



DEFENCE SA

ANNUAL REPORT 2014/15



1 July 2014 to 30 June 2015

Defence SA

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Government of
South Australia

DEFENCE SA



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

30 September 2015

Dear Minister

I am pleased to present to you Defence SA's Annual Report and financial statements for the year ended 30 June 2015. 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

Andy Keough
CHIEF EXECUTIVE







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CHIEF EXECUTIVE'S FOREWORD

During 2014/15, Defence SA remained focused on championing South Australia's credentials as the base for building and sustaining the submarine, warship, armoured fighting vehicle and aircraft programs on the national horizon.

The agency was ably led during the period by Mr Andrew Fletcher and Mr Malcolm Jackman, and I would like to pay tribute to them for their leadership and important contributions. Thank you also to Ms Julie Barbaro, who stepped into the Interim Chief Executive role for 11 weeks before I took up my appointment on 31 August 2015.

With the appointment of the new Minister for Defence, and the expected release of the Defence White Paper, Defence Investment Plan and Naval Shipbuilding Plan in late 2015, I am looking forward to leading the agency under renewed Commonwealth Government strategic defence priorities. Such surety will enable defence industry to plan and invest in readiness for major projects, and the state – primarily through Defence SA – to support both industry and the Department of Defence in delivering those projects.

A shining example of effective state support to a major and complex Defence project was the launch of the first air warfare destroyer, *NUSHIP Hobart*, at Techport Australia in May. As detailed in this report, the Defence SA-managed Common User Facility (CUF) at Techport Australia supported the consolidation and launch of *Hobart*, and is now supporting consolidation of Ship 2, the future *HMAS Brisbane*. During 2014/15, we continued to expand the CUF to meet the AWD project's needs during peak production.

Another agency highlight was the launch by the Premier of *South Australia's Defence Strategy 2025* in February 2015. The strategy, developed by the Defence SA Advisory Board and agency staff with major industry input, acknowledges the critical contribution of the sector to the state economy and plots a path to drive sustainable industry growth and attract additional Department of Defence activity during the next decade.

Within this strategic context, Defence SA focused during 2014/15 on leading the State Government advocacy to secure major Defence projects, particularly in naval shipbuilding and the Army's LAND 400 – Land Combat Vehicle System program.

We welcomed the Commonwealth's announcement in August 2015 of a continuous shipbuilding program. During the past decade, the state has advocated for such a long-term, strategic approach to secure a sustainable shipbuilding industry in Australia, and Techport Australia – with its world-class infrastructure, critical mass of skills and strong industry base – is the logical home for warship and submarine construction and deep-level maintenance.

The three major elements in the Commonwealth's ship-build announcement were a fleet of frigates (to be built in Adelaide), a fleet of offshore patrol vessels, and, most critically, the nation's future submarine fleet, which is subject to a competitive evaluation process. The Future Submarine project will define the shape of advanced manufacturing in Australia, and is critical to South Australia's economic prosperity.



The agency, in partnership with the Premier and Minister for Defence Industries, intensified our engagement during 2014/15 both with Defence and the key international shipbuilders, pressing the state's case for both local build and local industry involvement.

The Army's armoured fighting vehicle program, LAND 400, is another significant opportunity for South Australia and during 2014/15 we continued to engage closely with bidders for Phase 2 of the project, exploring how best the state could support their bids and promoting South Australia's credentials as the base for acquisition and sustainment. To support delivery of the project, the state is proposing to develop a Land Combat System Precinct at Edinburgh Parks. The Phase 2 tender closed in September 2015, and we are confident of a positive result for South Australia.

In the aerospace domain, the agency is focused on maximising local industry opportunities in key Commonwealth projects: the replacement of the Orion maritime patrol aircraft, the capability upgrade for the Jindalee Operational Radar Network and the manufacture of components for the Joint Strike Fighter. Under the former project, RAAF Base Edinburgh is to undergo a \$350 million upgrade to accommodate new fleets of Boeing P-8A Poseidon maritime patrol aircraft and Triton unmanned aerial vehicles.

The Defence SA Advisory Board continued to provide high-level strategic and policy advice on these and other defence opportunities for South Australia during the year. I thank them for their important contributions, made under the outstanding leadership of our Chairman, Air Chief Marshal Sir Angus Houston AK AFC.

During the next year, Defence SA will continue to focus on the areas where we have greatest impact: providing the right infrastructure to support program delivery, planning for a pipeline of skilled workers, attracting investment through engagement and promotion, increasing the opportunities for local industry participation and, with the support of the Advisory Board, advocating strongly for South Australia.

Personally, this is both a challenging and exciting time to take the helm of Defence SA, with the Department of Defence expected to decide the shape of key programs in the next 12 to 18 months. I look forward to working productively with the Minister for Defence Industries and Department of Defence to support Defence's plans to acquire new capabilities.

Andy Keough
CHIEF EXECUTIVE



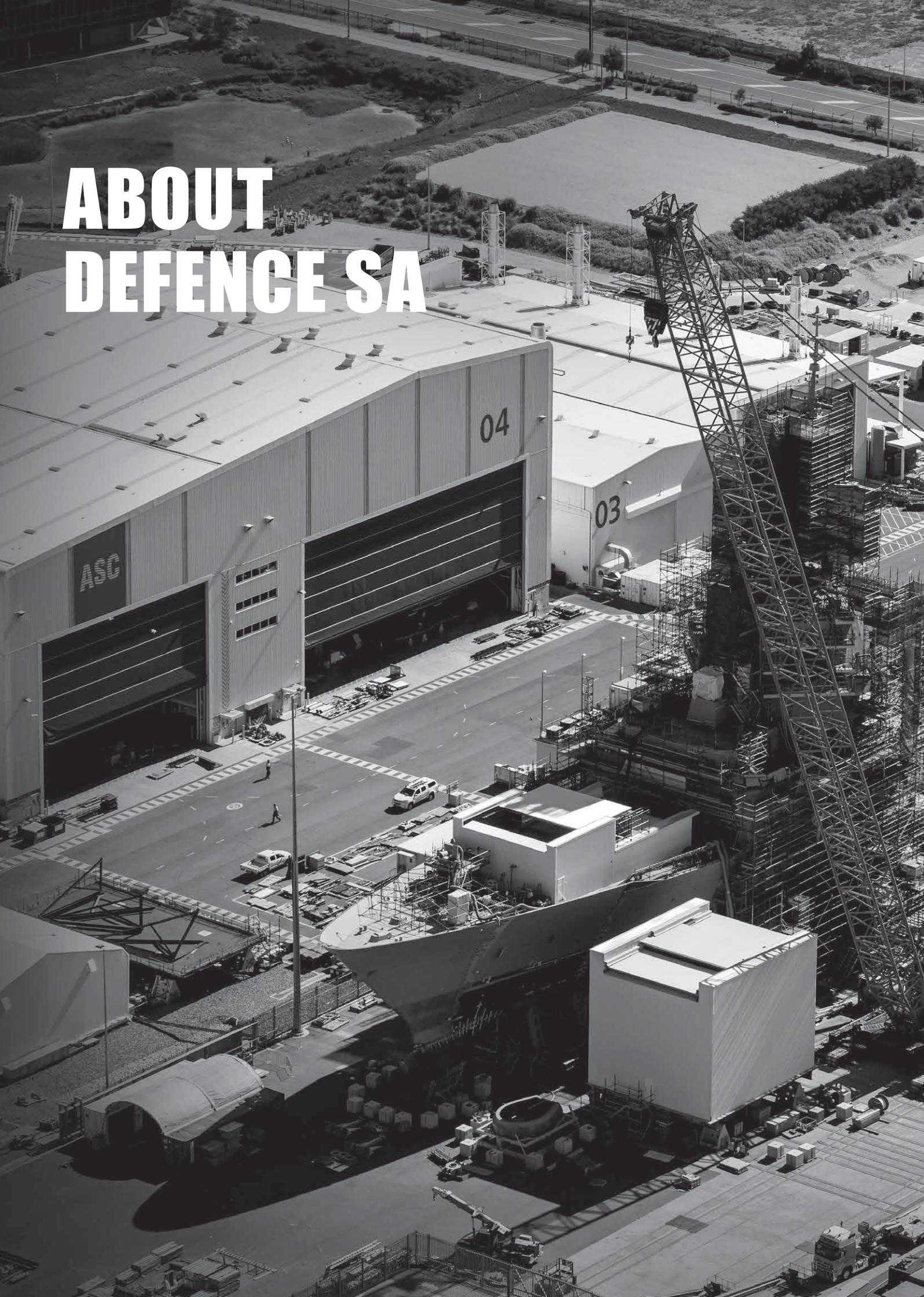


HIGHLIGHTS

- Secured Commonwealth commitment to a continuous naval shipbuilding program, following intensive state advocacy campaign
- Successfully transferred and launched air warfare destroyer Ship 1, *NUSHIP Hobart*, at the Techport Australia Common User Facility
- Intensively engaged France, Germany and Japan to secure an in-country build of the Future Submarines, with Techport Australia as the consolidation location
- Launched *South Australia's Defence Strategy 2025*, exemplifying joint Defence SA–industry commitment to further growth of the sector over the longer term
- Launched the Land Combat System Precinct proposal as part of the LAND 400 – Land Combat Vehicle System investment attraction campaign and to promote greater connection across the breadth of industry, state and federal government activities
- Increased the frequency and regularity of visits by international defence firms to South Australia, particularly following the release of the Future Submarine Competitive Evaluation Process, LAND 400 Phase 2 tender and replenishment ship tenders – more than 30 events involving over 600 guests were organised
- Outlined comprehensive defence policy reform issues in the State Government's submission to the Defence White Paper 2015, developed in collaboration with industry, unions and academia
- Renewed Defence SA focus on enhanced defence industry participation and export policies and programs, and defence science and technology collaboration
- Engaged global defence executives in their home territories of the United States, Canada, United Kingdom, France, Germany, Spain, Italy, Sweden, Singapore and Japan, highlighting South Australia's competitive location advantages and capabilities as supply chain partners
- Supported global companies opening offices or expanding their presence in the state, including Boeing Defence Australia, ThyssenKrupp Marine Systems, Navantia, and Marshall Aerospace and Defence – signalling an upswing in industry confidence
- Formalised new defence industry collaborative approach with Victorian Government
- Promoted the state's defence credentials at Land Forces 2014 and the Avalon Airshow 2015
- Secured premium defence showcase opportunities for Adelaide – Land Forces 2016 and the International Council on Systems Engineering International Symposium 2017
- Supported passage of the Defence Legislation Amendment (Woomera Prohibited Area) Bill 2014 through the Commonwealth Parliament, implementing regulatory certainty around non-Defence activity in the area
- Supported the State Government grant of a Miscellaneous Lease for Defence Purpose to the Department of Defence, formalising conditions for an expanded Cultana Training Area
- Supported development of the *Defence Industry South Australia Workforce Strategy 2014–20* and other defence skilling initiatives.

Opposite: *NUSHIP Hobart* on the Common User Facility shiplift just before its launch.
Overleaf: *Hobart* under construction at Techport Australia.

ABOUT DEFENCE SA





OUR ORGANISATION

MISSION

To facilitate the development and growth of Defence and sustainable defence industries in South Australia.

An administrative unit pursuant to the *Public Sector Act 2009*, Defence SA plays a key role in supporting the Commonwealth Government's strategic defence policy, particularly in the areas of local industry participation and supporting infrastructure and skills development.

The growth of Defence and sustainable defence industries in South Australia contributes strongly to the state's economic development – for example, by increasing population through the attraction of further Defence personnel and their families; adding to the state's high-tech industries and skills base, particularly as a result of growth in naval shipbuilding and electronics; and injecting further demand for general goods and services through the level of construction required over the medium term at RAAF Base Edinburgh and the Cultana Training Area.

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 – the 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.

REPORTING ARRANGEMENTS

Defence SA reports to the Minister for Defence Industries. Our strategy and policy development is assisted by the Defence SA Advisory Board.

To achieve state government objectives, we maintain strong relationships with key government agencies, including:

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

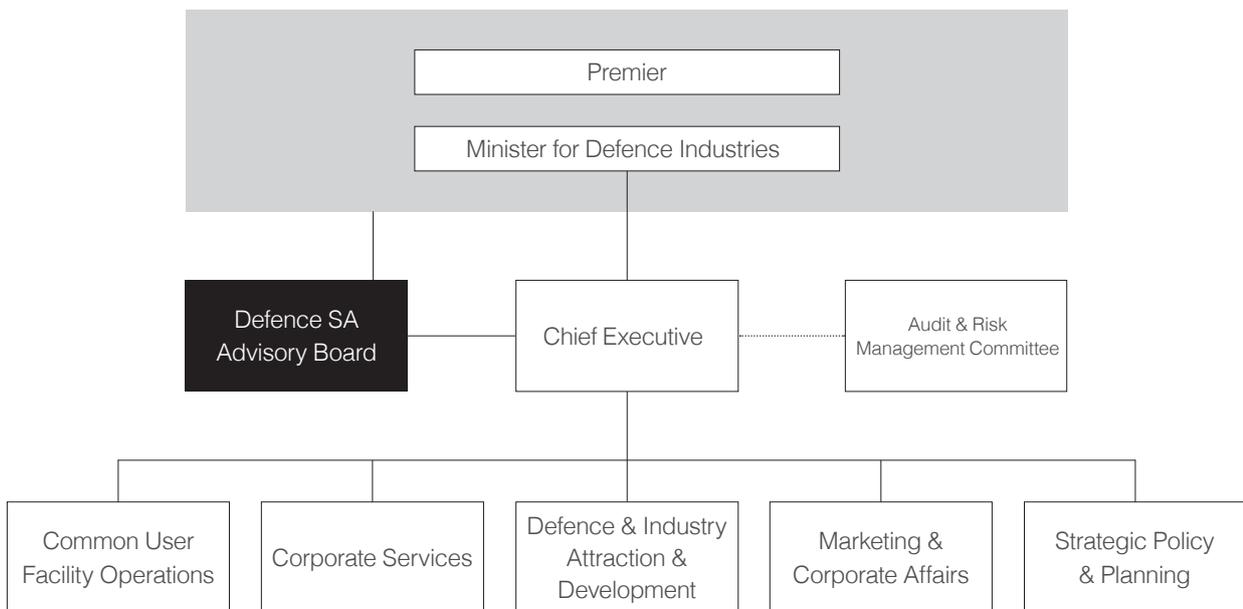




ORGANISATION STRUCTURE

At 30 June 2015, Defence SA employed 32 full-time equivalent employees at two locations – Adelaide and Osborne. The agency's structure and reporting arrangements are depicted below.

Defence SA organisational structure at 30 June 2015





UNIT FUNCTIONS

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

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

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

Marketing and Corporate Affairs is responsible for the planning and delivery of the agency's marketing, event and sponsorship activities, as well as providing high level advocacy, communications and engagement advice to the agency, board and the Minister for Defence Industries. The unit also has a lead role in developing effective and productive relationships with the Minister's office and provides cabinet and parliamentary support.

Strategic Policy and Planning delivers executive support to the Defence SA Advisory Board and coordinates strategic and business planning. The unit also leads Defence SA's efforts in the following strategy and policy areas: defence industry policy reform, workforce development, Cultana Training Area expansion and the Woomera Prohibited Area coexistence framework. Strategic Policy and Planning is also the agency's lead interface for a range of whole-of-government initiatives, including implementation of advanced manufacturing and innovation strategies.



DEFENCE SA ADVISORY BOARD

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

The board also supports efforts to build on South Australia's capabilities and strengths across Defence SA's five priority defence domains: maritime, systems and cyber, aerospace, land, and science and technology.

Since its establishment in 2007, the board has made a significant contribution to the state's efforts to cement its reputation as the Defence State, and to lay the foundations for a strong, sustainable future through well-guided strategic policy advice.

The board's focus areas for 2014/15 included:

- major involvement in developing *South Australia's Defence Strategy 2025*, launched in February 2015, and sectoral strategies
- high-level advice and guidance to the State Government on its submission to the Defence White Paper 2015
- advice and high-level apolitical advocacy in relation to naval shipbuilding policy and projects, and LAND 400 industry participation
- advocacy and ambassadorial roles at major events, including the Defence and Industry Conference 2014, Land Forces 2014 and the Avalon Airshow and Trade Exposition 2015, as well as many minor events
- advice on initiatives to support the growth of Department of Defence operations in South Australia.





BOARD MEMBERSHIP

Defence SA Advisory Board membership recommendations are based on a core skills requirement of high-level strategic defence expertise and networks across the full range of defence capabilities, coupled with commercial and financial expertise.

Members of the board at 30 June 2015 were:

- Air Chief Marshal Sir Angus Houston AK AFC (Chairman) – former Chief of Defence Force (2005–11)
- Dr Neil Bryans – former Executive Director Counter Terrorism and Security Technology Centre, DSTO (2007–12) and former Deputy Chief Defence Scientist, DSTO (2000–07)
- Vice Admiral Russ Crane AO CSM RANR – former Chief of Navy (2008–11)
- Mr Malcolm Jackman – Chief Executive, Defence SA (2014–15)
- Mr Paul Johnson MBE – defence industry leader and former Chief Executive of Lockheed Martin Australia
- Ms Beth Laughton – Chartered Accountant, former investment banker and company director
- Lieutenant General Peter Leahy AC – former Chief of Army (2002–08)
- Rear Admiral Trevor Ruting AM CSC RANR – naval architect and former Head Maritime Systems, Defence Materiel Organisation.

The Premier and the Minister for Defence Industries are ex-officio members of the board.

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

BOARD MEETINGS ATTENDANCE

The board held six formal meetings in 2014/15 and attendance was as follows:

	Eligible	Attended
ACM Sir Angus Houston AK AFC (Chairman)	6	6
Hon Jay Weatherill MP, Premier	6	2
Hon Martin Hamilton-Smith MP, Minister for Defence Industries	6	5
Dr Ian Chessell ¹	1	1
Dr Neil Bryans	6	6
VADM Russ Crane AO CSM RANR	6	6
Mr Malcolm Jackman ²	6	5
Mr Paul Johnson MBE	6	6
Ms Beth Laughton	6	5
LTGEN Peter Leahy AC	6	2
RADM Trevor Ruting AM CSC RANR	6	6
Dr John White ³	5	5
Emeritus Professor Paul Dibb AM (Advisor)	6	5

¹ Retired 31 August 2014

² Appointed 24 August 2014

³ Retired 1 April 2015



AUDIT AND RISK MANAGEMENT COMMITTEE

The Audit and Risk Management Committee provides independent risk management advice to the Chief Executive. Four meetings were held during the year and committee members at 30 June 2015 were:

- Mr Christopher McSporrán – Director, Financial Services Reform, Department of the Premier and Cabinet (Chairman and independent member)
- Ms Beth Laughton – Defence SA Advisory Board member
- Mr Peter Robertson – Chartered Accountant (independent member)
- Mr Andrew Blaskett – Executive Director, Public Finance, 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

CONTRIBUTION TO BROADER GOVERNMENT STRATEGIES

South Australia is on track to achieve the defence target in *South Australia's Strategic Plan*:

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

Total (direct and indirect) employment in the defence sector was 28,666 at 31 December 2012 (latest figures), up from 26,882 in 2010/11 and exceeding the 2012/13 milestone goal in *South Australia's Strategic Plan*. This is a good result given reduced Defence expenditure in recent years as a result of the strategic and fiscal environment.

At the end of 2012, specialist defence industry in South Australia directly employed 4985 full-time equivalent persons and generated about \$1.95 billion in revenue.

The growth of the Department of Defence presence and sustainable defence industries in South Australia plays a key role in South Australia's economic development. In fostering this growth, Defence SA contributes to the Premier's Growth through Innovation economic priority.

SOUTH AUSTRALIA'S DEFENCE STRATEGY 2025

In February, the Premier launched *South Australia's Defence Strategy 2025*, a roadmap for the state's efforts to expand the defence sector during the next decade.

It gives clear guidance on the strategies and requisite cross-government planning, policy and program alignment needed to deliver the abovementioned defence target in *South Australia's Strategic Plan*.

The strategy emphasises a stronger partnership between governments and industry to respond to Australia's dynamic national security environment and sets comprehensive goals for the state across five domains: aerospace, land, maritime, defence science and technology, and systems and cyber.

Defence SA will support the state in achieving this through effective advocacy, developing the workforce, delivering productive infrastructure, attracting investment and fostering a competitive business environment.

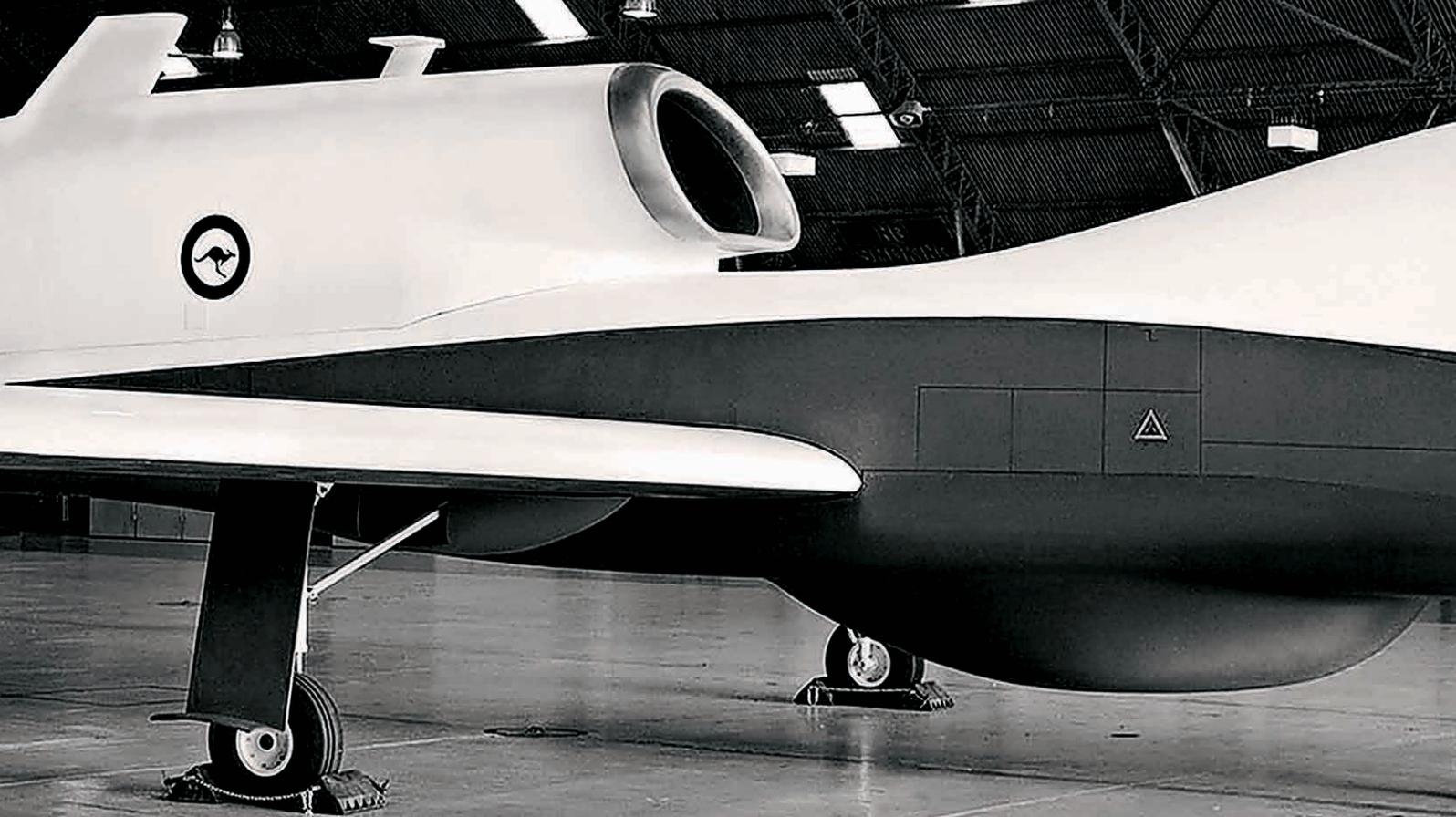
The strategy is the culmination of extensive work by Defence SA and our Advisory Board, involving engagement with senior Defence and industry leaders – locally, nationally and internationally.



**SECURITY OF OUR NATION,
STABILITY OF OUR INDUSTRY,
AND THE STRENGTH OF
OUR WORKFORCE ARE THE
PILLARS OF OUR DEFENCE
INDUSTRIES VISION.**



ACHIEVEMENTS





EFFECTIVE ADVOCACY



DEFENCE POLICY ADVOCACY

Defence SA continued our strong policy reform agenda in 2014/15, seeking Commonwealth recognition of our influence on defence industry performance, and greater collaboration across all jurisdictions to maintain high-value jobs and industries.

In concert with the Minister for Defence Industries, we commenced new research to support enhanced industry participation and export policies and programs. With the support of industry, residual primary research was also finalised, detailing the national and state economic impacts of the Air Warfare Destroyer project, and recent performance of specialised defence firms in South Australia.

Throughout the year, we used our evidence-based research as a base to continue to advocate for:

- procurement reform including adoption of a whole-of-lifecycle approach and clear local industry involvement mandates in every major project
- designated geographic centres of expertise to leverage skills and infrastructure investment
- workflow continuity as a key strategy to reduce costs and increase innovation, productivity, global competitiveness and military capabilities
- long-term skills planning and development
- an advanced defence technology agenda.

The State Government leveraged its sponsorship of the Defence + Industry Conference to put forward the case for industry policy reform. The conference was held in July 2014 in Adelaide for the fourth consecutive time. The Deputy Premier spoke to an audience of about 800 delegates, including Ministers, senior Defence officials and industry representatives from Australia and abroad. The Minister for Defence Industries reinforced key messages in one-on-one meetings with Defence and industry leaders.

A high-level Defence Industry Policy Summit, opened by the Premier and hosted by the Minister for Defence Industries, was held in October 2014. The summit was an opportunity for more than 100 key stakeholders from South Australia's defence industry, unions, academia and local government to relay their views on key aspects of the Defence White Paper. A major focus was naval shipbuilding and other platform replacement projects, along with small-to-medium-sized business participatory challenges and the potential for growth in locally fostered defence science and technology, education, and research and development.

The Commonwealth Government is now expected to release the Defence White Paper in late 2015, clarifying its intentions on key projects including Future Submarines, Future Frigates and armoured fighting vehicles. To underpin the Defence White Paper, the Commonwealth is concurrently preparing a 10-year Defence Investment Plan, a Defence Industry Policy Statement and enterprise-level Naval Shipbuilding Plan.

Drawing on advice from the Defence SA Advisory Board and our staff, the South Australian Government made a formal submission to the Defence White Paper consultation process in November 2014. Throughout the year, Defence SA also continued to closely engage with Defence's White Paper Team at all levels, with the objective to contribute to defence industry policy.

GOOD POLICY IS IMPORTANT TO PROVIDE STATE GOVERNMENTS AND INDUSTRY WITH CLEAR AND CERTAIN DIRECTION TO INVEST RELIABLY IN INFRASTRUCTURE AND TO SUPPORT WORKFORCE AND INDUSTRY DEVELOPMENT.

Closer ties with other state governments to jointly achieve defence industry aims was also a key feature of the year. In August 2014, the Premier contacted his counterparts regarding the development of a coordinated and constructive plan to ensure major defence projects are not tendered overseas. In April 2015, the South Australian and Victorian governments signed a Defence Industry Accord, committing both states to greater cooperation in advocating for defence industry policy reform and the retention of in-country strategic industry capabilities, with an urgent focus on shipbuilding. A shared commitment to a continuous naval shipbuilding strategy was also realised in the April 2015 COAG Communiqué.

NAVAL SHIPBUILDING ADVOCACY

The Commonwealth Government has recently announced that over the next 20 years it will invest more than \$89 billion in ships and submarines for the Navy. This represents a significant milestone in the state's long-term campaign for a permanent naval shipbuilding industry. The Commonwealth's decisions during the next 12 to 18 months on the Future Submarine, Future Frigate and Offshore Patrol Vessel programs will determine how this investment is directed into building an indigenous capability.

South Australia's advocacy for a large share of this investment is underpinned by our naval shipbuilding heritage, strong industry base, world-class infrastructure and critical mass of skills concentrated at Techport Australia, Australia's pre-eminent naval shipbuilding precinct.

Continuing its efforts from the previous year, the state, through Defence SA, its Minister and board, continued to pursue a continuous naval shipbuilding program in 2014/15. The Minister for Defence Industries and former Defence SA Chief Executives made numerous appearances before the Senate Economics

References Committee's *Inquiry into the Future of Naval Shipbuilding in Australia*. The state's peak defence industry body, the Defence Teaming Centre, and key local defence companies ASC and BAE Systems Australia also made representations to the inquiry, which is now due to report in February 2016.

Throughout the year, Defence SA also supported the State Government in its strong drive to hold the Commonwealth Government to account for its pre-election commitment to assemble 12 submarines in Adelaide and to pursue mandated local industry content requirements.

In October 2014, the Minister for Defence Industries released the Economic Development Board's report into the comparative impact of building the submarines in Australia versus overseas. The report found that the nation would be \$20 billion worse off if an offshore build strategy was pursued. That same month, explicit calls for a competitive open tender and project definition study were increasing. In February 2015, the Commonwealth Government announced a Future Submarine Competitive Evaluation Process to identify an international design partner.





WORKFORCE DEVELOPMENT

Defence SA continued to place significant emphasis on a strong pipeline of skills to support defence industry sustainability and growth. In 2014/15, the agency contributed to several cross-agency initiatives to meet this aim, notably related to the State Government's Science Technology Engineering and Maths (STEM) agenda and the Defence Materiel Organisation-funded Advanced Technology Industry-School Pathways Program.

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

- the Commonwealth Government committing to extending the Pathways program until June 2016
- the launch of the Defence Teaming Centre's *Defence Industry South Australia Workforce Strategy 2014–20* in April 2015
- the launch of the Defence STEM Honours Scholarship and Internship Programs in April 2015
- ongoing implementation of the state's STEM Skills Strategy
- 26 participants graduating from the Defence Teaming Centre's South Australia Defence Industry Leadership Program
- The Heights School establishing new programs associated with its specialisation as a defence high school.

WOOMERA PROHIBITED AREA DEFENCE-MINING COEXISTENCE

In 2014/15, the State Government, through Defence SA and the Department of State Development (DSD), successfully negotiated with the Department of Defence for a new Defence and mining coexistence framework in the Woomera Prohibited Area (WPA).

Defence SA and DSD are members of the WPA Advisory Board and are part of the WPA Coordination Office.

The *Defence Legislation Amendment (Woomera Prohibited Area) Act 2014* became law on 8 August 2014, creating a legislatively based coexistence regime in the WPA that provides certainty of access to non-Defence users, including pastoralists, indigenous peoples and the resources sector. Restricting non-Defence access at certain times and in certain areas will preserve the WPA for its highly valuable Defence role in test and evaluation.

The new regime is a win for the important principle of multiple land use between South Australian industry sectors that will drive our economic growth and prosperity over decades. Defence SA will continue to monitor and help refine its operation to ensure the best outcomes for all parties in the WPA.



STRAY
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STATE

SOUTH AUSTRALIA
THE DEFENCE STATE

HARRIS

WORK NETWORK

WINIOA

LIVING THE

SOUTH AUSTRALIA
THE DEFENCE STATE

SOUTH AUSTRALIA
THE DEFENCE STATE

EDINBURGH DEFENCE PRECINCT



SUSTAINABLE DEFENCE INDUSTRIES



INVESTMENT ATTRACTION/ INDUSTRY DEVELOPMENT

Signalling an upswing in industry confidence, Defence SA supported companies opening offices or expanding their presence in the state, including Boeing Defence Australia, ThyssenKrupp Marine Systems, Navantia and Marshall Aerospace and Defence.

Throughout 2014/15, international defence companies were frequent and regular visitors – scoping opportunities to work with South Australian-based firms and universities, and identifying potential locations to expand operations. Through itinerary development, business matching and networking dinners, Defence SA supported many international defence companies in their visits to South Australia – this activity increased dramatically as the Future Submarine Competitive Evaluation Process contenders began their campaigns in earnest, and following release of the LAND 400 – Land Combat Vehicle System and replenishment ship tenders.

Defence SA also renewed our focus on facilitating defence export opportunities. In 2014/15, international market research commenced, as did planning for a multidisciplinary trade and investment missions to India and Southeast Asia (August 2015).

The state also engaged frequently with global defence executives in their home territories: the United States, Canada and Europe (Minister for Defence Industries in August/September 2014), Singapore and Malaysia (Premier and Chairman of the Defence SA Advisory Board in November 2014), Japan (Defence SA and Defence Teaming Centre in May 2015), and Europe (Minister for Defence Industries in May 2015 and Premier in June 2015).

MARITIME

AIR WARFARE DESTROYERS

Over a relatively short period, the AWD project has played an integral role in building a skilled and strong shipbuilding capability in Australia. In 2014/15, the project was in peak production, directly employing more than 2000 workers in South Australia, and employing a further 1000 workers across the rest of the country.

The AWD project celebrated its most significant milestone in May 2015 when the first destroyer, *NUSHIP Hobart*, was transferred onsite and launched by Defence SA staff from the State Government's shiplift at Techport Australia (see Productive infrastructure, page 28, for further details). About 5500 workers and their families and dignitaries attended the launch to mark this national endeavour, a striking testament to the ability of Australian industry to ramp up and deliver a complex platform from scratch in a five-year-old shipyard.

The AWDs remain Australia's most significant defence project, and one of the largest and most complex undertaken in the country. In 2014/15, the Commonwealth Government progressed an AWD Reform Program, including insertion of new management experience and \$1.2 billion additional investment. Significant productivity improvements were realised over the year, with Ship 2 achieving greater than 30 per cent cost performance improvement and higher levels of outfitting compared to Ship 1 at the same stage of construction. Further productivity gains on Ship 3 are also demonstrating learnings from the earlier experiences.

The results of a Defence SA-commissioned economic analysis, finalised in 2014/15, showed that the AWD build contract will contribute \$2.75 billion to gross state product and \$3.86 billion to gross domestic product between 2007/08 and 2018/19.



A RESILIENT AND RESPONSIVE DEFENCE INDUSTRY CAN BE FOSTERED TO PROVIDE CRITICAL SUPPORT TO THE AUSTRALIAN DEFENCE FORCE, ACHIEVE ASYMMETRIC CAPABILITY IN THE REGION, AND GENERATE ECONOMIC BENEFIT FOR THE NATION.

COLLINS CLASS SUBMARINES

In August 2014, ASC Pty Ltd signed an In-Service Support contract extension with the Commonwealth Government for the Collins class submarines, which, combined with earlier further infrastructure investment and procedural reform, has resulted in significantly improved performance. The company has now successfully transitioned from a three-year to two-year full docking cycle. Every maintenance activity undertaken in the past two years has been delivered on average three per cent ahead of schedule and within budget.

In May 2015, Defence SA presented to more than 70 Australian businesses attending ASC's Collins class Supply Chain Forum.

FUTURE SUBMARINES

The Future Submarine project will provide Australia with a new and more potent defence capability, with greater range, endurance and capability compared with the current Collins class submarines. Acquisition of the submarines has been estimated at \$20 billion.

In February 2015, the Commonwealth initiated a Competitive Evaluation Process with France (DCNS), Germany (TKMS) and Japan (MHI) to choose a submarine design partner, with all parties due to submit proposals by 30 November 2015.

In March 2015, the Minister for Defence announced a Future Submarines Industrial Engagement Strategy, supported by a new State and Industry Association Consultative Group including Defence SA, to facilitate opportunities for Australian companies. An Expert Advisory Panel was formed in June to oversee the process, ensuring that it is sound, conducted in accordance with probity and accountability principles, and that participants are treated fairly and equitably.

Along with the Premier and Minister for Defence Industries, Defence SA is intensively engaged with all the international contending shipbuilders and mission/combat system integrators to secure an in-country build of Future Submarines, with Techport Australia as the consolidation location.

Since the start of the Competitive Evaluation Process, Defence SA has also focused on developing strategic relationships, presenting the state's credentials and maximising supply chain opportunities for local industry, regardless of whether an offshore or in-country build is ultimately selected. We have coordinated an extensive number of incoming high-level government and corporate delegations from all three Future Submarine contenders, including supplier forums, site visits and networking functions.

In 2014/15, Defence SA also supported overseas engagement including the Minister for Defence Industries' May visit to DCNS and TKMS in Europe, and the Premier's subsequent meeting with DCNS in France in June. Defence SA participated in MAST ASIA 2015 in Japan in May to better understand Japan's approach to submarine build and sustainment.

PACIFIC PATROL BOATS

Port Adelaide shipbuilder Adelaide Ship Construction International (ASCI) joined global engineering and construction company KBR and South East Asian commercial and naval shipbuilder Singapore Technologies Marine (ST Marine) to bid for the Pacific Patrol Boat Replacement project, which was submitted to Defence on 17 June.

The project will involve the acquisition and sustainment of up to 21 steel-hull patrol vessels to be donated to our neighbouring Pacific Island nations. The value is about \$600 million in acquisition and \$1.4 billion in through-life sustainment, training and personnel costs over three decades.



LAND

During the past few years, and intensifying in 2014/15, Defence SA has spearheaded the state's efforts to secure the Land Combat Vehicle System program (LAND 400), which will replace the Army's fleet of armoured fighting vehicles. The program is a significant opportunity to build and sustain a major high technology advanced manufacturing industry for the state.

LAND 400 is Australia's largest military vehicle program, with an acquisition value of more than \$10 billion for highly sophisticated vehicles and associated systems. The phased program offers up to 35 years of advanced manufacturing employment and supply chain opportunities for the state, through production, sustainment and upgrades, which will be worth a further \$10 billion.

In February 2015, the Department of Defence released the tender for LAND 400 Phase 2, which seeks 225 combat reconnaissance vehicles with an acquisition value of \$2.5 billion, plus at least 35 years of sustainment. This tender closed on 3 September 2015 and the Commonwealth is expected to announce the shortlisted bidders in early 2016.

Securing Phase 2 will strongly position the state for Phase 3, which will procure a larger number of infantry fighting vehicles and other variants.

During 2014/15, Defence SA supported the State Government's advocacy efforts and engaged intensively with the bidders, promoting South Australia's credentials and exploring how we could best support their bids, as well as lobbying the Commonwealth Government to maximise local industry content. In the same period, the state committed to creating a Land Combat System Precinct in northern Adelaide, which would bring together the federal, state and industry infrastructure and workforce needed to support all future land-related defence projects.

Eight local companies joined the *South Australia – the Defence State* stand at Land Forces 2014 in Brisbane in September. High-level meetings and

functions focused on promoting the state's land defence capabilities and infrastructure, particularly for the LAND 400 program.

In June, Defence SA provided logistic support for a supply chain forum held by Rheinmetall Defence Australia in Adelaide, where 50 registered potential suppliers were briefed on the company's plans for LAND 400.

The Minister for Defence Industries and the Defence SA Advisory Board also promoted the Land Combat System Precinct concept to senior Army and industry leaders at the Australian Strategic Policy Institute's Future Force Structure Options conference in Canberra in June. Defence SA estimates that when fully developed, the precinct would bring more than 750 Defence employees to Adelaide, plus create more than 1000 long-term industry jobs.

Subsequent to the reporting period, Adelaide won the rights to host Land Forces 2016, the culmination of an intensive competitive bid campaign during 2014/15. Land Forces 2016 is expected to attract more than 1100 delegates and 400 exhibitors, and will provide another exceptional opportunity to showcase the state's capabilities in the land sector, particularly armoured vehicle production.

AEROSPACE

During 2014/15 Defence SA continued our efforts to maximise local industry opportunities in the Commonwealth's maritime patrol aircraft replacement project, which will involve 30 years of sustainment and upgrade (see following page).

Defence SA also supported the Defence Materiel Organisation (now the Capability Acquisition and Sustainment Group), Lockheed Martin Australia and BAE Systems Australia in their efforts to maximise local industry content on Project Air 2025 Phase 6, which will upgrade the capability of the Jindalee Operational Radar Network (JORN). This project will see a restricted tender competition between Lockheed

THE LAND COMBAT VEHICLE SYSTEMS PHASED PROGRAM OFFERS UP TO 35 YEARS OF EMPLOYMENT AND SUPPLY CHAIN OPPORTUNITIES FOR THE NATION.

Martin and BAE Systems, but both companies are expected to use small-to-medium enterprises to a great extent.

The agency also continued to support local manufacturers supplying into the international Joint Strike Fighter program. To assist these manufacturers to expand their customer bases, we facilitated visits by the Minister for Defence Industries to potential international customers. We also supported their grant applications to the State Government's Automotive Supplier Diversification Program and the Federal Government's Next Generation Manufacturing Investment Program.

At the Avalon Airshow in February, the Minister for Defence Industries hosted the international launch of the Australia Aerospace Alliance industry cluster at a special event, and the Chairman of the Defence SA Advisory Board was keynote speaker at a Defence SA-hosted dinner on the intelligence, surveillance and reconnaissance (ISR) lessons learned from the two Malaysian Airlines tragedies. High-level meetings were directed at opportunities to increase the state's participation in defence aerospace, particularly in the areas of advanced aerospace component manufacturing and metal processing, and as the national centre for ISR.

The agency also monitored land development around the Edinburgh Defence Precinct to ensure zoning changes would not hinder Defence operations at the RAAF base and Defence Science and Technology Group.

MARITIME PATROL AIRCRAFT REPLACEMENT PROJECT

During 2014/15, the Department of Defence released its AIR 7000 Phase 2B tender for managing contractor for the construction of facilities at RAAF Base Edinburgh to support the Maritime Patrol Aircraft Replacement Project.

Under this project, the Commonwealth will acquire eight Boeing P-8A Poseidon maritime patrol aircraft to replace the RAAF's AP-3C Orion fleet from 2017. Like the Orions, the Poseidons will be based at RAAF Base Edinburgh, the centre of the nation's military intelligence, surveillance, reconnaissance and electronic warfare (ISREW) capabilities. In June, global defence prime Boeing opened its first South Australian office at Technology Park Adelaide to prepare for the arrival of the Poseidon fleet.

The new fleet will provide long-term support opportunities for local industry. For example, the current tender seeks a hangar maintenance and operational facility and an operational conversion facility in a secure environment to support Poseidon operations. The tender, which is worth up to \$350 million, closed on 21 July 2015.

The Australian Government also has committed to the acquisition of up to seven MQ-4C Triton unmanned aerial vehicles, which would also be based at RAAF Base Edinburgh under Project AIR 7000 Phase 1B. Triton production for the United States Navy is due to start in 2015, with initial operating capability now planned for 2017. The Commonwealth's second pass approval for AIR 7000 Phase 1B is scheduled during 2016/17.

During 2014/15, Defence SA continued to support the South Australian Government's efforts to secure the Tritons' ground control station, which would control the aircrafts' flight and operations, and process, evaluate and disseminate the surveillance data collected.



SYSTEMS AND CYBER

In November, Adelaide was selected as the winning location to host the International Council on Systems Engineering International Symposium 2017 – the largest gathering of its kind and expected to attract 1000 international delegates. Winning IS2017 presents an unprecedented opportunity to showcase South Australia's credentials as home to some of the country's most complex defence systems projects including Collins class submarines, Air Warfare Destroyers and the Jindalee Operational Radar Network.

A new \$92 million Data to Decisions Cooperative Research Centre, backed by the State Government, was opened by the Minister for Defence Industries at Technology Park Adelaide in November. The collaborative facility is supported by academia and industry, and will pioneer transformational big data research for defence and national security agencies. This will increase the ability of defence and national security agencies to efficiently extract useful intelligence from big data, while balancing the need for privacy and data protection. Over the next five years, the centre will employ 40 full-time staff, support 48 PhD students and produce more than 1000 data scientists.

SCIENCE AND TECHNOLOGY

Defence SA has elevated its focus on increased collaboration between the State Government, the university sector, the Defence Science and Technology (DST) Group and industry to increase research, development and commercialisation of defence science and technologies. Science and Technology is a new domain for development, identified in *South Australia's Defence Strategy 2025*.

Defence SA has initiated work on an innovation facilitation model for South Australia that will encourage greater research and development collaboration between government, industry and research organisations in Australia and internationally.

Defence SA hosted two functions during the DST Group's inaugural Partnerships Week in Adelaide in May 2015, at which the group's executives from around Australia and local industry and researchers discussed research priorities and projects.

Defence SA provided pitch training and coordination support to South Australian researchers and industry to participate in 'Pitchfest' – a national event at which innovators presented three-minute pitches to potential investors – at the Avalon Airshow and Trade Exposition 2015. South Australian participants from the University of Adelaide, education start-up company Launchbox, Aerometrex and Airbus Group Australia Pacific attracted a high level of interest from investors and potential project partners.

We also facilitated two defence-themed workshops at Adelaide University's Institute for Photonics and Advanced Sensing and Flinders University's Centre for NanoScale Science and Technology to showcase South Australian defence-related research capability to the defence industry.

During 2014/15, Defence SA also continued to coordinate the state's support for the Data to Decisions Cooperative Research Centre.



EXPANDED DEFENCE PRESENCE

CULTANA TRAINING AREA EXPANSION

The Department of Defence's expansion of the Cultana Training Area received the green light in June 2014, with the State Government granting a Miscellaneous Lease for Defence Purposes over the expansion land. This takes the Cultana Training Area from 500 square kilometres to 2100 square kilometres.

The lease, along with a 2009 memorandum of understanding that established a framework for mining and existing infrastructure protection, will govern use and access of the land for 75 years, with two 25-year options to renew.

Defence is spending about \$70 million developing the expanded training area in the short term. The works, which will be advertised on the AusTender website, include construction, essential infrastructure upgrades, ongoing maintenance, environmental management and providing supplies. Defence SA is working with Defence to promote these work opportunities to local companies, most of which will be completed in 2018.

The expanded range will provide vital training for Army's 1st Brigade, in particular the 1 Armoured Regiment and the 7th Battalion Royal Australian Regiment based at RAAF Base Edinburgh.

DEFENCE PRESENCE IN SOUTH AUSTRALIA

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

In January 2015, the Royal Australian Air Force renamed Woomera as the Woomera Range Complex, containing both the RAAF Woomera Test Range and RAAF Base Woomera. As a result, a small contingent of permanent RAAF personnel was posted to Woomera.

The RAAF also approved and commissioned the Distributed Ground Station – Australia (Interim) as part of the Aerospace Operational Support Group at DSTO Edinburgh. The DGS-AUS(I) exploits data and imagery from Australian Defence Force and allied forces, and disseminates this timely, accurate and relevant intelligence to those who need it across the globe.

To recognise its expanded role in covering surveillance of space debris, Number 1 Radar Surveillance Unit was renamed Number 1 Remote Sensor Unit. The unit is better known as the command and control element for Defence's Jindalee Operational Radar Network.

Since the release of the *First Principles Review: Creating One Defence* on 1 April 2015, Defence SA has been engaged with Defence leadership and the report's Oversight Committee on the implementation of the review's recommendations. In particular, estate rationalisation recommended in the report presents opportunities for a greater Australian Defence Force presence at RAAF Base Edinburgh.





PRODUCTIVE INFRASTRUCTURE

TECHPORT AUSTRALIA COMMON USER FACILITY

The Common User Facility's (CUF) key operational milestone during the year was the launch in May of the first air warfare destroyer, *NUSHIP Hobart*, which showcased the skills of our personnel and capabilities of our world-class infrastructure.

After supporting the consolidation of the 33 blocks comprising the hull and superstructure of *Hobart* on the dry berth, the CUF undertook the transfer and launch of the warship via our rail transfer system and shiplift. *Hobart* was then berthed at the CUF wharf in preparation for final fit-out and sea trials.

Following the launch, Defence SA personnel transferred AWD Ship 2 to the eastern end of the dry berth for the completion of consolidation. Consolidation of Ship 3, behind Ship 2, will start in late 2015.

Other key operational milestones in 2014/15 included:

- certification of the CUF for ISO4801 (Safety Management Systems) and ISO14001 (Environmental Management Systems), complementing the ISO9001 (Quality Management Systems) certification achieved in 2011
- re-qualification of Navy Certification to enable Navy vessel dockings, refits and repairs at the CUF

- installation of a cathodic protection system on the wharf and shiplift, providing long-term corrosion control
- continued AWD block and mast deliveries, as well as support of keel block alignments and consolidation of AWD Ships 1 and 2.

During 2014/15, works continued to expand the CUF to support the additional needs of the AWD project in peak production. Those works included bringing site utilities, basic laydown areas and fencing to land on the western side of Mersey Road and levelling the road to enable the transfer of AWD blocks between the existing CUF and expansion site.

Works planned for 2015/16 include:

- continued support of the AWD program for the consolidation of Ships 2 and 3
- completion of the Techport Masterplan, which will assess the additional infrastructure required to support the Future Submarine, Future Frigate and Offshore Patrol Vessel Programs if undertaken at Techport – maintaining the precinct's status as Australia's pre-eminent naval shipbuilding precinct.

TECHPORT AUSTRALIA CUF PERSONNEL AND STATE-OF-THE-ART INFRASTRUCTURE WERE INSTRUMENTAL IN THE SUCCESSFUL TRANSFER AND LAUNCH OF THE FIRST AIR WARFARE DESTROYER.

MARKETING AND PROMOTION

The Techport Australia marketing campaign continued in 2014/15, evolving in line with the precinct's operational status and onsite activity.

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

The launch of *NUSHIP Hobart* generated significant coverage across print, radio, television, and the internet, in state, national and international media.

Strong public relations outcomes were also generated through regular site tours for visiting dignitaries, media and interest groups.

MARITIME SKILLS CENTRE

The Techport Australia Maritime Skills Centre continued to provide blue- and white-collar training programs, supporting the skills requirements of the AWD program.

The training facility also houses an advanced training simulator, the Integrated Platform Management System (IPMS), which is designed to train the future Navy crew of Australia's new Hobart-class destroyers. The IPMS is the next generation of ship management systems, with a software application that allows for real-time digital control of the ship's functions, such as propulsion, steering and damage control.





EXEMPLAR GOVERNMENT AGENCY

WORK HEALTH AND SAFETY (WHS)

Defence SA continued to maintain well-defined wellbeing and safety management systems, integrating them into core business functions and processes to ensure continuous improvement. Maintaining a healthy and safe environment for our people and community remained one of our six core values and a key priority.

During 2014/15, Defence SA achieved accreditation for Techport Australia's Common User Facility (CUF) to AS/NZS 4801:2001 Occupational Health and Safety Management Systems, which requires regular ongoing independent surveillance of the effectiveness of the WHS management systems.

We continue to undertake a range of activities to support our WHS commitment, including mandatory safety moments at all staff meetings, daily toolbox meetings and monthly safety reviews for CUF technical staff, monthly messages promulgated at all Defence SA sites, regular staff surveys, training opportunities, and a health and wellbeing program.

In 2014/15, Defence SA had no medically treated injuries and one lost-time injury (back strain).

STAFF DEVELOPMENT AND TRAINING

In addition to individual staff training and development activities, in 2014/15 Defence SA conducted a series of briefings on topics relevant to daily operations, including:

- the Procurement and Industry Participation Plan
- business plan and strategy development
- travel security briefing
- LAND 400 – Land Combat Vehicle System
- nutrition and wellbeing, including voluntary individual health checks
- manual handling
- salary sacrifice employee benefit opportunities.



FINANCIAL OVERVIEW

As a South Australian Government agency with a strong economic development focus, Defence SA's activities are funded predominantly via appropriation. In 2014/15, Defence SA generated additional operating revenue and achieved expenditure savings, which resulted in an adjusted net operating cost \$597,000 below the approved budget.

MARKETING AND COMMUNICATIONS

MARKETING CAMPAIGN

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

To ensure consistent, high awareness of the state's defence capabilities, Defence SA placed 17 advertisements in specialist publications and lift-outs during the year.

The *Defence State* positioning and branding was also reinforced through the sponsorship of 11 state, national and international events and programs by Defence SA on behalf of the state.

VIP EVENTS AND SPEAKING ENGAGEMENTS

To promote *South Australia – the Defence State*, Defence SA facilitated or participated in more than 30 targeted minor events in 2014/15, hosting over 600 guests including VIP site tours, external speaking engagements, parliamentary meetings, boardroom lunches and themed dinners.

These activities enabled Defence SA to communicate key messages to Department of Defence and defence industry influencers, local industry and business associations, foreign diplomats, groups involved in professional development programs, and other community associations.





MAJOR EVENTS

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

In 2014/15, Defence SA was the major sponsor of the three-day Defence and Industry Conference, held in Adelaide in July. This biennial conference is the Australian Government's primary defence industry event. It attracted more than 1100 delegates from Australia and overseas, including senior government and industry representatives. In conjunction with the official conference program, Defence SA hosted a series of functions and meetings aimed at contributing to the national discussion on defence policy reform, and identifying opportunities and progressing projects for South Australia

The agency also coordinated the state's representation at Land Forces 2014 in Brisbane in September and the Avalon Airshow and Trade Exposition 2015 in Geelong in February. The Minister for Defence Industries, members of the Defence SA Advisory Board, including the Chairman, and Defence SA staff attended a range of meetings at these events with key Department of Defence, government and industry representatives. The *Defence State* exhibition stands supported high levels of industry participation, and showcased the state's capabilities through collateral, audio visual and local industry displays.

Preparation is well underway for our significant presence at PACIFIC 2015 in Sydney in October 2015.

OVERSEAS MISSIONS

Regular and ongoing international engagement is critical to building strong relationships between South Australia and defence prime manufacturers, the majority of which are headquartered overseas. Targeted overseas markets remain primarily North America and Europe with a new focus on Japan in relation to the Future Submarine program. Defence SA, our Minister and board chairman conducted four defence-specific overseas missions in 2014/15.

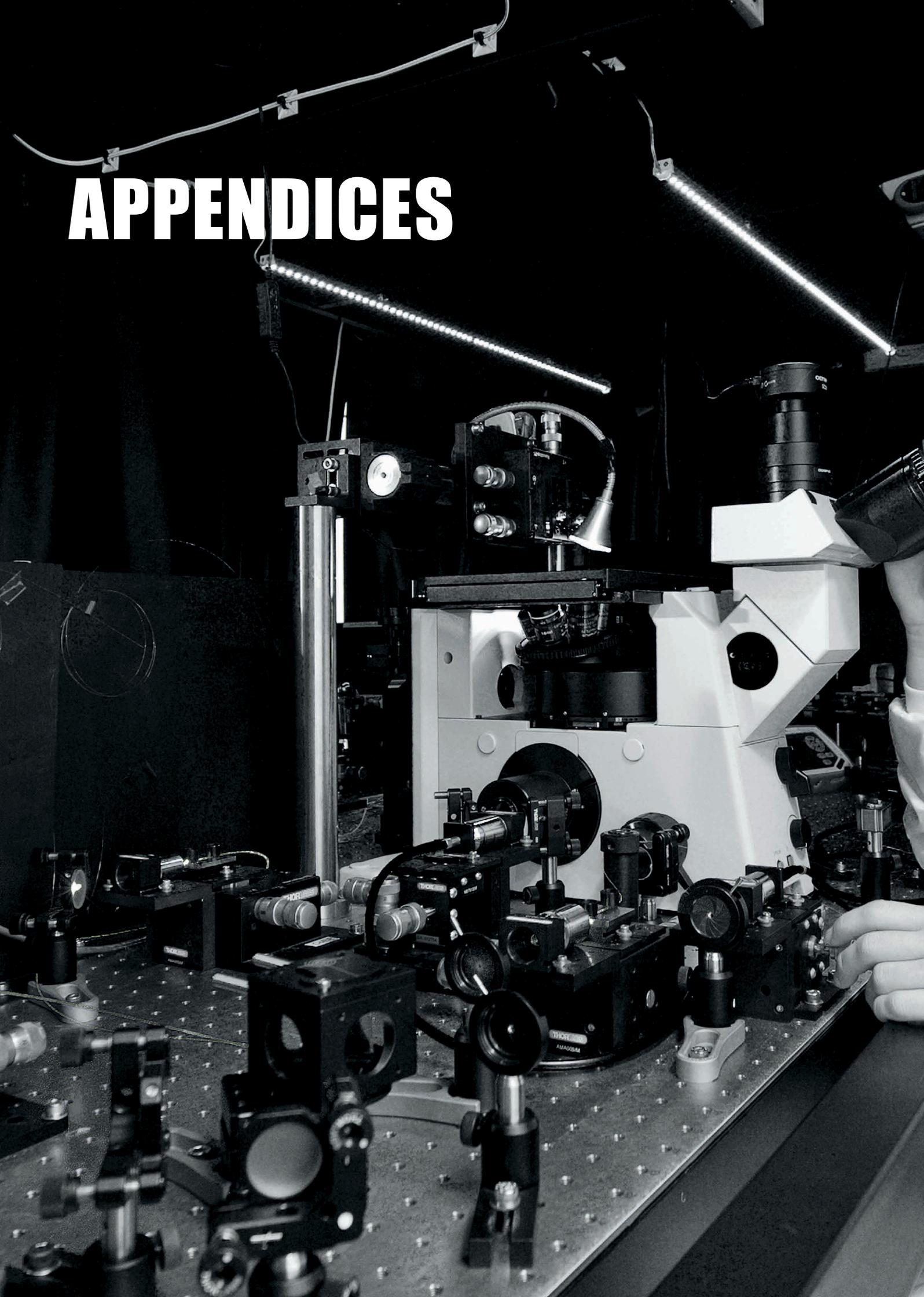
Overleaf: the Institute for Photonics and Advanced Sensing – one of the key organisations conducting defence research in South Australia.



**EVERY DEFENCE PROJECT
SENT OUTSIDE AUSTRALIA
ERODES OUR NATION'S
DEFENCE CAPABILITY AND
THOUSANDS OF JOBS GO
WITH IT.**



APPENDICES





HUMAN RESOURCES MANAGEMENT

EMPLOYMENT AND WORKFORCE DIVERSITY

Number of employees by age bracket and gender

Age bracket	Male	Female	Total	% of total	Workforce benchmark* %
15-19	-	-	-	-	5.5
20-24	-	1	1	3.1	9.7
25-29	1	1	2	6.2	11.2
30-34	1	3	4	12.5	10.7
35-39	2	5	7	21.9	9.6
40-44	2	-	2	6.2	11.4
45-49	5	1	6	18.8	11.1
50-54	-	-	0	0	11.4
55-59	6	-	6	18.8	9.1
60-64	2	1	3	9.4	6.7
65+	-	1	1	3.1	3.6
Total	19	13	32	100.0	100.0

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

Number of employees recruited to and separated from the agency

Separated from the agency during 2014/15	4
Recruited to the agency during 2014/15	2
On leave without pay on 30 June 2015	0

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

Male	Female	Total	% Agency
1	-	1	3.1

Types of disability (where specified)

Disability	Male	Female	Total	% Agency
Disability Requiring Workplace Adaption	0	0	0	0
Physical	0	0	0	0
Intellectual	0	0	0	0
Sensory	1	0	1	3.1
Psychological/Psychiatric	0	0	0	0

Further human resources information is available from the Commissioner for Public Sector Employment, see www.dpc.sa.gov.au/commissioner-public-sector-employment

Executives by gender, classification and status

Classification	Ongoing		Term tenured		Term untenured		Other (casual)		Total				
	M	F	M	F	M	F	M	F	M	%	F	%	Total
EXF	0	0	0	0	1	0	0	0	1	11.1	0	0	1
SAES1	0	0	0	0	6	1	0	0	6	66.7	1	11.1	7
SAES2	0	0	0	0	1	0	0	0	1	11.1	0	0	1
Total	0	0	0	0	8	1	0	0	8	88.9	1	11.1	9

LEAVE MANAGEMENT

Average days leave per full-time equivalent employee

Leave type	2011/12	2012/13	2013/14	2014/15
Sick leave	3.14	3.49	2.81	6.27
Family carer's leave	0.78	0.96	1.18	1.24
Special leave with pay	0.25	0.11	0.62	0.16

PERFORMANCE MANAGEMENT

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

Leadership and management training expenditure

Training and development	Total cost \$	% of total salary expenditure
Total training and development expenditure	51,963	1.12
Total leadership and management development expenditure	25,000	0.54

EMPLOYMENT OPPORTUNITY PROGRAMS

Nil.

WORK HEALTH AND SAFETY (WHS) AND INJURY MANAGEMENT

WHS prosecutions, notices and corrective action taken

Number of notifiable incidents pursuant to WHS Act Part 3	0
Number of notices served pursuant to WHS Act Section 90, Section 191 and Section 195 (provisional improvement, improvement and prohibition notices)	0
Number of prosecutions pursuant to WHS Act Part 2 Division 5	0
Number of enforceable undertakings pursuant to WHS Act Part 11	0

Agency gross workers compensation expenditure¹ for 2014/15 compared with 2013/14²

Expenditure	2014/15 (\$)	2013/14 (\$)	Variation (\$)+ (-)	% change + (-)
Hospital	714	-	+714	N/A
Income maintenance	5,233	3,000	+2,233	+74.4
Investigations	200	-	+200	N/A
Legal expenses	-	-	-	-
Lump sum	-	-	-	-
Other	-	2,000	(-2,000)	(-100.0)
Registered medical	1,865	-	+1,865	N/A
Rehabilitation	-	-	-	-
Travel	-	-	-	-
Total claim expenditure	8,012	5,000	+3,012	+60.2

¹ Before third party recovery

² Information available from the Self Insurance Management System (SIMS)

FINANCIAL PERFORMANCE

FINANCIAL STATEMENTS

See page 42 for audited general purpose financial statements.

CONSULTANTS

Use of consultants

Consultant	Purpose of consultancy	Number	Total (\$)
Value below \$10 000		0	0
Value \$10 000 and above			
Essential Media	Naval shipbuilding advocacy strategy development	1	68,496
Macroeconomics	LAND 400 economic impact modelling and analysis	1	40,624
Macroeconomics	AWD economic impact modelling and analysis	1	22,000
<i>Subtotal</i>		3	131,120
Total		3	131,120

FRAUD DETECTION AND CONTROL

There were no reported instances of fraud or corrupt behaviour in the agency during the 2014/15 year. A corporate risk management framework, financial management framework and fraud policy and procedure are in place to provide a control and compliance environment to minimise the risk of fraud.

OVERSEAS TRAVEL

Staff travel overseas 2014/15 – destination, reasons, cost

Number of employees	Destination	Reasons for travel	Total cost to agency (\$)
2	United States and Europe	Accompany the Minister for Defence Industries on defence-related elements and introduce the new Chief Executive of Defence SA.	53,503
1	Singapore	Chairman of Defence SA Advisory Board accompanied the Premier on defence-related elements of official visit and attended private meetings in support of SA defence attraction strategies.	6,551
3*	Japan, Europe and UK	<p>Japan – attend MAST ASIA 2015 conference and participate in dialogue with Japanese Government, Japanese industry, United States Navy, and Australian Embassy offices including Defence Attaché for the purpose of establishing and understanding Japan's approach to submarine build and sustainment.</p> <p>Europe/UK – accompany the Minister for Defence Industries to establish dialogue with European ship and submarine builders on supply chain opportunities related to Defence projects Future Submarines and Future Frigates plus detail-level meetings without MDI.</p>	57,715

* The General Manager Defence and Industry Attraction and Development travelled to Japan; the Director Maritime travelled to Japan, Europe and the UK; and the Chief Executive travelled to Europe and the UK.

OTHER MANDATORY REPORTING ITEMS

REPORTING AGAINST THE CARERS RECOGNITION ACT 2005

Nil.

DISABILITY ACCESS AND INCLUSION PLANS

Defence SA complies with the requirements of the *Disability Discrimination Act 1992* insofar as the Act relates to the functions of the agency. Defence SA confirms its commitment to the key principles of the State Government's *Disability Action and Inclusion Plan 2014–18*.

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.

Defence SA established the *Techport Australia Development Guidelines* 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; while 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 in the precinct.

FREEDOM OF INFORMATION STATEMENT

A freedom of information statement is on the Defence SA website www.defencesa.com

WHISTLEBLOWERS PROTECTION ACT 1993

Defence SA has designated responsible officers for the purposes of the *Whistleblowers Protection 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.

PUBLIC COMPLAINTS

Defence SA has not received any public complaints for the year 2014/15.

FINANCIAL STATEMENTS







Our ref: A15/451

18 September 2015

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Chief Executive
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Dear Mr Keough

**The audit of Defence SA
for the year ended 30 June 2015**

The audit of the accounts of Defence SA for the year ended 30 June 2015 has been completed.

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

The notable areas of audit coverage included:

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

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

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

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

For Official Use Only

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

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

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 deficiencies/weaknesses noted by us and improvements needed in the areas reviewed. Our recommendations provided in the letter are directed to achieving a sufficient standard of governance, financial management, financial reporting and control. Responses to the matters raised were received and will be followed up in the 2015-16 annual audit.

My Annual Report to Parliament includes a controls opinion, which is modified, and summary commentary for Defence SA with reference to the matters raised and responses received.

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

Yours sincerely

A handwritten signature in black ink, appearing to read 'Richardson', with a long horizontal flourish extending to the right.

Andrew Richardson
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 2015. The financial report comprises:

- a Statement of Comprehensive Income for the year ended 30 June 2015
- a Statement of Financial Position as at 30 June 2015
- a Statement of Changes in Equity for the year ended 30 June 2015
- a Statement of Cash Flows for the year ended 30 June 2015
- Disaggregated Disclosures - Expenses and Income for the year ended 30 June 2015
- Disaggregated Disclosures - Assets and Liabilities as at 30 June 2015
- 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 2015, 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.



Andrew Richardson
Auditor-General
18 September 2015

CERTIFICATION OF THE FINANCIAL STATEMENTS

We certify that the:

- financial statements of Defence SA
 - are in accordance with the accounts and records of Defence SA; and
 - comply with relevant Treasurer's Instructions; and
 - comply with relevant accounting standards; and
 - present a true and fair view of the financial position of Defence SA at the end of the financial year and the result of its operations and cash flows for the financial year.
- Internal controls employed by Defence SA over its financial reporting and its preparation of the financial statements have been effective throughout the financial year.



Andy Keough
Chief Executive

14 September 2015



Robert Barnett
General Manager, Corporate Services

14 September 2015

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2015

	Note no.	30 June 2015 \$' 000	30 June 2014 \$' 000
Expenses			
Employee benefits expenses	5	5,008	4,876
Supplies and services	6	7,441	6,578
Depreciation and amortisation	7	7,374	7,968
Net loss from disposal of non-current assets	8	43	30
Grants and subsidies	9	1,553	1,135
Other expenses	10	97	221
Total expenses		21,516	20,808
Income			
Revenues from fees and charges	12	3,998	3,887
Grants	13	7	64
Techport Australia recoveries	14	163	222
Other income	15	329	134
Total income		4,497	4,307
Net cost of providing services	29	(17,019)	(16,501)
Revenues from/payments to SA Government			
Revenues from SA Government	16	16,474	16,498
Payments to SA Government	16	(2,174)	(13,687)
Net result		(2,719)	(13,690)
Total comprehensive result		(2,719)	(13,690)

The net result and total comprehensive result are attributable to the SA Government as owner.
The above statement should be read in conjunction with the accompanying notes.

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2015

	Note no.	30 June 2015 \$' 000	30 June 2014 \$' 000
Current assets			
Cash	17	18,395	16,592
Receivables	18	999	431
Total current assets		19,394	17,023
Non-current assets			
Land	19, 20	22,370	21,870
Buildings and improvements, plant and equipment	19, 20	6,154	6,520
Harbour and port facilities	19, 20	216,162	220,493
Capital works in progress	21	2,730	3,300
Total non-current assets		247,416	252,183
Total assets		266,810	269,206
Current liabilities			
Payables	22	1,359	1,076
Employee benefits	23	523	345
Provisions	24	6	-
Other current liabilities	25	20	21
Total current liabilities		1,908	1,442
Non-current liabilities			
Payables	22	20	30
Employee benefits	23	359	486
Provisions	24	14	-
Other non-current liabilities	25	-	20
Total non-current liabilities		393	536
Total liabilities		2,301	1,978
Net assets		264,509	267,228
Equity			
Contributed capital		101,823	101,823
Retained earnings		162,686	165,405
Total equity		264,509	267,228

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

Unrecognised contractual commitments 26

Contingent assets and liabilities 27

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

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2015

	Note no.	Contributed capital \$' 000	Retained earnings \$' 000	Total equity \$' 000
Balance at 30 June 2013		101,823	179,095	280,918
Net result for 2013–14		-	(13,690)	(13,690)
Total comprehensive result for 2013–14		-	(13,690)	(13,690)
Balance at 30 June 2014		101,823	165,405	267,228
Net result for 2014–15		-	(2,719)	(2,719)
Total comprehensive result for 2014–15		-	(2,719)	(2,719)
Balance at 30 June 2015		101,823	162,686	264,509

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 2015

	Note no.	30 June 2015 \$' 000	30 June 2014 \$' 000
Cash flows from operating activities		Inflows (Outflows)	Inflows (Outflows)
Cash outflows			
Employee benefits payments		(4,929)	(4,756)
Payments for supplies and services		(8,204)	(8,207)
Payments of grants and subsidies		(1,970)	(1,057)
Payments for paid parental leave scheme		(3)	(16)
Cash used in operations		(15,106)	(14,036)
Cash inflows			
Grants		74	3
Fees and charges		3,996	4,293
Techport Australia recoveries		144	265
GST recovered from the ATO		596	651
Receipts for paid parental leave scheme		1	17
Other receipts		316	148
Cash generated from operations		5,127	5,377
Cash flows from SA Government			
Receipts from SA Government		16,474	16,498
Payments to SA Government		(2,174)	(13,687)
Cash generated from SA Government		14,300	2,811
Net cash provided by/(used in) operating activities	29	4,321	(5,848)
Cash flows from investing activities			
Cash outflows			
Payments for property, plant and equipment		-	(40)
Payments for capital work in progress		(2,518)	(3,588)
Cash used in investing activities		(2,518)	(3,628)
Net cash used in investing activities		(2,518)	(3,628)
Net increase/(decrease) in cash		1,803	(9,476)
Cash at the beginning of the period		16,592	26,068
Cash at the end of the period	17, 29	18,395	16,592

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

DISAGGREGATED DISCLOSURES - EXPENSES AND INCOME FOR THE YEAR ENDED 30 JUNE 2015

Refer Note 4 for detailed activity descriptions	Defence Industry Development		Techport Australia		Total Defence SA Activities	
	2015 \$' 000	2014 \$' 000	2015 \$' 000	2014 \$' 000	2015 \$' 000	2014 \$' 000
Expenses						
Employee benefits expenses	3,591	3,537	1,417	1,339	5,008	4,876
Supplies and services	3,357	2,926	4,084	3,652	7,441	6,578
Depreciation and amortisation	121	122	7,253	7,846	7,374	7,968
Net loss from disposal of non-current assets	-	-	43	30	43	30
Grants and subsidies	1,553	1,135	-	-	1,553	1,135
Other expenses	62	111	35	110	97	221
Total expenses	8,684	7,831	12,832	12,977	21,516	20,808
Income						
Revenues from fees and charges	54	16	3,944	3,871	3,998	3,887
Grants	-	-	7	64	7	64
Techport Australia recoveries	-	-	163	222	163	222
Other income	329	132	-	2	329	134
Total income	383	148	4,114	4,159	4,497	4,307
Net cost of providing services	(8,301)	(7,683)	(8,718)	(8,818)	(17,019)	(16,501)
Revenues from/payments to SA Government						
Revenues from SA Government ⁽¹⁾	16,474	16,498	-	-	16,474	16,498
Payments to SA Government	(2,174)	(13,687)	-	-	(2,174)	(13,687)
Net result	5,999	(4,872)	(8,718)	(8,818)	(2,719)	(13,690)

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

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

DISAGGREGATED DISCLOSURES - ASSETS AND LIABILITIES AS AT 30 JUNE 2015

Refer Note 4 for detailed activity descriptions	Defence Industry Development		Techport Australia		Total Defence SA Activities	
	2015 \$' 000	2014 \$' 000	2015 \$' 000	2014 \$' 000	2015 \$' 000	2014 \$' 000
Assets						
Cash	18,395	16,592	-	-	18,395	16,592
Receivables	385	118	614	313	999	431
Land	-	-	22,370	21,870	22,370	21,870
Buildings and improvements, plant and equipment	114	235	6,040	6,285	6,154	6,520
Harbour and port facilities	-	-	216,162	220,493	216,162	220,493
Capital works in progress	-	-	2,730	3,300	2,730	3,300
Total assets	18,894	16,945	247,916	252,261	266,810	269,206
Liabilities						
Payables	647	520	732	586	1,379	1,106
Employee benefits	636	629	246	202	882	831
Provisions	20	-	-	-	20	-
Other liabilities	20	41	-	-	20	41
Total liabilities	1,323	1,190	978	788	2,301	1,978
Net assets	17,571	15,755	246,938	251,473	264,509	267,228

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

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NOTES

Note 1 Objectives of Defence SA

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

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

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

Note 2 Summary of significant accounting policies

a) Statement of compliance

These financial statements have been prepared 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.

Except for AASB 2015-7 which Defence SA has early adopted, 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 2015. Refer note 3.

b) Basis of preparation

The preparation of the financial statements requires:

- the use of certain accounting estimates and requires management to exercise its judgement in the process of applying Defence SA's accounting policies. The areas involving a higher degree of judgement or where assumptions and estimates are significant to the financial statements are outlined in the applicable notes;
- accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events are reported and;
- compliance with Accounting Policy Statements issued pursuant to section 41 of the *Public Finance and Audit Act 1987*. In the interest of public accountability and transparency the Accounting Policy Statements require the following note disclosures, which have been included in these financial statements:
 - a) revenues, expenses, financial assets and liabilities where the counterparty/transaction is with an entity within the SA Government as at reporting date, classified according to their nature;
 - b) expenses incurred as a result of engaging consultants;
 - c) 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.

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 the historical cost convention, except for certain assets that were valued in accordance with the valuation policy applicable.

NOTES

Note 2 b) Basis of preparation (continued)

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

The financial statements have been prepared based on a 12 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 2015 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.

Defence SA does not control any other entity and has no interests in unconsolidated structured entities.

Defence SA has not entered into any contractual arrangements which involve the sharing of control or significant influence over another entity.

d) Budgeted amounts

Budget information refers to the amounts presented to Parliament in the original budgeted financial statements in respect of the reporting period (2014–15 Budget Paper 4). These original budgeted amounts have been presented and classified on a basis that is consistent with the line items in the financial statements. These amounts have not been adjusted to reflect revised budgets or administrative restructures/machinery of government changes. The budget process is not subject to audit.

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) Taxation

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

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

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

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

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

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

NOTES

Note 2 h) 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.

i) Income

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

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

The following are specific recognition criteria:

Revenues from fees and charges

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

Revenues from SA Government

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

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

Other income

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

j) Expenses

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

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

The following are specific recognition criteria:

Employee benefits expenses

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

Superannuation

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

Depreciation and amortisation

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

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

NOTES

Note 2 j) Expenses (continued)

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 is 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 and improvements	6–40
Leasehold improvements	Life of lease
Plant and equipment	4–25

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

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

Grants and subsidies

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

Payments to SA Government

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

k) 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 12 months. Assets and liabilities that are to be sold, consumed or realised as part of the normal operating cycle, even when they are not expected to be realised within 12 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 12 months and more than 12 months, Defence SA has separately disclosed the amounts expected to be recovered or settled after more than 12 months.

l) 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.

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.

NOTES

Note 2 I) Assets (continued)

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 external entities. 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 are 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.

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 policy (refer below).

Non-current asset acquisition and recognition

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

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

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

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

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

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

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

Revaluation of non-current assets

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

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

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

NOTES

Note 2 l) Assets (continued)

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. The recoverable amount is determined as the higher of the asset's fair value less costs of disposal and depreciated replacement cost. 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 asset revaluation surplus.

Fair value measurement

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

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

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

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

Non-financial assets

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

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

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

Financial assets/liabilities

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

m) 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.

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.

NOTES

Note 2 m) Liabilities (continued)

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

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

Leases

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

Operating leases

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

Lease incentives

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

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

Employee benefits

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

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

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

The annual leave liability and the skills and experience retention leave liability is expected to be payable within 12 months and is measured at the undiscounted amount expected to be paid.

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.

Long service leave

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

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

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

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

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

NOTES

Note 2 m) Liabilities (continued)

Employee benefits on-costs

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

Provisions

Provisions are recognised when Defence SA has a potential 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.

The workers compensation provision is an actuarial estimate of the outstanding liability as at 30 June 2015 provided by a consulting actuary engaged through the Office for the Public Sector. The provision is for the estimated cost of ongoing payments to employees as required under the current legislation.

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

n) Insurance

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

o) Unrecognised contractual commitments and contingent assets and liabilities

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

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

NOTES

Note 3 New and revised accounting standards and policies

Except for AASB 2015-7 which Defence SA has early adopted, 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 2015. 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.

In accordance with the new AASB 1055 *Budgetary Reporting*, which became effective for the first time in 2014–15, Defence SA has:

- Included a comprehensive new note 'Budgetary reporting and explanations of major variances' (notes 31 and 2d). These notes disclose in respect of the Statement of Comprehensive Income and Investing Expenditure Summary:
 - Defence SA's original budget as published in the 2014–15 Budget Paper 4;
 - a comparison of the original budget information to actual results; and
 - explanations of major variances.

In accordance with the new AASB 10 *Consolidated Financial Statements* and AASB 11 *Joint Arrangements*, which became effective for the first time in 2014–15, Defence SA has reviewed its control assessments in accordance with AASB 10 and its classification assessments in accordance with AASB 11 and has concluded that there is no impact. Defence SA does not currently control another entity and does not have any joint arrangements within the scope of AASB 11.

Defence SA will continue to review its involvement and arrangements with entities it is connected with to determine the impact of AASB 10 and 11 for future years.

Note 4 Activities of Defence SA

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

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

Activity 1 - Defence Industry Development

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

It targets national and international business development opportunities and supports Defence SA's administrative, financial and other operational services.

The activity delivers the state's workforce development commitments to the Air Warfare Destroyer project, including the Maritime Skills Centre and integration of defence industry skills into whole of state workforce development planning and implementation initiatives.

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

Activity 2 – Techport Australia

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

The disaggregated disclosures schedules present expenses, income, assets and liabilities information attributable to each of the activities for the years ended 30 June 2015 and 30 June 2014.

NOTES

Note 5 Employee benefits expenses	30 June 2015	30 June 2014
	\$' 000	\$' 000
Salaries and wages	3,582	3,488
Long service leave	127	103
Annual leave	247	291
Skills and experience retention leave	2	3
Employment on-costs - superannuation	391	346
Employment on-costs - other	230	219
Advisory Board and committee fees (note 28)	329	351
Workers compensation	25	3
Other employee related expenses	75	72
Total employee benefits expenses	5,008	4,876

Remuneration of employees

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

	No.	No.
\$141 500 to \$151 499	-	-
\$161 500 to \$171 499	-	2
\$171 500 to \$181 499	2	1
\$181 500 to \$191 499	3	3
\$191 500 to \$201 499	2	1
\$211 500 to \$221 499	1	2
\$221 500 to \$231 499	1	-
\$231 500 to \$241 499	1	-
\$241 500 to \$251 499	-	1
\$251 500 to \$261 499	1	-
\$321 500 to \$331 499	1	-
\$571 500 to \$581 499	-	1
Total number of employees	12	11

The table includes all employees who received remuneration equal to or greater than the base executive remuneration level during the year. The executive base level remuneration rate for 2014–15 is the same as the 2013–14 rate (ie there has been no increase in executive remuneration since 1 July 2013). 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 \$2.548 million (\$2.512 million).

NOTES

Note 6	Supplies and services	30 June 2015	30 June 2014
		\$' 000	\$' 000
	Accommodation and service costs	336	325
	Consultants (refer below)	131	399
	Contractors	1,159	791
	Electricity	1,386	1,044
	Gas and gas equipment	185	154
	Insurance	103	101
	Legal fees	201	214
	Minor plant and equipment	199	262
	Promotion and events	1,179	795
	Property	323	359
	Provision of corporate services under Service Level Agreements	295	309
	Security services	702	723
	Staff safety, development and recruitment	159	145
	Travel and related expenses	408	394
	Other expenses	675	563
	Total supplies and services	7,441	6,578

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

Consultants

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

	No.	30 June 2015	No.	30 June 2014
		\$' 000		\$' 000
Above \$10 000	2	131	2	399
Total paid/payable to the consultants engaged	2	131	2	399

NOTES

Note 7	Depreciation and amortisation	30 June 2015 \$' 000	30 June 2014 \$' 000
	Depreciation		
	Buildings and improvements	172	212
	Plant and equipment	94	88
	Harbour and port facilities	6,991	7,551
	Total depreciation	7,257	7,851
	Amortisation		
	Leasehold improvements	117	117
	Total amortisation	117	117
	Total depreciation and amortisation	7,374	7,968

Revision of accounting estimates

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

Note 8	Net loss from disposal of non-current assets	30 June 2015 \$' 000	30 June 2014 \$' 000
	Net book value of harbour and port assets disposed	43	30
	Total net loss from disposal of non-current assets	43	30

Note 9	Grants and subsidies	30 June 2015 \$' 000	30 June 2014 \$' 000
	Defence Teaming Centre	735	485
	ASC AWD Shipbuilder Pty Ltd	618	650
	Data 2 Decision Co-operative Research Centre	200	-
	Total grants and subsidies	1,553	1,135

NOTES

Note 10 Other expenses	30 June 2015	30 June 2014
	\$' 000	\$' 000
Audit fees (refer note 11)	38	41
Internal audit	41	83
Allowances for doubtful debts (refer note 18)	(6)	92
Other	24	5
Total other expenses	97	221

Note 11 Auditor's remuneration	30 June 2015	30 June 2014
	\$' 000	\$' 000
Audit fees paid/payable to the Auditor-General's Department relating to the audit of financial statements	38	41
Total audit fees	38	41

Other services

No other services were provided by the Auditor-General's Department.

Note 12 Revenues from fees and charges	30 June 2015	30 June 2014
	\$' 000	\$' 000
CUF priority access fee	2,683	2,638
Techport Australia other fees	1,261	1,233
Renewal SA income	54	16
Total fees and charges	3,998	3,887

Note 13 Grants	30 June 2015	30 June 2014
	\$' 000	\$' 000
ASC AWD Shipbuilder Pty Ltd payment towards CUF infrastructure	-	63
Other	7	1
Total grants	7	64

NOTES

Note 14 Techport Australia recoveries	30 June 2015	30 June 2014
	\$' 000	\$' 000
Other Techport Australia recoveries	163	222
Total Techport Australia recoveries	163	222

Note 15 Other income	30 June 2015	30 June 2014
	\$' 000	\$' 000
Transfers received - Department for State Development	254	76
Other income	75	58
Total other income	329	134

Note 16 Revenues from/payments to SA Government	30 June 2015	30 June 2014
	\$' 000	\$' 000
Revenues from SA Government		
Appropriations from Consolidated Account pursuant to the <i>Appropriation Act</i>	16,467	16,482
Transfers received - Department of Treasury and Finance	7	16
Total revenues from SA Government	16,474	16,498
Payments to SA Government		
Return of surplus cash pursuant to cash alignment policy	(2,174)	(13,687)
Total payments to SA Government	(2,174)	(13,687)

Appropriations from Consolidated Account were \$16.474 million (\$16.498 million) for operational funding and capital projects.

Note 17 Cash	30 June 2015	30 June 2014
	\$' 000	\$' 000
Deposits with the Treasurer	905	4,275
Deposits with the Treasurer - Accrual Appropriation Excess Funds Account ⁽¹⁾	17,490	12,317
Total cash	18,395	16,592

⁽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.

NOTES

Note 18 Receivables	30 June 2015 \$' 000	30 June 2014 \$' 000
Current		
Receivables and accrued income	740	307
Less allowance for doubtful debts	(99)	(105)
Prepayments	81	54
GST input tax recoverable	277	175
Total current receivables	999	431

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	105	13
Increase in allowance	-	100
Amounts written off	-	-
Amounts recovered during the year	(6)	(8)
Carrying amount at the end of the period	99	105

Interest rate and credit risk

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

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

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

There is no concentration of credit risk.

(a) Maturity analysis of receivables - refer to note 32

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

(c) Ageing analysis of financial assets - refer to note 32

NOTES

Note 19 Property, plant and equipment	30 June 2015 \$' 000	30 June 2014 \$' 000
Land		
Land only holdings at fair value ⁽¹⁾	16,250	18,150
Land only holdings improvements at cost	2,736	3,029
Site land at fair value	2,500	600
Site land at cost	884	91
Total land	22,370	21,870
Buildings and improvements		
Buildings at fair value	3,425	3,425
Buildings at cost ⁽²⁾	2,949	2,949
Accumulated depreciation at the end of the period	(903)	(731)
Total buildings and improvements	5,471	5,643
Leasehold improvements		
Leasehold improvements at cost	884	884
Accumulated amortisation at the end of the period	(776)	(659)
Total leasehold improvements	108	225
Plant and equipment		
Plant and equipment at cost	1,014	1,009
Accumulated depreciation at the end of the period	(439)	(357)
Total plant and equipment	575	652
Total buildings and improvements, plant and equipment	6,154	6,520
Harbour and port facilities		
Harbour and port facilities at cost ⁽²⁾	254,036	251,399
Accumulated depreciation at the end of the period	(37,874)	(30,906)
Total harbour and port facilities	216,162	220,493
Total property, plant and equipment	284,678	281,536
Total accumulated depreciation/amortisation at the end of the period	(39,992)	(32,653)
Total property, plant and equipment	244,686	248,883

NOTES

Note 19 Property, plant and equipment (continued)

Valuation of land and buildings

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

⁽¹⁾ The land valuation takes into account that this land is reserved for use for future naval shipbuilding purposes to support the State's defence industry. These landholdings have direct access to the Common User Facility as a result of infrastructure works which have been undertaken to ensure this land can be used as an integral part of future shipbuilding activity. Works have included the relocation of services and infrastructure works to facilitate access across Mersey Road to the Common User Facility.

⁽²⁾ All Techport Australia Common User Facility assets (including buildings) are considered a specialised asset, are recorded at written down current cost (a proxy for fair value) and have not been revalued.

Carrying amount of leasehold improvements, plant and equipment and harbour and port facilities

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

Harbour and port facilities includes \$1.394 million (\$nil) of fully depreciated assets still in use.

Impairment

There were no indications of impairment of property, plant and equipment as at 30 June 2015.

NOTES

Note 19 Property, plant and equipment (continued)

RECONCILIATION OF PROPERTY, PLANT AND EQUIPMENT

The following table shows the movement of property, plant and equipment during 2013–14

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

RECONCILIATION OF PROPERTY, PLANT AND EQUIPMENT

The following table shows the movement of property, plant and equipment during 2014–15

	Land \$' 000	Buildings \$' 000	Leasehold improvements \$' 000	Plant and equipment \$' 000	Harbour and port facilities \$' 000	Total assets \$' 000
Carrying amount at the beginning of the period	21,870	5,643	225	652	220,493	248,883
Acquisitions and transfers	500	-	-	17	2,703	3,220
Disposals	-	-	-	-	(43)	(43)
Depreciation and amortisation	-	(172)	(117)	(94)	(6,991)	(7,374)
Carrying amount at the end of the period	22,370	5,471	108	575	216,162	244,686

NOTES

Note 20 Fair value measurement

Fair value hierarchy

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

Fair value measurements recognised in the Statement of Financial Position are categorised into the following levels at 30 June 2015.

Defence SA had no valuations categorised into level 1.

Fair value measurements at 30 June 2014 (refer note 21 and 19)

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

Fair value measurements at 30 June 2015

Recurring fair value measurements

Land	18,750	3,620	22,370
Buildings	2,982	2,489	5,471
Leasehold improvements	-	108	108
Plant and equipment	-	575	575
Harbour and port facilities	-	216,162	216,162
Total recurring fair value measurements	21,732	222,954	244,686

There were no transfers of assets between level 2 and 3 fair value hierarchy levels in 2013–14 or 2014–15. Defence SA's policy is to recognise transfers into and out of fair value hierarchy levels as at the end of the reporting period.

Valuation techniques and inputs

Valuation techniques and inputs used to derive level 2 and 3 fair values are described in note 19. Unobservable inputs used in determining fair value are useful lives and associated depreciation as described above. There were no changes in valuation techniques during 2014–15.

NOTES

Note 20 Fair value measurement (continued)

Reconciliation of level 3 fair value measurements as at 30 June 2014

	Land \$' 000	Buildings \$' 000	Leasehold improvements \$' 000	Plant and equipment \$' 000	Harbour and port facilities \$' 000
Carrying amount at the beginning of the period	3,120	2,745	342	623	227,130
Acquisitions and transfers	-	-	-	117	944
Disposals	-	-	-	-	(30)
Depreciation/amortisation	-	(84)	(117)	(88)	(7,551)
Carrying amount at the end of the period	3,120	2,661	225	652	220,493

Reconciliation of level 3 fair value measurements as at 30 June 2015

	Land \$' 000	Buildings \$' 000	Leasehold improvements \$' 000	Plant and equipment \$' 000	Harbour and port facilities \$' 000
Carrying amount at the beginning of the period	3,120	2,661	225	652	220,493
Acquisitions and transfers	500	-	-	17	2,703
Disposals	-	-	-	-	(43)
Depreciation/amortisation	-	(172)	(117)	(94)	(6,991)
Carrying amount at the end of the period	3,620	2,489	108	575	216,162

NOTES

Note 21 Capital works in progress

30 June 2015
\$' 000

30 June 2014
\$' 000

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

2,730

3,300

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 2013–14

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

RECONCILIATION OF CAPITAL WORKS IN PROGRESS

The following table shows the movement of capital works in progress during 2014–15

	Improvements to freehold land \$' 000	Harbour and port facilities \$' 000	Plant and equipment \$' 000	Total capital works in progress \$' 000
Carrying amount at the beginning of the period	-	3,300	-	3,300
Acquisitions	65	2,568	17	2,650
Reclassified as property, plant and equipment	(65)	(3,138)	(17)	(3,220)
Carrying amount at the end of the period	-	2,730	-	2,730

NOTES

Note 22 Payables	30 June 2015 \$' 000	30 June 2014 \$' 000
Current		
Creditors and accrued expenses	1,210	971
Employment on-costs	92	58
GST payable	57	47
Total current payables	1,359	1,076
Non-current		
Employment on-costs	20	30
Total non-current payables	20	30
Total payables	1,379	1,106

As a result of an actuarial assessment performed by the Department of Treasury and Finance, the proportion of long service leave taken as leave has decreased from the 2014 rate of 40% to a rate of 37% and the average factor for the calculation of employer superannuation cost on-cost has remained at the 2014 rate of 10.3%. These rates are used in the employment on-cost calculation. The net financial effect of the changes in the current financial year is a decrease in the employment on-cost of \$3 000 and employees benefits expense of \$3 000. The impact on future periods is impracticable to estimate as the long service leave liability is calculated using a number of assumptions. A key assumption is the proportion of Long Service Leave taken as leave instead of a lump sum, a result determined by the actuary based on current period data.

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 benefits that they relate to are discharged. All payables are non-interest bearing. The carrying amount of payables represents fair value due to the amounts being payable on demand.

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

NOTES

Note 23 Employee benefits	30 June 2015 \$' 000	30 June 2014 \$' 000
Current		
Accrued salaries and wages	39	14
Annual leave	209	191
Long service leave	271	134
Skills and experience retention leave	4	6
Total current employee benefits	523	345
Non-current		
Long service leave	359	486
Total non-current employee benefits	359	486
Total employee benefits	882	831

AASB 119 contains the calculation methodology for long service leave liability. The actuarial assessment performed by the Department of Treasury and Finance has provided a basis for the measurement of long service leave. AASB 119 requires the use of the yield on long-term Commonwealth Government bonds as the discount rate in the measurement of the long service liability. The yield on long term Commonwealth Government bonds has decreased from 2014 (3.5%) to 2015 (3.00%).

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

The net financial effect of the changes in the current financial year is an increase in the long service leave liability of \$22 000 and employee benefits expense (including on-costs) of \$24 000. The impact on future periods is impracticable to estimate as the long service leave liability is calculated using a number of assumptions. A key assumption is the long term discount rate.

The actuarial assessment performed by the Department of Treasury and Finance left the salary inflation rate at 4% for long service leave liability and revised the salary inflation rate down by 1% from 2014 (4%) to 2015 (3%) for annual leave and skills, experience and retention leave liability. The net financial effect of the changes in the current financial year is a decrease in the annual leave and skills, experience and retention leave liability of \$2 000 and employee benefit expense by \$2 000.

NOTES

Note 24 Provisions	30 June 2015 \$' 000	30 June 2014 \$' 000
Current		
Provision for workers compensation	6	-
Total current provisions	6	-
Non-current		
Provision for workers compensation	14	-
Total non-current provisions	14	-
Total provisions	20	-
Movements in provisions		
Carrying amount at the beginning of the period	-	-
Additional provisions recognised	20	-
Carrying amount at the end of the period	20	-

A liability has been reported to reflect potential workers compensation claims.

The workers compensation provision is based on an actuarial assessment performed by the Office for the Public Sector.

Note 25 Other liabilities	30 June 2015 \$' 000	30 June 2014 \$' 000
Current		
Lease incentive	20	21
Total current other liabilities	20	21
Non-current		
Lease incentive	-	20
Total non-current other liabilities	-	20
Total other liabilities	20	41

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.

NOTES

Note 26 Unrecognised contractual commitments

30 June 2015
\$' 000

30 June 2014
\$' 000

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	108	1,148
Total capital commitments	108	1,148

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

Expenditure commitments - other

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

Within 1 year	2,934	2,656
Later than 1 year but not longer than 5 years	3,151	5,072
Later than 5 years	60	865
Total other commitments	6,145	8,593

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

Expenditure commitments - remuneration

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	1,461	1,716
Later than 1 year but not longer than 5 years	1,346	2,086
Total remuneration commitments	2,807	3,802

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

NOTES

Note 27	Contingent assets and contingent liabilities	30 June 2015	30 June 2014
		\$' 000	\$' 000
	Contingent liabilities to which a value can be assigned		
	Contingent liabilities to which a value can be assigned	6,000	6,559
	Total	6,000	6,559

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 State has now completed the CUF construction in accordance with the agreed design and schedule thereby eliminating this risk. The State continues to be liable if there are defects in the CUF or it fails to meet agreed performance criteria. The likelihood of non-performance is considered remote, and the State's exposure is capped at \$320 million.

NOTES

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

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

ACM Sir A Houston AK AFC (Chair)
Hon J Weatherill MP *
Hon M Hamilton-Smith MP *
Dr N Bryans
Dr I Chessell (resigned 31 August 2014)
VADM R Crane AO CSM RANR
A Fletcher ** (resigned 24 August 2014)
M Jackman ** (appointed 24 August 2014)
P Johnson MBE
B Laughton
LTGEN P Leahy AC
RADM T Ruting AM CSC RANR
Dr J White (leave of absence from 1 April 2015)

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

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

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

	30 June 2015	30 June 2014
	No.	No.
\$0 to \$9 999	2	1
\$20 000 to \$29 999	1	-
\$30 000 to \$39 999	5	7
\$40 000 to \$49 999	1	1
\$50 000 to \$59 999	-	1
\$70 000 to \$79 999	1	-
Total number of members	10	10

Remuneration of members reflects all costs of performing board/committee member duties including sitting fees, superannuation contributions, salary sacrifice benefits and fringe benefits and any fringe benefits tax paid or payable in respect of those benefits. Total remuneration received or receivable, by board and committee members was \$329 000 (\$351 000), plus Defence SA compulsory superannuation contributions of \$31 000 (\$33 000). Other Advisory Board expenses were \$170 000 (\$174 000).

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

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

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

NOTES

Note 28 Remuneration of Advisory Board and committee members and related party disclosure (continued)

P Johnson MBE is a board member of Maritime Australia Ltd. Defence SA will participate in the Pacific International Maritime Exposition in October 2015, which is an event managed by Maritime Australia Ltd.

Dr J White is Chairman of TKMS Australia one of the companies involved in Australia's Future Submarine Competitive Evaluation Process and has taken an extended leave of absence from the Defence SA Advisory Board to avoid any conflict of interest.

LTGEN P Leahy AC is a board member of Electro Optic Systems which has an involvement with the Land 400 project (armoured vehicles).

Dr Neil Bryans has undertaken contract work on behalf of Defence SA for science and technology projects. Payments for this work are additional to the Board remuneration he received.

Note 29 Cash flow reconciliation	Note	30 June 2015 \$' 000	30 June 2014 \$' 000
Reconciliation of cash at end of reporting period:			
Cash disclosed in the Statement of Financial Position		18,395	16,592
Balance as per the Statement of Cash Flows		18,395	16,592
Reconciliation of net cash (used in)/provided by operating activities to net cost of providing of services:			
Net cash (used in)/provided by operating activities		4,321	(5,848)
Revenues from SA Government	16	(16,474)	(16,498)
Payments to SA Government	16	2,174	13,687
Add/(less) non-cash items			
Depreciation and amortisation expense of non-current assets	7	(7,374)	(7,968)
Net gain/(loss) from the disposal of non-current assets	8	(43)	(30)
Non-current assets accrual in payables		132	(89)
Movement in assets/liabilities			
Increase/(decrease) in receivables	18	568	(133)
(Increase)/decrease in payables	22	(273)	473
(Increase)/decrease in employee benefits	23	(51)	(116)
(Increase)/decrease in provisions	24	(20)	-
(Increase)/decrease in other liabilities	25	21	21
Net cost of providing services		(17,019)	(16,501)

Note 30 Transactions with SA Government

The following table discloses revenues, expenses, financial assets and liabilities where the counterparty/transaction is with an entity within the SA Government as at the reporting date, classified according to their nature.

Note	SA Government		Non-SA Government		Total	
	2015 \$' 000	2014 \$' 000	2015 \$' 000	2014 \$' 000	2015 \$' 000	2014 \$' 000
	Expenses					
5	230	219	4,778	4,657	5,008	4,876
6	336	325	-	-	336	325
	-	-	131	399	131	399
	-	-	1,159	791	1,159	791
	-	-	1,386	1,044	1,386	1,044
	-	-	185	154	185	154
	103	101	-	-	103	101
	200	210	1	4	201	214
	-	-	199	262	199	262
	-	-	1,179	795	1,179	795
	34	35	289	324	323	359
	295	309	-	-	295	309
	2	3	700	720	702	723
	-	-	159	145	159	145
	-	25	408	369	408	394
	128	85	547	478	675	563
	-	-	7,374	7,968	7,374	7,968
	-	-	43	30	43	30
	-	-	1,553	1,135	1,553	1,135
7	38	41	41	83	79	124
8	-	-	(6)	92	(6)	92
9	18	5	6	-	24	5
10						
	38	41	41	83	79	124
	-	-	(6)	92	(6)	92
	18	5	6	-	24	5
Total expenses	1,384	1,358	20,132	19,450	21,516	20,808

Note 30 Transactions with SA Government (continued)

Note	SA Government		Non-SA Government		Total	
	2015 \$' 000	2014 \$' 000	2015 \$' 000	2014 \$' 000	2015 \$' 000	2014 \$' 000
Income						
12						
Revenues from fees and charges:						
CUF priority access fee	-	-	2,683	2,638	2,683	2,638
Techport Australia other fees	-	-	1,261	1,233	1,261	1,233
Renewal SA income	54	16	-	-	54	16
13 Grants	4	-	3	64	7	64
14 Techport Australia recoveries	-	-	163	222	163	222
15 Other income:						
Transfers received - Department for State Development	254	76	-	-	254	76
Other income	-	-	75	58	75	58
Total income	312	92	4,185	4,215	4,497	4,307
Net cost of providing services	(1,072)	(1,266)	(15,947)	(15,235)	(17,019)	(16,501)
16 Revenues from SA Government	16,474	16,498	-	-	16,474	16,498
16 Payments to SA Government	(2,174)	(13,687)	-	-	(2,174)	(13,687)
Net result	13,228	1,545	(15,947)	(15,235)	(2,719)	(13,690)
Total comprehensive result	13,228	1,545	(15,947)	(15,235)	(2,719)	(13,690)

NOTES

Note 31 Budgetary reporting and explanations of major variances between budget and actual amounts

The following are brief explanations of variances between original budget⁽¹⁾ and actual amounts.

Explanations are provided for variances where the variance exceeds the greater of 10% of the original budgeted amount and 5% of original budgeted total expenses.

Statement of Comprehensive Income	Original budget⁽¹⁾ 2015 \$' 000	Actual 2015 \$' 000	Variance⁽²⁾ \$' 000
Expenses			
Employee benefits expenses	4,998	5,008	(10)
Supplies and services	7,496	7,441	55
Depreciation and amortisation	7,706	7,374	332
Net loss from disposal of non-current assets	-	43	(43)
Grants and subsidies	1,232	1,553	(321)
Other expenses	166	97	69
Total expenses	21,598	21,516	82
Income			
Revenues from fees and charges	3,563	3,998	435
Grants	-	7	7
Techport Australia recoveries	124	163	39
Other income	313	329	16
Total income	4,000	4,497	497
Net cost of providing services	(17,598)	(17,019)	579
Revenues from/payments to SA Government			
Revenues from SA Government	16,467	16,474	7
Payments to SA Government*	-	(2,174)	(2,174)
Net result	(1,131)	(2,719)	(1,588)
Total comprehensive result	(1,131)	(2,719)	(1,588)

*Surplus cash held in the operating account of Defence SA was transferred to the Department of Treasury and Finance.

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Note 31 Budgetary reporting and explanations of major variances between budget and actual amounts (continued)

Investing expenditure summary	Original budget⁽¹⁾ 2015 \$' 000	Actual 2015 \$' 000	Variance⁽²⁾ \$' 000
Existing projects	2,330	2,303	27
Annual programs	221	347	(126)
Total investing expenditure	2,551	2,650	(99)

⁽¹⁾ The budget process is not subject to audit. Budget information refers to amounts presented to Parliament in the original budgeted financial statements in respect of the reporting period (2014–15 Budget Paper 4). These original budgeted amounts have been presented and classified on a basis that is consistent with line items in the financial statements. These amounts have not been adjusted to reflect revised budgets or administrative restructures/machinery of government changes.

⁽²⁾ The use of brackets identifies an adverse variance.

Note 32 Financial risk management/Financial instruments

Financial risk management

Risk management is undertaken by Defence SA's corporate services section and Defence SA's risk management policies are in accordance with the *Risk Management Policy Statement* issued by the Premier and Treasurer and the principles established in the Australian Standard *Risk Management Principles and Guidelines*.

Defence SA is exposed to financial risk - liquidity risk, credit risk and market risk. There have been no changes in risk exposure since the last reported period.

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*.

Defence SA does not recognise any financial assets or financial liabilities at fair value but does disclose fair value in the notes. All the resulting fair value estimates are included in level 2 as all significant inputs required are observable.

The carrying value less impairment provisions of receivables and payables is a reasonable approximation of their fair values due to the short-term nature of these financial instruments (refer note 2, 18, 22).

NOTES

Note 32 Financial risk management/Financial instruments (continued)

Category of financial assets and financial liabilities	Statement of Financial Position	Note	Carrying Amount	Carrying Amount
			30 June 2015 \$' 000	30 June 2014 \$' 000
Financial assets				
Cash	Cash	17, 29	18,395	16,592
Receivables	Receivables ⁽¹⁾⁽²⁾	18	641	202
Financial liabilities				
Financial liabilities	Payables ⁽¹⁾	22	1,072	846

⁽¹⁾ Receivable and payable amounts disclosed here exclude amounts relating to statutory 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 levies, tax and equivalents etc they would be excluded from the disclosure. The standard defines contracts as enforceable by law. All amounts recorded are carried at cost (not materially different from amortised cost).

⁽²⁾ Receivables amount disclosed here excludes prepayments. Prepayments are presented in note 18 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.

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

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

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. No collateral is held as security and no credit enhancements relate to financial assets held by Defence SA.

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 18 for information on the allowance for the impairment in relation to receivables.

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

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Note 32 Financial risk management/Financial instruments (continued)

Ageing analysis of financial assets past due including impaired assets

The following table discloses the ageing of financial assets that are past due but not impaired and impaired assets.

Ageing analysis of financial assets

	Past due by			Total \$' 000
	< 30 days \$' 000	30 – 60 days \$' 000	> 60 days \$' 000	
2014				
Not impaired				
Receivables*	-	-	-	-
Impaired				
Receivables*	-	-	95	95
2015				
Not impaired				
Receivables*	7	-	-	7
Impaired				
Receivables*	-	-	95	95

*Amount of receivables disclosed here excludes statutory receivables (GST). They are carried at cost.

Maturity analysis of financial assets and liabilities

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

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.

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