



# CHAPTER 1

## The year in review by the Chief Executive Officer



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In 2007-08, the Defence Materiel Organisation (DMO) continued to successfully deliver on its mission to equip and sustain the Australian Defence Force (ADF). Our people continue to bring great credit to themselves and to Defence.

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As a prescribed agency, the DMO remains accountable to the Minister for Defence, the Hon Joel Fitzgibbon MP, for its performance. Following the Federal election in November 2007, the newly elected Government created a new parliamentary secretary post, with specific accountabilities for defence procurement. DMO's interaction with the Parliamentary Secretary for Defence Procurement, the Hon Greg Combet AM MP, has been very positive. This relationship has focused strongly on DMO reforms, project performance and the delivery of tangible outcomes for the ADF.

Contrary to some public reporting, the biggest challenge with equipment acquisition continues to be the management of schedule, not cost overruns. Of the projects that were closed during 2007-08, 94 per cent of the projects came in on or under budget. This is a very good result however we need to remain vigilant. Defence has a staged process for Government approval of major capital equipment projects. Where cost estimation and management is most difficult, and most challenging, is in the period leading up to second pass approval.

On the whole, the sometimes dramatic effects of post-approval specification

changes experienced with some of our legacy projects has been mitigated by the significant process changes formalised in the 2003 Kinnaird review.

In relation to schedule management, our highest priority is to work with industry and intensively manage projects to deliver equipment to our war fighters.

Complex projects continue to demand the best from our people. Particularly challenging are those projects that are characterised by systems integration issues and other risks inherent with developmental technology.

In 2007-08, our relationship with suppliers was increasingly focused on commercial realities, with DMO placing a strong emphasis on increased productivity and schedule achievement. On occasions this has required tough decisions by the DMO, or by Government. I believe the profitability of defence industry should be based on the timely delivery of contracted requirements. A commercially sound basis for DMO's relationship with industry is one of the keys to our overall objective of being a more business-like organisation.

Our analysis clearly shows that some of the causes of project slippage are not related to industry performance. Forward

estimates of payments to foreign governments are particularly challenging. These are not issues of project cost, but relate to timing of payments and can materially impact on Defence's cash flows. Other causes of delay, particularly in relation to upgrades of existing equipment, can be attributed to the non-availability of this equipment due to the high operational tempo of the ADF. Upgrades and deep maintenance simply cannot occur if the warfighting assets are being utilised by Defence in meeting strategic objectives.

The problems we face with the timely delivery of complex, multi-faceted equipment projects are not ours alone. They are not unique to Australia or to the defence sector, but that is not an excuse for complacency. The DMO, under my leadership and in conjunction with industry, will continue to pursue improvement in our processes and outcomes to ensure that the best available equipment is provided to the ADF, on time.

A more business-like approach also demands that we improve the management of our business inputs. It was pleasing to see progress in this area during 2007-08. The challenge for DMO - as with defence industry - is to ensure that our workforce is ready for the challenges ahead. Working on projects that can run for 10 to 15 years is a significant factor in our workforce and skilling plans. We continue to work together with the three Services to establish staffing policy that will ensure that the DMO continues to benefit from the domain knowledge and expertise of serving military personnel.

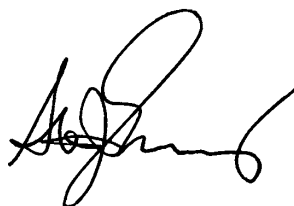
We are proud of the initiatives we have put in place to enhance industry's capacity to deliver, including the Skilling Australia's Defence Industry (SADI) program. While I acknowledge that more can and should be done in this area, the recent signing of the 50<sup>th</sup> skilling

agreement with industry under SADI is a major milestone and a great credit to our people and to our ability to work together with industry.

Operating in a more business-like manner also means that the DMO must continue to demonstrate transparency, in our business operations, and accountability for our financial resources. The organisation is responsible for a significant share - more than \$9 billion - of the overall Government investment in defence. Detailed external scrutiny, while it may be a demanding administrative burden, is only to be expected.

On 7 May 2008, the Hon Greg Combet AM MP, announced the Defence Procurement and Sustainment Review. The review, conducted by Mr David Mortimer AO, was completed and received by Government on 18 September 2008, and tabled in the Parliament on 23 September 2008. The outcomes of the review are expected to provide further development in the governance of relationships between DMO and Defence Groups. I am confident that Mr Mortimer's review and the resulting decisions by Government will continue to drive important and urgent reform in the acquisition and support of equipment and services for the ADF.

This document provides you with information about the DMO's activities in 2007-08. The information includes case studies that highlight successes in support to operations and improvements in our relationships with industry which ultimately benefit the warfighter and the Australian community.



DR STEPHEN GUMLEY  
Chief Executive Officer, DMO

# CHAPTER 2

## DMO overview

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The DMO is one of Australia's largest project management organisations. Our mission is to acquire and sustain equipment to support the ADF. This includes weapons systems such as fighter aircraft, submarines and satellites, to tents, clothing, medical supplies and rations.

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### ORGANISATIONAL FRAMEWORK

The DMO became a prescribed agency under the *Financial Management and Accountability Act 1997* on 1 July 2005. As a prescribed agency, the CEO DMO has statutory responsibilities and authority under the Act. He also has joint responsibilities to the Secretary and the Chief of the Defence Force under section 9A of the *Defence Act 1903* and is provided with significant delegation powers from the Secretary to manage and

allocate staff resources under the *Public Service Act 1999*.

The CEO DMO serves on senior Defence committees, including the Defence Committee. The relationship with Defence Groups is strong and there is a collegiate approach to direction and strategy that is embraced by the DMO senior leadership.

### SENIOR EXECUTIVE CHANGES

Dr Stephen Gumley's status as CEO DMO moved from a fixed term to ongoing Australian Public Service (APS) employee status, effective 2 May 2008. Dr Gumley's fixed term contract was due to expire in February 2009.

Mr Steve Wearn was appointed Chief Finance Officer DMO, effective 25 March 2008.

Mr Peter Lambert was appointed Program Manager Corporate Strategy and Assurance on 29 January 2008. This position was re-named to Head Human Resources and Corporate Services in April 2008.

Mr Anthony Klenthis was promoted to the newly created position of Head Explosive Ordnance in December 2007.

Mr Harry Dunstall was appointed to the new position of Special Counsel to the CEO DMO in November 2007.

Mr Tim Youngberry resigned as Chief Finance Officer and transferred to the Department of Finance and Deregulation in August 2007.

Mr Frank Lewincamp left his position as Chief Operating Officer and transferred to Defence in July 2007.

Rear Admiral Boyd Robinson was appointed Head Maritime Systems effective 4 July 2007, on the retirement of Rear Admiral Trevor Ruting.

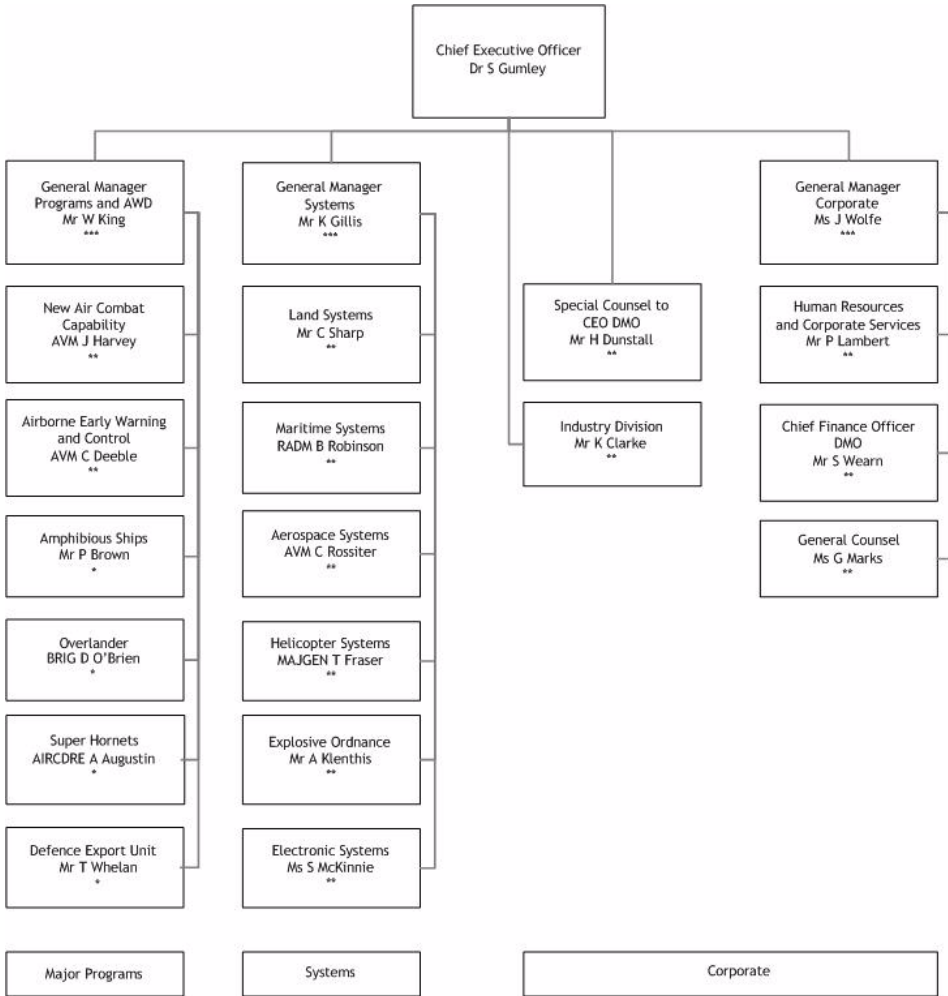
Mr Warren King was promoted to the new position of General Manager Programs on 12 September 2007.

Mr Kim Gillis was promoted to the new position of General Manager Systems on 2 July 2007.

Ms Jane Wolfe was appointed to the new position of General Manager Corporate on 2 July 2007.

# ORGANISATIONAL STRUCTURE

Figure 2.1 Organisational Structure as at 30 June 2008



Stars refer to Australian Defence Force Star Rank or SES Band Levels

# SENIOR EXECUTIVE RESPONSIBILITIES

During 2007-08, the Electronic and Weapon Systems Division was split into two divisions, now known as Electronic Systems and Explosive Ordnance Divisions. The new Explosive Ordnance Division, created in October 2007, was established to provide a more dedicated focus to the ongoing reform of acquisition and sustainment of explosive ordnance.

Led by the CEO DMO, Dr Stephen Gumley, the individuals of the Executive during 2007-08 had the following roles:

## Systems

### *General Manager Systems, Mr Kim Gillis*

Overall responsibility for acquisition and sustainment business conducted through the DMO's Land, Aerospace, Helicopter, Maritime, Electronic and Explosive Ordnance Divisions.

### *Head Land Systems, Mr Colin Sharp*

Manages the acquisition, upgrade and sustainment of land-based equipment across the three Services, with a focus on the land elements of the Army.

### *Head Maritime Systems, Rear Admiral Boyd Robinson*

Manages the acquisition, upgrade and sustainment of maritime capability to support the ADF.

### *Head Aerospace Systems, Air Vice-Marshal Clive Rossiter*

Manages the acquisition, upgrade and sustainment of aerospace systems for the ADF.

### *Head Helicopter Systems, Major General Tony Fraser*

Manages the acquisition, upgrade and sustainment of rotary wing systems for the ADF.

### *Head Explosive Ordnance, Mr Anthony Klenthis*

Manages the acquisition, upgrade and sustainment of guided weapon systems and explosive ordnance for the ADF.

### *Head Electronic Systems, Ms Shireane McKinnie*

Manages the acquisition, upgrade and sustainment of electronic systems for the ADF.

## Major Programs

### *General Manager Programs, Mr Warren King*

Oversight on all major programs and is Program Manager providing for the timely and efficient delivery of the Air Warfare Destroyer capability for the ADF.

### *Program Manager, New Air Combat Capability, Air Vice-Marshal John Harvey*

Responsible for delivering a new air combat capability to replace the capability currently provided by the F/A-18 and F-111, and maximising the level and quality of Australian industry participation on the global Joint Strike Fighter Program.

### *Program Manager, Airborne Early Warning and Control, Air Vice-Marshal Chris Deeble*

Responsible for establishing, operating and sustaining a world-class aerospace surveillance and remote-sensing capability.

### *Program Manager, Amphibious Ships, Mr Phil Brown*

Responsible for delivery of next-generation amphibious development and sustainment capability for the ADF.

### *Program Manager, Overlander, Brigadier David O'Brien*

Responsible for the multi-phased LAND 121 (Overlander) project, providing the ADF with field vehicles and trailers beyond the life of type of the current fleet.

*Program Manager, Super Hornets, Air Commodore Axel Augustin*

Responsible for the acquisition of 24 F/A-18F Block II Super Hornet multi-role aircraft and associated support systems and services to ensure that Australia's air combat capability edge is maintained.

*Head Defence Export Unit, Mr Terry Whelan*

Responsible for enhancing Australian defence industry sector exports by coordinating a whole-of-government approach to defence export facilitation.

**Corporate***General Manager Corporate, Ms Jane Wolfe*

Overarching responsibility for finance, governance, audit, communications, human resources, industrial relations, information technology, procurement and contracting for the DMO.

*Head Human Resources and Corporate Services, Mr Peter Lambert*

Responsible for human resources, information technology, strategic communication and parliamentary liaison functions.

*Chief Finance Officer, Mr Steve Wearn*

Responsible for strategic resource management and reporting, financial accounting, and the establishment of supporting business systems.

*Special Counsel to CEO DMO, Mr Harry Dunstall*

Specialist independent strategic-level legal counsel to the CEO DMO.

*Head Industry Division, Mr Kerry Clarke*

Facilitates industry engagement to help build the necessary strategic capabilities for the acquisition and sustainment of ADF capability.

*General Counsel, Ms Gillian Marks*

Advise on high-level, high risk legal issues related to major projects and sustainment.

## SUPPORT TO OPERATIONS

The DMO provides strong and effective support to ADF operations through the acquisition of equipment and supplies, sustainment of ADF capabilities and deployment of specialist staff. The DMO must be flexible and agile in responding to requests for support—often at very short notice and within very tight timeframes. Our efforts continue to be acknowledged by our customers.

The traditional acquisition and sustainment approaches are increasingly complemented by the Rapid Acquisition Program, a method of quickly overcoming operational deficiencies in order to meet immediate security challenges. During the past year, rapid acquisition has been used to provide remote weapon stations, fire suppression equipment and spall curtains to the Australian Light Armoured Vehicles (ASLAV), electronic counter measures equipment for vehicles deployed in the Middle East Area of Operations, additional

protective measures for deployed commercial vehicles, and an engineering plant. There have been a significant number of smaller, but very important acquisitions of a range of items to improve protection, command and control and habitability for deployed forces. Rapid acquisition seeks to ensure that the best equipment available is provided to Australian troops when, and where, they need it.

The Bushmaster vehicles deployed on operations are highly regarded by Australia's troops and our allies. The DMO also supports the ASLAV, up-armoured Unimog and Mack trucks, and a range of other equipment. The threat from improvised explosive devices continues, and the DMO has worked closely with Defence and with local and overseas suppliers to ensure that world-class equipment is provided to ADF personnel on deployments.

## BUSINESS ENVIRONMENT

The DMO's business is complex and involves purchasing, upgrading and maintaining a range of specialist military and other equipment. It is typified by high-end technology and highly complex systems integration, projects and demands a mature approach to risk management.

In order to maximise the return on its investment in defence equipment, the Government expects that the DMO will deliver and sustain required capabilities to high quality standards, at optimum cost, and within tight schedules.

The DMO operates Australia wide and in many overseas locations, so its business is affected by domestic and foreign economic and policy drivers. In striving to

meet demanding schedules, the DMO's task is to manage risk effectively and deliver high quality outcomes for the ADF and for the Government.

The DMO's close relationship with Defence is formalised through a suite of agreements covering acquisition, sustainment, military workforce, and a range of shared services provided to or by Defence. Work to strengthen the governance and detail of these agreements has continued during 2007-08. Under the agreements, Defence relies on the DMO to meet cost, schedule and quality targets. The DMO relies on Defence to be an informed customer and to clearly state requirements.

## BUSINESS IMPROVEMENT

The DMO's purpose, to equip and sustain the Australian Defence Force, centres on the delivery of capability and sustainment on time, on budget and to the required capability, safety and quality. The DMO aims to be a business-like, accountable and outcome-driven organisation with a strong and close relationship with the Government, industry and its Service clients.

The DMO has adopted six key themes to ensure that it achieves its vision of becoming the premier program management, logistics and engineering services organisation in Australia and, as a result, provide the support required by our troops on operations.

These six key themes are:

- professionalise - our workforce and encourage lifelong learning
- reprioritise - concentrate on the important
- standardise - our business practices for clear definition of outcomes

- benchmark - ourselves against domestic and international best practice
- improve industry relationships and industry performance - encourage open and honest dialogue and reward good performance
- lead reform - embrace change.

These themes are also the mechanism for continuing to effect cultural change to become more business-like and to improve the efficiency and effectiveness of the DMO.

They provide a framework for continuing improvement of the DMO's acquisition and sustainment core business, ensuring the effective implementation of enhancements to business practices and systems.

The DMO continued to improve transparency and accountability to Defence and the Government, through agreements for delivering outputs and enhanced performance reporting.

Significant progress has been made in professionalising, recognising the competencies of, and raising the skills of DMO people by ensuring a stronger focus on attracting, developing and retaining the critical skills that the DMO needs.

Chapter 5 provides more details on the DMO's achievement against the strategic priorities detailed in the *Portfolio Budget Statements 2007-08*.

## ADVISORY ARRANGEMENTS

The Defence Procurement Advisory Board is the primary external advisory body to the DMO. The Board has met on four occasions in 2007-08. The most recent meeting was in March 2008.

With the May 2008 announcement of the Defence Procurement and Sustainment Review to be conducted by Mr David Mortimer, chair of the advisory board, meetings of the board have been suspended. It is expected that the board will next meet in late-2008.

The Board membership up until the last meeting consisted of four private sector members (one of which is the chair); the Secretaries of the Departments of Defence, Finance and Deregulation, Secretary to the Treasury, and the Chief of the Defence Force. The CEO DMO is an *ex officio* member of the Board. A senior

representative from the Department of the Prime Minister and Cabinet is a permanently invited member as is the Chief of Capability Development Group.

The DMO Executive is the primary internal support body to the CEO DMO. Membership includes the CEO DMO and all SES Band 3 and Band 2 and ADF 2-star officers within the DMO. The ADF 2-star Commander Joint Logistics was a permanently invited member during 2007-08.

The DMO Executive provides management advice to assist the CEO DMO in discharging his responsibilities in relation to the achievement of the Ministerial Directive (refer to page i). During 2007-08, the DMO Executive met 11 times.

## OUTCOME & OUTPUT STRUCTURE

The DMO's outcome describes the results the Government and Defence seeks from the DMO. The outcome for the reporting year was achieved through the successful delivery of outputs to the standards set in the *Portfolio Budget Statements 2007-08*

and in the *Portfolio Additional Estimates Statements 2007-08*. The DMO has a single outcome and three outputs, as shown in Table 2.1. Details of the DMO's outcome performance are provided in Chapter 3.

**Table 2.1** The DMO Outcome and Outputs

Outcome	Description	Outputs
Defence capabilities are supported through efficient and effective acquisition and through life support of materiel.	This Outcome encapsulates the entire business of the DMO: the activities it undertakes for Defence in acquisition and sustainment of materiel and the advice it provides on contracting policy and industry policy.	Output 1.1 - Management of Capability Acquisition Output 1.2 - Management of Capability Sustainment Output 1.3 - Provision of Policy Advice and Management Services

# THE DMO'S FINANCIAL PERFORMANCE

The DMO was prescribed as an agency on 1 July 2005 under the *Financial Management and Accountability Act 1997*. A description of the DMO business model and the accounting model that was established to support the management of DMO can be found in Chapter 6 of this volume. These arrangements have not varied significantly since their introduction.

The DMO receives the majority of its funding from Defence under agency agreements; about one per cent of its funding is provided via a direct appropriation and own-source revenue. All the DMO's funding is departmental by nature. This section provides an assessment of the DMO's financial performance in 2007-08 against budget projections. The audited financial statements for the DMO are included in Appendix 12 in this volume.

## 2007-08 Summary

Including all supplementary funding, the revised estimate of resourcing available to the DMO in 2007-08 as published in the *Portfolio Additional Estimates Statements 2007-08* was \$9,117.6m. This comprised of:

- \$93.2m as revenue from government
- \$8,939.6m as revenue from Department of Defence
- \$80m funds from foreign governments
- \$4.8m as own source revenue, foreign exchange and other gains.

The DMO's total resourcing for 2007-08 was \$633.5m lower than the revised estimate, mainly due to reprogramming of activities, which were largely adjusted in the *Portfolio Budget Statements 2008-09*.

**Table 2.2 Resources for outcome**

Actual result 2006-07 (\$'000)	Cost of departmental outputs	Budget estimate <sup>[1]</sup> 2007-08 (\$'000)	Revised estimate <sup>[2]</sup> 2007-08 (\$'000)	Estimated actual <sup>[3]</sup> 2007-08 (\$'000)	Actual result 2007-08 (\$'000)	Variation <sup>[4]</sup> (\$'000)	Budget estimate <sup>[3]</sup> 2008-09 (\$'000)
3,960,945	Output 1.1 Management of capability acquisition	4,827,465	4,100,188	3,746,575	3,936,046	-164,142	4,677,908
4,078,511	Output 1.2 Management of capability sustainment	4,681,598	4,916,375	4,610,550	4,445,079	-471,296	4,866,624
49,416	Output 1.3 Provision of policy advice and management services	106,400	101,033	101,035	60,355	-40,678	102,804
<b>8,088,872</b>	<b>Total outputs</b>	<b>9,615,463</b>	<b>9,117,596</b>	<b>8,458,160</b>	<b>8,441,480</b>	<b>-676,116</b>	<b>9,647,336</b>
46,120	Revenue from government (appropriation) for departmental outputs	93,413	93,256	93,256	93,256	-	94,960
8,076,833	Revenue from other sources	9,522,050	9,024,340	8,364,904	8,390,805	-633,535	9,552,376
<b>8,122,953</b>	<b>Total revenue</b>	<b>9,615,463</b>	<b>9,117,596</b>	<b>8,458,160</b>	<b>8,484,061</b>	<b>-633,535</b>	<b>9,647,336</b>
<b>8,088,872</b>	<b>Total for outcome (Total cost of outputs)</b>	<b>9,615,463</b>	<b>9,117,596</b>	<b>8,458,160</b>	<b>8,441,480</b>	<b>-676,116</b>	<b>9,647,336</b>

**NOTES**

1. The budget estimate for 2007-08 was published in the *Portfolio Budget Statements 2007-08*.
2. The revised estimate for 2007-08 was published in the *Portfolio Additional Estimates Statements 2007-08*.
3. The estimated actual for 2007-08 and budget estimate 2008-09 were published in the *Portfolio Budget Statements 2008-09*.
4. The variation is between the actual result as disclosed in the 2007-08 financial statements and the revised estimate published in the *Portfolio Additional Estimates Statements 2007-08*.

## Explanation of major variations

The variances in the DMO's resourcing as described later in Chapter 3 were largely the result of:

- reprogramming of activity in Output 1.1 and Output 1.2 identified after the publication of the *Portfolio Additional Estimates Statements 2007-08*
- lower than anticipated activity in Output 1.3
- foreign exchange net gain.

## Operating performance

At the time of the Additional Estimates, the DMO budgeted for a break even outcome, that is income and expenses were to equal each other. This reflects that the DMO is funded for the activity it

performs. The DMO had an operating surplus of \$42.6m in 2007-08, whereby expenses and revenue differed by approximately 0.5 per cent.

**Table 2.3** Income statement for the year ended 30 June 2008

2006-07		2007-08			
Actual result		Budget estimate	Revised estimate	Actual result	Variation <sup>[1]</sup>
(\$'000)		(\$'000)	(\$'000)	(\$'000)	(\$'000)
<b>Income</b>					
Revenue					
46,120	Revenue from Government	93,413	93,256	93,256	-
7,938,588	Goods and services	9,450,121	8,906,819	8,262,918	-643,901
88,491	Other	30,000	80,000	76,442	-3,558
8,073,199	Total revenue	9,573,534	9,080,075	8,432,616	-647,459
Gains					
49,754	Other <sup>[2]</sup>	41,929	37,521	51,445	13,924
49,754	Total gains	41,929	37,521	51,445	13,924
<b>8,122,953</b>	<b>Total income</b>	<b>9,615,463</b>	<b>9,117,596</b>	<b>8,484,061</b>	<b>-633,535</b>
Expenses					
409,262	Employees	436,124	444,701	458,992	14,291
7,669,300	Suppliers	9,173,158	8,668,183	7,976,766	-691,417
6,964	Depreciation and amortisation	6,181	4,712	4,963	251
586	Write-down and impairment of assets	-	-	754	754
2,760	Other expenses	-	-	5	5
<b>8,088,872</b>	<b>Total expenses</b>	<b>9,615,463</b>	<b>9,117,596</b>	<b>8,441,480</b>	<b>-676,116</b>
<b>34,081</b>	<b>Surplus (Deficit)</b>	<b>-</b>	<b>-</b>	<b>42,581</b>	<b>42,581</b>

### NOTES

1. The variance is between the actual result as disclosed in the 2007-08 financial statements and the revised estimate published in the *Portfolio Additional Estimates Statements 2007-08*.
2. Other gains includes resources received free of charge.

### Explanation of major variations

The main variances in the DMO's overall operating performance of \$42.6m include:

- other gains (\$13.9m) - primarily as a result of foreign exchange gains not budgeted
- employee expenses (\$14.3m) - reflecting higher than anticipated employee costs as a result of employee provision movements
- supplier expenses (-\$691.4m) - largely offset by decreased revenue from goods and services (-\$643.9m) mainly from Defence identified after the publication of the *Portfolio Additional Estimates Statements 2007-08*.

## Financial position

Table 2.4 Balance sheet as at 30 June 2008

2006-07		2007-08			
Actual result		Budget estimate	Revised estimate	Actual result	Variation <sup>[1]</sup>
(\$'000)		(\$'000)	(\$'000)	(\$'000)	(\$'000)
<b>Assets</b>					
Financial assets					
21,967	Cash	23,581	21,967	32,119	10,152
627,810	Receivables <sup>[2]</sup>	538,499	1,054,336	1,088,556	34,220
649,777	Total financial assets	562,080	1,076,303	1,120,675	44,372
Non-financial assets					
11,136	Property, plant and equipment	5,146	8,291	10,274	1,983
5,707	Intangibles	761	3,840	5,315	1,475
1,279,015	Other non-financial assets	898,794	1,279,015	1,377,830	98,815
1,295,858	Total non-financial assets	904,701	1,291,146	1,393,419	102,273
<b>1,945,635</b>	<b>Total assets</b>	<b>1,466,781</b>	<b>2,367,449</b>	<b>2,514,094</b>	<b>146,645</b>
<b>Liabilities</b>					
Provisions					
138,438	Employees	148,741	161,768	150,464	-11,304
138,438	Total provisions	148,741	161,768	150,464	-11,304
Payables					
840,040	Suppliers	740,526	840,040	1,142,323	302,283
782,574	Other payables	162,969	1,181,058	994,143	-186,915
1,622,614	Total payables	903,495	2,021,098	2,136,466	115,368
<b>1,761,052</b>	<b>Total liabilities</b>	<b>1,052,236</b>	<b>2,182,866</b>	<b>2,286,930</b>	<b>104,064</b>
<b>184,583</b>	<b>Net assets</b>	<b>414,545</b>	<b>184,583</b>	<b>227,164</b>	<b>42,581</b>
<b>Equity</b>					
141,724	Contributed equity	105,767	141,724	141,724	-
42,859	Retained surplus or accumulated deficits	308,778	42,859	85,440	42,581
<b>184,583</b>	<b>Total equity</b>	<b>414,545</b>	<b>184,583</b>	<b>227,164</b>	<b>42,581</b>

### NOTES

1. The variation is between the actual result as disclosed in the 2007-08 financial statements and the revised estimate published in the *Portfolio Additional Estimates Statements 2007-08*.
2. Appropriation receivable represents funds available but not drawn down from the Official Public Account at 30 June 2008.

### Explanation of major variances

The variances between the revised estimate and the actual result for 2007-08 in the balance sheet mainly reflects:

- an increase in assets (\$146.6m) - representing an increase in prepayments for foreign military sales and appropriation receivable
- an increase in liabilities (\$104.1m) - representing an increase in suppliers payable and a decrease in unearned revenue from Defence for reprogramming of activity
- an increase in equity (\$42.6m) - representing the operating surplus for 2007-08.

## Cash position

The DMO receives the majority of its cash from Defence in payments for goods and services provided by the DMO. Once funds are paid by Defence, received from other sources or appropriated by the Government, they remain in the DMO's special accounts, even if not fully used in the budget year. They are held as an appropriation receivable in the Official

Public Account and are available to meet liabilities as they fall due, including employee liabilities, subject to government approval.

## Use of cash in 2007-08

At 30 June 2008, the DMO had cash at bank of \$32.1m. During the year, the DMO used \$8,793.7m of total cash.

**Table 2.5 Sources and use of cash, 2006-07 and 2007-08**

2006-07 Actual (\$'000)		2007-08 Actual (\$'000)
<b>Sources of Cash</b>		
46,120	Direct appropriation	52,000
8,303,047	Goods and services <sup>[1]</sup>	8,248,029
519,463	Net GST received	479,504
7,476	Other cash receipts	24,349
<b>8,876,106</b>	<b>Sub-total cash available</b>	<b>8,803,882</b>
<b>Use of Cash</b>		
396,630	Employees	446,966
7,956,557	Suppliers	7,789,942
514,386	GST paid to suppliers	533,857
4,955	Other operating activities	18,591
3,263	Purchase of plant and equipment	2,898
1,929	Purchase of software and intangibles	1,476
-	Purchase of inventory	-
<b>8,877,720</b>	<b>Sub-total cash used</b>	<b>8,793,730</b>
<b>21,967</b>	<b>Closing cash at bank</b>	<b>32,119</b>

### NOTE

1. Includes funds provided by Defence and foreign governments.

## Special accounts

The DMO has two special accounts:

- the Defence Materiel Special Account
- the Other Trust Monies Special Account.

The Defence Materiel Special Account is the main operating account from which most business activities are conducted. The Other Trust Monies Special Account holds any other public money on trust. The main purposes for which the funds in the Defence Materiel Special Account can be used are:

- supporting the ADF's capability through development, acquisition,

sustainment, disposal, and provision of goods and/or services

- developing, acquiring, sustaining and providing goods and/or services for foreign governments and other bodies
- managing and marketing the agency whose chief executive has been allocated responsibility for this special account
- developing and implementing policies for, and providing advice to, the Australian Government on defence, defence industry and other matters related to the provision of goods and/or services.

At 30 June 2008, the Special Account balances totalled \$988.6m.

The balance of funds in the Defence Materiel Special Account are held to fund:

- employee liabilities
- activities to be undertaken for other governments and other Australian government departments
- future acquisition and sustainment activities for the Department of Defence
- trade creditors.

**Table 2.6 Actual special account flows and balances 2007-08**

Account	Outcome	Opening balance (\$'000)	Credits (\$'000)	Debits (\$'000)	Closing balance (\$'000)
Defence Materiel Special Account <sup>[1]</sup>	1	564,819	9,876,149	9,453,106	987,862
Other Trust Monies Special Account <sup>[2]</sup>	1	905	283	494	694
<b>Total special accounts</b>		<b>565,724</b>	<b>9,876,432</b>	<b>9,453,600</b>	<b>988,556</b>

#### NOTES

1. The Defence Materiel Special Account is established under section 20 of the *Financial Management and Accountability Act 1997*.
2. The Other Trust Monies Special Account is established under section 20 of the *Financial Management and Accountability Act 1997*.

## Appropriations and other resources

Outputs 1.1 and 1.2 were largely funded by payments from Defence for goods and services provided, as set out in the materiel acquisition agreements and materiel sustainment agreements for Outputs 1.1 and 1.2 respectively. Agency

agreements were first established between Defence and the DMO in 2005-06, and new agreements were signed in 2006-07 and 2007-08. Output 1.3 was funded largely through a direct appropriation.

**Table 2.7 Total DMO resourcing 2007-08<sup>[1]</sup>**

2006-07		2007-08			
Actual result (\$'000)		Budget estimate (\$'000)	Revised estimate (\$'000)	Actual result (\$'000)	Variation <sup>[2]</sup> (\$'000)
<b>Income</b>					
46,120	Revenue from government	93,413	93,256	93,256	-
7,962,281	Revenue from Defence <sup>[3]</sup>	9,487,297	8,939,580	8,286,752	-652,828
87,117	Funds from foreign government	30,000	80,000	70,684	-9,316
27,435	Own-source revenue, foreign exchange and other gains	4,753	4,760	33,369	28,609
<b>8,122,953</b>	<b>Total income</b>	<b>9,615,463</b>	<b>9,117,596</b>	<b>8,484,061</b>	<b>-633,535</b>
<b>8,122,953</b>	<b>Total DMO resourcing</b>	<b>9,615,463</b>	<b>9,117,596</b>	<b>8,484,061</b>	<b>-633,535</b>

#### NOTES

1. Includes gains from foreign exchange and services obtained free of charge.
2. The variance is between the actual result as disclosed in the 2007-08 financial statements and the revised estimate published in the *Portfolio Additional Estimates Statements 2007-08*.
3. Includes resources received free of charge from Defence.

## Explanation of major variances

The variances between the revised estimate and the actual result for 2007-08 in the total DMO resourcing comprises of:

- a decrease in revenue from Defence (-\$652.8m) - largely as a result of reprogramming of activities
- a decrease in funds from foreign governments (-\$9.3m) - due to lower than expected activity
- an increase in own-source revenue, foreign exchange and other gains (\$28.6m).