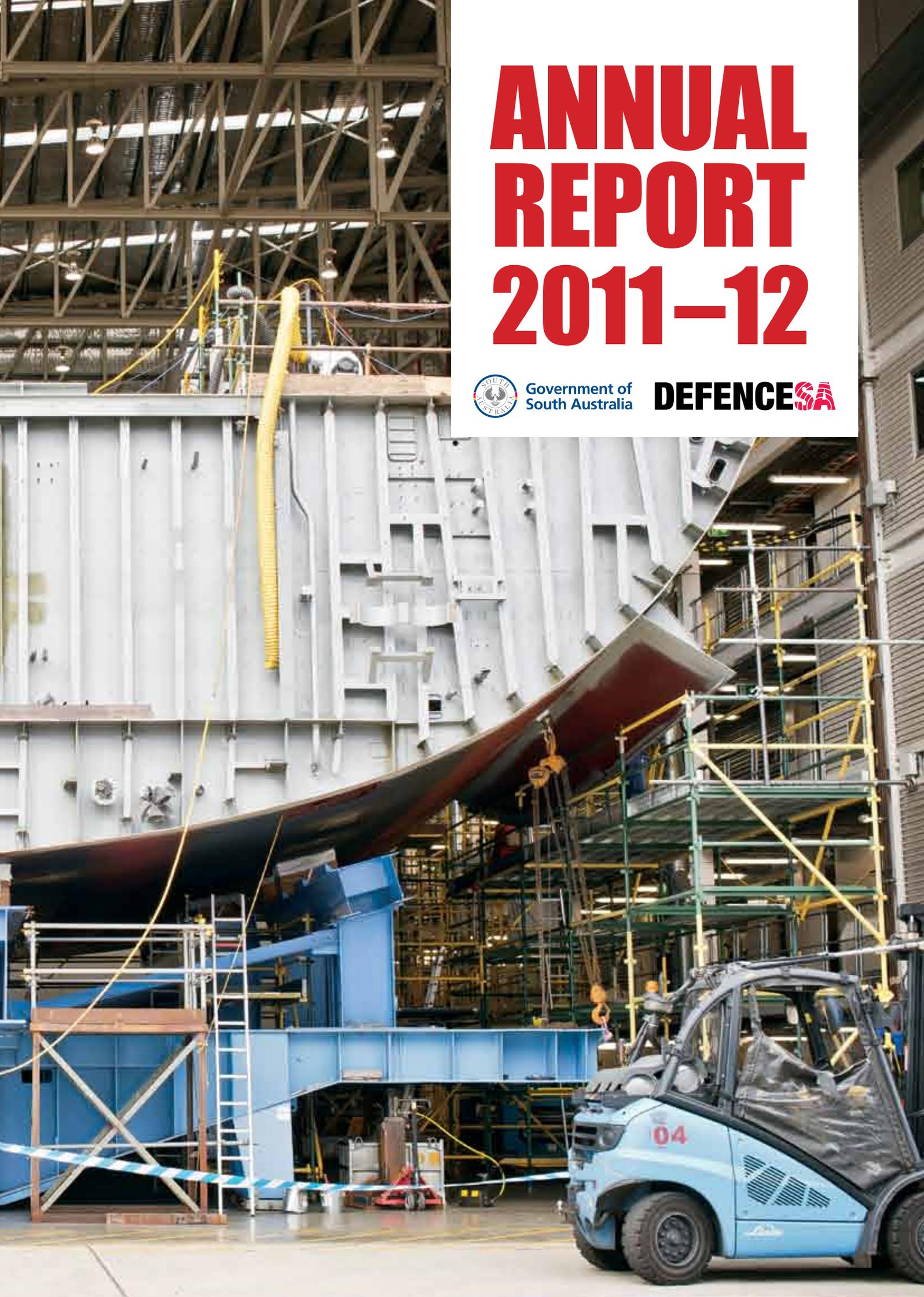


ANNUAL REPORT 2011-12



Government of
South Australia

DEFENCE 



Hon Jay Weatherill MP
Premier
Minister for State Development
Level 15
State Administration Centre
200 Victoria Square
ADELAIDE SA 5000

Hon Jack Snelling MP
Minister for Defence Industries
Level 8
State Administration Centre
200 Victoria Square
ADELAIDE SA 5000

28 September 2012

Dear Ministers

I am pleased to present to you Defence SA's Annual Report and financial statements for the year ended 30 June 2012. 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



Andrew Fletcher
CHIEF EXECUTIVE

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CHIEF EXECUTIVE'S FOREWORD

Defence SA's year of operations in 2011–12 has seen considerable progress in supporting the delivery of major defence projects already won and positioning the state to capture future defence work.

Over the past year, Defence SA staff focused on securing bipartisan commitment for assembly of the Future Submarines in Adelaide and the establishment of advanced aerospace components manufacturing and processing capabilities in South Australia.

Defence SA also worked closely with the Defence Teaming Centre to promote defence industry skill needs to government agencies and education and training providers to help strengthen the state's position as the *Defence State*.

The Techport Australia Common User Facility expansion project has also commenced with the undergrounding of Mersey Road powerlines, the first stage in opening a transit corridor to the Common User Facility expansion site. A further \$2 million was committed in the recent State Budget to extend utilities and common infrastructure, including power, water, sewer, stormwater and communications to that site.

Despite reduced Defence spending, the state's defence sector continued to demonstrate strong performance. In March 2012, Defence SA released updated figures which indicates the defence sector employed 26 882 people at 30 June 2011 with employment growth on track to meet the defence target reforecast to 2020–21, reflecting the state's long-term confidence in the future of the sector in South Australia.

Defence SA has experienced significant organisational change over the last 12 months. In October, Premier Weatherill and Minister Snelling assumed responsibility for this portfolio and in March, the agency's property and asset management and construction assets and functions were amalgamated in the newly formed Urban Renewal Authority.

Defence SA's commitment to continuous improvement and best practice remains the same. I thank all staff and the Defence SA Advisory Board for their ongoing focus to increasing the state's Defence presence and growing sustainable defence industries.



Andrew Fletcher
CHIEF EXECUTIVE

HIGHLIGHTS

- New State Government *Science Technology Engineering and Mathematics Strategy* launched in August, critical for defence industries.
- Army relocation progressing well with Defence SA supporting key events – Horseshoe Barracks opening and 7RAR Colours Presentation in September. Major roadworks completed in June to accommodate increased traffic arising from Army relocation to the Edinburgh Defence Precinct.
- Site preparation completed on Techport Australia Supplier Precinct Stages Phases 3 and 4B in September.
- *South Australia's Strategic Plan* updated in September with new defence target projected to 2020–21, reflecting State Government confidence in future of this sector.
- Continued third party use in Techport Australia Common User Facility (CUF) infrastructure, including energy converter prototype Waverider which was launched in November.
- BAE Systems Australia and Rosebank Engineering announced establishment of Australia's largest titanium advanced aerospace components manufacturing and processing capability in January.
- Successfully promoted South Australia's defence capabilities at PACIFIC 2012 international maritime exposition in Sydney in January/February.
- Final contract execution and commencement on site of the Northern Lefevre Peninsula Open Space Project in February.
- Released defence industry performance results for 2010–11 which demonstrated strong continued growth in March.
- Commonwealth Government recommitment to assembly of Future Submarines in Adelaide in May, with forward project timeframes also announced.
- Final Force Posture Review Report released in May reflecting key South Australian themes.
- Extensive distribution and positive reception to *Army Presence in South Australia Report*, released in May.
- Successful Premier-led mission to the United Kingdom in May with major engagement with defence firms.
- State Government commitment to expand CUF site announced in May, with first stage works underway.
- Cultana Training Area expansion documentation agreed: *Miscellaneous Lease for Defence Purposes and Indigenous Land Use Agreement*. Positive Defence movements on compulsory acquisitions of pastoral leases and Public Environment Report.
- Adelaide announced as the location for Defence's Joint Electronic Warfare Operational Support Centre.
- Air Warfare Destroyer (AWD) project now in peak production, with over 1400 workers directly employed by the project in South Australia at 30 June 2012.

ABOUT DEFENCE SA



Premier of South Australia, Hon Jay Weatherill MP and CEO of BAE Systems Australia David Allott inspect a Joint Strike Fighter model at BAE's Edinburgh facilities. © Newspix/Dean Martin



BAE SYSTEMS

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CORPORATE GOVERNANCE

Organisational Structure

Defence SA is the state's lead government agency for all defence-related matters, and remains Australia's only stand-alone state defence organisation.

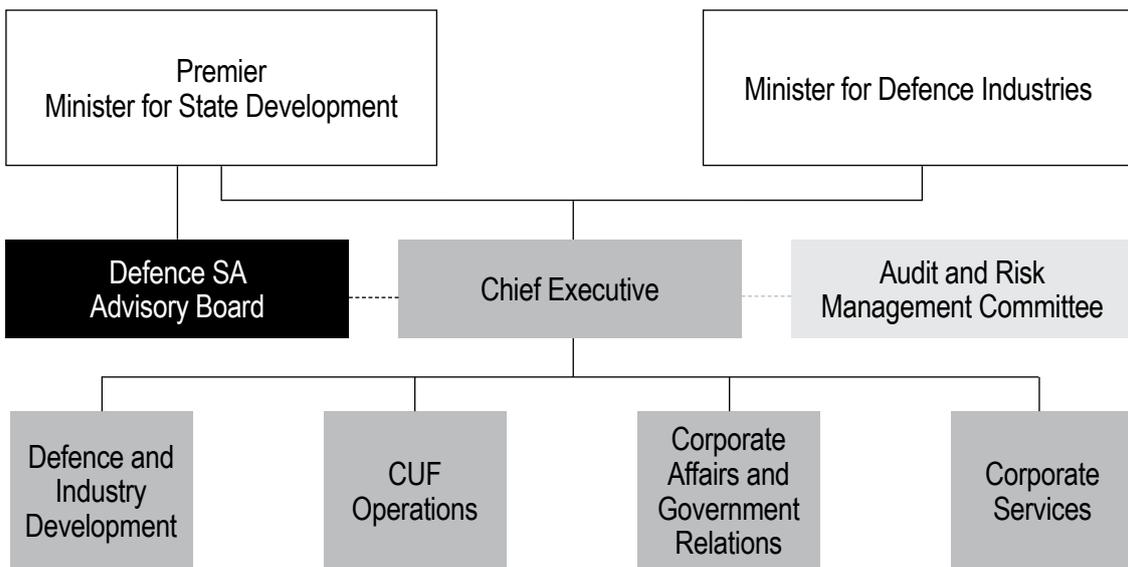
On 1 March 2012, Defence SA property and asset management and program delivery functions transferred to the newly established Urban Renewal Authority (URA). Defence SA has established a service level agreement with URA to access key property development and project delivery expertise as required.

At 30 June 2012, Defence SA employed 27 full-time equivalent employees across two locations – Adelaide and Osborne. The agency's current structure and reporting arrangements are depicted below.

Unit Functions

Defence and Industry Development is responsible for industry and company attraction and expansion in South Australia, as well as effectively promoting the state's defence industry capabilities. The unit also liaises closely with companies to address issues that may be inhibiting growth.

CUF Operations is responsible for the delivery of all Common User Facility services (shiplift, wharf and dry berth transfers, power and water supply) to the Air Warfare Destroyer (AWD) project, promoting the CUF for other commercial projects and overseeing the development and future expansion of the CUF to meet the requirements of future naval shipbuilding projects.



Corporate Affairs and Government Relations delivers executive support to the Defence SA Advisory Board, as well as providing policy and strategy advice and coordination. The unit is also responsible for the agency's marketing and event management activities as well as strategic and business planning. The unit also leads the coordination of intra-government projects including workforce development, Army relocation 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 safety, health and environment coordination.

Defence SA Reporting Arrangements

Defence SA reports to the Premier in his capacity as Minister for State Development, with general delegation of all relevant powers and functions in relation to Defence SA invested in the Minister for Defence Industries pursuant to section 9 of the *Administrative Arrangements Act 1994*. Defence SA's strategy and policy development is assisted by the Defence SA Advisory Board.

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* targets.

The board also supports efforts to build on South Australia's capabilities and strengths across the four defence sectors – maritime, land, aerospace and systems. Since its establishment, 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 in 2011–12 included:

- input to development of State Government industry strategies (advanced manufacturing, simulation)
- input to State Government responses to Commonwealth Government initiatives (Defence Industry Workforce Strategy, Force Posture Review)
- ambassadorial role at major events (PACIFIC 2012, Clipsal)

- ongoing liaison and relationship enhancement with Defence decision makers
- advice on initiatives to support growth of Defence establishments in South Australia
- Future Submarines advocacy

Board Membership

Defence SA Advisory Board membership recommendations are based on a core skills requirement of high-level strategic defence expertise and networking capability across the full range of defence capabilities, coupled with commercial and financial expertise. Members of the board on 30 June 2012 were:

- General Peter Cosgrove AC MC (Chairman)
Chief of the Defence Force (2002–05) and Australian of the Year (2001)
- 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)
- Air Marshal Les Fisher AO
Former Chief of the Air Force (1994–98)
- Mr Andrew Fletcher
Chief Executive, Defence SA (2007–present)
- Ms Beth Laughton
Chartered Accountant, former investment banker and company director
- Mr Paul Johnson MBE
Defence industry leader and former Chief Executive of Lockheed Martin Australia and Chairman of the Australian Industry Group Defence Council
- 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. New appointees to the board this year were: Mr Paul Johnson (1 July 2011) and Vice Admiral Russ Crane (1 September 2011).

Emeritus Professor Paul Dibb AM is an advisor to the board on strategic policy matters.

Board Meeting Attendance

The board held four formal meetings in 2011–12 and attendance was as follows:

	Board Meetings	
	Eligible	Attended
GEN Peter Cosgrove AC MC (Chairman)	4	3
Hon Mike Rann MP ¹	1	0
Hon Kevin Foley MP ¹	1	0
Hon Jay Weatherill MP ²	3	1
Hon Jack Snelling MP ²	3	1
Dr Ian Chessell	4	3
VADM Russ Crane AO CSM RANR	4	4
AIRMSHL Les Fisher AO	4	4
Mr Andrew Fletcher	4	4
Mr Paul Johnson MBE	4	4
Ms Beth Laughton	4	4
LTGEN Peter Leahy AC	4	3
RADM Trevor Ruting AM CSC RANR	4	4
Dr John White	4	4
Emeritus Professor Paul Dibb AM (Advisor)	4	4

¹ retired from the board on 20 October 2011

² appointed to the board on 21 October 2011

Audit and Risk Management Committee

The Audit and Risk Management Committee provides independent risk management advice to the Chief Executive. Committee members on 30 June 2012 were:

- Mr Christopher McSparran – Chief Financial Officer, SA Lotteries (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, Reporting and Procurement, 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

In September 2011, the State Government released the third edition of *South Australia's Strategic Plan (SASP)*, which set a new defence target to a 2020 timeframe:

- 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 designated target. Total (direct and indirect) employment in the defence industry was 26 882 people in 2010–11, up from 24 596 people the previous year, and on track to achieve the interim employment target of 28 000 by 2013.

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 build upon 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 further Defence personnel and their families, 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, and injecting further demand for general goods and services through the level of construction required over the next few years as Defence and related companies expand and upgrade their local presence.

The defence industries also form the foundation of the state's advanced manufacturing focus, one of the State Government's seven short to medium term strategic priorities.

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.

ACHIEVEMENTS



PMB Defence employees charging the Collins Class submarine battery



EXPANDED DEFENCE PRESENCE

Army relocation

The establishment of 1st Brigade (Adelaide) continues to progress successfully. At 30 June 2012, some 1000 soldiers were operating at Horseshoe Barracks, Edinburgh and Army expect to reach its full strength target of 1200 personnel by the end of this year (2012). Once fully operational, 1st Brigade (Adelaide) is expected to inject an estimated additional \$107 million to the state's economy per year.

In 2011–12, Defence SA continued to support Army's settlement activities, including preparations for the formal opening of Horseshoe Barracks (9 September 2011) and presentation of Queen's and Regimental Colours to the 7RAR Mechanised Battalion (10 September 2011).

In November 2011, 9th Combat Engineer Squadron (approximately 120 personnel – more than originally anticipated) relocated to Horseshoe Barracks following their return from deployment in East Timor and Afghanistan. That same month, works commenced on Project Single LEAP Phase 2, which will deliver 430 self contained and furnished units for single personnel living at RAAF Base Edinburgh.

In June 2012, the Department of Planning, Transport and Infrastructure (DPTI), in conjunction with the Cities of Salisbury and Playford, completed a \$24 million program of road and rail works within the Greater Edinburgh Precinct to improve connectivity and ease pressure on the existing transport network. Works included: duplication of Commercial Road from Purling Avenue to Salisbury Highway, including upgrades to two roundabouts and traffic signals; the upgrade of the Commercial Road/Salisbury Highway/John Rice Avenue intersection and modifications to the Nurlutta level crossing, including improved pedestrian facilities.

Army Presence in South Australia Report

In 2011–12, Defence SA commissioned an independent report to identify further opportunities for Army to expand its presence in South Australia. The final report was released in May 2012 and is based on findings from interviews conducted with senior Defence officials, including the Chief of Army. A number of medium to long term opportunities were identified which Defence SA is now exploring with Army and other elements of the Defence Department.

Cultana Training Area expansion

Defence is finalising steps to significantly expand the Cultana Training Area. The *Indigenous Land Use Agreement* (ILUA) is currently with parties for signature. The Commonwealth Government is also finalising compulsory acquisition of related pastoral leases and the Public Environment Report is with the Commonwealth Minister for Sustainability, Environment, Water, Population and Communities for final review and approval.

The State Government will issue a *Miscellaneous Lease for Defence Purposes* to Defence once the ILUA has been formally registered and the pastoral leases surrendered to the State Government. The Department of Premier and Cabinet has led negotiations with Defence, in consultation with Defence SA and other State Government agencies.

The expansion of the Cultana Training Area is critical to meet the training requirements of 1st Brigade (Adelaide) and increased use of the training area will have a positive economic impact on local communities.

Royal Australian Air Force 462 Squadron relocation

The initial 40 members of RAAF's 462 Squadron commenced operations from their new \$14 million purpose built facility on 16 January 2012. The relocation of 462 Squadron from Canberra to Adelaide complements and strengthens the intelligence, surveillance and reconnaissance capabilities in South Australia.

462 Squadron's role is to exploit, and protect from exploitation, the Air Force's computer network and information communications capabilities, critical in modern warfare. 462 Squadron also supports RAAF Commanders by establishing secure information environments to support air operations. The new facility has sufficient space to grow 462 Squadron to 100 personnel in the coming years.

Joint Electronic Warfare Operational Support Centre

A new Joint Electronic Warfare Operational Support Centre is being established in Adelaide, responsible for coordinating all of Defence's electronic warfare support activities. This includes joint training, research and development, countermeasures development and verification and validation of electronic warfare systems across all services. Joint Capability Coordination also intends to introduce joint focussed electronic warfare training by the end of this year requiring support from industry and academia.



SUSTAINABLE DEFENCE INDUSTRIES

Naval Shipbuilding

Air Warfare Destroyer project

The \$8 billion Air Warfare Destroyer project is the largest and most complex defence project currently underway in Australia. At 30 June 2012, there were about 1400 people directly working on the project in South Australia (out of a total of 2300 across Australia).

All of the 31 blocks required to build the first ship HMAS HOBART are now being fitted out in various locations. HMAS HOBART is scheduled to be delivered in March 2016.

In March 2012, the Commonwealth Government announced reallocation of blocks for the third ship (block redistribution for the first and second ships was announced in May 2011). Ship 3 block reallocation mirrored Ship 2, ensuring that shipyards can learn from previous experience in building the same blocks. The reallocation of work for Ship 3 means that overall division of block construction across the project is as follows:

- Forgacs – 44 blocks
- ASC – 25 blocks
- BAE Systems – 11 blocks
- Navantia – 10 blocks.

Future Submarine project

The Future Submarine project will provide Australia with a new and more potent defence capability with greater range, longer patrol endurance and increased undersea capability. The Commonwealth Government is committed to assembly of these submarines in Adelaide, which will be transformational for the state's economy, providing enormous opportunity for local industry and long term jobs for South Australians.

In December 2011, the Minister for Defence and the Minister for Defence Materiel announced a project update, including the development of a Future Submarine Industry Skills Plan, supported by an expert skills panel. Defence SA has actively participated in this panel since its inaugural meeting in May 2012 and a final report, outlining required skills and supporting strategies, is due at the end of 2012.

In May 2012, the Commonwealth Government committed \$214 million to progress detailed studies and other design analysis for the Future Submarine Project. Defence SA continues to focus on securing early opportunities, including promoting South Australia as the logical location for project design and test and evaluation activities. A decision on a Land Based Test Site is expected by the end of 2012.

Over 2011–12, Defence SA, supported by the Defence SA Advisory Board, engaged with all sides of politics, media commentators, and defence policy analysts to highlight the strategic and economic importance of ongoing bipartisan support for assembly of the Future Submarines in Australia.

PACIFIC 2012 International Maritime Exposition

Defence SA coordinated the state's presence at PACIFIC in January 2012 including a major *South Australia – the Defence State* stand (partnered with 11 local defence companies), VIP functions and targeted business meetings. Held biennially, PACIFIC is the major international maritime exposition in the Asia Pacific region. It features a large trade exhibition supported by a number of specialist Defence and technology conferences. The 2012 event attracted a record 411 exhibitor companies from 17 countries, and 15 534 attendees over the four days, including 3352 international visitors.

Military Vehicles

South Australia's military vehicle engineering and manufacturing capabilities are well established and supported by a strong base of small to medium enterprises with significant fabrication, production and maintenance capabilities. The state is well placed as a manufacturing and support base for upcoming vehicle replacement projects.

In December 2011, Rheinmetall-MAN Military Vehicles (RMMV) Australia Limited was selected by Defence as preferred tenderer for the procurement of up to 2700 medium and heavy protected and unprotected trucks (Land 121 Phase 3B) and possibly an additional 1000 vehicles for training (Land 121 Phase 5B). Defence SA is continuing discussions with RMMV regarding Australian-based work.

Defence SA is actively promoting the state's credentials to Land 121 Phase 4 Joint Light Tactical Vehicle contenders. There are considerable opportunities for South Australian industry involvement in the supply chain.

Defence SA is also focusing significant effort on supporting local industry to capture opportunities in the upcoming multi-billion dollar Land 400 (Land Combat Vehicle System) program, including facilitation of a successful industry briefing in October 2011. Commonwealth Government First Pass Approval is due in late 2013.

Aerospace Components Manufacturing and Processing

In January 2012, the State Government together with BAE Systems Australia and Rosebank Engineering, announced establishment of new advanced manufacturing facilities at Edinburgh Parks. The combined capability will be the largest of its kind in Australia, manufacturing highly specialised, long thin titanium parts for the Joint Strike Fighter vertical tail fin, as well as other small specialised components for the aircraft.

BAE Systems Australia is acquiring a (StarragHeckert AG machine) twin spindle computer numerical control machine capable of machining large titanium alloy parts up to five metres in length. This high precision machine will provide a unique technologically advanced capability in Australia (one of only two in the world).

To complement BAE Systems facility, Rosebank Engineering is establishing a new advanced processing facility in Adelaide providing world-class specialised treatment and metal finishing services.

Emerging industries

Space

Defence SA was actively involved in the state's bid to host the 2014 International Astronautical Federation's Global Congress in Adelaide with up to 3000 delegates. The bidding consortium included Adelaide Convention Bureau, Adelaide Convention Centre, Department of Further Education, Employment, Science and Technology, Defence SA and other national partners. The event was awarded to Toronto, Canada in April 2012.

Defence SA is continuing to progress a number of space-related industry development strategies, focused on education initiatives, global supply chain opportunities and major event capture.

Simulation

Work is underway with the Department for Manufacturing, Innovation, Trade, Resources and Energy (DMITRE) to develop a cohesive state simulation strategy. In November/December 2011, a Defence SA officer visited the United States to attend the Interservice/Industry Training, Simulation and Education Conference and other simulation-related meetings to seek insight into models of other successful simulation hubs and how they might be adapted to South Australia. A VIP event and a workshop were held in June 2012 alongside the Simulation Technology and Training Conference and Exhibition (SimTeCT) conference in Adelaide which provided constructive feedback on the way forward.

Defence SA is also working with key primes, Simulation Australia, universities and other industries (users of simulation products) to strengthen South Australia's position to capture major opportunities under Joint Project 3035 Phase 1 (Core Simulation Capability) which is due for First Pass Approval between 2013–14 and 2014–15.

PRODUCTIVE INFRASTRUCTURE

Techport Australia's Common User Facility

The Common User Facility is playing an active role in delivery of the Air Warfare Destroyers. In 2011–12, seven blocks were successfully transferred to ASC from BAE Systems Australia in Melbourne via the CUF's wharf and shiplift. Defence SA will continue to provide shiplift, transfer and other services as further modules for the first AWD are also received from Newcastle and Spain. The dry berth is in use for block fabrication, prior to the first keel section being laid in the latter half of 2012.

As a result of the block reallocations in May 2011, ASC assumed responsibility for completion of seven additional blocks at Techport Australia from the first two warships. In 2011–12, Defence SA leased additional space to ASC on the Techport Australia dry berth to accommodate a new paint and blast facility to manage its overflow work.

Capital works completed during the year include:

- site preparation for Supplier Precinct Stages 3 and 4 in September 2011
- major spare parts received from TTS for transfer system in December 2011
- gas supply system (cutting and welding gas supply to ASC) commissioned in November 2011, and
- seawater system contract awarded in April 2012.

Techport Australia's Common User Facility also continued to attract commercial ship repair and maintenance activity, including:

- Sea Transport Group ferry *Aurora* – breakdown repairs
- Kangaroo Island Sealink ferry *Sealion* – annual survey and maintenance, and
- Kangaroo Island Sealink ferry *Spirit of Kangaroo Island* – breakdown repairs.

In November 2011, Waverider Energy's wave energy converter prototype was successfully completed and launched from Techport Australia. The 110 metre long structure is now floating 800 metres offshore near Elliston on the Eyre Peninsula and generating power by harnessing the kinetic energy of waves pushing against a series of buoys.

The CUF has also received interest from parties vying for disposal/recycling of decommissioned naval vessels. Defence has called for tenders for disposal of ex-HMAS MANOORA and ex-HMAS KANIMBLA, with a decision expected by the end of 2012.

Common User Facility expansion

Electranet has commenced undergrounding the Mersey Road powerlines. This is the first stage in opening a transit corridor to the Common User Facility expansion site.

A further \$2 million was also committed in the recent State Budget to expand direct access to the CUF. This investment will bring site utilities (including power, water, sewerage, stormwater and communications), laydown access and fencing to development-ready land. This strategic site is immediately across the road from the existing CUF site and reserved for future naval shipbuilding work under a Memorandum of Understanding with the Commonwealth Government.

Opening this site provides the State Government with maximum flexibility to continue to pursue third party activities, as well as supporting the full needs of the AWD project. Site preparation work was also completed in September 2011 to ensure this land is ready for development as required.

Naval shipbuilding skilling well underway at the Maritime Skills Centre

The Maritime Skills Centre, which has been operational since November 2008, is a centre of excellence in skill development in shipbuilding and related industries. Training programs covering white and blue collar skills (for example, electrical, mechanical, fabrication training) are being conducted throughout the life of the AWD build and potentially through the ongoing repair, maintenance and upgrade lifecycle. The Maritime Skills Centre is also used by third parties where capacity permits.

Usage of the centre has increased in line with the ramp up of ASC recruitment. From 1 March 2012, management of this facility is now being undertaken by the Urban Renewal Authority (URA) under a Service Level Agreement between the URA and Defence SA.

Secure Electronic Common User Facility

SECUF is a key enabler in the state's drive to lead the development of a defence systems integration hub supporting network centric warfare, electronic warfare and defence electronics programs. Stage One involved fit-out of two and a half modules of the seven-module single-storey Endeavour House, Technology Park Adelaide.

SECUF is now home to two anchor tenants: the Defence Systems Integration Centre and Rapid Prototype Development and Evaluation. Both offer unique Defence, industry and academic collaborations to deliver effective and integrated capability solutions to Defence.

The next stage of the SECUF project related to the fit-out of individual syndicated rooms in another module. Due to changes in Defence's management of systems integration activity and the state's renewed focus on building Defence Systems Innovation Centre's capability, this stage is no longer warranted.

The SECUF project is now complete and unspent funds from this project have been returned to the Department of Treasury and Finance.



Projects transferred to Urban Renewal Authority on 1 March 2012

The Urban Renewal Authority (URA) was established on 1 March 2012, responsible for all of the State Government's industrial, commercial and residential land development. The agency centralised the State Government's land development portfolio and staff expertise (planning, construction, management and sales), providing a talented resource pool to utilise across key projects. Thirteen staff from Defence SA's Development and Asset Management and Project Delivery teams transitioned to the new authority.

All of Defence SA's land holdings at Technology Park Adelaide, including Innovation House, Endeavour House and the undeveloped land transferred to the URA. While the Techport Australia Supplier Precinct and future Commercial Precinct land also transferred, all development on these sites will be done in conjunction with Defence SA, and must remain consistent with the strategic vision for the precinct. With the exception of the Techport Australia CUF site, all Defence SA's other land holdings on the northern Lefevre Peninsula also transitioned to the new authority.

The following key projects were transferred to the Urban Renewal Authority on 1 March 2012 with the synopsis below representing status of these projects to the end of February 2012.

Open Space

Under the Open Space Masterplan, approximately 70 hectares of open space-zoned land will be developed over five distinct precincts: North Haven, Biodiversity Park, Lefevre Cultural Park, Link Reserve and Mutton Cove Buffers. The project was endorsed by the Public Works Committee in January 2012 and works commenced in February.

Port Direct Industrial Precinct

The first stage of the Port Direct Industrial Precinct was released to market in November 2011, following the opening of Mersey Road North. A program of earthworks is ongoing in line with the schedule for staged release.

Technology Park

Significant effort was expended in the first half of the financial year on improving tenant communications (including periodic newsletters, functions and direct liaison) and marketing of the Innovation House Conference Centre facilities.

A new masterplan for Technology Park Adelaide is under development and aimed at fundamentally repositioning the precinct as a high density mixed use site. Concept strategies were received from potential private sector partners in November 2011.

EFFECTIVE ADVOCACY

Workforce development

Defence SA continues to actively promote and contribute to a strategic and integrated whole-of-state approach to workforce development efforts, particularly with respect to defence industries.

Defence SA supported the development of *A Science, Technology, Engineering and Mathematics Skills Strategy*, launched by the State Government in August 2011. Implementation is being managed out of a cross-government Executive Reference Group which includes Defence SA.

In 2011, 2305 training places were secured by the Defence Teaming Centre under the August round of the Productivity Places Program, and South Australian-headquartered companies were awarded over \$3.8 million in the 2011–12 round of Skilling Australia's Defence Industries funding (28 percent of total funding).

Defence SA also continues to work closely with the Commonwealth Government on defence related skills initiatives, including the Commonwealth-funded Advanced Technology Industry-Schools Pathways Program, which is progressing particularly well in the three lead schools. A further 15 partner schools are now also participating across South Australia.

The State Government through the Department of Further Education, Employment, Science and Technology has continued the Defence Honours Scholarships program available to up to 75 students per year studying defence related honours degrees. Fifty-one scholarships were awarded in the first round in 2011 and 77 scholarships were awarded in 2012.

On behalf of the State Government, Defence SA prepared a submission to Skills Australia for its national *Defence Industry Workforce Strategy*. The strategy was commissioned by the Minister for Defence Materiel, and is intended to map out the range and depth of long term skill sets requirements, as well as provide a roadmap to address identified supply gaps based on planned Defence acquisition programs. Defence SA has been liaising closely with Skills Australia since the review was announced in September 2011. Skills Australia is expected to release its report imminently.

Defence industry performance

In March 2012, Defence SA released the results from its third survey of core defence companies in South Australia. The latest version of the *Defence Industry Update* found that direct defence industry jobs have grown from 4439 in 2007–08 to 5189 in 2010–11, driven primarily by the ramp up of the AWD project, and is more than triple the State's labour force growth over this same four year period (5.1 percent versus 1.7 percent). Defence industry areas of shipbuilding and repairs, submarine sustainment and aerospace maintenance and components manufacture continue to form the basis of strong growth in this sector.

Advanced manufacturing agenda

The defence industries are high value, high technology activities. Defence SA is working closely with DMITRE on development of an advanced manufacturing strategy for South Australia. In addition to direct input and participation on the Senior Officers Group, Defence SA has facilitated industry workshops (primes and SMEs) and reflected detailed feedback from the Defence SA Advisory Board to the drafters of the strategy.

Woomera Prohibited Area Defence – mining coexistence

In July 2011, Defence established a new WPA Coordination Office (WPACO) to implement the 65 recommendations made in the Hawke Review into shared access of the Woomera Prohibited Area. The office includes representation from Department of Resources Energy and Tourism, Department of Finance and Deregulation, DMITRE and Defence SA.

Throughout the moratorium, WPACO has continued to progress exploration deeds for companies with existing access arrangements. In June 2012, DMITRE commenced issuing Exploration Licences for outstanding applications. Companies are required to hold a valid Exploration Licence prior to applying to Defence for tenement access.

Defence has finalised its draft Deed of Access (Minerals Exploration), with significant input from industry.

Work is also underway to finalise governance structures (Advisory Board and Reference Group) and to conclude the moratorium period.

Force Posture Review

In June 2011, the Minister for Defence commenced a Force Posture Review to determine ideal geographic positioning of the Australian Defence Force (ADF). Throughout 2011–12, Defence SA liaised closely with the Expert Panel and secretariat to reinforce key State Government positions in relation to the expansion of key Defence facilities and industry sites in South Australia. Defence SA also coordinated a formal submission to this review. The final report was released in May 2012, with recommendations representing a favourable outcome for South Australia.

Defence White Paper

In May 2012, the Commonwealth Government announced development of a new White Paper in response to significant international and domestic developments. Defence SA has commenced liaison with Defence on this core document, which is due to be delivered in the first half of 2013.

Defence SA continues to engage Defence on policy issues which impact defence industry sustainability, including:

- a whole of life cycle approach at the time of acquisition to take into full account the long term implications of defence procurement decisions
- workflow continuity to ensure longevity of key national capabilities and skilled workforce
- consolidation of specialist workforces and infrastructure on geographic centres of expertise, and
- a robust defence industry policy – including clearly defined and supported priority local industry capabilities.

EXEMPLAR GOVERNMENT AGENCY

Savings targets

Defence SA achieved its \$0.739 million savings target for 2011–12 by rationalising the agency's corporate functions and reducing the use of external recruitment agencies. The agency continues to develop its approach to savings in future years to ensure ongoing delivery of its objectives.

Organisational review

Following transfer of projects and staff to the Urban Renewal Authority, Defence SA has reviewed its corporate and administrative workload and will be reducing FTEs and corporate overheads in 2012–13. Specifically, Defence SA is reducing the size of its administrative and ministerial support teams, as well as saving on external finance and audit support. Defence SA is a small agency with a critical role in the growth of the Defence and sustainable defence industries in South Australia. These changes will not impede the agency's ability to continue to deliver on this mandate.

Safety, health and the environment

Defence SA is committed to preserving the safety and health of its staff, as well as being mindful of environmental considerations. Defence SA undertook a range of activities to support this commitment in 2011–12, including mandatory safety, health and environment (SHE) briefings at staff meetings, monthly SHE messages promulgated at all Defence SA sites, regular staff SHE surveys, SHE training opportunities and a wellbeing program.

Defence SA had two medical treatment injuries and no lost time injuries in 2011–12. The medically treated injuries were both minor in nature (one minor finger laceration which required treatment as a result of subsequent infection and one shoulder strain requiring medical and physiotherapy treatment as a result of repetitive work practices). Work practices have been reviewed to minimise the risk of recurrence.

Defence SA reported one Notifiable Incident to SafeWork SA as a result of a minor gas leak at the Techport Australia Common User Facility (CUF) site. A minor LPG gas leak was identified in the gas isolation pits at the CUF. The Incident was managed in accordance with established procedures implemented and the issue was satisfactorily resolved without further risk or injury. Safework SA acknowledged the incident report and assessed that the incident required no further investigation.

Promoting South Australia – the Defence State

Marketing campaign

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

In 2011–12, advertising in specialist publications and liftouts continued to ensure consistent high awareness of the state's defence capabilities. Ongoing engagement with key journalists also continued and included a dedicated media component to Advantage SA's defence briefing in June 2012.

Defence SA has also commenced a refresh of *South Australia – the Defence State* marketing collateral and supporting imagery to ensure the brand remains up to date with current developments.

Targeted VIP events and speaking engagements

Defence SA hosted a raft of targeted VIP functions throughout 2011–12 including site tours, ministerial meetings, boardroom lunches and themed dinners. These activities enabled Defence SA to communicate key messages to Defence and defence industry key influencers and other decision makers across government.

More than 40 external speaking engagements were undertaken in 2011–12 to promote the *South Australia – the Defence State*. Audiences included local industry and business associations, foreign diplomats, groups involved in professional development programs, and a range of community groups.

Overseas missions

In January 2012, Defence SA supported the Premier's mission to the United States. High level defence-related meetings were held with Lockheed Martin, US-based Australian Defence officials and Ambassador Kim Beazley (who has previously served on the Defence SA Advisory Board). The Premier also delivered the keynote address at the Defence, Maritime Science and Australia's Maritime Industrial Capability event in San Diego. A number of important defence industry guests also attended the G'Day USA Black Tie Gala Dinner in Los Angeles at the invitation of the Premier.

In May 2012, Defence SA's Chief Executive accompanied the Premier on an investment mission to the United Kingdom. High level meetings were held with companies seeking to establish or expand their presence in Australia: Frazer-Nash, Babcock, MBDA, Ricardo, Cobham Aviation Services, BAE Systems and QinetiQ.

APPENDICES



Students undertaking trade training in the Maritime High School of South Australia program, hosted at Le Fevre High School



APPENDICES

Employee Numbers, Gender and Status

Total number of employees at 30 June 2011

	Male	Female
Persons	17	10
FTEs	16.7	9.6

By gender

	% Persons	% FTEs
Male	63	63.5
Female	37	36.5

Employees separated and recruited

	Number
Separated from the agency during 2011–12	20*
Recruited to the agency during 2011–12	6
On leave without pay on 30 June 2012	0

* 13 FTEs were transferred to the Urban Renewal Authority effective 1 March 2012.

Number of employees by salary bracket

Salary Bracket	Male	Female	Total
\$0 – \$51 599	0	1	1
\$51 600 – \$65 699	3	3	6
\$65 700 – \$84 099	1	3	4
\$84 100 – \$106 199	4	0	4
\$106 200 +	9	3	12
Total	17	10	27

Status of employees in current position

	Ongoing	Short-Term Contract	Long-Term Contract	Other (Casual)	Total
FTEs					
Male	1.7	1	14	0	16.7
Female	0	0	9.6	0	9.6
Total	1.7	1	23.6	0	26.3
Persons					
Male	2	1	14	0	17
Female	0	0	10	0	10
Total	2	1	24	0	27

Executives

Executives by gender, classification and status

Classification	Ongoing		Contract Tenured		Contract Untenured		Total
	Male	Female	Male	Female	Male	Female	Total
EXEC0A	0	0	0	0	0	0	0
EXEC0B	0	0	0	0	0	0	0
EXEC0C	0	0	0	0	0	0	0
EXEC0D	0	0	0	0	0	0	0
EXEC0F	0	0	0	0	1	0	1
SAES1	0	0	0	0	5	1	6
SAES2	0	0	0	0	1	0	1
Total	0	0	0	0	7	1	8

Leave Management

Average days taken per full-time equivalent employee

Leave Type	Average FTE figure for 2011-12
Sick Leave	3.14
Family Carers Leave	0.78
Miscellaneous Special Leave	0.25

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	0	5.6%
20–24	0	0	0	0	9.9%
25–29	2	1	3	11.1	10.6%
30–34	0	3	3	11.1	10.4%
35–39	2	3	5	18.5	10.7%
40–44	2	1	3	11.1	11.7%
45–49	4	1	5	18.5	11.4%
50–54	6	0	6	22.3	11.0%
55–59	0	1	1	3.7	9.2%
60–64	1	0	1	3.7	5.6%
65+	0	0	0	0	4.0%
Total	17	10	27	100	100

* 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 May 2012.

Cultural and linguistic diversity

	Male	Female	Total	% Agency	SA Community*
Number of employees born overseas	3	1	4	14.8	20.3
Number of employees who speak language(s) other than English at home	1	1	2	7.4	16.6

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

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

Nil.

Number of employees with disabilities requiring workplace adaptation

Nil.

Voluntary Flexible Working Arrangements by Gender

By gender

	Male	Female	Total
Purchased Leave	0	0	0
Flexitime	0	0	0
Compressed Weeks	3	1	4
Part-time	1	1	2
Job Share	0	0	0
Working from Home	0	0	0
Total	4	2	6

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	\$118,333	2.11%
Total leadership and management development expenditure*	N/A	N/A

* Defence SA does not separately record leadership and management costs. Costs incurred on this type of training and development are reflected in total training and development expenditure.

Accredited Training Packages

Nil.

Employment Opportunity Programs

Defence SA did not manage any whole-of-government equal opportunity programs during the reporting period. No specific equal opportunity programs for Defence SA employees and contract staff were conducted during the reporting period.

Occupational Health, Safety and Injury Management

Defence SA maintains well defined wellbeing and safety management systems, including integration into core business functions and processes to ensure continuous improvement. In 2011, the Chief Executive issued a Safety and Wellbeing Commitment Statement confirming the agency's commitment to pursuing the Premier's Zero Harm Vision and the goal of returning 100 percent of injured staff to meaningful work. This statement has been reviewed in terms of the requirements of the *Safety and Wellbeing in the Public Sector 2010–2015* strategy.

OHS notices and corrective action taken

	2011–12	2010–11
Number of notifiable occurrences pursuant to OHS&W Regulations Part 7 Division 6	1	0
Number of notifiable injuries pursuant to OHS&W Regulations Part 7 Division 6	0	0
Number of notices served pursuant to OHS&W s35, s39 and s40 (default, improvement and prohibition notices)	0	0

Agency gross workers' compensation expenditure for 2011–12 compared with 2010–11

Expenditure	2011–12 (\$m)	2010–11 (\$m)	Variation (\$m) + (-)	% Change + (-)
Income maintenance	0	0	0	0
Lump sum settlements redemptions – s42	0	0	0	0
Lump sum settlements Permanent Disability – s43	0	0	0	0
Permanent Disability – s43	0	0	0	0
Medical/ hospital costs combined	0	0	0	0
Other	0	0	0	0
Total Claims Expenditure	0	0	0	0

Meeting safety performance targets

	Base:	Performance:			Final Target
	2010–11	12 months to end of June 2012 ¹			
	Numbers or %	Actual	Notional Qtrly Target ²	Variation	Numbers or %
1. Workplace fatalities	0	0	0	0	0
2. New workplace injury claims	0	0	0	0	0
3. New workplace injury claims frequency rate	0	0	0	0	0
4. Lost time injury frequency rate ³	0	0	0	0	0
5. New psychological injury claims	0	0	0	0	0
6. Rehabilitation and return to work:	0	0	0	0	0
a. Early assessment within 2 days	0	0	0	0	80%
b. Early intervention within 5 days	0	0	0	0	90%
c. LTI have 10 business days or less lost time	0	0	0	0	60%
7. Claim determination:	0	0	0	0	0
a. New claims not yet determined, assessed for provisional liability in 7 days	0	0	0	0	100%
b. Claims determined in 10 days	0	0	0	0	75%
c. Claims still to be determined after 3 months	0	0	0	0	3%
8. Income maintenance – payments for recent injuries:	0	0	0	0	0
a. 2009–10 injuries (at 24 months development)	0	0	0	0	Below previous 2 years average
b. 2010–11 injuries (at 12 months development)	0	0	0	0	Below previous 2 years average

¹ Except for Target 8, which is YTD
For Targets 5, 6c, 7b and 7c, performance is measured up to the previous quarter to allow reporting lag.

² Based on cumulative reduction from base at a constant quarterly figure.

³ Lost Time Injury Frequency Rate Injury – frequency rate for new lost-time injury/disease for each one million hours worked. This frequency rate is calculated for benchmarking and is used by the WorkCover Corporation.

Formula for Lost Time Injury frequency rate (new claims):

$\frac{\text{Number of new cases of lost-time injury/disease for year}}{1,000,000 \text{ Number of hours worked in the year}}$

Contractual Arrangements

On behalf of its minister, Defence SA did not enter into any contracts exceeding \$4 million in 2011–12.

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*	3676	96.31%	223,978,837	99.53%
Paid within 30 days or less from due date	123	3.22%	999,006	0.44%
Paid more than 30 days from due date	18	0.47%	65,165	0.03%

* 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 2011–12. A corporate risk management framework and 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	Firm	Service
Below \$10 000	-	-
\$10 000 – \$50 000	Realty Corp Property Solutions Leading By Example	Strategic property and development advice Study – retention attraction Army units
Above \$50 000	Macroeconomics	Economic analysis



Overseas Travel

Number of Employees	Destination/s	Reasons for Travel	Total Cost to Agency
1	United States	Support Premier in a range of defence related functions and meetings coinciding with the G'day USA program.	\$6,643
1	United States	Attend the Interservice/Industry Training, Simulation and Education Conference and other simulation-related meetings.	\$14,295
1	United Kingdom and Europe	Promote opportunities for South Australian industry involvement in planned military vehicle programs and to visit related production facilities to gain insight into those operations	\$17,017
1	United Kingdom and Germany	Attend the Defence and Security Equipment International exhibition and Australian Canada UK and US Quadrilateral Conference on Special Relationships in Defence Trade.	\$16,145
1	United Kingdom	Attended a number of high level defence meetings with the Premier.	\$14,522

Reporting Against the Carers Recognition Act 2005

Nil.

Disability Action Plan

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 Annual Asbestos Management Report 2011–12

Category	Number of Sites		Category Description	Interpretation
	Start of year	End of year		
1	0	0	Remove	Should be removed promptly
2	0	0	Remove as soon as practicable	Should be scheduled for removal at a practicable time
3	2	0	Use care during maintenance	May need removal during maintenance works
4	2	0	Monitor condition	Has asbestos present, inspected according to legislation and policy
5	0	0	No asbestos identified/ identified asbestos has been removed	All asbestos identified as per OHS&W Regulations 2010 (Division 2 – Asbestos) has been removed
6	0	0	Further information required	These sites not yet categorised or some asbestos items do not have recommended actions

Note: The Urban Renewal Authority took ownership of all related sites from 1 March 2012.

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.

Freedom of Information Statement

This statement is published in accordance with subsection 9(2) of the *Freedom of Information Act 1991* (Act). Subject to certain restrictions, the Act gives members of the public a legally enforceable right to access information held by the South Australian Government. A comprehensive introduction to freedom of information can be found on the State Records website at <http://www.archives.sa.gov.au/foi/index.html>.

Structure and functions of Defence SA

Defence SA is South Australia's lead government agency for all defence-related matters. The agency's goal is to facilitate the growth of Defence and sustainable defence industries in South Australia in accordance with *South Australia's Strategic Plan*.

To achieve this goal, the agency is focused on delivering the Government of South Australia's commitments to the Air Warfare Destroyer project, as well as capturing further defence work in the four defence sectors: maritime, land, aerospace and systems.

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

A Chief Executive manages the operations of the Defence SA, which is structurally aligned to the delivery of the required functions and is organisationally represented by the following business areas:

- Defence and Industry Development
- CUF Operations
- Corporate Affairs and Government Relations
- Corporate Services.

The Defence SA Advisory Board provides strategic and policy assistance to the Chief Executive and Government of South Australia on defence-related matters.

Public participation in Defence SA

The main opportunity for public participation in the functions of the agency is through project-specific consultation programs managed by Defence SA or by third parties on behalf of Defence SA.

Description of the kinds of documents held by Defence SA

Documents held by the agency fall broadly into the categories described below. While most are available in hard copy, it should be noted that some are only available electronically. The listing of these categories does not necessarily mean all documents are accessible in full or in part under the Act. The categories include:

- corporate files containing correspondence, memoranda and minutes on all aspects of agency operations
- policies, procedures and guidelines prescribing the way various projects and programs are to be performed
- legal agreements
- personnel files relating to the agency's employees
- accounting and financial reports relating to the running of Defence SA.

Making an application

In accordance with the Act, applications for access to documents held by the agency must:

- be made in writing – you may choose to write a letter or use the application form – http://www.archives.sa.gov.au/files/forms_foi_request_for_access.pdf
- specify that the application is made under the *Freedom of Information Act 1991*
- be accompanied by a \$30.50 application fee (exemptions apply for Members of Parliament and pensioners or health card holders)
- specify an address in Australia to which information can be sent
- clearly identify the documents being sought or the matter to which they pertain
- specify whether the documents contain information of a personal nature
- specify the desired type of access to the document, such as inspection of the document at an arranged location or having a copy made.

Applications under the Act should be forwarded to:

The Accredited FOI Officer
Defence SA
PO Box 3643
RUNDLE MALL SA 5000

The Accredited FOI Officer can be contacted on (08) 8463 7140.

Defence SA received six Freedom of Information applications in 2011–12. All applications have been determined in accordance with the Act.

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.

Energy Efficiency Action Plan

Defence SA was created in September 2007 and established base year energy consumption in 2008–09.

	Energy Use (GJ) ¹	GHG Emissions (tonnes) ²	Business Measure ³ (MJ/m ² /annum)
Base Year 2008–09	596	127.5	434.7
2011–12 Total	199*	42.4*	205.0*
2014 Target ⁴	447	95.7	326.0

Notes:

¹ Energy use data is 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.

² To pursue a 'triple bottom line' reporting approach, Defence SA has included Greenhouse Gas Emissions (in CO₂) as a means of quantifying an aspect of environmental performance.

³ 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/m².

⁴ The portfolio target in 2014 should equal a 25 percent energy efficiency improvement from the base year.

* Energy use data includes information from Technology Park Adelaide to 1 March 2012 when this site was transferred to the Urban Renewal Authority.

Greening of Government Operations Framework

Defence SA operates from a 4.5-star-rated building in Adelaide. Technology Park Adelaide assets were transferred to the Urban Renewal Authority on 1 March 2012.

FINANCIAL STATEMENTS



Minister for Defence Industries, Hon Jack Snelling MP with members of the Woodside based 16th Air Land Regiment, at a training exercise at Horseshoe Barracks.





Our ref: A12/451

26 September 2012

Mr A Fletcher
Chief Executive
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Dear Mr Fletcher

The audit of Defence SA for the year ended 30 June 2012

The audit of the accounts of Defence SA for the year ended 30 June 2012 has been completed.

The audit scope addressed the principal areas of the financial operations of Defence SA and included the review of systems, processes, the internal control environment and financial transactions.

The notable areas of audit coverage included:

- policies and procedures
- cash
- expenditure
- payroll – bona fide and leave return reports
- income
- processing and review of general ledger journals
- reconciliations between the general ledger and subsidiary systems
- self-assessment against the Financial Management Compliance Program
- understanding the transfer of balances and functions to Urban Renewal Authority (URA).

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

Two important outcomes result from the annual audit process:

- The issue of the Independent Auditor's Report (IAR) on the integrity of the Defence SA's financial statements.

- The issue of a management letter advising of system, process and control matters and recommendation for improvement.

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

In addition, during the year an audit management letter was forwarded to Defence SA, detailing findings and recommendations from the audits of the areas reviewed. The findings and recommendations relate to weaknesses noted in financial systems and processes and associated internal controls, and improvements needed in these areas.

Defence SA's responses to the matters raised in the audit management letter will be followed up in the 2012-13 annual audit.

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



S O'Neill
AUDITOR-GENERAL

enc



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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 2012. The financial report comprises:

- a Statement of Comprehensive Income for the year ended 30 June 2012
- a Statement of Financial Position as at 30 June 2012
- a Statement of Changes in Equity for the year ended 30 June 2012
- a Statement of Cash Flows for the year ended 30 June 2012
- Disaggregated Disclosures - Expenses and Income for the year ended 30 June 2012
- Disaggregated Disclosures - Assets and Liabilities as at 30 June 2012
- 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 2012, 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.



S O'Neill
AUDITOR-GENERAL
26 September 2012

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 2012 and the results of its operations 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.



Andrew Fletcher
Chief Executive
17 September 2012



Robert Barnett
General Manager, Corporate Services
17 September 2012



DEFENCE SA FINANCIAL STATEMENTS

Statement of Comprehensive Income for the year ended 30 June 2012

	Note No.	30 June 2012 \$' 000	30 June 2011 \$' 000
EXPENSES			
Employee benefits expenses	5	5,208	5,264
Supplies and services	6	8,439	11,577
Depreciation and amortisation	7	7,803	7,867
Grants and subsidies	8	2,649	1,909
Other expenses	9	269	692
Loss on revaluation of non-current assets	21	5,383	-
Total expenses		29,751	27,309
INCOME			
Revenues from fees and charges	11	3,244	2,959
Grants	12	2,061	275
Net gain on disposal of non-current assets	13	56	198
Techport Australia recoveries	14	257	1,361
Property revenues	15	3,450	5,346
Other income	16	227	400
Total income		9,295	10,539
Net cost of providing services	31	(20,456)	(16,770)
Revenues from / payments to SA Government			
Revenues from SA Government	17	21,156	31,890
Revenues from the Urban Renewal Authority associated with the transfer of assets	2d, 17	184,668	-
Payments to SA Government	17	(13,760)	(6,345)
Net result		171,608	8,775
Other comprehensive income			
Reduction in land revaluation surplus	20, 21	(6,224)	-
Total comprehensive result		165,384	8,775

Net result and 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 2012

	Note No.	30 June 2012 \$' 000	30 June 2011 \$' 000
Current assets			
Cash	18	14,333	22,059
Receivables	19	2,441	1,300
		<u>16,774</u>	<u>23,359</u>
Land and buildings classified as held for sale	20	-	9,016
Total current assets		<u>16,774</u>	<u>32,375</u>
Non-current assets			
Land	21	18,841	157,358
Buildings and improvements, plant and equipment	21	7,159	28,052
Harbour and port facilities	21	231,907	236,265
Capital works in progress	22	2,533	17,676
Total non-current assets		<u>260,440</u>	<u>439,351</u>
Total assets		<u>277,214</u>	<u>471,726</u>
Current liabilities			
Payables	23	2,619	4,345
Employee benefits	24	569	625
Other current liabilities	25	21	21
Total current liabilities		<u>3,209</u>	<u>4,991</u>
Non-current liabilities			
Other non-current liabilities	25	62	83
Total non-current liabilities		<u>62</u>	<u>83</u>
Total liabilities		<u>3,271</u>	<u>5,074</u>
Net assets		<u>273,943</u>	<u>466,652</u>
Equity			
Contributed capital	26	101,823	282,080
Retained earnings	26	172,120	159,762
Asset revaluation surplus	26	-	24,810
Total equity		<u>273,943</u>	<u>466,652</u>

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

Unrecognised contractual commitments 27

Contingent assets and liabilities 28

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 2012

	Note No.	Contributed capital	Asset revaluation surplus	Retained earnings	Total
		\$' 000	\$' 000	\$' 000	\$' 000
Balance at 30 June 2010		285,147	24,929	134,465	444,451
Error correction ⁽¹⁾		(16,403)	–	16,403	–
Restated balance as at 30 June 2010		268,744	24,929	150,868	444,541
Net result for 2010-11		–	–	8,775	8,775
Total comprehensive result for 2010-11		–	–	8,775	8,775
Transactions with SA Government as owner					
Equity contribution received		15,291	–	–	15,291
Equity contribution repaid		(1,955)	–	–	(1,955)
Revaluation surplus transferred to retained earnings on disposal non-current asset		–	(119)	119	–
Balance at 30 June 2011		282,080	24,810	159,762	466,652
Net result for 2011-12		–	–	171,608	171,608
Reduction in land revaluation surplus		–	(6,224)	–	(6,224)
Total comprehensive result for 2011-12		–	(6,224)	171,608	165,384
Transactions with SA Government as owner					
Equity contribution received	26	4,476	–	–	4,476
Net assets transferred as a result of an administrative restructure	2d, 29	–	–	(177,836)	(177,836)
Equity contribution repaid	2d, 26	(184,733)	–	–	(184,733)
Revaluation surplus transferred to retained earnings on disposal of non-current asset		–	(18,586)	18,586	–
Balance at 30 June 2011		101,823	–	172,120	273,943

⁽¹⁾ The 2009-10 financial statements incorrectly classified \$16,403 million of Appropriation from Consolidated Account as an equity contribution (Contributed Capital) whereas the correct treatment was as operating revenue from SA Government.

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 2012

	Note No.	30 June 2012 \$' 000 Inflows / (Outflows)	30 June 2011 \$' 000 Inflows / (Outflows)
Cash flows from operating activities			
Cash outflows			
Employee benefit payments		(5,124)	(5,344)
Payments for supplies and services		(9,261)	(10,999)
Payments of grants and subsidies		(1,165)	(1,909)
GST paid to the ATO and suppliers		(2,658)	(4,881)
Cash used in operations		(18,208)	(23,133)
Cash inflows			
Grants		521	275
Fees and charges		2,991	2,744
Techport Australia recoveries		256	1,361
Property revenues		3,658	5,227
GST recovered from the ATO and customers		2,830	4,461
Deposits on sale of land		–	(15)
Other receipts		179	508
Cash generated from operations		10,435	14,561
Cash flows from SA Government			
Receipts from SA Government		21,156	31,890
Receipts from the Urban Renewal Authority associated with the transfers of assets		184,668	–
Payments to SA Government		(13,760)	(6,345)
Cash generated from SA Government		192,064	25,545
Net cash provided by/(using in) operating activities	31	184,291	16,973
Cash flows from investing activities			
Cash outflows			
Payments for property, plant and equipment		(757)	(631)
Payments for capital work in progress		(11,243)	(18,859)
Cash used in investing activities		(12,000)	(19,490)
Cash inflows			
Proceeds from sale of land and buildings		240	2,257
Cash generated from investing activities		240	2,257
Net cash used in investing activities		(11,760)	(17,233)
Cash flows from financing activities			
Cash outflows			
Capital contributions repaid to government		(184,733)	(1,955)
Cash used in financing activities		(184,733)	(1,955)
Cash inflows			
Capital contributions from SA Government		4,476	15,291
Cash generated from financing activities		4,476	15,291
Net cash provided by financing activities		(180,257)	13,336
Net increase/(decrease) in cash		(7,726)	13,076
Cash at the beginning of the period		22,059	8,983
Cash at the end of the period	18, 31	14,333	22,059

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 2012

Refer Note 4 for detailed activity descriptions	Defence Industry Development		Techport Australia		Total Ongoing Defence SA Activities		Other Defence Precincts ⁽¹⁾		Total All Activities	
	2012 \$' 000	2011 \$' 000	2012 \$' 000	2011 \$' 000	2012 \$' 000	2011 \$' 000	2012 \$' 000	2011 \$' 000	2012 \$' 000	2011 \$' 000
Expenses										
Employee benefit expenses	3,449	3,331	1,083	864	4,532	4,195	676	1,069	5,208	5,264
Supplies and services	2,676	3,685	2,876	2,786	5,552	6,471	2,887	5,106	8,439	11,577
Depreciation and amortisation	119	119	7,021	6,802	7,140	6,921	663	946	7,803	7,867
Grants and subsidies	2,649	1,909	-	-	2,649	1,909	-	-	2,649	1,909
Other expenses	41	43	-	-	41	43	228	649	269	692
Loss on revaluation of non-current assets	-	-	493	-	493	-	4,890	-	5,383	-
Total expenses	8,934	9,087	11,473	10,452	20,407	19,539	9,344	7,770	29,751	27,309
Income										
Revenues from fees and charges	-	-	3,025	2,664	3,025	2,664	219	295	3,244	2,959
Grants	1,540	-	506	275	2,046	275	15	-	2,061	275
Net gain from disposal of non-current assets	-	-	1	-	1	-	55	198	56	198
Techport Australia recoveries	-	-	257	1,361	257	1,361	-	-	257	1,361
Property revenues	-	-	-	-	-	-	3,450	5,346	3,450	5,346
Other income	140	198	-	1	140	199	87	201	227	400
Total income	1,680	198	3,789	4,301	5,469	4,499	3,826	6,040	9,295	10,539
Net cost of providing services	(7,254)	(8,889)	(7,684)	(6,151)	(14,938)	(15,040)	(5,518)	(1,730)	(20,456)	(16,770)
Revenues from / payments to SA Government										
Revenues from SA Government	21,156	31,890	-	-	21,156	31,890	-	-	21,156	31,890
Revenue from the Urban Renewal Authority associated with the transfer of assets	184,668	-	-	-	184,668	-	-	-	184,668	-
Payments to SA Government	(13,760)	(6,345)	-	-	(13,760)	(6,345)	-	-	(13,760)	(6,345)
Net result	184,810	16,656	(7,684)	(6,151)	177,126	10,505	(5,518)	(1,730)	171,608	8,775

During 2011-12 Defence SA amended its activity structure to reflect the transfer of assets and operations to the Urban Renewal Authority effective 1 March 2012.

The 2010-11 comparatives have been restated as follows:

Defence Industry Development includes the former Workforce Development activity.

The former Defence Precincts activity has been divided between the ongoing

Techport Australia activity and Other Defence Precincts activities which have been transferred to the Urban Renewal Authority.

⁽¹⁾ The 2012 actual result relates to the period 1 July 2011 to 29 February 2012. The 2011 comparative relates to the full financial year.

Disaggregated Disclosures – Assets and Liabilities as at 30 June 2012

Refer Note 4 for detailed activity descriptions	Defence Industry Development		Techport Australia		Total Ongoing Defence SA Activities		Other Defence Precincts ⁽¹⁾		Total All Activities	
	2012 \$' 000	2011 \$' 000	2012 \$' 000	2011 \$' 000	2012 \$' 000	2011 \$' 000	2012 \$' 000	2011 \$' 000	2012 \$' 000	2011 \$' 000
Assets										
Cash	14,333	22,059	-	-	14,333	22,059	-	-	14,333	22,059
Receivables	1,921	163	520	146	2,441	309	-	991	2,441	1,300
Land and buildings held for sale	-	-	-	-	-	-	-	9,016	-	9,016
Land	-	-	18,841	712	18,841	712	-	156,646	18,841	157,358
Buildings and improvements, plant and equipment	446	564	6,713	7,365	7,159	7,929	-	20,123	7,159	28,052
Harbour and port facilities	-	-	231,907	236,265	231,907	236,265	-	-	231,907	236,365
Capital works in progress	-	-	2,533	362	2,533	362	-	17,314	2,533	17,676
Total assets	16,700	22,786	260,514	244,850	277,214	267,363	-	204,090	277,214	471,726
Liabilities										
Payables	2,075	937	544	675	2,619	1,612	-	2,733	2,619	4,345
Employee benefits	569	625	-	-	569	625	-	-	569	625
Other liabilities	83	104	-	-	83	104	-	-	83	104
Total liabilities	2,727	1,666	544	675	3,271	2,341	-	2,733	3,271	5,074
Net assets	13,973	21,120	259,970	244,175	273,943	265,295	-	201,357	273,943	466,652

During 2011-12 Defence SA amended its activity structure to reflect the transfer of assets and operations to the Urban Renewal Authority effective 1 March 2012.

The 2010-11 comparatives have been restated as follows:

Defence Industry Development includes the former Workforce Development activity

The former defence Precincts activity has been divided between the ongoing Techport Australia activity and Other Defence Precincts activities which have been transferred to the Urban Renewal Authority.

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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. The agency's mission is to facilitate 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*.

To achieve this mission, the agency is focused on delivering the Government of South Australia's commitments to the Air Warfare Destroyer project, as well as capturing further defence 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 a number of partners to deliver results for industry in the areas of workforce development and innovation.

On 1 March 2012 Defence SA transferred specified staff and assets associated with the Other Defence Precincts activity to the Urban Renewal Authority (refer note 2d).

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 2012. These are outlined in 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 (as reported in the Statement of Comprehensive Income);
 - c) 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
 - d) 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.

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Notes

Note 2 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 2012 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) Transferred functions

The *Public Sector (Reorganisation of Public Sector Operations) Notice 2012* and the *Administrative Arrangements (Transfer of Land to Urban Renewal Authority) Proclamation 2012* (both dated 1 March 2012) declared that specified staff and assets of Defence SA were transferred to the Urban Renewal Authority, effective 1 March 2012.

These assets were transferred to the Urban Renewal Authority for nil consideration.

Subsequent to the transfer, the Treasurer approved an arrangement whereby the Urban Renewal Authority paid on 22 June 2012 \$184.668m to Defence SA. In line with the Australian Accounting Standards (AASB101 paras 81(a) and 87), and the Accounting Policy Framework II, *General Purpose Financial Statements Framework* APS 3.2, this payment is recognised as income within the Statement of Comprehensive Income of Defence SA.

To complete the arrangement the Treasurer also approved for Defence SA to repay equity of \$184.668m contributed by the state towards the purchase and development of these assets. As specified in the Accounting Policy Framework II, *General Purpose Financial Statements Framework* the transfer of assets and repayments of equity contribution are considered transactions with the SA Government as owner and are recognised directly in the Statement of Changes in Equity and further disclosed in notes 17, 26 and 29.

e) 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.

f) Rounding

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

g) Project overheads

Defence SA adopts a full cost approach to the costing of its capital works. This method entails the allocation of a proportionate share of project specific overheads to all activities based upon a regime of cost drivers in accordance with AASB 116 *Property Plant and Equipment*.

Note 2 h) 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. Defence SA is only liable for land tax on properties for which a contract for sale is held as at 30 June annually.

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, 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 net amount of GST recoverable from, or payable to, the Australian Taxation Office is included as part of receivables, or 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 Australian Taxation Office 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 Australian Taxation Office. If GST is not payable to or recoverable from the Australian Taxation Office, the commitments and contingencies are disclosed on a gross basis.

i) 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.

j) 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 notes accompanying the financial statements disclose income where the counterparty/ transaction is with an entity within the SA Government as at the reporting date, classified according to its nature.

The following are specific recognition criteria:

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 equity.

Net gain on disposal of non-current assets

Income from the disposal of non-current assets (including land and buildings) is recognised when control of the asset has passed to the buyer and is determined by comparing proceeds with the carrying amount. When revalued assets are sold, the revaluation surplus is transferred to retained earnings.

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 k) 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 notes accompanying the financial statements disclose expenses where the counterparty/transaction is with an entity within the SA Government as at the reporting date, classified according to its nature.

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:

Class of asset	Useful life (years)
Harbour and port facilities	5-50
Buildings	40
Leasehold improvements	Life of lease
Plant and equipment	4-15
Furniture and fittings	3-10

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 and net profit on sale of non-current assets. These funds are paid directly to the Consolidated Account.

l) 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.

Note 2 m) 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.

The notes accompanying the financial statements disclose financial assets where the counterparty/ transaction is with an entity within the SA Government as at the reporting date, classified according to their nature.

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 engages in projects that include land acquisition, infrastructure development and ultimate disposal through sale or various leasing arrangements.

The accounting policy of capitalisation of project overheads attributable to capital works is disclosed in note 2 g).

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 assets held for sale

Non-current assets are classified as held for sale and stated at the lower of their carrying amount and fair value less costs to sell if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset's sale is expected to be completed within one year from the date of classification.

Non-current assets classified as held for sale are presented separately from the other assets in the Statement of Financial Position.

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. Non-current assets (excluding Harbour and Port Facilities which are considered specialised assets) 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, ie 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

Note 2

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 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 3 years.

Every 3 years Defence SA revalues its land and buildings. However 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. This is only 2 years since the last revaluation and was undertaken outside of the 3 year cycle in preparation for the transfer of assets to the Urban Renewal Authority (refer note 29).

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.

n) 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.

The notes accompanying the financial statements disclose financial liabilities where the counterparty/transaction is with an entity within the SA Government as at the reporting date, classified according to their nature.

Note 2

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 and annual 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 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 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 and annual leave 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

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Note 2

Long service leave

The majority of Defence SA employees were recruited from outside the South Australian Government and are employed on contracts with less than 5 years to expiry. The long service leave liability accrual has been calculated based on those staff that will attain a long service leave entitlement during their current contract term.

The unconditional portion of the long service leave provision is classified as current as Defence SA does not have any unconditional right to defer settlement of the liability for at least 12 months after reporting date. The unconditional portion of long service leave relates to an unconditional legal entitlement to payment arising after seven years of service.

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.

o) Workers compensation

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

p) 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.

Defence SA has arranged, with input from SAICORP, project specific professional indemnity, contractors, all risk and legal liability insurance policies applicable to the design and construction of the Common User Facility (CUF) at Techport Australia.

q) 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 fulfill their agreed contractual commitments.

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

Note 3 New and revised accounting standards and policies

Defence SA did not voluntarily change any of its accounting policies during 2011-12.

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 2012. 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 incorporates delivery of strategy and policy, which in conjunction with the Defence SA Advisory Board provides leadership across government on all defence-related matters.

It also includes targeted business development opportunities and the agency'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 seeks to deliver the state's shipbuilding infrastructure commitment to the Air Warfare Destroyer project and to reinforce Techport Australia as Australia's premier naval industry hub.

Activity 3 – Other Defence Precincts

This activity incorporated Defence SA's development and project delivery business areas, including activities relating to Technology Park Adelaide and the Northern Lefevre Peninsula Masterplan. This activity was transferred to the Urban Renewal Authority effective 1 March 2012.

The disaggregated disclosures schedules present expenses, income, assets and liabilities information attributable to each of the activities for the years ended 30 June 2011 and 30 June 2012. These schedules also present this information attributable to activities transferred to the Urban Renewal Authority effective 1 March 2012 (refer note 2d).

DEFENCE SA FINANCIAL STATEMENTS

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Note 5	Employee benefits expenses	30 June 2012 \$' 000	30 June 2011 \$' 000
	Salaries and wages	4,105	4,242
	Long service leave	73	219
	Annual leave	326	363
	Employment on-costs – superannuation	409	405
	Employment on-costs – other	252	265
	Advisory Board and committee fees (note 30)	332	248
	Other employee related expenses	106	83
	Total employee benefits expenses	5,603	5,825
	Charged to capital projects	(395)	(561)
	Total employee benefits expenses as per Statement of Comprehensive Income	5,208	5,264

Remuneration of employees

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

\$134 000 - \$143 999	–	1
\$144 000 - \$153 999	2	2
\$154 000 - \$163 999	2	4
\$164 000 - \$173 999	3	2
\$184 000 - \$193 999	1	1
\$194 000 - \$203 999	–	1
\$204 000 - \$213 999	1	1
\$214 000 - \$223 999	1	–
\$224 000 - \$233 999	–	1
\$244 000 - \$253 999	1	1
\$534 000 - \$543 999	1	1
Total number of employees	12	15

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 \$2.533 million (\$3.031 million).

In 2011-12 the payroll cycle resulted in 26 fortnightly payments to employees compared to the 27 fortnightly payments in 2010-11.

Note 6	Supplies and services	30 June 2012 \$' 000	30 June 2011 \$' 000
	Supplies and services provided by entities within the SA Government	298	290
	Accommodation and service costs	117	133
	Legal fees to Crown Solicitor's Office	427	394
	Provision of corporate services under Service Level Agreements	112	117
	Insurance	466	598
	Security services	30	407
	Provision of contract services by Department of Planning, Transport, and Infrastructure	<u>187</u>	<u>145</u>
	Other expenses	<u>1,637</u>	<u>2,084</u>
	Total supplies and services – SA Government entities	1,637	2,084
	Supplies and services provided by entities external to the SA Government		
	Contractors	1,588	2,646
	Consultants (refer below)	149	135
	Legal fees	77	91
	Staff development and recruitment	205	360
	Travel and related expenses	259	349
	Promotion and events	872	1,725
	Property	1,856	2,754
	Security services	173	21
	Electricity	430	199
	Gas and gas equipment	110	–
	Minor plant and equipment	415	364
	Other expenses	668	849
	Total supplies and services – Non SA Government entities	<u>6,802</u>	<u>9,493</u>
	Total supplies and services	<u>8,439</u>	<u>11,577</u>

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

Consultants

The number and dollar amount of consultants paid/payable (included in supplies and services expense) that fell within the following bands:

	30 June 2012		30 June 2011	
	No	\$' 000	No	\$' 000
Between \$10 000 and \$50 000	2	46	2	55
Above \$50 000	1	103	1	80
Total paid/payable to the consultants engaged	<u>3</u>	<u>149</u>	<u>3</u>	<u>135</u>

DEFENCE SA FINANCIAL STATEMENTS

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Note 7	Depreciation and amortisation expense	30 June 2012 \$' 000	30 June 2011 \$' 000
	Depreciation		
	Buildings and improvements	866	1,124
	Plant and equipment	99	77
	Harbour and port facilities	6,726	6,554
	Total depreciation	<u>7,691</u>	<u>7,755</u>
	Amortisation		
	Leasehold improvements	112	112
	Total amortisation	<u>112</u>	<u>112</u>
	Total depreciation and amortisation	<u>7,803</u>	<u>7,867</u>
Note 8	Grants and subsidies	30 June 2012 \$' 000	30 June 2011 \$' 000
	Grants and subsidies paid / payable to entities within the SA Government		
	Other	–	24
	Total grants and subsidies – SA Government entities	<u>–</u>	<u>24</u>
	Grants and subsidies paid/payable to entities external to SA Government		
	Defence Teaming Centre	455	475
	ASC AWD Shipbuilder Pty Ltd	2,163	1,391
	Other	31	19
	Total grants and subsidies – Non - SA Government entities	<u>2,649</u>	<u>1,885</u>
	Total grants and subsidies	<u>2,649</u>	<u>1,909</u>
Note 9	Other expenses	30 June 2012 \$' 000	30 June 2011 \$' 000
	Other expenses paid/payable to entities within the SA Government		
	Audit fees (refer note 10)	35	43
	Land tax, local government rates in lieu and emergency services levy	14	25
	Other	5	–
	Total other expenses – SA Government entities	<u>54</u>	<u>68</u>
	Other expenses paid/payable to entities external to the SA Government		
	Bad debts and allowances for doubtful debts (refer note 19)	(7)	20
	Transfer from Capital Works in Progress (refer note 22)	222	604
	Total other expenses – Non SA Government entities	<u>215</u>	<u>624</u>
	Total other expenses	<u>269</u>	<u>692</u>

Note 10 Auditor's remuneration	30 June 2012 \$' 000	30 June 2011 \$' 000
Audit fees paid/payable to the Auditor-General's Department relating to the audit of financial statements	35	43
Total audit fees	35	43
Other services		
No other services were provided by the Auditor-General's Department.		
Note 11 Revenues from fees and charges	30 June 2012 \$' 000	30 June 2011 \$' 000
Fees and charges received/receivable from entities external to the SA Government		
CUF priority access fee	2,573	2,484
Techport Australia other fees	452	180
Technology Park Conference Centre income	219	295
Total fees and charges – Non SA Government entities	3,244	2,959
Note 12 Grants	30 June 2012 \$' 000	30 June 2011 \$' 000
Grants received/receivable from entities external to the SA Government		
ASC AWD Shipbuilder Pty Ltd recruitment reimbursement	1,540	–
Other	15	–
Total grants – SA Government	1,555	–
Grants received/receivable from entities external to the SA Government		
ASC AWD Shipbuilder Pty Ltd contribution to CUF electrical augmentation	–	275
ASC AWD Shipbuilder Pty Ltd contribution to trestle modifications	499	–
Other	7	–
Total grants – Non SA Government entities	506	275
Total grants	2,061	275
Note 13 Net gain on disposal of non-current assets	30 June 2012 \$' 000	30 June 2011 \$' 000
Proceeds from disposal of land and buildings	240	2,257
Less net book value of land and buildings disposed	(185)	(2,059)
Proceeds from disposal of plant and equipment	1	–
Total net gain from disposal of non-current assets	56	198
Note 14 Techport Australia recoveries	30 June 2012 \$' 000	30 June 2011 \$' 000
Techport Australia recoveries received/receivable from entities external to the SA Government		
Other Techport Australia recoveries	257	1,361
Total Techport Australia recoveries – Non SA Government entities	257	1,361
Total Techport Australia recoveries	257	1,361

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Note 15	Property revenues	30 June 2012 \$' 000	30 June 2011 \$' 000
	Property revenues received/receivable from entities external to the SA Government		
	Rental income and recoveries ⁽¹⁾	3,450	5,346
	Total property revenues	<u>3,450</u>	<u>5,346</u>

⁽¹⁾ All income generating properties were transferred to the Urban Renewal Authority effective 1 March 2012 (refer note 29).

Note 16	Other Income	30 June 2012 \$' 000	30 June 2011 \$' 000
	Other income received / receivable from entities within the SA Government		
	Transfers received – Department of Further Education, Employment, Science and Technology	91	81
	Total other income – SA Government entities	<u>91</u>	<u>81</u>
	Other income received/receivable from entities external to the SA Government		
	Other recoveries	136	319
	Total other income – Non SA Government entities	<u>136</u>	<u>319</u>
	Total other income	<u>227</u>	<u>400</u>

Note 17	Revenues from/payments to SA Government	30 June 2012 \$' 000	30 June 2011 \$' 000
	Revenues from SA Government		
	Appropriation from Consolidated Account pursuant to the <i>Appropriation Act</i>	21,142	31,874
	Transfers received – Department of Treasury and Finance Contingencies	14	16
	Revenues from the Urban Renewal Authority associated with the transfer of assets (refer note 2d)	184,668	–
	Total revenues from SA Government	<u>205,824</u>	<u>31,890</u>
	Payments to SA Government		
	Return of surplus cash pursuant to cash alignment policy	(13,585)	(6,042)
	Other payments to the Consolidated Account ⁽¹⁾	(175)	(303)
	Total payments to SA Government	<u>(13,760)</u>	<u>(6,345)</u>

Appropriations from Consolidated Account were \$21.156 million (\$31.890 million) for operational funding.

⁽¹⁾ This amount represents the net gain on disposal of non-current assets adjusted for revaluations.

Note 18	Cash	30 June 2012 \$' 000	30 June 2011 \$' 000
	Deposits with the Treasurer	7,890	17,791
	Deposits with the Treasurer – Accrual Appropriation Excess Funds Account ⁽¹⁾	6,443	4,268
	Total cash	14,333	22,059

⁽¹⁾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.

Note 19	Receivables	30 June 2012 \$' 000	30 June 2011 \$' 000
	Current		
	Receivables and accrued income	2,173	543
	Less allowance for doubtful debts	(13)	(20)
	Prepayments	72	117
	GST input tax recoverable	209	660
	Total current receivables	2,441	1,300
	Receivables from entities within the SA Government		
	Receivables and accrued income	1,650	–
	Prepayments	1	–
	Total receivable from entities within the SA Government	1,651	–
	Receivables from entities external to the SA Government		
	Receivables and accrued income	523	543
	Less allowance for doubtful debts	(13)	(20)
	Prepayments	71	117
	GST input tax recoverable	209	660
	Total receivable from entities external to the SA Government	790	1,300
	Total current receivables	2,441	1,300

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)

Carrying amount at the beginning of the period	20	10
Increase in allowance	7	20
Amounts written off	–	(10)
Amounts recovered during the year	(14)	–
Carrying amount at the end of the period	13	20

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.

DEFENCE SA FINANCIAL STATEMENTS

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Note 20	Land and buildings classified as held for sale	30 June 2012	30 June 2011
	Carrying amount at the beginning of the period	9,016	11,341
	Disposals (sales)	–	(2,059)
	Land held for sale reclassified as non-current asset	(154)	(3,179)
	Additions	–	2,913
	Revaluations ⁽¹⁾	248	–
	Transferred to the Urban Renewal Authority (refer note 29)	(9,110)	–
	Land and buildings held for sale at the end of the period	–	9,016

⁽¹⁾ Recognised in other comprehensive income for the year ending 30 June 2012.

The value of assets classified as held for sale as at 30 June 2011 represents Lefevre Peninsula and Technology Park assets identified for sale and likely to be settled within 12 months. The value recorded represents the acquisition and development costs and any revaluation adjustments of the assets

Note 21	Property, plant and equipment	30 June 2012 \$' 000	30 June 2011 \$' 000
	Land		
	Land only holdings at fair value	18,150	148,356
	Site land at fair value	691	9,002
	Total land	18,841	157,358
	Buildings and improvements		
	Buildings at fair value ⁽¹⁾	6,358	28,315
	Accumulated depreciation at the end of the period	(318)	(1,724)
	Total buildings	6,040	26,591
	Leasehold improvements		
	Leasehold improvements at cost	866	866
	Accumulated amortisation at the end of the period	(429)	(317)
	Total leasehold improvements	437	549
	Plant and equipment		
	Plant and equipment at cost (deemed fair value)	943	1,089
	Accumulated depreciation at the end of the period	(261)	(177)
	Total plant and equipment	682	912
	Total buildings and improvements, plant and equipment	7,159	28,052
	Harbour and port facilities		
	Harbour and port facilities at cost (deemed fair value)	248,437	246,068
	Accumulated depreciation at the end of the period	(16,530)	(9,803)
	Total harbour and port facilities	231,907	236,265
	Total property, plant and equipment	275,445	433,696
	Total accumulated depreciation/amortisation at the end of the period	(17,538)	(12,021)
	Total property, plant and equipment	257,907	421,675

Valuation of land and buildings

The valuation of land and buildings was performed by Savills (SA) Pty Ltd, an independent valuer as at 29 February 2012. The valuer arrived at fair value 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.

⁽¹⁾ The value of buildings within the Techport Australia Common User Facility which is a specialised asset are recorded at cost (\$2 931 000) and have not been revalued.

Impairment

There were no indications of impairment of infrastructure, property, plant and equipment as at 30 June 2012.

Note 21 Property, plant and equipment (continued)

RECONCILIATION OF PROPERTY, PLANT AND EQUIPMENT

The following table shows the movement on property, plant and equipment during 2010–11

	Land \$' 000	Buildings \$' 000	Leasehold improvements \$' 000	Plant and equipment \$' 000	Harbour & port facilities \$' 000	Total assets \$' 000
Carrying amount at the beginning of the period	132,210	21,172	661	550	237,038	391,631
Acquisitions	34,164	6,543	-	439	5,781	46,927
Assets reclassified to assets held for sale	(9,016)	-	-	-	-	(9,016)
Depreciation/amortization ⁽¹⁾	-	(1,124)	(112)	(77)	(6,554)	(7,867)
Carrying amount at the end of the period	157,358	26,591	549	912	236,265	421,675

⁽¹⁾ Net movement in depreciation after adjusting for accumulated depreciation in assets disposed of and assets transferred to held for sale during the year.

RECONCILIATION OF PROPERTY, PLANT AND EQUIPMENT

The following table shows the movement on property, plant and equipment during 2011–12

	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	157,358	26,591	549	912	236,265	421,675
Acquisitions	21,504	904	-	-	2,368	24,776
Assets reclassified to assets held for sale	154	-	-	-	-	154
Disposals	(185)	-	-	-	-	(185)
Transferred to Urban Renewal Authority	(151,505)	(17,261)	-	(89)	-	(168,855)
Revaluation decrement ⁽²⁾	(8,485)	(3,328)	-	(42)	-	(11,855)
Depreciation/amortisation	-	(866)	(112)	(99)	(6,726)	(7,803)
Carrying amount at the end of the period	18,841	6,040	437	682	231,907	257,907

⁽²⁾ \$6.472m applied as a reduction in revaluation surplus and \$5.383m recognised as a loss on revaluation as no revaluation surplus existed for site land, buildings and plant and equipment asset classes.

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Note 22 Capital works in progress

30 June
2012
\$' 000

30 June
2011
\$' 000

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

2,533

17,676

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 2010–11

	Improvements to freehold land	Harbour and port facilities	Buildings	Total capital works in progress
	\$' 000	\$' 000	\$' 000	\$' 000
Carrying amount at the beginning of the period	27,620	2,647	4,239	34,506
Acquisitions	15,047	5,066	678	20,791
Reclassified as property, plant and equipment	(24,884)	(7,454)	(4,679)	(37,017)
Capital works in progress expensed during the period ⁽¹⁾	(604)	–	–	(604)
Carrying amount at the end of the period	17,179	259	238	17,676

RECONCILIATION OF CAPITAL WORKS IN PROGRESS

The following table shows the movement of capital works in progress during 2011-12

	Improvements to freehold land	Harbour and port facilities	Buildings	Total capital works in progress
	\$' 000	\$' 000	\$' 000	\$' 000
Carrying amount at the beginning of the period	17,179	259	238	17,676
Acquisitions	4,547	3,999	550	9,096
Reclassified as property, plant and equipment	(21,504)	(1,725)	(788)	(24,017)
Capital works in progress expensed during the period ⁽¹⁾	(222)	–	–	(222)
Carrying amount at the end of the period	–	2,533	–	2,533

⁽¹⁾ Project design and planning works previously carried as capital works in progress were expensed.

Note 23 Payables	30 June 2012 \$' 000	30 June 2011 \$' 000
Current		
Creditors and accrued expenses	2,478	4,192
Employment on-costs	102	111
GST payable	39	42
Total current payables	2,619	4,345
Government / non-government payables		
Payables to SA Government entities		
Creditors and accrued expenses	231	248
Employment on-costs	31	32
Total payables to other SA Government entities	262	280
Payables to non-SA Government entities		
Creditors and accrued expenses	2,247	3,944
Employment on-costs	71	79
GST payable	39	42
Total payables to non-SA Government entities	2,357	4,065
Total payables	2,619	4,345

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) **Maturity analysis of payables** - refer to note 32

(b) **Categorisation of financial instruments and risk exposure information** - refer to note 32

Note 24 Employee benefits	30 June 2012 \$' 000	30 June 2011 \$' 000
(a) Current employee benefits		
Annual leave	195	305
Long service leave	374	320
Total current employee benefits	569	625
Total employee benefits	569	625
(b) Employee benefits and related on-costs		
Accrued salaries and wages, annual leave and long service leave		
On-costs included in payables (note 23)	102	111
Provision for employee benefits (note 24 (a))	569	625
Total accrued salaries and wages, annual leave and long service leave	671	736

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Note 25 Other liabilities	30 June 2012 \$' 000	30 June 2011 \$' 000
Current other liabilities		
Lease incentive	21	21
Total current other liabilities	<u>21</u>	<u>21</u>
Non-current other liabilities		
Lease incentive	62	83
Total non-current other liabilities	<u>62</u>	<u>83</u>
Total other liabilities	<u>83</u>	<u>104</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.

Note 26 Equity	30 June 2012 \$' 000	30 June 2011 \$' 000
Contributed capital ⁽¹⁾	101,823	282,080
Retained earnings	172,120	159,762
Asset revaluation surplus ⁽²⁾	–	24,810
Total equity	<u>273,943</u>	<u>466,652</u>

⁽¹⁾ Contributed capital represents equity contribution from the SA Government under Appropriation Acts to fund the investing activities of Defence SA for assets owned by Defence SA.

⁽²⁾ The asset revaluation surplus is used to record increments and decrements in the fair value of land and buildings to the extent that they offset one another. Relevant amounts are transferred to retained earnings when an asset is derecognised. The cumulative income or expense recognised in other comprehensive income (via the asset revaluation surplus) relating to non-current assets transferred during the year ending 30 June 2012 was \$4 520 000 (\$0).

Note 27 Unrecognised contractual commitments

	30 June 2012 \$' 000	30 June 2011 \$' 000
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Capital commitments

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	2,103	7,368
Total capital commitments	2,103	7,368

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

Operating commitments

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

Within 1 year	2,070	1,323
Later than 1 year but not longer than 5 years	4,785	2,599
Later than five years	2,092	2,724
Total operating commitments	8,947	6,646

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

Remuneration commitments

Commitments for the payment of salaries and other remuneration under fixed-term employment contracts in existence at the reporting date but not recognised as liabilities are payable as follows:

Within 1 year	3,023	4,148
Later than 1 year but not longer than 5 years	3,921	4,309
Total remuneration commitments	6,944	8,457

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

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Note 28 Contingent assets and contingent liabilities

	30 June 2012 \$' 000	30 June 2011 \$' 000
Contingent liabilities to which a value can be assigned		
Contingent liability to which a value can be assigned	6,000	7,540
Total	6,000	7,540

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.

Contingent liabilities to which no value can be assigned

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 29 Transferred functions

Under the *Public Sector (Reorganisation of Public Sector Operations) Notice 2012* and the *Administrative Arrangements (Transfer of Land to Urban Renewal Authority) Proclamation 2012* (both dated 1 March 2012), the Property and Asset Management and Program Delivery functions of Defence SA were transferred to the Urban Renewal Authority effective from 1 March 2012 (refer note 2d).

The following assets and liabilities were transferred to the Urban Renewal Authority:

	\$' 000
Property, plant and equipment and non-current assets held for sale	177,965
Total assets	177,965
Payables	17
Employee benefits	112
Total liabilities	129
Net assets transferred	177,836

Net assets transferred by Defence SA as a result of the administrative restructure were at the carrying amount after revaluation completed on 29 February 2012 (refer note 2m). The net assets were treated as a distribution to the SA Government as owner.

Note 30 Remuneration of Advisory Board and committee members and related party disclosure

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

GEN P Cosgrove AC MC
Hon J Weatherill MP* (appointed 21 October 2011)
Hon J Snelling MP* (appointed 21 October 2011)
Hon M Rann MP* (resigned 20 October 2011)
Hon K Foley MP* (resigned 20 October 2011)
LTGEN P Leahy AC
AIRMSHL L Fisher AO
B Laughton
Dr I Chessell
RADM T Ruting AM CSC RANR
Dr J White
P Johnson MBE (appointed 1 July 2011)
VADM R Crane AO CSM RANR (appointed 1 September 2011)
A Fletcher **

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

P Robertson (independent member)
B Laughton (independent member)
A Blaskett (independent member) **
C McSparran (independent member/chair) **
T Brumfield (resigned 29 February 2012) **
R Barnett (appointed 1 March 2012) **

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

	30 June 2012 \$' 000	30 June 2011 \$' 000
\$1 – \$9 999	1	1
\$30 000 – \$39,999	8	6
\$60 000 – \$69 999	–	1
\$70 000 – \$79 999	1	–
	10	8

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 due and receivable, by board and committee members was \$332 000 (\$248 000), plus Defence SA compulsory superannuation contributions of \$30 000 (\$22 000).

Other expenses of Advisory Board members were \$135 000 (\$143 000).

* The Hon J Weatherill MP, the Hon J Snelling MP, the Hon M Rann MP and the Hon K Foley MP did not receive any remuneration for board/committee duties during the period.

** In accordance with the Department of Premier and Cabinet Circular No. 016, 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.

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Note 31	Cash flow reconciliation	Note	30 June 2012 \$' 000	30 June 2011 \$' 000
Reconciliation of cash at end of reporting period:				
	Cash disclosed in the Statement of Financial Position		14,333	22,059
	Balance as per the Statement of Cash Flows		14,333	22,059
Reconciliation of net cash provided by operating activities to net cost of providing of services:				
	Net cash provided by/(used in) operating activities		184,291	16,973
	Less revenues from SA Government	17	(21,156)	(31,890)
	Less revenues from the Urban Renewal Authority associated with the transfer of assets	17	(184,668)	–
	Add payments to SA Government	17	13,760	6,345
Add/(less) non-cash items				
	Depreciation and amortisation expense of non-current assets	7	(7,803)	(7,867)
	Gain on sale of non-current assets	13	56	198
	Non-current assets accrual in payables		(2,146)	1,930
	Other expenses – transfer from capital works in progress	9	(222)	(604)
	Net liabilities transferred to the Urban Renewal Authority	29	(129)	–
	Revaluation decrement expensed		(5,383)	–
Movement in assets/liabilities				
	Increase/(decrease) in receivables	19	1,141	334
	(Increase)/decrease in payables	23	1,726	(2,263)
	(Increase)/decrease in employee benefits	24	56	53
	(Increase)/decrease in other liabilities	25	21	21
	Net cost of providing services		<u>(20,456)</u>	<u>(16,770)</u>

Note 32 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 2012 \$' 000	Carrying Amount 30 June 2011 \$' 000
Financial assets				
Cash	Cash	18, 31	14,333	22,059
Receivables	Receivables (at cost) ⁽¹⁾⁽²⁾	19	2,160	640
Financial liabilities				
Financial liabilities	Payables (at cost) ⁽¹⁾	23	2,367	3,951

⁽¹⁾ 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. AASB 132 *Financial Instruments: Presentation* defines contracts as enforceable by law. All amounts recorded are carried at cost (not materially different from amortised cost) except for employee on-costs which are determined via reference to the employee benefit liability to which they relate.

⁽²⁾ 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 AASB 132 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, 23, 25, 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.

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Notes

Note 32 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

	Past due by			Total
	< 30 days \$' 000	30 – 60 days \$' 000	> 60 days \$' 000	\$' 000
2011				
Not impaired				
Receivables*	2	1	1	4
Impaired				
Receivables*	7	7	6	20
2012				
Not impaired				
Receivables*	88	–	2	90
Impaired				
Receivables*	–	–	12	12

*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 programs 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 33 Events after the reporting period

There are no reportable events after the reporting period.

1 July 2011 – 30 June 2012

Defence SA

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ISSN 1836-1838



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DEFENCE SA

