



MINISTRY OF  
**DEFENCE**

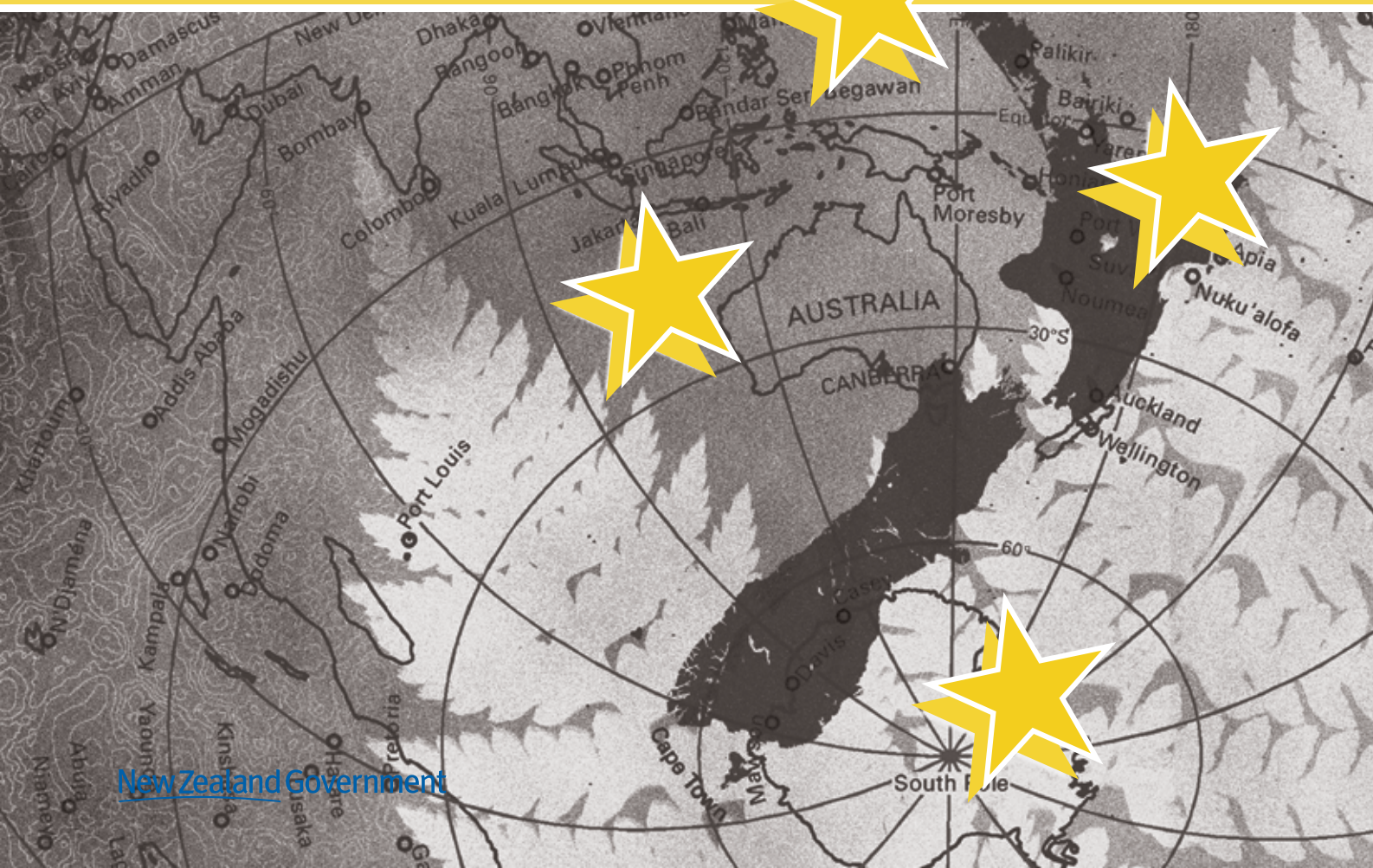
Manatū Kaupapa Waonga

# Statement of Intent

1 July 2010 – 30 June 2013

Presented to the House of Representatives

Pursuant to section 39 of the *Public Finance Act 1989*





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## Contents

Foreword: Minister of Defence .....	1
Introduction from the Secretary of Defence.....	3
Chief Executive Statement of Responsibility .....	4
Nature and scope of functions.....	5
Strategic direction: High level and intermediate outcomes.....	6
Operating intentions .....	9
Managing in a changeable environment.....	11
Organisational health and capability.....	13



## Foreword: Minister of Defence

I am pleased to present the 2010–2013 Statement of Intent of the Ministry of Defence.

The primary role of Defence is to ensure the security and safety of New Zealand. It is with this overarching objective in mind that the Government's priorities for the next three years have been set.

An immediate priority for Defence is the completion of the Defence Assessment being undertaken by the Secretary of Defence. This will be accompanied by an independent Value for Money review, aimed at ensuring that the Government gets the best possible return from its investment in Defence. These two pieces of work will then inform the Government's Defence White Paper, which is to be released in September this year.

The Assessment is critically examining New Zealand's security environment in the period to 2035. It will determine how the Ministry of Defence and the New Zealand Defence Force can best contribute to New Zealand's future security needs. It will map a future military capability mix and force structure. And it will identify improvements to governance and resource management. All with a view to providing the Government with a Defence Force which is adaptable, useful to New Zealand and others across a range of tasks, durable and affordable.

The Government expects the New Zealand Defence Force to undertake a number of tasks. These range from providing humanitarian assistance and disaster relief, to undertaking peacekeeping and nation building, to combat. I expect the Ministry to work with the New Zealand Defence Force to ensure we retain the people and equipment necessary to fulfil the full range of tasks expected of the New Zealand Defence Force, acting alone or alongside others, on a sustainable basis. This is an important objective of the Assessment.

Because of the significant sums of money involved in acquiring military capabilities, I have directed that a priority for the Assessment is to look at Defence procurement and resource management. The Defence agencies need to meet best international practice in these areas. It is critical that the Government's significant investment in military capability is managed soundly with a view to maximising appropriateness and cost-effectiveness.

My priorities over the period ahead, therefore, are to complete the Defence Assessment, to ensure that the New Zealand Defence Force remains effective and responsive, to implement a sound and balanced acquisition strategy, and to introduce new resource management methods. I also want to consolidate the ANZAC relationship, identifying new opportunities for New Zealand and Australia to work together, and to develop complementary capabilities. I expect the Ministry to play a central role in each of these areas of focus, working in partnership with the New Zealand Defence Force.

I look forward to working closely with the Ministry to implement our Defence programme over the coming three year period.



## Ministerial Statement of Responsibility

I am satisfied that the information on future operating intentions provided by the Ministry of Defence in this Statement of Intent is in accordance with sections 38, 40, and 41 of the *Public Finance Act 1989* and is consistent with the policies and performance expectations of the Government.



Hon Dr Wayne Mapp  
Minister of Defence



## Introduction from the Secretary of Defence

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This Statement of Intent sets out how the Ministry of Defence will contribute to the Government's priorities for Defence between 2010 and 2013.

The completion of the Defence Assessment and its implementation will be the primary focus for the Ministry over the coming year and beyond. It is the first major review of Defence in over a decade. In that time the global security environment and the factors shaping the New Zealand Defence Force's ability to respond have become more challenging.

The Assessment will provide the basis for defence policy now and over the longer term. It will take into account the replacement of those major capabilities which are nearing the end of their service life. It is an opportunity to put in place a long-term, realistic, and financially sustainable plan for the future development and operation of the New Zealand Defence Force.

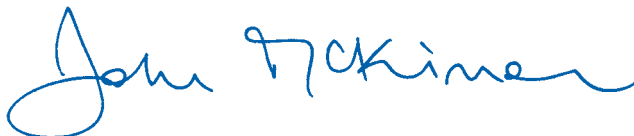
The Ministry is also involved in the Value For Money review to be completed by September this year. This, alongside the Assessment, will inform the Government's White Paper.

As well as implementing the Assessment, the Ministry will continue to progress the major acquisition projects currently underway – the upgrade/life-extension projects for the P-3 Orions and C-130 Hercules – and prepare for the delivery of the new medium utility (NH-90) and training and light utility (A109 LUH) helicopters. The Ministry will also work with the New Zealand Defence Force on remediation of the Multi-role Vessel, HMNZS *Canterbury*, one of the seven vessels that have been delivered under Project Protector.

Defence Force deployments and defence relations with overseas partners will continue to be important issues. The Ministry will be a key adviser on these.

The Ministry's organisational health is dependent on attracting and retaining staff with the right skills, and ensuring that the right systems and processes are in place. These are critical to the effective conduct of the Ministry's work and the achievement of the Government's expectations of the Ministry. This Statement of Intent outlines our intended action in this regard.

The Ministry will continue to maintain a very close working relationship with the New Zealand Defence Force. A strong and mutually reinforcing partnership between the Ministry and the New Zealand Defence Force is critical to the implementation of defence policy, and to Defence's interaction with other agencies.



John McKinnon  
Secretary of Defence

## Chief Executive Statement of Responsibility

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In signing this statement, I acknowledge that I am responsible for the information contained in the Statement of Intent for the Ministry of Defence. This information has been prepared in accordance with the *Public Finance Act 1989*. It is also consistent with the proposed appropriations set out in the Appropriations (2010/11 Estimates) Bill, as presented to the House of Representatives in accordance with section 13 of the *Public Finance Act 1989*, and with existing appropriations and financial authorities.



John McKinnon  
Secretary of Defence



Bryan Westbury  
Deputy Secretary (Finance) and  
Chief Financial Officer

## Nature and scope of functions

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Our roles and functions are established by the *Defence Act 1990* (the Act). Section 24 of the Act establishes the position of Secretary of Defence who is also the chief executive of the Ministry of Defence. The Secretary's responsibilities concerning the Ministry, the New Zealand Defence Force, and New Zealand's defence and security are detailed in section 24.

These responsibilities are embodied in three output classes:

- policy advice
- management of equipment procurement
- audit and assessment of performance.

Section 24(2)(c) of the Act establishes as one of the Secretary of Defence's functions "to prepare, in consultation with the Chief of Defence Force, and submit to the Minister from time to time a defence assessment, including a review of different options capable of achieving the Government's policy goals." Pursuant to this function, a Defence Assessment has been undertaken in 2009/2010. It will inform a Government White Paper on defence which is expected to be published in September 2010. The implementation of the decisions of the White Paper will shape the work of the Ministry in 2010 and beyond.

## Strategic direction: High level and intermediate outcomes

This section of the SOI applies the requirements of section 40 (b) of the *Public Finance Act 1989*, which requires discussion of ‘the specific impacts, outcomes or objectives that the department seeks to achieve or contribute to through its operations’.

The Ministry of Defence works towards two high level outcomes. The first outcome relates to our immediate security concerns.

### Outcome One: New Zealand is secure

A range of partner agencies contributes to the security of New Zealand and upholding her sovereignty. The Ministry’s emphasis is in maintaining New Zealand’s security from military or terrorist attacks, our freedom from external coercion, and control of our maritime environment (through surveillance and presence). To meet this outcome is to provide the most basic and essential form of security and to preserve New Zealand’s sovereignty.

Measuring success in achieving a secure New Zealand is shared among a number of agencies. The Ministry of Defence’s contribution to measuring performance is through periodic defence assessments and through effective policy advice mechanisms.

The second outcome relates to our interest in a peaceful international environment, both in support of our security, and as an expression of our national values.

### Outcome Two: The security of other nations is enhanced by New Zealand’s efforts

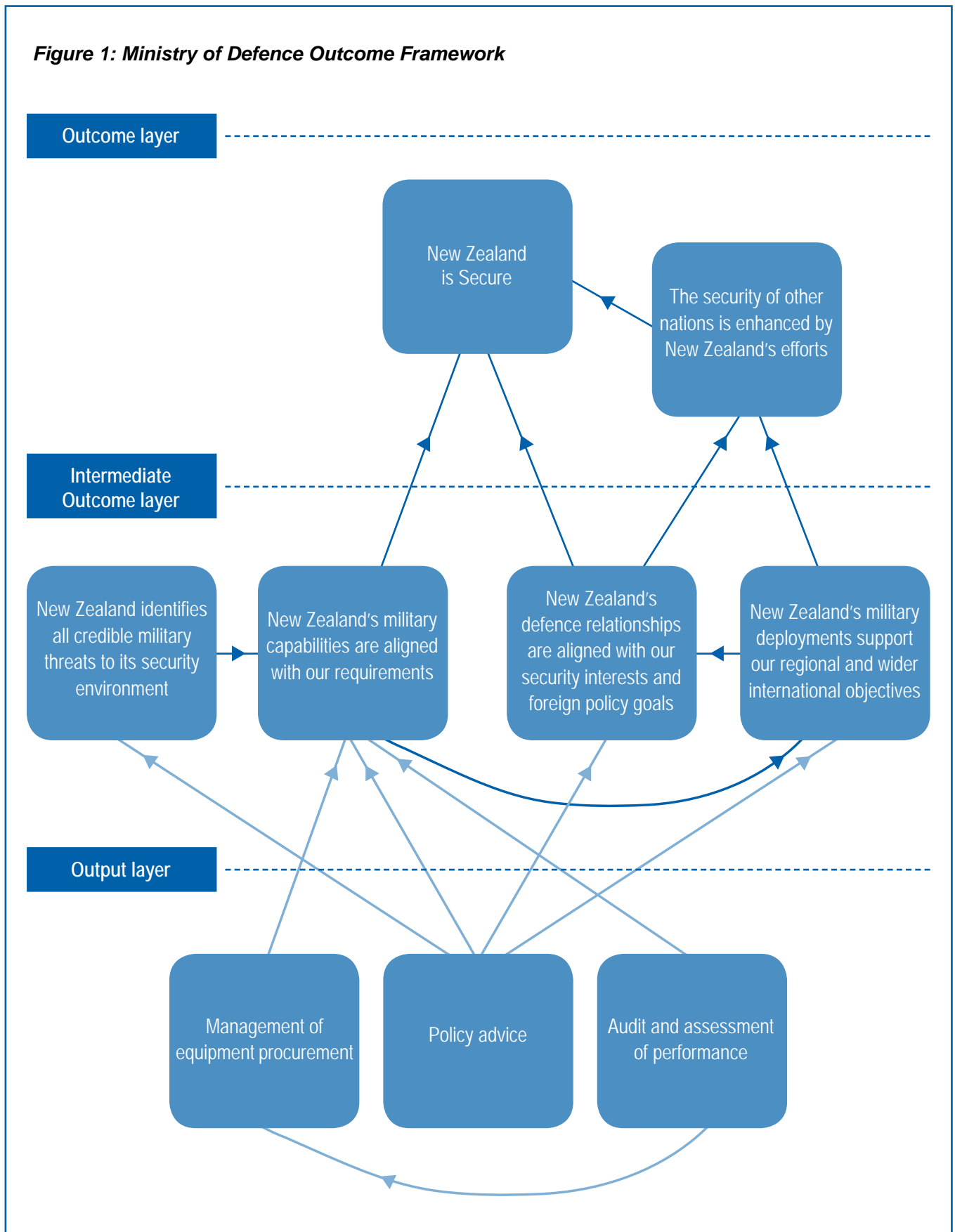
The security of the surrounding region – encompassing Australia, the Pacific island states, and Antarctica – is of immediate importance to us. Australia is our principal defence partner, while New Zealand has a key stake in the security and development of the island states to our north. Our goal is to assist them to develop their national capacity to function as sovereign entities. More broadly, New Zealand’s economic livelihood is grounded in a peaceful international order that enables the free flow of commerce between nations. We enjoy a wide range of bilateral and institutional security linkages in the Asia-Pacific region, and our long-standing interest in the stability of the Middle East continues.

New Zealand’s active support for the security of other nations also reflects our national values. New Zealand is a strong supporter of international peace, human rights, international law, and the United Nations.

In achieving this outcome we draw on our bilateral and regional defence relationships, diplomatic reporting, our own strategic analysis, and the perspectives of our partner agencies.

We work towards these outcomes with a range of partner agencies, principally the New Zealand Defence Force and the Ministry of Foreign Affairs and Trade. The New Zealand Defence Force manages military capability, and undertakes military operations. The Ministry of Foreign Affairs and Trade manages New Zealand’s foreign policy. Over time we will continue to develop joined-up approaches, including in the articulation and measurement of performance.

Figure 1 illustrates the linkages within our outcomes framework.



The Ministry of Defence's contribution to the high level outcomes is captured by the following four intermediate outcomes.

### **Intermediate outcome one: New Zealand's military capabilities are aligned with our requirements**

Our capacity to achieve our high level outcomes – in close cooperation with our partner agencies – derives from maintaining military capabilities that are matched to New Zealand's requirements. This impact relates to the entire cycle of capability development, from setting policy objectives, to developing capability proposals, to procuring equipment, and introducing capability to service. The Ministry is mainly involved in setting policy objectives, ensuring capability proposals are consistent with policy objectives, and procuring equipment with a value of \$7 million or more. Our audit and assessment function considers the effectiveness of the NZDF's management of its military capabilities, and of the Ministry's procurement of major military equipment.

The maintenance of current military capabilities largely sits with the New Zealand Defence Force and reporting is found within its accountability documents. The Ministry's performance in this area can be assessed through our output measures, which provide an assessment of the quality of our processes.

### **Intermediate outcome two: New Zealand's military deployments support our regional and wider international objectives**

To get the best value from its investment in defence capabilities, the Government requires advice on its options for deploying the New Zealand Defence Force. The Government faces demands for military commitments at the local, regional, and global level. The Ministry plays a role alongside others in advising the Government of the benefits and the costs of deployments.

A set of objectives is agreed for each deployment. We report progress against these objectives regularly, including when reviewing deployment mandates.

### **Intermediate outcome three: New Zealand's defence relationships are aligned with our security interests and foreign policy goals**

Defence relationships support our security interests, and our wider foreign policy goals. Defence relationships may comprise a range of components, including security dialogues, military exercises, and training exchanges. The Ministry plays a leading role in managing New Zealand's international defence relations at a policy level, including supporting ministerial engagement on defence and security issues.

Our relationship with Australia is managed within a comprehensive framework which provides agreed specific performance objectives. In other relationships we are preparing relationship development plans to support our security interests.

### **Intermediate outcome four: New Zealand identifies all credible military threats to its security environment**

While a conventional military threat to New Zealand is not likely, this may not always be the case. One of the Ministry's responsibilities is to monitor the external security environment to detect potential emerging threats to New Zealand's interests, and factor any threats into the capability development cycle.

Our performance in achieving this can be measured through our participation in a wide range of activities within the security sector. These activities provide an evidential basis that is drawn upon in advising the Minister and other selected stakeholders.

## Operating intentions

This section of the SOI applies the requirements of section 40 (c) (i) of the *Public Finance Act 1989*, which requires a statement of ‘how the department intends to perform its functions and conduct its operations to achieve those impacts outcomes or objectives’.

The Ministry of Defence is funded to provide three outputs: policy advice, procurement of military equipment, and audit and assessment of performance. The contribution each output makes to our impacts is presented below, alongside our output performance measures.

### Output class: Policy advice

The Ministry supports **each intermediate outcome** by providing advice to the Government on:

- changes in the strategic environment
- defence and security policies
- military capabilities required to meet defence policy goals, broad resource implications, relative merits and risks associated with proposed capability options including technical advice and analysis
- management of bilateral and multilateral defence relations.

Our policy advice is successful when our principal clients, the Minister of Defence and the Associate Minister of Defence, are satisfied with our advice.

### Output class: Procurement of Military Equipment

The Ministry supports **intermediate outcome one** by purchasing the major items of military equipment required to implement the Government’s defence policy. The Ministry is committed to improving continuously its procurement function through implementation of the recommendations flowing from reviews in this area.

Our procurement activities are successful when we deliver contracted equipment on time and to budget. We aim for a seamless procurement process and effective stakeholder management.

Over the coming year, the Ministry will submit an agreed programme of project reporting to Parliament and other stakeholders. We also aim to maintain ISO 9001 accreditation in relevant work areas.

### Output class: Audit and Assessment of Performance

The Ministry supports **intermediate outcome one** by undertaking the audit and assessment of any function, duty or project of the New Zealand Defence Force and of the procurement activities of the Ministry of Defence. Our work will include audits of the controls on hazardous substances under the control of the Minister of Defence, as required by the *Hazardous Substances and New Organisms Act 1996*.

Our assessments and audits are successful when they provide assurance of, or recommendations leading to improvement in, the efficiency and effectiveness of management systems within the New Zealand Defence Force and the procurement activities of the Ministry of Defence.

## Cost effectiveness of the Ministry's interventions

Section 40 (d) (ii) of the *Public Finance Act 1989* requires departments to include the main measures by which they will assess their future performance including the cost effectiveness of interventions. Cost effectiveness is not defined by the Act or by the central agencies.

The provision of cost effective information poses a number of measurement challenges for the Ministry. Reporting on the cost effectiveness of interventions requires knowledge of both their costs and impact. In the context of defence activities and related policy advice, the benefits of the Ministry's activities cannot be measured exclusively in monetary terms. Also, whilst some components of cost can be calculated, not all the costs associated with the actions or advice of the Ministry can be reliably measured (e.g. the Ministry may recommend a military solution with a humanitarian impact difficult to qualify or quantify).

Nevertheless, the Ministry is committed to a programme of developing meaningful and relevant cost effective information consistent with the expectations of its stakeholders. As the Ministry is currently undertaking the Defence Assessment, and as the Value for Money review has yet to be completed, the relevant programme of work will be undertaken after the publication of the Defence White Paper.

## Managing in a changeable environment

### Assessing the broader operating environment

Decisions concerning capability requirements involve large sums of money, and influence our foreign and security policy options for decades. Equally, decisions concerning the deployment of military forces involve the lives of service people, and difficult policy choices. Taking a long-term view of the broader operating environment informs our advice on these issues, ensuring that our military capabilities remain aligned with our requirements, and that the New Zealand Defence Force is deployed in ways that best support our interests.

The Defence Assessment has incorporated a thorough analysis of the conditions affecting defence over the coming years. This assessment, and the subsequent White Paper, will influence all facets of the Ministry's work.

The Assessment also presented an excellent opportunity to deliver defence policy, capabilities and operations that deliver on the Government's defence objectives while remaining affordable within the current constrained fiscal environment.

### The Ministry's position within the security sector

The Ministry of Defence is a security sector agency. Our assessment of the drivers influencing defence is developed in conjunction with our partner security agencies, principally the New Zealand Defence Force, the Ministry of Foreign Affairs and Trade, and the Department of the Prime Minister and Cabinet. Our partner agencies have provided a high degree of input into the Defence Assessment.

The Ministry supports efforts to achieve a whole of government approach to managing security. The challenge is to align defence policies, capabilities, and operations to the foreign policy environment and to wider government objectives. As part of this, the Ministry will support a sectoral approach to outcome achievement and reporting.

Our close relationship with the Headquarters of the New Zealand Defence Force is formalised through a series of committees and shared processes that manage capability development and other defence business. Routine informal collaboration complements the formal arrangements.

Ministry of Defence officials liaise routinely with staff from the Ministry of Foreign Affairs and Trade, the Treasury, and the Department of the Prime Minister and Cabinet. We participate in central government security and crisis management arrangements.

### Strategic Management

The Ministry is seeking to develop a more systematic and broadly based approach to its strategic planning. This approach will focus, in particular, on the formulation of strategic direction, outcomes and output statements, and the alignment between these and outcomes from elsewhere in the security sector. This work will lead to a clearer articulation of the Ministry's goals, sharper performance measurement, and better management of risks. As an initial step in this process, this Statement of Intent aims to provide a better description of the value the Ministry adds to the achievement of the Government's objectives.

## Specific challenges facing the Ministry of Defence

### Ensuring the Ministry has access to the knowledge, skills and experience necessary for it to produce its outputs

The Ministry's principal resource is its staff. In certain specialised areas – legal, financial, commercial – the Ministry has been under resourced, in part because of the difficulty in a competitive labour market of recruiting and retaining staff in a small organisation. This risk has been mitigated by contracting services from outside.

Both the finance and acquisition functions of the Ministry have been reviewed in various contexts recently. As a result, and pending further examination in the Defence Assessment, the finance team has been reshaped and the acquisition team has been strengthened with new permanent appointments. Further consideration is being given to the best way to deliver legal advice on procurement.

### Ensuring Crown projects are delivered on time, within budget and according to the functional requirements specified

The most significant financial and capability risk the Ministry faces is in the delivery of individual acquisition projects to the New Zealand Defence Force. Delays in introduction and cost overruns can greatly affect the New Zealand Defence Force's ability to generate military capability. We are boosting our ability to manage risk in the acquisition area. Individual acquisition projects undergo comprehensive risk analysis, mitigation and management. The Acquisition Division maintains certification to ISO 9001 for quality management processes and outcomes. The Capability Management Framework has provided a direction for establishing mechanisms for defining the capabilities required of the New Zealand Defence Force. It also provides a means for identifying the risks and opportunities prior to any equipment procurement.

Specifically, on the three principal components:

- **Cost**  
Major defence procurements are all embarked on with fixed price contracts. Forward foreign exchange cover is taken out for the whole of the life of the contract.
- **Functional requirements**  
One of the major tasks of Acquisition project directors and project managers is to ensure that the acquisition of the capability being contracted for is delivered. The performance of project directors and managers is monitored by the Deputy Secretary Acquisition and Secretary in this regard.
- **Time**  
If delays occur they are mitigated by securing an advantage through some other dimension of the contract or by using the mechanisms in the contract. The operational impact on the New Zealand Defence Force is managed through consultation and coordination.

### Business continuity

The Ministry has a Business Continuity policy and plan which will continue to be tested in scenario exercises.

Disaster Recovery within the Ministry of Defence is currently focused on a localised disruption to Information Management and Technology services. This is to be extended to a regional disaster case scenario to support the critical functions of the Ministry and Government. The areas of main focus will be in protecting and maintaining access to the Ministry's core information and providing accessibility to key staff.

## Organisational health and capability

The Ministry of Defence aims to have top-quality people, relationships, and processes that will enable us to achieve our intermediate and high-level outcomes. We cannot be successful without well-qualified and motivated staff, sound management of resources and an effective working relationship between staff and stakeholders.

While we continue to have areas of strong capability, and areas where capability is improving, we also have areas that need further improvement.

### People

The Ministry aims to attract and retain people for the following roles:

- high-quality policy analysts and advisers
- project managers who can manage military equipment procurement
- evaluation analysts who can assess and audit defence activities and functions
- corporate roles with a technical focus.

In a variable labour market the Ministry, with only 58.5 permanent staff<sup>1</sup> must ensure it has the right people in the right job at the right time.

We will continue to play our part in upholding and reinforcing the ethical standards that will ensure the New Zealand Public Service deserves and holds the respect of its citizens (*Standards of Integrity & Conduct issued by the State Services Commission*).

#### Policy analysts and advisers

The Ministry attracts highly qualified graduates with a real interest in defence. We ensure we have the right human resources policies to recruit, develop, train, and retain high quality policy analysts. We want to develop further the depth of knowledge of defence issues held by our analysts and expand their breadth of knowledge about government processes and practices.

To help achieve this, we maintain a comprehensive training programme as well as an active secondment policy. Mutual secondments of policy analysts with the Ministry of Foreign Affairs and Trade are extremely beneficial in enabling our staff to gain a broader understanding of how New Zealand's security and prosperity is advanced and protected abroad.

#### Acquisition project managers

We require people with expertise in the acquisition of military capability. This is a highly specialised area that requires capable people who operate to public service standards in a highly competitive commercial environment.

Project managers and project officers may be required to live overseas for extended periods to supervise an acquisition project. The Ministry is too small and specialised to train and retain people in the full range of skills required. The Ministry must therefore recruit project managers and project staff who have already developed the necessary skills and experience.

A project manager may lead a team of up to 10 project officers (usually seconded from the New Zealand Defence Force) and manage a number of external providers of services, for example: consultants

<sup>1</sup> Source, SSC Statistics based on 2009 HRC survey of all Government Departments.

who provide independent verification and validation of specifications; lawyers to prepare contracts and provide support on contractual issues; risk management consultants, independent project specific advisors and specialist auditors. We need project managers who can protect the Crown's interests through complex and multi-faceted projects. They require superior communication skills and must be able to demonstrate leadership in these roles.

### **Evaluation analysts**

In our Evaluation team we seek to maintain a broad range of skills, disciplines and backgrounds. We maintain links with other defence auditors for professional information exchange.

### **Corporate roles with a technical focus**

The Ministry aims to attract and develop skilled professionals in the areas of Information Management, Information Communication and Technology, Human Resources, and Finance.

## **Organisational health**

The compact nature of the Ministry helps to ensure that staff views are given the high level of importance they deserve. In addition to informal communication pathways, the Ministry runs a system of both exit and post appointment interviews with staff. This provides a confidential mechanism for staff to deliver feedback and suggestions for improvement of processes and practices observed within the Ministry. Human Resource indicators such as turnover, absence and performance are also regularly monitored to identify any trends.

The Ministry collects comprehensive information to capture key indicators of organisational health and capability. This is reported monthly to Senior Management. The Ministry also participates in the State Services Commission annual HRC survey of all Government departments which provides further Ministry human resources capability information and comparator reporting with other public service departments.

To promote employee health and well-being, the Health & Safety Committee meets monthly, the Accident Register records all accidents, all new staff work environments are assessed, and all staff are offered flu vaccines paid for by the Ministry. The Ministry meets all first aid training costs including regular update of first aid certificates when required and promotes the Employee Assistance Programme (EAP) to staff through the Ministry's EAP Referral Advisors.

We recognise that employee engagement with the Ministry has a strong correlation to performance. The Ministry measures employee engagement through employee surveys to discover and act on opportunities to further improve this engagement.

Human Resources policies, processes and staff development plans are developed in consultation with staff, agreed and regularly monitored, to ensure the most efficient and effective use of budget and resources in capability development.

## **Continual improvement**

Our capability to persuade and influence, to ensure that we are credible and respected, must continue to be monitored to ensure we maintain continuous improvement. We will assess whether our capability development is delivering the outcome we need. This will be measured by periodic internal review, drawing on the stakeholder feedback we receive on our effectiveness.

## Environmental impact

The Ministry will continue to take practical action to reduce its impacts on the environment, where it makes economic sense. This will include taking a “whole of life” approach when procuring goods and services; minimising waste sent to landfill; using resources, including energy and water, more efficiently; improving planning, design and construction when commissioning and operating buildings; and adopting transport policies that minimise environmental impact.

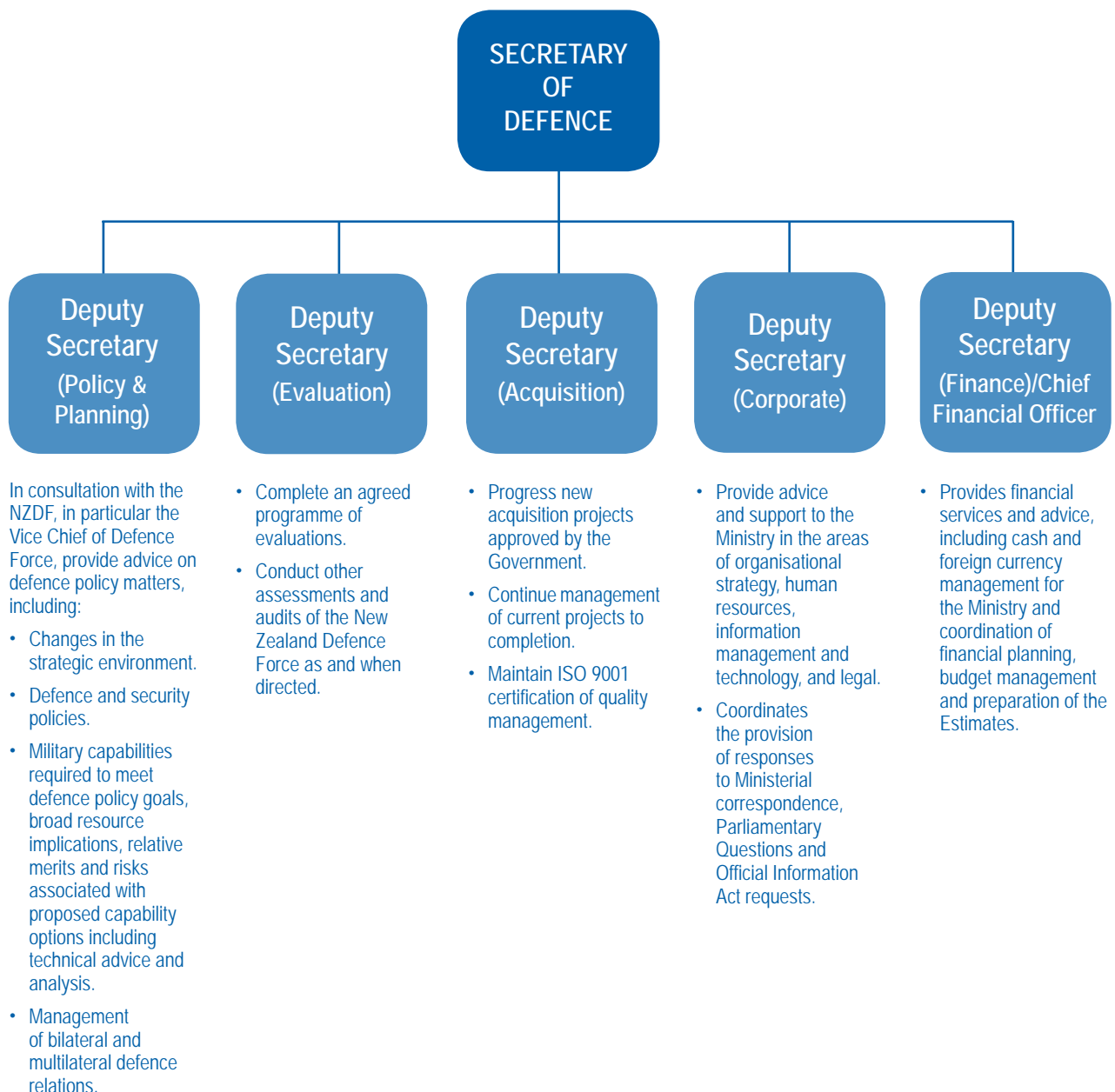
## Equality and diversity

The Ministry is committed to the State Services Commission’s Equality and Diversity Policy which means that we:

- treat people fairly and with respect, ensuring equality of access to opportunities (equality)
- understand, appreciate and realise the benefits of individual differences (diversity).

Figure 2 illustrates the structure and roles of the Ministry of Defence.

**Figure 2: Structure and roles of the Ministry of Defence**



## Departmental capital intentions

To be incurred in accordance with section 24 of the *Public Finance Act 1989*.

The Ministry's actual capital expenditure over the past 4 years was:

	2005/06 \$000	2006/07 \$000	2007/08 \$000	2008/09 \$000	
	Actual	Actual	Actual	Budget	Actual
Property, plant and equipment	821	2,615	103	300	201
Intangibles <sup>2</sup> (software)	–	19	61	75	82
<b>Total appropriation</b>	<b>821</b>	<b>2,634</b>	<b>164</b>	<b>375</b>	<b>283</b>

The Ministry's forecast capital expenditure for 2010–2013 is:

	2009/10 \$000	2010/11 \$000	2011/12 \$000	2012/13 \$000	2013/14 \$000
Property, plant and equipment	277	195	245	242	147
Intangibles (software)	175	120	40	50	50
<b>Total appropriation</b>	<b>352</b>	<b>315</b>	<b>285</b>	<b>292</b>	<b>197</b>

The Ministry's assets are office furniture and equipment, leasehold improvements, IT equipment and computer software.

A capital expenditure plan will be maintained for the full period covered by this SOI. The plan will identify new and replacement capital items required by the Ministry to deliver its stated outcomes and outputs. The need to incur capital expenditure will be considered from a business case justifying a necessity to purchase, identifying proposed costs and benefits, the depreciation effect on Vote Defence and affordability within the capital appropriation.

The Ministry's operating intentions are to physically check all capital items at least once in the 12 months ended 30 June, to review at regular intervals capital items reaching a zero book value and consider the need for replacement in order to maintain an effective asset base to allow the Ministry to function as planned.

<sup>2</sup> Prior to the introduction of the new International Financial Reporting Standards, intangibles were included within plant property and equipment.



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