743,046	1,707,744	1,471,288	1,576,630
<b>Non-Current Assets</b>							
6,558,286	6,500,407	Property, plant and equipment	C1	7,681,904	7,625,061	7,272,187	6,926,331
63,236	63,236	Intangible assets	C3	63,950	63,950	55,620	66,105
333,941	333,941	Inventories	E3	338,758	338,758	315,942	333,941
7,852	78	Other financial assets	E4	4,180	407	-	7,774
6,963,315	6,897,662	<b>Total Non-Current Assets</b>		8,088,792	8,028,176	7,643,749	7,334,151
<b>8,284,211</b>	<b>8,192,704</b>	<b>Total Assets</b>		<b>9,831,838</b>	<b>9,735,920</b>	<b>9,115,037</b>	<b>8,910,781</b>
<b>Liabilities</b>							
<b>Current Liabilities</b>							
229,296	225,112	Payables and deferred revenue under exchange transactions	E5	531,514	524,772	461,038	429,807
29,356	29,360	Payables and deferred revenue under non-exchange transactions	E5	40,337	40,317	36,042	29,359
161,262	161,262	Surplus repayable to the Crown	E6	95,459	95,459	20	32,760
13,890	13,890	Provisions	E7	8,444	8,444	13,478	10,373
65,718	65,675	Employee entitlements	E8	67,774	67,754	93,720	115,328
4,078	4,076	Finance leases	E9	3,757	3,757	4,026	3,888
2,049	2,049	Other financial liabilities	E10	2,432	2,432	5,206	2,638
505,649	501,424	<b>Total Current Liabilities</b>		749,717	742,935	613,530	624,153

## Statement of Financial Position as at 30 June 2021 (continued)

2020				2021			
Group Actuals (\$000)	Parent Actuals (\$000)		Note	Group Actuals (\$000)	Parent Actuals (\$000)	Group Unaudited Budget (\$000)	Group Unaudited Forecast (\$000)
<b>Non-Current Liabilities</b>							
4,203	4,203	Employee entitlements	E8	4,127	4,127	5,005	5,131
32,621	32,621	Finance leases	E9	25,046	25,046	28,954	28,733
589	589	Other financial liabilities	E10	229	229	-	-
37,413	37,413	Total Non – Current Liabilities		29,402	29,402	33,959	33,864
<b>543,062</b>	<b>538,837</b>	<b>Total Liabilities</b>		<b>779,119</b>	<b>772,337</b>	<b>647,489</b>	<b>658,017</b>
<b>7,741,149</b>	<b>7,653,867</b>	<b>Net Assets</b>		<b>9,052,719</b>	<b>8,963,583</b>	<b>8,467,548</b>	<b>8,252,764</b>
<b>Equity</b>							
4,745,097	4,745,097	Taxpayers' funds	D1	5,257,961	5,257,961	5,516,173	5,314,500
2,938,266	2,908,770	Revaluation reserve	D2	3,734,955	3,705,622	2,951,375	2,938,264
54,998	-	Non-taxpayers' funds	D3	57,136	-	-	-
2,788	-	Restricted funds	D4	2,667	-	-	-
7,741,149	7,653,867	Total Equity		9,052,719	8,963,583	8,467,548	8,252,764
<b>8,284,211</b>	<b>8,192,704</b>	<b>Total Liabilities and Taxpayers' Funds</b>		<b>9,831,838</b>	<b>9,735,920</b>	<b>9,115,037</b>	<b>8,910,781</b>

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

## Statement of Changes in Equity for the year ended 30 June 2021

2020				2021			
Group Actuals (\$000)	Parent Actuals (\$000)		Note	Group Actuals (\$000)	Parent Actuals (\$000)	Group Unaudited Budget (\$000)	Group Unaudited Forecast (\$000)
<b>Balance at 1 July</b>							
3,917,243	3,917,243	Taxpayers' funds		4,745,097	4,745,097	4,798,459	4,802,882
2,951,377	2,921,881	Revaluation reserve		2,938,266	2,908,770	2,951,375	2,938,264
55,749	-	Non-taxpayers' funds		54,998	-	-	-
2,697	-	Restricted funds		2,788	-	-	-
6,927,066	6,839,124			7,741,149	7,653,867	7,749,834	7,741,146
161,377	161,345	Net surplus/(deficit) for the year		96,745	97,184	20	32,760
(8,111)	(8,111)	Total gain/(loss) on property, plant and equipment revaluation		796,212	796,373	-	-
153,266	153,234	Total Comprehensive Revenue and Expense for the Year		892,957	893,557	20	32,760
<b>Owner Transactions</b>							
(161,262)	(161,262)	Repayment of surplus	E6	(95,459)	(95,459)	(20)	(32,760)
(794)	-	Capital withdrawal	D1	-	-	-	-
822,771	822,771	Capital injection	D1	511,618	511,618	717,714	511,618
102	-	Owners contributions	D1	2,454	-	-	-
<b>7,741,149</b>	<b>7,653,867</b>	<b>Balance as at 30 June</b>		<b>9,052,719</b>	<b>8,963,583</b>	<b>8,467,548</b>	<b>8,252,764</b>
4,745,097	4,745,097	Taxpayers' funds	D1	5,257,961	5,257,961	5,516,173	5,314,500
2,938,266	2,908,770	Revaluation reserve	D2	3,734,955	3,705,622	2,951,375	2,938,264
54,998	-	Non-taxpayers' funds	D3	57,136	-	-	-
2,788	-	Restricted funds	D4	2,667	-	-	-

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

## Statement of Cash Flow for the year ended 30 June 2021

2020			2021			
Group Actuals (\$000)	Parent Actuals (\$000)		Group Actuals (\$000)	Parent Actuals (\$000)	Group Unaudited Budget (\$000)	Group Unaudited Forecast (\$000)
<b>Cash Flow – Operating Activities</b>						
2,254,340	2,254,340	Non-exchange receipts from Crown	2,582,566	2,582,566	2,747,670	2,682,561
78,815	74,540	Exchange receipts from departmental and other revenue	106,748	103,941	76,215	87,150
60	-	Dividends received from operating activities	74	-	-	-
1,096	-	Interest revenue from operating activities	958	7	-	-
(1,068,532)	(1,066,596)	Payments to employees	(1,130,236)	(1,128,934)	(1,151,598)	(1,127,004)
(926,137)	(925,792)	Payments to suppliers	(948,983)	(949,486)	(985,077)	(973,733)
(784)	-	Grants paid	(122)	-	-	-
(355)	-	Interest paid to members	(433)	-	-	-
(420,606)	(420,606)	Payments for capital charge	(383,497)	(383,497)	(491,600)	(384,399)
3,072	3,100	Goods and services tax (net)	10,981	10,957	-	-
(79,031)	(81,014)	Net Cash Flow from Operating Activities	238,056	235,554	195,610	284,575
<b>Cash Flow – Investing Activities</b>						
397	397	Receipts from sale of property, plant and equipment	1,096	1,096	-	-
(620)	7	Interest revenue and expense	(1,462)	(1,462)	20	20
5	-	Sale of investments	7,502	-	-	-
(251)	-	Purchase of investments	-	-	-	-
(20)	-	Repayment of advances	30	-	-	-
(706,891)	(706,571)	Purchase of property, plant and equipment	(537,817)	(538,580)	(851,150)	(600,038)
(19,217)	(19,217)	Purchase of intangible assets	(11,858)	(11,858)	(10,169)	(12,976)
(726,597)	(725,384)	Net Cash Flow from Investing Activities	(542,509)	(550,804)	(861,299)	(612,994)

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



## Statement of Cash Flow for the year ended 30 June 2021 (continued)

2020			2021			
Group Actuals (\$000)	Parent Actuals (\$000)		Group Actuals (\$000)	Parent Actuals (\$000)	Group Unaudited Budget (\$000)	Group Unaudited Forecast (\$000)
<b>Cash Flow - Financing Activities</b>						
822,873	822,768	Capital injection	473,811	471,633	717,714	471,740
(794)	-	Capital withdrawal	-	-	-	-
(38,088)	(38,088)	Repayment of surplus	(121,277)	(121,277)	(52,025)	(121,384)
783,991	784,680	Net Cash Flow from Financing Activities	352,534	350,356	665,689	350,356
<b>(21,637)</b>	<b>(21,718)</b>	<b>Net increase/(decrease) in cash</b>	<b>48,081</b>	<b>35,106</b>	-	<b>21,937</b>
53,965	52,271	Cash at the beginning of the year	38,063	36,288	50,000	38,063
5,735	5,735	Effect of foreign exchange rates on cash and cash equivalents	(8,198)	(8,198)	-	-
<b>38,063</b>	<b>36,288</b>	<b>Cash and Cash Equivalents at the End of the Year</b>	<b>77,946</b>	<b>63,196</b>	<b>50,000</b>	<b>60,000</b>

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

**Statement of Cash Flow for the year ended 30 June 2021 (continued)**  
**Reconciliation of net surplus/(deficit) to net cash flow from operating activities**

<b>2020</b>			<b>2021</b>	
<b>Group (\$000)</b>	<b>Parent (\$000)</b>		<b>Group (\$000)</b>	<b>Parent (\$000)</b>
<b>161,377</b>	<b>161,345</b>	<b>Net Surplus/(Deficit)</b>	<b>96,745</b>	<b>97,184</b>
		<i>Items included in the operating balance but not in net cash flows from operations</i>		
<b>(Gains)/Losses</b>				
(5,818)	(5,818)	Net (gains)/losses on financial instruments	(1,725)	(1,725)
1,111	1,106	Net (gains)/losses on non-financial instruments	(4)	(4)
<b>(4,707)</b>	<b>(4,712)</b>	<b>Total (Gains)/Losses</b>	<b>(1,729)</b>	<b>(1,729)</b>
<b>Other Non-cash Items in Operating Balance</b>				
465,523	464,595	Depreciation, amortisation and impairment	469,540	469,148
(35,722)	(35,722)	Non-cash movement in non-current inventories	(4,817)	(4,817)
15,655	15,655	Non-cash movement in non-current finance leases	(7,575)	(7,575)
(111)	(111)	Non-cash movement in non-current employee entitlements	(76)	(76)
620	(7)	Other	1,462	1,462
<b>445,965</b>	<b>444,410</b>	<b>Total Other Non-cash Items in Operating Balance</b>	<b>458,534</b>	<b>458,142</b>
<b>Movements in Working Capital</b>				
(625,490)	(625,365)	(Increase)/decrease in debtors and other receivables	(331,862)	(331,832)
(3,335)	(3,328)	(Increase)/decrease in current inventories	(51,718)	(51,743)
(31,481)	(31,484)	(Increase)/decrease in prepayments	(799)	(800)
(265,569)	(266,099)	Increase/(decrease) in creditors and other payables	321,398	318,820
1,990	1,993	Increase/(decrease) in current finance leases	2,077	2,079
9,306	9,317	Increase/(decrease) in current employee entitlements	(342)	(319)
(2)	(2)	Increase/(decrease) in provisions	(5,446)	(5,446)
232,915	232,911	Working capital movement related to cash flow from investing activities	(248,802)	(248,802)
<b>(681,666)</b>	<b>(682,057)</b>	<b>Total Movements in Working Capital</b>	<b>(315,494)</b>	<b>(318,043)</b>
<b>(79,031)</b>	<b>(81,014)</b>	<b>Net Cash Flows from Operations</b>	<b>238,056</b>	<b>235,554</b>

The accompanying notes form part of these financial statements.

## Statement of Commitments as at 30 June 2021

2020			2021	
Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)
<b>Capital Commitments</b>				
21,076	21,076	Building	37,104	37,104
3,138,440	3,138,440	Specialist military equipment	2,881,777	2,881,777
56,293	56,293	Plant and equipment	32,639	32,639
3,215,809	3,215,809	Total Capital Commitments	2,951,520	2,951,520
<b>Non-Cancellable Operating Lease Commitments</b>				
35,069	35,069	Not later than one year	33,463	33,463
89,569	89,569	Later than one year and not later than five years	90,647	90,647
189,833	189,833	Later than five years	179,989	179,989
314,471	314,471	Total Non-Cancellable Operating Lease Commitments	304,099	304,099
<b>3,530,280</b>	<b>3,530,280</b>	<b>Total Commitments</b>	<b>3,255,619</b>	<b>3,255,619</b>

**Capital Commitments**

The majority of the capital commitments are with the Ministry of Defence who manage the procurement of major military assets on behalf of the NZDF. The value of the capital commitments with the Ministry of Defence this year is \$2,831 million (2020: \$3,096 million). The capital commitments are impacted by fluctuations in foreign currencies.

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

**Non-Cancellable Operating Lease Commitments**

The NZDF lease property, plant and equipment in the normal course of its business. The majority of these leases are for premises, planes and simulators and are based on lease renewal dates that range from 1 month to 30 years.

The non-cancellable operating leases have varying terms, escalation clauses and renewal rights.

There are no restrictions placed on NZDF by any of its leasing arrangements.

## Statement of Contingent Liabilities as at 30 June 2021

2020			2021	
Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)
2,400	2,400	Potential claims from legal proceedings and disputes	5,200	5,200
1,060	1,060	Restructuring cost	923	923
500	500	Health and safety prosecution claim	824	824
<b>3,960</b>	<b>3,960</b>	<b>Total Quantifiable Contingent Liabilities</b>	<b>6,947</b>	<b>6,947</b>

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

As at 30 June 2021, there are unquantifiable contingent liabilities in relation to a contractual dispute and the potential contamination of ground water (2020: unquantifiable).

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

## Statement of Contingent Assets as at 30 June 2021

There are no quantifiable or unquantifiable contingent assets as at 30 June 2021 (2020 \$nil).

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A	STATEMENT OF ACCOUNTING POLICIES	E1	CASH AND CASH EQUIVALENTS
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The accompanying notes form part of these financial statements.

# Notes to the Financial Statements

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

Information is considered relevant and material if:

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

## A

### Statement of Accounting Policies for the year ended 30 June 2021

#### Reporting entity

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

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

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

The financial statements of the NZDF are for the 12 months ended 30 June 2021. The financial statements were authorised for issue by the Chief of Defence Force on 29 October 2021.

#### Basis of Preparation

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

#### Statement of Compliance

The financial statements of the NZDF have been prepared in accordance with the requirements of the Public Finance Act 1989, which includes the requirement to comply with New Zealand generally accepted accounting practices (NZ GAAP) and Treasury Instructions. These financial statements have been prepared in accordance with Tier 1 PBE Accounting Standards. These financial statements comply with PBE Accounting Standards.

#### Functional and Presentation Currency

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

#### Basis of Consolidation

The consolidated financial statements comprise the financial statements of the NZDF and its controlled entities as at 30 June 2021.

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

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

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

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

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

### **New Standards Issued and Adopted During Period**

There were no standards that were adopted during the period.

### **Standards issued not yet effective and not early adopted**

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

#### *Amendment to PBE IPSAS 2 Statement of Cash Flows*

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

#### *PBE IPSAS 41 Financial Instruments*

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

#### *PBE FRS 48 Service Performance Reporting*

PBE FRS 48 replaces the service performance reporting requirements of PBE IPSAS 1 and is effective for reporting periods beginning on or after 1 January 2022. The NZDF does not intend to early adopt the amendment and has not yet determined how application of PBE FRS 48 will affect its statement of performance.

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

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

### **Comparatives**

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

### **Summary of Significant Accounting Policies**

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

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

### **Budget Figures**

The budget figures are the Main Estimates presented in the forecast financial statements from the 2019/20 Annual Report. The forecast reflects the estimated actuals contained in the Supplementary Estimates as at 30 June 2021. The budget figures have been prepared in accordance with GAAP, using accounting policies that are consistent with those adopted in preparing these financial statements.

The Main Estimates and Supplementary Estimates include the NZDF and its controlled entities as at 30 June 2021. Controlled entities are all those entities that the NZDF (the controlling entity) is exposed to, or has the rights, to variable benefits from involvement with those entities, and has the ability to affect the nature or amount of those benefits through its power over the entities.

#### Foreign Currency

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

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

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

#### Goods and Services Tax (GST)

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

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

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

Commitments and contingencies are disclosed exclusive of GST.

#### Income Tax

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

#### Capital Management Programme

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

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

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

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

#### Commitments

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

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

### Critical Accounting Estimates and Assumptions

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

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

- Useful lives and residual values of property, plant and equipment – refer to Section C
- Fair value of land and buildings – refer to Section C
- Fair value of specialist military equipment – refer to Section C
- Useful lives of software assets – refer to Section C
- Inventory obsolescence – refer note E3

### Critical Judgements in Applying Accounting Policies

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

- Leases classification – refer to note E9

## COVID-19

On 11 March 2020 the World Health Organisation declared a global pandemic as a result of the outbreak and spread of COVID-19 (the virus). On Wednesday 25 March 2020 the New Zealand Government implemented Alert Level 4 (full lockdown of non-essential services) for an initial 4 week period. Following alert level 4, the New Zealand Government has progressively lowered and raised the alert level in response to the degree of containment

of the virus within the community. During 2020/21, aside from Auckland having small periods of lock-down, the country has remained in alert level 1. Globally, travel between countries is very restricted and global shipping and logistics is constrained. The NZDF has had a large presence at the Managed Isolation and Quarantine facilities since 19 June 2020. This has had an effect on NZDF's ability to train and maintain readiness levels. A discussion on the impact on NZDF performance and readiness is contained in section 2 of the annual report.

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

Balance Sheet Item	COVID-19 Assessment	Note
Cash and Cash Equivalents	There was no impact on the carrying value of Cash and Cash Equivalents denominated in New Zealand Dollars (NZD) and minimal impact on Cash and Cash Equivalents denominated in foreign currency as a result of movements in foreign exchange rates impacted by the outbreak of COVID-19.	E1
Debtors and other receivables and Prepayments	The NZDF performed an assessment of expected credit losses as a result of the COVID-19 pandemic. The NZDF did not adjust the provision, as credit losses are not expected to increase as a result of the COVID-19 pandemic.	E2
Inventories	There was no impact on the net realisable value of inventory at balance date as a result of COVID-19.	E3
Other Financial assets (Derivatives financial instruments)	Derivatives are recorded at fair value. The carrying value reflects quoted prices at balance date. Any market impacts as a result of COVID-19 are implied in those quoted prices.	E4
Property, Plant and Equipment (Land and Buildings)	The NZDF's Land and Buildings asset classes are held at fair value less accumulated depreciation and impairment losses. A revaluation has taken place this year and the impact of COVID-19 is in-built into the valuation. The NZDF continues to use Land and Buildings to the fullest extent possible.	C1
Property, plant and Equipment (Specialist Military Equipment)	The NZDF's Specialist Military Equipment is held at fair value less accumulated depreciation and impairment losses. A revaluation has taken place this year and the impact of COVID-19 is in-built into the valuation. The NZDF continues to use Specialist Military Equipment to the fullest extent possible. There were no indications that NZDF's Specialist Military Equipment is impaired as a result of COVID-19.	C1
Intangible assets	There was no impact on the carrying value of Intangible assets as a result of COVID-19. The NZDF's Intangible assets are held at cost less accumulated amortisation and impairment losses. There are no indications NZDF's Intangible assets have been impaired as a result of COVID-19.	C3
Held for Sale	There was no impact on the carrying value of Non-Current Assets Held for Sale as a result of COVID-19. The NZDF's Non-Current Assets Held for Sale are measured at the lower of carrying amount and fair value less costs to sell.	C4



Balance Sheet Item	COVID-19 Assessment	Note
Payables and deferred revenue	There was no impact on the carrying value of Payables and Deferred Revenue as a result of COVID-19. The NZDF's Payables and Deferred Revenue are held at fair value.	E5
Surplus repayable to the Crown	The surplus repayable to the Crown was higher as a result of COVID-19. The COVID-19 pandemic has had an impact on the NZDF's operations and activities resulting in lower than planned operating expenditure, which will be repaid to the Crown.	E6
Provisions	There was no impact on the carrying value of the NZDF's Provisions as a result of COVID-19.	E7
Employee Entitlements	There was no impact on employee entitlements as a result of COVID-19.	E8
Finance leases	There was no impact on the carrying value of the NZDF's Finance Leases as a result of COVID-19.	E9
Other financial liabilities (Derivatives financial instruments)	Derivatives are recorded at fair value. The carrying value reflects quoted prices at balance date. Market impacts as a result of COVID-19 are implied in those quoted prices.	E10

## Cost Allocation

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

- Direct variable costs of a force element (for example, a squadron, a frigate, a battalion) are attributed directly to an appropriate output.
- Direct fixed costs of a force element are attributed to outputs based on their predominant purpose.

- Support unit costs are charged to outputs in proportion to the total direct costs of the force elements they support.

- Overhead costs are charged to outputs in proportion to the total force elements including their support unit costs.

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

# Notes to the Financial Statements

## REVENUE

### B Financial Performance

#### Accounting Policy

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

#### Revenue from Non-Exchange Transactions

##### Revenue Crown

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

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

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

#### Other Revenue

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

#### Revenue from Exchange Transactions

##### Other Revenue

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

#### Interest

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

#### Dividends

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

## B1 Departmental Revenue

2020			2021		
Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)	Group Unaudited Forecast (\$000)
8,349	8,349	Ministry of Social Development	8,854	8,854	19,457
7,734	7,734	Other departments	10,248	10,248	-
<b>16,083</b>	<b>16,083</b>	<b>Total Departmental Revenue</b>	<b>19,102</b>	<b>19,102</b>	<b>19,457</b>

## B2 Other Revenue

2020			2021		
Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)	Group Unaudited Forecast (\$000)
<b>Revenue from non-exchange transactions</b>					
1,115	-	Other revenue	2,811	-	-
<b>1,115</b>	<b>-</b>	<b>Total revenue from non-exchange transactions</b>	<b>2,811</b>	<b>-</b>	<b>-</b>
<b>Revenue from exchange transactions</b>					
26,837	26,837	Insurance claims	-	-	-
88,499	86,277	Other revenue	36,873	36,873	36,155
<b>115,336</b>	<b>113,114</b>	<b>Total revenue from exchange transactions</b>	<b>36,873</b>	<b>36,873</b>	<b>36,155</b>
<b>116,451</b>	<b>113,114</b>	<b>Total Other Revenue</b>	<b>39,684</b>	<b>36,873</b>	<b>36,155</b>

## B3 Gain on Financial Instruments

2020			2021		
Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)	Group Unaudited Forecast (\$000)
16,121	16,121	Realised gain on foreign exchange	8,347	8,347	15,000
3,567	3,567	Unrealised gain on foreign exchange	9,618	9,618	-
<b>19,688</b>	<b>19,688</b>	<b>Total Gain on Financial Instruments</b>	<b>17,965</b>	<b>17,965</b>	<b>15,000</b>

## EXPENSES

### B4 Personnel Costs

#### Accounting Policy

##### Superannuation schemes

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

2020			2021		
Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)	Group Unaudited Forecast (\$000)
1,007,354	1,006,422	Salaries and wages	1,057,924	1,056,645	1,077,557
69,378	69,378	Superannuation contributions to defined contribution schemes	54,250	54,250	53,828
9,206	9,206	Retirement and accumulated leave adjustment	2,003	2,003	3,547
760	760	Accident Compensation Corporation (ACC) levies	1,034	1,034	1,372
<b>1,086,698</b>	<b>1,085,766</b>	<b>Total Personnel Costs</b>	<b>1,115,211</b>	<b>1,113,932</b>	<b>1,136,304</b>

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

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

2020		2021
Parent	Salary Band	Parent
-	\$0 - \$29,999	-
8	\$30,000 - \$40,000	-
976	\$40,001 - \$50,000	999
2,524	\$50,001 - \$60,000	2,552
2,292	\$60,001 - \$70,000	2,181
1,860	\$70,001 - \$80,000	1,852
1,302	\$80,001 - \$90,000	1,356
943	\$90,001 - \$100,000	978
902	\$100,001 - \$110,000	955
675	\$110,001 - \$120,000	699
369	\$120,001 - \$130,000	378
131	\$130,001 - \$140,000	154
219	\$140,001 - \$150,000	225
109	\$150,001 - \$160,000	117
89	\$160,001 - \$170,000	102
37	\$170,001 - \$180,000	37
41	\$180,001 - \$190,000	36
52	\$190,001 - \$200,000	48
97	Over \$200,001	102
<b>12,626</b>	<b>Total</b>	<b>12,771</b>

## B5 Operating Costs

### Accounting Policy

#### Operating Leases

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

The NZDF leases training aircraft, office premises and office equipment. As the lessor retains all the risks of ownership, these leases are classified as operating leases.

#### Maintenance Costs

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

All other maintenance costs are expensed as incurred.

2020			2021		
Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)	Group Unaudited Forecast (\$000)
185,740	185,738	Materials	169,325	169,325	159,023
139,920	139,756	Premises cost	191,091	190,903	175,024
134,385	134,313	Repairs and maintenance	155,812	155,787	285,295
68,973	68,840	Training and travel	58,520	58,500	72,163
101,164	101,164	Operating lease rentals and other licence charges	117,318	117,318	119,151
12,421	12,399	Consultancy	15,474	15,472	20,033
525	525	Audit fees: Audit New Zealand	530	530	663
83	-	Fees to auditors other than Audit New Zealand	23	-	30
8	1	Increase in provision for doubtful debts	49	49	-
900	895	Loss on sale of property, plant, and equipment	374	368	7,260
226,684	224,926	Other operating costs	237,507	235,593	136,087
<b>870,803</b>	<b>868,557</b>	<b>Total Operating Costs</b>	<b>946,023</b>	<b>943,845</b>	<b>974,729</b>

## B6 Loss on Financial Instruments

2020			2021		
Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)	Group Unaudited Forecast (\$000)
10,095	10,095	Realised foreign exchange losses	20,371	20,371	15,000
3,775	3,775	Unrealised foreign exchange losses	4,067	4,067	-
<b>13,870</b>	<b>13,870</b>	<b>Total Loss on Financial Instruments</b>	<b>24,438</b>	<b>24,438</b>	<b>15,000</b>

## B7 Capital Charge

### Accounting Policy

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

### Further information

The NZDF pays a capital charge to the Crown on its average equity as at 30 June and 31 December each year. The capital charge rate during the year ended 30 June 2021 was 5.0% (2020: 6.0%).

# Notes to the Financial Statements

## C Property, Plant and Equipment

### Accounting Policy

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

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

### Additions

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

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

### Capitalisation

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

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

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

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

### Work in progress

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

### Disposals

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

### Subsequent Costs

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

### Revaluation

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

The net revaluation results are credited or debited to other comprehensive revenue and expense and are accumulated to an asset revaluation reserve in equity for that class of asset. Where this would result in a debit balance in the asset revaluation reserve, this balance is not recognised in other comprehensive revenue and expense but is recognised in the surplus or deficit. Any subsequent increase on revaluation that reverses a previous decrease in value recognised in the surplus or deficit will be recognised first in the surplus or deficit up to the amount previously expensed, and then recognised in other comprehensive revenue and expense.

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

ODRC is determined using a number of significant assumptions. Significant assumptions used in the 2021 valuation include:

- The unit costs for valuing infrastructure are based on costs from current construction projects including airport horizontal infrastructure rates and from other major infrastructure projects in the main centres.
- Any asbestos is contained and does not affect the continued use of the property.
- There are no significant losses in land area or associated land value as a result of riparian zone legislation.
- The remaining useful life of assets is estimated after considering factors such as the condition of the asset, future maintenance and replacement plans, and experience with similar buildings.
- Straight-line depreciation has been applied in determining the ODRC of buildings

Buildings with a net book value greater than or equal to \$250,000 are individually revalued. Buildings with a net book value of less than \$250,000 are revalued using an appropriate market or construction cost based index.

## Review of Land and Buildings

The Land and Buildings asset classes were revalued by Nick Funnell MPINZ, an independent registered valuer, and Marvin Clough FPINZ, an independent registered plant and equipment valuer, both from Beca Projects NZ Limited (“Beca”) on behalf of the DEI Alliance. This resulted in a fair value adjustment that increased the value of the Land and Building assets by \$796.3 million (2020: no revaluation).

The method of valuation depends on the internal NZDF classification of either on-base or off-base.

Off-base land is valued at fair value using market based evidence on its highest and best use with reference to comparable land values. Off-base non-specialised buildings (for example, residential properties) have been valued on a market comparison approach having regard to market transactions for similar properties. Adjustments are made to reflect the assets condition and any restriction on sale. Recent transactions of residential properties in the immediate surrounding area have been considered to arrive at a benchmark value.

On-base land is valued at fair value using market based evidence on its highest and best use with reference to comparable land values. The depreciation rate for land is 0%. On-base and specialised buildings are valued at fair value using ODRC because no reliable market data is available for such buildings. The valuers have established a number of building typologies based on building size, structure, services and fit-out. The building typology allowed for the same assumptions to be applied across the Estate, for ‘like’ buildings.

Adjustments have been made where appropriate to the “unencumbered” land value for certain situations (e.g. historic designations, Treaty of Waitangi, Offer Back Obligations or Reserve Status). In these situations a deduction has been made from the assessed unencumbered market value of the land. Any specific restrictions on sale have been identified and included in the market value assessed for the land component.

Camps and bases located in a rural environment have utilised a market comparison approach having regard to sales of rural holdings in the general location, and considered the potential for more intensive development where appropriate. Camps and bases in urban locations have been valued with regard to block land sales. Having established the value under the highest and best use scenario, an allowance has been made for costs of rezoning, holding period and the probability of a zoning change.

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

## COVID-19 impacts on the value of Land and Buildings

As at 30 June 2021, there is still market uncertainty as a result of the COVID-19 global pandemic with market conditions changing daily. While the valuation is current at the date of valuation, the value assessed may change significantly and unexpectedly over a relatively short period of time as a result of factors outside of NZDF’s control.

The construction market has been impacted by the continued uncertainty and border closures. Construction costs are expected to continue to increase in the medium term due to the supply issues of materials and labour forces.

NZDF will continue to monitor the impact of COVID-19 on the value of NZDF’s Land and Buildings asset classes.

## Review of Specialist Military Equipment

Specialist Military Equipment (SME) was reviewed as at 30 June 2021 with the assistance of an independent valuer and it was determined that no revaluation was necessary (2020: no revaluation) as the values were not materially different to the current carrying values.

SME is manufactured overseas and recent cost comparisons of similar capability equipment are required under the ODRC valuation principle. Owing to the nature of the military environment and the unique specifications of the SME manufactured for the NZDF, comparable capability and equipment type is difficult to determine. Similar military variants were used for the review of SME. This is based on recommendations and information sourced by NZDF Capability Subject Matter Experts, where available. The recent cost of similar SME is based in overseas currencies and movements in foreign exchange will directly impact the review as well as market values.

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

### COVID-19 impacts on the review of Specialist Military Equipment

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

## Review of Heritage Assets

Heritage assets are comprised of archive holdings and military collections. Assets are not reported with a financial value in cases where they are not realistically able to be reproduced or replaced, and where no market exists to provide a valuation.

Where the asset has been provided from a non exchange transaction, the asset will be initially recorded at fair value.

Heritage assets held by the various controlled entities have been recorded at fair value where readily obtainable market values are present. The collection held by the Army Museum was independently revalued at fair value as at 30 June 2015 by Dr. Robin J. Watt MA, PhD. The heritage and working collection held by the Kippenberger Library was independently revalued at fair value as at 30 June 2010 by antiquarian bookseller Rowan Gibbs. The heritage collection held by the Navy Museum was independently revalued at 30 June 2016 by Ashley Associates. The collections held by the Air Force Museum have not been recognised as there are no readily obtainable fair values for the types of collections held. Insurance valuations have been performed and suggest that the value of these collections is \$8.4 million. The current valuations are the best representation of fair value and it has been assessed that there are no significant changes in fair value of the museum working collections.

## Impairment

### Cash Generating Assets

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

### Non-Cash Generating Assets

For non-cash generating assets except for those that are valued using the revaluation model, the Group reviews at every reporting date whether there are any indicators that the carrying amount may not be recoverable. If indicators do exist, the asset's recoverable amount is estimated. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. In assessing value in use, the risks specific to the asset are considered.

An impairment gain or loss is recognised in the Statement of Comprehensive Revenue and Expense as the amount by which the asset's carrying amount exceeds its recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of the recoverable amount.

For non-cash generating asset valued using the revaluation model, an impairment gain or loss is recognised as a revaluation in Other Comprehensive Revenue and Expenses as the amount by which the asset's carrying amount exceeds its recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of the recoverable amount.



## Impairment of Revalued Assets

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

## Impairment Loss for the Remediation of Contaminated Land & Buildings

The review of Land and Buildings in 2021 has resulted in an adjustment to fair value as a result of impairment for contaminated Land and Buildings of \$0.8 million (2020: \$nil). This increases the total impairment of contaminated land and buildings to \$31.7 million.

In 2019, as part of the revaluation of Land & Buildings, the independent valuers were engaged to provide a high level assessment of the remediation cost to the NZDF of contaminated land and buildings. The cost to remediate soil contamination across 22 sites was estimated to restore the land to its highest possible use. This was included in the fair value adjustment resulting from the independent valuation completed by Opus International Consultants Limited in 2019. The remediation costs estimated in 2019 have been indexed in 2021 to allow for the time difference between 2019 and 2021.

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

The assessment was based on key data provided by NZDF including the areas affected, the contaminant and a Hazardous Activities and Industries List (HAIL) priority rating. The HAIL is a list of activities which have the potential to cause contamination due to use or storage of hazardous substances which was published by the Ministry for the Environment in 2011. The affected areas were assigned a priority rating of high, medium or low. Sites were ranked based on the contaminant type, the contaminant mobility and the soil type. The type is based on the chemistry and behaviour of the contaminant in the environment. The contaminant mobility is the susceptibility of the contaminant to leach or migrate away from the source of contamination. The soil type is defined as cohesive or granular with cohesive soil being easier to remediate when compared to granular soil. Soil type was established using the Landcare Research S-map online. The depth of contamination is based on the contamination source and when combined with the area is used to calculate a volume of soil that is potentially contaminated and a volume to be remediated. The assumption is that it is unlikely the entire area would be affected to the level that would require full remediation. For most areas 50% was applied with 10% applied to some. Evacuation and disposal is considered the optimal method to restore the land to its highest possible use and the estimated rates for evacuation and disposal have been applied across all sites.

## Impairment Loss for Specialist Military Equipment

As part of the annual review of Specialist Military Equipment, no assets were identified as having indicators of impairment. In 2020, 2 Seasprite helicopters were revalued to their fair value in use.

## Defence Major Platform Restoration

The Defence Major Platform Restoration (DMPR) is an ongoing restoration plan for the Navy and Air Force to ensure the major servicing and replacement of key components of Specialist Military Equipment are made at regular intervals. As these assets are typically subject to reductions in service potential during normal business use, a reduction in value is recorded in addition to depreciation to reflect this. As the servicing or replacements are performed, the service potential is gradually restored for the applicable assets and the major servicing and replacement costs for the component parts that will provide economic benefits in future reporting periods are capitalised to reverse the initial reduction in value made.

## Depreciation

Depreciation is provided on a straight line basis on all property, plant and equipment except freehold land and capital work in progress so as to allocate the cost, or valuation, of the assets, less any estimated residual value, over their estimated useful lives. The estimated useful lives are within the following ranges:

	Parent	Group
Buildings	5–100 years	5–100 years
Leasehold improvements	2–20 years	2–25 years
Specialist Military Equipment	5–55 years	5–55 years
Plant and Equipment	3–50 years	2–50 years
Office and Computer Equipment	2–20 years	2–20 years
Heritage assets	Infinite	10 years – infinite

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

## Status of Buildings and Land

There is contamination and potential contamination of some NZDF sites as a result of occupation over many years. Where contamination has been confirmed, and associated restoration costs can be reliably estimated, the value of the land has been adjusted. Where contamination is presumed and restoration costs have not been quantified, NZDF has valued those properties on a consistent basis with the adjacent land. In the event of any land being proposed for sale under the Government sale processes, potentially contaminated sites will be subject to specific valuation and negotiation at that point in time.

The NZDF has an established programme to assess and manage the seismic integrity of the NZDF estate. Assessments have confirmed that the NZDF has 46 buildings that are potentially earthquake prone (less than 34% of the National Building Standard). Detailed Engineering Evaluations have been undertaken that confirm these assets are indeed earthquake prone and the potential costs of remediation. The outcome is that:

- Within the 46, there remain 5 buildings that needed adjustments immediately and these have been vacated.
- The remaining 41 have been deemed safe to occupy by engineers although they will require some strengthening work in the future and some have restrictions on occupancy.
- For many buildings the strengthening work is relatively minor (e.g. removing a concrete chimney). Strengthening will achieve greater than 34% of code compliance and where practicable, over 67%.

Under legislation passed into law in 2017 NZDF has from 15 to 35 years to either complete strengthening work on the buildings or demolish them; the variation is due to building location and therefore earthquake hazard risk, within seismic regions of New Zealand. The time begins from the date on which the Local Territorial Authority issues an Earthquake Prone Building notice. Consequently there will be a liability for seismic remediation work as a result of the seismic assessment programme, for approximately 35 years. Some buildings, due to a backlog of work within Territorial Authorities, have yet to be issued their Earthquake Prone Building notice. For these buildings then the strengthening liability exists as a latent commitment, with the time to rectify not yet recorded under the regulatory framework. Since the middle of 2019 the need for strengthening or demolishing buildings has been included in the Estate Regeneration Programme. The NZDF will therefore incorporate much, but not all, of the seismic work to buildings in the course of its building development and replacement programme. The NZDF has recorded resolution time-frames that presumes a regulatory time has begun. This is a conservative approach but one that may yet be modified. Defence Estate and Infrastructure has, and continues to address the highest priority buildings to reduce immediate risk to buildings and occupants and this process remains ongoing as part of business as usual development projects.

Given the ongoing level of uncertainty of both remedial works costs and future estate planning in relation to retention or demolition of these assets, the NZDF has chosen not to recognise an impairment on current building values. However, given the size of the potential remedial and regeneration work the NZDF is disclosing this situation.

## C1 Property, Plant and Equipment

### Group 2020

	Land (\$000)	Buildings (\$000)	Specialist Military Equipment (\$000)	Plant and Equipment (\$000)	Office and Computer Equipment (\$000)	Heritage Assets (\$000)	Total (\$000)
<b>Cost or Valuation</b>							
Balance as at 1 July 2019	1,002,268	2,015,829	4,792,966	300,370	144,546	25,650	8,281,629
Additions	5,146	106,824	172,007	6,985	17,763	259	308,984
Revaluation	1,946	(9,917)	(23)	-	-	-	(7,994)
Disposals	-	(749)	(15,737)	(4,335)	(337)	-	(21,158)
Work in progress movement	-	(33,874)	243,901	27,159	(795)	-	236,391
Other asset movements	-	-	(14)	1,492	(1,478)	-	-
as at 30 June 2020	1,009,360	2,078,113	5,193,100	331,671	159,699	25,909	8,797,852
<b>Accumulated Depreciation</b>							
Balance as at 1 July 2019	-	(7,093)	(1,520,128)	(179,758)	(95,605)	(89)	(1,802,673)
Depreciation expense	-	(81,711)	(349,093)	(12,316)	(12,746)	(17)	(455,883)
Impairment	-	-	(546)	-	-	-	(546)
Eliminated on disposal	-	21	15,048	4,249	339	-	19,657
Eliminated on Revaluation	-	(117)	-	-	-	-	(117)
Reverse accumulated impairment loss	-	-	(3)	1	(3)	-	(5)
Other asset movements	-	1	4	(4)	-	-	1
as at 30 June 2020	-	(88,899)	(1,854,718)	(187,828)	(108,015)	(106)	(2,239,566)
<b>Carrying amount as at 30 June 2020</b>	<b>1,009,360</b>	<b>1,989,214</b>	<b>3,338,382</b>	<b>143,843</b>	<b>51,684</b>	<b>25,803</b>	<b>6,558,286</b>

## C1 Property, Plant and Equipment (continued)

### Group 2021

	Land (\$000)	Buildings (\$000)	Specialist Military Equipment (\$000)	Plant and Equipment (\$000)	Office and Computer Equipment (\$000)	Heritage Assets (\$000)	Total (\$000)
<b>Cost or Valuation</b>							
Balance as at 1 July 2020	1,009,360	2,078,113	5,193,100	331,671	159,699	25,909	8,797,852
Additions	784	30,072	590,075	23,142	15,172	213	659,458
Revaluation	37,350	594,299	-	-	-	-	631,649
Disposals	(421)	(183)	(4,037)	(5,380)	82	-	(9,939)
Work in progress movement	-	55,428	68,737	4,022	243	-	128,430
Other asset movements	-	211	(59)	(152)	-	-	-
as at 30 June 2021	1,047,073	2,757,940	5,847,816	353,303	175,196	26,122	10,207,450

### Accumulated Depreciation

Balance as at 1 July 2020	-	(88,899)	(1,854,718)	(187,828)	(108,015)	(106)	(2,239,566)
Depreciation expense	-	(84,502)	(347,918)	(9,961)	(16,015)	-	(458,396)
Impairment	-	-	-	-	-	-	-
Eliminated on disposal	-	28	3,173	4,401	32	58	7,692
Eliminated on Revaluation	-	164,724	-	-	-	-	164,724
Reverse accumulated impairment loss	-	-	-	-	-	-	-
Other asset movements	-	(77)	27	50	-	-	-
as at 30 June 2021	-	(8,726)	(2,199,436)	(193,338)	(123,998)	(48)	(2,525,546)

<b>Carrying amount as at 30 June 2021</b>	<b>1,047,073</b>	<b>2,749,214</b>	<b>3,648,380</b>	<b>159,965</b>	<b>51,198</b>	<b>26,074</b>	<b>7,681,904</b>
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### Parent 2020

	Land (\$000)	Buildings (\$000)	Specialist Military Equipment (\$000)	Plant and Equipment (\$000)	Office and Computer Equipment (\$000)	Heritage Assets (\$000)	Total (\$000)
<b>Cost or Valuation</b>							
Balance as at 1 July 2019	994,964	1,984,011	4,792,966	297,903	143,988	-	8,213,832
Additions	5,146	106,824	172,007	6,929	17,754	-	308,660
Revaluation	1,946	(9,917)	(23)	-	-	-	(7,994)
Disposals	-	(749)	(15,737)	(4,335)	(337)	-	(21,158)
Work in progress movement	-	(33,874)	243,901	27,159	(795)	-	236,391
Other asset movements	-	-	(14)	1,492	(1,478)	-	-
as at 30 June 2020	1,002,056	2,046,295	5,193,100	329,148	159,132	-	8,729,731

**Parent 2020 (continued)**

	Land (\$000)	Buildings (\$000)	Specialist Military Equipment (\$000)	Plant and Equipment (\$000)	Office and Computer Equipment (\$000)	Heritage Assets (\$000)	Total (\$000)
<b>Accumulated Depreciation</b>							
Balance as at 1 July 2019	-	-	(1,520,128)	(177,811)	(95,420)	-	(1,793,359)
Depreciation expense	-	(80,965)	(349,093)	(12,169)	(12,796)	-	(454,955)
Impairment expense	-	-	(546)	-	-	-	(546)
Eliminated on disposal	-	21	15,048	4,249	339	-	19,655
Eliminated on Revaluation	-	(117)	-	-	-	-	(117)
Reverse accumulated impairment loss	-	-	(3)	1	(1)	-	(3)
Other asset movements	-	1	4	(4)	-	-	1
as at 30 June 2020	-	(81,060)	(1,854,718)	(185,734)	(107,812)	-	(2,229,324)
<b>Carrying amount as at 30 June 2020</b>	<b>1,002,056</b>	<b>1,965,235</b>	<b>3,338,382</b>	<b>143,414</b>	<b>51,320</b>	<b>-</b>	<b>6,500,407</b>

**Parent 2021**

	Land (\$000)	Buildings (\$000)	Specialist Military Equipment (\$000)	Plant and Equipment (\$000)	Office and Computer Equipment (\$000)	Heritage Assets (\$000)	Total (\$000)
<b>Cost or Valuation</b>							
Balance as at 1 July 2020	1,002,056	2,046,295	5,193,100	329,148	159,132	-	8,729,731
Additions	784	29,775	590,075	23,142	15,172	-	658,948
Revaluation	37,350	594,299	-	-	-	-	631,649
Disposals	-	(183)	(4,037)	(4,391)	(53)	-	(8,664)
Work in progress movement	-	55,428	68,737	4,022	243	-	128,430
Other asset movements	-	211	(59)	(152)	-	-	-
as at 30 June 2021	1,040,190	2,725,825	5,847,816	351,769	174,494	-	10,140,094
<b>Accumulated Depreciation</b>							
Balance as at 1 July 2020	-	(81,060)	(1,854,718)	(185,734)	(107,812)	-	(2,229,324)
Depreciation expense	-	(83,610)	(347,918)	(10,574)	(15,902)	-	(458,004)
Impairment expense	-	-	-	-	-	-	-
Eliminated on disposal	-	23	3,173	4,322	53	-	7,571
Eliminated on Revaluation	-	164,724	-	-	-	-	164,724
Other asset movements	-	(77)	27	50	-	-	-
as at 30 June 2021	-	-	(2,199,436)	(191,936)	(123,661)	-	(2,515,033)
<b>Carrying amount as at 30 June 2021</b>	<b>1,040,190</b>	<b>2,725,825</b>	<b>3,648,380</b>	<b>159,833</b>	<b>50,833</b>	<b>-</b>	<b>7,625,061</b>

**Restrictions**

The NZDF has finance leases on Aircrew Training Capability fitout with a net carrying amount of \$31.5 million (2020: \$36.0 million). Except for the finance leases, there are no restrictions over the title of the NZDF's property, plant and equipment, nor is any item of property, plant and equipment pledged as security for liabilities.

## C2 Work in Progress

### Accounting Policy

The NZDF reimburses the Ministry of Defence twice annually for costs incurred on capital projects. This has the effect of transferring non-departmental capital expenditure from the Ministry of Defence to the NZDF Statement of Financial Position.

Work in progress includes \$1,189.9 million for work in progress for capital projects managed by the Ministry of Defence (2020: \$1,245.2 million).

2020			2021	
Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)
35,996	35,996	Buildings	91,424	91,424
1,308,102	1,308,102	Specialist military equipment	1,376,839	1,376,839
63,483	63,483	Plant and equipment	67,505	67,505
19,636	19,636	Office and computer equipment	19,879	19,879
<b>1,427,217</b>	<b>1,427,217</b>	<b>Total Work in Progress</b>	<b>1,555,647</b>	<b>1,555,647</b>

## C3 Intangible Assets

### Accounting Policy

Computer software with a finite useful life costing more than \$50,000 is capitalised and recorded at cost less accumulated amortisation. Costs associated with maintaining computer software are recognised as an expense when incurred.

Amortisation is charged to the Statement of Comprehensive Revenue and Expense on a straight-line basis over the useful life of the asset. The estimated economic useful life for computer software is 3 – 20 years.

2020			2021	
Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)
<b>Cost or Valuation</b>				
118,067	118,067	Opening balance	137,068	137,068
19,217	19,217	Additions	17,188	17,188
(216)	(216)	Disposals	(7)	(7)
-	-	Work in progress movement	(5,330)	(5,330)
<b>137,068</b>	<b>137,068</b>	<b>Closing Balance</b>	<b>148,919</b>	<b>148,919</b>
<b>Accumulated Amortisation</b>				
(64,954)	(64,954)	Opening balance	(73,832)	(73,832)
(9,094)	(9,094)	Less amortisation	(11,144)	(11,144)
216	216	Eliminated on disposal	7	7
<b>(73,832)</b>	<b>(73,832)</b>	<b>Closing Balance</b>	<b>(84,969)</b>	<b>(84,969)</b>
<b>63,236</b>	<b>63,236</b>	<b>Net Intangible Assets</b>	<b>63,950</b>	<b>63,950</b>

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

## C4 Non-Current Assets Held For Sale

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

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

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

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

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

2020			2021	
Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)
<b>Non-Current assets held for sale comprise:</b>				
8,813	8,813	Specialist Military Equipment	8,813	8,813
<b>8,813</b>	<b>8,813</b>	<b>Total non-current assets held for sale</b>	<b>8,813</b>	<b>8,813</b>

In 2020, NZDF transferred 30 Lighted Armoured Vehicles (LAV III) to held for sale, as they are no longer required for the delivery of outputs. The Light Armoured Vehicles were transferred to non-current assets held for sale at carrying value and there was no gain or loss on classification. Due to conditions imposed on the sale that are outside of NZDF's control, the sale has still not completed at 30 June 2021.

# Notes to the Financial Statements

## D Equity

### Accounting Policy

Equity is the Crown's investment in the NZDF and is measured as the difference between total assets and total liabilities.

Equity is disaggregated and classified into a number of components to enable clearer identification of the specified

uses of equity within the NZDF and the Group. The components of equity are taxpayers' funds, property, plant and equipment revaluation reserves, non-taxpayers' funds and restricted funds.

The non-taxpayers' funds and restricted funds are the equity in the various Service Museums and Non-Public Funds that are not public money. The restricted

funds are those reserves in the NZDF controlled entities that are subject to specific conditions of use, whether under statute or accepted as binding by the NZDF. Transfers from these reserves may be made only for specified purposes or when certain specified conditions are met.

## D1 Taxpayers' Funds

2020			2021	
Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)
3,917,243	3,917,243	Opening balance as at 1 July	4,745,097	4,745,097
161,377	161,345	Net surplus for the year	96,745	97,184
5,000	5,000	Transfers from revaluation reserve on disposal of assets	(318)	(479)
660	-	Transfers to non-taxpayers' funds	(2,178)	-
822,771	822,771	Capital injection	511,618	511,618
102	-	Owners contributions	2,456	-
(794)	-	Capital withdrawal	-	-
(161,262)	(161,262)	Repayment of surplus	(95,459)	(95,459)
<b>4,745,097</b>	<b>4,745,097</b>	<b>Closing Balance as at 30 June</b>	<b>5,257,961</b>	<b>5,257,961</b>

## D2 Revaluation Reserve for Property, Plant and Equipment

Group 2020		Group 2021					
(\$000)		Land (\$000)	Buildings (\$000)	Specialist Military Equipment (\$000)	Plant and Equipment (\$000)	Heritage Assets (\$000)	Total Group (\$000)
2,951,377	Opening balance as at 1 July	1,056,930	1,300,340	558,792	(200)	22,404	2,938,266
(8,111)	Revaluation gains/(losses)	37,350	759,023	-	-	-	796,373
-	Other revaluation movements	(2)	-	-	-	-	(2)
(5,000)	(Gains)/losses transferred to Taxpayers' funds for disposals	(161)	1,822	(1,343)	-	-	318
<b>2,938,266</b>	<b>Closing Balance as at 30 June</b>	<b>1,094,117</b>	<b>2,061,185</b>	<b>557,449</b>	<b>(200)</b>	<b>22,404</b>	<b>3,734,955</b>



## Parent 2020

## Parent 2021

(\$000)		Land (\$000)	Buildings (\$000)	Specialist Military Equipment (\$000)	Plant and Equipment (\$000)	Heritage Assets (\$000)	Total Group (\$000)
2,921,881	Opening balance as at 1 July	1,052,189	1,297,935	558,646	-	-	2,908,770
(8,111)	Revaluation gains/(losses)	37,350	759,023	-	-	-	796,373
-	Other revaluation movements	-	-	-	-	-	-
(5,000)	(Gains)/losses transferred to Taxpayers' funds for disposals	-	1,822	(1,343)	-	-	479
<b>2,908,770</b>	<b>Closing Balance as at 30 June</b>	<b>1,089,539</b>	<b>2,058,780</b>	<b>557,303</b>	<b>-</b>	<b>-</b>	<b>3,705,622</b>

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

### D3 Non-Taxpayers' Funds

2020			2021	
Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)
55,749	-	Opening balance	54,998	-
134	-	Additional funds	2,581	-
(794)	-	Funds utilised	(439)	-
(91)	-	Transfers to restricted funds	(4)	-
<b>54,998</b>	<b>-</b>	<b>Closing Balance as at 30 June</b>	<b>57,136</b>	<b>-</b>

### D4 Restricted Funds

2020			2021	
Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)
2,697	-	Opening balance	2,788	-
91	-	Additional funds	4	-
-	-	Funds utilised	(125)	-
<b>2,788</b>	<b>-</b>	<b>Closing Balance as at 30 June</b>	<b>2,667</b>	<b>-</b>

The restricted funds of the controlled entities relate to various funds held by the Service Museums and Non-Public Funds including:

- Capital and Museum collection reserves
- Fiduciary funds held for specific purposes of the applicable Non-Public Funds
- Funds held to benefit the members of the Non-Public Funds

# Notes to the Financial Statements

## E Other Assets and Liabilities

### E1 Cash and Cash Equivalents

#### Accounting Policy

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

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

2020			2021	
Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)
38,063	36,288	Cash at bank and on hand	77,946	63,196
<b>38,063</b>	<b>36,288</b>	<b>Total Cash and Cash Equivalents</b>	<b>77,946</b>	<b>63,196</b>

While cash and cash equivalents at 30 June 2021 are subject to the expected credit loss requirements of PBE IFRS 9, no loss allowance has been recognised because the estimated loss allowance for credit losses is insignificant (2020: no allowance).

## E2 Debtors and Other Receivables

### Accounting Policy

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

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

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

2020			2021	
Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)
51,302	50,401	Trade Debtors (gross)	6,055	5,228
(47)	(47)	Less provision for doubtful debts	(47)	(47)
<b>51,255</b>	<b>50,354</b>	<b>Net Debtors</b>	<b>6,008</b>	<b>5,181</b>
1,004,620	1,004,620	Debtor Crown	1,381,625	1,381,625
<b>1,055,875</b>	<b>1,054,974</b>	<b>Total Receivables</b>	<b>1,387,633</b>	<b>1,386,806</b>
<b>Total Receivables comprise:</b>				
51,255	50,354	Receivables from exchange transactions	6,008	5,181
1,004,620	1,004,620	Receivables from non-exchange transactions	1,381,625	1,381,625
<b>1,055,875</b>	<b>1,054,974</b>	<b>Total Debtors and Other Receivables</b>	<b>1,387,633</b>	<b>1,386,806</b>

The expected credit loss rates for receivables are based on the payment profile of revenue on credit over the prior two years at the measurement date and the corresponding historical credit losses experienced for that period. The historical loss rates are adjusted for current and forward-

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

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

The allowance for credit losses was determined as follows:

**Group 2020****Group 2021**

Gross (\$000)	Impairment (\$000)	Net (\$000)		Expected credit loss rate	Gross (\$000)	Lifetime expected credit loss (\$000)	Net (\$000)
1,053,042	-	1,053,042	Current	0%	1,394,606	-	1,394,606
2,428	-	2,428	Less than 6 months past due	0%	245	-	245
308	-	308	Between six months and one year past due	0%	156	-	156
(15)	-	(15)	Between one and two years past due	0%	533	-	533
159	(47)	112	Greater than 2 years past due	37%	126	(47)	79
<b>1,055,922</b>	<b>(47)</b>	<b>1,055,875</b>	<b>Total</b>		<b>1,395,666</b>	<b>(47)</b>	<b>1,395,619</b>

**Parent 2020****Parent 2021**

Gross (\$000)	Impairment (\$000)	Net (\$000)		Expected credit loss rate	Gross (\$000)	Lifetime expected credit loss (\$000)	Net (\$000)
1,052,141	-	1,052,141	Current	0%	1,394,606	-	1,394,606
2,428	-	2,428	Less than 6 months past due	0%	245	-	245
308	-	308	Between six months and one year past due	0%	156	-	156
(15)	-	(15)	Between one and two years past due	0%	533	-	533
159	(47)	112	Greater than 2 years past due	37%	126	(47)	79
<b>1,055,021</b>	<b>(47)</b>	<b>1,054,974</b>	<b>Total</b>		<b>1,395,666</b>	<b>(47)</b>	<b>1,395,619</b>

**Movements in the Provision for Doubtful Debts****2020****2021**

Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)
47	47	Opening Balance	47	47
<b>47</b>	<b>47</b>	<b>Closing Doubtful Debt Provision</b>	<b>47</b>	<b>47</b>

## E3 Inventories

### Accounting Policy

Inventories are held for distribution or consumption in the provision of services and comprise munitions, technical spares and consumable items.

Inventory intended to be kept for more than one year has been classified as non-current inventory. No inventory is pledged as security for liabilities.

Inventories are recorded at weighted average cost and the total value of inventory reflects any obsolescence or other impairment.

The obsolescence provision is calculated by identifying specific obsolete inventory items and slow moving inventory lines.

2020			2021	
Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)
95,321	95,167	Total Current Inventories	147,039	146,910
333,941	333,941	Total Non-Current Inventories	338,758	338,758
<b>429,262</b>	<b>429,108</b>	<b>Total Inventories</b>	<b>485,797</b>	<b>485,668</b>

### Inventories by Category

2020			2021	
Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)
277,284	277,284	Equipment and spares	327,435	327,435
115,092	115,092	Ammunition	111,289	111,289
62,778	62,624	General materials and consumables	66,868	66,739
8,795	8,795	Stock on board ships	9,663	9,663
22,316	22,316	Fuel, clothing and other inventories	27,360	27,360
(57,003)	(57,003)	Obsolescence	(56,818)	(56,818)
<b>429,262</b>	<b>429,108</b>	<b>Total Inventories</b>	<b>485,797</b>	<b>485,668</b>

The carrying amount of inventory held for distribution is at weighted average cost. The write-down of inventory held for distribution was nil (2020: nil). There have been no reversals of write-downs. The total amount of inventories recognised as an expense during the period was \$169.3 million (2020: \$148.6 million).

The loss in service potential of inventory held for distribution is determined on the basis of obsolescence. Inventories were reviewed for obsolete items during 2021, decreasing the obsolescence provision by \$0.2 million (2020: \$11.9 million increase in provision). Total inventories are reported net of obsolescence.

No inventory has been pledged as security for liabilities (2020: nil). Some inventory is subject to retention of title clauses.

## E4 Other Financial Assets

### Accounting Policy

#### Derivative Financial Instruments

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

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

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

2020			2021	
Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)
<b>Mandatorily measured at fair value through surplus or deficit</b>				
1,812	1,812	Derivative financial instruments	3,560	3,560
1,734	1,734	Current asset	3,153	3,153
78	78	Non-Current asset	407	407
<b>1,812</b>	<b>1,812</b>	<b>Total</b>	<b>3,560</b>	<b>3,560</b>

Financial assets through surplus or deficit reflect the positive change in fair value of those foreign exchange forward contracts that are not designated in hedge relationships, but are, nevertheless, intended to reduce the level of foreign currency risk for expected sales and purchases.

### Fixed Term Deposits

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

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

The carrying amounts of term deposits with maturities of 12 months or less approximate their fair value.

The fair value of term deposits with remaining maturities in excess of 12 months is \$3.7 million (2020: \$7.6 million). The fair values are based on discounted cash flows using market quoted interest rates for term deposits with terms to maturity similar to the relevant investments.

2020			2021	
Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)
<b>Financial assets measured at amortised cost</b>				
277	-	Concessionary loans	199	-
30,518	-	Fixed term deposits and fixed interest bonds	23,168	-
<b>30,795</b>	<b>-</b>	<b>Total</b>	<b>23,367</b>	<b>-</b>
23,021	-	Current asset	19,594	-
7,774	-	Non-Current asset	3,773	-
<b>30,795</b>	<b>-</b>	<b>Total</b>	<b>23,367</b>	<b>-</b>
<b>Total other financial assets classified as follows:</b>				
24,755	1,734	Current asset	22,747	3,153
7,852	78	Non-Current asset	4,180	407
<b>32,607</b>	<b>1,812</b>	<b>Total Other Financial Assets</b>	<b>26,927</b>	<b>3,560</b>

## Concessionary loans

2020			2021	
Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)
371	-	Opening balance	277	-
(94)	-	Repayments	(78)	-
<b>277</b>	<b>-</b>	<b>Closing Balance</b>	<b>199</b>	<b>-</b>
<b>Total Concessionary loans classified as follows</b>				
152	-	Current assets	104	-
125	-	Non-Current assets	-	-
<b>277</b>	<b>-</b>	<b>Closing Balance</b>	<b>104</b>	<b>-</b>

Concessionary loans are advances that have been made at lower than market terms. NZDF has not received or made any concessionary loans. The loans detailed above relate only to the Group and comprise of the following:

The Royal New Zealand Naval Benevolent Fund and the Royal New Zealand Naval Officers Benevolent Trust offer home purchase, home improvements and personal loans to Navy personnel.

The Army Non Public Fund operates a personal loan scheme whereby it provides personal loans up to \$15,000 for army personnel. Personal loans in excess of \$10,000 are secured by the applicant. The personal loans become callable once an employee ceases employment with the Army. A provision of 1% of outstanding loans has been made in line with the Fund's assessment of doubtful debts.

The Royal New Zealand Air Force Central Fund has made advances to Air Force personnel to assist their families with relief from poverty and hardship. In addition, an advance has been made to the RNZAF Base Woodbourne Base Fund.

## E5 Payables and Deferred Revenue

2020			2021	
Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)
<b>Payables and Deferred Revenue under Exchange Transactions</b>				
37,400	33,318	Trade creditors	68,382	61,680
464	464	Income in advance	3,268	3,268
143,346	143,244	Accrued expenses	429,678	429,638
42,611	42,611	Payroll liabilities	25,606	25,606
5,475	5,475	Other short term liabilities	4,580	4,580
<b>229,296</b>	<b>225,112</b>	<b>Total Payables and Deferred Revenue under Exchange Transactions</b>	<b>531,514</b>	<b>524,772</b>
<b>Payables and Deferred Revenue under Non-Exchange Transactions</b>				
29,356	29,360	GST payable	40,337	40,317
<b>258,652</b>	<b>254,472</b>	<b>Total Payables and Deferred Revenue</b>	<b>571,851</b>	<b>565,089</b>

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

## E6 Surplus Repayable to the Crown

2020			2021	
Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)
161,345	161,345	Net operating surplus	97,184	97,184
(83)	(83)	Unrealised (gains)/losses in relation to forward foreign exchange	(1,725)	(1,725)
161,262	161,262	Net Surplus from Delivery of Outputs	95,459	95,459
<b>161,262</b>	<b>161,262</b>	<b>Total Provision for Repayment of Surplus</b>	<b>95,459</b>	<b>95,459</b>

The repayment of surplus is required to be paid by the 31st October of each year.

There is no difference between the Parent and Group amounts as the other entities making up the Group are not required to make a repayment of surplus.



## E7 Provisions

### Accounting Policy

A provision is recognised for future expenditure of uncertain amount or timing when there is a present obligation (either legal or constructive) as a result of a past event, and it is probable that an outflow of future economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses.

2020			2021	
Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)
766	766	Narrow Neck Lease	684	684
11,359	11,359	Soil and Range Remediation	7,272	7,272
1,205	1,205	Restructuring	223	223
545	545	Worksafe Claim	250	250
15	15	Other	15	15
<b>13,890</b>	<b>13,890</b>	<b>Total Provisions</b>	<b>8,444</b>	<b>8,444</b>

### 2020

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

### 2021

	Narrow Neck Lease (\$000)	Soil and Range Remediation (\$000)	Restructuring (\$000)	Worksafe claim (\$000)	Other (\$000)	Group/Parent (\$000)
Opening balance 1 July 2020	766	11,359	1,205	545	15	13,890
Additional provisions made during the year	-	1,029	-	250	-	1,279
Provisions used during the year	(82)	(3,616)	(360)	(545)	-	(4,603)
Reversal of provisions during the year	-	(1,500)	(622)	-	-	(2,122)
<b>Closing Balance as at 30 June 2021</b>	<b>684</b>	<b>7,272</b>	<b>223</b>	<b>250</b>	<b>15</b>	<b>8,444</b>

#### Narrow Neck Lease Provision

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

#### Environmental and Range Remediation Provision

This provision is an estimate of NZDF's liability to remediate soil contamination, remediate operational ranges that have been used in overseas deployments and dispose of environmentally unsafe fire fighting products.

#### Restructuring Provision

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

#### Worksafe Claim Provision

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

#### Other Provisions

This represents other minor provisions recorded by NZDF.

## E8 Employee Entitlements

### Accounting Policy

#### Employee Entitlements

A provision is made in respect of the NZDF's liability for annual, long service, incentive leave and retirement benefits. Annual leave has been calculated on an actual entitlement basis at current rates of pay. Long service, incentive leave and retirement benefits have been calculated on an actuarial basis, by the NZDF based on the estimated present value of future entitlements and inflation and discount rates advised by The Treasury. The actuarial gains and losses on the provision of employee entitlements are recorded through the Statement of Comprehensive Revenue and Expense.

#### ACC Partnership Programme

The NZDF is an ACC Accredited Employer under the ACC Partnership Programme whereby NZDF accepts the management and financial responsibility for work related illnesses and accidents of employees. Under the ACC Partnership Programme, the NZDF is effectively providing accident insurance to employees and this is accounted for as an insurance contract.

The NZDF manages ACC claims for work related injuries until the claim is closed or for a period of 48 months following the year in which the claim was registered. At the end of this period, any open claims still requiring entitlements are handed back to ACC for management together with the life time cost of these claims. ACC calculates the life time cost of open claims at hand back. The NZDF liability for these claims ceases at the point of setting the life time costs.

The value of the liability for ACC claims is measured as the expected future payments to be made for claims already registered up to the reporting date for which the NZDF has responsibility under the terms of the Accredited Employer Programme.

#### Superannuation

Obligations for contributions to the Defence Force Superannuation Schemes, State Sector Retirement Savings Scheme, NZDF Kiwi Saver Scheme, Other Kiwisaver Schemes, Government Superannuation Fund Schemes, and National Provident Fund are accounted for as defined contribution schemes and are recognised as an expense in the Statement of Comprehensive Revenue and Expense as incurred.

2020			2021	
Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)
<b>Current Entitlement</b>				
2,647	2,647	Retirement, incentive and long service leave	4,314	4,314
62,126	62,083	Accrued and annual leave	62,515	62,495
945	945	Sick leave	945	945
<b>65,718</b>	<b>65,675</b>	<b>Total Current Entitlement</b>	<b>67,774</b>	<b>67,754</b>
<b>Non-Current Entitlement</b>				
3,391	3,391	Retirement, incentive and long service leave	3,355	3,355
39	39	Accrued leave	23	23
773	773	ACC self insurance liability	749	749
4,203	4,203	Total Non-Current Entitlement	4,127	4,127
<b>69,921</b>	<b>69,878</b>	<b>Total Provision for Employee Entitlements</b>	<b>71,901</b>	<b>71,881</b>

Annual leave is calculated using the number of days owing as at the end of June. Incentive and long service leave are actuarially calculated by the NZDF based on inflation and discount rates advised by The Treasury to reflect the likelihood of a liability being incurred. Accumulated leave and terminal benefits are paid out on release and their values are actuarially calculated using predicted terminal dates. The provision for the cost of sick leave is calculated based on the additional amount that the NZDF expects to pay as a result of the unused entitlement that has accumulated at the reporting date, in excess of the annual sick leave entitlement.

Inflation has been assumed to be 2.0% (2020: 2.0%) and a discount rate of 4.30% (2020: between 0.22% and 4.30%) has been used for future years.

### ACC Accredited Employer Programme

The liability for the ACC Accredited Employer Programme has been actuarially calculated by the NZDF based on expected treatment costs, rehabilitation entitlements, income compensation and historical claims information. Claims management practices focus on limiting liability without compromising care and entitlements.

Inflation has been assumed to be 2.0% (2020: 2.0%) and a discount rate of 4.30% (2020: between 0.22% and 4.30%) has been used for future years.

The claims management provision allows for the future cost of managing claims applying the ACC standard basis of 8.0% of the total liability.

The value of the liability is not material for the NZDF's financial statements, therefore any changes in assumptions will not have a material impact on the financial statements.

The NZDF has purchased high cost claim cover to limit liability for any one event to \$2.5 million. The NZDF has a stop loss limit since joining the Accredited Employer Programme set at \$11.9 million which is 160% of the risk.

## E9 Finance Leases

### Accounting Policy

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset, whether or not the title is eventually transferred.

At the commencement of the lease term, finance leases are recognised as assets and liabilities in the Statement of Financial Position at the lower of the fair value of the leased item or the present value of the minimum lease payments.

The finance costs are charged to the Statement of Comprehensive Revenue and Expense over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability.

The amount recognised as an asset is depreciated over its useful life. If there is no certainty as to whether the NZDF will obtain ownership at the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life.

## Critical Judgements in Applying Accounting Policies

### Determining lease classification

Determining whether a lease agreement is a finance lease or an operating lease requires judgement as to whether the agreement transfers substantially all the risk and rewards of ownership to the NZDF. Judgement is required on various aspects that include, but are not limited to, the fair value of the lease asset, the economic life of the leased asset, whether or not to include the renewal options in the lease term, and determining an appropriate discount rate to calculate the present value of the minimum lease payments.

Classification as a finance lease means the asset is recognised in the Statement of Financial Position as property, plant and equipment, whereas with an operating lease no such asset is recognised.

The NZDF has exercised its judgement on the appropriate classification of equipment leases and has determined a number of lease arrangements to be finance leases.

2020			2021	
Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)
<b>Total Minimum Lease Payments Payable</b>				
5,610	5,608	Not later than one year	4,952	4,952
22,413	22,413	Later than one year and not later than five years	19,788	19,788
15,404	15,404	Later than five years	8,658	8,658
43,427	43,425	Total Minimum Lease Payments	33,398	33,398
(6,728)	(6,728)	Less future finance charges	(4,595)	(4,595)
36,699	36,697	Present Value of Minimum Lease Payments	28,803	28,803
<b>Present Value of Minimum Lease Payments Payable</b>				
4,084	4,082	Not later than one year PV	3,759	3,759
18,175	18,175	Later than one year and not later than five years PV	16,755	16,755
14,440	14,440	Later than five years PV	8,289	8,289
36,699	36,697	Total Present Value of Minimum Lease Payments Payable	28,803	28,803
<b>Represented by:</b>				
4,078	4,076	Current finance lease liabilities	3,757	3,757
32,621	32,621	Non-Current finance lease liabilities	25,046	25,046
36,699	36,697	<b>Total Finance Lease Liabilities</b>	<b>28,803</b>	<b>28,803</b>

## Description of Leasing Arrangements

The NZDF has entered into finance leases for leases on Aircrew Training Capability fitout and computer equipment. The net carrying amount of the leased items is shown in the office and computer equipment class of property, plant and equipment in note C1.

The finance leases can be extended at NZDF's option. The NZDF does not have the option to purchase the assets at the end of the lease term. There are no restrictions placed on the NZDF by the finance lease arrangements. Finance lease liabilities are effectively secured, as the rights to the leased asset revert to the lessor in the event of default in payment.

## E10 Other Financial Liabilities

2020			2021	
Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)
<b>Mandatorily measured at fair value through surplus or deficit</b>				
2,638	2,638	Derivative financial instruments	2,661	2,661
<b>Total other financial liabilities classified as follows:</b>				
2,049	2,049	Current liabilities	2,432	2,432
589	589	Non-Current liabilities	229	229
<b>2,638</b>	<b>2,638</b>	<b>Total Other Financial Liabilities</b>	<b>2,661</b>	<b>2,661</b>

Financial liabilities through surplus or deficit reflect the negative change in fair value of those foreign exchange forward contracts that are not designated in hedge relationships, but are, nevertheless, intended to reduce the level of foreign currency risk for expected sales and purchases.

## E11 Financial Instruments

### Accounting Policy

The NZDF is party to financial instruments as part of its normal operations. These financial instruments include cash balances, receivables, payables, fixed term investments, and foreign currency forward exchange contracts or derivatives.

All financial instruments are recognised in the Statement of Financial Position. All revenue and expenses in relation to all financial instruments are recognised in the Statement of Comprehensive Revenue and Expense.

## E11a Categories of Financial Instrument

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

2020			2021	
Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)
<b>Financial assets measured at amortised cost</b>				
38,063	36,288	Cash and cash equivalents	77,946	63,196
1,055,875	1,054,974	Debtors and other receivables	1,387,633	1,386,806
277	-	Concessionary loans	199	-
30,518	-	Fixed term deposits and fixed interest bonds	23,168	-
<b>1,124,733</b>	<b>1,091,262</b>	<b>Total financial assets measured at amortised cost</b>	<b>1,488,946</b>	<b>1,450,002</b>
<b>Mandatorily measured at fair value through surplus or deficit</b>				
1,812	1,812	Derivative financial instrument assets	3,560	3,560
(2,638)	(2,638)	Derivative financial instrument liabilities	(2,661)	(2,661)
<b>(826)</b>	<b>(826)</b>	<b>Total mandatorily measured at fair value through surplus or deficit</b>	<b>899</b>	<b>899</b>
<b>Financial liabilities measured at amortised cost</b>				
258,652	254,472	Creditors and other payables	571,851	565,089
36,699	36,697	Finance leases	28,803	28,803
<b>295,351</b>	<b>291,169</b>	<b>Total financial liabilities measured at amortised cost</b>	<b>600,654</b>	<b>593,892</b>

## E11b Fair Value Hierarchy Disclosures

For those financial instruments recognised at fair value in the Statement of Financial Position, fair values are determined according to the following hierarchy:

- Quoted market price (level 1) – financial instruments with quoted prices for identical instruments in active markets;
- Valuation techniques using observable inputs (level 2) – financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable; and

- Valuation techniques with significant non-observable inputs (level 3) – financial instruments valued using models where one or more significant inputs are not observable.

The NZDF's foreign exchange derivatives are valued at fair value using observable inputs (level 2).

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

## E11c Financial Instrument Risks

The NZDF's activities expose it to a variety of financial instrument risks. The NZDF has a series of policies to manage the associated risks and seeks to minimise exposure from financial instruments. These policies do not allow transactions that are speculative in nature to be entered into.

### Credit Risk

Credit risk is the risk that a third party will default on its obligations to the NZDF, causing the NZDF to incur a loss.

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

### Risk management

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

The Group's maximum credit exposure for each class of financial instruments is represented by the total carrying amount of cash and cash equivalents, net debtors, held-to-maturity investments and derivative financial instrument assets.

The Group has risk management policies in place to limit the risk of default of any concessionary loans. These include such policies as having to meet commercial lending eligibility criteria, credit checks, requiring security for loans over certain thresholds, and the establishment of a loan redemption fund collected through levies charged on new loans.

The Group's investments consist of term deposits made with various financial institutions and fixed interest stock with various companies or local Government organisations.

### Security

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

The Group does not require any collateral or security to support financial instruments with either the financial institutions that it deals with, or with the NZDM, as these entities have high credit ratings.

### Impairment

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

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

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

2020			2021		
Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)	
<b>Cash at bank and term deposits</b>					
57,123	24,830	AA	87,083	49,165	
11,458	11,458	A	14,031	14,031	
<b>68,581</b>	<b>36,288</b>	<b>Total cash at bank and term deposits</b>	<b>101,114</b>	<b>63,196</b>	
<b>Derivative financial instrument assets</b>					
1,812	1,812	AA	3,560	3,560	
<b>1,812</b>	<b>1,812</b>	<b>Total derivative financial instrument assets</b>	<b>3,560</b>	<b>3,560</b>	

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

## Market Risk

### Currency Risk

Currency risk is the risk that balances denominated in foreign currency will fluctuate because of changes in foreign exchange rates. The NZDF has a Treasury Management Policy that was approved by the Treasury.

The NZDF uses foreign exchange forward contracts with options to manage foreign exchange exposures. The notional principal amount outstanding at reporting date on hedged purchase and sale commitments was \$191.3 million (2020: \$190.0 million).

### Sensitivity Analysis – Cash and Cash Equivalents

At 30 June 2021, if the NZ dollar strengthened by 5% against the major currencies with all other variables held constant, the surplus for the year would have been \$0.75 million lower (2020: \$0.99 million lower).

Conversely, if the NZ dollar weakened by 5% against all the major currencies with all other variables held constant, the surplus for the year would have been \$0.83 million higher (2020: \$0.99 million higher). The movements are a result of the exchange gains or losses on translation of overseas currencies.

### Sensitivity Analysis – Derivative Financial Instruments

At 30 June 2021, if the NZ dollar strengthened by 5% against all the hedged currencies with all other variables held constant, the surplus for the year would have been \$8.6 million lower (2020: \$9.01 million lower).

Conversely, if the NZ dollar weakened by 5% against all the hedged currencies with all other variables held constant, the surplus for the year would have been \$9.5 million higher (2020: \$9.96 million higher). The movements are a result of the exchange gains or losses on translation of overseas currencies.

## Sensitivity Analysis – Cash and Cash Equivalents and Derivative Financial Instruments

	If the NZD dollar strengthened by 5% against all significant hedged currencies (\$'000)	If the NZD dollar weakened by 5% against all significant hedged currencies (\$'000)
Australian Dollars (AUD)	(1,441)	1,593
Canadian Dollars (CAD)	(345)	382
Euro (EUR)	(2,011)	2,223
Great British Pounds (GBP)	(1,043)	1,152
Norwegian Krone (NOK)	(78)	86
Swedish Krona (SEK)	(95)	105
United States Dollar (USD)	(4,254)	4,702
Other	(54)	60
<b>Total Currency Impact</b>	<b>(9,321)</b>	<b>10,303</b>

## Interest Rate Risk

Interest rate risk is the risk that the fair value of a financial instrument will fluctuate or the cash flows from a financial instrument will fluctuate due to changes in market interest rates.

The Group is exposed to interest rate risk on its cashflow from its interest earning financial assets. The Group holds \$38.1 million (2020: \$32.6 million) of financial assets that are mostly interest bearing with interest revenue generated of \$1.0 million (2020: \$1.1 million) during the year. As the Group does not have a significant concentration of credit in financial instruments the exposure to interest rate risk is minor and not material to the Group.

## Liquidity Risk

Liquidity risk is the risk that the NZDF will encounter difficulty raising liquid funds to meet commitments as they fall due.

In meeting its liquidity requirements, the NZDF closely monitors its forecast cash requirements with expected cash draw downs from The Treasury-Capital Markets. The NZDF maintains a target level of available cash to meet liquidity requirements.

The following tables analyse the NZDF's financial instruments that will be settled based on the remaining period from reporting date to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows.



	Carrying amount (\$000)	Contractual cash flows (\$000)	Less than 6 Months (\$000)	Between 6 Months and 1 Year (\$000)	Between 1 Year and 5 Years (\$000)	Over 5 Years (\$000)
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**2021****Group**

Payables	571,851	571,851	571,851	-	-	-
Finance Leases	28,803	33,398	1,776	3,176	19,788	8,658

**Parent**

Payables	565,089	565,089	565,089	-	-	-
Finance Leases	28,803	33,398	1,776	3,176	19,788	8,658

**2020****Group**

Payables	258,652	258,652	258,652	-	-	-
Finance Leases	36,697	43,432	-	5,610	22,413	15,409

**Parent**

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

	Liability carrying amount (\$000)	Asset carrying amount (\$000)	Contractual cash flows (\$000)	Less than 6 months (\$000)	6-12 months (\$000)	1-5 years (\$000)
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**2021****Group/Parent**

<b>Gross settled forward foreign exchange contracts:</b>	2,661	3,560				
- Outflow			179,044	106,536	45,141	27,367
- Inflow			179,947	107,713	44,687	27,547

**2020****Group/Parent**

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

## E11d Derivative Financial Instruments

The notional principal amounts of outstanding forward exchange contracts as at 30 June are noted below. The fair value of forward exchange contracts has been determined using a discounted cash flows valuation technique based on quoted market rates.

<b>2020</b>		<b>2021</b>
<b>Group/Parent (\$000)</b>		<b>Group/Parent (\$000)</b>
<b>Currency</b>		
23,488	Australian Dollars (AUD)	27,132
6,601	Canadian Dollars (CAD)	4,180
53,696	Euro (EUR)	37,446
20,597	Great British Pounds (GBP)	20,279
64	Norwegian Krone (NOK)	1,541
1,484	Swedish Krona (SEK)	186
84,058	United States Dollar (USD)	88,278
<b>189,988</b>	<b>Total Fair Value of Derivative Financial Instruments</b>	<b>179,042</b>

# Notes to the Financial Statements

## F Other Key Disclosure and Information

### F1 Related Party Information

The NZDF is a wholly owned entity of the Crown. The Government significantly influences the roles of the NZDF as well as being its major source of revenue.

Related party disclosures have not been made for transactions with related parties that are within a normal supplier or client/recipient relationship on terms and conditions no more or less favourable than those that it is reasonable to expect the NZDF would have adopted in dealing with the party at arm's length in the same circumstances.

Further, transactions with other Government agencies (for example, Government Departments and Crown entities) are not disclosed as related party transactions when they are consistent with the normal operating arrangements between government agencies and undertaken on the normal terms and conditions for such transactions.

### Key Management Personnel

2020			2021	
Group (\$000)	Parent (\$000)		Group (\$000)	Parent (\$000)
<b>Executive Group, including the Chief of Defence Force</b>				
4,410	4,410	Remuneration	4,307	4,307
12.0	12.0	Full-time equivalent staff	12.0	12.0

The Defence Act 1990 sets out the statutory military operational responsibilities for the Chief of Defence Force and the Chief of Navy, Chief of Army, Chief of Air Force and Commander of Joint Forces. Civilian members of the New Zealand Defence Force Executive Group do not have military operational responsibilities. No other remuneration or compensation is received other than in their capacity as key management personnel. No remuneration or loans have been made to either key management personnel or close family members of the key management personnel. All key management personnel are within the parent entity.

Key management personnel compensation excludes the remuneration and other benefits of the responsible Ministers of the Department. The Ministers' remuneration and other benefits are set out by the remuneration authority under the Members of Parliament (Remuneration and Services) Act 2013 and are paid under Permanent Legislative Authority.

## F2

## Explanation of Major Variances Against Budget

### Impact of COVID-19

The COVID-19 pandemic continues to have a material impact on the NZDF's operations and activities in the year. The variance explanations below outline the effect of COVID-19 on the NZDF's group financial statements where applicable.

The changes in the budgets between the Main Estimates (budget) and Supplementary Estimates (forecast), together with explanations for the significant variances between actual expenditure and the Supplementary Estimates, are detailed by output in Part 3: Accountability Reporting.

Explanations of major variances from NZDF's actuals to Main Estimates (2021 budget) are as follows:

### Statement of Comprehensive Revenue and Expense

#### Changes approved by Cabinet or Joint Ministers

The factors contributing to the overall increase of in the expense budgets between the Main Estimates and Supplementary Estimates included changes of \$85.2 million.

Approved changes between Main Estimates and Supplementary Estimates	(\$000)
Decrease in Revenue Crown funding due to the decrease in the Capital Charge rate from 6% to 5%	(82,880)
Decrease in Revenue Crown funding for personnel expenditure as a result of higher labour capitalisation	(12,503)
Decrease in Revenue Crown funding as a result of a transfer to 2022/23 per the re-phasing of the P-8A Poseidon service plan	(3,800)
Decrease in Revenue Crown funding as a result of a transfer of the Pacific Leadership Development Programme to 2021/22	(2,798)
Decrease in Revenue Crown funding as a result of the capitalisation of PMP	(1,610)
Decrease in Revenue Crown funding due to an adjustment to the APEC 21 Security Project	(171)
Increase in Revenue Other funding as a result of the United States Navy Request for Additional Security in Singapore	74
Increase in Revenue Crown funding for Veterans Health Connect	200
Increase in Revenue Crown funding for Enterprise Cloud	1,080
Increase in Revenue Other to fund the increase in Service Housing revenue	1,121
Increase in Revenue Crown funding as a result of a transfer from 2019/20 for Capability projects delayed due to COVID-19 restrictions	2,275
Increase in Revenue Crown funding for the Future Air Mobility Capability	2,501
Increase in Revenue Crown funding as a result of a transfer from 2019/20 for Defence Force Estate projects delayed due to COVID-19 restrictions	3,286
Increase in Revenue Crown funding for COVID-19 shovel-ready infrastructure projects	3,900
Increase in Revenue Crown funding as a result of a transfer from 2019/20 for capability maintenance and acquisitions delayed due to COVID-19 restrictions	4,179
<b>Total Movements</b>	<b>(85,146)</b>

## Variations between Main Estimates and 2020/21 Actuals

### Revenue Crown

Revenue Crown decreased by \$83.5 million when compared to budget as a result of funding approved by Cabinet and Joint Ministers, as outlined above.

### Gain on financial instruments

Gains on financial instruments were \$18.0 million above budget, as any gains on financial instruments at the time of setting the budget are assumed to be offset by losses on financial instruments.

### Personnel expenditure

Personnel expenditure was \$32.4 million below budget. This is largely due to a higher than planned level of attrition for Civilian FTE's when compared to the budget. Civilian recruitment was also the lowest it has been for five years, as a result the number of Civilian FTE's at 30 June 2021 was 2,967 compared to a forecast of 3,160.

### Operating costs

Operating costs are \$30.1 million below forecast due to the disruption to activities caused by the COVID-19 pandemic. In particular, the disruption to overseas travel and availability of overseas strategic partners has reduced the number of planned overseas training and operational activities.

### Loss on financial instruments

Losses on financial instruments have been driven by losses on foreign currency transactions of \$24.4 million due to fluctuations in exchange rate. These are not forecast as part of the Main Estimates.

### Depreciation

Depreciation was \$13.9 million below budget due to delays in the implementation of capital projects which have been impacted by the disruption to the global supply chain as a result of COVID-19.

### Capital charge

Capital charge is \$108.1 million below budget due to the reduction in the capital charge rate from 6% to 5% as of 1 July 2020.

## Statement of Financial Position

### Variations between Main Estimates and 2020/21 Actual

#### Cash and cash equivalents

Cash and cash equivalents are \$27.9m over budget due to a significant amount of foreign currency held at 30 June for goods that were not received until after balance date.

#### Debtors and other receivables from non-exchange transactions

Debtor Crown is \$147.0 million over budget due to underspends in both capital and operating expenditure. The majority of the variance relates to the current year surplus of \$96.7 million. The remaining variance is due to underspends in the capital programme.

#### Prepayments

Prepayments are over budget by \$26.0 million which largely relates to a higher level of downpayments at 30 June. This is because of ongoing disruption to the supply chain as a result of COVID-19 which is causing delays to the delivery of goods, particularly from overseas vendors. This was not factored into the budget when it was set.

#### Inventories

Total Inventories are \$90.5 million higher when compared to budget. This is largely a result of an adjustment to inventory in 2019/20 for inventory items that had been previously expensed, which was not included in the budget. The carrying amount of this inventory is \$39.4 million at 30 June 2021. There are also higher levels of goods in transit than expected as a result of the ongoing disruption to the global supply chain due to COVID-19. In particular, \$22.5 million of goods were due from an overseas supplier but delivery was delayed until after the period end.

#### Non-current assets held for sale

Non-current assets are \$8.8 million over budget. This relates to a number of light-armoured vehicles (LAVs) which are no longer in service and NZDF are actively marketing to sell. The sale is taking longer than anticipated due to factors outside of the control of NZDF so this was not included in the Main Estimates.

#### Property, Plant and Equipment

Property, plant and equipment are \$409.7 million over budget due to the revaluation of land and buildings resulting in an increase in value of \$796.3 million. The key drivers behind the increase are higher construction costs, increases in market prices and increases in the useful life of certain buildings. Excluding the revaluation, property, plant and equipment would be under budget due to the delays in the capital programme as a result of COVID-19.

#### Payables and deferred revenue

Payables and deferred revenue under exchange transactions are \$70.5 million over budget. This is largely due to trade creditors are \$35.1 million over budget due to payments due to overseas suppliers which were only received and paid after the year end. Accrued expenses are also \$32.2 million over budget relating to due to amounts owed to the Ministry of Defence for capital works.

Payables and deferred revenue under non-exchange transactions are \$4.3 million over budget which relates wholly to GST payable.

#### Surplus repayable to the Crown

The surplus repayable to the Crown is \$95.4m over budget as outlined in the revenue and expenditure variances above.

#### Employee Entitlements

Employee entitlements are \$26.8 million lower than budget. This variance is primarily due to the budget for payroll liabilities of \$25.6 million being included in payables under exchange.

**Taxpayers' Funds**

Taxpayers' funds are \$258.2 million lower than budget due to the transfer of capital injections to future years. In particular, \$446.6 million of capital injections were transferred from 2020/21 to future years to align the funding with the forecasted delivery of the Future Air Surveillance Capability. This has been partially offset by \$152.6 million of capital injections transferred to 2020/21 from 2019/20 to align funding with expected timing of other capital projects.

**Revaluation Reserve**

The revaluation reserve increased by \$783.6 million during the year when compared to budget as a result of the revaluation of land and buildings.

**Statement of Cash Flows****Variiances between Main Estimates and 2020/21 Actual****Non-Exchange Receipts from Crown**

Non-exchange receipts from Crown are lower than budget by \$165.1 million and is largely driven by an increase on budget in Debtor Crown of \$147.0 million.

**Exchange Receipts from Departmental and Other Revenue**

Exchange receipts from departmental and other revenue is higher than budget by \$30.5 million. This is largely due to the reduction in accounts receivable of \$45.2 million resulting in higher cash receipts than expected in the period.

**Payments to Employees**

Payments to employees are lower than budget by \$21.4 million as a result of lower personnel expenditure in the year as explained above.

**Payments to Suppliers**

Payments to suppliers are lower than budget by \$36.1 million as a result of lower operating expenditure in the year as explained above.

**Payments for capital charge**

Capital charge payments are \$108.1 million lower than budget largely as a result of the reduction of the capital charge rate from 6% to 5%.

**Payments for goods and services tax**

GST payments are \$11.0 million over budget as these payments are included in payments to suppliers in the budget.

**Sale of investments**

Sale of investments is \$7.5 million over budget. This relates entirely to the sale of investments held by the non-public funds which was not forecasted in the budget.

**Purchase of property, plant and equipment**

The purchase of property, plant and equipment is \$313.3 million below budget due to the delays to the capital works as explained above.

**Capital Injections**

Capital injections are \$243.9 million lower than budget due to capital transfers of \$446.6 million from 2020/21 to future years to align the funding with the forecasted delivery of the Future Air Surveillance Capability. This has been partially offset by \$152.6 million of capital injections transferred from 2019/20 to align funding with the expected timing of capital projects.

**Repayment of surplus**

The repayment of surplus is \$69.3 million over budget due to a higher surplus in the prior year which was not factored into the budget.

**F3 Events After Balance Date**

There have been no significant events after balance date.

**F4 Statutory Reporting Timeframe**

On 17 August 2021, all of New Zealand moved to COVID-19 Alert 4 as a result of the continuing global pandemic. NZDF implemented restricted access to its sites, particularly in Auckland, during the higher COVID-19 Alert Levels. As a result, NZDF were unable to provide Audit New Zealand with direct access to the relevant information required to complete their audit procedures on some of the non-financial performance measures and inventory ahead of the statutory deadline.

As such, due to circumstances beyond NZDF's control, NZDF did not meet its statutory obligation under the Public Finance Act 1989 (section 45D) to provide all relevant information to the Auditor-General within two months after the end of the financial year. Subsequently, the Auditor-General was unable to provide an audit report within three months after the end of the financial year.

# 2022 Forecast Financial Statements

## Forecasted Statement of Comprehensive Revenue and Expense for the year ended 30 June 2022

	<b>2022</b>
	<b>Group Unaudited Forecast (\$'000)</b>
<b>Revenue from non-exchange transactions</b>	
Crown	3,038,685
<b>Revenue from exchange transactions</b>	
Departmental revenue	25,371
Other revenue	36,081
Interest revenue	20
<b>Total Revenue</b>	<b>3,100,157</b>
<b>Expense</b>	
Personnel costs	1,189,363
Operating costs	970,897
Finance costs	1,527
Depreciation and amortisation	491,914
Capital charge	446,436
<b>Total Expense</b>	<b>3,100,137</b>
<b>Net Surplus/(Deficit)</b>	<b>20</b>
<i>Items that will not be reclassified to Net Surplus/(deficit)</i>	
<b>Other Comprehensive Revenue and Expense</b>	
Total Other Comprehensive Revenue and Expense	-
<b>Total Comprehensive Revenue and Expense</b>	<b>20</b>

## Forecasted Statement of Financial Position as at 30 June 2022

2022

	Group Unaudited Forecast (\$'000)
<b>Assets</b>	
<b>Current Assets</b>	
Cash and cash equivalents	50,000
Debtors and other receivables from exchange transactions	19,864
Debtors and other receivables from non-exchange transactions	1,389,836
Prepayments	94,986
Inventories	95,322
Other financial assets	24,833
<b>Total Current Assets</b>	<b>1,674,841</b>
<b>Non-Current Assets</b>	
Property, plant and equipment	7,608,206
Intangible assets	68,373
Inventories	333,941
Other financial assets	7,774
<b>Total Non-Current Assets</b>	<b>8,018,294</b>
<b>Total Assets</b>	<b>9,693,135</b>
<b>Liabilities</b>	
<b>Current Liabilities</b>	
Payables and deferred revenue under exchange transactions	564,427
Payables and deferred revenue under non-exchange transactions	29,359
Surplus repayable to the Crown	20
Provisions	10,373
Employee entitlements	115,328
Finance leases	4,060
Other financial liabilities	2,638
<b>Total Current Liabilities</b>	<b>726,205</b>
<b>Non-Current Liabilities</b>	
Employee entitlements	5,131
Finance leases	24,673
<b>Total Non-Current Liabilities</b>	<b>29,804</b>
<b>Total Liabilities</b>	<b>756,009</b>
<b>Net Assets</b>	<b>8,937,126</b>
<b>Equity</b>	
Taxpayers' funds	5,942,842
Revaluation reserve	2,938,264
Non-taxpayers' funds	53,335
Restricted funds	2,685
<b>Total Equity</b>	<b>8,937,126</b>
<b>Total Liabilities and Taxpayers' Funds</b>	<b>9,693,135</b>



## Forecasted Statement of Changes in Equity for the year ended 30 June 2022

	<b>2022</b>
	<b>Group Unaudited Forecast (\$000)</b>
<b>Balance at 1 July</b>	
Taxpayers' funds	5,269,826
Revaluation reserve	2,938,264
Non-taxpayers' funds	53,335
Restricted funds	2,685
	<b>8,264,110</b>
Net surplus for the year	20
Total gain/(loss) on property, plant and equipment revaluation	-
Other revaluation movements	-
<b>Total Comprehensive Revenue and Expense for the Year</b>	<b>20</b>
<b>Owner Transactions</b>	
Repayment of surplus	(20)
Capital withdrawal	-
Capital injection	673,016
<b>Balance as at 30 June</b>	<b>8,937,126</b>
Taxpayers' funds	5,942,842
Revaluation reserve	2,938,264
Non-taxpayers' funds	53,335
Restricted funds	2,685

## Forecasted Statement of Cash Flow for the year ended 30 June 2022

	<b>2022</b>
	<b>Group Unaudited Forecast (\$'000)</b>
<b>Cash Flow – Operating Activities</b>	
Non-exchange receipts from Crown	2,747,670
Exchange receipts from departmental and other revenue	76,215
Payments to employees	(1,151,598)
Payments to suppliers	(985,077)
Payments for capital charge	(491,600)
Goods and services tax (net)	-
<b>Net Cash Flow from Operating Activities</b>	<b>195,610</b>
<b>Cash Flow – Investing Activities</b>	
Interest revenue	20
Purchase of property, plant and equipment	(851,150)
Purchase of intangible assets	(10,169)
<b>Net Cash Flow from Investing Activities</b>	<b>(861,299)</b>
<b>Cash Flow – Financing Activities</b>	
Capital injection	717,714
Repayment of surplus	(52,025)
<b>Net Cash Flow from Financing Activities</b>	<b>665,689</b>
<b>Net increase/(decrease) in cash</b>	<b>-</b>
Cash at the beginning of the year	50,000
<b>Cash and Cash Equivalents at the End of the Year</b>	<b>50,000</b>

# Notes to the 2022 Forecast Financial Statements

## 1 Statement of Significant Assumptions

These statements have been compiled on the basis of government policies and the New Zealand Defence Force (NZDF) Output Plan agreements with the Minister for Defence at the time the statements were finalised.

The 2020/21 budgeted figures are based on management's judgements, estimates and assumptions of the final 2020/21 outcome and are used as the opening position for 2021/22 forecasts.

Key assumptions underlying this forecast are:

- The department's activities will remain substantially the same as for the previous year.
- There will be no significant change in government policies or the New Zealand Defence Force's Output Plan agreement with the Minister of Defence.
- Ministry of Defence payments reflect the forecast payments for acquisition projects which have been approved by Cabinet. Should additional projects be approved during the year, there may be payments for these projects during the year.
- There will be no major changes in exchange rates.
- The capital charge rate for the year ending 30 June 2022 is assumed to be 5.0% per annum.
- Operating costs are based on historical experience. The general historical pattern is expected to continue.

## 2 Statement of Entity – Specific Accounting Policies

### Basis of Preparation

These forecast financial statements have been prepared in accordance with New Zealand Public Benefit Entity (NZ PBE) International Public Sector Accounting Standards (IPSAS). They comply with PBE FRS 42 Prospective Financial Statements.

The purpose of the forecast financial statements is to facilitate Parliament's consideration of the appropriations for, and planned performance of the NZDF.

Use of this information for other purposes may not be appropriate. Readers are cautioned that actual results are likely to vary from the forecast information presented and that the variations may be material.

The NZDF has applied the accounting policies set out in the Statement of Accounting Policies included in the financial statements, except as stated below.

### Reporting Entity

These are the prospective financial statements of the NZDF, prepared in accordance with section 38 of the Public Finance Act 1989.

The NZDF is a Government Department as defined by section 2 of the Public Finance Act 1989. For the purposes of financial reporting the NZDF is a public benefit entity.

The prospective financial statements are prepared for NZDF and its controlled entities. Controlled entities are all those entities over which the NZDF (the controlling entity) has the power to govern the financial and operating policies so as to obtain benefits from their activities.

The other entities forming the Group are non-public funds and do not have the same reporting requirements as the parent.

### Authorisation Statement

These forecast financial statements were authorised for issue by the Chief of Defence Force on 31 March 2021. The Chief of Defence Force as the Chief Executive of the NZDF is responsible for the forecast financial statements presented, including the appropriateness of the assumptions underlying the forecast financial statements and all other required disclosures.

While the NZDF regularly updates its forecasts, updated forecast financial statements for the year ending 30 June 2021 will not be published.

### 3 Specific Accounting Policies

#### Property, Plant And Equipment

Capitalisation thresholds applied are set out below:

IT Equipment / Hardware	\$5,000
All other property, plant and equipment	\$5,000

#### Depreciation

The estimated useful lives of property, plant and equipment are set out below:

Buildings	5–100 years
Leasehold improvements	2–25 years
Furniture and office equipment	2–20 years
Specialist Military Equipment	5–55 years
Other Plant and Equipment	2–50 years
Heritage assets	10+ years.

#### Revaluation

Land, Buildings and Specialist Military Equipment asset classes are subject to revaluation at least once every 5 years. Valuations use a market-based approach where possible. Where reliable market evidence is unavailable optimised depreciated replacement cost (ODRC) is used to calculate fair value.

#### Intangible assets

Capitalisation thresholds applied are:

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

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

Purchased software	3–20 years
Internally developed software	3–20 years

#### Inventories

Inventories are held for distribution or consumption in the provision of services and are comprised of munitions, technical spares and consumable items. Inventory intended to be kept for more than one year has been classified as non-current inventory. Inventories are recorded at weighted average cost and the cost of inventory reflects any obsolescence or other impairment.

# Non-Departmental Schedules

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

## Schedule of Non-Departmental Revenue for the year ended 30 June 2021

2020		2021
Actual (\$000)		Actual (\$000)
<b>Revenue</b>		
146	Interest revenue	156
610	Gain on financial instruments	115
<b>756</b>	<b>Total Non-Departmental Revenue</b>	<b>271</b>

## Schedule of Non-Departmental Expenditure for the year ended 30 June 2021

2020			2021
Actual (\$000)		Note	Actual (\$000)
<b>Expense</b>			
16,000	Veterans' entitlements - current service cost	5	94,148
41,000	Veterans' entitlements - unwind of discount rate	5	7,843
107	Medical Treatment		2
90	Attendance at Commemorations		72
275	Grants Subsidies		2,805
706	Works Maintenance		744
160	Non-Recurring Expenses		80
3,482	Non-Deductible GST		4,791
43	Debt Write-Down for Benefits		103
210	Losses on financial instruments		84
<b>62,073</b>	<b>Total Non-Departmental Expenditure</b>		<b>110,672</b>

## Schedule of Non-Departmental Other Comprehensive Income and Expenditure for the year ended 30 June 2021

2020		2021
Actual (\$000)		Actual (\$000)
311,000	Net actuarial (gains)/losses recognised in the year	(436,045)
<b>311,000</b>	<b>Total Other Comprehensive (Income)/Expense</b>	<b>(436,045)</b>

The accompanying notes form part of these financial statements.

Actual expenditure against the non-departmental appropriations can be found following this section.

For a full understanding of the Crown's financial position and the results of its operations for the year, refer to the consolidated Financial Statements of the Government for the year ended 30 June 2021.

## Schedule of Non-Departmental Assets for the year ended 30 June 2021

2020		2021	
Actual (\$000)		Note	Actual (\$000)
<b>Current Non-Departmental Assets</b>			
17,693	Cash and cash equivalents	2	6,890
1,446	Debtors and other receivables	3	1,577
39	Derivative financial instruments		107
412	Investments	4	420
19,590	Total Current Non-Departmental Assets		8,994
<b>Non-Current Non-Departmental Assets</b>			
2,229	Debtors and other receivables	3	2,386
1,145	Investments	4	1,155
78	Derivative financial instruments		41
3,452	Total Non-Current Non-Departmental Assets		3,582
<b>23,042</b>	<b>Total Non-Departmental Assets</b>		<b>12,577</b>

## Schedule of Non-Departmental Liabilities for the year ended 30 June 2021

2020		2021	
Actual (\$000)		Note	Actual (\$000)
<b>Current Non-Departmental Liabilities</b>			
110,000	Veterans' entitlements	5	109,000
71	Trade creditors		33
44	Derivative financial instruments		6
1,896	Other short term liabilities		30
112,011	Total Current Non-Departmental Liabilities		109,069
<b>Non-Current Non-Departmental Liabilities</b>			
3,373,290	Veterans' entitlements	5	2,927,000
10	Derivative financial instruments		2
3,373,300	Total Non-Current Non-Departmental Liabilities		2,927,002
<b>3,485,311</b>	<b>Total Non-Departmental Liabilities</b>		<b>3,036,071</b>

## Schedule of Non-Departmental Commitments for the year ended 30 June 2021

There are no non-departmental non-cancellable capital or lease commitments at 30 June 2021 (2020: nil).

## Schedule of Non-Departmental Contingent Assets and Liabilities for the year ended 30 June 2021

There are no non-departmental contingent assets or contingent liabilities at 30 June 2021 (2020: nil).

# Notes to the Non-Departmental Schedules

1

## Statement of Accounting Policies for the year ended 30 June 2021

### Reporting Entity

These non-departmental schedules and statements present financial information on public funds managed by the NZDF on behalf of the Crown.

These non-departmental balances are administered by appropriation, and are consolidated into the Financial Statements of the Government for the year ended 30 June 2021. For a full understanding of the Crown's financial performance, financial position and cash flows for the year, refer to the Financial Statements of the Government.

Section 262(5) of the Veterans' Support Act 2014 requires the NZDF to incorporate the Veterans' Medical Research Trust Fund's annual report in NZDF's annual report. The audited annual reports for the Veterans' Medical Research Trust Fund for the year ended 31 March 2021 have been included as an appendix to the Annual Report.

### Basis of Preparation

The non-departmental statements and schedules have been prepared in accordance with the accounting policies of the Financial Statements of the Government, Treasury Instructions and Treasury Circulars.

Measurement and recognition rules applied in the preparation of these non-departmental schedules and statements are consistent with New Zealand generally accepted accounting practice and Tier 1 PBE Accounting Standards as appropriate for public benefit entities.

### Summary of Significant Accounting Policies

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

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

#### Goods and Services Tax (GST)

The financial statements and schedules are prepared on a GST exclusive basis except for Debtors and Receivables, and Creditors and Payables in the Schedules of Non-Departmental Assets and Liabilities, which are GST inclusive.

The GST content of the individual appropriations is reported as an expense item and not claimed back from the Inland Revenue Department (IRD).

### Foreign Currency

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

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

Gains and losses resulting from foreign currency transactions are recognised in the Schedule of Non-Departmental Expenditure.

2

## Cash and Cash Equivalents

### Accounting Policy

#### Cash and Cash Equivalents

Cash means cash balances on hand and funds on deposit with banks. The NZDF is only permitted to expend its cash and cash equivalents within the scope and limits of its appropriations.

2020		2021
Actual (\$000)		Actual (\$000)
<b>Cash and cash equivalents</b>		
17,571	Administered by the NZDF	6,645
122	Administered by the Veterans' Medical Research Trust Fund	245
<b>17,693</b>	<b>Total Cash and Cash Equivalents</b>	<b>6,890</b>

### 3 Debtors and Other Receivables

#### Accounting Policy

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

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

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

#### Previous accounting policy for impairment of receivables

Impairment of a receivable is established when there is objective evidence that the NZDF will not be able to collect amounts due according to the original terms of the receivable.

2020		2021
Actual (\$000)		Actual (\$000)
1,440	Debtors and other receivables	1,576
6	Debtors and other receivables administered by the Veterans' Medical Research Trust Fund	1
-	Prepayments	-
<b>1,446</b>	<b>Total Current Debtors and Other Receivables</b>	<b>1,577</b>
2,229	Loan to Vietnam Veterans' and their Families Trust	2,386
<b>2,229</b>	<b>Total Non-Current Debtors and Other Receivables</b>	<b>2,386</b>
<b>3,675</b>	<b>Total Debtors and Other Receivables</b>	<b>3,963</b>

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

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

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



## Concessionary loans

2020		2021
Actual (\$000)		Actual (\$000)
<b>Vietnam Veterans' and their Families Trust Loan</b>		
2,083	Opening balance	2,230
146	Interest Unwind	156
<b>2,230</b>	<b>Closing balance at 30 June</b>	<b>2,386</b>

The Vietnam Veterans' and their Families Trust Loan was provided for the purpose of assisting veterans and their families with relief from poverty and/or hardship. The loan was granted for a 30 year period. A discount rate of 7% (2020: 7%) has been used to calculate the present value of the loan.

## 4 Investments

### Accounting Policy

#### Fixed interest investments

Fixed interest investments are initially measured at the amount invested. Interest is subsequently accrued and added to the investment balance.

#### Equity investments

Equity investments are designated at fair value.

2020		2021
Actual (\$000)		Actual (\$000)
<b>Investments</b>		
412	Fixed interest investments administered by the Veterans' Medical Research Trust Fund	420
1,145	Equity investments administered by the Veterans' Medical Research Trust Fund	1,155
<b>1,557</b>	<b>Total Investments</b>	<b>1,575</b>

## 5 Veterans' Entitlements

### Accounting Policy

The NZDF administers the payment of Veterans' entitlements on behalf of the Crown. Veterans who have suffered a service-related injury or illness as defined in the Veterans' Support Act 2014 are eligible to receive financial support from the Crown. This is primarily provided through the payment of disablement pensions and allowances, covering the cost of rehabilitation and medical treatments and providing services to help Veterans to live independently.

Veterans' entitlements are treated as a post-employment benefit under PBE IPSAS 39 *Employee Benefits*. A long-term liability is recognised to represent the obligation at the reporting date.

The obligation arises when the service-related injury or illness occurs. Actuarial models and assumptions are used to value the obligation by estimating future cash flows for the next 85 years, which are then discounted to present value. The liability is reduced over time as payments are made to Veterans.

The liability is revalued at the end of each year by the NZDF's actuary using the projected unit credit method. The following key terms are used to define movements in the liability between valuations:

**Past Service Cost** This relates to the present value of future benefits accrued during the year relating to service undertaken prior to the current year. This includes historic deployments declared to be qualifying operational service in the current year and legislative changes that change the level of support available to existing veterans.

**Current service cost.** This is calculated at the start of the year to represent the present value of the entitlements expected to accrue to eligible Veterans over the following year.

**Unwind of discount rate.** This predominately reflects the time value of money. It is calculated as the risk free rate at the start of the year times the defined benefit liability at the start of the year.

**Actuarial gains/losses.** This is the change in the value of the liability due to changes in actuarial assumptions such as discount rates, demographic and financial variables and changes to assumptions based on experience over the last year.

The current service cost and unwind of discount rate are recognised as expenditure in the surplus or deficit of the *Financial Statements of the Government of New Zealand*. Actuarial gains or losses are recorded within other comprehensive income and expenditure. The liability was revalued at 30 June 2021 by Ben Coulter FNZSA, an independent registered actuary from Pricewaterhouse Coopers.

### Amounts recognised in the Non-Departmental Schedules

Amounts recognised in the Schedule of Non-Departmental Liabilities in respect of Veterans' entitlements are as follows:

2020		2021			
Total (\$000)		Veterans' Support Entitlements (\$000)	Assessments, Treatments & Rehabilitation (\$000)	Veterans' Independence Programme (\$000)	Total (\$000)
3,228,389	Opening defined benefit obligation at 1 July	1,692,153	773,105	1,018,032	3,483,290
16,000	Current service cost	2,000	2,000	1,244	5,244
-	Past service cost	38,904	25,000	25,000	88,904
41,000	Unwind of discount rate	3,802	1,751	2,289	7,842
(113,099)	Benefits paid	(82,345)	(12,265)	(18,626)	(113,236)
61,000	Actuarial (gains)/losses arising from changes in demographic assumptions	(49,000)	(7,000)	134,000	78,000
277,000	Actuarial (gains)/losses arising from changes in financial assumptions	(133,000)	(142,000)	(243,000)	(518,000)
(27,000)	Actuarial (gains)/losses - liabilities	(21,514)	5,409	20,061	3,956
<b>3,483,290</b>	<b>Closing defined benefit liability at 30 June</b>	<b>1,451,000</b>	<b>646,000</b>	<b>939,000</b>	<b>3,036,000</b>
110,000	Veterans' entitlements – Current portion	-	-	-	109,000
3,373,290	Veterans' entitlements – Non-current portion	-	-	-	2,927,000
<b>3,483,290</b>	<b>Closing defined benefit liability at 30 June</b>	<b>1,451,000</b>	<b>646,000</b>	<b>939,000</b>	<b>3,036,000</b>

Amounts recognised in the Schedule of Non-Departmental Expenditure in respect of Veterans' entitlements are as follows:

2020		2021
Total (\$'000)		Total (\$'000)
<b>Expenses</b>		
16,000	Veterans' entitlements – current service cost	94,148
41,000	Veterans' entitlements – unwind of discount rate	7,843
<b>57,000</b>	<b>Total included in Expenses</b>	<b>101,991</b>

<b>Other Comprehensive Income and Expenses</b>		
311,000	Net actuarial (gains)/losses recognised in the year	(436,044)
<b>311,000</b>	<b>Total included in Other Comprehensive Income and Expenses</b>	<b>(436,044)</b>

## Valuation model and uncertainty

There is significant uncertainty over the timing and amount of the future cash flows associated with veterans' entitlements. The limited data available to form the assumptions increases the level of uncertainty. The following are considered to be the key areas of uncertainty in the valuation:

### Defining the eligible population

There is no comprehensive list available of all current and ex-service personnel who are eligible to receive veterans' entitlements. The population has been estimated using the limited information available.

The total number of armed forces personnel has been estimated based on information included in the Statistics New Zealand yearbooks and the NZDF annual report. The proportion of this population expected to meet the definition of a veteran under the Veterans Support Act 2014 has then been estimated based on available data on deployments and current personnel records.

### Utilisation rates

Not all eligible veterans who are entitled to benefits will access them. The number of veterans expected to use each benefit type in the future has been estimated by applying a percentage to the eligible population defined above.

The percentage has been determined for each type of benefit based on trends identified in recent payment data from July 2017 to date, with some adjustments based on research and trends identified overseas. The limited amount of historic data available makes it difficult to identify trends over time, which may lead to volatility in future estimates as the data matures.

### Timing of future payments

There are a range of factors that influence when entitlement payments will start and end. Payments to eligible veterans start when they submit an application to Veterans Affairs. This is not back-dated to the date of the service-related illness or injury, which can be many years prior to application. This means there can be a significant period of time between the illness or injury and the payment start date. Recent payment data from July 2017 to date has been used to estimate the expected age that veterans will access each entitlement type. This is limited by the small amount of data available.

Veterans will often continue to receive entitlements for their lifetime, which means the end date of payments depends on life expectancy assumptions. The mortality of veterans has been estimated using the cohort mortality tables and New Zealand life tables published by Statistics

New Zealand. The relevant data is only available up to 2014 and represents the entire New Zealand population. The only adjustment made for veteran mortality being different to population mortality is to adjust the mortality of veterans in the immediate post-World War II period. There is no evidence available to indicate any further adjustments are appropriate. Considering all of the uncertainties that arise from the lack of accurate data, the provision could be under or overstated by up to 20%.

Although the uncertainty of the liability will decrease over time as more data becomes available, work is being undertaken by the NZDF and Veterans' Affairs to improve the quality of Veterans' data. Funding has been allocated to Veterans' Affairs to upgrade their customer relationship management system which will improve the quality of the data collected from Veterans. This is due to be completed in the 2021/22 financial year. The NZDF are investigating the possibility of establishing a register of all Veterans, their service and their deployments, as recommended by the Paterson Report in 2017. A pilot on the feasibility of establishing a register was completed in the year and work has commenced on repeating the same approach to create a register of all deployments since 1991.

## Key assumptions and judgements

Key actuarial assumptions used for the purposes of the Veterans' entitlements valuation are the discount rate and inflation rates. As the benefits are very long-term, the value of the liability is heavily influenced by economic assumptions such as the discount and inflation rates. The rates used to value the liability can be found in the Summary of Economic Assumptions table below.

The following are considered to be the key assumptions:

### Discount rate

The discount rate used to calculate the present value of the entitlements is a risk-free rate based on the market yield curve of New Zealand Government Bonds.

### Inflation rate – CPI

Pension entitlements have been increased at the rate of increase in the Consumers Price Index (All Groups) (CPI) + 2.25%. The additional 2.25% is to reflect the actual increase in Disablement Pensions over recent years.

### Inflation rate – Average wage inflation

Income compensation entitlements are based on recent average wage trends so have been inflated by the expected increase in the average wage.

### Inflation rate – Medical cost inflation

The medical cost inflation rate has been applied to assessments, treatments and rehabilitation entitlements, excluding orthopaedic and private hospital costs. These have been inflated at a higher rate (see below).

### Inflation rate – VIP inflation

VIP entitlements have a large wage component, however there is a wide range of services available under VIP which are expected to increase in use over time. The inflation rate is slightly higher than the average wage inflation.

### Inflation rate – Orthopaedic and private hospitals

Orthopaedic and private hospital costs have been inflated at a higher rate than other medical costs based on historic trends that show these generally increase at a higher rate.

### Impact of COVID-19

No explicit allowance has been made for the impact of the COVID-19 pandemic or associated economic downturn on the valuation of the liability. Whilst it is impossible to predict the actual outcomes, it is reasonable to expect that the future veterans' benefits will be less impacted than many other assets and liabilities as the benefits are well defined and are linked to events that have already happened.

The liability has decreased in the year to 30 June 2021 by \$447 million (2020: \$255 million increase), mainly due to the increase in the risk-free annual forward rates used to discount the liability to today's dollars.

## Summary of economic assumptions – 30 June 2021

**2021**

	Discount rate	CPI	Average wage inflation	Medical cost inflation	VIP inflation	Orthopaedic and private hospital inflation
<b>Summary of assumptions</b>						
For the following year	0.38%	1.61%	4.49%	3.86%	5.49%	5.01%
Between 2 and 21 years	0.81% to 3.96%	1.86% to 2.06%	2.68% to 3.00%	4.11% to 4.31%	3.68% to 4.00%	5.26% to 5.46%
Between 22 and 29 years	3.99% to 4.25%	2.01% to 2.05%	3.00%	4.26% to 4.30%	4.00%	5.46%
Between 30 and 36 years	4.29% to 4.30%	2.00%	3.00%	4.25%	4.00%	5.46%
Between 37 and 52 years	4.30%	2.00%	3.00%	4.25%	4.00%	5.46%
Between 53 and 62 years	4.30%	2.00%	3.00%	4.25%	4.00%	5.46%
From 63 years onwards	4.30%	2.00%	3.00%	4.25%	4.00%	5.46%

## Summary of economic assumptions – 30 June 2020

2020

	Discount rate	CPI	Average wage inflation	Medical cost inflation	VIP inflation	Orthopaedic and private hospital inflation
<b>Summary of assumptions</b>						
For the following year	0.22%	0.83%	2.86%	3.79%	3.86%	4.94%
Between 2 and 21 years	0.25% to 2.22%	1.18% to 1.61%	(0.08%) to 3.66%	3.79% to 3.84%	0.92% to 3.83%	4.94% to 4.99%
Between 22 and 29 years	2.27% to 2.62%	1.62% to 1.69%	2.84% to 2.94%	3.86% to 3.96%	3.84% to 3.94%	5.01% to 5.11%
Between 30 and 36 years	2.67% to 2.97%	1.70% to 1.75%	2.96% to 3.00%	3.97% to 4.06%	3.96% to 4.00%	5.12% to 5.21%
Between 37 and 52 years	3.02% to 3.77%	1.76% to 1.90%	3.00%	4.07% to 4.25%	4.00%	5.22% to 5.40%
Between 53 and 62 years	3.82% to 4.26%	1.91% to 2.00%	3.00%	4.25%	4.00%	5.40%
From 63 years onwards	4.30%	2.00%	3.00%	4.25%	4.00%	5.40%

## Sensitivity Analysis

The present value of the Veterans' entitlements obligation is sensitive to changes in the underlying actuarial assumptions. Due to the long-term nature of the liability, the valuation is particularly sensitive to changes in financial assumptions including the inflation and discount rates.

The sensitivity analysis below has been determined at the reporting date:

	2021			2020		
	Change	\$m	%	\$m	%	
<b>Sensitivity of assumptions</b>						
Change in mortality rates	+ 2 years	(334)	(11%)	(406)	(11%)	
	- 2 years	360	12%	439	12%	
Future inflation	+ 1% pa	599	20%	821	24%	
Future increases in utilisation rates	No increase	(403)	(13%)	(430)	(13%)	
Discount rate	+ 1% pa	(446)	(15%)	(595)	(17%)	
	- 1% pa	599	20%	821	24%	

## 6 Financial Instruments

### Accounting Policy

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

All financial instruments are recognised in the Schedule of Non-Departmental Assets and Liabilities. All revenue and expenses in relation to all financial instruments are recognised in the Statement of Non-Departmental Expenditure and Appropriations.

### Derivative Financial Instruments

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

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

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

### Credit Risk

Credit risk is the risk that a third party will default on its obligations, causing the Crown to incur a loss. Credit risk arises from debtors and deposits with banks.

### Risk management

In the normal course of its business, the NZDF incurs credit risk from trade debtors, and transactions with various approved financial institutions and New Zealand Debt Management (NZDM). The NZDF does not have significant concentrations of credit in financial instruments.

The maximum credit exposure for each class of financial instrument is represented by the total carrying amount of cash and cash equivalents and net debtors.

### Security

There is no collateral held as security against these financial instruments, including those instruments that are overdue or impaired. The NZDF is only permitted to deposit funds with Westpac, a registered bank.

### Impairment

Cash and cash equivalents (note 2), debtors and other receivables (note 3), and term deposit investments (note 4) are subject to the expected credit loss model. The notes for these items provide relevant information on impairment.

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

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

2020		2021
Actual (\$000)		Actual (\$000)
<b>Cash at bank and term deposits</b>		
18,105	AA	7,310
<b>18,105</b>	<b>Total cash at bank and term deposits</b>	<b>7,310</b>
<b>Equity investments</b>		
1,145	AA	1,155
<b>1,145</b>	<b>Total equity investments</b>	<b>1,155</b>
<b>Derivative financial instrument assets</b>		
117	AA	148
<b>117</b>	<b>Total derivative financial instrument assets</b>	<b>148</b>

### Liquidity Risk

Liquidity risk is the risk that the NZDF will encounter difficulty raising liquid funds to meet commitments as they fall due.

In meeting its liquidity requirements, the NZDF closely monitors its forecast cash requirements with expected cash draw downs from NZDMO. The NZDF maintains a target level of available cash to meet liquidity requirements.

### Market Risk

#### Currency Risk

Currency risk is the risk that balances denominated in foreign currency will fluctuate because of changes in foreign exchange rates. NZDF has a Treasury Management Policy that was approved by The Treasury.

NZDF uses foreign exchange forward contracts with options to manage foreign exchange exposures. The notional principal amount outstanding at reporting date on hedged purchase and sale commitments was \$12.3 million (2020: \$13.9 million). As NZDF does not hold a significant amount of forward contracts or foreign currency, the exposure to currency risk from fluctuations in foreign exchange rates is minor and is not considered material.

## 6a Categories of Financial Instruments

2020		2021
Actual (\$000)		Actual (\$000)
<b>Financial assets measured at amortised cost</b>		
17,693	Cash and cash equivalents	6,890
3,675	Debtors and other receivables	3,963
412	Investments – fixed interest investments administered by the Veterans' Medical Research Trust Fund	420
<b>21,780</b>	<b>Total financial assets measured at amortised cost</b>	<b>11,273</b>
<b>Mandatorily measured at fair value through surplus or deficit</b>		
117	Derivative financial instrument assets	148
54	Derivative financial instrument liabilities	8
<b>171</b>	<b>Total mandatorily measured at fair value through surplus or deficit</b>	<b>156</b>
<b>Financial assets at fair value through other comprehensive revenue and expense</b>		
1,145	Investments – equity investments administered by the Veterans' Medical Research Trust Fund	1,155
<b>1,145</b>	<b>Total financial assets at fair value through other comprehensive revenue and expense</b>	<b>1,155</b>
<b>Financial liabilities measured at amortised cost</b>		
1,967	Creditors and other payables	63
<b>1,967</b>	<b>Total financial liabilities measured at amortised cost</b>	<b>63</b>

## 6b Fair Value Hierarchy Disclosures

For those financial instruments recognised at fair value in the Statement of Financial Position, fair values are determined according to the following hierarchy:

- Quoted market price (level 1) – financial instruments with quoted prices for identical instruments in active markets;

- Valuation techniques using observable inputs (level 2) – financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable; and
- Valuation techniques with significant

non-observable inputs (level 3) – financial instruments valued using models where one or more significant inputs are not observable.

The following table analyses the basis of the value of classes of NZDF's financial instruments measured at fair value in the Statement of Financial Position:

Actual	Quoted market price (\$000)	Observable inputs (\$000)	Significant non-observable inputs (\$000)	Total (\$000)
<b>Assets</b>				
Derivative financial instruments	-	148	-	148
Equity investments	1,155	-	-	1,155
<b>Liabilities</b>				
Derivative financial instruments	-	8	-	8
Veterans' entitlements	-	-	3,036,000	3,036,000

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

# Non-Departmental Appropriations

## Non-Departmental Output Expenses

### OUTPUT 7.5

#### Development and Maintenance of Service Cemeteries

##### Scope of Appropriation

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

##### End of year reporting requirements:

This appropriation is exempt from performance reporting due to an exemption under 15D (2)(b)(ii) of the Public Finance Act 1989 as performance information is unlikely to be informative.

##### Expenditure Summary

2020		2021		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
706	Appropriation	744	746	746

## Non-Departmental Other Expenses

### OUTPUT 7.6

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

##### Scope of Appropriation

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

##### End of year reporting requirements:

This appropriation is exempt from performance reporting due to an exemption under 15D (2)(b)(ii) of the Public Finance Act 1989 as performance information is unlikely to be informative.

##### Expenditure Summary

2020		2021		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
43	Appropriation	103	203	203



## OUTPUT 7.7

### Ex Gratia Payments and Comprehensive Medical Assessments for Vietnam Veterans

#### Scope of Appropriation

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

#### End of year reporting requirements:

This appropriation is exempt from performance reporting due to an exemption under 15D (2)(b)(iii) of the Public Finance Act 1989 as the amount for this annual appropriation is less than \$5 million.

#### Expenditure Summary

2020		2021		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
267	Appropriation	82	1,100	1,100

## OUTPUT 7.8

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

#### Scope of Appropriation

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

#### End of year reporting requirements:

This appropriation is exempt from performance reporting due to an exemption under 15D (2)(b)(ii) of the Public Finance Act 1989 as performance information is unlikely to be informative.

#### Expenditure Summary

2020		2021		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
-	Appropriation	-	250	250

## OUTPUT 7.9

### Veteran Assistance to Attend Commemorations or Revisit Battlefields

#### Scope of Appropriation

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

#### End of year reporting requirements:

This appropriation is exempt from performance reporting due to an exemption under 15D (2)(b)(iii) of the Public Finance Act 1989 as the amount for this annual appropriation is less than \$5 million.

#### Expenditure Summary

2020		2021		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
90	Appropriation	72	200	200

## OUTPUT 7.10

### Grant Payments Non-Government Organisations

#### Scope of Appropriation

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

#### End of year reporting requirements:

This appropriation is exempt from performance reporting due to an exemption under 15D (2)(b)(iii) of the Public Finance Act 1989 as the amount for this annual appropriation is less than \$5 million.

#### Expenditure Summary

2020		2021		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
275	Appropriation	2,805	2,805	275

## OUTPUT 7.16

### Service Cost – Veterans' Entitlements

#### Scope of Appropriation

This appropriation is limited to the present value of entitlements resulting from qualifying service or qualifying operational service in the current year or prior years, provided for under

Parts 3, 4 and 5 of the Veterans' Support Act 2014, and annuities authorised by Cabinet to recognise a special contribution by the recipient to New Zealand society as a part of their qualifying service or qualifying operational service.

#### End of year reporting requirements:

This appropriation is exempt from performance reporting due to an exemption under 15D (2)(b)(ii) of the Public Finance Act 1989 as performance information is unlikely to be informative.

#### Expenditure Summary

2020		2021		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
4,000	Appropriation	94,148	98,904	20,000

## OUTPUT 7.17

### Unwind Of Discount Rate – Veterans' Entitlements

#### Scope of Appropriation

This appropriation is limited to the unwinding of the discount rate (interest expense) of the liability for the Veterans' entitlements provided for under Parts 3, 4 and 5 of the Veterans'

Support Act 2014, and annuities authorised by Cabinet to recognise a special contribution by the recipient to New Zealand society as a part of their qualifying service or qualifying operational service.

#### End of year reporting requirements:

This appropriation is exempt from performance reporting due to an exemption under 15D (2)(b)(ii) of the Public Finance Act 1989 as performance information is unlikely to be informative.

#### Expenditure Summary

2020		2021		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
10,250	Appropriation	7,842	40,000	40,000

# **Appendix 1**

## **Report on selected non-departmental appropriations for the year ended 30 June 2021**



# **VOTE DEFENCE FORCE**

**Report on selected non-departmental  
appropriations for the year ended**

**30 June 2021**

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# MINISTER'S FOREWORD

As Minister for Veterans, I purchase medical, advisory, and support services from a number of organisations to deliver outputs that support and enhance the wellbeing of veterans and their families. A significant number of these service providers do not report to Parliament directly.

In accordance with section 19 of the Public Finance Act 1989, the purpose of this report is to articulate the service performance of those outputs delivered by third-party service providers funded directly by Veterans' Affairs and not covered by other reporting to Parliament.

A handwritten signature in blue ink, appearing to read 'Meka Whaitiri', with a long horizontal stroke extending to the right.

Hon Meka Whaitiri  
Minister for Veterans

Date: 28/10/2021

# **STATEMENT OF PERFORMANCE**

This report is prepared under section 19 of the Public Finance Act 1989 and covers the Vote Defence Force appropriations used for purchasing outputs supplied by third-party service providers that do not report to Parliament directly on that expenditure.

This report excludes Vote Defence Force appropriations which have exemptions from performance reporting under section 15D (2) of the Public Finance Act 1989.



# NON-DEPARTMENTAL OUTPUT EXPENSES

## DEVELOPMENT AND MAINTENANCE OF SERVICES CEMETERIES

This appropriation is limited to the development and maintenance of Services Cemeteries.

2020		2021		
Actual (\$000)		Actual (\$000)	Supplementary Estimates (\$000)	Main Estimates (\$000)
706	Appropriation	744	746	746

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

This appropriation is intended to develop and maintain Services Cemeteries.

### Performance Summary Output

2020	Measures	2021	
Actual		Standard	Actual
100%	The annual maintenance and development works plan outcomes are achieved.	95%	100%
	<b>Service cemeteries will be maintained in accordance with the Standard of Care agreement.</b>		
99%	Service cemeteries have a Standard of Care agreement in place.	95%	98%
100%	Planned monitoring visits are completed.	100%	76%*

\* Liaison visits are planned to ensure all 183 Services Cemeteries are inspected at least once every two years. To achieve this, 90 liaison visits were planned for Financial Year 2020/21, however,; only 68 were able to be completed because of the unavailability of external stakeholders in some areas during COVID-19 Alert Levels 2 and 3. Liaison visits are planned for the remaining 115 Services Cemeteries in Financial Year 2021/22 to ensure the two-year inspection requirement is met.

# **Appendix 2**

## **Veterans’ Medical Research Trust Fund Financial Statements for the year ended 31 March 2021**

**VETERANS' MEDICAL RESEARCH TRUST FUND  
FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED  
31 MARCH 2021**

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# VETERANS' MEDICAL RESEARCH TRUST FUND FOR THE YEAR ENDED 31 MARCH 2021

## REPORT ON THE IMPLEMENTATION OF SYSTEMS AND PROCEDURES Relating to the Veterans' Medical Research Trust Fund

One of the roles of the Veterans' Health Advisory Panel, under the Veterans' Support Act 2014, is to decide how the income of the Veterans' Medical Research Trust Fund should be used to make grants and awards.

In making these decisions, the Panel must act fairly and transparently; and have systems and procedures in place to enable this.

At all times it has acted fairly and transparently.

I confirm:

- The Panel has met four times since 1 April 2020 and considered the Fund at those meetings.
- The Panel continued to assess applications received in the previous financial year against funding criteria, including using the Guiding Principles for Investment, and this process is currently ongoing.
- No new research projects were awarded funding from the Fund in the 2020/21 financial year.

The Panel has not made any new public calls for research proposals during this year which would be funded by the Trust.

## STATEMENT OF RESPONSIBILITY

The financial statements of the Veterans' Medical Research Trust Fund have been prepared in accordance with Part 8, Subpart 3 of the Veterans' Support Act 2014.

I am responsible for:

- The preparation of the financial statements and the judgements expressed in them;
- Having in place a system of internal control design to provide reasonable assurance as to the integrity and reliability of the financial reporting;

The Veterans' Health Advisory Panel has called for research proposals. Decision on applications are due to be made later in 2021.

In my opinion, the financial statements fairly reflect the financial position and operations of the Veterans' Medical Research Trust Fund for the year ended 31 March 2021.

Veterans' Affairs has complied with all statutory provisions relating to the operations of the Veterans' Medical Research Trust Fund during the year ended 31 March 2021.

Signed by:



Bernadine Mackenzie  
Head of Veterans' Affairs  
Veterans' Affairs New Zealand  
15 September 2021

# VETERANS' MEDICAL RESEARCH TRUST FUND

## STATEMENT OF ENTITY INFORMATION FOR THE YEAR ENDED 31 MARCH 2021

### Legal Name

Veterans' Medical Research Trust Fund (the Trust)

### Type of entity and legal basis

The War Pensions Medical Research Trust Fund was established under a 1968 amendment to the War Pensions Act 1954 and is continued under the Veterans' Support Act 2014 (the Act) under the name Veterans' Medical Research Trust Fund. The Trust is a Registered Charity under the Charities Act 2005 that is administered by Veterans' Affairs New Zealand (VANZ) in accordance with the Act.

### The Trust's Purpose

The Trust exists to make grants or awards for the purpose of research into any field of medicine beneficial for veterans.

### Structure of the Trust's operations, including governance arrangements

The Trust comprises a Board of two Trustees (the Chairperson of Veterans' Health Advisory Panel and the National President of the Royal New Zealand Returned and Services' Association). An independent statutory panel established under the Act, the Veterans' Health Advisory Panel, decides in accordance with the Act, how the income of the Trust is to be applied for grants and awards. VANZ makes the grants and awards in accordance with the recommendations of the Panel.

### Source of the Trust's cash and resources

The current source of income includes annual investment returns from a managed investment portfolio held with the Bank of New Zealand and interest earned on short-term deposits.

# VETERANS' MEDICAL RESEARCH TRUST FUND

## STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 31 MARCH 2021

	Notes	2021	2020
<b>Revenue</b>			
Net gain on Investment Portfolio		170,175	0
Interest		3,256	16,812
Investment Income		0	1,398
Funding from Central Government		0	450,000
<i>Total Revenue</i>		<i>173,431</i>	<i>468,210</i>
<b>Expenses</b>			
Net loss on Investment Portfolio		0	1,043
Research Grants Paid		29,331	38,152
Portfolio Fees		7,526	6,857
Bank Charges		0	45
Audit Fees	1	0	0
<i>Total Expenses</i>		<i>36,857</i>	<i>46,097</i>
<b>Surplus/(deficit)</b>		<b>136,574</b>	<b>422,113</b>



# VETERANS' MEDICAL RESEARCH TRUST FUND

## STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2021

Assets	Notes	2021	2020
<b>Current Assets</b>			
Cash and Bank	2	13,126	44,974
Term Deposits		420,010	412,448
Receivables		794	5,091
Tax receivable		421	421
<i>Total Current Assets</i>		<i>434,351</i>	<i>462,934</i>
<b>Non-Current Assets</b>			
Investments	3	1,387,435	1,222,911
<i>Total Non-Current Assets</i>		<i>1,387,435</i>	<i>1,222,911</i>
<b>Total Assets</b>		<b>1,821,786</b>	<b>1,685,845</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Payables and Accrued Expenditure	4	0	634
<i>Total Current Liabilities</i>		<i>0</i>	<i>634</i>
<b>Total Liabilities</b>		<b>0</b>	<b>634</b>
<b>Net Assets</b>		<b>1,821,786</b>	<b>1,685,211</b>
<b>Trust Equity</b>			
Accumulated funds		1,821,786	1,685,211
<b>Total Trust Equity</b>		<b>1,821,786</b>	<b>1,685,211</b>

# VETERANS' MEDICAL RESEARCH TRUST FUND

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2021

	2021	2020
<b>Cash Flows from Operating Activities</b>		
Funding received from central government	0	450,000
Interest Received	7,593	12,034
Investment Income	0	1,784
Other Operating Income	0	1
Research Grants Paid	(29,331)	(67,483)
Other Operating Expenses	(8,200)	(6,946)
<i>Net Cash Flows from Operating Activities</i>	<i>(29,938)</i>	<i>389,390</i>
<b>Cash flows from Investing and Financing Activities</b>		
Receipts from sale or maturity of investments	262,077	204,943
Decrease in Term Deposit	1,233,253	657,527
Purchase of Investments	(256,426)	(593,632)
Increase in Term Deposit	(1,240,815)	(660,837)
<i>Net Cash Inflow (Outflow) from Investing Activities</i>	<i>(1,911)</i>	<i>(391,999)</i>
<b>Net Increase (Decrease) in Cash and Bank</b>	<b>(31,848)</b>	<b>(2,610)</b>
Cash and bank at the beginning of the year	44,974	47,584
<b>Cash and bank at the end of the year</b>	<b>13,126</b>	<b>44,974</b>

# VETERANS' MEDICAL RESEARCH TRUST FUND

## STATEMENT OF ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH 2021

### Accounting Policies Applied

#### Basis of Preparation

The Trust has elected to apply PBE SFR - A (PS) Public Benefit Entity Simple Format Reporting – Accrual on the basis that the Trust does not have public accountability (as defined) and has total annual expenses of less than \$2 million.

The Trust has opted to apply the Tier 2 accounting standard PBE IPSAS 29: Financial instruments: Recognition and measurement for the valuation of the investment portfolio.

All transactions in the financial statements are reported using the accrual basis of accounting.

The financial statements are prepared on the assumption that the Trust will continue to operate in the foreseeable future.

#### GST

The financial statements are prepared inclusive of GST, as the Trust is not required to register for GST.

### Significant Accounting Policies

#### Investments

Investments are comprised of fixed interest investments, and listed equities.

Listed equities are initially recorded and subsequently measured at the stated fair value, which is approximate to market value or determined using quoted market prices in an active market. Any increases or write downs in value are recognised in the statement of financial performance.

#### **Revenue**

##### Interest

Interest revenue is recorded as it is earned during the year.

##### Funding from Central government

This revenue includes funding received from Veterans' Affairs New Zealand.

Revenue is recognised when it is received unless there are specific conditions attached that require repayment.

It will be used for a research programme that will support the development of better information about the inter-generational health impacts of service in Viet Nam.

### Receivables

Receivables are initially recorded at the amount owed. When it is likely the amount owed (or some portion) will not be collected, a provision for impairment is recognised and the loss is recorded as a bad debt expense.

### Income Taxation

The Trust is exempt from paying income tax as a charity.

### Financial instruments

The Trust is party to financial instruments as part of its normal operations. These financial instruments include bank accounts, investments, short-term deposits, debtors, and creditors. All financial instruments are recognised in the statement of financial position and all revenues and expenses in relation to financial instruments are recognised in the statement of financial performance.

### Statement of cash flows

Cash means cash balances on hand, held in bank accounts, demand deposits and other highly liquid investments in which the Trust invest as part of its day-to-day cash management.

Operating activities include all activities other than investing activities. The cash inflows include all revenue that supports the Trust's operating activities. Cash outflows include payments made to grant recipients, suppliers and for other operating activities.

Investing activities are those activities relating to the acquisition and disposal of current and non-current securities.

### Payables and accruals

Provision has been made for all known and identifiable liabilities existing at balance date. Creditors and accruals are measured at the amount owed.

### Changes in Accounting Policies

There have been no changes in accounting policy, since the date of the last audited financial statements.

# VETERANS' MEDICAL RESEARCH TRUST FUND

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

### Note 1: Audit Fees to Audit New Zealand for audit of financial statements

Veterans' Affairs New Zealand (VANZ) will meet the cost of the audit for this financial year under section 262 of the Veteran's Support Act 2014.

2020: \$4,200 (exclusive of GST)

2021: \$4,267 (exclusive of GST)

### Note 2: Cash and Bank

Cash and Bank comprises cash balances held with the Bank of New Zealand, Wellington:

	2021	2020
Cash at bank and on hand	3,649	33,014
Cash management account (NZD)	9,477	11,960
<b>Total cash and bank</b>	<b>13,126</b>	<b>44,974</b>

### Note 3: Investments

Investing activities comprised the purchase and sale of a portfolio of investments managed by BNZ Investment Management Limited.

Below is the Investment Portfolio held at year end.

	2021	2020
Cash management account	232,002	77,248
NZ and International Fixed Interest	587,941	725,326
Australasian Equities/Equity fund	166,307	128,125
International Equities, Hedge Funds, Commodities	401,185	292,212
<b>Total investments</b>	<b>1,387,435</b>	<b>1,222,911</b>

### Note 4: Payables and Accrued Expenses

Payables and Accrued Expenses include the following components:

	2021	2020
Portfolio Fee	0	634
<b>Total Payables</b>	<b>0</b>	<b>634</b>

### Note 5: Financial Instruments

The carrying amount of financial instruments presented in the statement of financial position relate to the following categories of assets and liabilities.

	2021	2020
<b>Loan and Receivable</b>		
Cash and Bank	13,126	44,974
Term Deposits	420,010	412,448
Receivables	794	5,091
<b>Total Financial assets</b>	433,930	462,514
<b>Financial Liabilities at amortised cost</b>		
Payables and Accrued Expenditure	0	634
<b>Financial assets at fair value through the surplus or deficit</b>		
Investments	1,387,435	1,222,911

#### **Note 6: Related Party Transactions**

The Trust is considered a related party of Veterans' Affairs New Zealand (VANZ), which is a part of the New Zealand Defence Force. The transactions with the related party in 2020/21 have been the free secretarial and administration services provided to the Fund by VANZ.

The Trust has also received funding of \$450K from VANZ in last financial year, which will be used in its entirety for research on health and wellbeing of contemporary veterans in New Zealand that will support the development of better information on the group of Vietnam Veterans to assist the understanding of trends identified within Vietnam cohort.

#### **Note 7: Remuneration of Members of Veterans' Health Advisory Panel**

VANZ provide the resources and administrative support necessary to enable the Veterans' Health Advisory Panel (VHAP) to perform its functions under section 256 of the Veteran's Support Act 2014.

Members of the VHAP do not receive remuneration for their services from the Trust.

#### **Note 8: Key Management Personnel**

The key management personnel, as defined by PBE IPSAS 20: Related Party Disclosures, are the member of the governing body which is comprised of two Board of Trustees. The Trustees do not receive remuneration from the Trust.

#### **Note 9: Events after the balance date**

There were no significant events after the balance date.

#### **Note 10: Contingencies and commitments**

The Trust has no contingent assets or contingent liabilities.

The Trust has no operating or capital commitments.



## Independent Auditor's Report

### To the readers of the Veterans' Medical Research Trust Fund's financial statements for the year ended 31 March 2021

The Auditor-General is the auditor of Veterans' Medical Research Trust Fund (the Trust). The Auditor-General has appointed me, Kelly Rushton, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements of the Trust on his behalf.

#### Opinion

We have audited the financial statements of the Trust on pages 4 to 10, that comprise the statement of financial position as at 31 March 2021, the statement of financial performance, statement of cash flows and statement of accounting policies for the year ended on that date and the notes to the financial statements that include other explanatory information.

In our opinion, the financial statements of the Trust on pages 4 to 10:

- present fairly, in all material respects:
  - its financial position as at 31 March 2021; and
  - its financial performance and cash flows for the year then ended; and
- comply with generally accepted accounting practice in New Zealand in accordance with the Public Benefit Entity Simple Format Reporting – Accrual (Public Sector) Standard.

Our audit was completed on 15 September 2021. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Head of Veterans' Affairs and our responsibilities relating to the financial statements, we comment on other information, and we explain our independence.

#### Basis for our opinion

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

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



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

### **Responsibilities of the Head of Veterans' Affairs for the financial statements**

The Head of Veterans' Affairs is responsible on behalf of the Trust for preparing financial statements that are fairly presented and that comply with generally accepted accounting practice in New Zealand.

The Head of Veterans' Affairs is responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Head of Veterans' Affairs is responsible on behalf of the Trust for assessing the Trust's ability to continue as a going concern. The Head of Veterans' Affairs is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless the Head of Veterans' Affairs intends to wind-up the Trust or to cease operations, or has no realistic alternative but to do so.

### **Responsibilities of the auditor for the audit of the financial statements**

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

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

We did not evaluate the security and controls over the electronic publication of the financial statements.

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

- We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Head of Veterans' Affairs.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Head of Veterans' Affairs and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Trust's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Trust to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Our responsibilities arise from the Public Audit Act 2001.

## **Other information**

The Head of Veterans' Affairs is responsible for the other information. The other information comprises the information included on pages 1 to 3, but does not include the financial statements, and our auditor's report thereon.

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

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

## **Independence**

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

Other than the audit, we have no relationship with, or interests in, the Trust.

A handwritten signature in black ink, appearing to be 'KR', written in a cursive style.

Kelly Rushton  
Audit New Zealand  
On behalf of the Auditor-General  
Wellington, New Zealand











**HEI MANA MŌ AOTEAROA**  
**A FORCE FOR NEW ZEALAND**



**Te Kāwanatanga o Aotearoa**  
New Zealand Government