

3.5 Disclosing Fiscal Risks on Defence Capital Projects

Future spending on defence capital equipment is expected to be significant as new projects are approved. This spending will have budgetary implications in terms of commitments entered into with suppliers and the need for appropriations from Parliament. To consider those implications properly, Parliament needs information about:

- *the capability of the New Zealand Defence Force – especially in relation to its capital equipment needs;*
- *the fiscal risks attaching to capital equipment purchases; and*
- *the funding requirements (in the form of appropriations) to pay for the purchases.*

3.501 The Ministry of Defence is responsible for managing the purchase or refurbishment, on behalf of the Crown, of various items of equipment identified as contributing to a change in the capability of the New Zealand Defence Force (NZDF).¹

3.502 For the 2000-01 financial year, the Government has asked Parliament to appropriate \$145 million for the purchase of defence equipment for the NZDF.² This appropriation is only to meet payments due on purchases for currently approved projects that were in progress at the time of formulating the estimates of Vote Defence for the year.

¹ *Estimates of Appropriations*, parliamentary paper B.5 Vol. 1, 2000, page 333.

² *Ibid.*, page 335.

- 3.503 However, a number of other purchase or refurbishment projects for defence equipment are now known about. Shortly after presentation of the Budget in June this year the Government announced that it was proceeding with acquisition for the Army of light armoured vehicles (estimated to cost \$611 million, including GST) and tactical communications equipment (estimated to cost \$124 million, including GST).
- 3.504 In order to allow progress on those newly announced acquisitions, a sum in the region of \$180 million was included in the amount of liabilities to be incurred in 2000-01 of \$1,250 million, for which Parliament's authority was sought and obtained in section 8 of the Imprest Supply (Second for 2000/01) Act 2000.
- 3.505 The *Budget Economic & Fiscal Update* for 2000 includes disclosure of unquantified fiscal risks. Under the heading "Defence – capital injections (changed risk)" the *Update* states that:³

The Government intends to assess its defence policy priorities during 2000/01 – capital injections may be required to implement these priorities once this is completed and the NZDF's capability needs are determined.

- 3.506 The effect of what we describe in paragraphs 3.503-3.505 is that the Government will be relying on funds available to it under imprest supply to meet any initial liabilities for the additional defence equipment purchases, without having had to persuade Parliament to provide an appropriation for the purpose.
- 3.507 In our *Third Report for 1999: The Accountability of Executive Government to Parliament*⁴ we said that Parliament needs better information in order to effectively hold Executive Government to account. Among the points we made in that report – which are particularly relevant in the context of major defence equipment purchases – is the need for:
- Better information on *capability* – in NZDF's case especially in relation to its equipment needs.

3 Parliamentary paper B.3, page 77.

4 Parliamentary paper B.29[99c].

DISCLOSING FISCAL RISKS ON DEFENCE CAPITAL PROJECTS

- Better information on *risks*. We believe that there is plenty of room to improve the disclosure of unquantified fiscal risks in the *Budget Economic & Fiscal Update*.
- A more disciplined approach to the use of *imprest supply*. Because no appropriation is being sought in 2000-01 for the newly approved NZDF equipment purchases, the Government effectively has a free hand (within the overall limits of imprest supply) to apply public money to purposes that have not been put to, or approved by, Parliament.

