

# ANNUAL REPORT 2013-14



1 July 2013 – 30 June 2014

**Defence SA**

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Government of  
South Australia

**DEFENCE SA**

Hon Martin Hamilton-Smith MP  
Minister for Defence Industries  
Level 13  
State Administration Centre  
200 Victoria Square  
ADELAIDE SA 5000

30 September 2014

Dear Minister

I am pleased to present to you Defence SA's Annual Report and financial statements for the year ended 30 June 2014. The report has been prepared in accordance with the requirements of the *Public Sector Act 2009* and the *Public Finance and Audit Act 1987*.

Yours sincerely

A handwritten signature in black ink, consisting of several loops and a long horizontal stroke extending to the right.

Malcolm Jackman  
**CHIEF EXECUTIVE**



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# CHIEF EXECUTIVE'S FOREWORD

Defence is a critical sector for South Australia, generating long-term employment, attracting significant investment and driving innovation.

The state makes a major contribution to the national defence effort. South Australia is home to a critical mass of world-class industry delivering many of Defence's largest most complex projects – construction of the Air Warfare Destroyers, maintenance of the Collins class submarine fleet and Orion aircraft upgrade and sustainment to name just a few. We also support a large and varied Defence presence with key Air Force, Army and Defence Science and Technology Organisation elements resident in this state.

The year 2013–2014 brought continued uncertainty to Australia's defence industry, as the new Commonwealth Government considers and determines its strategic defence priorities. This follows significantly reduced Defence spending over recent years in consideration of Australia's strategic and fiscal environment. Reduced spend, coupled with Defence's traditional stop-start work programming, have been a challenge for an industry that is seeking to maintain effective use of capability and capacity in readiness for upcoming major projects.

The Commonwealth Government's new Defence White Paper and Defence Capability Plan, anticipated to be released in mid-2015, is expected to provide critical forward policy and investment surety for defence industry, as well as state governments in support.

Naval shipbuilding continued to receive particular attention and remains at a critical crossroad. The Commonwealth will spend up to \$250 billion on delivering and sustaining the future Navy fleet, and strategy, policy and investment decisions over the next 12–18 months will determine whether this massive investment is directed into building a robust indigenous capability or effectively outsourced to other countries.

Advocacy efforts heightened in 2013-14, seeking Commonwealth Government commitment to an Australian shipbuilding industry and Techport Australia as the logical home for warship and submarine construction and maintenance. Defence SA is also leading State Government advocacy for broad Defence policy direction to maximise local industry involvement in the major Land 400 military vehicle program, as well as engagement with all likely bidders. The state has made a high-level commitment to develop a Techport-like facility to support delivery of the project from South Australia.

State investment has underpinned the establishment of a new purpose-built BAE Systems Australia facility at Edinburgh Parks to manufacture high precision titanium parts for the global Joint Strike Fighter program, as well as Rosebank Engineering's complementary processing facility at Wingfield.

Works to expand and upgrade the Techport Australia Common User Facility continued in 2013–14, supporting the full needs of the Air Warfare Destroyer project in peak production, and providing the state with maximum flexibility to both pursue third party activities and future naval programs.

# CHIEF EXECUTIVE'S FOREWORD

The agency continued to lead State Government support to Defence in implementing an innovative coexistence scheme to balance Defence and mining interests in the Woomera Prohibited Area. Passage of the *Defence Legislation Amendment (Woomera Prohibited Area) Bill 2014*, anticipated July 2014, will create a new coexistence regime for the WPA, providing certainty of access and use for all users. It will better balance national security and economic interests in the area.

Defence's five-fold expansion of the Cultana Training Area received the green light in June, with the State Government granting a Miscellaneous Lease for Defence Purposes over the Cultana expansion land. The expanded range will provide important support to Army's 1st Brigade, particularly the 7RAR Battle Group based at RAAF Base Edinburgh.

The Defence SA Advisory Board, including the Premier and Minister for Defence Industries, continued to focus on shaping South Australia's defence future. I thank our insightful Board for their continued contribution, and acknowledge the departure of the Board's exceptional inaugural Chair, General Sir Peter Cosgrove AK MC.

It is an honour and a privilege to take up the stewardship of Defence SA, building on the outstanding service of inaugural chief executive Andrew Fletcher. Andrew has been instrumental in South Australia cementing its reputation as the *Defence State*, and I thank him for his significant contribution and leadership over many years.

This is a critical time for South Australia's defence sector. We need a strategic approach to strengthening it into the future, and I look forward to leading Defence SA as we embark on the next chapter.



Malcolm Jackman  
**CHIEF EXECUTIVE**

# HIGHLIGHTS

- Air Warfare Destroyer project at peak production, with:
  - 1900 direct jobs based in South Australia
  - Ship 1 *Hobart* fully consolidated and first major combat system loaded
  - Ship 2 *Brisbane* consolidation commenced with keel laying ceremony in February
  - modules for Ship 3 *Sydney* under construction
  - Integrated Platform Management System Training Simulator operational at Techport Australia Maritime Skills Centre.
- Doubling of staff numbers at Future Submarine Systems Centre, Dudley Park, drawing in expertise from around the world.
- Upgrade, systems contract and performance improvements for Collins submarines.
- Commonwealth approval to procure P-8A POSEIDON maritime surveillance aircraft, to be based at RAAF Base Edinburgh. The base will receive some \$300 million in infrastructure and facility upgrades to house the aircraft, systems and crew.
- The Commonwealth has also committed to acquiring TRITON unmanned aerial vehicles at a future stage to support the P-8As, subject to the completion of the US Navy's development program. The TRITONs would also be based at RAAF Base Edinburgh.
- Opening of Australia's most advanced aerospace manufacturing (BAE Systems) and coating (Rosebank Engineering Australia) facilities, delivering high precision components to the global Joint Strike Fighter project.
- Five-fold expansion of the Cultana Training Area green-lighted with granting of Miscellaneous Lease for Defence Purposes to Defence.
- *Defence Legislation Amendment (Woomera Prohibited Area) Bill 2014* introduced to Parliament, to provide a legislative coexistence framework to balance Defence and mining interests in the WPA.
- High level advocacy campaigns calling for strategic national approach to naval shipbuilding and military vehicle manufacture and sustainment.
- Dry docking of Searoad Mersey cargo ship (7928 tonnes) at Techport Australia Common User Facility.
- Appointment of former Chief of the Defence Force Air Chief Marshal Angus Houston AC AFC to Chair of Defence SA Advisory Board.
- Re-qualification of Navy Certification by Techport Australia Common User Facility.
- Production of new time-lapse and fly-through audio visual productions showcasing Techport Australia capabilities and AWD project progress.
- Successful representation of *South Australia – the Defence State* at Pacific 2013 in Sydney.
- Major review of South Australia's Defence Strategy, including significant external consultation.

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# ABOUT DEFENCE SA



Image: South Australia – the Defence State exhibition stand, PACIFIC International Maritime Exposition and Conference Oct 2013

# SOUTH AUSTRALIA THE DEFENCE STATE



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# CORPORATE GOVERNANCE

## Organisational Structure

Established in 2007, Defence SA remains the only stand-alone dedicated defence-related state agency in Australia, and highly valued by the Defence customer. Defence SA recognises that industry, not state Governments, delivers goods and services to Defence. An administrative unit pursuant to the *Public Sector Act 2009*, the agency's key role is to facilitate programs and services which drive further growth of Defence in South Australia, as well as sustainable defence industries.

Defence SA works to achieve maritime, land, aerospace and electronics/systems outcomes across each of the following four areas:

1. Expanded Defence Presence
2. Sustainable Defence Industries
3. Productive Infrastructure
4. Effective Advocacy.

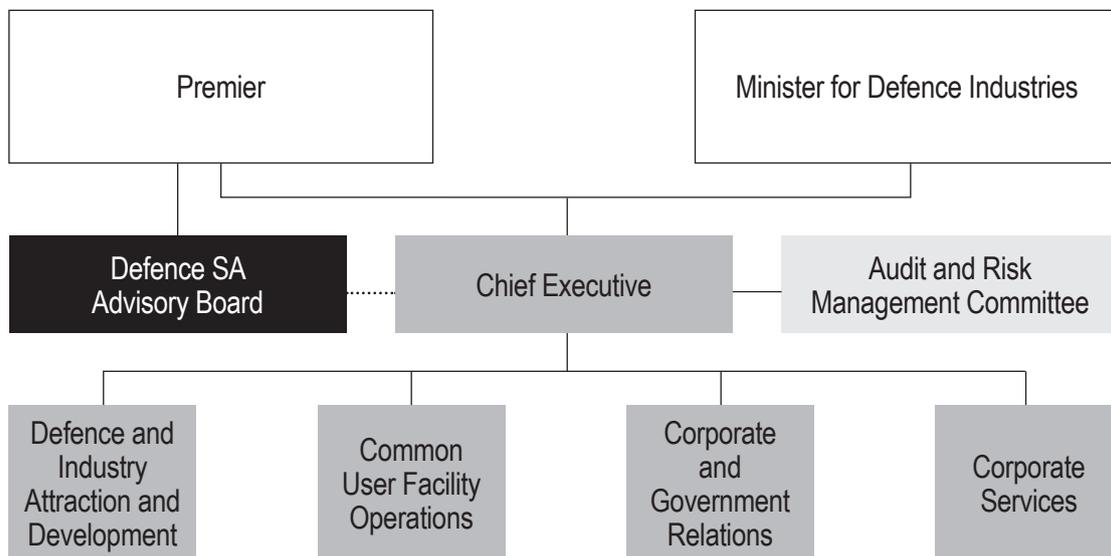
Defence SA is also focused on ensuring the agency remains a leading government employer of choice, and that its corporate systems and standards are world class.

At 30 June 2014, Defence SA employed 32.05 full-time equivalent employees across two locations – Adelaide and Osborne. The agency's structure and reporting arrangements are depicted in Figure 1.

## Unit Functions

**Defence and Industry Attraction and Development** is responsible for Defence and industry attraction and expansion in South Australia, the development of sector and project strategies, as well as effectively promoting the state's defence industry capabilities. The unit liaises closely with the defence industry's peak body, the Defence Teaming Centre, as well as defence related companies generally to identify and address opportunities to support growth.

Figure 1: Defence SA Organisational Structure at 30 June 2014



**Common User Facility Operations** manages the Techport Australia Common User Facility at Osborne, including shiplift, wharf and dry berth transfers, and power and water supply. The unit is responsible for the delivery of all CUF obligations and services to the Air Warfare Destroyer Program, promoting the CUF for commercial projects, and overseeing the development and expansion of the CUF to meet the requirements of future naval shipbuilding projects.

**Corporate and Government Relations** delivers executive support to the Defence SA Advisory Board, as well as providing policy and strategy advice. The unit is responsible for the agency's marketing and event management activities, and the coordination of strategic and business planning. It also leads intra-government projects including workforce development, advanced manufacturing strategy implementation, Cultana expansion and the Woomera mining and defence coexistence framework.

**Corporate Services** delivers all administration, finance and procurement support for the agency, as well as providing commercial cost/benefit analyses where required. The unit delivers specialist assistance to contract negotiations in the areas of legal advice, insurance and risk mitigation, and is responsible for work health and safety, and environmental coordination.

## Defence SA Reporting Arrangements

Defence SA is a department, pursuant to the *Public Sector Act 2009*.

Historically, Defence SA has reported to the Premier in his former capacity as Minister for State Development and the Minister for Defence Industries (under delegated authority from the Minister for State Development).

Following the March election, the Minister for Defence Industries assumed ministerial responsibility for Defence SA.

The Chief Executive maintains a direct reporting line to the Premier pursuant to his employment contract, as with all Chief Executive Officers. Defence SA's strategy and policy development is assisted by the Defence SA Advisory Board.

Defence SA maintains strong relationships with key agencies in order to achieve its and broader government objectives. While offering a one-stop-shop service delivery to customers and stakeholders, subcontracting to other agencies and avoidance of duplicative effort are fundamental to the agency.

Key agencies include:

- State Development
- Premier and Cabinet
- Treasury and Finance
- Planning, Transport and Infrastructure
- Education and Child Development
- Renewal SA.

## Defence SA Advisory Board

The Defence SA Advisory Board provides high-level strategic and policy advice to promote the growth of Defence and defence industries, and facilities on a competitive and sustainable basis in accordance with *South Australia's Strategic Plan*.

The Board also supports efforts to build on South Australia's capabilities and strengths across the four defence sectors – maritime, land, aerospace and electronics/systems. Since its establishment in 2007, the Board has made a significant contribution to the state's efforts to cement its reputation as the *Defence State*, and to lay the foundations for a strong, sustainable future through well-guided strategic policy advice.

Particular focus areas for 2013–14 include:

- advice and high level apolitical advocacy in relation to naval shipbuilding policy and projects and Land 400 industry participation
- major involvement in development of the new South Australia's Defence Strategy 2025 and sectoral strategies, including through select subcommittee
- advocacy and ambassadorial role at major events, including PACIFIC 2013
- industry engagement, including liaison with the broader South Australian business community through boardroom lunches
- advice on initiatives to support growth of Defence establishments in South Australia.

## Board Membership

Defence SA Advisory Board membership recommendations are based on a core skills requirement of high-level strategic defence expertise and network across the full range of defence capabilities, coupled with commercial and financial expertise. Members of the board on 30 June 2014 were:

- Air Chief Marshal Angus Houston AC AFC (Chairman) – former Chief of Defence Force (2005–11)
- Dr Ian Chessell – former Australian Chief Defence Scientist (2000–03) and South Australia’s Chief Scientist (2008–10)
- Vice Admiral Russ Crane AO CSM RANR – former Chief of Navy (2008–11)
- Mr Andrew Fletcher – Chief Executive, Defence SA (2007 to present)
- Mr Paul Johnson MBE – defence industry leader and former Chief Executive of Lockheed Martin Australia
- Ms Beth Laughton – Chartered Accountant, former investment banker and company director
- Lieutenant General Peter Leahy AC – former Chief of Army (2002–08)
- Rear Admiral Trevor Ruting AM CSC RANR – naval architect and former Head Maritime Systems, Defence Materiel Organisation
- Dr John White – engineer and business leader in defence, resources, technology and manufacturing sectors.

The Premier and the Minister for Defence Industries are ex-officio members of the board. Emeritus Professor Paul Dibb AM is an advisor to the board on strategic policy matters.

Air Chief Marshal Angus Houston AC AFC was appointed Chair of the board in January, upon the departure of inaugural chair and now Governor-General of Australia, General Sir Peter Cosgrove AK MC.

## Board Meeting Attendance

The board held seven formal meetings in 2013–14 and attendance was as follows:

	Board Meetings	
	Eligible	Attended
GEN Sir Peter Cosgrove AK MC (Chairman) <sup>1</sup>	4	3
ACM Angus Houston AC AFC (Chairman) <sup>2</sup>	7	6
Hon Jay Weatherill MP, Premier	7	1
Hon Jack Snelling MP, Minister for Defence Industries <sup>3</sup>	6	3
Hon Martin Hamilton-Smith MP, Minister for Defence Industries <sup>4</sup>	1	1
Dr Ian Chessell	7	6
VADM Russ Crane AO CSM RANR	7	7
Mr Andrew Fletcher	7	7
Mr Paul Johnson MBE	7	7
Ms Beth Laughton	7	6
LTGEN Peter Leahy AC	7	6
RADM Trevor Ruting AM CSC RANR	7	7
Dr John White	7	3
Emeritus Professor Paul Dibb AM (Advisor)	7	7

<sup>1</sup> Retired 28 January 2014.

<sup>2</sup> Appointed Chair 28 January 2014.

<sup>3</sup> Retired 27 May 2014.

<sup>4</sup> Appointed 27 May 2014.

## Audit and Risk Management Committee

The Audit and Risk Management Committee provides independent risk management advice to the Chief Executive. Four meetings were held during the year and committee members as at 30 June 2014 were:

- Mr Christopher McSporran – Director, Service SA (Chair and independent member)
- Ms Beth Laughton – Defence SA Advisory Board member
- Mr Peter Robertson – Chartered Accountant (independent member)
- Mr Andrew Blaskett – Executive Director, Government Accounting and Reporting, Department of Treasury and Finance (independent member)
- Mr Rob Barnett – General Manager, Corporate Services, Defence SA.

## Legislation

Defence SA does not administer any legislation.

# STRATEGIC DIRECTIONS

## South Australia's Strategic Plan

South Australia's Strategic Plan (SASP) contains the following defence target:

- Increase Defence and defence industry annual contribution to our economy to \$2.5 billion and employment to 37 000 people by 2020 (T.43).

South Australia is on track to achieve this target. Total (direct and indirect) employment in the defence sector was close to 27 000 in 2012 (latest figures), static with 2010-11 levels - a very positive result given reduced Defence expenditure over recent years, in consideration of Australia's strategic and fiscal environment. In the same period, specialist defence industry employed close to 5000 FTE persons in South Australia and generated around \$1.95 billion in revenue.

## South Australia's Defence Strategy 2025

In 2013-14 Defence SA initiated a major review of South Australia's defence strategy, including the appointment of KPMG to support stakeholder engagement activities and a specialist defence consultant to provide subject matter expertise.

Extensive, multi-staged external engagement with senior Defence and industry leaders (local, national and selected international) was undertaken to ensure the strategy appropriately reflects and supports stakeholder requirements, while effectively contributing to the growth and sustainability of the state's defence sector.

The Defence SA Advisory Board provided high level strategic guidance and advice, with a strategy subcommittee intimately involved at all project stages.

South Australia's Defence Strategy 2025 will provide a roadmap for the state's defence efforts over the next decade.

## Mission

*'Facilitate the development and growth of Defence and sustainable defence industries in South Australia.'*

Defence SA leads the state's defence industry efforts, offering focused and responsive service to Defence and the defence industry to drive the sector's growth in South Australia, to support the delivery of key defence projects and facilities, and to reinforce the state's reputation as Australia's *Defence State*.

The growth of Defence and sustainable defence industries in South Australia plays a key role in South Australia's economic development – for example by increasing population through the attraction of additional Defence personnel and their families and adding to the state's high technology industries and skills base, particularly as a result of growth in the areas of naval shipbuilding and electronics.

Defence industries form the foundation of the State Government's advanced manufacturing focus, one of seven strategic priorities.

# STRATEGIC DIRECTIONS

## Values

Our values are a reflection of how we conduct our business:

- Customers – meeting customer commitments first time, every time
- People – the right people, well trained and well rewarded
- Quality – world's best and sustainable practices
- Healthy and Safe Environment – our people and the community deserve a safe, healthy and clean environment
- Integrity – the foundation stone of all our values
- Commercial – fair reward for effort and competitive returns for stakeholders.



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# ACHIEVEMENTS



Image: Air Warfare Destroyer simulated training, Techport Australia Maritime Skills Centre



# EXPANDED DEFENCE PRESENCE

## **Cultana Training Area Expansion**

Defence's major expansion of the Cultana Training Area received the green light in June, with the State Government granting a Miscellaneous Lease for Defence Purposes over the expansion land, increasing the area from 50 000 hectares to 209 000 hectares (500km<sup>2</sup> to 2100km<sup>2</sup>).

The lease, coupled with the 2009 Memorandum of Understanding (which established the framework for mining and infrastructure protection), will govern use and access of the land for a 75-year lease plus any extension in accordance with Defence's right of renewal.

Defence is expected to spend up to \$50 million to develop the expanded training area and has undertaken to use local businesses wherever possible for construction activities, upgrading of essential infrastructure and services, ongoing maintenance, environmental management and provision of supplies.

The expanded range will provide important support to Army's 1st Brigade, particularly the 7RAR Battle Group based at RAAF Base Edinburgh.

## **Defence Presence in South Australia**

The State Government remained committed to supporting Defence in South Australia and continued its efforts to ensure South Australia is considered favourably for future decisions affecting the basing of Australian Defence Force units.

In 2013–14, South Australia welcomed squadrons of the Airfield Defence Guards and 1<sup>st</sup> Armoured Cavalry Regiment, both established at RAAF Base Edinburgh.

# SUSTAINABLE DEFENCE INDUSTRIES

## Naval Shipbuilding

### Air Warfare Destroyer Project

In 2013–14 the State Government continued to support the Air Warfare Destroyer project, which is now approximately half complete and progressing through what is typically the most challenging phase of naval shipbuilding: hull consolidation, equipment integration and set to work.

Some 1900 workers are directly employed on the project in South Australia, out of a national workforce of approximately 3000. Consolidation of the first destroyer *Hobart* advanced significantly during 2013–14 with completion of hull consolidation and the first major combat system loaded. Ship 2 *Brisbane* consolidation commenced on the Techport Australia Common User Facility following the keel laying ceremony in February, and modules for Ship 3 *Sydney* are under construction.

Following the release of the Australian National Audit Office review of the AWD project in March 2014, and the subsequent independent Winter-White review, the Commonwealth has committed to implementing a reform strategy to address AWD project cost and scheduling growth. The strategy includes insertion of an experienced shipbuilding management team into ASC, one of three members of the AWD Alliance.

The state remains strongly committed to supporting the Commonwealth and AWD Alliance in the successful delivery of the AWD project.

### Collins Class Submarines

The Royal Australian Navy fleet of six Collins class submarines continue to be maintained by ASC at Techport Australia.

The year 2013–14 saw significant improvement in ASC's delivery of submarine sustainment, acknowledged through the independent Coles Review released in April.

Major project milestones in 2013-14 include:

- construction of a new multi-level maintenance support tower that will transform maintenance undertaken on Collins Class submarines, significantly reducing the time the boats are out of the water
- ASC signed a \$57 million contract with the Defence Materiel Organisation to update the Integrated Ship Control Management and Monitoring System (ISCMMS) for the Collins Class submarines
- ASC signed a \$32 million agreement with Saab Systems as the major subcontractor on the project to remediate the ISCMMS hardware and software.

Defence SA and the Industry Capability Network continued to work closely with ASC to identify supply chain opportunities for local industry.

## Naval Shipbuilding Advocacy

In 2013–14, Defence SA and the Defence SA Advisory Board elevated advocacy efforts seeking Commonwealth policy and investment surety for Australia's naval shipbuilding sector.

The Commonwealth Government will spend up to \$250 billion over the next 30 years on acquiring and sustaining new ships and submarines.

This massive infrastructure investment provides a unique opportunity for Australia to develop a strategic and enduring naval shipbuilding capability, and for South Australia to maximise its share of these future maritime projects. The state is well placed to do so, given its naval shipbuilding heritage, strong industry base, world-class infrastructure and critical mass of skills concentrated at Techport Australia.

## Future Submarine Project

The Future Submarine Project will provide Australia with a new and more potent defence capability, with greater range, endurance and capability compared with the current Collins class submarines.

The Commonwealth Government has stated that 12 submarines will be built in Australia, based in Adelaide.

Release of the Defence White Paper in mid-2015 is expected to provide further policy clarity in relation to the project, including proposed plan to ensure no submarine capability gap for Australia (ie between the end of life of the Collins and availability of the future submarines):

- reinforcing state commitment to support the establishment of the Land Based Test Site
- enhancing relationships with likely international bidders and key defence project leads.

In South Australia, the future Submarine Systems Centre at Dudley Park, home to the Defence Industry Project Team, doubled in size in 2013–14 to over 70 staff working on the new design concept, drawing in expertise from around the world.

In October, the state hosted the Submarine Institute of Australia's technology conference in Adelaide, with a major focus on the Future Submarines Project.

## Future Frigate Project

Australia's ANZAC class frigates will be replaced to accommodate new roles such as strategic strike and an increased anti-submarine capability. A class of eight ships is planned with delivery of the first ship late next decade, and with a total acquisition program value around \$10 billion.

The Commonwealth has brought forward preliminary design work, focused on continued production of the current AWD hull, suitably adapted and using capabilities from CEA Technologies Australia and South Australian based SAAB Combat Systems.

Further decisions on the future frigate will be taken in the context of the 2015 Defence White Paper.

Defence SA continues to promote Techport Australia as the logical consolidation site for the future frigates.

## PACIFIC International Maritime Conference and Exposition 2013

Defence SA and local industry partnered to successfully promote the state's maritime capabilities at the PACIFIC International Maritime Conference and Exposition in Sydney in October. A new Techport Australia flythrough was launched at the event, promoting the facilities, capabilities and future expansion potential to a targeted audience.

In addition to managing the *South Australia – the Defence State* expo stand, other activities included facilitated meetings with key Defence and industry stakeholders, a dedicated networking hour, a VIP dinner hosted by the Minister for Defence Industries, with keynote address presented by the Minister for Defence, Defence and industry VIP visits to *South Australia – the Defence State* stand, and formal visits to other industry stands by Defence SA Advisory Board members.



## Land

### Land 400 – Land Combat Vehicle System

Land 400 remained a key long term opportunity to attract sustainable military vehicle manufacturing to South Australia. Under Land 400, Army will acquire three types of armoured fighting vehicles over stages. Together with a Through-Life-Support phase of some 35+ years, Land 400 represents a very significant opportunity to build and sustain a major high technology industry for the state.

In 2013–14 Defence SA continued to advocate for broad Defence policy direction to maximise local industry involvement in this program, as well as engagement with potential bidders. Outcomes will ultimately depend on whether the Commonwealth requires local industry input and upon the size of the order.

In December, the Premier briefed Defence and likely bidders on South Australia's credentials as logical location for delivery of Australian content on the project. The Premier outlined the state's high level commitment to build a Techport-like facility to support vehicle assembly and sustainment from South Australia, and Defence SA remains closely engaged with potential bidders.

In April the State Government hosted the Assistant Minister for Defence to brief local industry on possible opportunities within the Land 400 project.

## Aerospace

### Advanced Manufacturing and Processing Capabilities

The South Australian Government remained fully supportive of local industry involvement in the global Joint Strike Fighter (JSF) program.

In December the Premier officially opened BAE Systems Australia's advanced titanium component manufacturing facility at Edinburgh Parks. The facility will produce long thin spars for the JSF vertical tail fin.

Rosebank Engineering's advanced metals surface coating/treatment facility at Wingfield was opened by the Minister for Defence Industries in February.

Underpinned by state investment, the complementary surface coating and treatment facilities are the most advanced aerospace components facilities in Australia, and strongly position South Australian industry to secure global supply contracts in future defence and commercial projects, beyond the JSF program.

In addition, Elizabeth-based precision component manufacturer Levett Engineering secured multiple contracts for the JSF project in a deal with US firm Pratt & Whitney, with a potential value of \$200+ million over the life of the program.

## Maritime Patrol and Response

In February the Commonwealth Government approved acquisition of eight P-8A Poseidon maritime surveillance aircraft to replace the current fleet of AP-3C aircraft. The new aircraft will be based at RAAF Base Edinburgh, which will receive some \$300 million in infrastructure and facility upgrades to house the aircraft, systems and crew.

In March the Commonwealth committed to acquisition of Triton Unmanned Aerial Vehicles, subject to successful completion of the US Navy development program currently underway. The Tritons will also be based at RAAF Base Edinburgh.

Defence SA efforts continue on ensuring South Australia captures the integrated ground environment to support the new fleets. Securing aircraft deep maintenance and maximising local industry participation in P-8A and Triton global supply chains also remain priorities for the agency

## Systems

Defence SA coordinated state support to the Data to Decisions Cooperative Research Centre, which will commence operations from Mawson Lakes in July 2014. The CRC will advance the ability of defence and national security agencies to efficiently extract useful intelligence from big data, while balancing the need for privacy and data protection.

Over the next five years, CRC participants including the University of South Australia, University of Adelaide, University of New South Wales, Deakin University, Carnegie Mellon University, Department of Defence, Australian Federal Police and the Commonwealth Attorney-General's Office, will contribute some \$62.5 million in research funding, with another \$25 million from the Commonwealth Government. Private industry will also collaborate with and fund the venture.

## Supply Chain Opportunities

In 2013-14 Defence SA advocated for changes to defence industry policy to facilitate the development and growth of sustainable local industry capabilities. Proposed changes to the Defence Industry Policy Statement will be addressed in the Government of South Australia submission to the Defence White Paper 2015 consultation process. At project level, Defence SA continued to match local SME capability with national and global supply chain opportunities, working closely with Defence, Defence Primes and Industry Capability Network.

# PRODUCTIVE INFRASTRUCTURE

## Common User Facility Infrastructure

Works to expand and upgrade the Common User Facility continued in 2013–14, supporting the full needs of the Air Warfare Destroyer project in peak production, and providing the state with maximum flexibility to both pursue third party activities and future naval programs.

Key activities underway in 2013–14 include:

- bringing site utilities (including power, water, sewer, communications and stormwater), basic laydown areas and fencing to land on the western side of Mersey Road
- installation of a cathodic protection system to mitigate corrosion on the wharf and ship lift piling.

These activities are scheduled for completion in late 2014.

## Common User Facility Operations

Key operational milestones in 2013–14 included:

- re-qualification of Navy Certification, certifying the CUF for Navy vessel dockings
- continued AWD block and mast deliveries as well as support of keel block alignments and consolidation of ships 1 and 2
- Royal Navy type-45 destroyer HMS Daring docked for Adelaide visit.

## CUF Third Party Use

Defence SA continued to support commercial ship repair and maintenance activity in 2013–14 where capacity permitted, including:

- dry docking of Searoad Mersey cargo ship (7928 gross tonnage)
- construction, consolidation and launch of Oceanlinx wave energy converter prototype
- repair and maintenance of Svitzer tug *Wandilla*.

### **Techport Australia Marketing and Promotion**

The Techport Australia marketing campaign continued in 2013–14, evolving in line with the precinct's operational status and onsite activity.

Defence SA continued its high profile advertising campaign, updated the related website, collateral and photography, and developed a range of flythrough and time-lapse presentations to showcase on-site activity.

Strong public relations outcomes were generated through regular site tours for visiting dignitaries, media and interest groups, and high profile events including AWD Ship 2 keel laying ceremony in February.

### **Maritime Skills Centre**

The Techport Australia Maritime Skills Centre operated at full capacity in 2013-14, supporting the skill requirements of the AWD program.

A new advanced training simulator, the Integrated Platform Management System (IPMS), began operating from the facility in April 2014. The simulator will be used to train the future Navy crew of Australia's new Hobart Class destroyers. The IPMS is the next generation of ship management systems which has a software application that allows for real-time digital control of the ship's functions, such as propulsion, steering and damage control. Course delivery has started for the AWD Alliance Test and Activation Group.



# EFFECTIVE ADVOCACY

## Workforce Development

Defence SA continued to place significant emphasis on a strong pipeline of skills to support defence industry sustainability and growth. In 2013–14, the agency contributed actively to a number of cross-agency initiatives to meet this aim, notably related to the State Government's Science Technology Engineering and Maths (STEM) agenda and Defence Materiel Organisation-funded Advanced Technology Industry-School Pathways Program.

South Australian firms and the education and training sector continued to focus on improved workforce outcomes, with:

- Commonwealth Government commitment to extending the Pathways Program until June 2015
- defence industry a priority sector under the state's Skills for All industry programs, with funding of \$970 000 allocated to defence related companies in 2013–14
- Defence Teaming Centre leading development of Defence Industry South Australia Workforce Strategy 2014–20
- ongoing implementation of the state's STEM Skills Strategy
- twenty-two participants graduating from the Defence Teaming Centre's South Australia Defence Industry Leadership Program
- The Heights School announced as a specialist Defence High School.

## Woomera Prohibited Area Defence – Mining Coexistence

In 2013–14, the State Government, largely through Defence SA and the Department of Manufacturing Innovation Trade Resources and Energy, continued its efforts to support implementation of a new defence and mining coexistence framework in the Woomera Prohibited Area (WPA), including through participation in the WPA Advisory Board and the WPA Coordination Office.

The *Defence Legislation Amendment (Woomera Prohibited Area) Bill 2014* was introduced into the Australian Parliament in March 2014. This is a win-win for the important principles of multiple land use and coexistence between the vital South Australian industry sectors of resources and defence, which will drive economic growth and prosperity in the next decades.

The Bill is expected to be passed in July 2014.

## **Defence White Paper**

The Commonwealth Government is due to release a new Defence White Paper in mid-2015.

The White Paper is expected to provide clarity on the Government's intentions in relation to key projects of interest including (but not limited to) Future Frigates, Future Submarines and Land 400.

In February 2014 the Commonwealth established an expert panel to assist in the development of the White Paper, led by Australian Strategic Policy Institute Executive Director, Peter Jennings.

As is normal practice, the South Australian Government will make a formal submission to the White Paper, drawing on advice from the Defence SA Advisory Board.



# EXEMPLAR GOVERNMENT AGENCY

## Work Health and Safety

Defence SA continued to maintain well defined wellbeing and safety management systems, including integration into core business functions and processes to ensure continuous improvement. Maintaining a healthy and safe environment for its people and community remained one of Defence SA's six core values and a key priority for the Chief Executive.

Defence SA undertook a range of activities to support this commitment in 2013–14, including: mandatory safety moments at all staff meetings, monthly messages promulgated at all Defence SA sites, regular staff surveys, training opportunities and a health and wellbeing program.

In 2013–14, Defence SA had no medically treated injuries and two lost time injuries (strains).

## Staff Development and Communications

In 2013–14, in addition to individual staff training and development activities, Defence SA conducted a briefing series on topics relevant to daily operations, including:

- effective writing skills
- Independent Commissioner Against Corruption SA
- fraud and corruption
- naval shipbuilding
- Woomera Prohibited Area
- Land 400 – Land Combat Vehicle System
- Freedom of Information
- Air 7000 – Maritime Patrol and Response.

## Promoting *South Australia – the Defence State*

### Marketing Campaign

The *South Australia – the Defence State* marketing campaign continued to reinforce South Australia's reputation as the nation's preeminent state for Defence presence and defence industry investment.

In 2013–14, 17 advertisements were placed in specialist publications and liftouts to ensure consistent, high awareness of the state's defence capabilities.

Defence SA hosted three targeted interstate journalist visits to promote the state's defence credentials and reinforce the *South Australia – the Defence State* positioning, resulting in positive media coverage.

*The Defence State* positioning and branding was also reinforced through strategic sponsorship of nine state, national and international events and programs, by Defence SA on behalf of the state.

### Targeted VIP Events and Speaking Engagements

Defence SA undertook more than 80 targeted minor events in 2013–14 including: VIP site tours, external speaking engagements, parliamentary meetings, boardroom lunches and themed dinners to promote *South Australia – the Defence State*. These activities enabled Defence SA to communicate key messages to Defence and defence industry influencers, local industry and business associations, foreign diplomats, groups involved in professional development programs, and other community associations.

## Major Events

Major events attract a high concentration of key influencers and decision makers and provide excellent opportunities for aggressive targeted promotion of South Australia's defence credentials to national and international audiences.

In 2013–14, Defence SA coordinated the state's representation at the PACIFIC International Maritime Exposition and Conference, where a new modular expo stand was launched. The stand supported highest ever levels of industry participation, and showcased Techport Australia (model and audio visual fly-through) plus local industry displays.

Planning is underway for Defence SA representation at two upcoming major industry events:

- Defence + Industry Conference 2014, Australia's key tri-service defence event (Adelaide, July 2014)
- Land Forces 2014, Australia's premier land defence exhibition (Brisbane, September 2014).

## Overseas Missions

Regular and ongoing international engagement remained critical to building strong relationships between South Australia and global defence primes. Targeted markets remain the United States and Europe.

In October the Governor of South Australia led a defence-focused investment mission to the United States, accompanied by the chief executives of Defence SA and the Defence Teaming Centre. The mission successfully promoted South Australia's defence credentials, including local industry capability to participate in global supply chains on major defence projects.

# APPENDICES



Image: HMAS Farncomb docking at ASC submarine facility, Techport Australia



# APPENDICES

## Employee Numbers, Gender and Status

### Total number of employees at 30 June 2014

	Male	Female
Persons	19.0	15.00
FTEs	18.6	13.45

### By gender

	Male	Female
% Persons	56	44
% FTEs	58	42

### Employees separated and recruited

	Number
Separated from the agency during 2013–14	2
Recruited to the agency during 2013–14	7
On leave without pay on 30 June 2014	1

### Number of employees by salary bracket

Salary Bracket	Male	Female	Total
\$0 – \$54 799	0	5	5
\$54 800 – \$69 699	4	2	6
\$69 700 – \$89 199	2	5	7
\$89 200 – \$112 599	4	0	4
\$112 600 +	9	3	12
<b>Total</b>	<b>19</b>	<b>15</b>	<b>34</b>

## Status of employees in current position

	Ongoing	Short-Term Contract	Long-Term Contract	Other (Casual)	Total
<b>FTEs</b>					
Male	9.7	0.0	8.9		18.60
Female	9.25	3.2	1.0		13.45
<b>Total</b>	<b>18.95</b>	<b>3.2</b>	<b>9.9</b>		<b>32.05</b>
<b>Persons</b>					
Male	10	0	9		19
Female	10	4	1		15
<b>Total</b>	<b>20</b>	<b>4</b>	<b>10</b>		<b>34</b>

## Executives

### Executives by gender, classification and status

Classification	Ongoing		Contract Tenured		Contract Untenured		Total
	Male	Female	Male	Female	Male	Female	Total
EXEC0F	0	0	0	0	1	0	1
SAES1	0	0	0	0	6	1	7
SAES2	0	0	0	0	1	0	1
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>8</b>	<b>1</b>	<b>9</b>

## Leave Management

### Average days taken per full-time equivalent employee

Leave Type	2013–14
Sick Leave	2.81
Family Carers Leave	1.18
Miscellaneous Special Leave	0.62

## Workforce Diversity

### Aboriginal and/or Torres Strait Islander employees

Nil.

### Number of employees by age bracket and gender

Age Bracket	Male	Female	Total	% of Total	Workforce Benchmark*
15–19	0	0	0		5.5
20–24	1	1	2	5.9	9.7
25–29	1	1	2	5.9	11.2
30–34	0	6	6	17.6	10.7
35–39	2	2	4	11.8	9.6
40–44	3	3	6	17.6	11.4
45–49	4	0	4	11.8	11.1
50–54	1	0	1	2.9	11.4
55–59	5	1	6	17.6	9.1
60–64	1	0	1	2.9	6.7
65+	1	1	2	5.9	3.6
<b>Total</b>	<b>19</b>	<b>15</b>	<b>34</b>	<b>100.0</b>	<b>100.0</b>

\*Source: Australia Bureau of Statistics Australian Demographic Statistics, 6291.0.55.001 Labour Force Status (ST LM8) by sex, age, state, marital status – employed – total from Feb78 Supertable, South Australia at November 2013.

### Cultural and linguistic diversity

	Male	Female	Total	% Agency	SA Community*
Number of employees born overseas	5	3	8	23.5	22.1
Number of employees who speak language(s) other than English at home	2	1	3	8.8	14.4

\* Benchmarks from ABS Publication Basic Community Profile (SA) Cat No. 2001.0, 2006 census.

### Number of employees with disabilities (according to Commonwealth DDA definition)

	Male	Female	Total	% Agency
	1	0	1	2.9

### Number of employees with disabilities requiring workplace adaptation

Disability	Male	Female	Total	% Agency
Disability Requiring Workplace Adaption	1	0	1	2.9
Physical	0	0	0	0
Intellectual	0	0	0	0
Sensory	1	0	1	2.9
Psychological/Psychiatric	0	0	0	0

### Voluntary Flexible Working Arrangements by Gender

	Male	Female	Total
Purchased Leave	0	0	0
Flexitime	0	0	0
Compressed Weeks	5	1	6
Part-time	2	5	7
Job Share	0	0	0
Working from Home	0	0	0

### Performance Development

#### Documented review of individual performance management

Employees with...	% Total Workforce
A review within the past 12 months	100
A review older than 12 months	0
No review	0

### Leadership and Management Development

Training And Development	Total Cost \$	% of Total Salary Expenditure
Total training and development expenditure	38 262	1.1
Total leadership and management development expenditure	3 800	0.1

## Accredited Training Packages

Classification	Number of Accredited Training Packages
OPS2	1
TRA123	1

## Employment Opportunity Programs

Nil.

## Work Health and Safety and Injury Management

### WHS prosecutions, notices and corrective action taken

	2013–14	2012–13	2010–11
Number of notifiable incidents pursuant to <i>WHS Act Part 3</i>	0	0	0
Number of notices served pursuant to <i>WHS Act Section 90, Section 191 and Section 195</i> (provisional improvement, improvement and prohibition notices)	0	0	0

### Agency gross workers' compensation expenditure for 2013–14 compared with 2012–13

Expenditure	2013–14 (\$m)	2012–13 (\$m)
Income maintenance	0.003	0
Lump sum settlements redemptions – s42	0	0
Lump sum settlements Permanent Disability – s43	0	0
Medical/ hospital costs combined	0	0
Other	0.002	0
<b>Total Claims Expenditure</b>	<b>0.005</b>	<b>0</b>



## Meeting safety performance targets

	Base: 2010–11	Performance: 12 months to end of June 2014 <sup>1</sup>
	Numbers or %	Actual
1. Workplace fatalities	0	0
2. New workplace injury claims	0	1
3. New psychological injury claims	0	0
4. Rehabilitation and return to work:		
a. Early assessment within 2 days	0	1
b. Early intervention within 5 days	0	1
c. LTI have 10 business days or less lost time	0	1
5. Claim determination:		
a. New claims not yet determined, assessed for provisional liability in 7 days	0	0
b. Claims determined in 10 days	0	1
c. Claims still to be determined after 3 months	0	0
6. Income maintenance – payments for recent injuries:		
a. 2013–14 injuries (at 24 months development)	0	0
b. 2013–14 injuries (at 12 months development)	0	0

<sup>1</sup>Except for Target 6, which is YTD.

For Targets 3, 4c, 5b and 5c, performance is measured up to the previous quarter to allow reporting lag.

## Contractual Arrangements

On behalf of its minister, Defence SA did not enter into any contracts exceeding \$4 million in 2013–14.

## Account Payable Performance

Particulars	Numbers of Accounts Paid	Percentage of Accounts Paid (by Number)	Value in \$A of Accounts Paid	Percentage of Accounts Paid (by Value)
Paid by due date*	2 210	99.59%	26 661 502	99.78%
Paid late, but paid within 30 days of due date	9	0.41%	34 778	0.13%
Paid more than 30 days from due date	0	0	0	0

\* Note: The due date is defined under section 11.7 of Treasurer's Instruction 11 Payment of Creditors' Accounts. Generally, unless there is a discount or a written agreement between the public authority and the creditor, payment should be within 30 days of the date of the invoice or claim. Some agencies receive invoices significantly later than the invoice date, due to supplier invoicing processes. Agencies may choose to report against the date the invoice is first received rather than the date of invoice.

## Fraud

There were no reported instances of fraud or corrupt behaviour in the agency during the 2013–14 year. A corporate risk management framework, financial management framework and fraud policy and procedure are in place to provide a control and compliance environment to minimise the risk of fraud.

## Consultants

Value		
Below \$10 000		0
\$10 000 – \$50 000	Macroeconomics.com.au Pty Ltd	Economic analysis
Above \$50 000	Fletcher Rowley Riddle Inc	Strategic Advisory Services (US Navy Voyage Repairs)



## Overseas Travel

Number of Employees	Destination/s	Reasons for Travel	Total Cost to Agency \$
1	United States	Official visit to the US with His Excellency the Governor of South Australia to promote SA capabilities as supply chain partners to American firms bidding for Australian defence projects.	32 721
1	Europe, United Kingdom, Canada	Promote SA credentials for Land 400 to potential bidders.	22 115
1	Europe	Advance discussions with potential Land 400 bidders, including supply chain opportunities for SA industry.	13 594
1	United States, Canada, Europe	Advance discussions with potential Land 400 bidders, including supply chain opportunities for SA industry (with the Department of Manufacturing, Trade, Resources and Energy Industry and Automotive Transformation Taskforce.	19 523

## Reporting Against the Carers Recognition Act 2005

Nil.

## Disability Access & Inclusion Plans

Defence SA complies with the requirements of the *Disability Discrimination Act 1992*. Insofar as the Act relates to the functions of the agency, Defence SA confirms its commitment to the key principles of the State Government's *Promoting Independence – Disability Action Plan*.

## Asbestos Management in Government Buildings

Defence SA did not manage any buildings containing asbestos in 2013–14.

## Urban Design Charter

South Australia's Urban Design Charter aims to embed the principles of good design into government processes and to record the State Government's commitment to good urban design. The principles of the charter are reflected in the planning and design of Techport Australia and its environs.

The *Techport Australia Development Guidelines* were established by Defence SA to create a coherent vision for the built form and landscape of Techport Australia, and ensure that the precinct incorporates best practice design, planning and sustainability principles. The Urban Design section of the guidelines ensures that a high standard of construction and presentation can be achieved, clearly articulating the design principles, whilst the Ecologically Sustainable Development section outlines current environmental policies, plans and statements as well as detailing the fundamental design elements for ecologically sustainable development, encouraging such development within the Techport Australia precinct.

## Whistleblowers Protection Act 1993

Defence SA has designated responsible officers for the purposes of the *Whistleblowers Act 1993* (Act) pursuant to Section 7 of the *Public Sector Act 2009*. There have been no instances of disclosure of public interest information to a responsible officer of Defence SA under the Act.

## Freedom of Information Statement

A full Freedom of Information Statement can be found on the Defence SA website [www.defencesa.com](http://www.defencesa.com)

## Energy Efficiency Action Plan

	Energy Use (GJ) <sup>2</sup>	GHG Emissions (tonnes) <sup>3</sup>	Business Measure <sup>4</sup> (MJ/m <sup>2</sup> /annum)
Base Year <sup>1</sup>	223	47.55	286.26
2013-14 Total	141	28.28	181.60
2014 Target <sup>5</sup>	167	35.60	214.70

Notes:

<sup>1</sup> Base Year data for Defence SA offices are: 2008–09 for 151 Pirie Street office and 2009–10 for Techport Australia administration building (commencement of operation).

<sup>2</sup> Energy use data will be expressed in gigajoules (GJ) and is the sum of all fuel types used by the agency (eg electricity, natural gas, petrol etc) for that period.

<sup>3</sup> To pursue a 'triple bottom line' reporting approach, Defence SA has included Greenhouse Gas Emissions (in CO<sub>2</sub>) as a means of quantifying an aspect of environmental performance.

<sup>4</sup> Business measures are also known as normalisation factors. A key performance indicator for energy efficiency is energy intensity, i.e. the energy consumed per unit of a given business measure. Business measures used by Defence SA are the square metres of floor area of Defence SA. The energy intensity therefore becomes the energy used per unit defined by the business measure MJ/m<sup>2</sup>.

<sup>5</sup> The portfolio target in 2014 represents a 25 per cent energy efficiency improvement from the base year.

## Greening of Government Operations Framework

Defence SA operates from a five-star-rated building in Adelaide.

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# FINANCIAL STATEMENTS





**For Official Use Only**



**Government of South Australia**  
Auditor-General's Department

*Our ref: A14/451*

22 September 2014

Mr M Jackman  
Chief Executive  
Defence SA  
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Dear Mr Jackman

**The audit of Defence SA  
for the year ended 30 June 2014**

The audit of the accounts of Defence SA for the year ended 30 June 2014 has been completed.

The scope of the audit covered the principal areas of the financial operations of Defence SA and included the test review of systems and processes and internal controls and financial transactions.

The notable areas of audit coverage included:

- payroll
- accounts payable
- cash
- general ledger
- revenue
- fixed assets

The audit coverage and its conduct is directed to meeting statutory audit responsibilities under the *Public Finance and Audit Act 1987* and also the requirements of Australian Auditing Standards.

In essence, two important outcomes result from the annual audit process, notably:

- the issue of the Independent Auditor's Report (IAR) on the integrity of Defence SA's financial statements
- the issue during the year or at the time of financial statement preparation and audit or close thereto, audit management letter advising of deficiencies/weaknesses in areas of governance, financial system and process and control and financial reporting, together with recommendations for improvement in controls.

## **For Official Use Only**

In this regard, returned herewith are the financial statements of Defence SA together with the IAR, which is unmodified.

My Annual Report to Parliament indicates that an unmodified IAR has been issued on the Department's financial statements.

In addition, during the year an audit management letter was forwarded to Defence SA, detailing that no significant findings were identified from the audits of the areas reviewed.

My Annual Report to Parliament includes a controls opinion and summary commentary for Defence SA with reference to the fact that no significant findings were identified and that the findings indicate the financial controls of Defence SA were satisfactory.

Finally, I would like to express my appreciation to the management and staff of Defence SA in providing assistance during the year to my officers in the conduct of the annual audit.

Yours sincerely

A handwritten signature in black ink, appearing to read 'S O'Neill', with a horizontal line extending to the right.

S O'Neill  
**AUDITOR-GENERAL**

## INDEPENDENT AUDITOR'S REPORT



Government of South Australia  
Auditor-General's Department

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### To the Chief Executive Defence SA

As required by section 31(1)(b) of the *Public Finance and Audit Act 1987*, I have audited the accompanying financial report of Defence SA for the financial year ended 30 June 2014. The financial report comprises:

- a Statement of Comprehensive Income for the year ended 30 June 2014
- a Statement of Financial Position as at 30 June 2014
- a Statement of Changes in Equity for the year ended 30 June 2014
- a Statement of Cash Flows for the year ended 30 June 2014
- Disaggregated Disclosures - Expenses and Income for the year ended 30 June 2014
- Disaggregated Disclosures - Assets and Liabilities as at 30 June 2014
- notes, comprising a summary of significant accounting policies and other explanatory information
- a Certificate from the Chief Executive and the General Manager, Corporate Services

### The Chief Executive's Responsibility for the Financial Report

The Chief Executive is responsible for the preparation of the financial report that gives a true and fair view in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987* and Australian Accounting Standards, and for such internal control as the Chief Executive determines is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

My responsibility is to express an opinion on the financial report based on the audit. The audit was conducted in accordance with the requirements of the *Public Finance and Audit Act 1987* and Australian Auditing Standards. The auditing standards require that the auditor comply with relevant ethical requirements and that the auditor plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Chief Executive, as well as the overall presentation of the financial report.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

**Opinion**

In my opinion, the financial report gives a true and fair view of the financial position of Defence SA as at 30 June 2014, its financial performance and its cash flows for the year then ended in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987* and Australian Accounting Standards.

A handwritten signature in black ink, appearing to read 'S O'Neill', with a horizontal line underneath.

**S O'Neill**  
**AUDITOR-GENERAL**  
24 September 2014

## DEFENCE SA

### Certification of the Financial Statements

We certify that the attached general purpose financial statements for Defence SA:

- comply with relevant Treasurer's Instructions issued under section 41 of the *Public Finance and Audit Act 1987* and relevant Australian Accounting Standards;
- are in accordance with the accounts and records of Defence SA; and
- present a true and fair view of the financial position of Defence SA as at 30 June 2014 and the results of its operation and cash flows for the financial year.

We certify that the internal controls employed by Defence SA for the financial year over its financial reporting and its preparation of the general purpose financial statements have been effective throughout the reporting period.



Malcolm Jackman  
Chief Executive

18 . September 2014



Robert Barnett  
General Manager, Corporate Services

18 September 2014



# DEFENCE SA FINANCIAL STATEMENTS

## Statement of Comprehensive Income for the year ended 30 June 2014

	Note No.	30 June 2014 \$' 000	30 June 2013 \$' 000
<b>EXPENSES</b>			
Employee benefits expenses	5	4,876	4,750
Supplies and services	6	6,578	6,229
Depreciation and amortisation	7	7,968	7,241
Net loss from the disposal of non-current assets	8	30	-
Grants and subsidies	9	1,135	1,231
Other expenses	10	221	131
<b>Total expenses</b>		<b>20,808</b>	<b>19,582</b>
<b>INCOME</b>			
Revenues from fees and charges	12	3,887	3,533
Grants	13	64	720
Techport Australia recoveries	14	222	125
Property revenues	15	8	146
Other income	16	126	191
<b>Total income</b>		<b>4,307</b>	<b>4,715</b>
<b>Net cost of providing services</b>	29	<b>(16,501)</b>	<b>(14,867)</b>
<b>Revenues from / payments to SA Government</b>			
Revenues from SA Government	17	16,498	21,842
Payments to SA Government	17	(13,687)	-
<b>Net result</b>		<b>(13,690)</b>	<b>6,975</b>
<b>Total comprehensive result</b>		<b>(13,690)</b>	<b>6,975</b>

The net result and total comprehensive result are attributable to the SA Government as owner.

The above statement should be read in conjunction with the accompanying notes.

## Statement of Financial Position as at 30 June 2014

	Note No.	30 June 2014 \$' 000	30 June 2013 \$' 000
<b>Current assets</b>			
Cash	18	16,592	26,068
Receivables	19	431	564
<b>Total current assets</b>		<b>17,023</b>	<b>26,632</b>
<b>Non-current assets</b>			
Land	20, 21	21,870	21,870
Buildings and improvements, plant and equipment	20, 21	6,520	6,820
Harbour and port facilities	20, 21	220,493	227,130
Capital works in progress	22	3,300	822
<b>Total non-current assets</b>		<b>252,183</b>	<b>256,642</b>
<b>Total assets</b>		<b>269,206</b>	<b>283,274</b>
<b>Current liabilities</b>			
Payables	23	1,076	1,556
Employee benefits	24	345	328
Other current liabilities	25	21	21
<b>Total current liabilities</b>		<b>1,442</b>	<b>1,905</b>
<b>Non-current liabilities</b>			
Payables	23	30	23
Employee benefits	24	486	387
Other non-current liabilities	25	20	41
<b>Total non-current liabilities</b>		<b>536</b>	<b>451</b>
<b>Total liabilities</b>		<b>1,978</b>	<b>2,356</b>
<b>Net assets</b>		<b>267,228</b>	<b>280,918</b>
<b>Equity</b>			
Contributed capital		101,823	101,823
Retained earnings		165,405	179,095
<b>Total equity</b>		<b>267,228</b>	<b>280,918</b>

The total equity is attributable to the SA Government as owner.

Unrecognised contractual commitments 26

Contingent assets and liabilities 27

The above statement should be read in conjunction with the accompanying notes.

# DEFENCE SA FINANCIAL STATEMENTS

## Statement of Changes in Equity for the year ended 30 June 2014

	Note No.	Contributed capital \$' 000	Retained earnings \$' 000	Total equity \$' 000
Balance at 30 June 2012		101,823	172,120	273,943
Net result for 2012-13		–	6,975	6,975
Total comprehensive result for 2012-13		–	6,975	6,975
Balance at 30 June 2013		101,823	179,095	280,918
Net result for 2013-14		–	(13,690)	(13,690)
Total comprehensive result for 2013-14		–	(13,690)	(13,690)
Balance at 30 June 2014		101,823	165,405	267,228

All changes in equity are attributable to the SA Government as owner.

The above statement should be read in conjunction with the accompanying notes.

## Statement of Cash Flows for the year ended 30 June 2014

	Note No.	30 June 2014 \$' 000 Inflows (Outflows)	30 June 2013 \$' 000 Inflows (Outflows)
<b>Cash flows from operating activities</b>			
<b>Cash outflows</b>			
Employee benefit payments		(4,750)	(4,628)
Payments for supplies and services		(7,171)	(5,917)
Payments of grants and subsidies		(981)	(2,697)
GST paid to the ATO and suppliers		(1,548)	(1,633)
Payments for paid parental leave scheme		(16)	-
<b>Cash used in operations</b>		<b>(14,466)</b>	<b>(14,875)</b>
<b>Cash inflows</b>			
Grants		64	2,260
Fees and charges		3,859	3,814
Techport Australia recoveries		222	126
Property revenues		22	200
GST recovered from the ATO and customers		1,507	1,717
Receipts for paid parental leave scheme		17	-
Other receipts		116	195
<b>Cash generated from operations</b>		<b>5,807</b>	<b>8,312</b>
<b>Cash flows from SA Government</b>			
Receipts from SA Government		16,498	21,842
Payments to SA Government		(13,687)	-
<b>Cash generated from SA Government</b>		<b>2,811</b>	<b>21,842</b>
<b>Net cash (used in)/provided by operating activities</b>	29	<b>(5,848)</b>	<b>15,279</b>
<b>Cash flows from investing activities</b>			
<b>Cash outflows</b>			
Payments for property, plant and equipment		(27)	(42)
Payments for capital work in progress		(3,601)	(3,502)
<b>Cash used in investing activities</b>		<b>(3,628)</b>	<b>(3,544)</b>
<b>Net cash used in investing activities</b>		<b>(3,628)</b>	<b>(3,544)</b>
<b>Net increase/(decrease) in cash</b>		<b>(9,476)</b>	<b>11,735</b>
Cash at the beginning of the period		26,068	14,333
<b>Cash at the end of the period</b>	18, 29	<b>16,592</b>	<b>26,068</b>

The above statement should be read in conjunction with the accompanying notes.

# DEFENCE SA FINANCIAL STATEMENTS

## Disaggregated Disclosures – Expenses and Income for the year ended 30 June 2014

Refer Note 4 for detailed activity descriptions	Defence Industry Development		Techport Australia		Total Defence SA Activities	
	2014 \$' 000	2013 \$' 000	2014 \$' 000	2013 \$' 000	2014 \$' 000	2013 \$' 000
<b>Expenses</b>						
Employee benefits expenses	3,537	3,587	1,339	1,163	4,876	4,750
Supplies and services	2,926	2,998	3,652	3,231	6,578	6,229
Depreciation and amortisation	122	120	7,846	7,121	7,968	7,241
Net loss from the disposal of non-current assets	-	-	30	-	30	-
Grants and subsidies	1,135	1,231	-	-	1,135	1,231
Other expenses	111	129	110	2	221	131
<b>Total expenses</b>	<b>7,831</b>	<b>8,065</b>	<b>12,977</b>	<b>11,517</b>	<b>20,808</b>	<b>19,582</b>
<b>Income</b>						
Revenues from fees and charges	16	22	3,871	3,511	3,887	3,533
Grants	-	-	64	720	64	720
Techport Australia recoveries	-	-	222	125	222	125
Property revenues	8	146	-	-	8	146
Other income	124	191	2	-	126	191
<b>Total income</b>	<b>148</b>	<b>359</b>	<b>4,159</b>	<b>4,356</b>	<b>4,307</b>	<b>4,715</b>
<b>Net cost of providing services</b>	<b>(7,683)</b>	<b>(7,706)</b>	<b>(8,818)</b>	<b>(7,161)</b>	<b>(16,501)</b>	<b>(14,867)</b>
<b>Revenues from / payments to SA Government</b>						
Revenues from SA Government <sup>(1)</sup>	16,498	21,842	-	-	16,498	21,842
Payments to SA Government	(13,687)	-	-	-	(13,687)	-
<b>Net result</b>	<b>(4,872)</b>	<b>14,136</b>	<b>(8,818)</b>	<b>(7,161)</b>	<b>13,690</b>	<b>6,975</b>

<sup>(1)</sup> Revenues from SA Government are provided to fund the operating activities of Defence SA and have not been allocated between activities.

The above statement should be read in conjunction with the accompanying notes.

## Disaggregated Disclosures – Assets and Liabilities as at 30 June 2014

Refer Note 4 for detailed activity descriptions	Defence Industry Development		Techport Australia		Total Defence SA Activities	
	2014 \$' 000	2013 \$' 000	2014 \$' 000	2013 \$' 000	2014 \$' 000	2013 \$' 000
<b>Assets</b>						
Cash	16,592	26,068	-	-	16,592	26,068
Receivables	118	218	313	346	431	564
Land	-	-	21,870	21,870	21,870	21,870
Buildings and improvements, plant and equipment	235	357	6,285	6,463	6,520	6,820
Harbour and port facilities	-	-	220,493	227,130	220,493	227,130
Capital works in progress	-	-	3,300	822	3,300	822
<b>Total assets</b>	<b>16,945</b>	<b>26,643</b>	<b>252,261</b>	<b>256,631</b>	<b>269,206</b>	<b>283,274</b>
<b>Liabilities</b>						
Payables	520	902	586	677	1,106	1,579
Employee benefits	629	588	202	127	831	715
Other liabilities	41	62	-	-	41	62
<b>Total liabilities</b>	<b>1,190</b>	<b>1,552</b>	<b>788</b>	<b>804</b>	<b>1,978</b>	<b>2,356</b>
<b>Net assets</b>	<b>15,755</b>	<b>25,091</b>	<b>251,473</b>	<b>255,827</b>	<b>267,228</b>	<b>280,918</b>

The above statement should be read in conjunction with the accompanying notes.

# DEFENCE SA FINANCIAL STATEMENTS

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## Notes

### Note 1 Objectives of Defence SA

Defence SA is South Australia's lead government agency for all defence related matters. It facilitates the development and growth of Defence and defence industries in South Australia on a competitive and sustainable basis in accordance with *South Australia's Strategic Plan*.

The agency delivers the Government of South Australia's commitments to the Air Warfare Destroyer project, as well as working towards capturing further Defence and defence industry work in the four defence sectors - maritime, land, aerospace and systems.

Defence SA is also striving to ensure the right climate exists for defence industry growth, and is working with several partners to deliver results for industry in the areas of workforce development and innovation.

### Note 2 Summary of significant accounting policies

#### a) Statement of Compliance

Defence SA has prepared these financial statements in compliance with section 23 of the *Public Finance and Audit Act 1987*.

The financial statements are general purpose financial statements. The accounts have been prepared in accordance with relevant Australian Accounting Standards and comply with Treasurer's Instructions and Accounting Policy Statements promulgated under the provisions of the *Public Finance and Audit Act 1987*.

Defence SA has applied Australian Accounting Standards that are applicable to not-for-profit entities, as Defence SA is a not-for-profit entity.

Australian Accounting Standards and interpretations that have recently been issued or amended but are not yet effective have not been adopted by Defence SA for the reporting period ending 30 June 2014. Refer to Note 3.

#### b) Basis of Preparation

The preparation of the financial statements requires:

- the use of certain accounting estimates and requires management to exercise its judgement in the process of applying Defence SA's accounting policies. The areas involving a higher degree of judgement or where assumptions and estimates are significant to the financial statements are outlined in the applicable notes;
- accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events are reported; and
- compliance with accounting policy statements issued pursuant to section 41 of the *Public Finance and Audit Act 1987*. In the interest of public accountability and transparency the accounting policy statements require the following note disclosures, which have been included in these financial statements:
  - a) revenues, expenses, financial assets and liabilities where the counterparty/transaction is with an entity within the SA Government as at reporting date, classified according to their nature;
  - b) expenses incurred as a result of engaging consultants;
  - c) employee targeted voluntary separation package information;
  - d) employees whose normal remuneration is equal to or greater than the base executive remuneration level (within \$10 000 bandwidths) and the aggregate of the remuneration paid or payable or otherwise made available, directly or indirectly by the entity to those employees; and
  - e) board/committee member and remuneration information, where a board/committee member is entitled to receive income from membership other than a direct out-of-pocket reimbursement.

# DEFENCE SA FINANCIAL STATEMENTS

## Notes

### Note 2 b) Basis of preparation (continued)

Defence SA's Statement of Comprehensive Income, Statement of Financial Position and Statement of Changes in Equity have been prepared on an accrual basis and are in accordance with historical cost convention, except for certain assets that were valued in accordance with the valuation policy applicable.

The Statement of Cash Flows has been prepared on a cash basis.

The financial statements have been prepared based on a twelve month period and presented in Australian currency.

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2014 and the comparative information presented.

### c) Reporting entity

Defence SA is a government agency of the State of South Australia, established pursuant to the *Public Sector Act 2009*. Defence SA is an administrative unit acting on behalf of the Crown and has no subsidiaries.

### d) Comparative information

The presentation and classification of items in the financial statements are consistent with prior periods except where specific accounting standards and/or accounting policy statements have required a change.

Where presentation or classification of items in the financial statements have been amended, comparative figures have been adjusted to conform to changes in presentation or classification in these financial statements unless impracticable.

### e) Rounding

All amounts in the financial statements and accompanying notes have been rounded to the nearest thousand dollars (\$'000).

### f) Taxation

Defence SA is not subject to income tax. Defence SA is liable for payroll tax, fringe benefits tax, goods and services tax (GST), the emergency services levy and local government rate equivalents.

Income, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods or services is not recoverable from the Australian Taxation Office (ATO), in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item applicable; and
- receivables and payables, which are stated with the amount of GST included.

The amount of GST recoverable from the ATO is included as a part of receivables and the amount payable to the ATO is included as a part of payables in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from the investing and financing activities, which is recoverable from, or payable to the ATO and suppliers is classified as part of operating cash flows.

Unrecognised contractual commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to the ATO. If GST is not payable to, or recoverable from the ATO, the commitments and contingencies are disclosed on a gross basis.

**Note 2**    **g) Events after the reporting period**

Adjustments are made to amounts recognised in the financial statements where an event occurs after 30 June and before the date the financial statements are authorised for issue, where the event provides information about conditions that existed at 30 June.

Note disclosure is made about events between 30 June and the date the financial statements are authorised for issue where the events relate to a condition which arose after 30 June and which may have a material impact on the results of subsequent years.

**h) Income**

Income is recognised to the extent that it is probable that the flow of economic benefits to Defence SA will occur and can be reliably measured.

Income has been aggregated according to its nature and has not been offset unless required or permitted by a specific accounting standard, or where offsetting reflects the substance of the transaction or other event.

The following are specific recognition criteria:

*Revenues from fees and charges*

Revenues from fees and charges are derived from the provision of goods and services to external entities. This revenue is recognised upon delivery of the service to the clients or by reference to the stage of completion.

*Revenues from SA Government*

Appropriations to fund activities are recognised as revenues when Defence SA obtains control over the funding. Control over appropriations is normally obtained upon receipt.

Where money has been appropriated in the form of an equity contribution, the Treasurer has acquired a financial interest in the net assets of Defence SA and the appropriation is recorded as contributed capital.

*Property revenues*

Rental income is derived from property holdings and includes lease income and recoveries of tenant outgoings. Lease income is accounted for on a straight-line basis over the lease term.

*Other income*

Other income consists of recoveries of costs for work performed on behalf of external entities.

# DEFENCE SA FINANCIAL STATEMENTS

## Notes

### Note 2 i) Expenses

Expenses are recognised to the extent that it is probable that the flow of economic benefits from Defence SA will occur and can be reliably measured.

Expenses have been aggregated according to their nature and have not been offset unless required or permitted by a specific accounting standard, or where offsetting reflects the substance of the transaction or other event.

The following are specific recognition criteria:

#### *Employee benefits expenses*

Employee benefits expenses include all costs related to employment including wages and salaries, non monetary benefits and leave entitlements. These are recognised when incurred.

#### *Superannuation*

The amount charged to the Statement of Comprehensive Income represents the contributions made by Defence SA to several State Government and externally managed superannuation schemes in respect of current services of current Defence SA staff.

#### *Depreciation and amortisation*

All non-current assets, having a limited useful life, are systematically depreciated/amortised over their useful lives in a manner that reflects the consumption of their service potential. Amortisation is applied to leasehold improvements. Depreciation is applied to other tangible assets. Defence SA has no recognised intangible assets.

Assets' residual values, useful lives and depreciation/amortisation methods are reviewed and adjusted if appropriate, on an annual basis.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the time period or method, as appropriate, which is a change in accounting estimate.

The value of leasehold improvements is amortised over the estimated useful life of each improvement, or the unexpired period of the relevant lease, whichever is shorter.

Land and non-current assets held for sale are not depreciated.

Depreciation/amortisation is calculated on a straight line basis over the estimated useful life of the classes of assets as follows:

<b>Class of asset</b>	<b>Useful life (years)</b>
Harbour and port facilities	5-50
Buildings and improvements	6-40
Leasehold improvements	Life of lease
Plant and equipment	4-25

#### *Net gain/(loss) from the disposal of non-current assets*

The net gain or loss from the disposal of non-current assets is recognised when control of the asset has passed to the buyer or the asset is derecognised and is determined by comparing proceeds with the carrying amount. When revalued assets are sold, the revaluation surplus is transferred to retained earnings.

#### *Grants and subsidies*

For contributions payable, the contribution will be recognised as a liability and expense when Defence SA has a present obligation to pay the contribution and the expense recognition criteria are met.

All contributions paid by Defence SA have been unconditional.

#### *Payments to SA Government*

Payments to the SA Government include the return of surplus cash pursuant to the cash alignment policy. These funds are paid directly to the Consolidated Account.

**j) Current and non-current classification**

Assets and liabilities are characterised as either current or non-current in nature.

Defence SA has established a clearly identifiable operating cycle of twelve months. Assets and liabilities that are sold, consumed or realised as part of the normal operating cycle, even when they are not expected to be realised within twelve months after the reporting date, have been classified as current assets or current liabilities. All other assets and liabilities are classified as non-current.

Where asset and liability line items combine amounts expected to be realised within twelve months and more than twelve months, Defence SA has separately disclosed the amounts expected to be recovered or settled after more than twelve months.

**k) Assets**

Assets have been classified according to their nature and have not been offset unless required or permitted by a specific accounting standard, or where offsetting reflects the substance of the transaction or other event.

Where an asset line item combines amounts expected to be settled within twelve months and more than twelve months, Defence SA has separately disclosed the amounts expected to be recovered after more than twelve months.

*Cash*

Cash in the Statement of Financial Position comprises deposits with the Treasurer.

For the purposes of the Statement of Cash Flows, cash consists of cash as defined above.

Cash is measured at nominal value.

*Receivables*

Receivables include amounts receivable from goods and services, GST input tax credits recoverable, prepayments and other accruals.

Receivables arise in the normal course of selling goods and services to other government agencies and to the public. Receivables are generally settled within 30 days after the issue of an invoice or the goods/services have been provided under a contractual arrangement.

Collectability of receivables is reviewed on an ongoing basis. An allowance for doubtful debts is raised when there is objective evidence that Defence SA will not be able to collect the debt. Bad debts will be written off when identified.

*Capital works in progress*

During the period work continued on the development of infrastructure to support the Air Warfare Destroyer construction program in accordance with the Infrastructure Assistance Agreement and other defence and industrial developments.

Defence SA accounts for expenses associated with all capital projects as work in progress until the assets are installed and ready for use. On completion the assets are recognised in accordance with non-current asset acquisition and recognition (refer below).

*Non-current asset acquisition and recognition*

Non-current assets are initially recorded at cost or at the value of any liabilities assumed, plus any incidental cost involved with the acquisition.

Harbour and Port Facilities including wharf, shiplift, transfer system and dry berth are considered specialized assets and are recorded at cost less accumulated depreciation.

Other asset classes are subsequently measured at fair value less accumulated depreciation.

Where assets are acquired at no value, or minimal value, they are recorded at fair value in the Statement of Financial Position. However, if the assets are acquired at no or nominal value as part of a restructuring of administrative arrangements then the assets are recognised at book value, i.e. the amount recorded by the transferor public authority immediately prior to the restructure.

All non-current tangible assets with a value equal to or in excess of \$10 000 are capitalised.

Complex assets are componentised when the asset's fair value at the time of acquisition is equal to, or in excess of, \$5 million for infrastructure assets and \$1 million for other assets.

Assets have been componentised where appropriate to recognise their unique nature and useful lives.

# DEFENCE SA FINANCIAL STATEMENTS

## Notes

### k) Assets (continued)

#### *Revaluation of non-current assets*

All non-current tangible assets are valued at written down current cost (a proxy for fair value) and revaluation of non-current assets or group of assets (excluding specialised assets) will only be performed when the assets' fair value at the time of acquisition is greater than \$1 million and estimated useful life is greater than three years. The Treasurer has approved that specialised assets will not need to be revalued until 30 June 2024.

Every three years Defence SA revalues its land and buildings via an independent Certified Practising Valuer. If at any time, management considers that the carrying amount of an asset materially differs from its fair value, then the asset will be revalued regardless of when the last revaluation took place. Non-current tangible assets that are acquired between revaluations are held at cost until the next valuation, where they are revalued to fair value. Defence SA's land, buildings and associated plant and equipment were last revalued in the year ended 30 June 2012.

Any revaluation increment is credited to the asset revaluation surplus, except to the extent that it reverses a revaluation decrease in the same asset class previously recognised as an expense, in which case the increase is recognised as income. Any revaluation decrease is recognised as an expense, except to the extent that it offsets a previous revaluation increase for the same asset class, in which case the decrease is debited directly to the asset revaluation surplus to the extent of the credit balance existing in the revaluation surplus for that asset class.

Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amounts of the assets and the net amounts are restated to the revalued amounts of the assets.

Upon disposal or derecognition, any revaluation surplus relating to an asset is transferred to retained earnings.

#### *Impairment*

All non-current tangible assets are tested for indication of impairment at each reporting date. Where there is an indication of impairment, the recoverable amount is estimated. An amount by which the asset's carrying amount exceeds the recoverable amount is recorded as an impairment loss.

For revalued assets, an impairment loss is offset against the respective asset revaluation surplus.

#### *Fair value measurement*

AASB 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants, in the principal or most advantageous market, at the measurement date.

Defence SA classifies fair value measurement using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements, based on the data and assumptions used in the most recent revaluation:

- Level 1 – traded in active markets and is based on unadjusted quoted prices in active markets for identical assets or liabilities that the entity can access at measurement date.
- Level 2 – not traded in an active market and are derived from inputs (inputs other than quoted prices included within level 1) that are observable for the asset, either directly or indirectly.
- Level 3 – not traded in an active market and are derived from unobservable inputs.

The valuation processes and fair value changes are reviewed at each reporting date.

#### *Non-financial assets*

In determining fair value, Defence SA has taken into account the characteristic of the asset (e.g. condition and location of the asset and any restrictions on the sale or use of the asset); and the asset's highest and best use (that is physically possible, legally permissible, financially feasible).

Defence SA's current use is the highest and best use of the asset unless other factors suggest an alternative use is feasible. As Defence SA did not identify any factors to suggest an alternative use, fair value measurement is based on current use.

The carrying amount of non-financial assets with a fair value at the time of acquisition that was less than \$1 million or had an estimated useful life that was less than three years are deemed to approximate fair value.

#### *Financial assets/liabilities*

Defence SA does not recognise any financial assets or financial liabilities at fair value.

## **I) Liabilities**

Liabilities have been classified according to their nature and have not been offset unless required or permitted by a specific accounting standard, or where offsetting reflects the substance of the transaction or other event.

Where a liability line item combines amounts expected to be settled within twelve months and more than twelve months, Defence SA has separately disclosed the amounts expected to be settled after more than twelve months.

### *Payables*

Payables include creditors, accrued expenses, GST payable, employment on-costs and paid parental leave scheme payable.

Creditors represent invoices for goods and services received prior to the end of the reporting period that are unpaid at the end of the reporting period. Accrued expenses represent goods and services provided by other parties during the period that are unpaid at the end of the reporting period and where an invoice has not been received.

The paid parental leave scheme payable represents amounts which Defence SA has received from the Commonwealth Government to forward on to eligible employees via Defence SA's standard payroll processes. That is, Defence SA is acting as a conduit through which the payment to eligible employees is made on behalf of the Family Assistance Office.

All payables are measured at their nominal amount, are unsecured and are normally settled within 30 days from the date of the invoice or date the invoice is first received, in accordance with Treasurer's Instruction 11 *Payment of Creditor Accounts*.

Employee benefit on-costs include superannuation contributions and payroll tax in respect to outstanding liabilities for salaries and wages, long service leave, annual leave, and skills and experience retention leave.

Defence SA makes contributions to several State Government and externally managed superannuation schemes. These contributions are treated as an expense when they occur. There is no liability for payments to beneficiaries as they have been assumed by the respective superannuation schemes. The only liability outstanding at reporting date relates to any contributions due but not yet paid to these superannuation schemes.

### *Leases*

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement.

#### *Operating leases*

Operating lease payments are recognised as an expense in the Statement of Comprehensive Income over the term of the lease.

#### *Lease incentives*

All incentives received for the agreement of a new or renewed operating lease are recognised as a liability.

The aggregate benefits of lease incentives received by Defence SA in respect of operating leases have been recorded as a reduction of rental expense over the lease term, on a straight-line basis.

### *Employee benefits*

These benefits accrue for employees as a result of services provided up to the reporting date that remain unpaid. Long-term employee benefits are measured at present value and short-term employee benefits are measured at nominal amounts.

#### *Wages, salaries, annual leave, skills and experience retention leave and sick leave*

The liability for salary and wages is measured as the amount unpaid at the reporting date at remuneration rates current at the reporting date.

The annual leave liability and the skills and experience retention leave liability is expected to be payable within twelve months and is measured at the undiscounted amount expected to be paid. In the unusual event where salary and wages, annual leave and skills and experience retention leave liability are payable later than twelve months, the liability will be measured at present value.

No provision has been made for sick leave as all sick leave is non-vesting and the average sick leave expected to be taken in future years by employees is estimated to be less than the annual entitlement for sick leave.

# DEFENCE SA FINANCIAL STATEMENTS

## Notes

### **l) Liabilities (continued)**

#### *Long service leave*

The liability for long service leave is measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method.

The estimated liability for long service leave is based on actuarial assumptions over expected future salary and wage levels, experience of employee departures and years of service.

These assumptions are based on employee data over SA Government entities.

Expected future payments are discounted using market yields at the end of the reporting period on government bonds with durations that match, as closely as possible, the estimated future cash outflows.

The long service leave provision is classified as current or non-current based on the conditional and unconditional percentages respectively as per the actuarial calculations based on whole of government experience.

#### *Employee benefit on-costs*

Employee benefit on-costs (payroll tax and superannuation) are recognised separately under payables.

#### *Provisions*

Provisions are recognised when Defence SA has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When Defence SA expects some or all of the provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the Statement of Comprehensive Income net of any reimbursement.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. If the effect of the time value of money is material, provisions are discounted for the time value of money and the risks specific to the liability.

### **m) Workers compensation**

Defence SA is responsible for payments of workers compensation claims. Defence SA has a Service Level Agreement with the Public Sector Workforce Relations Division of the Department of the Premier and Cabinet to undertake injury management and rehabilitation services in the event of a claim.

### **n) Insurance**

Defence SA has arranged, through South Australian Government Financing Authority - Insurance Division (SAICORP), to insure all major risks of Defence SA. The excess payable under this arrangement is \$5 000 per claim.

### **o) Unrecognised contractual commitments and contingent assets and liabilities**

Commitments include operating, capital and outsourcing arrangements arising from contractual or statutory sources and are disclosed at their nominal value.

Contingent assets and contingent liabilities are not recognised in the Statement of Financial Position, but are disclosed by way of a note and, if quantifiable, are measured at nominal value. Defence SA secures performance guarantees in support of contractor performance. No value is assigned to these guarantees for financial statement purposes as they will only be called upon in the event that the contractor fails to fulfil their agreed contractual commitments.

### **Note 3 New and revised accounting standards and policies**

Defence SA did not voluntarily change any of its accounting policies during 2013-14.

In accordance with the new AASB 13 *Fair Value Measurement*, which became effective for the first time in 2013-14, Defence SA has:

- reviewed its fair value valuation techniques (both internal estimates and independent valuation appraisal) for non-financial assets to ensure they are consistent with the standard. Previously, Defence SA has used the cost approach or the market approach to determine fair value. Defence SA will continue to measure its non-financial assets using either the cost or market approach. The application of AASB 13 has not had a material impact on the fair value measurements; and
- included additional disclosures where required to assist users in assessing the valuation techniques and inputs used to ascertain fair value measurements used for asset and liability measurements.

Fair value hierarchy and other information is provided in notes 18, 19, 20, 21, 23, 31. Australian Accounting Standards and interpretations that have recently been issued or amended but are not yet effective, have not been adopted by Defence SA for the period ending 30 June 2014. Defence SA has assessed the impact of the new and amended standards and interpretations and considers there will be no impact on the accounting policies or the financial statements of Defence SA.

### **Note 4 Activities of Defence SA**

Activity information is prepared in accordance with the accounting policies of the entity as disclosed in note 2.

In achieving its objectives Defence SA provides a range of services classified into the following activities:

#### *Activity 1 - Defence Industry Development*

This activity delivers strategy and policy which, together with the Defence SA Advisory Board provides leadership across state government on all defence-related matters.

It also targets business development opportunities and provides Defence SA's administrative, financial and other operational services.

This activity seeks to support the growth of Defence and sustainable defence industries in South Australia across the maritime, land, aerospace and systems sectors.

#### *Activity 2 – Techport Australia*

This activity delivers the state's shipbuilding infrastructure commitment to the Air Warfare Destroyer project and reinforces Techport Australia as Australia's premier naval industry hub.

The disaggregated disclosures schedules present expenses, income, assets and liabilities information attributable to each of the activities for the years ended 30 June 2014 and 30 June 2013.

# DEFENCE SA FINANCIAL STATEMENTS

## Notes

Note 5	Employee benefits expenses	30 June 2014 \$' 000	30 June 2013 \$' 000
	Salaries and wages	3,488	3,263
	Targeted voluntary separation packages (TSVPs) (refer below)	-	93
	Long service leave	103	148
	Annual leave	291	279
	Skills and experience retention leave	3	4
	Employment on-costs - superannuation	346	323
	Employment on-costs - other	219	212
	Advisory Board and committee fees (note 28)	351	362
	Workers compensation	3	-
	Other employee related expenses	72	66
	<b>Total employee benefits expenses</b>	<b>4,876</b>	<b>4,750</b>
	<b>Targeted voluntary separation packages</b>		
	Amount paid during the reporting period to separated employees:		
	TVSPs	-	93
	Annual leave and long service leave paid to those employees	-	5
		-	98
	Recovery from the Department of Treasury and Finance	-	(98)
	<b>Net cost to Defence SA</b>	<b>-</b>	<b>-</b>

The number of employees who received a TVSP during the reporting period was 0 (1).

### Remuneration of employees

The number of employees whose remuneration received or receivable falls within the following bands:

\$141 500 - \$151 499	-	1
\$151 500 - \$161 499	-	1
\$161 500 - \$171 499	2	1
\$171 500 - \$181 499	1	3
\$181 500 - \$191 499	3	1
\$191 500 - \$201 499	1	2
\$211 500 - \$221 499	2	1
\$221 500 - \$231 499	-	1
\$241 500 - \$251 499	1	-
\$551 500 - \$561 499	-	1
\$571 500 - \$581 499	1	-
<b>Total number of employees</b>	<b>11</b>	<b>12</b>

The table includes all employees who received remuneration equal to or greater than the base executive remuneration level during the year. Remuneration of employees reflects all costs of employment including salaries and wages, payments in lieu of leave, superannuation contributions, salary sacrifice benefits and fringe benefits and any fringe benefits tax paid or payable in respect of those benefits.

The total remuneration received by these employees for the year was \$2.512 million (\$2.582 million).

**Note 6**

	<b>30 June 2014 \$' 000</b>	30 June 2013 \$' 000
<b>Supplies and services</b>		
Accommodation and service costs	325	317
Consultants (refer below)	399	224
Contractors	791	485
Electricity	1,044	976
Gas and gas equipment	154	135
Insurance	101	104
Legal fees	214	192
Minor plant and equipment	262	158
Promotion and events	795	1,069
Property	359	366
Provision of corporate services under Service Legal Agreements	309	275
Security services	723	642
Staff safety, development and recruitment	145	187
Travel and related expenses	394	472
Other expenses	563	627
<b>Total supplies and services</b>	<b>6,578</b>	<b>6,229</b>

The total supplies and services amount disclosed includes GST amounts not recoverable from the ATO where Defence SA does not hold a valid tax invoice or for payments relating to third party arrangements.

**Consultants**

The number and dollar amount of consultants paid/payable that fell within the following bands:

	<b>30 June 2014</b>		30 June 2013	
	<b>No</b>	<b>\$' 000</b>	No	\$' 000
Between \$10 000 and \$50 000	1	40	-	-
Above \$50 000	1	359	2	224
<b>Total paid/payable to the consultants engaged</b>	<b>2</b>	<b>399</b>	2	224

# DEFENCE SA FINANCIAL STATEMENTS

## Notes

Note 7	Depreciation and amortisation	30 June 2014 \$' 000	30 June 2013 \$' 000
	<b>Depreciation</b>		
	Buildings and improvements	212	201
	Plant and equipment	88	86
	Harbour and port facilities	7,551	6,841
	<b>Total depreciation</b>	<u>7,851</u>	<u>7,128</u>
	<b>Amortisation</b>		
	Leasehold improvements	117	113
	<b>Total amortisation</b>	<u>117</u>	<u>113</u>
	<b>Total depreciation and amortisation</b>	<u>7,968</u>	<u>7,241</u>

### Revision of accounting estimates

During the year, Defence SA reassessed the useful lives of harbor and port assets, resulting in a net reduction in the estimated useful lives. This has resulted in an increase of \$13 000 in the amount of depreciation calculated on these assets in the 2013-14 financial year relative to the amount that would have been expensed based on the previous estimates of useful lives.

The higher depreciation expense will be reflected in future years.

A review of the capitalisation of the Common User Facility identified minor discrepancies in depreciation for a limited number of assets which resulted in additional depreciation of \$476 000 being recognised for the year ended 30 June 2014.

Note 8	Net loss from the disposal of non-current assets	30 June 2014 \$' 000	30 June 2013 \$' 000
	Net book value of harbour and port assets disposed <sup>(1)</sup>	30	-
	<b>Total net loss from disposal of non-current assets</b>	<u>30</u>	<u>-</u>

<sup>(1)</sup> To comply with Lloyds of London certification one shiplift hoist wire rope was removed and tested to destruction.

Note 9	Grants and subsidies	30 June 2014 \$' 000	30 June 2013 \$' 000
	Defence Teaming Centre	485	477
	ASC AWD Shipbuilder Pty Ltd	650	644
	Other	-	110
	<b>Total grants and subsidies</b>	<u>1,135</u>	<u>1,231</u>

Note 10	Other Expenses	30 June 2014 \$' 000	30 June 2013 \$' 000
	Audit fees (refer note 11)	41	43
	Internal audit	83	56
	Allowances for doubtful debts (refer note 19)	92	-
	Other	5	32
	<b>Total other expenses</b>	<u>221</u>	<u>131</u>

<b>Note 11</b>	<b>Auditor's remuneration</b>	<b>30 June 2014 \$' 000</b>	<b>30 June 2013 \$' 000</b>
	Audit fees paid/payable to the Auditor-General's Department relating to the audit of financial statements.	<b>41</b>	<b>43</b>
	<b>Total audit fees</b>	<b>41</b>	<b>43</b>
	<b>Other services</b>		
	No other services were provided by the Auditor-General's Department		
<b>Note 12</b>	<b>Revenues from fees and charges</b>	<b>30 June 2014 \$' 000</b>	<b>30 June 2013 \$' 000</b>
	CUF priority access fee	<b>2,638</b>	2,603
	Techport Australia other fees	<b>1,233</b>	908
	Renewal SA income	<b>16</b>	22
	<b>Total fees and charges</b>	<b>3,887</b>	<b>3,533</b>
<b>Note 13</b>	<b>Grants</b>	<b>30 June 2014 \$' 000</b>	<b>30 June 2013 \$' 000</b>
	ASC AWD Shipbuilder Pty Ltd payment towards CUF infrastructure	<b>63</b>	717
	Other	<b>1</b>	3
	<b>Total grants</b>	<b>64</b>	<b>720</b>
<b>Note 14</b>	<b>Techport Australia recoveries</b>	<b>30 June 2014 \$' 000</b>	<b>30 June 2013 \$' 000</b>
	Other Techport Australia recoveries	<b>222</b>	125
	<b>Total Techport Australia recoveries</b>	<b>222</b>	<b>125</b>

# DEFENCE SA FINANCIAL STATEMENTS

## Notes

Note 15	Property revenues	30 June 2014 \$' 000	30 June 2013 \$' 000
	Rental income and recoveries <sup>(1)</sup>	8	146
	<b>Total property revenues</b>	<b>8</b>	<b>146</b>

<sup>(1)</sup> All income generating properties were transferred to the Urban Renewal Authority effective 1 March 2012. Income for 2013-14 is for collection of residual 2011-12 outgoings.

Note 16	Other Income	30 June 2014 \$' 000	30 June 2013 \$' 000
	Transfers received – Department of Further Education, Employment, Science and Technology	76	101
	Other income	50	90
	<b>Total other income</b>	<b>126</b>	<b>191</b>

Note 17	Revenues from/payments to SA Government	30 June 2014 \$' 000	30 June 2013 \$' 000
	<b>Revenues from SA Government</b>		
	Appropriation from Consolidated Account pursuant to the <i>Appropriation Act</i>	16,482	21,695
	Transfers received – Department of Treasury and Finance, Contingencies	16	147
	<b>Total revenues from SA Government</b>	<b>16,498</b>	<b>21,842</b>
	<b>Payments to SA Government</b>		
	Return of surplus cash pursuant to cash alignment policy	(13,687)	-
	<b>Total payments to SA Government</b>	<b>(13,687)</b>	<b>-</b>

Appropriations from Consolidated Account were \$16.498 million (\$21.842 million) for operational funding.

<b>Note 18 Cash</b>	<b>30 June 2014 \$' 000</b>	<b>30 June 2013 \$' 000</b>
Deposits with the Treasurer	4,275	14,762
Deposits with the Treasurer – Accrual Appropriation Excess Funds Account <sup>(1)</sup>	12,317	11,306
<b>Total cash</b>	<b>16,592</b>	<b>26,068</b>

<sup>(1)</sup> The balance of these funds is not available for general use and can only be used in accordance with the Treasurer's/Under Treasurer's approval.

**Interest rate risk**

Deposits with the Treasurer are non-interest bearing. The carrying amount of cash represents fair value.

<b>Note 19 Receivables</b>	<b>30 June 2014 \$' 000</b>	<b>30 June 2013 \$' 000</b>
<b>Current</b>		
Receivables and accrued income	307	298
Less allowance for doubtful debts	(105)	(13)
Prepayments	54	97
GST input tax recoverable	175	182
<b>Total current receivables</b>	<b>431</b>	<b>564</b>

**Movement in the allowance for doubtful debts**

The allowance for doubtful debts (allowance for impairment loss) is recognised when there is objective evidence that a receivable is impaired.

An allowance for impairment loss has been recognised in 'other expenses' in the Statement of Comprehensive Income for specific debtors for which such evidence exists.

Movements in the allowance for doubtful debts (impairment loss)

<b>Carrying amount at the beginning of the period</b>	<b>13</b>	<b>13</b>
Increase in allowance	100	-
Amounts written off	-	-
Amounts recovered during the year	(8)	-
<b>Carrying amount at the end of the period</b>	<b>105</b>	<b>13</b>

**Interest rate and credit risk**

Receivables are raised for all goods and services provided for which payment has not been received.

Receivables are normally settled within 30 days. Receivables, prepayments and accrued revenues are non-interest bearing.

Other than as recognised in the allowance for doubtful debts, it is not anticipated that counterparties will fail to discharge their obligations. The carrying amount of receivables approximates net fair value due to being receivable on demand.

There is no concentration of credit risk.

(a) **Maturing analysis of receivables – refer to note 31**

(b) **Categorisation of financial instruments and risk exposure information – refer to note 31**

# DEFENCE SA FINANCIAL STATEMENTS

## Notes

Note 20	Property, plant and equipment	30 June 2014 \$' 000	30 June 2013 \$' 000
	<b>Land</b>		
	Land only holdings at fair value	18,150	18,150
	Land only holdings improvements at cost	3,029	3,029
	Site land at fair value	600	600
	Site land at cost	91	91
	<b>Total land</b>	<b>21,870</b>	<b>21,870</b>
	<b>Buildings and improvements</b>		
	Buildings at fair value	3,425	3,425
	Buildings at cost <sup>(1)</sup>	2,949	2,949
	Accumulated depreciation at the end of the period	(731)	(519)
	<b>Total buildings and improvements</b>	<b>5,643</b>	<b>5,855</b>
	<b>Leasehold improvements</b>		
	Leasehold improvements at cost	884	884
	Accumulated amortisation at the end of the period	(659)	(542)
	<b>Total leasehold improvements</b>	<b>225</b>	<b>342</b>
	<b>Plant and equipment</b>		
	Plant and equipment at cost	1,009	969
	Accumulated depreciation at the end of the period	(357)	(346)
	<b>Total plant and equipment</b>	<b>652</b>	<b>623</b>
	<b>Total buildings and improvements, plant and equipment</b>	<b>6,520</b>	<b>6,820</b>
	<b>Harbour and port facilities</b>		
	Harbour and port facilities at cost <sup>(1)</sup>	251,399	250,501
	Accumulated depreciation at the end of the period	(30,906)	(23,371)
	<b>Total harbour and port facilities</b>	<b>220,493</b>	<b>227,130</b>
	Total property, plant and equipment	281,536	280,598
	Total accumulated depreciation/amortisation at the end of the period	(32,653)	(24,778)
	<b>Total property, plant and equipment</b>	<b>248,883</b>	<b>255,820</b>

### Valuation of land and buildings

The valuation of land and buildings was performed by an independent Certified Practising Valuer from Savills Valuations Pty Ltd as at 29 February 2012. The valuer arrived at fair value using the market approach. The valuation was based on recent market transactions for similar assets in the area taking into account zoning, restricted use and development work completed as at the valuation date.

<sup>(1)</sup>All Techport Australia Common User Facility assets (including buildings) are considered a specialised asset, are recorded at written down current cost (a proxy for fair value) and have not been revalued.

### Carrying amount of leasehold improvements and plant and equipment

All leasehold improvements and items of plant and equipment have a fair value at the time of acquisition that was less than \$1 million or had an estimated life of less than three years, and have not been revalued in accordance with Accounting Policy Framework III. The carrying value of these assets are deemed to approximate fair value. These assets are classified in level 3 as there has been no subsequent adjustment to their value, except for management assumptions about the assets condition and remaining useful life.

### Impairment

There were no indications of impairment of infrastructure, property, plant and equipment as at 30 June 2014.

**Note 20 Property, plant and equipment (continued)**

**RECONCILIATION OF PROPERTY, PLANT AND EQUIPMENT**

The following table shows the movement on property, plant and equipment during 2012-13

	Land \$' 000	Buildings \$' 000	Leasehold improvements \$' 000	Plant and equipment \$' 000	Harbour and port facilities \$' 000	Total assets \$' 000
Carrying amount at the beginning of the period	18,841	6,040	437	682	231,907	257,907
Acquisitions	3,029	16	18	27	2,064	5,154
Depreciation/amortisation	-	(201)	(113)	(86)	(6,841)	(7,241)
<b>Carrying amount at the end of the period</b>	<b>21,870</b>	<b>5,855</b>	<b>342</b>	<b>623</b>	<b>227,130</b>	<b>255,820</b>

**RECONCILIATION OF PROPERTY, PLANT AND EQUIPMENT**

The following table shows the movement on property, plant and equipment during 2013-14

	Land \$' 000	Buildings \$' 000	Leasehold improvements \$' 000	Plant and equipment \$' 000	Harbour and port facilities \$' 000	Total assets \$' 000
Carrying amount at the beginning of the period	21,870	5,855	342	623	227,130	255,820
Acquisitions	-	-	-	117	944	1,061
Disposals	-	-	-	-	(30)	(30)
Depreciation/amortisation	-	(212)	(117)	(88)	(7,551)	(7,968)
<b>Carrying amount at the end of the period</b>	<b>21,870</b>	<b>5,643</b>	<b>225</b>	<b>652</b>	<b>220,493</b>	<b>248,883</b>

# DEFENCE SA FINANCIAL STATEMENTS

## Notes

### Note 21 Fair value measurement

#### Fair value hierarchy

The fair value hierarchy of non-financial assets must be estimated for recognition, measurement and for disclosure purposes. Defence SA categorises non-financial assets measured at fair value into the hierarchy based on the level of inputs used in measurement.

Fair value measurements recognised into the Statement of Financial Position are categorised into the following levels at 30 June 2014.

Defence SA has no valuations categorised into level 1.

#### Fair value measurements at 30 June 2013 (refer note 2k and 20)

	Level 2	Level 3	Total
	\$' 000	\$' 000	\$' 000
<b>Recurring fair value measurements</b>			
Land	18,750	3,120	21,870
Buildings	3,110	2,745	5,855
Leasehold improvements	-	342	342
Plant and equipment	-	623	623
Harbour and port facilities	-	227,130	227,130
<b>Total recurring fair value measurements</b>	<b>21,860</b>	<b>233,960</b>	<b>255,820</b>

#### Fair value measurements at 30 June 2014

	Level 2	Level 3	Total
	\$' 000	\$' 000	\$' 000
<b>Recurring fair value measurements</b>			
Land	18,750	3,120	21,870
Buildings	2,982	2,661	5,643
Leasehold improvements	-	225	225
Plant and equipment	-	652	652
Harbour and port facilities	-	220,493	220,493
<b>Total recurring fair value measurements</b>	<b>21,732</b>	<b>227,151</b>	<b>248,883</b>

There were no transfers of assets between level 2 and 3 fair value hierarchy levels in 2013-14. Defence SA's policy is to recognise transfers into and out of fair value hierarchy levels as at the end of the reporting period.

#### Valuation techniques and inputs

Valuation techniques used to derive level 2 and 3 fair values are described in note 20.

Unobservable inputs used in determining fair value are useful lives and associated depreciation as described above. There were no changes in valuation techniques during 2013-14.

#### Reconciliation of fair value measurements - level 3

	Land	Buildings	Leasehold improvements	Plant and equipment	Harbour and port facilities
	\$' 000	\$' 000	\$' 000	\$' 000	\$' 000
Opening balance at the beginning of the period	3,120	2,745	342	623	227,130
Acquisitions	-	-	-	117	75
Capitalised subsequent expenditure	-	-	-	-	869
Disposals	-	-	-	-	(30)
Depreciation/amortisation	-	(84)	(117)	(88)	(7,551)
<b>Closing balance at the end of the period</b>	<b>3,120</b>	<b>2,661</b>	<b>225</b>	<b>652</b>	<b>220,493</b>

**Note 22 Capital works in progress****30 June  
2014  
\$' 000****30 June  
2013  
\$' 000**

The balance of capital works in progress as at the end of the reporting period.

**3,300****822**

Capital works in progress includes planning, design and development work associated with CUF assets not yet completed.

**RECONCILIATION OF CAPITAL WORKS IN PROGRESS**

The following table shows the movement of capital works in progress during 2012-13

	Improvements to freehold land	Harbour and port facilities	Buildings and leasehold improvements	Total capital works in progress
	\$' 000	\$' 000	\$' 000	\$' 000
Carrying amount at the beginning of the period	–	2,533	–	2,533
Acquisitions	1,504	1,861	36	3,401
Reclassified as property, plant and equipment	(1,504)	(3,572)	(36)	(5,112)
<b>Carrying amount at the end of the period</b>	<b>–</b>	<b>822</b>	<b>–</b>	<b>822</b>

**RECONCILIATION OF CAPITAL WORKS IN PROGRESS**

The following table shows the movement of capital works in progress during 2013-14

	Improvements to freehold land	Harbour and port facilities	Buildings and leasehold improvements	Total capital works in progress
	\$' 000	\$' 000	\$' 000	\$' 000
Carrying amount at the beginning of the period	–	822	–	822
Acquisitions	–	3,512	–	3,512
Reclassified as property, plant and equipment	–	(1,034)	–	(1,034)
<b>Carrying amount at the end of the period</b>	<b>–</b>	<b>3,300</b>	<b>–</b>	<b>3,300</b>

# DEFENCE SA FINANCIAL STATEMENTS

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Note 23	Payables	30 June 2014 \$' 000	30 June 2013 \$' 000
	<b>Current</b>		
	Creditors and accrued expenses	971	1,442
	Employment on-costs	58	55
	GST payable	47	59
	<b>Total current payables</b>	<b>1,076</b>	<b>1,556</b>
	<b>Non-current</b>		
	Employment on-costs	30	23
	<b>Total non-current payables</b>	<b>30</b>	<b>23</b>
	<b>Total payables</b>	<b>1,106</b>	<b>1,579</b>

### Interest rate and credit risk

Creditors and accruals are raised for all amounts billed but unpaid. Sundry creditors are normally settled within 30 days. Employment on-costs are settled when the respective employee benefit that they relate to is discharged. All payables are non-interest bearing. The carrying amount of payables represents fair value due to the amounts being payable on demand.

(a) **Categorisation of financial instruments and risk exposure information** - refer to note 31

Note 24	Employee benefits	30 June 2014 \$' 000	30 June 2013 \$' 000
	<b>Current</b>		
	Accrued salaries and wages	14	-
	Annual leave	191	189
	Long service leave	134	136
	Skills and experience retention leave	6	3
	<b>Total current employee benefits</b>	<b>345</b>	<b>328</b>
	<b>Non-current</b>		
	Long service leave	486	387
	<b>Total non-current employee benefits</b>	<b>486</b>	<b>387</b>
	<b>Total employee benefits</b>	<b>831</b>	<b>715</b>

AASB 119 contains the calculation methodology for long service leave liability. The actuarial assessment performed by the Department of Treasury and Finance has provided a set level of liability for the measurement of long service leave. AASB 119 requires the use of the yield on long term Commonwealth Government bonds as the discount rate in the measurement of the long service liability. The yield on long term Commonwealth Government bonds has decreased from 2013 (3.75%) to 2014 (3.50%).

This decrease in the bond yield, which is used as the rate to discount future long service leave cash flows results in an increase in the reported long service leave liability.

The net financial effect of the changes in the current financial year is an increase in the long service leave liability of \$14 000 and employee benefit expense (including on-costs) of \$15 000. The impact on future periods is impracticable to estimate as the long service leave liability is calculated using a number of assumptions. A key assumption is the long term discount rate.

The actuarial assessment performed by the Department of Treasury and Finance left the salary inflation rate at 4%. As a result, there is no net financial effect from changes in the salary inflation rate.

<b>Note 25</b>	<b>Other liabilities</b>	<b>30 June 2014 \$' 000</b>	<b>30 June 2013 \$' 000</b>
	<b>Current</b>		
	Lease incentive	21	21
	<b>Total current other liabilities</b>	<u>21</u>	<u>21</u>
	<b>Non-current</b>		
	Lease incentive	20	41
	<b>Total non-current other liabilities</b>	<u>20</u>	<u>41</u>
	<b>Total other liabilities</b>	<u>41</u>	<u>62</u>

Lease liabilities are due to SA Government entities and are effectively secured as the rights to the leased assets revert to the lessor in the event of default.

<b>Note 26</b>	<b>Unrecognised contractual commitments</b>	<b>30 June 2014 \$' 000</b>	<b>30 June 2013 \$' 000</b>
	<b>Capital commitments</b>		
	Capital expenditure contracted for as at the reporting date but not recognised as liabilities in the financial statements are payable as follows:		
	Within 1 year	1,148	-
	<b>Total capital commitments</b>	<u>1,148</u>	<u>-</u>

Defence SA's capital commitments are to various contractors providing design and construction services for the CUF and Techport Australia.

#### **Expenditure commitments - other**

Operating expenditure commitments as at the reporting date but not recognised as liabilities in the financial statements are payable as follows:

Within 1 year	2,656	2,097
Later than 1 year but no longer than 5 years	5,072	4,643
Later than 5 years	865	1,574
<b>Total other commitments</b>	<u>8,593</u>	<u>8,314</u>

Defence SA's operating commitments reflect grant and fee for service contracts for defence industry development and specialist technical and engineering advice.

#### **Expenditure commitments - remuneration**

Operating expenditure commitments as at the reporting date but not recognised as liabilities in the financial statements are payable as follows:

Within 1 year	1,716	3,371
Later than 1 year but no longer than 5 years	2,086	3,357
<b>Total remuneration commitments</b>	<u>3,802</u>	<u>6,728</u>

Amounts disclosed include commitments arising from executive and other service contracts. Defence SA does not offer fixed-term employment contracts greater than five years.

# DEFENCE SA FINANCIAL STATEMENTS

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### Note 27 Contingent assets and contingent liabilities

	30 June 2014 \$' 000	30 June 2013 \$' 000
<b>Contingent liabilities to which a value can be assigned</b>		
Contingent liabilities to which a value can be assigned	6,559	6,324
<b>Total</b>	<b>6,559</b>	<b>6,324</b>

#### *Techport Australia Commercial Campus (Stage One)*

Defence SA facilitated the private sector delivery of the Techport Australia Commercial Campus, pursuant to its commitments to the AWD project and development of Techport Australia as Australia's premier naval industry hub. Stage One development includes the AWD Alliance's AWD Systems Centre, Raytheon Australia's SA Engineering Centre, and supporting commercial and retail accommodation.

Related contractual commitments require Defence SA to accept novation of the residual lease period should ASC AWD Shipbuilder Pty Ltd elect to vacate the premises between December 2019 and expiration of its initial 10-year lease term in May 2020, which is considered unlikely.

#### *Air Warfare Destroyer Project - Workforce Assistance*

The State's contractual commitments with the Commonwealth in support of the AWD project includes reimbursement of a portion of the Shipbuilder's payroll tax liability under certain terms and conditions.

#### *Techport Australia 66kV Powerline Undergrounding Project*

Defence SA engaged Electranet Pty Ltd to place underground, a section of 66kV powerlines along Mersey Road.

Subsequent to completion of the works, Electranet have issued a claim for additional unforeseen costs associated with the contract. Defence SA is disputing the claim.

### **Contingent assets and contingent liabilities**

#### *Air Warfare Destroyer Project - Common User Facility*

The State has entered into an agreement with the Commonwealth for the construction of a Common User Facility (CUF) at Osborne to support ASC AWD Shipbuilder Pty Ltd in the construction of three air warfare destroyers for the Royal Australian Navy. The agreement indemnifies the Commonwealth from any third party losses or damages arising from a failure by the State to complete the CUF in accordance with the agreed design and schedule or meet the agreed performance criteria. The likelihood of non-performance is considered remote, and the State's exposure is capped at \$320 million.

**Note 28 Remuneration of Advisory Board and committee members and related party disclosure**

Members of the Defence SA Advisory Board during the financial year were:

ACM A Houston AC AFC (appointed Chair 29 January 2014)  
GEN P Cosgrove AC MC (resigned 28 January 2014)  
Hon J Weatherill MP \*  
Hon M Hamilton-Smith MP \* (appointed 28 May 2014)  
Hon J Snelling MP \* (resigned 27 May 2014)  
Dr I Chessell  
VADM R Crane AO CSM RANR  
A Fletcher \*\*  
P Johnson MBE  
B Laughton  
LTGEN P Leahy AC  
RADM T Ruting AM CSC RANR  
Dr J White

Members of the Audit and Risk Management Committee during the financial year were:

C McSparran (independent member/chair) \*\*  
R Barnett \*\*  
A Blaskett (independent member) \*\*  
B Laughton (independent member)  
P Robertson (independent member)

The number of members whose remuneration received or receivable falls within the following bands is:

	<b>30 June 2014 No.</b>	30 June 2013 No.
\$1 - \$9 999	1	2
\$20 000 - \$29 999	-	1
\$30 000 - \$39 999	7	7
\$40 000 - \$49 999	1	-
\$50 000 - \$59 999	1	-
\$70 000 - \$79 999	-	1
	<b>10</b>	<b>11</b>

Remuneration of members reflects all costs of performing board/committee member duties including sitting fees, superannuation contributions, salary sacrifice benefits and fringe benefits and any fringe benefits tax paid or payable in respect of those benefits. Total remuneration received or receivable, by board and committee members was \$351 000 (\$362 000), plus Defence SA compulsory superannuation contributions of \$33 000 (\$33 000). Other Advisory Board expenses were \$174 000 (\$168 000).

\* The Hon J Weatherill MP, the Hon M Hamilton-Smith MP and the Hon J Snelling MP did not receive any remuneration for board duties during the period.

\*\* Pursuant to the Department of Premier and Cabinet Circular PC016, government employees did not receive any remuneration for board/committee duties during the financial year.

Unless otherwise disclosed, transactions between related parties are on conditions no more favourable than those that it is reasonable to expect the entity would have adopted if dealing with the related party at arm's length in the same circumstances.

P Johnson MBE is a board member of Maritime Australia Ltd. Defence SA participated in the Pacific International Maritime Exposition in October 2013, which is an event managed by Maritime Australia Ltd.

# DEFENCE SA FINANCIAL STATEMENTS

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Note 29	Cash flow reconciliation	Note	30 June 2014 \$' 000	30 June 2013 \$' 000
<b>Reconciliation of cash at end of reporting period:</b>				
	Cash disclosed in the Statement of Financial Position		16,592	26,068
	Balance as per the Statement of Cash Flows		16,592	26,068
<b>Reconciliation of net cash (used in)/provided by operating activities to net cost of providing of services:</b>				
	Net cash (used in)/provided by operating activities		(5,848)	15,279
	Revenues from SA Government	17	(16,498)	(21,842)
	Payments to SA Government	17	13,687	-
<b>Add/(less) non-cash items</b>				
	Depreciation and amortisation expense of non-current assets	7	(7,968)	(7,241)
	Net gain/(loss) from the disposal of non-current assets	8	(30)	-
	Non-current assets accrual in payables		(89)	(101)
<b>Movement in assets/liabilities</b>				
	Increase/(decrease) in receivables	19	(133)	(1,877)
	(Increase)/decrease in payables	23	473	1,040
	(Increase)/decrease in employee benefits	24	(116)	(146)
	(Increase)/decrease in other liabilities	25	21	21
	<b>Net cost of providing services</b>		<u>(16,501)</u>	<u>(14,867)</u>

**Note 30 Transactions with SA Government**

Note	SA Government		Non-SA Government		Total	
	2014 \$' 000	2013 \$' 000	2014 \$' 000	2013 \$' 000	2014 \$' 000	2013 \$' 000
<b>Expenses</b>						
5 Employee benefits expenses	219	212	4,657	4,538	4,876	4,750
6 Supplies and services						
Accommodation and service costs	325	317	-	-	325	317
Consultants	-	-	399	224	399	224
Contractors	-	-	791	485	791	485
Electricity	-	-	1,044	976	1,044	976
Gas and gas equipment	-	-	154	135	154	135
Insurance	101	104	-	-	101	104
Legal fees	210	187	4	5	214	192
Minor plant and equipment	-	-	262	158	262	158
Promotion and events	-	-	795	1,069	795	1,069
Property	35	30	324	336	359	366
Provision of corporate services under Service Level Agreements	309	275	-	-	309	275
Security services	3	-	720	642	723	642
Staff safety, development and recruitment	-	-	145	187	145	187
Travel and related expenses	25	150	369	322	394	472
Other expenses	85	119	478	508	563	627
7 Depreciation and amortisation	-	-	7,968	7,241	7,968	7,241
8 Net loss from the disposal of non-current assets	-	-	30	-	30	-
9 Grants and subsidies	-	-	1,135	1,231	1,135	1,231
10 Other expenses						
Audit fees	41	43	83	56	124	99
Allowances for doubtful debts	-	-	92	-	92	-
Other expenses	5	-	-	32	5	32
<b>Total expenses</b>	<b>1,358</b>	<b>1,437</b>	<b>19,450</b>	<b>18,145</b>	<b>20,808</b>	<b>19,582</b>

# DEFENCE SA FINANCIAL STATEMENTS

## Notes

### Note 30 Transactions with SA Government (continued)

Note	SA Government		Non-SA Government		Total	
	2014 \$' 000	2013 \$' 000	2014 \$' 000	2013 \$' 000	2014 \$' 000	2013 \$' 000
<b>Income</b>						
12 Revenues from fees and charges						
CUF priority access fee	-	-	2,638	2,603	2,638	2,603
Techport Australia other fees	-	-	1,233	908	1,233	908
Renewal SA income	16	22	-	-	16	22
13 Grants	-	-	64	720	64	720
14 Techport Australia recoveries	-	-	222	125	222	125
15 Property revenues	-	-	8	146	8	146
16 Other income						
Transfers received – Department of Further Education, Employment, Science and Technology	76	101	-	-	76	101
Other income	-	-	50	90	50	90
<b>Total Income</b>	<b>92</b>	<b>123</b>	<b>4,215</b>	<b>4,592</b>	<b>4,307</b>	<b>4,715</b>
<b>Net cost of providing services</b>	<b>(1,266)</b>	<b>(1,314)</b>	<b>(15,235)</b>	<b>(13,553)</b>	<b>(16,501)</b>	<b>(14,867)</b>
17 Revenues from SA Government	16,498	21,842	-	-	16,498	21,842
17 Payments to SA Government	(13,687)	-	-	-	(13,687)	-
<b>Net result</b>	<b>1,545</b>	<b>20,528</b>	<b>(15,235)</b>	<b>(13,553)</b>	<b>(13,690)</b>	<b>6,975</b>
<b>Total comprehensive result</b>	<b>1,545</b>	<b>20,528</b>	<b>(15,235)</b>	<b>(13,553)</b>	<b>(13,690)</b>	<b>6,975</b>

**Note 30 Transactions with SA Government (continued)**

Note	SA Government		Non-SA Government		Total	
	2014 \$' 000	2013 \$' 000	2014 \$' 000	2013 \$' 000	2014 \$' 000	2013 \$' 000
<b>Financial assets</b>						
19	Receivables					
	4	10	303	288	307	298
	-	-	(105)	(13)	(105)	(13)
	-	-	54	97	54	97
	-	-	175	182	175	182
<b>Total financial assets</b>						
	4	10	427	554	431	564
<b>Financial liabilities</b>						
23	Payables					
	159	323	812	1,119	971	1,442
	24	21	64	57	88	78
	-	-	47	59	47	59
<b>Total financial liabilities</b>						
	183	344	923	1,235	1,106	1,579

# DEFENCE SA FINANCIAL STATEMENTS

## Notes

### Note 31 Financial instruments/financial risk management

#### Categorisation of financial instruments

Details of the significant accounting policies and methods adopted including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised with respect to each class of financial asset, financial liability and equity instrument are disclosed in Note 2 *Summary of Significant Accounting Policies*.

Category of financial assets and financial liabilities	Statement of Financial Position	Note	Carrying Amount 30 June 2014 \$' 000	Carrying Amount 30 June 2013 \$' 000
<b>Financial assets</b>				
Cash	Cash	18, 29	<b>16,592</b>	26,068
Receivables	Receivables (at cost) <sup>(1)(2)</sup>	19	<b>202</b>	286
<b>Financial liabilities</b>				
Financial liabilities	Payables <sup>(1)</sup>	23	<b>846</b>	1,291

<sup>(1)</sup> Receivable and payable amounts disclosed here exclude amounts relating to GST receivables and payables. In government, certain rights to receive or pay cash may not be contractual and therefore in these situations, the requirements will not apply. Where rights or obligations have their source in legislation such as levy receivables/payables, tax equivalents, Commonwealth tax etc. they would be excluded from the disclosure. The standard defines contracts as enforceable by law. All amounts recorded are carried at cost (not materially different from amortised cost).

<sup>(2)</sup> Receivables amount disclosed here excludes prepayments. Prepayments are presented in Note 19 in accordance with paragraph 78(b) of AASB 101. Prepayments are not financial assets as defined in AASB132 as the future economic benefit of these assets is the receipt of goods and services rather than the right to receive cash or another financial asset.

#### Fair Value

Defence SA does not recognise any financial assets or financial liabilities at fair value (refer Note 2 *Summary of significant accounting policies* and Notes 18, 19, 20, 21, 23, 31 ).

#### Credit Risk

Credit risk arises when there is the possibility of Defence SA's debtors defaulting on their contractual obligations resulting in financial loss to Defence SA. Defence SA measures credit risk on a fair value basis and monitors risk on a regular basis.

Defence SA has minimal concentration of credit risk. Defence SA has policies and procedures in place to ensure that transactions occur with customers with appropriate credit history. Defence SA does not engage in hedging for its financial assets.

Allowances for impairment of financial assets are calculated on past experience and current and expected changes in client credit rating. Other than receivables, there is no evidence to indicate that financial assets are impaired. Refer to Note 19 for information on the allowance for the impairment in relation to receivables.

The carrying amount of financial assets as detailed in the above table represents Defence SA's maximum exposure to credit risk.

**Note 31 Financial instruments/financial risk management (continued)****Ageing analysis of financial assets past due including impaired assets**

The following table discloses the ageing of financial assets, past due, including impaired assets past due.

**Ageing analysis of financial assets**

2013	Past due by			Total \$' 000
	< 30 days \$'000	30-60 days \$'000	> 60 days \$' 000	
<b>Not impaired</b>				
Receivables*	29	15	5	49
<b>Impaired</b>				
Receivables*	-	-	12	12
<b>2014</b>				
<b>Not impaired</b>				
Receivables*	-	-	-	-
<b>Impaired</b>				
Receivables*	-	-	95	95

\*Amount of receivables disclosed here excludes statutory receivables (amounts owing from/to SA Government and GST input tax credit payable and recoverable). They are carried at cost.

**Maturity analysis of financial assets and liabilities**

All Defence SA financial assets and liabilities mature within 1 year.

**Liquidity risk**

Defence SA is funded principally from appropriations by the SA Government. Defence SA works with the Department of Treasury and Finance to determine the cashflows associated with its Government approved program of work and to ensure funding is provided through SA Government budgetary processes to meet the expected cashflows. The continued existence of Defence SA is dependent on State Government policy and on continuing appropriations by Parliament for the administration and activities of Defence SA. Defence SA settles undisputed accounts within 30 days from the date of the invoice or date the invoice is first received. In the event of a dispute, payment is made within 30 days of resolution.

The exposure of Defence SA to liquidity risk is insignificant based on past experience and current assessment of risk.

**Market Risk**

Defence SA has no material interest bearing assets or liabilities. There is no exposure to foreign currency or other price risks as all significant contracts are in Australian dollars.

**Sensitivity analysis disclosure**

A sensitivity analysis has not been undertaken for interest rate risk given the immaterial exposure.

**Note 32 Events after the reporting period**

There are no reportable events after the reporting period.

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