

ANNUAL REPORT 2012-13



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30 September 2013

Dear Ministers

I am pleased to present to you Defence SA's Annual Report and financial statements for the year ended 30 June 2013. The report has been prepared in accordance with the requirements of the *Public Sector Act 2009* and the *Public Finance and Audit Act 1987*.

Yours sincerely



Andrew Fletcher
CHIEF EXECUTIVE

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CHIEF EXECUTIVE'S FOREWORD

Defence industry sustainability is a core focus for Defence SA and was at the forefront of the agency's efforts in 2012–13. The planned bottoming out of Defence spending nationally hit some companies harder than others. In South Australia, it was a mixed picture with the rise of the Air Warfare Destroyer (AWD) project cushioning the impact on the local industry as a whole. The state's military vehicle industry capability, however, dissipated in 2012 with the end of two major contracts.

Defence SA placed significant effort into advocating for improved Defence programming to provide workflow continuity. Progress was achieved in the naval shipbuilding realm with the release of the *Future Submarine Industry Skills Plan*. In addition, Defence SA worked closely with local firms competing for contracts and to explore alternative markets for locally-developed products and services.

Defence SA also worked collegiately with other State Government agencies and the Defence Teaming Centre to develop supportive enterprise and workforce development programs under the State Government's new advanced manufacturing agenda and *Science Technology Engineering and Mathematics Skills Strategy*.

The year also saw a deliberate focus on more collaborative interaction with other states, particularly in relation to the \$250 billion naval shipbuilding opportunity.

In line with the AWD production schedule, Techport Australia's Common User Facility reached full operational status in 2012–13 and a program of capital works progressed to maximise flexibility for commercial and other naval shipbuilding activity in the precinct.

Local Australian Defence Force units also featured prominently with the Royal Australian Air Force and Australian Army both returning from major operations in the Middle East and Afghanistan respectively. Welcome home events reinforce at a personal level the critical role that local servicemen and women play in global security.

The Defence SA Advisory Board, including the Premier and Minister for Defence Industries, continued to focus on shaping South Australia's defence future with a number of key commitments gained or reaffirmed on the Future Submarine Project.

The year 2013–14 will be a defining one for South Australia's defence industries with national and state elections and Defence SA has been working to ensure bipartisan commitment to defence industry issues at both levels. Next year will also see a modest increase in Defence spending – the first in a number of years. A new Defence White Paper is also planned in the next 18 months.

I thank our insightful Board and committed staff for their continued focus on supporting Defence SA's mandate of growing South Australia's Defence presence and sustainable defence industries.



Andrew Fletcher
CHIEF EXECUTIVE

HIGHLIGHTS

- Air Warfare Destroyer Ship 1 *Hobart* consolidation commenced with keel laying ceremony in September.
- Adelaide announced as home of the Future Submarine Systems Centre in September.
- BAE Systems Australia commenced construction of a new advanced manufacturing facility in Edinburgh in September.
- Skills Australia's *Defence Industry Workforce Strategy* released in September, with favourable findings for South Australia.
- Former Chief of the Defence Force Air Chief Marshal Angus Houston AC AFC joined the Defence SA Advisory Board in October.
- Moratorium lifted in October on new non-Defence access to the Woomera Prohibited Area, paving the way for new resources exploration activity.
- State Government's Advanced Manufacturing Strategy released in October, with strong defence focus.
- Successful representation at the Land Warfare Conference in October/November.
- United States Secretary of State visited Techport Australia in November, designating the precinct the heartland of military manufacturing in Australia.
- Commonwealth Government committed in December to the establishment of the Submarine Land Based Test Site in Adelaide.
- Adelaide announced as the location for the next Defence + Industry Conference in December, with this key industry event expected to be held in mid-2014.
- *Guarding our Edge – Building and Sustaining the Future Submarine* discussion paper released by the Defence SA Advisory Board in January.
- SEA 1000 Integrated Project Team commenced operations at newly established Future Submarine Systems Centre in Dudley Park in February.
- Adelaide announced in February as the location for the defence node of the Commonwealth's Advanced Manufacturing Precinct.
- Common User Facility seawater pump upgrade completed in February, improving service delivery to the Air Warfare Destroyer program.
- RAAF 92 Wing Commemorative Event in February to mark the end of 10 years of continuous deployment to the Middle East Area of Operations.
- State's advanced component manufacturing and intelligence, surveillance and reconnaissance credentials successfully promoted at the Avalon Airshow in February and March.
- *Defence White Paper* released in May, reconfirming the Commonwealth Government's commitment to Future Submarine assembly in South Australia.
- *Future Submarine Industry Skills Plan* released in May, providing a path forward to mitigate a decline in national naval shipbuilding skills.
- 7th Royal Australian Regiment Task Group welcomed home in June, after deploying to Afghanistan in October 2012.
- Cultana Indigenous Land Use Agreement formally registered in June by the National Native Title Tribunal.

ABOUT DEFENCE SA



Minister for Defence Industries, the Hon Jack Snelling MP, attending an Army training exercise (1st Brigade and 6th Brigade) at Horseshoe Barracks.



CORPORATE GOVERNANCE

Organisational Structure

Established in 2007, Defence SA remains the only stand-alone dedicated defence-related state agency in Australia, and highly valued by the Defence customer. Defence SA recognises that industry, not State Government, delivers goods and services to Defence. The agency's key role is to facilitate programs and services which drive further growth of Defence in South Australia, as well as sustainable defence industries.

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

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

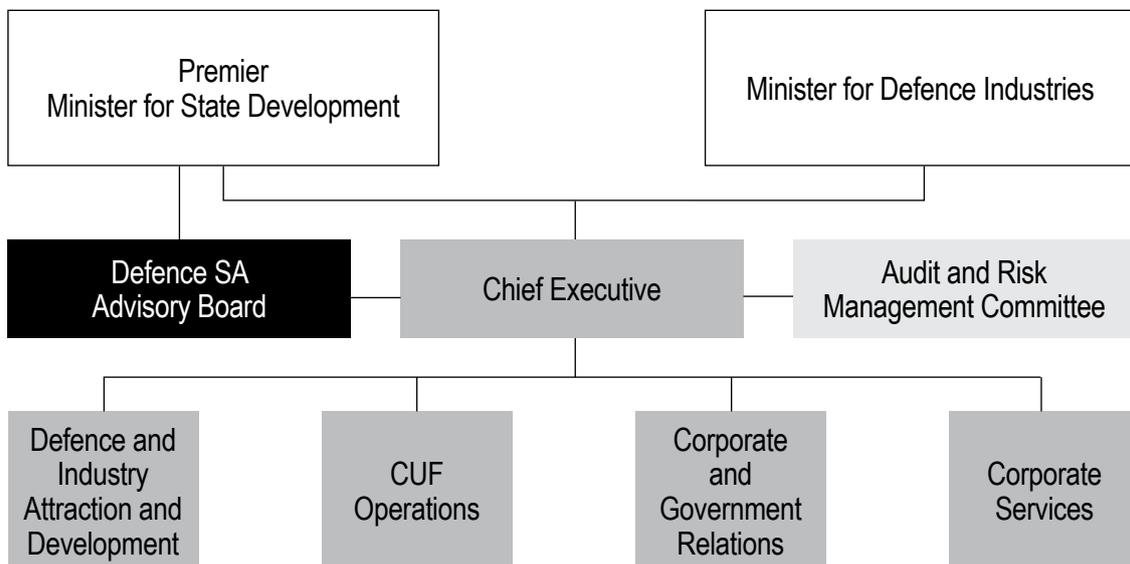
Defence SA is also focused on ensuring the agency remains a leading government employer of choice and that its corporate systems and standards are world class.

At 30 June 2013, Defence SA employed 27.6 full-time equivalent employees across two locations – Adelaide and Osborne. The agency's structure and reporting arrangements are depicted in Figure 1.

Unit Functions

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

Figure 1: Defence SA Organisational Structure at 30 June 2013



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

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

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

Defence SA Reporting Arrangements

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

Defence SA Advisory Board

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

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

Particular focus areas in 2012–13 included:

- input to State Government submission to the *Defence White Paper*
- ambassadorial role at major events (Land Warfare Conference, Avalon Airshow, State's Advanced Manufacturing Strategy launch)
- renewed industry engagement, including liaison with broader South Australian business community through boardroom lunches
- advice on initiatives to support growth of Defence establishments in South Australia (visit to RAAF Edinburgh in October)
- Future Submarines and naval shipbuilding advocacy (parliamentarian briefings, media articles, detailed discussion paper)
- input to Defence SA forward industry strategies (military vehicles, unmanned aerial vehicles).

Board Membership

Defence SA Advisory Board membership recommendations are based on a core skills requirement of high-level strategic defence expertise and networking capability across the full range of defence capabilities, coupled with commercial and financial expertise. Members of the board on 30 June 2013 were:

- General Peter Cosgrove AC MC (Chairman) – Chief of the Defence Force (2002–05) and Australian of the Year (2001)
- Dr Ian Chessell – former Australian Chief Defence Scientist (2000–03) and South Australia's Chief Scientist (2008–10)
- Vice Admiral Russ Crane AO CSM RANR – former Chief of Navy (2008–11)
- Air Chief Marshal Angus Houston AC AFC – former Chief of Defence Force (2005–11)
- Mr Andrew Fletcher – Chief Executive, Defence SA (2007–present)
- Mr Paul Johnson MBE – defence industry leader and former Chief Executive of Lockheed Martin Australia and Chairman of the Australian Industry Group Defence Council
- Ms Beth Laughton – Chartered Accountant, former investment banker and company director

- Lieutenant General Peter Leahy AC – former Chief of Army (2002–08)
- Rear Admiral Trevor Ruting AM CSC RANR – naval architect and former Head Maritime Systems, Defence Materiel Organisation
- Dr John White – engineer and business leader in defence, resources, technology and manufacturing sectors.

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

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

Board Meeting Attendance

The board held five formal meetings in 2012–13 and attendance was as follows:

	Board Meetings	
	Eligible	Attended
GEN Peter Cosgrove AC MC (Chairman)	5	4
Hon Jay Weatherill MP	5	1
Hon Jack Snelling MP	5	5
Dr Ian Chessell	5	3
VADM Russ Crane AO CSM RANR	5	5
ACM Angus Houston AC AFC ¹	4	4
AIRMSHL Les Fisher AO ²	1	1
Mr Andrew Fletcher	5	5
Mr Paul Johnson MBE	5	5
Ms Beth Laughton	5	5
LTGEN Peter Leahy AC	5	4
RADM Trevor Ruting AM CSC RANR	5	5
Dr John White	5	5
Emeritus Professor Paul Dibb AM (Advisor)	5	5

¹ appointed to the board on 15 October 2012

² retired from the board on 31 August 2012

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 on 30 June 2013 were:

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

Legislation

Defence SA does not administer any legislation.

STRATEGIC DIRECTIONS

South Australia's Strategic Plan

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

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

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

Updated defence industry performance results, to the end of December 2012, were being collated at 30 June 2013, and are planned for release in the second half of 2013.

Mission

“Facilitate the development and growth of Defence and sustainable defence industries in South Australia.”

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

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

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

Values

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

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

ACHIEVEMENTS

WHEN YOU'RE WELL EQUIPPED,
WELL PREPARED AND WELL SITUATED,
YOU'RE IN THE BEST STATE TO DEFEND.
AND THE BEST STATE IS
SOUTH AUSTRALIA - THE DEFENCE STATE

SOU
THE

SOUTH AUSTRALIA

**EVETT
ENGINEERING**

PROTOTYPE TO PRODUCTION
**EVETT
ENGINEERING**

**SOUTH AUSTRALIA
DEFENCE STATE**



EXPANDED DEFENCE PRESENCE

Cultana Training Area Expansion

In 2012–13, Defence remained committed to the expansion of the Cultana Training Area to meet Army's training needs. In October, Defence compulsorily acquired requisite pastoral leases for defence purposes. In June, an Indigenous Land Use Agreement between Defence and the Barnjarla native title claimant group was registered by the National Native Title Tribunal.

Acquisition of one additional pastoral lease, intended to form part of the Indigenous Land Use Agreement, remains the focus of a legal dispute between Defence and that pastoral leaseholder. The Public Environment Report is also still subject to Commonwealth ministerial approval.

The State Government will issue a Miscellaneous Lease for Defence Purposes (MLDP) to Defence once the necessary pastoral leases are surrendered by Defence to the State Government. The MLDP, coupled with the 2009 Memorandum of Understanding (which established the framework for mining and infrastructure protection), will govern use and access of the land for a 75-year lease plus any extension in accordance with Defence's right of renewal. The Department of Premier and Cabinet continue to manage this process, in consultation with Defence SA, Department of Environment, Water and Natural Resources and the Crown Solicitor's Office.

Defence SA also commenced preliminary discussions with Defence on local industry opportunities arising from Defence's planned remediation and construction works. Ongoing maintenance and environmental management opportunities are also expected to develop as the expanded Cultana Training Area becomes operational.

South Australia's Defence Presence

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

In 2012–13, Defence SA and its ministers also supported a number of events to mark local involvement in overseas deployments, including:

- 9 Brigade Welcome Home event for 110 soldiers recently returned from the international Regional Assistance Mission to the Solomon Islands (August)
- 292 Squadron banner consecration ceremony (September)
- 7RAR Task Group Farewell Parade for 450 soldiers from 102nd (Coral) Battery, 9th Combat Engineer Squadron and the 7th Battalion Royal Australian Regiment and other units deploying to Afghanistan (October)
- 92 Wing Commemorative Event to mark the end of 10 years of continuous deployment to the Middle East Area of Operations (March)
- 7RAR Task Group Welcome Home Parade (June).

SUSTAINABLE DEFENCE INDUSTRIES

Naval Shipbuilding

Air Warfare Destroyer Project

The State Government continued to support the Air Warfare Destroyer project which reached peak production at Techport Australia in 2012–13. Some 1600 workers are directly employed in the precinct (out of a national workforce of approximately 2600 people). In 2012–13, all blocks for Ship 1 *Hobart* were delivered to Techport Australia, and module consolidation commenced following the milestone keel laying ceremony in September.

Fit out advanced well in 2012–13 and included the installation of the first accommodation modules, diesel generators and water coolers for the combat systems. The five-storey mast was delivered by barge from local company MG Engineering in April and the block containing the bridge was lifted onto the superstructure of the ship in early June. The AWD Alliance also took delivery of all SPY radar array faces (main sensor of the Aegis weapon system) for Ship 1 *Hobart* and the Phalanx Close-In-Weapon-System for Ship 1 *Hobart* and Ship 2 *Brisbane*.

Under a revised schedule announced in September, the delivery dates for the ships will be:

- *Hobart* – March 2016
- *Brisbane* – September 2017
- *Sydney* – March 2019.

Future Submarine Project

In 2012–13, the State Government secured a number of early opportunities arising out of the Future Submarine program and Defence SA is now working closely with Defence to support establishment of the Submarine Land Based Test Site and the Future Submarine Systems Centre in Adelaide.

The Submarine Land Based Test Site will perform engineering design and integration work associated with the current and future submarines. This strategically important capability will comprehensively assess submarine propulsion and systems options in a controlled environment prior to platform installation, significantly mitigating risks.

Forward direction on the overarching Future Submarine project was delivered in May, with the narrowing of platform options and a Commonwealth Government commitment to reference an American combat system. The two options being progressed provide the best opportunities for local industry involvement and are: a) evolved design that enhances the capabilities of existing off-the-shelf designs including the Collins class, or b) an entirely new development submarine.

In February, the Defence and Industry Integrated Project Team commenced operations in the newly established Future Submarine Systems Centre in Dudley Park to work on the new design concept, drawing in expertise from around the world.

Defence SA actively supported Defence to examine possible initiatives to avoid a decline in specialist industry skills, particularly following the wind-down of the AWD project in the latter half of this decade and the start of Future Submarine construction. Defence SA actively participated in the multidisciplinary panel which delivered the *Future Submarine Industry Skills Plan*, released in May.

Throughout the year, Defence SA and the Defence SA Advisory Board continued the campaign to inform federal parliamentarians on the importance of the Future Submarine program and rationale to build in Australia. In addition to formal briefings, bipartisan political and journalist site visits to Techport Australia were organised to showcase the facility in action. The Defence SA Advisory Board also released a discussion paper, *Guarding Our Edge – Building and Sustaining the Future Submarines in Australia*, and published several opinion pieces.

Land

Land 121 Phases 3B/5B – Medium and Heavy Protected and Unprotected Vehicles

In 2012–13, Defence SA continued discussions with lead contractor Rheinmetall-MAN Military Vehicles Australia to facilitate opportunities for local industry under Land 121 Phase 3B. The project is expected to deliver some 2500 medium and heavy vehicles, along with associated modules and trailers.

Land 400 – Land Combat Vehicle System

Land 400 remained the key long term opportunity to attract sustainable armoured fighting vehicle prime manufacturing to South Australia. Under Land 400, Army will acquire up to 1100 vehicles to replace the close combat capability partly provided by the M113AS4 Armoured Personnel Carrier, Australian Light Armoured Vehicles, and Bushmaster vehicles which are due to retire between 2020 and 2025. The vehicles will also have a substantial ongoing upgrade and sustainment program over a 30-year service life. In 2012–13, Defence SA advocated for broad Defence policy direction to maximise local industry involvement in this program, as well as liaised with the most likely prime contenders.

Land Warfare Conference

Defence SA, the Defence Teaming Centre and eight accompanying South Australian firms successfully promoted the state's automotive, heavy engineering and other defence capabilities at the *South Australia – the Defence State* stand at the Land Warfare Conference, held from 29 October to 2 November in Melbourne which attracted over 3500 delegates. The event also provided the opportunity to continue to promote the *Army Presence in South Australia* report, released earlier in 2012 to stimulate discussion about potential Army unit relocations to the state.

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

Aerospace

Components Manufacturing and Processing

In 2012–13, the State Government remained fully supportive of local industry involvement in the global Joint Strike Fighter program, and Defence SA worked with BAE Systems Australia and Rosebank Engineering to progress establishment of Australia's largest advanced aerospace components manufacturing and treatment operations.

In September, BAE Systems Australia commenced construction of a new facility to house an Australian-first new twin spindle computer numerical control machine to produce highly specialised five-metre-long thin titanium parts for the Joint Strike Fighter vertical tail fin and potentially to explore new opportunities in defence and other sectors.

Rosebank Engineering commenced refurbishment of a facility in Wingfield to deliver specialised surface treatment and metal finishing services in 2012–13. Both companies are on track to commence operations from their new facilities in 2014.

Avalon International Airshow

The Avalon International Airshow was held from 26 February to 3 March in Geelong. The event is the premier aviation and defence aerospace event in the country and attracted over 30 000 expo delegates. Defence SA coordinated the state's presence at the event, which was used to effectively promote South Australia as a major centre for advanced aerospace component manufacturing and metal processing, as well as a focal point for national intelligence, surveillance and reconnaissance (ISR) capabilities.

Key activities included:

- *South Australia – the Defence State* exhibition stand which included: the State Government, Defence Teaming Centre, eight accompanying firms, capability displays and the Edinburgh Parks precinct model
- VIP private dinner focused on ISR, with 68 attendees
- *South Australia – the Defence State* hosted networking tour
- high level meetings with targeted companies, especially those relevant to aerospace global supply chains
- Defence SA Advisory Board strong ambassadorial role, as well as participation by the Minister for Defence Industries, Parliamentary Secretary to the Premier, and the Minister for Manufacturing, Innovation and Trade
- *F1 in Schools* competition national finals, won by Brighton Secondary School.

Air 7000 – Maritime Patrol Aircraft Replacement

In 2012–13, Defence SA with guidance from the Defence SA Advisory Board, commenced development of an Unmanned Aerial Vehicle strategy, to capitalise on Defence's intent to replace the Edinburgh-based AP-3C maritime surveillance aircraft with manned and unmanned platforms. Defence SA also advanced discussions on commercial opportunities for South Australian firms under Phase 2 (manned component).

PRODUCTIVE INFRASTRUCTURE

CUF Infrastructure

Capital works continued to support the full needs of the Air Warfare Destroyer project, as well as to provide Defence SA with maximum flexibility to continue to pursue third party use and future naval programs in line with the overarching Techport Australia Masterplan.

In July, Defence SA completed works to underground the dual circuit powerlines along Mersey Road, Osborne, enabling unfettered transfers between the CUF and development-ready land on the western side of the road. The site is immediately adjacent the existing CUF site and partly reserved for future naval shipbuilding work under a Memorandum of Understanding with Defence.

The Techport Australia CUF Expansion Project commenced in late 2012 and construction is scheduled for completion in February 2014. This \$2 million investment is bringing site utilities (including power, water, sewer, communications and stormwater), basic laydown areas and fencing to the expansion site.

In February, Defence SA completed a major upgrade to the seawater pump station, providing variable speed pumps for AWD test and evaluations. This upgrade will reduce seawater system operating and maintenance costs and improve service delivery to the AWD project.

CUF Operations

Key operational milestones in 2012–13 included:

- Navy certification was awarded in August, certifying the CUF for Navy vessel dockings
- detailed design of cathodic protection, to extend the service life and reduce long-term maintenance costs, of the wharf and shiplift was completed in June, with installation expected to commence in December 2013
- ongoing negotiation and planning of the AWD docking plan, which is unique to the CUF and, once approved, should provide financial savings to the project
- contracted maintenance rationalised to reduce longer-term operational costs.

CUF Third Party Use

Commercial ship repair and maintenance activity in 2012–13 included:

- Kangaroo Island Sealink ferry *Sealion* – docked in July for three-week annual maintenance and refit
- Sea SA ferry *Aurora V* – docked in April for two-week annual maintenance and refit
- wave energy prototype construction/consolidation, with Oceanlinx commencing on site in June.

In order to further promote the CUF for third party use, Defence SA commenced negotiations with ASC and the Commonwealth Government in March to facilitate access to the AWD Manitowoc 900 tonne capacity mobile crane and the Self Propelled Modular Transporters.

Work also commenced on a formal campaign to have Techport Australia designated as a location for US Navy ship voyage repair.

Techport Australia Marketing and Promotion

The Techport Australia marketing campaign was reviewed in 2012–13, with revised messaging to focus on the precinct's full operational status. Defence SA continued its high profile advertising campaign, updated the related website and commissioned a new series of aerial photographs.

In addition to regular site tours for visiting dignitaries and interest groups, strong public relations outcomes were also generated from the following high profile events:

- AWD keel laying ceremony (September)
- Navy Open Day – *HMAS Parramatta* berthed and ASC sites open to public (October)
- United States Secretary of State visit (November)
- Prime Minister visit (February)
- Minister for Defence (May).

Formal stakeholder research, commissioned in 2012–13, confirmed extremely high awareness and public understanding levels of this campaign.

Maritime Skills Centre

The Maritime Skills Centre, a centre of excellence in shipbuilding skills, continued to provide blue and white collar training programs for the AWD program. The facility reached approximately 95 per cent capacity use in 2012–13.

In 2012–13, works to install a new AWD Integrated Platform Management Systems training simulator commenced. This capability will assist AWD Marine Technicians to gain operational knowledge and skills.

A scheduled review of Maritime Skills Centre governance arrangements commenced in February. The Maritime Skills Centre has a four-party board comprised of representatives of the Commonwealth Government (Defence), State Government (Defence SA and Department of Further Education, Employment, Science and Technology) and ASC. The board meets on a quarterly basis.

EFFECTIVE ADVOCACY

Workforce Development

Defence SA continued to place significant emphasis on a strong pipeline of skills to support defence industry sustainability and growth. In 2012–13, the agency contributed actively to a number of cross-agency steering committees to meet this aim, notably related to the State Government's Science Technology Engineering and Maths (STEM) agenda and Defence Materiel Organisation-funded Advanced Technology Pathways Program. Defence SA also coordinated State Government input to Skills Australia's *Defence Industry Workforce Strategy* which was released in September.

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

- South Australian companies awarded \$3.27 million in DMO's *Skilling Australia's Defence Industry* 2012–13 rounds
- five South Australian defence companies secured funding for staff to participate in DMO's Defence and Industry Study Course
- 23 participants graduated from the Defence Teaming Centre's South Australia Defence Industry Leadership Program in November
- nine out of 30 recipients of DMO's Defence Engineering Internship scholarships are from South Australia
- 56 defence-related Honours scholarships awarded by the State Government
- strong participation by defence industry leaders in STEM portal forum held in June
- peak industry body, Defence Teaming Centre, commenced an update of a long-term defence industry workforce management and skilling plan in June.

Woomera Prohibited Area Defence – Mining Coexistence

In 2012–13, the State Government, largely through Defence SA and the Department of Manufacturing Innovation Trade Resources and Energy (DMITRE), continued its efforts to support implementation of a new defence and mining coexistence framework in the Woomera Prohibited Area (WPA).

In October, the Minister for Defence lifted a moratorium on new non-Defence access to the WPA and new access documentation (application forms and Deeds of Access Templates for mineral exploration, petroleum exploration, extractive minerals, opal mining, tourists, and researchers) and business processes were introduced.

In December, a cross-government WPA Advisory Board, including the Deputy Chief Executive of DMITRE and the Chief Executive of Defence SA, was established to oversee coexistence implementation. Three meetings were held in 2012–13.

In May, the Minister for Defence introduced the *Defence Legislation Amendment (Woomera Prohibited Area) Bill 2013* into the Australian Parliament to give effect to the permit system and new compliance and regulatory measures. The bill was referred to the Senate Standing Committee on Foreign Affairs, Defence and Trade which decided in August 2013 to defer investigations until the bill is reintroduced into the Parliament by the incoming government.

Defence White Paper

In May, the Prime Minister and Minister for Defence jointly released a new Defence White Paper, one year ahead of schedule, to better reflect international and domestic developments affecting Australia's defence posture, future force structure and defence budget. A number of key decisions in the *Defence White Paper* were vital for South Australia, including the narrowing of Future Submarine options and the broader commitment to establish truly collaborative partnerships with industry.

Prior to its release, Defence SA and its ministers continued to advocate on the need for workflow continuity and other initiatives to ensure sustainability of the nation's core defence industry capabilities. Defence SA prepared an unsolicited submission on these issues which was delivered to Defence in December. The agency also participated in Defence-organised states and territories forums and organised a Defence SA Advisory Board-hosted breakfast with South Australian based defence industry executives to discuss defence industry policy.

Advanced Manufacturing Agenda

The State Government released an Advanced Manufacturing Strategy in October, with a significant defence focus. Defence SA supported development of the strategy, including coordination of two defence industry consultation forums. The Defence SA Advisory Board also participated in the launch of the strategy in October, as part of a panel discussion alongside leading industry, union and research identities.

In February, the Commonwealth Government announced that Adelaide would be the location for the defence node for their Advanced Manufacturing Precinct. Defence SA continued to liaise with the Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education to support establishment of this initiative.

EXEMPLAR GOVERNMENT AGENCY

Work Health and Safety

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

In 2012–13, the Chief Executive reissued Defence SA's *Work Health and Safety Policy* confirming the agency's commitment to pursuing the Premier's *Zero Harm Vision* and the goal of returning 100 per cent of injured staff to meaningful work. The statement was reviewed in light of the requirements of the *Safety and Wellbeing in the Public Sector 2010–2015* strategy.

Defence SA undertook a range of WHS activities to support this commitment in 2012–13, including: mandatory safety moments at all staff meetings, monthly messages promulgated at all Defence SA sites, regular staff surveys, training opportunities and a health and wellbeing program.

During 2012–13 Defence SA also amended WHS policies and procedures to ensure compliance with the new national *Work Health and Safety Act 2012*.

In 2012–13, Defence SA experienced one First Aid injury and one near miss.

Staff Development and Communications

In 2012–13, in addition to individual staff training and development activities, Defence SA conducted a number of awareness sessions on topics relevant to daily operations, including:

- Information Security Policy
- duress incident management
- Employee Assistance Program, and
- fraud and corruption.

Promoting *South Australia – the Defence State*

Marketing Campaign

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

In 2012–13, some 20 advertisements were placed in specialist publications and liftouts to ensure consistent high awareness of the state's defence capabilities. Ongoing engagement with key journalists also continued.

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

Formal stakeholder research, commissioned in 2012–13, confirmed extremely high awareness and public understanding levels of this campaign.

Targeted VIP Events and Speaking Engagements

Defence SA undertook 55 targeted minor events in 2012–13 including: VIP site tours, external speaking engagements, parliamentarian meetings, boardroom lunches and themed dinners to promote *South Australia – the Defence State*. These activities enabled Defence SA to communicate key messages to Defence and defence industry influencers, local industry and business associations, foreign diplomats, groups involved in professional development programs, and other community associations.

Major Events

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

In 2012–13, Defence SA coordinated the state's representation at the Land Warfare Conference and Avalon Airshow. The agency also secured the return of the Defence + Industry Conference to Adelaide, announced in December and expected to take place in mid-2014.

Planning is also underway for the Pacific International Maritime Exposition and Conference scheduled for October 2013 in Sydney. A new modular expo stand is being implemented for this trade show, delivering greater flexibility to maximise industry participation and showcase standing models and other displays.

Overseas Missions

Regular and ongoing international engagement remained critical to continue to build strong relationships between South Australia and global defence primes. Targeted markets remain the United States and Europe. In 2012–13, the Minister for Defence Industries led two missions to Europe and one mission to the United States. The Chief Executive of the Defence Teaming Centre also accompanied the Minister on two of these missions to promote the state's defence industry credentials.

APPENDICES





APPENDICES

Employee Numbers, Gender and Status

Total number of employees at 30 June 2013

	Male	Female
Persons	16	13
FTEs	15.7	11.9

By gender

	Male	Female
% Persons	55	45
% FTEs	57	43

Employees separated and recruited

	Number
Separated from the agency during 2012–13	6
Recruited to the agency during 2012–13	7
On leave without pay on 30 June 2013	0

Number of employees by salary bracket

Salary Bracket	Male	Female	Total
\$0 – \$53 199	0	3	3
\$53 200 – \$67 699	3	2	5
\$67 700 – \$86 599	2	5	7
\$86 600 – \$109 299	3	0	3
\$109 300 +	8	3	11
Total	16	13	29

Status of employees in current position

	Ongoing	Short-Term Contract	Long-Term Contract	Other (Casual)	Total
FTEs					
Male	1.7	0	14	0	15.7
Female	1	1.6	9.3	0	11.9
Total	2.7	1.6	23.3	0	27.6
Persons					
Male	2	0	14	0	16
Female	1	2	10	0	13
Total	3	2	24	0	29

Executives

Executives by gender, classification and status

Classification	Ongoing		Contract Tenured		Contract Untenured		Total
	Male	Female	Male	Female	Male	Female	Total
EXEC0F	0	0	0	0	1	0	1
SAES1	0	0	0	0	6	1	7
Total	0	0	0	0	7	1	8

Leave Management

Average days taken per full-time equivalent employee

Leave Type	2012-13
Sick Leave	3.49
Family Carers Leave	0.96
Miscellaneous Special Leave	0.11

Workforce Diversity

Aboriginal and/or Torres Strait Islander employees

Nil.

Number of employees by age bracket and gender

Age Bracket	Male	Female	Total	% of Total	Workforce Benchmark*
15–19	0	0	0	0	6.2
20–24	2	0	2	6.9	9.7
25–29	1	1	2	6.9	10.9
30–34	0	4	4	13.8	9.8
35–39	2	5	7	24.1	10.1
40–44	1	1	2	6.9	11.8
45–49	3	0	3	10.3	11.2
50–54	5	0	5	17.2	11.3
55–59	1	1	2	6.9	9.0
60–64	1	0	1	3.4	6.1
65+	0	1	1	3.4	3.7
Total	16	13	29	100	100

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

Cultural and linguistic diversity

	Male	Female	Total	% Agency	SA Community*
Number of employees born overseas	2	1	3	10.3	22.1
Number of employees who speak language(s) other than English at home	1	1	2	6.9	14.4

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

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

	Male	Female	Total	% Agency
	1	0	1	3.4

Number of employees with disabilities requiring workplace adaptation

Disability	Male	Female	Total	% Agency
Disability Requiring Workplace Adaption	1	0	1	3.4
Physical	0	0	0	0
Intellectual	0	0	0	0
Sensory	1	0	1	3.4
Psychological/Psychiatric	0	0	0	0

Voluntary Flexible Working Arrangements by Gender

By gender

	Male	Female	Total
Purchased Leave	0	0	0
Flexitime	0	0	0
Compressed Weeks	4	0	4
Part-time	1	4	5
Job Share	0	0	0
Working from Home	0	0	0

Performance Development

Documented review of individual performance management

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

Leadership and Management Development

Training And Development	Total Cost	% of Total Salary Expenditure
Total training and development expenditure	\$64 403	1.36
Total leadership and management development expenditure	\$16 617	0.35

Accredited Training Packages

Classification	Number of Accredited Training Packages
OPS2	2

Employment Opportunity Programs

Nil.

Work Health and Safety and Injury Management

WHS notices and corrective action taken

	2012–13	2011–12	2010–11
Number of notifiable incidents pursuant to <i>WHS Act Part 3</i>	0	1	0
Number of notices served pursuant to <i>WHS Act Section 90, Section 191 and Section 195</i> (provisional improvement, improvement and prohibition notices)	0	0	0

Agency gross workers' compensation expenditure for 2012–13 compared with 2011–12

Expenditure	2012–13 (\$m)	2011–12 (\$m)	Variation (\$m) + (-)	% Change + (-)
Income maintenance	0	0	0	0
Lump sum settlements redemptions – s42	0	0	0	0
Lump sum settlements Permanent Disability – s43	0	0	0	0
Medical/ hospital costs combined	0	0	0	0
Other	0	0	0	0
Total Claims Expenditure	0	0	0	0



Meeting safety performance targets

	Base:	Performance:			Final Target
	2010–11	12 months to end of June 2013 ¹			
	Numbers or %	Actual	Notional Qtrly Target ²	Variation	Numbers or %
1. Workplace fatalities	0	0	0	0	0
2. New workplace injury claims	0	0	0	0	0
3. New workplace injury claims frequency rate	0	0	0	0	0
4. Lost time injury frequency rate ³	0	0	0	0	0
5. New psychological injury claims	0	0	0	0	0
6. Rehabilitation and return to work:	0	0	0	0	0
a. Early assessment within 2 days	0	0	0	0	80%
b. Early intervention within 5 days	0	0	0	0	90%
c. LTI have 10 business days or less lost time	0	0	0	0	60%
7. Claim determination:	0	0	0	0	0
a. New claims not yet determined, assessed for provisional liability in 7 days	0	0	0	0	100%
b. Claims determined in 10 days	0	0	0	0	75%
c. Claims still to be determined after 3 months	0	0	0	0	3%
8. Income maintenance – payments for recent injuries:	0	0	0	0	0
a. 2012–13 injuries (at 24 months development)	0	0	0	0	Below previous 2 years average
b. 2012–13 injuries (at 12 months development)	0	0	0	0	Below previous 2 years average

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

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

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

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

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

Contractual Arrangements

On behalf of its minister, Defence SA did not enter into any contracts exceeding \$4 million in 2012–13.

Account Payable Performance

Particulars	Numbers of Accounts Paid	Percentage of Accounts Paid (by Number)	Value in \$A of Accounts Paid	Percentage of Accounts Paid (by Value)
Paid by due date*	2114	99.71%	13 268 210	98.97%
Paid late, but paid within 30 days of due date	5	0.24%	137 369	1.02%
Paid more than 30 days from due date	1	0.05%	1242	0.01%

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

Fraud

There were no reported instances of fraud or corrupt behaviour in the agency during the 2012–13 year. A corporate risk management framework and financial management framework and fraud policy and procedure are in place to provide a control and compliance environment to minimise the risk of fraud.

Consultants

Value	Firm	Service
Below \$10 000	-	-
\$10 000 – \$50 000	-	-
Above \$50 000	Macroeconomics.com.au Pty Ltd Macroeconomics.com.au Pty Ltd Fletcher Rowley Riddle Inc	Economic analysis Defence Industry Survey US Navy Voyage Repairs



Overseas Travel

Number of Employees	Destination/s	Reasons for Travel	Total Cost to Agency
1	Europe and United Kingdom	Support Minister in a range of defence related functions and meetings to elicit investment interest from leading European contenders for SEA 1000 (Future Submarine Project) and Land 400 (Land Combat Vehicle Systems).	\$18 285
1	United States of America	Support Minister to promote SA supply chain capabilities to American defence firms and progress discussions with companies seeking to establish or expand their Australian presence.	\$25 213
1	Europe and United Kingdom	Support Minister to progress discussions with European companies wishing to establish or expand their Australian presence and supply chain opportunities for SA companies.	\$25 520

Reporting Against the Carers Recognition Act 2005

Nil.

Disability Action Plan

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

Asbestos Management in Government Buildings

Defence SA did not manage any buildings containing asbestos in 2012–13.

Urban Design Charter

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

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

Freedom of Information Statement

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

Structure and functions of Defence SA

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

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

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

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

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

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

Public participation in Defence SA

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

Description of the kinds of documents held by Defence SA

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

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

Making an application

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

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

Applications under the Act should be forwarded to:

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

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

Defence SA received 17 Freedom of Information applications in 2012–13. All applications have been determined in accordance with the Act.

Whistleblowers Protection Act 1993

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

Energy Efficiency Action Plan

	Energy Use (GJ)²	GHG Emissions (tonnes)³	Business Measure⁴ (MJ/m²/annum)
Base Year ¹	223	47.55	286.26
2012–13 Total	156	33.3	182.5
2014 Target ⁵	167	35.6	214.7

Notes:

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

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

³ To pursue a 'triple bottom line' reporting approach, Defence SA has included Greenhouse Gas Emissions (in CO₂) as a means of quantifying an aspect of environmental performance.

⁴ Business measures are also known as normalisation factors. A key performance indicator for energy efficiency is energy intensity, i.e. the energy consumed per unit of a given business measure. Business measures used by Defence SA are the square metres of floor area of Defence SA. The energy intensity therefore becomes the energy used per unit defined by the business measure MJ/m².

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

Greening of Government Operations Framework

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



FINANCIAL STATEMENTS







Our Ref: A13/451

23 September 2013

Mr A Fletcher
Chief Executive
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Dear Mr Fletcher

**The audit of Defence SA
for the year ended 30 June 2013**

The audit of the accounts of Defence SA for the year ended 30 June 2013 has been completed.

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

The notable areas of audit coverage included the review of:

- revenue
- payroll
- accounts payable
- fixed assets
- financial accounting – general ledger review.

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

Two important outcomes result from the annual audit process:

- The issue of the Independent Auditor's Report (IAR) on the integrity of the Defence SA financial report.
- The issue of a management letter advising of system, process and control matters and recommendation for improvement.

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

My Annual Report to Parliament indicates that an unmodified IAR has been issued for the Defence SA financial report.

In addition, during the year audit a management letter was forwarded to Defence SA detailing findings and recommendations from the audit. A response to the letter and matters raised was received and will be followed up in the 2013-14 annual audit.

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

Yours sincerely

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

S O'Neill
AUDITOR-GENERAL

enc



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To the Chief Executive Defence SA

As required by section 31(1)(b) of the *Public Finance and Audit Act 1987*, I have audited the accompanying financial report of the Defence SA for the financial year ended 30 June 2013. The financial report comprises:

- a Statement of Comprehensive Income for the year ended 30 June 2013
- a Statement of Financial Position as at 30 June 2013
- a Statement of Changes in Equity for the year ended 30 June 2013
- a Statement of Cash Flows for the year ended 30 June 2013
- Disaggregated Disclosures - Expenses and Income for the year ended 30 June 2013
- Disaggregated Disclosures - Assets and Liabilities as at 30 June 2013
- notes, comprising a summary of significant accounting policies and other explanatory information
- a Certificate from the Chief Executive and the General Manager, Corporate Support.

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 2013, its financial performance and its cash flows for the year then ended in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987* and Australian Accounting Standards.



S O'Neill
AUDITOR-GENERAL
23 September 2013

Certification of the Financial Statements

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

- comply with relevant Treasurer's Instructions issued under section 41 of the *Public Finance and Audit Act 1987*, and relevant Australian accounting standards;
- are in accordance with the accounts and records of Defence SA; and
- present a true and fair view of the financial position of Defence SA as at 30 June 2013 and the results of its operation and cash flows for the financial year.

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



Andrew Fletcher
Chief Executive
19 September 2013



Robert Barnett
General Manager, Corporate Services
19 September 2013

DEFENCE SA FINANCIAL STATEMENTS

Statement of Comprehensive Income for the year ended 30 June 2013

	Note No.	30 June 2013 \$' 000	30 June 2012 \$' 000
EXPENSES			
Employee benefits expenses	5	4,750	5,208
Supplies and services	6	6,229	8,349
Depreciation and amortisation	7	7,241	7,803
Grants and subsidies	8	1,231	2,649
Other expenses	9	131	359
Loss on revaluation of non-current assets	20	–	5,383
Total expenses		19,582	29,751
INCOME			
Revenues from fees and charges	11	3,533	3,244
Grants	12	720	2,061
Net gain from the disposal of non-current assets	13	–	56
Techport Australia recoveries	14	125	257
Property revenues	15	146	3,450
Other income	16	191	227
Total income		4,715	9,295
Net cost of providing services	29	(14,867)	(20,456)
Revenues from / payments to SA Government			
Revenues from SA Government	17	21,842	21,156
Revenues from the Urban Renewal Authority associated with the transfer of assets	2d, 17	–	184,668
Payments to SA Government	17	–	(13,760)
Net result		6,975	171,608
Other comprehensive income			
Items that will not be reclassified to net result			
Reduction in land revaluation surplus	20	–	(6,224)
Total other comprehensive income		–	(6,224)
Total comprehensive result		6,975	165,384

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 2013

	Note No.	30 June 2013 \$' 000	30 June 2012 \$' 000
Current assets			
Cash	18	26,068	14,333
Receivables	19	564	2,441
Total current assets		26,632	16,774
Non-current assets			
Land	20	21,870	18,841
Buildings and improvements, plant and equipment	20	6,820	7,159
Harbour and port facilities	20	227,130	231,907
Capital works in progress	21	822	2,533
Total non-current assets		256,642	260,440
Total assets		283,274	277,214
Current liabilities			
Payables	22	1,556	2,583
Employee benefits	23	328	292
Other current liabilities	24	21	21
Total current liabilities		1,905	2,896
Non-current liabilities			
Payables	22	23	36
Employee benefits	23	387	277
Other non-current liabilities	24	41	62
Total non-current liabilities		451	375
Total liabilities		2,356	3,271
Net assets		280,918	273,943
Equity			
Contributed capital		101,823	101,823
Retained earnings		179,095	172,120
Total equity		280,918	273,943

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

Unrecognised contractual commitments 25

Contingent assets and liabilities 26

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

DEFENCE SA FINANCIAL STATEMENTS

Statement of Changes in Equity for the year ended 30 June 2013

	Note No.	Contributed capital	Asset revaluation surplus	Retained earnings	Total
		\$' 000	\$' 000	\$' 000	\$' 000
Balance at 30 June 2011		282,080	24,810	159,762	466,652
Net result for 2011-12		–	–	171,608	171,608
Reduction in land revaluation surplus		–	(6,224)	–	(6,224)
Total comprehensive result for 2011-12		–	(6,224)	171,608	165,384
Transactions with SA Government as owner					
Equity contribution received		4,476	–	–	4,476
Net assets transferred as a result of an administrative restructure	2d, 27	–	–	(177,836)	(177,836)
Equity contribution repaid	2d	(184,733)	–	–	(184,733)
Revaluation surplus transferred to retained earnings on disposal of non-current asset		–	(18,586)	18,586	–
Balance at 30 June 2012		101,823	–	172,120	273,943
Net result for 2012-13		–	–	6,975	6,975
Total comprehensive result for 2012-13		–	–	6,975	6,975
Balance at 30 June 2013		101,823	–	179,095	280,918

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 2013

	Note No.	30 June 2013 \$' 000	30 June 2012 \$' 000
		Inflows (Outflows)	Inflows (Outflows)
Cash flows from operating activities			
Cash outflows			
Employee benefit payments		(4,628)	(5,124)
Payments for supplies and services		(5,917)	(9,261)
Payments of grants and subsidies		(2,697)	(1,165)
GST paid to the ATO and suppliers		(1,633)	(2,658)
Cash used in operations		(14,875)	(18,208)
Cash inflows			
Grants		2,260	521
Fees and charges		3,814	2,991
Techport Australia recoveries		126	256
Property revenues		200	3,658
GST recovered from the ATO and customers		1,717	2,830
Other receipts		195	179
Cash generated from operations		8,312	10,435
Cash flows from SA Government			
Receipts from SA Government		21,842	21,156
Receipts from the Urban Renewal Authority associated with the transfers of assets		-	184,668
Payments to SA Government		-	(13,760)
Cash generated from SA Government		21,842	192,064
Net cash provided by operating activities	29	15,279	184,291
Cash flows from investing activities			
Cash outflows			
Payments for property, plant and equipment		(42)	(757)
Payments for capital work in progress		(3,502)	(11,243)
Cash used in investing activities		(3,544)	(12,000)
Cash inflows			
Proceeds from sale of land and buildings		-	240
Cash generated from investing activities		-	240
Net cash used in investing activities		(3,544)	(11,760)
Cash flows from financing activities			
Cash outflows			
Capital contributions repaid to government		-	(184,733)
Cash used in financing activities		-	(184,733)
Cash inflows			
Capital contributions from SA Government		-	4,476
Cash generated from financing activities		-	4,476
Net cash provided by financing activities		-	(180,257)
Net increase/(decrease) in cash		11,735	(7,726)
Cash at the beginning of the period		14,333	22,059
Cash at the end of the period	18, 29	26,068	14,333

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

DEFENCE SA FINANCIAL STATEMENTS

Disaggregated Disclosures – Expenses and Income for the year ended 30 June 2013

Refer Note 4 for detailed activity descriptions	Defence Industry Development		Techport Australia		Total Ongoing Defence SA Activities		Other Defence Precincts ⁽¹⁾		Total All Activities	
	2013 \$' 000	2012 \$' 000	2013 \$' 000	2012 \$' 000	2013 \$' 000	2012 \$' 000	2013 \$' 000	2012 \$' 000	2013 \$' 000	2012 \$' 000
Expenses										
Employee benefits expenses	3,587	3,449	1,163	1,083	4,750	4,532	-	676	4,750	5,208
Supplies and services	2,998	2,586	3,231	2,876	6,229	5,462	-	2,887	6,229	8,349
Depreciation and amortisation	120	119	7,121	7,021	7,241	7,140	-	663	7,241	7,803
Grants and subsidies	1,231	2,649	-	-	1,231	2,649	-	-	1,231	2,649
Other expenses	129	131	2	-	131	131	-	228	131	359
Loss on revaluation of non-current assets	-	-	-	493	-	493	-	4,890	-	5,383
Total expenses	8,065	8,934	11,517	11,473	19,582	20,407	-	9,344	19,582	29,751
Income										
Revenues from fees and charges	22	-	3,511	3,025	3,533	3,025	-	219	3,533	3,244
Grants	-	1,540	720	506	720	2,046	-	15	720	2,061
Net gain from disposal of non-current assets	-	-	-	1	-	1	-	55	-	56
Techport Australia recoveries	-	-	125	257	125	257	-	-	125	257
Property revenues	146	-	-	-	146	-	-	3,450	146	3,450
Other income	191	140	-	-	191	140	-	87	191	227
Total income	359	1,680	4,356	3,789	4,715	5,469	-	3,826	4,715	9,295
Net cost of providing services	(7,706)	(7,254)	(7,161)	(7,684)	(14,867)	(14,938)	-	(5,518)	(14,867)	(20,456)
Revenues from / payments to SA Government										
Revenues from SA Government ⁽²⁾	21,842	21,156	-	-	21,842	21,156	-	-	21,842	21,156
Revenue from the Urban Renewal Authority associated with the transfer of assets	-	184,668	-	-	-	184,668	-	-	-	184,668
Payments to SA Government	-	(13,760)	-	-	-	(13,760)	-	-	-	(13,760)
Net result	14,136	184,810	(7,161)	(7,684)	6,975	177,126	-	(5,518)	6,975	171,608

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

⁽¹⁾The 2012 actual result for other Defence Precincts relates to the period 1 July 2011 to 29 February 2012.

⁽²⁾Revenues from SA Government are provided to fund the operating activities of Defence SA and have not been allocated between activities.

Disaggregated Disclosures – Assets and Liabilities as at 30 June 2013

Refer Note 4 for detailed activity descriptions	Defence Industry Development		Techport Australia		Total Ongoing Defence SA Activities		Other Defence Precincts		Total All Activities	
	2013 \$' 000	2012 \$' 000	2013 \$' 000	2012 \$' 000	2013 \$' 000	2012 \$' 000	2013 \$' 000	2012 \$' 000	2013 \$' 000	2012 \$' 000
Assets										
Cash	26,068	14,333	-	-	26,068	14,333	-	-	26,068	14,333
Receivables	218	1,921	346	520	564	2,441	-	-	564	2,441
Land	-	-	21,870	18,841	21,870	18,841	-	-	21,870	18,841
Buildings and improvements, plant and equipment	357	446	6,463	6,713	6,820	7,159	-	-	6,820	7,159
Harbour and port facilities	-	-	227,130	231,907	227,130	231,907	-	-	227,130	231,907
Capital works in progress	-	-	822	2,533	822	2,533	-	-	822	2,533
Total assets	26,643	16,700	256,631	260,514	283,274	277,214	-	-	283,274	277,214
Liabilities										
Payables	902	2,065	677	554	1,579	2,619	-	-	1,579	2,619
Employee benefits	588	498	127	71	715	569	-	-	715	569
Other liabilities	62	83	-	-	62	83	-	-	62	83
Total liabilities	1,552	2,646	804	625	2,356	3,271	-	-	2,356	3,271
Net assets	25,091	14,054	255,827	259,889	280,918	273,943	-	-	280,918	273,943

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

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Notes

Note 1 Objectives of Defence SA

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

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

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

Note 2 Summary of significant accounting policies

a) Statement of Compliance

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

The financial statements are general-purpose financial statements. The accounts have been prepared in accordance with relevant Australian accounting standards and comply with Treasurer's instructions and accounting policy statements promulgated under the provisions of the *Public Finance and Audit Act 1987*.

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

Australian accounting standards and interpretations that have recently been issued or amended but are not yet effective have not been adopted by Defence SA for the reporting period ending 30 June 2013. Refer to Note 3.

b) Basis of Preparation

The preparation of the financial statements requires:

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

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Note 2 b) Basis of preparation (continued)

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

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

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

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2013 and the comparative information presented.

c) Reporting entity

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

d) Transferred functions

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

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

Subsequent to the transfer, the Treasurer approved an arrangement whereby the Urban Renewal Authority paid on 22 June 2012 \$184.668m to Defence SA. In line with the Australian Accounting Standards (AASB101 paras 81(a) and 87), and the Accounting Policy Framework II, APS3.2, this payment is recognised as income within the Statement of Comprehensive Income of Defence SA.

To complete the arrangement the Treasurer also approved for Defence SA to repay equity of \$184.668m contributed by the state towards the purchase and development of these assets.

As specified in the Accounting Policy Framework II, the transfer of assets and repayments of equity contribution are considered transactions with the SA Government as owner and are recognised directly in the Statement of Changes in Equity and further disclosed in note 17.

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).

Note 2 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, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item applicable; and
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the Australian Taxation Office is included as part of receivables, or payables in the Statement of Financial Position.

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

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

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

The following are specific recognition criteria:

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 equity.

Net gain on disposal of non-current assets

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

Property revenues

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

Other income

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

DEFENCE SA FINANCIAL STATEMENTS

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Note 2 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 notes accompanying the financial statements disclose expenses where the counterparty/transaction is with an entity within the SA Government as at the reporting date, classified according to its nature.

The following are specific recognition criteria:

Employee benefits expenses

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

Superannuation

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

Depreciation and amortisation

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

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

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

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

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

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

Class of asset	Useful life (years)
Harbour and port facilities	5-50
Buildings	6-40
Leasehold improvements	Life of lease
Plant and equipment	4-20

Grants and subsidies

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

All contributions paid by Defence SA have been unconditional.

Payments to SA Government

Payments to the SA Government include the return of surplus cash pursuant to the cash alignment policy and net profit on sale of non-current assets. These funds are paid directly to the Consolidated Account.

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

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

Note 2 I) Assets

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

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

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

Cash

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

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

Cash is measured at nominal value.

Receivables

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

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

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

Capital works in progress

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

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

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

Non-current asset acquisition and recognition

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

Harbour and Port Facilities including wharf, shiplift, transfer system and dry berth are considered specialized assets and are recorded at cost less accumulated depreciation. Other asset classes are subsequently measured at fair value less accumulated depreciation.

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

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

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

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

DEFENCE SA FINANCIAL STATEMENTS

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Note 2 I) Assets (continued)

Revaluation of non-current assets

All non-current tangible assets are valued at written down current cost (a proxy for fair value) and revaluation of non-current assets or group of assets will only be performed when the assets' fair value at the time of acquisition is greater than \$1 million and estimated useful life is greater than 3 years.

Every 3 years Defence SA revalues its land and buildings. However if at any time, management considers that the carrying amount of an asset materially differs from its fair value, then the asset will be revalued regardless of when the last revaluation took place. Non-current tangible assets that are acquired between revaluations are held at cost until the next valuation, where they are revalued to fair value. Defence SA's land, buildings and associated plant and equipment were last revalued in the year ended 30 June 2012.

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

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

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

Impairment

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

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

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.

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

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

Payables

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

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

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

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

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

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

Note 2 m) Liabilities (continued)

Leases

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

Operating leases

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

Lease incentives

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

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

Employee benefits

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

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

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

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

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

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.

Defence SA has adopted this actuarial method of calculating long service leave for 2012-13 for the first time. Previously the long service leave liability was calculated based on those staff that would have attained a long service leave entitlement during their current contract term.

As Defence SA's operations have progressively transitioned from mainly project based to more ongoing in nature, the actuarial method is now considered to more accurately reflect Defence SA's long service leave liability.

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

Employee benefit on-costs

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

Provisions

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

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

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

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Note 2 n) Workers compensation

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

o) Insurance

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

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

p) Unrecognised contractual commitments and contingent assets and liabilities

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

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

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

Note 3 New and revised accounting standards and policies

Defence SA did not voluntarily change any of its accounting policies during 2012-13.

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 2013. Defence SA has assessed the impact of the new and amended standards and interpretations and considers there will be no impact on the accounting policies or the financial statements of Defence SA.

Note 4 Activities of Defence SA

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

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

Activity 1 – Defence Industry Development

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

It also includes targeted business development opportunities and the agency's administrative, financial and other operational services.

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

Activity 2 – Techport Australia

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

Activity 3 – Other Defence Precincts

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

The disaggregated disclosures schedules present expenses, income, assets and liabilities information attributable to each of the activities for the years ended 30 June 2012 and 30 June 2013. These schedules also present this information attributable to activities transferred to the Urban Renewal Authority effective 1 March 2012 (refer note 2d).

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Note 5 Employee benefits expenses	30 June 2013 \$' 000	30 June 2012 \$' 000
Salaries and wages	3,263	4,105
Targeted voluntary separation packages (TSVPs) (refer below)	93	–
Long service leave	148	73
Annual leave	279	326
Skills and experience retention leave	4	–
Employment on-costs - superannuation	323	409
Employment on-costs - other	212	252
Advisory Board and committee fees (note 28)	362	332
Other employee related expenses	66	106
Total employee benefits expenses	4,750	5,603
Charged to capital projects	–	(395)
Total employee benefits expenses as per Statement of Comprehensive Income	4,750	5,208

Targeted voluntary separation packages

Amount paid during the reporting period to separated employees:

TVSPs	93	–
Annual leave and long service leave paid to those employees	5	–
	98	–
Recovery from the Department of Treasury and Finance	(98)	–
Net cost to Defence SA	–	–

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

Remuneration of employees

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

\$148 000 - \$157 999	2	2
\$158 000 - \$167 999	1	2
\$168 000 - \$177 999	2	3
\$178 000 - \$187 999	2	1
\$188 000 - \$197 999	2	–
\$198 000 - \$207 999	–	1
\$208 000 - \$217 999	1	–
\$218 000 - \$227 999	–	1
\$228 000 - \$237 999	1	–
\$238 000 - \$247 999	–	1
\$528 000 - \$537 999	–	1
\$548 000 - \$557 999	1	–
Total number of employees	12	12

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

The total remuneration received by these employees for the year was \$2.582 million (\$2.533 million).

Note 6	Supplies and services	30 June 2013 \$' 000	30 June 2012 \$' 000
	Supplies and services provided by entities within the SA Government	317	298
	Accommodation and service costs	187	117
	Legal fees to Crown Solicitor's Office	275	427
	Provision of corporate services under Service Level Agreements	104	112
	Insurance	–	466
	Security services	30	30
	Provision of contract services by Department of Planning, Transport, and Infrastructure	150	9
	Travel and related expenses	119	178
	Other expenses	<u>1,182</u>	<u>1,637</u>
	Total supplies and services – SA Government entities		
	Supplies and services provided by entities external to the SA Government	485	1,588
	Contractors	224	149
	Consultants (refer below)	5	77
	Legal fees	187	205
	Staff development and recruitment	322	259
	Travel and related expenses	1,069	872
	Promotion and events	336	1,856
	Property	642	173
	Security services	976	430
	Electricity	135	110
	Gas and gas equipment	158	415
	Minor plant and equipment	508	578
	Other expenses	<u>5,047</u>	<u>6,712</u>
	Total supplies and services – Non SA Government entities		
	Total supplies and services	<u>6,229</u>	<u>8,349</u>

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

Consultants

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

	30 June 2013		30 June 2012	
	No	\$' 000	No	\$' 000
Between \$10 000 and \$50 000	–	–	2	46
Above \$50 000	2	224	1	103
Total paid/payable to the consultants engaged	<u>2</u>	<u>224</u>	<u>3</u>	<u>149</u>

DEFENCE SA FINANCIAL STATEMENTS

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Note 7	Depreciation and amortisation	30 June 2013 \$' 000	30 June 2012 \$' 000
	Depreciation		
	Buildings and improvements	201	866
	Plant and equipment	86	99
	Harbour and port facilities	6,841	6,726
	Total depreciation	7,128	7,691
	Amortisation		
	Leasehold improvements	113	112
	Total amortisation	113	112
	Total depreciation and amortisation	7,241	7,803
Note 8	Grants and subsidies	30 June 2013 \$' 000	30 June 2012 \$' 000
	Grants and subsidies paid/payable to entities external to SA Government		
	Defence Teaming Centre	477	455
	ASC AWD Shipbuilder Pty Ltd	644	2,163
	Other	110	31
	Total grants and subsidies – Non SA Government entities	1,231	2,649
	Total grants and subsidies	1,231	2,649
Note 9	Other expenses	30 June 2013 \$' 000	30 June 2012 \$' 000
	Other expenses paid/payable to entities within the SA Government		
	Audit fees (refer note 10)	43	35
	Land tax, local government rates in lieu and emergency services levy	–	14
	Other	–	5
	Total other expenses – SA Government entities	43	54
	Other expenses paid/payable to entities external to the SA Government		
	Bad debts and allowances for doubtful debts (refer note 19)	–	(7)
	Internal Audit	56	90
	Transfer from Capital Works in Progress (refer note 21)	–	222
	Other	32	–
	Total other expenses – Non SA Government entities	88	305
	Total other expenses	131	359
Note 10	Auditor's remuneration	30 June 2013 \$' 000	30 June 2012 \$' 000
	Audit fees paid/payable to the Auditor-General's Department relating to the audit of financial statements	43	35
	Total audit fees	43	35
	Other services		
	No other services were provided by the Auditor-General's Department.		

Note 11	Revenues from fees and charges	30 June 2013 \$' 000	30 June 2012 \$' 000
	Fees and charges received/receivable from entities within the SA Government		
	Renewal SA income ⁽¹⁾	<u>22</u>	<u>–</u>
	Total fees and charges – Non SA Government entities	<u>22</u>	<u>–</u>
	Fees and charges received/receivable from entities external to the SA Government		
	CUF priority access fee	2,603	2,573
	Techport Australia other fee	908	452
	Technology Park Conference Centre income	–	219
	Total fees and charges – Non SA Government entities	<u>3,511</u>	<u>3,244</u>
	Total fees and charges	<u>3,533</u>	<u>3,244</u>
	⁽¹⁾ As of 30 August 2012 the Urban Renewal Authority is trading as Renewal SA.		
Note 12	Grants	30 June 2013 \$' 000	30 June 2012 \$' 000
	Grants and subsidies received/receivable from entities external to the SA Government		
	ASC AWD Shipbuilder Pty Ltd recruitment reimbursement	–	1,540
	Other	–	15
	Total grants – SA Government entities	<u>–</u>	<u>1,555</u>
	Grants received/receivable from entities external to the SA Government		
	ASC AWD Shipbuilder Pty Ltd payment towards CUF infrastructure	717	499
	Other	3	7
	Total grants – Non SA Government entities	<u>720</u>	<u>506</u>
	Total grants	<u>720</u>	<u>2,061</u>
Note 13	Net gain on disposal of non-current assets	30 June 2013 \$' 000	30 June 2012 \$' 000
	Proceeds from disposal of land and buildings	–	240
	Less net book value of land and buildings disposed	–	(185)
	Proceeds from disposal of plant and equipment	–	1
	Total net gain from disposal of non-current assets	<u>–</u>	<u>56</u>
Note 14	Techport Australia recoveries	30 June 2013 \$' 000	30 June 2012 \$' 000
	Techport Australia recoveries received/receivable from entities external to the SA Government		
	Other Techport Australia recoveries	125	257
	Total Techport Australia recoveries – Non SA Government entities	<u>125</u>	<u>257</u>
	Total Techport Australia recoveries	<u>125</u>	<u>257</u>

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Note 15	Property revenues	30 June 2013 \$' 000	30 June 2012 \$' 000
	Property revenues received/receivable from entities external to the SA Government		
	Rental income and recoveries ⁽¹⁾	146	3,450
	Total property revenues	146	3,450

⁽¹⁾All income generating properties were transferred to the Urban Renewal Authority effective 1 March 2012 (refer note 27). Income for 2012-2013 is for adjustments to 2011-2012 actual outgoings originally charged at budgeted rates.

Note 16	Other Income	30 June 2013 \$' 000	30 June 2012 \$' 000
	Other income received / receivable from entities within the SA Government		
	Transfers received – Department of Further Education, Employment, Science and Technology	101	91
	Total other income – SA Government entities	101	91
	Other income received/receivable from entities external to the SA Government		
	Other recoveries	90	136
	Total other income – Non SA Government entities	90	136
	Total other income	191	227

Note 17	Revenues from/payments to SA Government	30 June 2013 \$' 000	30 June 2012 \$' 000
	Revenues from SA Government		
	Appropriation from Consolidated Account pursuant to the <i>Appropriation Act</i>	21,695	21,142
	Transfers received – Department of Treasury and Finance, Contingencies	147	14
	Revenues from the Urban Renewal Authority associated with the transfer of assets (refer note 2d)	–	184,668
	Total revenues from SA Government	21,842	205,824
	Payments to SA Government		
	Return of surplus cash pursuant to cash alignment policy	–	(13,585)
	Other payments to the Consolidated Account ⁽¹⁾	–	(175)
	Total payments to SA Government	–	(13,760)

Appropriations from Consolidated Account were \$21.842 million (\$21.156 million) for operational funding.

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

Note 18 Cash	30 June 2013 \$' 000	30 June 2012 \$' 000
Deposits with the Treasurer	14,762	7,890
Deposits with the Treasurer – Accrual Appropriation Excess Funds Account ⁽¹⁾	11,306	6,443
Total cash	26,068	14,333

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

Interest rate risk

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

Note 19 Receivables	30 June 2013 \$' 000	30 June 2012 \$' 000
Current		
Receivables and accrued income	298	2,173
Less allowance for doubtful debts	(13)	(13)
Prepayments	97	72
GST input tax recoverable	182	209
Total current receivables	564	2,441
Receivables from entities within the SA Government		
Receivables and accrued income	10	1,650
Prepayments	–	1
Total receivable from entities within the SA Government	10	1,651
Receivables from entities external to the SA Government		
Receivables and accrued income	288	523
Less allowance for doubtful debts	(13)	(13)
Prepayments	97	71
GST input tax recoverable	182	209
Total receivable from entities external to the SA Government	554	790
Total current receivables	564	2,441

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

Interest rate and credit risk

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

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

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

There is no concentration of credit risk.

(a) Maturing analysis of receivables – refer to note 30

(b) Categorisation of financial instruments and risk exposure information – refer to note 30

DEFENCE SA FINANCIAL STATEMENTS

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Note 20	Property, plant and equipment	30 June 2013 \$' 000	30 June 2012 \$' 000
	Land		
	Land only holdings at fair value	18,150	18,150
	Land only holdings improvements at cost	3,029	–
	Site land at fair value	691	691
	Total land	<u>21,870</u>	<u>18,841</u>
	Buildings and improvements		
	Buildings at fair value	3,425	3,427
	Buildings at cost ⁽¹⁾	2,949	2,931
	Accumulated depreciation at the end of the period	(519)	(318)
	Total buildings	<u>5,855</u>	<u>6,040</u>
	Leasehold improvements		
	Leasehold improvements at cost	884	866
	Accumulated amortisation at the end of the period	(542)	(429)
	Total leasehold improvements	<u>342</u>	<u>437</u>
	Plant and equipment		
	Plant and equipment at cost (deemed fair value)	969	943
	Accumulated depreciation at the end of the period	(346)	(261)
	Total plant and equipment	<u>623</u>	<u>682</u>
	Total buildings and improvements, plant and equipment	<u>6,820</u>	<u>7,159</u>
	Harbour and port facilities		
	Harbour and port facilities at cost (deemed fair value)	250,501	248,437
	Accumulated depreciation at the end of the period	(23,371)	(16,530)
	Total harbour and port facilities	<u>227,130</u>	<u>231,907</u>
	Total property, plant and equipment	280,598	275,445
	Total accumulated depreciation/amortisation at the end of the period	(24,778)	(17,538)
	Total property, plant and equipment	<u>255,820</u>	<u>257,907</u>

Valuation of land and buildings

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

⁽¹⁾ Buildings within the Techport Australia Common User Facility which is a specialised asset are recorded at cost and have not been revalued.

Impairment

There were no indications of impairment of infrastructure, property, plant and equipment as at 30 June 2013.

Note 20 Property, plant and equipment (continued)

RECONCILIATION OF PROPERTY, PLANT AND EQUIPMENT

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

	Land \$ '000	Buildings \$ '000	Leasehold improvements \$ '000	Plant and equipment \$ '000	Harbour and port facilities \$ '000	Total assets \$ '000
Carrying amount at the beginning of the period	157,358	26,591	549	912	236,265	421,675
Acquisitions	21,504	904	-	-	2,368	24,776
Assets reclassified from assets held for sale	154	-	-	-	-	154
Disposals	(185)	-	-	-	-	(185)
Transferred to Urban Renewal Authority	(151,505)	(17,261)	-	(89)	-	(168,855)
Revaluation decrement ⁽¹⁾	(8,485)	(3,328)	-	(42)	-	(11,855)
Depreciation/amortisation	-	(866)	(112)	(99)	(6,726)	(7,803)
Carrying amount at the end of the period	18,841	6,040	437	682	231,907	257,907

⁽¹⁾ \$6.472 million applied as a reduction in revaluation surplus and \$5.383 million recognized as a loss on revaluation as no revaluation surplus existed for site land, building and plant and equipment asset classes.

RECONCILIATION OF PROPERTY, PLANT AND EQUIPMENT

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

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

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Note 21 Capital works in progress

30 June
2013
\$' 000

30 June
2012
\$' 000

The balance of capital works in progress as at the end of the reporting period. **822** 2,533

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 2011-12

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

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

RECONCILIATION OF CAPITAL WORKS IN PROGRESS

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

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

Note 22 Payables	30 June 2013 \$' 000	30 June 2012 \$' 000
Current payables		
Creditors and accrued expenses	1,442	2,478
Employment on-costs	55	66
GST payable	59	39
Total current payables	1,556	2,583
Non-current payables		
Employment on-costs	23	36
Total non-current payables	23	36
Total payables	1,579	2,619
Payables to SA Government entities		
Creditors and accrued expenses	323	231
Employment on-costs	21	31
Total payables to SA Government entities	344	262
Payables to non-SA Government entities		
Creditors and accrued expenses	1,119	2,247
Employment on-costs	57	71
GST payable	59	39
Total payables to non-SA Government entities	1,235	2,357
Total payables	1,579	2,619

Interest rate and credit risk

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

(a) Categorisation of financial instruments and risk exposure information - refer to note 30

Note 23 Employee benefits	30 June 2013 \$' 000	30 June 2012 \$' 000
Current employee benefits		
Annual leave	189	195
Long service leave ⁽¹⁾	136	97
Skills and experience retention leave	3	-
Total current employee benefits	328	292
Non-current employee benefits		
Long service leave ⁽¹⁾	387	277
Total non-current employee benefits	387	277
Total employee benefits	715	569

⁽¹⁾ Defence SA adopted the actuarial method of calculating long service leave based on the Department of Treasury and Finance model for the first time in the 2012-13 financial year. This has resulted in an increase of \$106 000 in the value of accrued long service leave relative to the amount that would have been accrued based on the previous method of calculation (refer note 2m).

DEFENCE SA FINANCIAL STATEMENTS

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Note 24	Other liabilities	30 June 2013 \$' 000	30 June 2012 \$' 000
	Current other liabilities		
	Lease incentive	21	21
	Total current other liabilities	<u>21</u>	<u>21</u>
	Non-current other liabilities		
	Lease incentive	41	62
	Total non-current other liabilities	<u>41</u>	<u>62</u>
	Total current other liabilities	<u>62</u>	<u>83</u>

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

Note 25	Unrecognised contractual commitments	30 June 2013 \$' 000	30 June 2012 \$' 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	–	2,103
	Total capital commitments	<u>–</u>	<u>2,103</u>

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

Expenditure commitments - other

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

Within 1 year	2,097	2,418
Later than 1 year but not longer than 5 years	4,643	5,860
Later than 5 years	1,574	2,092
Total other commitments	<u>8,314</u>	<u>10,370</u>

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

Expenditure commitments - remuneration

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

Within 1 year	3,371	3,023
Later than 1 year but not longer than 5 years	3,357	3,921
Total remuneration commitments	<u>6,728</u>	<u>6,944</u>

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

Note 26 Contingent assets and contingent liabilities

30 June 2013 \$' 000	30 June 2012 \$' 000
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Contingent liabilities to which a value can be assigned

Contingent liabilities to which a value can be assigned

6,324	6,000
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Total

6,324	6,000
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Techport Australia Commercial Campus (Stage One)

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

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

Air Warfare Destroyer Project - Workforce Assistance

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

Techport Australia 66kV Powerline Undergrounding Project

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

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

Contingent assets and contingent liabilities*Air Warfare Destroyer Project - Common User Facility*

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

Note 27 Transferred functions

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

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

30 June 2012 \$' 000

Property, plant and equipment and non-current assets held for sale	177,965
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Total assets

177,965

Payables	17
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Employee benefits	112
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Total liabilities

129

Net assets transferred

177,836

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

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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:

GEN P Cosgrove AC MC (Chair)
 Hon J Weatherill MP*
 Hon J Snelling MP*
 Dr I Chessell
 VADM R Crane AO CSM RANR
 AIRMSHL L Fisher AO (resigned 31 August 2012)
 A Fletcher **
 ACM A Houston AC AFC (appointed 15 October 2012)
 P Johnson MBE
 B Laughton
 LTGEN P Leahy AC
 RADM T Ruting AM CSC RANR
 Dr J White

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

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

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

	30 June 2012 No.	30 June 2011 No.
\$1 - \$9 999	2	1
\$20 000 - \$29 999	1	-
\$30 000 - \$39 999	7	8
\$70 000 - \$79 999	1	1
	11	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 \$362 000 (\$332 000), plus Defence SA compulsory superannuation contributions of \$33 000 (\$30 000). Other Advisory Board expenses were \$168 000 (\$135 000).

* The Hon J Weatherill MP, the Hon J Snelling MP did not receive any remuneration for board duties during the period.

** Pursuant to the Department of Premier and Cabinet Circular No. PC016, government employees did not receive any remuneration for board/committee duties during the financial year.

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

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

Note 29 Cash flow reconciliation	Note	30 June 2013 \$' 000	30 June 2012 \$' 000
Reconciliation of cash at end of reporting period:			
Cash disclosed in the Statement of Financial Position		26,068	14,333
Balance as per the Statement of Cash Flows		26,068	14,333
Reconciliation of net cash provided by operating activities to net cost of providing of services:			
Net cash provided by operating activities		15,279	184,291
Less revenues from SA Government	17	(21,842)	(21,156)
Less revenues from the Urban Renewal Authority associated with the transfer of assets	17	–	(184,668)
Add payments to SA Government	17	–	13,760
Add/(less) non-cash items			
Depreciation and amortisation expense of non-current assets	7	(7,241)	(7,803)
Gain on sale of non-current assets	13	–	56
Non-current assets accrual in payables		(101)	(2,146)
Other expenses – transfer from capital works in progress	9	–	(222)
Net liabilities transferred to the Urban Renewal Authority	27	–	(129)
Revaluation decrement expensed		–	(5,383)
Movement in assets/liabilities			
Increase/(decrease) in receivables	19	(1,877)	1,141
(Increase)/decrease in payables	22	1,040	1,726
(Increase)/decrease in employee benefits	23	(146)	56
(Increase)/decrease in other liabilities	24	21	21
Net cost of providing services		(14,867)	(20,456)

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Note 30 Financial instruments/financial risk management

Categorisation of financial instruments

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

Category of financial assets and financial liabilities	Statement of Financial Position	Note	Carrying Amount 30 June 2013 \$' 000	Carrying Amount 30 June 2012 \$' 000
Financial assets				
Cash	Cash	18, 29	26,068	14,333
Receivables	Receivables (at cost) ⁽¹⁾⁽²⁾	19	286	2,160
Financial liabilities				
Financial liabilities	Payables (at cost) ⁽¹⁾	22	1,291	2,367

⁽¹⁾ Receivable and payable amounts disclosed here exclude amounts relating to GST receivables and payables. In government, certain rights to receive or pay cash may not be contractual and therefore in these situations, the requirements will not apply. Where rights or obligations have their source in legislation such as levy receivables/payables, tax equivalents, Commonwealth tax etc. they would be excluded from the disclosure. 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 19 in accordance with paragraph 78(b) of AASB 101. Prepayments are not financial assets as defined in AASB132 as the future economic benefit of these assets is the receipt of goods and services rather than the right to receive cash or another financial asset.

Fair Value

Defence SA does not recognise any financial assets or financial liabilities at fair value (refer Note 2 Summary of significant accounting policies and Notes 18, 19, 22, 24, 29).

Credit Risk

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

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

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

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

Note 30 Financial instruments/financial risk management (continued)**Ageing analysis of financial assets past due including impaired assets**

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

Ageing analysis of financial assets

	< 30 days	Past due by		Total
	\$' 000	30 – 60 days	> 60 days	\$' 000
		\$' 000	\$' 000	
2012				
Not impaired				
Receivables [†]	88	–	2	90
Impaired				
Receivables [†]	–	–	12	12
2013				
Not impaired				
Receivables [†]	29	15	5	49
Impaired				
Receivables [†]	–	–	12	12

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

Maturity analysis of financial assets and liabilities

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

Liquidity risk

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

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

Market Risk

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

Sensitivity analysis disclosure

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

Note 31 Events after the reporting period

There are no reportable events after the reporting period.

1 July 2012 – 30 June 2013

Defence SA

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ISSN 1836-1838



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