



Australian Government
Department of Defence

Defence Annual Report

2011 - 2012 Department of Defence

Defending Australia and its National Interests
www.defence.gov.au





Australian Government
Department of Defence

The Hon Stephen Smith MP
Minister for Defence
Parliament House
CANBERRA ACT 2600

Dear Minister

We present the *Defence Annual Report 2011-12* for the year ending 30 June 2012. The report has been prepared in accordance with section 63 of the *Public Service Act 1999*.

Subsection 63(1) of the *Public Service Act 1999* requires our report to you be tabled in Parliament.

The report is divided into three parts. *Part 1* comprises the Department of Defence report. *Part 2* comprises the report of the Defence Materiel Organisation, a prescribed agency within Defence, and *Part 3* comprises the Appendixes, including the Department's Financial Statements. These parts summarise the performance of Defence for the financial year 2011-12 and include all mandatory information required by legislation.

In accordance with Section 45 of the *Financial Management and Accountability Act 1997* and pursuant to regulation 16A of the Act, we are satisfied Defence has prepared fraud risk assessments and fraud control plans, and has in place appropriate fraud prevention, detection, investigation, reporting and data collection procedures and processes that meet the specific needs of Defence and comply with the *Commonwealth Fraud Control Guidelines 2011*.

Yours sincerely

Duncan Lewis
Secretary

29 September 2012

D. J. HURLEY, AC, DSC
General
Chief of the Defence Force

28 September 2012

User Guide

The format and content of this volume reflects the requirements developed by the Department of the Prime Minister and Cabinet and approved by the Joint Committee of Public Accounts and Audit on 28 June 2012 under subsections 63(2) and 70(2) of the *Public Service Act 1999*.

This report addresses the Department of Defence, the Australian Defence Force and the Defence Materiel Organisation. The Department of Veterans' Affairs and Defence Housing Australia, which are parts of the Defence Portfolio, have separate annual reports. The Australian Strategic Policy Institute, funded substantially by Defence, is a Government-owned company incorporated under the *Corporations Act 2001* and has a separate annual report.

Annual reports, portfolio budget and additional estimates statements are the principal formal accountability mechanisms between the Government, departments and Parliament. Portfolio Budget Statements set out performance targets for departmental outputs. Portfolio Additional Estimates Statements may contain revised targets and annual reports describe achievement against the revised targets.

In addition, Defence's annual reports are designed to link performance during the year under review with performance forecasts contained in the Portfolio Budget Statements for the following year. This report covers the period 1 July 2011 to 30 June 2012.

Style conventions

The following notation is used:

- (\$)	nil
- (%)	mathematically undefined or erroneous nil
..	not zero, but rounded to zero
n/a	not applicable (unless otherwise specified)
\$'000	\$ thousands
\$m	\$ million
\$b	\$ billion

Figures in tables and in the text may be rounded. Figures in text are generally rounded to one decimal place, whereas figures in tables are generally rounded to the nearest thousand or million. Discrepancies in tables between totals and sums of components are due to rounding. Where variation percentages are nil, mathematically undefined or erroneous due to mis-alignment between Budgets and Actuals, this has been represented with a dash.

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PART ONE

DEPARTMENT OF DEFENCE
ANNUAL REPORT

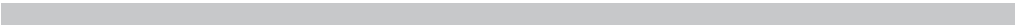
2011 – 2012

DEFENCE



SECTION ONE

Overview



Chapter 1

2011-12 Overview

The Secretary and Chief of the Defence Force Overview

The 2011-12 financial year was another demanding one for the men and women of the Defence Organisation. Despite this, the efforts of our talented and hard working people produced outstanding results, in both the operational and enterprise activities of Defence.

We acknowledge the service of our people who have lost their lives, whether on operations overseas or at home. We commend our people in all parts of Defence on their contribution towards achieving our mission of defending Australia and its national interests.

Our dedicated servicemen and women conducted no less than 16 operations to protect our national interests, patrol our borders, and provide assistance after natural disasters in both domestic and international settings. Australian Defence Force (ADF) performance in the field has always been very strong and we are immensely proud of those who demonstrated courage, integrity and professionalism in their line of duty.

Defence's main operational focus has been our commitment in Afghanistan. July 2011 marked the formal start of the process of transitioning security responsibility from the International Security Assistance Force (ISAF) to the Afghan National Security Forces (ANSF). Australia has played a key role in preparing Uruzgan for the transition. The Afghan National Army's 4th Brigade is improving its capability to plan and conduct operations and the Afghan security presence across the province is expanding.

Planning is also underway to cease our operations in the Solomon Islands and East Timor. The planned withdrawal of the Combined Task Force from the Regional Assistance Mission to the Solomon Islands in 2013 is a positive development that demonstrates the increasing stability and security in the Solomon Islands, and the ability of the Royal Solomon Islands Police Force to manage their own security. In East Timor, following the success of the July 2012 elections, the International Stabilisation Force is expected to commence a draw down during 2013.

Defence's support to Australia's border protection through Operation RESOLUTE continued. In many circumstances, such as those concerning the Safety of Life at Sea and Maritime Search and Rescue, Defence personnel have operated in dangerous and hazardous situations, often at peril to their own lives. During the course of the year, Defence also supported emergency services through Defence assistance to the civil community, particularly in times of natural disaster.

The 2011-12 financial year also saw significant improvements to the way we do business within Defence.

The Strategic Reform Program (SRP) continues to make substantial progress in its third year. Defence met the first two years of cost reductions targets without any adverse impact on capability or safety. The Secretary and the Chief Financial Officer conducted a comprehensive stocktake of the Defence budgeting system, taking into account all budget processes, estimation methods and underlying budget assumptions. This included the way in which Defence's capital equipment budgets are formulated and managed, including the ongoing utility

of contingency, slippage and most importantly over-programming. During the course of the 2011-12 financial year, Defence also implemented a number of critical project management and accountability reforms to enhance the delivery of Defence capability projects, strengthen Australian Defence industry and improve accountability. Defence continues to bring into service the projects identified in the Defence Capability Plan and the *Defence White Paper 2009*.

Defence has reformed its committee structures, as suggested by Assoc. Prof. Rufus Black in his *Review of the Framework of Defence Accountability*, with fewer but more effective committees providing better decision making and improved accountability. Importantly, in line with Dr Black's recommendations, a Defence Corporate Plan and Defence Annual Plan were prepared during the 2011-12 financial year. This was a major undertaking and will greatly assist in the business management of the department.

Significant announcements this year included bringing the next White Paper forward to 2013 and a new Defence Capability Plan. The *ADF Posture Review*, released during the financial year, pointed to expanding maritime capabilities as significantly influencing Australia's future force posture. It also examined possible basing options in the north and northwest of Australia, the possibility of arrangements that enhance access to commercial ports and the potential for greater wharf capacity and support facilities at HMAS Stirling to support major surface combatant capability and operations. These issues will be taken up in the White Paper process.

During the course of this financial year, the Defence Logistics Transformation Program (DLTP) continued to make good progress. As part of the Defence wide SRP, the DLTP aims to deliver approximately \$350 million in savings by 2018-19 and significantly improve the Defence logistics network as identified in the *Defence White Paper 2009 Force 2030*. In May 2012, Government provided Second Pass approval for the expenditure of \$811.7 million for infrastructure, transition and Information Communications and Technology. DLTP remains on track to deliver rationalised wholesale warehousing/distribution and land-based maintenance management networks operating in modern, purpose built facilities, employing appropriate technologies.

The continuing improvement in Defence accounts has been an important result this year with no Category A, 10 Category B and 21 Category C findings being the outcome included in the draft Auditor General's audit report for 2011-12. This is an improvement from 2 Category A, 12 Category B and 26 Category C findings as at the end of the 2010-11 financial year. Indeed this is the first time since the 1998-99 financial year that Defence has no Category A findings from the Auditor General. Further, Defence has reduced its Certificate of Compliance breaches by 36.5 per cent in 2011-12 when compared to 2010-11. Defence's long standing financial management remediation efforts have now been bedded down and have put Defence's finances in a much more robust position for the future.

Finally, the past year has been one of reflection for the organisation on its culture. On 11 April 2011, the Minister for Defence announced a range of comprehensive reviews into aspects of military and organisational culture in relation to sexual and other abuse, the treatment of women, alcohol use, personal conduct and use of social media. We have received most of the reviews and their recommendations and we are making progress in examining and implementing them. Our *Pathway to Change* strategy is the principal vehicle for aligning the wider Defence reform agenda and provides direction on how Defence will squarely address these issues. We accept that we are accountable for the overall success of this cultural reform program. We also recognise that the type of deep and far reaching reform we are seeking will take a number of years to achieve and require a sustained effort from all Defence staff.

The financial year 2012-13 Defence budget was developed following a comprehensive review to identify contributions Defence could make across the Forward Estimates to support the Government's broader fiscal strategy. The savings taken in the 2012-13 Budget specifically excluded any reduction in funding to operations or support to operations and no reduction in military staff numbers.

To achieve the reductions outlined in the Budget papers, the department has taken a number of decisions regarding our workforce, our investment profile and our operating activities. Such decisions have not been taken lightly, and care is being taken in this program of reductions not to reduce standards of service in priority areas of Defence.

We intend to use the coming year to drive further institutional change. Defence is entering a period of significant change but with the highly skilled and experienced people working in our organisation, we have every confidence we will meet the expectations of the Australian Government and the public.

2011-12 In Review

Operations

Over the last year, Defence conducted 16 operations, deploying people regionally and further abroad to complete missions such as training Afghani soldiers, contributing to United Nations missions in Africa and the Middle East, protecting Australia's borders and removing unexploded ordnance.

AZURE (Sudan)	RIVERBANK (Iraq)
GATEWAY (South China Sea/Indian Ocean)	SOLANIA (South West Pacific)
ASLAN (South Sudan)	ANODE (Solomon Islands)
PALADIN (Middle East)	RIVERBANK (Iraq)
MAZURKA (Egypt)	ASTUTE (East Timor)
TOWER (East Timor)	RESOLUTE (Border Protection)
PALATE II (Afghanistan)	SLIPPER (Middle East)
SLIPPER (Afghanistan)	RENDER SAFE (South West Pacific)

Afghanistan

The process of transition from ISAF to an Afghan security lead is now well-advanced and on track for completion by the end of 2014. As transition in Uruzgan progresses, the ADF will adopt a more nationally-focused training and advisory role to support the ANSF, allowing it to begin its redeployment from Uruzgan province. An ADF Transition and Redeployment Planning Team has deployed to the Middle East Area of Operations to begin planning for the redeployment of ADF troops and equipment, and the disposal of ADF infrastructure.

Other Operations

Not unlike previous summers, the ADF was required to assist Queensland, New South Wales and Victoria in the wake of flooding in those particular states.

As part of Operation RESOLUTE, the ADF contributes to the whole-of-Government civil maritime surveillance and response capability to protect Australia's maritime domain from security threats. The ADF is committed to providing highly capable surveillance and response forces to support Operation RESOLUTE. This operation is commanded by Border Protection Command in Canberra and involves a number of relevant government agencies. The 2011-12 financial year was one of the busiest years ever with increasing numbers of Suspected Illegal Entry Vessels.

Honouring and Remembering our People

This year was also an occasion for honouring those who came home from operations overseas, particularly those who were wounded in the military service of their nation; and for expressing our collective sorrow at the deaths of five Australian soldiers in operations in Afghanistan. We remember these soldiers and offer our deepest sympathies to their families and friends.

Sergeant Todd Langley

2nd Commando Regiment.
Killed during an engagement
with insurgents on 4 July
2011.

Private Matthew Lambert

2nd Battalion, The Royal
Australian Regiment. Died
of wounds as a result of an
Improvised Explosive Device
strike on 22 August 2011.

Captain Bryce Duffy

4th Regiment, Royal
Australian Artillery. Killed
as a result of a small-arms
incident on 29 October 2011.

Corporal Ashley Birt

6th Engineer Support
Regiment. Killed as a result
of a small-arms incident on
29 October 2011.

Lance Corporal Luke Gavin

2nd Battalion, The Royal
Australian Regiment.
Died of wounds as a result of
a small-arms incident on
29 October 2011.

Strategy and Reform

The SRP remains one of Defence's highest priorities after the conduct of operations. As the program matures, reform delivery is becoming more complex and meeting budget pressures without compromising the achievement of future efficiencies is challenging.

The SRP is being implemented in the context of an expanding reform agenda including the Coles, Rizzo, Black and Defence Budget reviews, procurement and project accountability reforms, a capability development process review, culture reviews and the significant reduction in public service positions through shared services reforms.

Further details are provided in Part 3, Appendix 1 of this report.

Chapter 2

Resource Summary

Defence Resource Overview

Defence Resource Statement

Table 2.1: Defence Resource Statement 2011-12

	Actual available appropriation for 2011-12 \$'000	Payments made 2011-12 \$'000	Balance remaining 2011-12 \$'000
ORDINARY ANNUAL SERVICES			
Outcome 1	21,122,108	21,097,527	24,581
Outcome 2	1,459,492	1,377,184	82,308
Outcome 3	9,829	9,829	-
Total Departmental Outputs	22,591,429	22,484,540	106,889
Total Ordinary Annual Services	22,591,429	22,484,540	106,889
OTHER SERVICES			
Departmental non-operating			
Equity injection	2,773,786	2,773,786	-
Total Departmental non-operating	2,773,786	2,773,786	-
Total other services	2,773,786	2,773,786	-
Total Available Annual Appropriation	25,365,215	25,258,326	106,889
SPECIAL APPROPRIATIONS			
Special appropriations limited by criteria/ entitlement			
<i>Defence Force Retirement Benefits Act, 1948 Part 1 s. 15D and VIC, s. 82ZJ</i>	28,443	28,400	43
<i>Defence Force Retirement and Death Benefits Act, 1973 Part XII, s. 125</i>	1,578,799	1,556,963	21,836
<i>Military Superannuation and Benefits Act, 1991 Part V, s. 17</i>	2,473,953	2,533,437	-59,484
<i>Defence Force (Home Loan Assistance) Act, 1990 Part IV, s. 38</i>	3,547	3,483	64
<i>Defence Home Ownership Assistance Scheme Act 2008 Part VI, s. 84</i>	94,335	93,101	1,234
Other Administered	-	141	-141
Total Special Appropriations	4,179,077	4,215,525	-36,448
Total Appropriations	29,544,292	29,473,851	70,441

	Actual available appropriation for 2011-12 \$'000	Payments made 2011-12 \$'000	Balance remaining 2011-12 \$'000
Funding from other sources	2,415,044	2,473,032	-57,988
Returns to the OPA (net)	-1,460,463	-1,396,431	-64,032
Previous years' outputs (Appropriation Receivable)	50,122	34,164	15,958
Cash available	64,871	18,091	46,780
Total Other Available Resources	1,069,574	1,128,856	-59,282
Total Resourcing	30,613,866	30,602,707	11,159
Special Accounts			
Opening balance	116,531	116,531	-
Appropriation receipts	-	-	-
Appropriation receipts - other agencies	-	-	-
Non-appropriation receipts to special accounts	68,531	55,831	12,700
Payments made	-91,495	-59,911	-31,584
Total Special Accounts	93,567	112,451	-18,884

Departmental Cash Flow Overview

The Defence departmental net cash spend as at 30 June 2012 was \$25,291.8 million.

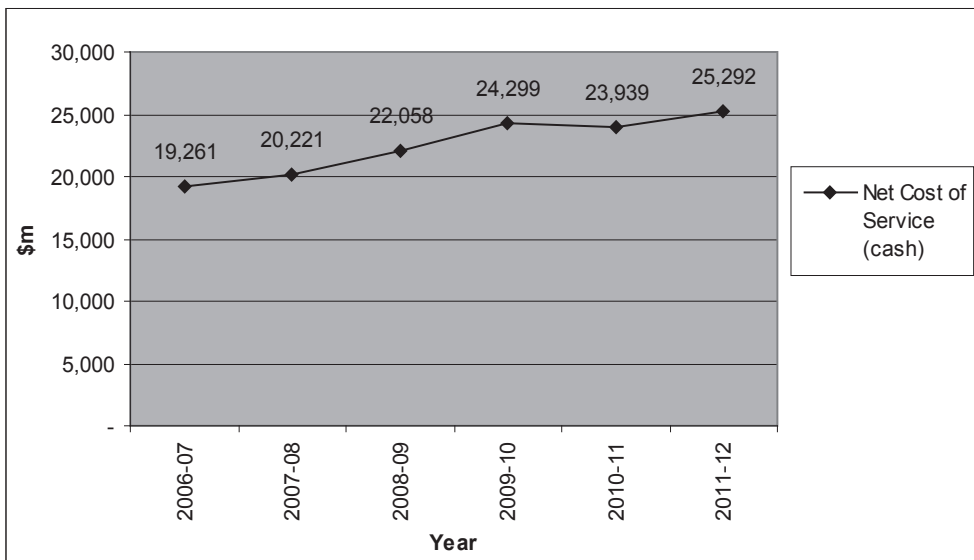
This is an overspend of \$170.9 million when compared to the revised estimate as at *Portfolio Budget Statements 2012-13* after factoring in no-win/no-loss movements of \$117.0 million. The budget overspend was funded by utilising carry forward appropriation from previous years.

This is primarily as a result of an overspend in operating costs (\$239.2 million) and an under-receipt in own-source revenue (\$89.8 million), offset by underspends in capital purchases (\$138.5 million) and employee costs (\$19.5 million).

No-win/no-loss adjustments of \$117.0 million were due to:

- underspend of \$180.8 million in Defence no-win/no-loss operational funding
- additional supplementation of \$63.8 million for no-win/no-loss foreign exchange movements.

Figure 2.1: Departmental Net Cost of Service (cash) six year trend



Note

- Departmental net cost of services figures based on in-year dollars.

Departmental Cash Flow Analysis

Net cost of service (cash)

The variation in net cost of service (cash) of \$53.9 million is primarily as a result of:

- an overachievement in supplier payments (\$94.8 million), detailed below
- an underachievement in receipts from own source revenue (\$89.8 million), detailed below
- other net variations (\$130.7 million).

Suppliers

Defence's 2011-12 revised cash estimate for expenditure to suppliers (non-capital) was \$9,040.4 million. As at 30 June 2012, \$9,135.3 million was spent, which represents an overspend of \$94.8 million.

The main categories of suppliers cash expenditure in 2011-12 include:

- DMO operating costs for the sustainment and acquisition of military equipment (\$3,508.5 million)
- estate upkeep (\$758.2 million)
- information and communication technology (\$635.7 million)
- professional services/technical advice (\$562.6 million)
- garrison support (\$543.9 million)
- lease costs (\$338.2 million)
- costs relating to the training of military and civilian employees (\$332.6 million)
- freight and storage (\$238.8 million)
- domestic and overseas travel (\$224.8 million)
- capital construction support charges (\$208.6 million)
- removal and relocation costs (\$205.0 million)
- repair and overhaul of equipment (\$181.4 million)
- utilities (\$166.5 million)
- other items such as research and development, rations and mess operations, security services, legal and compensation and emergency services.

Own source revenue

The variation in receipts from own source revenue (\$89.8 million) is primarily due to:

- an underachievement of receipts from the sale of goods and services (\$81.4 million)
- an underachievement of GST receipts (\$106.2 million)
- an overachievement of other operating receipts (\$102.8 million)
- an underachievement of proceeds from the sale of property, plant and equipment (\$5.0 million).

Revised total funding source

The variation in the revised total funding source (\$53.9 million) is primarily due to:

- an adjustment to Appropriation Bills 1 & 3 and Appropriation Bills 2 & 4 as a result of a technical error in budgeting for revenue at the time of the 2012-13 PBS (\$720.9 million)
- an underachievement in the return of contributed equity (\$112.0 million) primarily due to gains from the sale of properties that are required to be returned to Government being less than anticipated
- other net variations (\$58.0 million).

After factoring in no-win/no-loss movements of \$117.0 million, the departmental overspend is \$170.9 million.

Table 2.2: Departmental Net Cost of Service (cash)

	2011-12 Budget Estimate ^[1] \$'000	2011-12 Revised Estimate ^[2] \$'000	2011-12 Actual Result \$'000	Variation \$'000	%
Cost of service					
Employee payments	9,543,130	9,659,586	9,641,223	-18,363	-
Supplier payments	8,855,448	9,040,437	9,135,283	94,846	1
Purchase of specialist military equipment	5,193,700	4,993,736	4,967,268	-26,468	-1
Purchase of inventory	1,253,513	1,151,768	1,153,994	2,226	-
Purchase of property, plant and equipment ^[3]	1,472,174	1,179,844	1,134,104	-45,740	-4
Other ^[4]	802,327	933,549	891,198	-42,351	-5
Total cash used	27,120,292	26,958,920	26,923,070	-35,850	-
Own source revenue ^[5]	1,621,818	1,721,034	1,631,242	-89,792	-5
Net cost of service (cash)	25,498,474	25,237,886	25,291,828	53,942	-
Funded by					
Appropriation Bills 1 & 3 (Price of Outcomes)	22,640,794	23,304,323	22,434,418	-869,905	-4
Prior year appropriation	8,000	8,000	-	-8,000	-
Appropriation Bills 2 & 4 (Equity injection)	2,909,317	2,052,892	2,773,786	720,894	35
Other appropriation movements	6,389	6,389	50,122	43,733	-
Return of contributed equity	-58,026	-125,718	-13,753	111,965	-89
Decrease in actual cash at bank	-	-	47,255	47,255	-
Total funding source	25,506,474	25,245,886	25,291,828	45,942	-
Increase in budgeted cash at bank	-8,000	-8,000	-	8,000	-
Revised total funding source	25,498,474	25,237,886	25,291,828	53,942	-
Defence no-win/no-loss hand-back				117,002	-
Departmental variance				170,943	

Notes

1. As published in the *Portfolio Budget Statements 2011-12* table 64.
2. As published in the *Portfolio Budget Statements 2012-13* table 60.
3. Includes purchase of land and buildings, infrastructure, plant and equipment, intangibles and heritage and cultural assets.
4. Includes grants, GST payments, finance costs, repayment of debt, selling costs on sale of assets and other cash used.
5. Includes sale of goods and services, other cash received, GST, and proceeds from sale of assets, and interest received.

Departmental Income and Expenses

The result for departmental income and expenses as at 30 June 2012 was a deficit of \$559.0 million. This deficit is primarily due to:

- the impact of higher than planned Australian Defence Force (ADF) personnel costs of \$63.6 million, offset by an over-estimation of civilian costs of \$8.3 million
- higher than planned suppliers expense of \$856.1 million mainly due to: DMO resources received free of charge (\$781.0 million), offset by an equivalent amount in other income; and higher than planned freight and storage (\$53.6 million) and information and communication technology (\$25.3 million)
- an over-estimation of depreciation estimates of \$158.3 million
- an over-estimation of other expenses of \$110.2 million predominantly due to the write-down and impairment of assets (\$124.0 million)
- an adjustment to revenue from Government as a result of a technical error in budgeting for revenue at the time of the 2012-13 Budget (\$720.9 million)
- return to Government of a net \$117.0 million relating to unspent operational funding and movements in foreign exchange
- higher than planned other income of \$921.8 million mainly due to: DMO resources received free of charge (\$781.0 million), offset by an equivalent amount in suppliers expense; and higher than planned damages received in relation to legal settlements (\$117.9 million) and diesel fuel rebates (\$6.1 million).

Some of the variations in the Income Statement offset each other between categories and do not impact on the final deficit. For example, the Suppliers variation is primarily due to \$781.0 million in resources received free of charge from the DMO. This amount is equally offset in Other Income. The offsets between categories are outlined in Table 2.4.

Table 2.3: Departmental Income and Expenses

	2011-12 Budget Estimate ^[1] \$'000	2011-12 Revised Estimate ^[2] \$'000	2011-12 Actual Result \$'000	Variation \$'000	%
Expenses					
Employees	9,597,092	9,786,105	9,841,400	55,295	1
Suppliers	9,766,478	9,809,924	10,665,998	856,074	9
Depreciation and amortisation	3,441,255	3,789,253	3,630,984	-158,269	-4
Other expenses ^[3]	1,391,484	1,326,196	1,215,947	-110,249	-8
Total expenses	24,196,309	24,711,478	25,354,329	642,851	3
Income					
Revenue from Government	22,640,794	23,304,323	22,466,427	-837,896	-4
Other income ^[4]	1,555,515	1,407,155	2,328,920	921,765	66
Total income	24,196,309	24,711,478	24,795,347	83,869	-
Surplus/(deficit) attributable to the Australian Government	-	-	-558,982	-558,982	-

Notes

1. As published in the *Portfolio Budget Statements 2011-12* table 62.
2. As published in the *Portfolio Budget Statements 2012-13* table 58.
3. Includes grants, finance costs, write-down of assets and impairment of assets, losses from sale of assets and other expenses.
4. Includes sale of goods and rendering of services, rental income, other revenue and gains, net foreign exchange gains, interest and reversal of previous asset write-downs.

Table 2.4: Departmental Income and Expenses Net Variations

	Income and Expense Variation \$'000	Variation Adjustment \$'000	Net Variation \$'000
Expenses			
Employees	55,295		
offset by:			
No win / no loss		-28,342	
Net employees			26,953
Suppliers	856,074		
offset by:			
DMO resources free of charge		-781,046	
No win / no loss		216,713	
Net suppliers			291,741
Depreciation and amortisation	-158,269		
Net depreciation and amortisation			-158,269
Other expenses	-110,249		
offset by:			
Reversal of previous asset write-downs and impairment		19,152	
No win / no loss		4,810	
Net other expenses			-86,287
Total expenses	642,851	-568,713	74,138
Income			
Revenue from Government	-837,896		
offset by:			
No win / no loss		180,777	
Net revenue from Government			-657,119
Other income	921,765		
offset by:			
DMO resources free of charge		-781,046	
No win / no loss		12,404	
Reversal of previous asset write-downs and impairment		19,152	
Net other income			172,275
Total income	83,869	-568,713	-484,844
Surplus/(deficit) attributable to the Australian Government	-558,982	-	-558,982

Administered Cash Flow

The Defence Administered Net Cost of Service as at 30 June 2012 was \$609.3 million, representing an overachievement of \$0.3 million compared to the revised estimate. Administered cash flows primarily relate to Military Superannuation, Defence Home Ownership Schemes, departmental receipts returned to the Official Public Account (OPA) through the administered accounts and Defence Housing Australia (DHA) interest and dividends. Due to the nature of these activities the Administered Net Cost of Service fluctuates year to year.

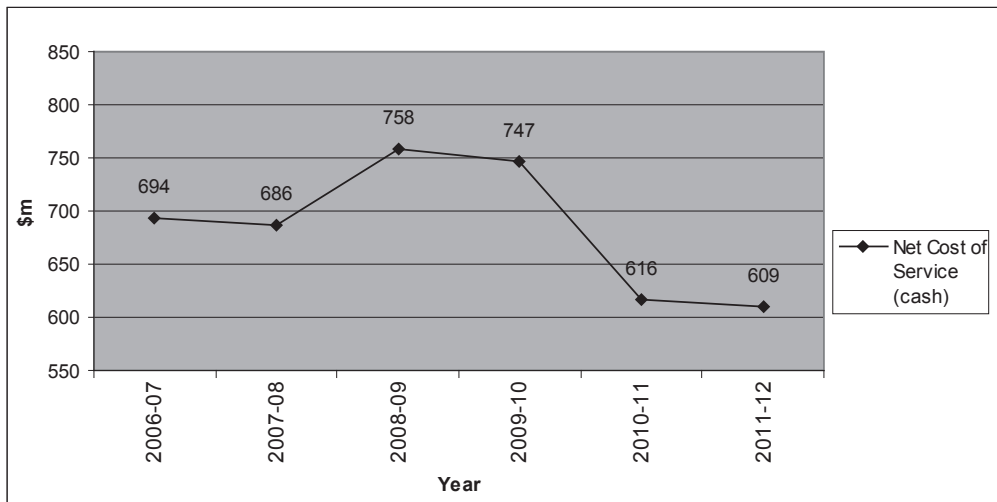
The variation in cash used primarily reflects:

- an increase in superannuation due to a higher than expected number of members drawing superannuation benefits and an increase in take up of retention benefits
- an under achievement of home loan subsidies due to deferral of reimbursement of related FBT to departmental.

The variation in cash received primarily reflects:

- higher superannuation contributions made by members due to higher payments for ordinary times earnings
- higher than expected state tax equivalent payment from DHA
- higher than budgeted departmental receipts from property sales returned to the OPA.

Figure 2.2: Administered Net Cost of Service (cash) six year trend



Note

1. Administered net cost of services figures based on in-year dollars.

Table 2.5: Administered Net Cost of Service (cash)

	2011-12 Budget Estimate ^[1] \$'000	2011-12 Revised Estimate ^[2] \$'000	2011-12 Actual Result \$'000	Variation \$'000	%
Cost of service					
Employees	1,987,100	1,852,303	1,899,936	47,633	3
Subsidies	113,480	97,882	92,061	-5,821	-6
Grants	-	-	-	-	-
Loans to CAC Act bodies	-	-	-	-	-
CAC Act body investments	-	-	-	-	-
Other	-	-	-	-	-
Total cash used	2,100,580	1,950,185	1,991,997	41,812	2
Cash received					
Military superannuation contributions	1,165,332	1,192,126	1,212,438	20,312	2
Fees	9,811	9,811	11,216	1,405	14
Interest	5,299	32,104	32,173	69	-
Dividends	47,593	52,332	52,379	47	-
Other	64,042	54,761	74,472	19,711	36
Total cash received	1,292,077	1,341,134	1,382,678	41,544	3
Net cost of service (cash)	808,503	609,051	609,319	268	-
Funded by					
Appropriations					
Cash from the Official Public Account for appropriations	2,100,580	1,950,185	1,991,997	41,812	2
Cash transfer to the Official Public Account	-1,292,077	-1,341,134	-1,382,678	-41,544	3
Cash holdings at the beginning of the reporting period	-	-	-	-	-
Total funding source	808,503	609,051	609,319	268	-

Notes

1. As published in the *Portfolio Budget Statements 2011-12* table 73.
2. As published in the *Portfolio Budget Statements 2012-13* table 69.

Administered Income and Expenses

As at 30 June 2012, Defence Administered Expenses were \$4,215.5 million representing a \$36.4 million overachievement against the revised estimate. This variance is primarily due to:

- an increase in superannuation expenses as a result of a decrease in the government bond spot rate used to calculate the superannuation liability
- an increase in take up of retention benefits.

As at 30 June 2012, Defence Administered Income was \$1,316.1 million representing a \$17.4 million underachievement to the revised estimate.

This underachievement is primarily due to:

- lower than budgeted superannuation contributions by members
- higher than expected interest on DHA loans and dividend revenue from DHA
- higher Other revenue primarily due to higher DHA state tax equivalent payment.

Table 2.6: Administered Income and Expenses

	2011-12 Budget Estimate ^[1] \$'000	2011-12 Revised Estimate ^[2] \$'000	2011-12 Actual Result \$'000	Variation \$'000	%
Expenses administered on behalf of Government					
Military superannuation benefits	3,763,000	4,028,752	4,062,274	33,522	1
Military retention benefits	52,443	52,443	56,525	4,082	8
Subsidies	113,480	97,882	96,585	-1,297	-1
Grants	-	-	-	-	-
Foreign exchange losses	-	-	-	-	-
Other	-	-	141	141	-
Total expenses	3,928,923	4,179,077	4,215,525	36,448	1
Income administered on behalf of Government					
Interest	5,299	32,104	35,517	3,413	11
Foreign exchange gains	-	-	166	166	-
Military superannuation contributions	1,165,332	1,192,238	1,158,903	-33,335	-3
Dividends	50,067	48,594	49,654	1,060	2
Fees	9,811	9,811	12,251	2,440	25
Other	35,985	50,684	59,585	8,901	18
Total income	1,266,494	1,333,431	1,316,076	-17,355	-1

Notes

1. As published in the *Portfolio Budget Statements 2011-12* table 71.
2. As published in the *Portfolio Budget Statements 2012-13* table 67.

Consolidated Defence and DMO Financial Statements

Consolidated Defence and DMO financial statements are provided in Appendix 9.

Defence Capital Overview

The Capital Investment Program—comprising Major Capital Investment Program, Major Capital Facilities Program, Capital Receipts Program and Other Investment— is discussed in Appendix 3.

Defence People Overview

Following a period of overachievement due to historically low separation rates the ADF workforce is now within its budgeted strength in 2011-12. Implementation of the Strategic Reform Program (SRP) Reserves Reform Stream initiatives has resulted in improved retention in the Army and an overall increase in Reservist numbers. Defence's Australian Public Service (APS) workforce targets have largely been achieved. Changed external labour market demand, a concurrent rise in separation rates and the necessity of fiscal restraint mean that achieving balance in the attraction, recruitment and retention of staff will continue to be a high priority.

People in Defence - Generating the Capability for the Future Force and its companion document, the *Annual People Plan 2011-12*, provide a strategic approach to people matters in Defence. They articulate key strategic people objectives and identify a range of people-related projects and initiatives that have been undertaken in 2011-12.

Further workforce statistics for both the ADF and APS workforces as at 30 June 2012 are included in Appendix 5 Managing Our People.

Workforce Overview

The workforce overview contains statistical information on the average workforce strength during 2011-12. Further workforce statistics for both the ADF and APS workforces as at 30 June 2012 are included in Appendix 5 Managing Our People.

ADF Permanent

Table 2.7 shows details of the ADF Permanent Force Average Funded Strength for 2011-12. The ADF average strength achievement was 57,994 in 2011-12, a decrease of 1,090 from 2010-11, including ADF Reservists on Continuous Full-time Service. Average funded strength achievement for Continuous Full-time Service in 2011-12 was 948 (comprising Navy 301, Army 588 and Air Force 59) compared to 1,107 in 2010-11.

The decrease in ADF permanent strength is primarily the result of measures introduced to return the ADF to its budgeted strength after a period of overachievement, combined with changes in labour market conditions leading to increased separations.

Table 2.7: ADF Permanent Force Average Funded Strength (including DMO)^[1]

	2010-11 Actual	2011-12 Budget Estimate	2011-12 Revised Estimate ^[2]	2011-12 Actual	Variation to Revised Estimate	% Variation
Navy	14,207	14,220	14,218	14,054	-164	-1
Army	30,253	30,617	30,003	29,697	-306	-1
Air Force	14,624	14,216	14,036	14,243	207	1
Total Average Funded Strength	59,084	59,053	58,257	57,994	-263	-

Notes

- Figures in this table are average funded strengths; they are not a 'headcount'. Reservists undertaking full-time service are included in the figures. Employees on forms of Leave Without Pay are not included.
- As published in the *Portfolio Additional Estimates Statements 2011-12*.

ADF Reserves

Implementation of the SRP Reserves reform stream initiatives has resulted in improved retention in the Army and an overall increase in Reservist numbers. This reported success resulted in an increase of approximately 500 personnel during the period January - June 2012 that was not previously forecast. Table 2.8 shows the number of Reservists who rendered paid service during 2011-12, noting that the number of days each Reservist works in a year can vary substantially depending on personal circumstances and organisational need. In 2011-12, 22,072 Reservists undertook paid service, 733 more than in 2010-11.

Table 2.8: ADF Reserve Paid Strength (including DMO)^{[1][2]}

	2010-11 Actual	2011-12 Budget Estimate	2011-12 Revised Estimate ^[3]	2011-12 Actual	Variation to Revised Estimate	% Variation
Navy	2,027	2,200	2,100	2,001	-99	-5
Army	16,477	17,250	16,700	17,251	551	3
Air Force	2,835	2,900	2,953	2,820	-133	-5
Total Paid Reserves	21,339	22,350	21,753	22,072	319	2

Notes

1. Reservists on full-time service in the Permanent Force are included in Table 2.7.
2. Includes the High Readiness Reserve Force, Active Reserve Force and Specialist Reserve Force.
3. As published in the *Portfolio Additional Estimates Statements 2011-12*.

APS workforce

Table 2.9 shows details of the APS average strength, expressed as Average Full-Time Equivalent, for 2011-12. The APS average strength achievement was 21,818 in 2011-12, an increase of 1,170 from 2010-11. The increase is primarily the result of additional workforce associated with the civilianisation of military non-combat positions and conversion of contractors to less costly APS employees as part of the SRP. Another key driver for the increase is the DMO's combined workforce model, under which the DMO can utilise the funding from vacant ADF positions and fill them with APS staff. This growth has been partially offset by the reduction of 1,000 positions over three years, announced in the 2011-12 Defence Budget. Future growth will be constrained by the reduction of a further 1000 positions announced in the 2012-13 Defence Budget.

Table 2.9: Civilian (APS and Contractor) Average Full Time Equivalent^[1]

	2010-11 Actual	2011-12 Budget Estimate ^[2]	2011-12 Revised Estimate ^[3]	2011-12 Actual	Variation to Revised Estimate	%
Defence APS	15,115	16,001	15,974	15,829	-145	-1
DMO APS	5,533	5,647	6,015	5,989	-26	-
Total APS	20,648	21,648	21,989	21,818	-171	-1
Defence Contractors	581	593	621	467	-154	-25
DMO Contractors	24	51	25	45	20	80
Total Contractors	605	644	646	512	-134	-21
Total Civilian Workforce	21,253	22,292	22,635	22,330	-305	-1

Notes

- Figures in the table are Average Full Time Equivalent; they are not a headcount.
- As published in the *Portfolio Budget Statements 2011-12*.
- As published in the *Portfolio Additional Estimates Statements 2011-12*.

Table 2.10 Workforce Expenses for the Department of Defence (including DMO)

	2011-12 Budget Estimate ^[1] \$m	2011-12 Revised Estimate ^[2] \$m	2011-12 Actual Result \$m	Variation \$m
Defence:				
Military employees				
Salary, allowances, superannuation and leave	6,645	6,768	6,806	38
Housing	697	747	777	30
Health services	331	287	314	26
Fringe Benefits Tax	348	349	356	7
Total military employee expenses	8,021	8,151	8,253	102
Civilian employees				
Salary, allowances, superannuation and leave	2,136	2,166	2,172	5
Other expenses including Fringe Benefits Tax	13	14	9	-5
Total civilian employee expenses	2,148	2,181	2,181	-
Total employee expenses	10,169	10,332	10,434	102

Notes

- As published in the *Portfolio Budget Statements 2011-12* table 18.
- As published in the *Portfolio Additional Estimates Statements 2011-12* table 18.

Chapter 3

Departmental Overview

Department Description, Role and Function

Role

Defence's primary focus is to protect and advance Australia's strategic interests by providing military forces and supporting those forces in the defence of Australia and its strategic interests. To achieve this, Defence prepares for and conducts military operations and other tasks as directed by the Government.

Strategic Direction

In May 2012, the Prime Minister and the Minister for Defence announced that the Government has commissioned a new Defence White Paper to be delivered in the first half of 2013. This new White Paper will take account of Australia's emerging strategic and fiscal environment.

The White Paper will also adjust as appropriate the reform programs underway. The department has commenced early scoping work on this new White Paper.

Portfolio Structure

The Defence portfolio consists of a number of component organisations that together are responsible for supporting the defence of Australia and its national interests. The three most significant bodies are:

- the Department of Defence is a department of state, headed by the Secretary of the Department of Defence
- the ADF, which consists of the three Services, Navy, Army and the Air Force (including Reserves) commanded by the Chief of the Defence Force (CDF). Each Service Chief also administers their respective Cadet service, although the Cadet service is not a component of the parent Service
- the Defence Materiel Organisation (DMO), a prescribed agency within the Department of Defence, headed by its Chief Executive Officer (CEO) DMO.

In practice, these bodies work closely together and they are broadly regarded as one organisation known simply as Defence (or the Australian Defence Organisation).

The portfolio also contains some smaller entities, including a number of statutory offices created by the *Defence Force Discipline Act 1982*, which are independent but reside administratively within Defence and various trusts and companies such as Defence Housing Australia (DHA) and the Australian Strategic Policy Institute.

DHA's main function is to provide adequate and suitable housing for members of the ADF. DHA is an enterprise within the Defence portfolio and has two shareholder Ministers: the Minister for Defence, the Hon Stephen Smith MP; and the Minister for Finance and Deregulation, Senator the Hon Penny Wong.

DHA is required by legislation to perform its functions in accordance with the policies of the Australian Government and in accordance with sound commercial practice. This means that DHA has a targeted rate of return and a requirement to make annual dividends and income tax payments.

The Minister for Defence's portfolio also contains the Department of Veterans' Affairs (DVA) and associated bodies, as it is designated as part of the Defence portfolio in the Administrative Arrangements Order. DVA is administered separately to Defence.

Figure 3.1: Defence's Portfolio Structure as at 30 June 2012

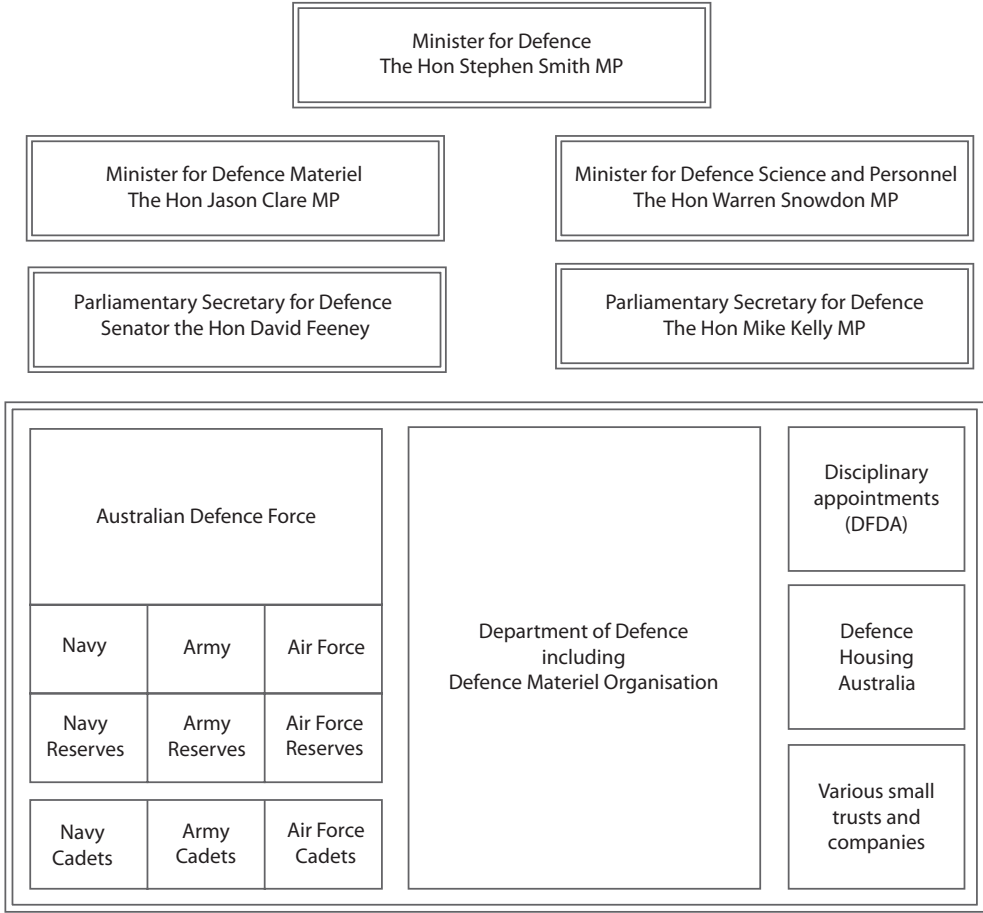
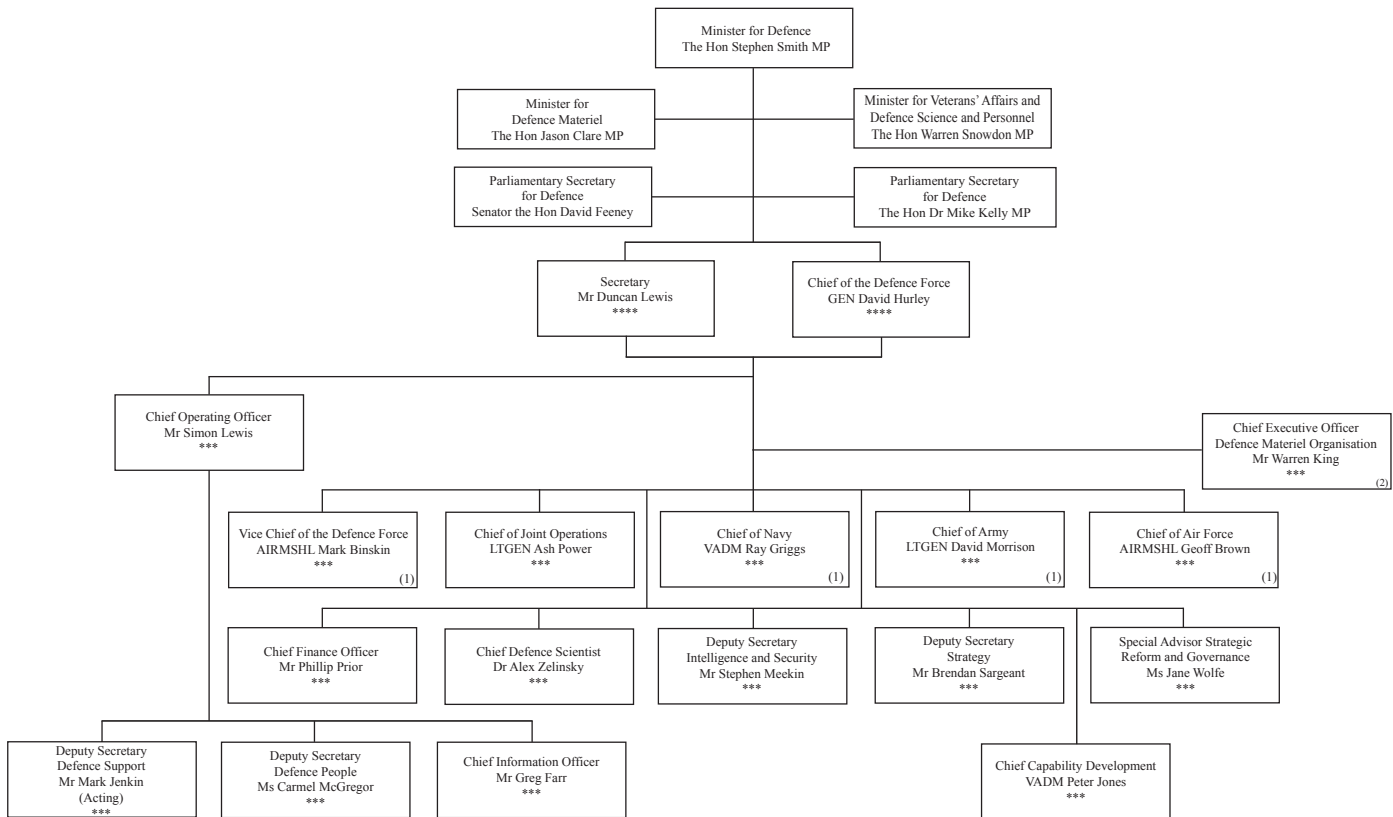


Figure 3.2: Defence Organisational Structure as at 30 June 2012



Stars (*) refer to ADF Star rank or SES Band levels
Appointments as at 30 May 2012

Notes:

- (1) Section 9(3) of the *Defence Act 1903* requires the Service Chiefs to advise the Minister on matters relating to their command.
- (2) Under the agreed business model for DMO as a prescribed agency, the CEO DMO Ministerial Directive identifies that the CEO DMO is directly accountable to the Minister for DMO's performance but remains accountable to the Secretary and CDF.

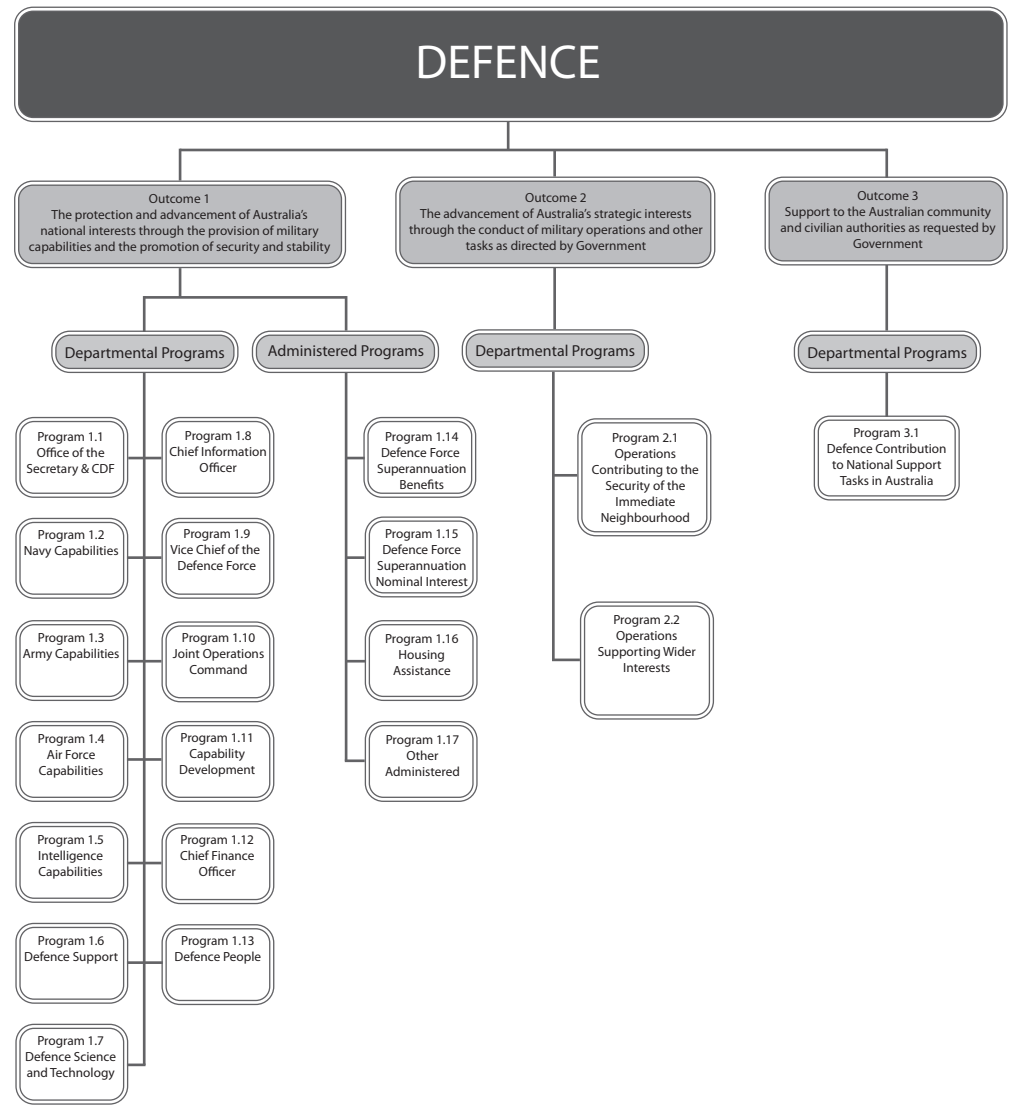
Outcome/Program Structure

Defence reports against its Program under three outcomes:

- **Outcome 1:** The protection and advancement of Australia’s national interests through the provision of military capabilities and the promotion of security and stability.
- **Outcome 2:** The advancement of Australia’s strategic interests through the conduct of military operations and other tasks directed by Government.
- **Outcome 3:** Support for the Australian community and civilian authorities as requested by Government.

Outcome Summary Table

Figure 3.3: Structure of Defence’s Outcomes



Cost of Defence Outcomes

Table 3.1: Total Cost of Defence Outcomes and Programs on an Accrual Basis

	2011-12 Budget Estimate ^[1] \$'000	2011-12 Revised Estimate ^[2] \$'000	2011-12 Actual Result \$'000	Variation \$'000	%
Outcome 1: The protection and advancement of Australia's national interests through the provision of military capabilities and the promotion of security and stability					
Departmental net cost of service	21,052,011	21,843,002	22,047,985	204,983	1
Administered net cost of service	2,662,429	2,845,646	2,899,449	53,803	2
Net cost of service for Outcome 1	23,714,440	24,688,648	24,947,434	258,786	1
Outcome 2: The advancement of Australia's strategic interests through the conduct of military operations and other tasks as directed by Government					
Net cost of service for Outcome 2	1,578,954	1,451,492	958,963	-492,529	-34
Outcome 3: Support to the Australian community and civilian authorities as requested by Government					
Net cost of service for Outcome 3	9,829	9,829	18,461	8,632	88
Net cost of service for Defence Outcomes					
Departmental net cost of service	22,640,794	23,304,323	23,025,409	-278,914	-1
Administered net cost of service	2,662,429	2,845,646	2,899,449	53,803	2
Total cost of Defence Outcomes	25,303,223	26,149,969	25,924,858	-225,111	-1

Notes

1. As published in the *Portfolio Budget Statements 2011-12*.
2. As published in the *Portfolio Budget Statements 2012-13*.

Table 3.2: Overall Cost to Government of Defence Outcomes (Departmental and Administered), 2011-12

	Outcome 1 \$'000	Outcome 2 \$'000	Outcome 3 \$'000	Total \$'000
DEPARTMENTAL				
Expenses				
Employees	9,535,787	305,380	233	9,841,400
Suppliers	9,998,834	648,936	18,228	10,665,998
Grants	32,613	38,692	-	71,305
Depreciation and amortisation	3,630,984	-	-	3,630,984
Finance cost	100,547	-	-	100,547
Write-down of assets and impairment of assets	933,458	6	-	933,464
Net losses from sale of assets	13,216	-	-	13,216
Other expenses	97,368	47	-	97,415
Total expenses	24,342,807	993,061	18,461	25,354,329
Income				
Revenue				
Goods and services	744,901	34,091	-	778,992
Other revenue ⁽¹⁾	985,629	10	-	985,639
Total revenue	1,730,530	34,101	-	1,764,631
Gains				
Assets now recognised	479,573	-	-	479,573
Net gains from sale of assets	-	-	-	-
Other gains	84,719	-3	-	84,716
Total gains	564,292	-3	-	564,289
Total income	2,294,822	34,098	-	2,328,920
Net cost of Departmental Outcomes	22,047,985	958,963	18,461	23,025,409
ADMINISTERED				
Expenses	4,215,525	-	-	4,215,525
Revenue	1,316,076	-	-	1,316,076
Net cost of Administered Outcomes	2,899,449	-	-	2,899,449
Total Departmental and Administered Outcomes	24,947,434	958,963	18,461	25,924,858

Note

1. Other revenue includes rental income.

Table 3.3 Cost to Government of Departmental Outcomes, 2011-12

	2011-12 Budget Estimate ^[1] \$'000	2011-12 Revised Estimate ^[2] \$'000	2011-12 Actual Result \$'000	Variation \$'000	%
Expenses					
Employees	9,597,092	9,786,105	9,841,400	55,295	1
Suppliers	9,766,478	9,809,924	10,665,998	856,074	9
Grants	48,639	62,366	71,305	8,939	14
Depreciation and amortisation	3,441,255	3,789,253	3,630,984	-158,269	-4
Finance costs	91,882	89,956	100,547	10,591	12
Write-down and impairment of assets	1,244,054	1,057,469	933,464	-124,005	-12
Net losses from asset sales	-	-	13,216	13,216	-
Other expenses	6,909	116,405	97,415	-18,990	-16
Total expenses	24,196,309	24,711,478	25,354,329	642,851	3
Income					
Revenue					
Goods and services	892,915	832,713	778,992	-53,721	-6
Other revenue ^[3]	85,064	67,349	985,639	918,290	-
Total revenue	977,979	900,062	1,764,631	864,569	96
Gains					
Assets now recognised	574,954	498,725	479,573	-19,152	-4
Net gains from sale of assets	2,582	3,489	-	-3,489	-
Other gains ^[4]	-	4,879	84,716	79,837	-
Total gains	577,536	507,093	564,289	57,196	11
Total income	1,555,515	1,407,155	2,328,920	921,765	66
Net cost of all Outcomes	22,640,794	23,304,323	23,025,409	-278,914	-1

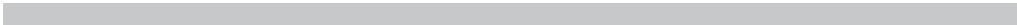
Notes

1. As published in the *Portfolio Budget Statements 2011-12* table 62.
2. As published in the *Portfolio Budget Statements 2012-13* table 58.
3. Other revenue includes rental income.
4. Other gains includes foreign exchange gains.



SECTION TWO

Report on Performance



Chapter 4

Outcome 1 Performance

Outcome 1: The protection and advancement of Australia's national interests through the provision of military capabilities and the promotion of security and stability.

Outcome 1 Summary

The primary focus of Outcome 1 is to ensure Defence maintains the capacity to support current commitments and future contingencies, consistent with the strategic priorities detailed in the *Defence White Paper 2009*. In addition to the provision of military capabilities, this Outcome encompasses all of the policy, command and support functions undertaken by the entire Defence organisation.

There are 17 Programs under Outcome 1. These include departmental outputs for Programs 1.1 to 1.13 and administered expenses relating to retirements, superannuation and housing support service. The recently created Chief Operating Officer (COO) organisation comprises Programs 1.6 Defence Support, 1.8 Chief Information Officer and 1.13 Defence People Group. The COO is also responsible for the Strategic Reform Management Office, Defence Legal, and Ministerial and Executive Coordination and Communication.

The following Program deliverables and key performance indicators (KPIs) tables are assessed using the below Key system:

Key		
-	Not Achieved	None or minimal progress was made against targets in 2011-12. Explanations are provided in the 'further information' column.
✓	Partially Achieved	Some targets were met, and any issues are being managed.
✓✓	Substantially Achieved	Targets were mostly met and any issues are being managed.
✓✓✓	Achieved	All targets for 2011-12 were met or exceeded.

Table 4.1: Total Cost of Defence Outcome 1

	2011-12 Budget Estimate ^[1] \$'000	2011-12 Revised Estimate ^[2] \$'000	2011-12 Actual Result \$'000	Variation \$'000	%
Program 1.1 Office of the Secretary and CDF					
Revenues from other sources	1,462	2,562	3,428	866	34
Departmental outputs	172,623	175,458	180,657	5,199	3
Program 1.2 Navy Capabilities					
Revenues from other sources	171,647	162,765	120,587	-42,178	-26
Departmental outputs	4,051,659	4,091,466	3,991,229	-100,237	-2
Program 1.3 Army Capabilities					
Revenues from other sources	165,222	138,530	235,090	96,560	70
Departmental outputs	4,926,814	5,236,978	5,290,262	53,284	1
Program 1.4 Air Force Capabilities					
Revenues from other sources	263,414	224,773	235,384	10,611	5
Departmental outputs	4,007,321	4,352,927	4,222,942	-129,985	-3
Program 1.5 Intelligence Capabilities					
Revenues from other sources	15,833	13,885	10,468	-3,417	-25
Departmental outputs	530,650	522,709	543,522	20,813	4
Chief Operating Officer					
Revenues from other sources	294,689	286,895	376,561	89,666	31
Departmental outputs	4,634,977	5,238,084	5,225,368	-12,716	-
Program 1.6 Defence Support					
Revenues from other sources	284,803	277,595	375,373	97,778	35
Departmental outputs	3,528,819	3,966,670	3,844,487	-122,183	-3
Program 1.8 Chief Information Officer					
Revenues from other sources	9,886	9,180	969	-8,211	-89
Departmental outputs	779,918	964,145	1,075,517	111,372	12
Program 1.13 Defence People Group					
Revenues from other sources	-	120	219	99	83
Departmental outputs	326,240	307,269	305,364	-1,905	-1
Program 1.7 Defence Science and Technology					
Revenues from other sources	33,668	45,823	41,769	-4,054	-9
Departmental outputs	433,695	461,724	450,392	-11,332	-2
Program 1.9 Vice Chief of the Defence Force					
Revenues from other sources	435,497	263,539	288,513	24,974	9
Departmental outputs	855,607	1,088,760	1,383,004	294,244	27

Table 4.1 (cont.): Total Cost of Defence Outcome 1

	2011-12 Budget Estimate ^[1] \$'000	2011-12 Revised Estimate ^[2] \$'000	2011-12 Actual Result \$'000	Variation \$'000	%
Program 1.10 Joint Operations Command					
Revenues from other sources	380	367	1,426	1,059	-
Departmental outputs	46,328	48,864	38,405	-10,459	-21
Program 1.11 Capability Development					
Revenues from other sources	105,821	73,708	122,488	48,780	66
Departmental outputs	747,849	331,308	257,657	-73,651	-22
Program 1.12 Chief Finance Officer					
Revenues from other sources	21,491	147,917	859,106	711,189	-
Departmental outputs	644,488	294,724	464,547	169,823	58
Program 1.14 Defence Force Superannuation Benefits					
<i>Defence Force Retirement Benefits Act, 1948 Part 1, s.15D and VIC, s.82ZJ (1)</i>	-	-	-	-	-
<i>Defence Force Retirements and Death Benefits Act, 1973 Part XII, s.125 (3)</i>	108,000	129,786	106,963	-22,823	-18
<i>Military Superannuation and Benefits Act, 1991 Part V, s.17</i>	1,081,443	1,308,047	1,379,436	71,389	5
Total Administered expenses	1,189,443	1,437,833	1,486,399	48,566	3
Administered revenue from other sources	1,165,332	1,192,238	1,158,903	-33,335	-3
Total Program 1.14	24,111	245,595	327,496	81,901	33
Program 1.15 Defence Force Superannuation Nominal Interest					
<i>Defence Force Retirement Benefits Act, 1948 Part 1, s.15D and VIC, s.82ZJ (1)</i>	30,000	28,443	28,400	-43	-
<i>Defence Force Retirements and Death Benefits Act, 1973 Part XII, s.125 (3)</i>	1,483,000	1,449,013	1,450,000	987	-
<i>Military Superannuation and Benefits Act, 1991 Part V, s.17</i>	1,113,000	1,165,906	1,154,000	-11,906	-1
Total Administered expenses	2,626,000	2,643,362	2,632,400	-10,962	-
Administered revenue from other sources	-	-	-	-	-
Total Program 1.15	2,626,000	2,643,362	2,632,400	-10,962	-

Table 4.1 (cont.): Total Cost of Defence Outcome 1

	2011-12 Budget Estimate ^[1] \$'000	2011-12 Revised Estimate ^[2] \$'000	2011-12 Actual Result \$'000	Variation \$'000	%
Program 1.16 Housing Assistance					
<i>Defence Force (Home Loan Assistance) Act, 1990 Part IV, s.38</i>	3,547	3,547	3,483	-64	-2
<i>Defence Home Ownership Assistance Scheme Act 2008 Part VI, s.84</i>	109,933	94,335	93,102	-1,233	-1
Total Administered expenses	113,480	97,882	96,585	-1,297	-1
Administered revenue from other sources	9,811	9,811	12,251	2,440	25
Total Program 1.16	103,669	88,071	84,334	-3,737	-4
Program 1.17 Other Administered					
Administered revenue from other sources	91,351	131,382	144,922	13,540	10
Expenses	-	-	141	141	-
Total Program 1.17	-91,351	-131,382	-144,781	-13,399	10
Total resourcing					
Total Departmental outputs	21,052,011	21,843,002	22,047,985	204,983	1
Total Administered	2,662,429	2,845,646	2,899,449	53,803	2
Total Departmental revenue from other sources	1,509,124	1,360,764	2,294,822	934,058	69
Total Administered revenue from other sources	1,266,494	1,333,431	1,316,076	-17,355	-1
Equity Injection	2,909,317	2,052,892	2,773,786	720,894	35
Total resources for Outcome 1	29,399,375	29,435,735	31,332,118	1,896,383	6

Notes

1. As published in the *Portfolio Budget Statements 2011-12* table 19.
2. As published in the *Portfolio Budget Statements 2012-13* table 23.

Table 4.2: Departmental Cost Summary for Outcome 1^[1]

	2011-12 Budget Estimate ^[2] \$'000	2011-12 Revised Estimate ^[3] \$'000	2011-12 Actual Result \$'000	Variation \$'000	%
Expenses					
Employees	9,321,354	9,482,994	9,535,787	52,793	1
Suppliers	8,602,470	8,667,894	9,998,834	1,330,940	15
Grants	5,137	18,864	32,613	13,749	73
Depreciation and amortisation	3,441,255	3,789,253	3,630,984	-158,269	-4
Finance cost	91,882	89,956	100,547	10,591	12
Write-down of assets and impairment of assets	1,092,128	1,038,400	933,458	-104,942	-10
Net losses from sale of assets	-	-	13,216	13,216	-
Other expenses	6,909	116,405	97,368	-19,037	-16
Total expenses	22,561,135	23,203,766	24,342,807	1,139,041	5
Income					
Revenue					
Goods and services	846,524	786,322	744,901	-41,421	-5
Other revenue	85,064	67,349	985,629	918,280	-
Total revenue	931,588	853,671	1,730,530	876,859	-
Gains					
Assets now recognised	574,954	498,725	479,573	-19,152	-4
Net gains from sale of assets	2,582	3,489	-	-3,489	-
Other gains	-	4,879	84,719	79,840	-
Total gains	577,536	507,093	564,292	57,199	11
Total income	1,509,124	1,360,764	2,294,822	934,058	69
Departmental cost summary for Outcome 1	21,052,011	21,843,002	22,047,985	204,983	1

Notes

1. This table excludes Capital payments for Outcomes.
2. Total aggregation of Outcome 1 programs as published in the *Portfolio Budget Statements 2011-12*.
3. Total aggregation of Outcome 1 programs as published in the *Portfolio Budget Statements 2012-13*.

Program 1.1

Office of the Secretary and CDF

The Office of the Secretary and the Chief of the Defence Force (OSCDF) Group's primary role is to support the Secretary and the Chief of the Defence Force (CDF) to lead and manage the operational and corporate Defence enterprise. This includes delivering high quality policy advice, driving organisational reform and exercising strategic leadership.

The Group comprises the personal offices of the Secretary and CDF, Strategy Executive, Audit and Fraud Control Division, and three Military Justice Agencies.

The recently established COO Organisation assumed a number of activities previously managed by the OSCDF Group. These activities are reported under the COO on page 58 to page 60.

Program 1.1 Deliverables

Deliverable	Status 2011-12	Comment
(i) Ensure Group specific Strategic Reform Program (SRP) reform and savings initiatives have been achieved	✓✓	In 2011-12, the OSCDF Group fully achieved the established SRP financial savings; however, while the Group ended the financial year with a small over achievement of 9.7 Full Time Equivalent Average (1.8 per cent), the specific SRP workforce reform target of 34 was not achieved during the period.
(ii) Manage the SRP Strategic Planning Reform Stream	✓✓✓	<p>Reform in this stream focussed on strengthening Defence's integrated strategic planning cycle and keeping close links between strategic guidance and capability development.</p> <p>A number of the components of the five-year strategic planning cycle stated in the <i>Defence White Paper 2009</i> were completed in 2011-12.</p> <p>The <i>Force Structure Review</i> was initiated as part of the planning for the <i>Defence White Paper 2013</i> and an internal Strategic Risk Assessment (SRA) was completed. The SRA established a core function to monitor and assess strategic and enterprise risk as an input to Defence White Papers and other elements of the integrated strategic planning cycle.</p> <p>Defence strengthened its enterprise planning as part of integrating and aligning its strategic and enterprise planning framework. This incorporated a stronger focus on enterprise performance and accountability through the <i>2011-12 Defence Annual Plan</i> and risk identification and control. SRP implementation was a central component of this framework, which was reviewed regularly by the Defence Committee. It will be further strengthened through the <i>2012-17 Defence Corporate Plan</i>.</p>

Deliverable	Status 2011-12	Comment
(iii) Enhance Defence's governance framework, through clearer authority and accountability and more rigorous performance management, risk management, assurance and audit processes	✓✓✓	<p>Defence made significant progress in 2011-12 in strengthening accountability and planning in line with the Black Review. This includes the introduction of the Defence Annual Plan, and the implementation of the Defence Enterprise Risk Framework (see deliverable (iv) below).</p> <p>Defence will continue to enhance these products and integrate them within its planning and decision making processes.</p> <p>These enhancements will include the launch of a new five-year Defence Corporate Plan.</p>
(iv) Ensure both Defence strategic policy and corporate strategy align with Government direction and priorities, provide clear guidance for the activities of Defence, and are responsive to external developments	✓✓✓	<p>In 2011-12, Defence implemented key deliverables of the integrated strategic planning cycle outlined in the <i>Defence White Paper 2009</i>. The classified <i>2012 Defence Planning Guidance</i> was completed, with key recommendations to be implemented through the <i>2012-17 Defence Corporate Plan</i>. Work began on the <i>Defence White Paper 2013</i>, which will set out the Government's strategic direction for Defence. The <i>Force Structure Review</i>, established under the Vice Chief of the Defence Force (VCDF) Group will provide force structure analysis for the <i>Defence White Paper 2013</i>. The final report of the <i>Force Posture Review</i> established in June 2011 was released by the Government on 3 May 2012. Its recommendations will be incorporated within the <i>Defence White Paper 2013</i> considerations. Work also commenced on a new strategy framework handbook planned to be published following the release of the <i>Defence White Paper 2013</i>.</p> <p>Clear direction was provided to Defence's enterprise priorities to achieve Government's strategic vision. This included identifying budget priorities in support of Government's fiscal strategy in the 2012-13 Budget.</p> <p>The <i>2011-12 Defence Annual Plan</i> set clear deliverables and milestones for Defence outcomes and this was reviewed quarterly by the Defence Committee. A new <i>Defence Corporate Plan for 2012-17</i> was also developed for implementation from 2012-13. This will ensure even closer alignment of Defence's strategic and enterprise priorities and activities. Defence also implemented a new enterprise risk system to ensure that Defence is systematically anticipating and managing material risks. This system will be further enhanced in 2012-13 and integrated with the other core components of the strategic planning framework.</p>

Deliverable	Status 2011-12	Comment
(v) Provide overarching strategic guidance, policy and supporting plans to inform Defence decision making including the development and use of Defence capability and the deployment of the ADF	✓✓✓	<p>The <i>2012 Defence Planning Guidance</i>—Defence's lead strategy document—analysed the future strategic environment and articulated the strategic priorities guiding Defence to produce the military outcomes sought by the Government. Strategic guidance was also provided for 12 major capability projects in 2011-12, helping to connect capability planning to strategic intent. While responsibility was passed to the VCDF Group to develop the <i>Force Structure Review</i>, the Strategy Executive remained a significant contributor.</p> <p>Five strategic wargames were run as part of Defence's deliberate planning in support of decision making on Defence preparation against operational and national security risks.</p> <p>Quarterly Strategic Reviews were also produced to support decision making on strategic and capability risk and response.</p>
(vi) Develop Defence policy guidance in emerging key areas of space and cyber	✓✓✓	<p>Policy guidelines and plans were provided for the development of Defence's cyber capability. A significant achievement was the 2011 Australia-United States Ministerial Meeting Joint Statement on Cyberspace that established the applicability of the Australia, New Zealand, United States Treaty in the event of a cyber attack. A 2012 update to Defence's strategic cyber policy is under development, together with a cyber strategy to direct implementation across Defence.</p> <p>A Defence Space Policy was developed to address <i>Defence White Paper 2009</i> priorities, including improved Australian space situational awareness. The Defence Space Policy will inform analysis for the <i>Defence White Paper 2013</i>. It is also supporting development of a National Space Policy and is being led by the Department of Industry, Innovation, Science, Research and Tertiary Education as part of a whole-of-Government approach.</p>

Deliverable	Status 2011-12	Comment
(vii) Ensure Defence's international relationships complement broader foreign policy goals, promote security and enhance productive Defence partnerships, particularly regionally, including through the Defence Cooperation Program	✓✓✓	<p>Defence's international relationships continued to be strengthened during 2011-12 with a number of key activities completed. These included:</p> <ul style="list-style-type: none"> • effective participation in emerging Association of Southeast Asian Nations (ASEAN) Defence Ministers' Meeting Plus related activities • progression of initiatives related to enhanced cooperation with the United States • a reinvigoration of the bilateral defence relationship with New Zealand • enhanced defence collaboration with Japan and the Republic of Korea • an enhanced strategic dialogue with Indonesia, demonstrated by the inaugural 2+2 Defence and Foreign Ministers' Meeting • provision of three Defence leased helicopters to assist the Papua New Guinea Defence Force in managing its national election logistics challenges, and to reinvigorate its Air Transport Wing capability • continued provision of policy support advice to support ADF operations in Afghanistan, East Timor and Solomon Islands.
(viii) Provide policy advice on arms control and international collaborative programs	✓✓✓	<p>Policy advice was provided and international engagement occurred in 2011-12 in relation to: the Biological Weapons Convention; the Chemical Weapons Convention; the implementation of the Cluster Munitions Convention; Proliferation Security Initiative meetings and exercises; the negotiation of an Arms Trade Treaty; and proposals under the Conventional Weapons Convention.</p>
(ix) Manage export control of defence and strategic goods	✓✓✓	<p>Defence issued 2654 export permits and 2388 pieces of advice in 2011-12. A review of the <i>Weapons of Mass Destruction (Prevention of Proliferation) Act 1995</i> by Mr William Blick commenced in 2011-12 and will be completed in 2012-13.</p>
(x) Implement the legislation for the Australia-United States Defence Trade Cooperation Treaty and appropriate Treaty guidance to Australian Defence industry	✓✓✓	<p>Legislation was developed in 2011-12, and is expected to be finalised in 2012-13 to strengthen export controls and implement the Defence Trade Cooperation Treaty with the United States. Extensive consultation has been undertaken with the defence industry, university and research sectors on the legislation, the Treaty, and United States export regulators.</p>
(xi) Establish the Woomera Prohibited Area Coordination Office and commence implementation of the Woomera Prohibited Area Review recommendations	✓✓✓	<p>The Woomera Prohibited Area Coordination Office was established within Defence in 2011-12. The Departments of Resources, Energy and Tourism, and Finance and Deregulation provided secondees to the Office and the South Australian Government was virtually represented in the Office. A draft Deed of Access for Minerals Exploration was developed and released for public consultation in 2011-12. Government approval of the Deed and supporting arrangements in 2012-13 is a prerequisite to the cessation of the moratorium period and move to the transition phase. This is expected in 2012-13.</p>

Program 1.1 Key Performance Indicators

KPI	Status 2011-12	Comment
(i) Group-specific outcomes and programs are delivered within allocated resources and meet directed efficiency, economy and cultural measures.	✓✓	In 2011-12, the OSCDF Group delivered all Group-specific outcomes and programs within the allocated resources. The SRP-directed efficiency and economy measures for 2011-12 were only partially met due to the failure to achieve the directed workforce savings.
(ii) Staff skills are developed and personnel management practices successfully balance competing priorities.	✓✓	In 2011-12, the OSCDF Group met its staffing and personnel management targets at the macro level, but not individually for all elements within the Group. The Strategy Executive 'Learning and Development Program', which is aimed at improving leadership at all levels, was expanded to encompass the entire OSCDF Group and renamed the 'OSCDF Group Development Program'.
(iii) Policy guidance is forward-looking, timely, innovative and practical.	✓✓✓	This KPI was achieved in 2011-12. Strategic and enterprise policy guidance was provided to direct Defence's priorities, including through the Defence Planning Guidance, Quarterly Strategic Review, and strategic guidance to capability development. Substantial progress was made in enhancing guidance to Defence's enterprise planning through the <i>2011-12 Annual Plan</i> and establishment of an enterprise risk system. The <i>2012-17 Defence Corporate Plan</i> will further align Defence's strategic and enterprise priorities and activities, by giving an implementation focus to the directions of the strategy documents.

Table 4.3: Cost Summary for Program 1.1 Office of the Secretary and CDF^[1]

	2011-12 Budget Estimate ^[2] \$'000	2011-12 Revised Estimate ^[3] \$'000	2011-12 Actual Result \$'000	Variation \$'000	%
Expenses					
Employees	60,318	62,775	67,521	4,746	8
Suppliers	108,873	106,634	108,243	1,609	2
Grants	3,617	7,248	7,083	-165	-2
Depreciation and amortisation	1,277	1,363	1,376	13	1
Finance cost	-	-	-	-	-
Write-down of assets and impairment of assets	-	-	40	40	-
Net losses from sale of assets ^[4]	-	-	-177	-177	-
Other expenses	-	-	-	-	-
Total expenses	174,085	178,020	184,085	6,065	3
Income					
Revenue					
Goods and services	1,462	2,562	3,234	672	26
Other revenue	-	-	190	190	-
Total revenue	1,462	2,562	3,424	862	34
Gains					
Assets now recognised	-	-	4	4	-
Net gains from sale of assets	-	-	-	-	-
Other gains	-	-	-	-	-
Total gains	-	-	4	4	-
Total income	1,462	2,562	3,428	866	34
Program 1.1 Office of the Secretary and CDF	172,623	175,458	180,657	5,199	3

Notes

1. This table excludes Capital payments for Outcomes.
2. As published in the *Portfolio Budget Statements 2011-12* table 20.
3. As published in the *Portfolio Budget Statements 2012-13* table 24.
4. At the portfolio level Defence has achieved a total net loss from sale of assets. Whilst amounts shown in the 2011-12 actual result represents a gain for this Program, the overall Portfolio outcome is a loss.

Program 1.2

Navy Capabilities

The Navy provides maritime forces that contribute to the ADF's capacity to defend Australia, contribute to regional security, support Australia's global interests, shape the strategic environment, and protect our national interests. This is achieved by providing maritime patrol and response; interdiction and strategic strike; protection of shipping and trade and off-shore territories and resources; maritime intelligence collection and evaluation; hydrographic and oceanographic operations; and escort duties. As well as conducting training to meet its key roles, peacetime activities include maritime surveillance and response within Australia's offshore maritime zones; hydrographic, oceanographic and meteorological support operations; humanitarian assistance; and maritime search and rescue.

2011-12 was the commencement of a prolonged period of reconstruction, transition and change for the Navy, which will continue well into the current decade. The year saw the decommissioning of some older platforms in the surface fleet and air arm, the introduction of new platforms and improved weapons systems and the implementation of many changes arising out of a number of reform programs such as New Generation Navy, the SRP and the Rizzo Plan to Reform Support Ship Repair and Management Practices.

Program 1.2 Deliverables

Deliverable	Status 2011-12	Comment
(i) Maintain preparedness of Navy capability as directed by the CDF	✓✓	The preparedness of Navy capability was mostly met, with a slight overall improvement in comparison to 2010-11. While availability of the helicopter, Patrol Boat and Afloat Support forces was reduced, availability of the Amphibious Lift and Submarine forces improved.
(ii) Provide timely, accurate and high quality advice on Navy capabilities to the CDF, the Secretary and the Government	✓✓✓	Achieved.
(iii) Deliver Group-specific reform and savings to the SRP, without detriment to agreed levels of Navy capability	✓✓✓	There were no adverse SRP-related impacts to agreed levels of Navy capability during 2011-12.

Program 1.2 Deliverables – Unit Ready Days (URD)^{[1][2]}

Deliverable	Status 2011-12	Comment
18 Major combatants ^[3] 3,329 [3,771] URD	✓✓✓	97 per cent (3,231 URD achieved)
22 Minor combatants ^[4] 5,696 URD	✓✓	95 per cent (5,415 URD achieved)
10 [11] Amphibious and Afloat Support ^[5] 2,190 [2,008 ^[6]] URD	✓✓✓	98 per cent (2,142 URD achieved)
5 Maritime Teams ^[7] 1,830 URD	✓✓✓	100 per cent (1,830 URD achieved)
9 Hydrographic Force ^[8] 3,060 URD	✓✓✓	100 per cent (3,054 URD achieved)

Notes

- Where figures were updated in the *Portfolio Additional Estimates Statements 2011-12*, the *Portfolio Budget Statements 2011-12* estimate is shown in brackets.
- URD are the aggregate number of days that constituent force elements are available for tasking.
- Major Combatants include the Adelaide class frigates, Anzac class frigates and submarines.
- Minor Combatants include patrol boats, coastal mine hunters and auxiliary minesweepers. The patrol boat force underachievement was due to emergent class-wide system defects. These were addressed through the Chief of Navy decision to reduce operational availability to allow for maintenance.
- Amphibious and Afloat Support comprises the oil tanker, replenishment ship, landing ship dock, heavy landing ship and heavy landing craft.
- The URD figure for Amphibious and Afloat Support was erroneously reported in the *Portfolio Budget Statements 2011-12* as 2,908.
- Maritime Teams include clearance diving teams, the deployable geospatial support team, and mobile meteorological and oceanographic teams.
- Hydrographic Force comprises the hydrographic ships, survey motor launches, chart production office, and meteorological and oceanographic centres.

Program 1.2 Deliverables – Navigational Chart Production

Deliverable	Status 2011-12	Comment
50 New charts/editions	✓	80 per cent (40 new charts/editions achieved). Full achievement of paper chart production was affected by staff turnover and a higher electronic navigational chart cells maintenance workload.
50 New electronic navigational chart cells	✓	72 per cent (36 new electronic navigational chart cells achieved). Full achievement of chart production was affected by staff turnover, increased maintenance workload and reduced paper chart production.

Program 1.2 Deliverables – Flying hours (hrs)

Deliverable	Status 2011-12	Comment
16 Seahawks 4,200 hrs	✓✓	95 per cent (3,990 flying hours achieved). Seahawks achieved a record number of flying hours but remained five per cent below the target due to unscheduled embarked maintenance, minor obsolescence issues and environmental factors.
6 Sea Kings ⁽¹⁾ 400 hrs	✓✓✓	99 per cent (398 flying hours achieved). The Sea King helicopters were withdrawn from service on 16 December 2011.
13 Squirrels 4,000 hrs	✓✓	81 per cent (3,255 flying hours achieved). Aircraft availability was affected by a number of factors. The two key impacts were a period of shortfalls in logistic support and a temporary cessation of flying following an uncommanded engine shutdown.
1 Laser airborne depth sounder aircraft ⁽²⁾ 980 [1,120] hrs	✓✓	85 per cent (830 flying hours achieved). Full achievement of flying hours was affected by poor weather and in-flight systems-related defects.

Notes

1. Flying hours for the MRH-90s operated by 808 Squadron are reported in the Army Aviation section of the Defence Annual Report.
2. Where figures were updated in the *Portfolio Additional Estimates Statements 2011-12*, the *Portfolio Budget Statements 2011-12* estimate is shown in brackets.

Program 1.2 Key Performance Indicators

KPI	Status 2011-12	Comment
(i) Achieve levels of preparedness directed by the CDF for military response options with a warning time of less than 12 months	✓✓	Levels of preparedness were mostly met. The factors affecting full achievement in 2011-12 included: the unscheduled major maintenance of the heavy landing ship to address emergent defects in the 31 year old vessel; the extended maintenance period for the replenishment ship to address emergent propulsion system defects; emergent Patrol Boat reliability issues; and the non-availability of a Maritime Support Helicopter. The Navy has continued to mostly meet this KPI. The effectiveness of this KPI is linked to all deliverables.
(ii) Achieve a level of training that maintains core skills and professional standards across all outputs	✓✓	Full achievement of this KPI was affected by the reduced availability of mostly Amphibious and Afloat Support Force ships and the Maritime Support Helicopters. The result is a slight overall improvement in comparison to 2010-11. The Navy has continued to mostly meet this KPI. The effectiveness of this KPI is linked to deliverables (iii), (iv) and (vi).
(iii) Achieve mission capability for assigned tasks	✓✓	Various systems-related defects across the force elements affected availability to complete all assigned tasks, with the Patrol Boat and Hydrographic Forces being the most affected. The Navy has continued to mostly meet this KPI with an overall achievement in the order of 94 per cent for the past three years. The effectiveness of this KPI is linked to deliverables (i), (iii), (iv) and (vi).

KPI	Status 2011-12	Comment
(iv) Achieve Hydroscheme 2011-2013 data and surveying tasking requirements to meet national hydrographic surveying and charting obligations	✓	Approximately one-third of planned survey days were not achieved as a result of the re-assignment of ships to Operation RESOLUTE, systems defects, a crew illness in the survey motor launches and poor weather conditions. The Navy has continued to mostly meet this KPI, with only a partial achievement in 2010-11 and 2011-12. The effectiveness of this KPI is linked to elements of deliverable (iv) and (vi).

Table 4.4: Cost Summary for Program 1.2 Navy Capabilities^[1]

	2011-12 Budget Estimate ^[2] \$'000	2011-12 Revised Estimate ^[3] \$'000	2011-12 Actual Result \$'000	Variation \$'000	%
Expenses					
Employees	1,671,314	1,692,146	1,682,484	-9,662	-1
Suppliers	1,422,620	1,457,005	1,488,457	31,452	2
Grants	-	-	-	-	-
Depreciation and amortisation	919,197	887,534	816,307	-71,227	-8
Finance cost	14,320	21,831	7,954	-13,877	-64
Write-down of assets and impairment of assets	195,855	195,715	116,613	-79,102	-40
Net losses from sale of assets	-	-	-	-	-
Other expenses	-	-	-	-	-
Total expenses	4,223,306	4,254,231	4,111,816	-142,415	-3
Income					
Revenue					
Goods and services	50,561	53,061	41,618	-11,443	-22
Other revenue	88	88	2,240	2,152	-
Total revenue	50,649	53,149	43,858	-9,291	-17
Gains					
Assets now recognised	120,998	109,616	75,507	-34,109	-31
Net gains from sale of assets	-	-	-	-	-
Other gains	-	-	1,223	1,223	-
Total gains	120,998	109,616	76,729	-32,887	-30
Total income	171,647	162,765	120,587	-42,178	-26
Program 1.2 Navy Capabilities	4,051,659	4,091,466	3,991,229	-100,237	-2

Notes

1. This table excludes Capital payments for Outcomes.
2. As published in the *Portfolio Budget Statements 2011-12* table 24.
3. As published in the *Portfolio Budget Statements 2012-13* table 25.

Program 1.3

Army Capabilities

The Army contributed to the achievement of the Government's Defence objectives through the provision of capabilities for land and special operations. The Army also provided forces for peacetime national tasks, including forces with a capability to enhance the national domestic security response to terrorist, chemical, biological, radiological or explosive incidents. The Army provided capabilities that centred on Special Forces, combined arms operations, army aviation, combat and logistic support. The Army also provided significant contributions to disaster relief operations through Defence Aid to the Civil Community tasks. The Army achieved its performance milestones in 2011-12 by balancing the requirements to support operations with the need to meet preparedness requirements and develop core capabilities.

In 2011-12, the Army's first priority was to continue to support forces and individuals deployed across a spectrum of operations at domestic, regional and global levels. Internationally, the Army has been engaged in operations in Afghanistan, Iraq, the broader Middle East, Egypt, Sudan, East Timor, and Solomon Islands; it has also provided support to elections in Papua New Guinea. The Army has also made significant contributions to the support and security of the Commonwealth Heads of Government Meeting and the President of the United States visit. Many of the soldiers serving on operations overseas have completed multiple tours. The Army also met the expectations of the Government in providing significant force elements in support of disaster relief operations in New South Wales, Queensland and Victoria from December 2011 to March 2012. This support included the emergency preservation of life as well as the provision of support that exceeded the capability of state government organisations. The Army force elements that deployed in support of the disaster relief operations provided vital first aid, aviation, engineering and logistics capabilities.

Program 1.3 Deliverables

Deliverable	Status 2011-12	Comment
(i) The Army will implement reform through the Adaptive Army framework, Army Continuous Modernisation Plan and the Army Plan while continuing preparation of force elements for operational commitments and contingencies.	✓✓	The Adaptive Army command and control structure has contributed to the Army's success in the conduct of operations, force generation and preparedness in 2011-12. The Army Plan and Plan BEERSHEBA also contribute strongly to reform within the Adaptive Army framework. Additionally the Army is currently evaluating the impact of the recent budget adjustments in relation to this deliverable.
(ii) Deliver Group-specific reform and savings to the SRP, without detriment to agreed levels of the Army's capability, including the revamping of the Army's governance, risk, budgeting and performance achievement management	✓✓✓	The Army remains committed to achieving its SRP targets across the Defence Financial Management Plan without impacting capability. The establishment of the Army Compliance and Assurance Agency aligns the Army's compliance and assurance framework in the Maintenance, Supply, Security, and Safety and Finance domains.
(iii) Develop the Rebalancing the Army and Reserve Plan	✓✓	A key component of Plan BEERSHEBA is the alignment of Army Reserve capabilities and the Army's regular combat Brigades within a common force generation model. Presently, the Army is engaged in the implementation of changes within the Army Reserve. Analysis and development of an implementation timeline to achieve 'like' Multi-Role Combat Brigades within the context of a unifying force generation model continues.

Deliverable	Status 2011-12	Comment
(iv) Undertake collective training to ensure force elements are prepared for deployment	✓✓	Deployable Force Elements were trained in accordance with the Army Force Generation Cycle and evaluated during various Mission Ready Exercises and Exercise HAMEL 2012.
(v) Improve the linkage between resource inputs and collective training outputs within the Army's force generation and preparation continuum	✓✓✓	The Army 36 month Force Generation Cycle remains linked to the annual Postings Planning Cycle. Brigade resources continue to be prioritised in accordance with the Force Generation Cycle and have better enabled the conduct of Exercise HAMEL for a second year.
(vi) Deliver a single training continuum that unifies the majority of Army's conventional individual and collective training, namely force generation	✓✓	The Army Training Continuum continues to support the operation of the Force Generation Cycle and synchronises the resources and timing of individual and collective training. Further development of the Army Training Continuum is ongoing. Additionally, Army is currently evaluating the impact of the recent budget adjustments in relation to this deliverable.
(vii) Conduct force generation and force preparation for Special Operations	✓✓✓	
(viii) In consultation with the Capability Development Group and the Defence Materiel Organisation (DMO), continue to develop the Army's combat capabilities through improvements in mobility, firepower and force protection	✓✓	The Army provided the Capability Manager input to the development of key land networking, force protection, firepower and mobility projects that achieved Government Approval in the financial year 2011-12. These were: Joint Project 2008 Phase 5B.1 (MILSATCOM – Transportable land Terminals); Joint Project 154 Phase 3A (Joint Counter Improvised Explosive Device - Project Ningau); and LAND 17 Phase 1B (Digital Terminal Control System).
(ix) The Army will introduce into service new capabilities that meet operational requirements.	✓✓	The Army, in conjunction with the DMO, deployed new F3 mine detectors, upgraded mine rollers, wire detection systems and remote positioning vehicles on operations. Improved vehicle mounted and individual Electronic Countermeasure suites were also deployed. Belly armour plates were delivered for the Australian Light Armoured Vehicle. The Protective Mobility Vehicle was also the subject of vehicle survivability design upgrades and Platt M550 weapon mounts. Communications and Information Systems were enhanced with the delivery of beyond line of sight communications systems and Blue Force Tracker. Individual and mounted GPS systems and infra-red illuminators were deployed to enhance battle tracking and precision targeting. High risk search training was also provided.
(x) Continue to contribute to domestic security operations	✓✓✓	
(xi) Maintain preparedness of the Army's capability as directed by the CDF	✓✓	

Program 1.3 Deliverables – Rate of Effort (Flying Hours (hrs))

Deliverable	Status 2011-12	Comment
6 CH-47 Chinook 2,000 hrs	✓✓	98 per cent (1,967.3 hrs achieved). The loss of aircraft A15-103 on 22 Jun 12 led to a small reduction in rate of effort.
34 S-70A9 Blackhawk 7,500 hrs	✓✓	96 per cent (7,187 hrs achieved). Underachievement was primarily due to two unscheduled flight suspensions in early 2012 and some hours held in contingency for operations not being flown.
41 B206 Kiowa 7,000 hrs	✓✓	95 per cent (6,680 hrs achieved). The primary cause of the underachievement was an extended period of poor weather in Sydney.
22 Armed Reconnaissance Helicopter (ARH) Tiger 6,075 hrs	✓	40 per cent (2,449 hrs achieved). The Tiger flying rate of effort continues to be lower than contracted due to a slowly developing maintenance support network. Unscheduled deeper maintenance and two flight suspensions further reduced aircraft availability. Defence continues to work with Australian Aerospace and other agencies to address these issues.
46 Multi-Role Helicopter (MRH-90) 2,000 hrs	✓	78 per cent (1,571 hrs achieved). MRH-90 continues to experience delays due to certification and technical issues, general reliability and the late return of repairable items. Defence is working with Australian Aerospace to address these issues. Delivery of airframes resumed in 2012.

Program 1.3 Key Performance Indicators

KPI	Status 2011-12	Comment
(i) Achieve levels of preparedness as directed by CDF	✓✓✓	The Army continues to meet this KPI.
(ii) Execute force generation and preparation in a manner that balances operational commitments and contingency planning	✓✓✓	This KPI has only existed since 2009-10. The Army has again met this KPI in 2011-12. The KPI is linked to deliverables (iv), (vii) and (xi).
(iii) Achieve a level of training that maintains core skills and professional standards across all outputs	✓✓	Forces Command achieved the Army Headquarters directed training requirements within tolerances. Some training courses were undersubscribed as a result of Defence Aid to the Civilian Community during disaster relief contributions.
(iv) Provide timely, accurate and considered advice on Army capabilities to the CDF, Secretary and the Government	✓✓	

Table 4.5: Cost Summary for Program 1.3 Army Capabilities^[1]

	2011-12 Budget Estimate ^[2] \$'000	2011-12 Revised Estimate ^[3] \$'000	2011-12 Actual Result \$'000	Variation \$'000	%
Expenses					
Employees	3,257,357	3,332,083	3,331,816	-267	-
Suppliers	1,249,172	1,197,371	1,387,358	189,987	16
Grants	80	80	71	-9	-11
Depreciation and amortisation	435,664	706,943	659,546	-47,397	-7
Finance cost	820	2,712	1,420	-1,292	-48
Write-down of assets and impairment of assets	148,943	136,319	146,935	10,616	8
Net losses from sale of assets ^[4]	-	-	-486	-486	-
Other expenses	-	-	-1,308	-1,308	-
Total expenses	5,092,036	5,375,508	5,525,353	149,845	3
Income					
Revenue					
Goods and services	67,930	67,930	59,931	-7,999	-12
Other revenue	15,637	-	227	227	-
Total revenue	83,567	67,930	60,158	-7,772	-11
Gains					
Assets now recognised	86,406	75,351	174,932	99,581	-
Net gains from sale of assets ^[5]	-4,751	-4,751	-	4,751	-
Other gains	-	-	-	-	-
Total gains	81,655	70,600	174,932	104,332	-
Total income	165,222	138,530	235,090	96,560	70
Program 1.3 Army Capabilities	4,926,814	5,236,978	5,290,262	53,284	1

Notes

1. This table excludes Capital payments for Outcomes.
2. As published in the *Portfolio Budget Statements 2011-12* table 28.
3. As published in the *Portfolio Budget Statements 2012-13* table 29.
4. At the portfolio level Defence has achieved a total net loss from sale of assets. Whilst amounts shown in the 2011-12 actual result represents a gain for this Program, the overall Portfolio outcome is a loss.
5. At the portfolio level Defence has budgeted for a total net gain from sale of assets. Whilst amounts shown in the budget estimate and revised estimate represent a loss for this Program, the overall Portfolio budgeted outcome is for a gain.

Program 1.4

Air Force Capabilities

The Air Force mission includes providing immediate and responsive military options through the key air power roles of control of the air including: precision strike; intelligence, surveillance and reconnaissance; and air mobility enabled by combat and operational support.

2011-12 was another busy period for the Air Force, with a high operational tempo, providing support to global and regional operations, notably Australian border protection operations. The AP-3C Orion detachment conducted 20,000 hours of missions in support of operations in the Middle East, in addition to 2,000 hours per annum in support of border protection operations.

The Air Force accepted the final four F/A-18F Super Hornets at RAAF Base Amberley with all 24 aircraft delivered on budget and ahead of schedule. The Air Force also accepted its 5th C-17A Globemaster in record time, taking just 142 days from signing the letter of offer and acceptance to arrival in Australia. The Minister for Defence announced the acquisition of a 6th C-17A and 10 new C-27J Spartan aircraft as a battlefield airlift capability for the Air Force to replace the now retired DHC-4 Caribou aircraft. These aircraft will allow the Air Force to sustain its high tempo, heavy and medium air lift tasking in Australia and overseas.

Program 1.4 Deliverables

Deliverable	Status 2011-12	Comment
(i) Prepare, sustain and lead assigned forces in operations to deliver air power to meet Government requirements	✓✓✓	The Air Force has met directed ongoing and short-notice commitments in Australia and overseas, including generating forces for humanitarian aid and disaster relief.
(ii) Provide air power options for Government to meet directed preparedness requirements while minimising resource expenditure	✓✓✓	The Air Force continued to efficiently raise, train and sustain its force elements and meet its preparedness requirements.
(iii) Be prepared for future credible contingencies by planning for the development of, monitoring progress in the delivery of, and transitioning to new capabilities to generate future air power	✓✓✓	The Air Force's progression of plans and activities to deliver the future force remained on track.
(iv) Provide accurate and timely advice to the CDF, Secretary and Government	✓✓✓	The Air Force continued to provide timely, accurate and high-quality advice across capability-related activities, ranging from operational reporting to capability management advice.
(v) Engage with Government, the public, international partners, Defence groups, industry, other stakeholders and Air Force members to maximise achievement of all outputs	✓✓✓	The Air Force continued to maintain robust relationships with established partners and developed new relationships with emerging partners. The Air Force continued to look for ways to develop new engagement opportunities cognisant of the changing operational and international environments.

Deliverable	Status 2011-12	Comment
(vi) Deliver reform (and cost-conscious culture) and savings without compromising capability, safety or airworthiness	✓✓	Air Force's continued implementation of enduring reform, in partnership with the DMO and Defence industry, enabled it to deliver SRP savings while meeting operational tasking, preparedness, and safety/airworthiness requirements. Change programs supporting the development of cost-conscious behaviours across the Air Force continued. Full achievement was limited by cost increases in aircraft sustainment, which could not be fully offset by operating and maintenance efficiencies.

Program 1.4 Deliverables – Flying Hours (hrs)^[1]

Deliverable	Status 2011-12	Comment
64 PC-9 17,852 hrs	✓✓	93 per cent (16,546 hrs achieved). Underachievement was the result of reduced platform availability caused by reduced serviceability. Demanding maintenance inspection requirements, following the crash at East Sale, and ageing aircraft issues were the primary drivers. These issues also placed heavy demands on spare parts resulting in long delivery times to the flying units.
16 B300 King Air 350 11,400 hrs	✓✓	94 per cent (10,660 hrs achieved).
12 C-130H Hercules 3,200 hrs	✓✓✓	104 per cent (3,342 hrs achieved). Overachievement was primarily due to the underachievement of rate of effort for the C-130J.
12 C-130J Hercules 7,350 hrs	✓✓✓	97 per cent (7,106 hrs achieved). Underachievement was primarily due to unscheduled, deep level maintenance activities reducing the availability of airframes during the year.
4 C-17 Globemaster III 4,500 hrs	✓✓	85 per cent (3,844 hrs achieved). Underachievement was primarily due to calendar based deep level maintenance events conflicting with regular maintenance events during a three month period, which restricted online availability.
5 KC-30A 2,160 hrs	✓	30 per cent (641 hrs achieved). Underachievement was primarily due to continuing test and evaluation of aircraft roles and equipment.
2 B737 BBJ 1,600 hrs	✓✓✓	95 per cent (1,515 hrs achieved). Underachievement was primarily due to shorter sector duration VIP tasking.
3 CL604 Challenger 2,403 hrs	✓✓	86 per cent (2,074 hrs achieved). Underachievement was primarily due to shorter sector duration VIP tasking.
19 P-3 Orion 7,900 hrs	✓✓✓	103 per cent (8,128 hrs achieved). Overachievement was due to operational requirements, primarily Operation RESOLUTE.
6 B737 – Airborne Early Warning & Control Aircraft 2,600 hrs	✓✓	75 per cent (1,945 hrs achieved). Underachievement was due to less than planned aircraft and crew availability throughout the year.

Deliverable	Status 2011-12	Comment
71 F/A-18A/B Hornet 13,000 hrs	✓✓	88 per cent (11,395 hrs achieved). Underachievement contributors were reduced senior aircrew, supervisor availability, reduced Number 2 Operational Conversion Unit instructor manning, and low flying rates on exercises and operations.
24 F/A-18F Super Hornet 4,800 hrs	✓✓	89 per cent (4,274 hrs achieved). Underachievement contributors were capability introduction challenges, immaturity of logistic support system impacting spares availability and thus aircraft availability, lack of senior aircrew and supervisors.
33 Hawk Lead-in Fighter 7,000 hrs [7,500 hrs] ^[1]	✓✓✓	95 per cent (6,683 hrs achieved). Underachievement contributors include engine problems affecting aircraft availability and short-term reduction in student numbers.

Note

1. Where figures were updated in the *Portfolio Additional Estimates Statements 2011-12*, the *Portfolio Budget Statements 2011-12* estimate is shown in square brackets.

Program 1.4 Key Performance Indicators

KPI	Status 2011-12	Comment
(i) Achieve levels of preparedness as directed by the CDF for military response options within a warning time of less than 12 months	✓✓	This KPI is linked to deliverables (i) and (ii). The Air Force continues to meet this KPI overall. The few areas of reduced preparedness, and their associated mitigating strategies, are reported via the Defence Preparedness Management System.
(ii) Achieve a level of training that maintains core skills and professional standards across all outputs	✓✓	This KPI is linked to all deliverables. The Air Force continued to demonstrate high professional standards and maintain core skills across fundamental capabilities. In a few cases, current operational commitments have required some training to be emphasised at the expense of preparing for roles judged unlikely to be required in the near-term.
(iii) Meet operational requirements on time and within agreed resources	✓✓✓	This KPI is linked to deliverable (i). The Air Force has historically met this KPI.
(iv) Grow the cost-conscious culture	✓✓	This KPI is linked to deliverable (vi). Cost-conscious behaviours across all facets of Air Force operations are now clearly evident by noting the extent of development of enduring organisational reform. The Air Force recognises cultural change to a 'business as usual' cost-conscious culture basis will take time, but there is clear indication that the program's momentum continues.
(v) Execute force generation and preparation whilst maintaining a balance between operational commitments and contingency planning	✓✓✓	This KPI is linked to deliverables (i), (ii) and (iii) and was introduced in 2010-11. The Air Force has demonstrated its capacity to support existing operational commitments while responding to short-notice contingencies. This has been achieved by simultaneously supporting rotations of personnel and equipment for ongoing operations while generating forces for humanitarian aid and disaster relief.
(vi) Provide accurate and timely advice that meets CDF and Government requirements	✓✓✓	This KPI is linked to deliverable (iv). The Air Force has continued to meet this KPI.

Table 4.6: Cost Summary for Program 1.4 Air Force Capabilities^[1]

	2011-12 Budget Estimate ^[2] \$'000	2011-12 Revised Estimate ^[3] \$'000	2011-12 Actual Result \$'000	Variation \$'000	%
Expenses					
Employees	1,684,470	1,738,430	1,748,404	9,974	1
Suppliers	1,602,870	1,482,661	1,679,590	196,929	13
Grants	-	-	-	-	-
Depreciation and amortisation	745,124	1,118,981	984,044	-134,937	-12
Finance cost	3,281	8,676	6,002	-2,674	-31
Write-down of assets and impairment of assets	234,990	228,952	39,583	-189,369	-83
Net losses from sale of assets	-	-	47	47	-
Other expenses	-	-	656	656	-
Total expenses	4,270,735	4,577,700	4,458,327	-119,373	-3
Income					
Revenue					
Goods and services	121,226	95,549	90,012	-5,537	-6
Other revenue	-	-	33,560	33,560	-
Total revenue	121,226	95,549	123,572	28,023	29
Gains					
Assets now recognised	142,188	129,224	111,812	-17,412	-13
Net gains from sale of assets	-	-	-	-	-
Other gains	-	-	-	-	-
Total gains	142,188	129,224	111,812	-17,412	-13
Total income	263,414	224,773	235,384	10,611	5
Program 1.4 Air Force Capabilities	4,007,321	4,352,927	4,222,942	-129,985	-3

Notes

1. This table excludes Capital payments for Outcomes.
2. As published in the *Portfolio Budget Statements 2011-12* table 30.
3. As published in the *Portfolio Budget Statements 2012-13* table 31.

Program 1.5

Intelligence Capabilities

The Intelligence and Security (I&S) Group provided intelligence capabilities that directly assisted Defence and Government leaders to interpret and anticipate complex issues and provided vital inputs to strategic and operational decision making areas across ADF operations, strategic policy and capability development activities. The Group comprised the Defence Security Authority (DSA), which is responsible for supporting Defence to protect its business from unacceptable security risk, and the three Defence Intelligence Agencies, responsible for supporting Defence and Government decision-making and assisting with the planning and conduct of ADF operations. This was achieved by the provision of all-source intelligence analysis by the Defence Intelligence Organisation (DIO), geospatial intelligence by the Defence Imagery and Geospatial Organisation (DIGO), and foreign signals intelligence by the Defence Signals Directorate (DSD). DSD is also the national authority on information, communications and computer security.

Program 1.5 Deliverables

Deliverable	Status 2011-12	Comment
(i) Provide timely, accurate and high quality intelligence and security support in accordance with Government priorities to support the ADF, policy and wider security operations	✓✓✓	<p>The I&S Group continued to provided timely, accurate and high quality intelligence and security support to meet the Government's priorities in supporting the ADF and wider security operations. During 2011-12, the I&S Group supported ADF and allied operations, principally in Afghanistan, East Timor and Solomon Islands.</p> <p>Civilian intelligence personnel were deployed in-theatre supported by teams in the three intelligence agencies operating 24 hours a day 7 days a week and providing near real time support to deployed forces.</p> <p>The Australian Government Security Vetting Agency (AGSVA) provided security support for the Government and ADF through the provision of security clearances. However, the reform program currently being undertaken by the AGSVA is affecting throughput capability.</p>
(ii) Deliver enhanced capabilities to better exploit next generation technologies, improve intelligence assessment, and enhance the security of the Government's information	✓✓✓	<p>The Cyber Security Operations Centre (CSOC), hosted in DSD, has continued to provide substantial improvements in Defence's cyber capability. The CSOC has further increased its intrusion detection and threat assessment capabilities and has improved its capacity to respond to incidents affecting systems of national importance. DIGO has improved its support to Defence operations through the expansion of web services, increasing accessibility of geospatial intelligence on Defence systems.</p>

Deliverable	Status 2011-12	Comment
(iii) Provide advice and assistance to the Government on the security and integrity of electronic information, cryptography and communications technology	✓✓✓	In 2011-12, DSD continued to work closely with wider Defence and other government agencies to ensure Australia is well protected against new emerging cyber threats. This included: producing and disseminating threat assessments and information security alerts; hosting information security workshops and forums to discuss significant and emerging information security issues with government IT security practitioners; redeveloping the Australian Government Information Security Manual to provide more information on cyber threats to senior decision makers; and conducting vulnerability assessments on Government assets.
(iv) Meet the AGSVA's key performance results as specified in the Agency's Service Level Charter	✓	The AGSVA met three of the four KPIs specified in the AGSVA Service Level Charter. It failed to meet KPI 1 – Meet Clearance Benchmarks in 95 per cent of cases, largely due to the resources being diverted to implement the AGSVA's significant reform agenda and remediation work in response to the Inspector General of Intelligence and Security recommendations.
(v) Ensure the effectiveness of the intelligence and security governance and compliance framework	✓✓✓	The I&S Group has continued to place significant emphasis on ensuring its activities are compliant with the <i>Intelligence Services Act 2001</i> and other relevant legislation. This was achieved through mandatory and comprehensive compliance training, oversight of compliance related activities and regular liaison with the Office of the Inspector-General of Intelligence and Security. The DSA managed the Security Compliance Program and Security Performance Reviews to ensure Defence meets security compliance standards.
(vi) Strengthen the workforce through targeted recruitment, retention and training initiatives	✓✓	The I&S Group sustained a consolidated approach to human resource management, implementing Group wide recruitment, retention and training initiatives and processes, enhancing the provision of targeted human resource strategies to address specialist capabilities and requirements. Since October 2010, DSD has been running a targeted recruitment campaign to attract exceptional technical people to meet the <i>Defence White Paper 2009</i> directive. DSD established an unclassified facility in February 2012 to complement its strategic recruitment program. The launch of the DSD Information Security Hub enabled the organisation to undertake its community outreach program and conduct specialised training to help secure DSD's long term recruitment needs. This new facility also helped retain candidates by allowing them to commence critical unclassified information security work while waiting for their security clearance.
(vii) Ensure effective and efficient transfer of expertise, capabilities and intelligence across key international partnerships, and strengthen collaboration with national agencies	✓✓✓	The I&S Group maintained its strong and effective relationships with its international intelligence and security partners, which were facilitated through engagement, cooperation, forums and formal agreements.

Deliverable	Status 2011-12	Comment
(viii) Contribute to SRP outcomes	✓✓✓	The SRP Intelligence stream met its objectives and is assessed as being in the 'continuous improvement phase'.

Program 1.5 Key Performance Indicators

KPI	Status 2011-12	Comment
(i) Deliver intelligence and security services to meet Defence and Government requirements	✓✓✓	This KPI is supported by deliverable (i). I&S has consistently met this KPI.
(ii) Develop next generation intelligence, geospatial and security capabilities	✓✓✓	This KPI is supported by deliverable (ii). I&S has consistently met this KPI.
(iii) Strengthen the approach to security across Defence and Government	✓✓✓	This KPI is supported by deliverable (i), (iii), (v) and (vii). I&S has consistently met this KPI.
(iv) Achieve best practice in governance and compliance	✓✓✓	This KPI is supported by deliverables (i), (v) and (vii). I&S has consistently met this KPI. Security compliance performance has increased over recent years due to improved security governance arrangements developed by the DSA.
(v) Ensure that the intelligence and security workforce is developed and skilled	✓✓✓	This KPI is supported by deliverable (viii). I&S has consistently met this KPI.
(vi) Deliver capability dividends through international partnerships	✓✓✓	This KPI is supported by deliverables (vii). I&S has consistently met this KPI.

Table 4.7: Cost Summary for Program 1.5 Intelligence Capabilities^[1]

	2011-12 Budget Estimate ^[2] \$'000	2011-12 Revised Estimate ^[3] \$'000	2011-12 Actual Result \$'000	Variation \$'000	%
Expenses					
Employees	253,962	258,609	257,814	-795	-
Suppliers	252,188	229,562	217,557	-12,005	-5
Grants	-	-	-	-	-
Depreciation and amortisation	34,975	44,946	73,010	28,064	62
Finance cost	-	-	-	-	-
Write-down of assets and impairment of assets	5,358	3,477	5,609	2,132	61
Net losses from sale of assets	-	-	-	-	-
Other expenses	-	-	-	-	-
Total expenses	546,483	536,594	553,990	17,396	3
Income					
Revenue					
Goods and services	11,490	11,490	8,283	-3,207	-28
Other revenue	-	-	-	-	-
Total revenue	11,490	11,490	8,283	-3,207	-28
Gains					
Assets now recognised	4,343	2,395	2,185	-210	-9
Net gains from sale of assets	-	-	-	-	-
Other gains	-	-	-	-	-
Total gains	4,343	2,395	2,185	-210	-9
Total income	15,833	13,885	10,468	-3,417	-25
Program 1.5 Intelligence Capabilities	530,650	522,709	543,522	20,813	4

Notes

1. This table excludes Capital payments for Outcomes.
2. As published in the *Portfolio Budget Statements 2011-12* table 32.
3. As published in the *Portfolio Budget Statements 2012-13* table 33.

Chief Operating Officer Organisation

The COO organisation comprises the Defence Support Group, Chief Information Officer Group, and Defence People Group. It also comprises Head Defence Legal, the Strategic Reform Management Office, and Ministerial and Executive Coordination and Communication Division.

The COO is responsible for implementing shared services reform, achieving cost efficiencies and driving cultural change across Defence. The integration of these functions under the COO helps ensure a consistent approach to organisational reform across Defence, and provides greater accountability and transparency for delivering key strategic reform priorities.

The following deliverables and KPIs were assumed by the COO organisation upon its establishment and are the responsibility of the Strategic Reform Management Office and Ministerial and Executive Coordination and Communication (previously reported under Program 1.1 – OSCDF), and Head Defence Legal (previously reported under Program 1.6 – Defence Support).

Chief Operating Officer Deliverables

Deliverable	Status 2011-12	Comment
(i) Oversee, integrate and coordinate the SRP	✓✓✓	The Strategic Reform and Governance Executive successfully provided a central oversight, integration and coordination function for the SRP.
(ii) Ensure Defence input to Cabinet and the National Security Committee of Cabinet is timely, relevant and appropriately robust	✓✓✓	In 2011-12, Defence submitted 95 submissions, memoranda and briefings to Cabinet and/or the National Security Committee of Cabinet for decision and noting. The range of submissions included items on: Capability (32); Policy, Strategy and Reform (33); Finance (4), Intel and Security (10); and Military operations (16). This is a 41 per cent increase on the number of items provided in 2010-11.
(iii) Ensure policy advice provided to the Government is accurate, timely and responsive, and offers practical and cost-effective approaches to fulfil the Government's defence responsibilities	✓✓	Defence remains focused on improving its performance in meeting deadlines. As the complexity and volume of advice continues to grow, Defence has strengthened its quality assurance process to ensure advice is more accurate and responsive.
(vi) Promote and protect Defence's reputation by increasing public awareness of Defence activities and achievements	✓✓✓	In 2011-12, Defence coordinated responses to 5,965 media enquiries, managed 3,578 public enquiries, issued 1,191 media releases and alerts, published 25,442 images and 685 video web clips online for media and public use, and distributed over 1.15 million copies of the Service newspapers and 72,000 copies of the Defence magazine.
(vi) Strengthen Defence capabilities to support engagement in media-related activities	✓✓	Advances have been made in strengthening media engagement through the delivery of a writing and media awareness course designed to assist staff in better preparing responses to media enquiries and in drafting media releases and other written public affairs material. Steps have also been taken to improve the quality and timeliness of media responses, which will continue in 2012-13.

Deliverable	Status 2011-12	Comment
(vi) Provision of specialist legal support to Defence and legal support for ADF operations	✓✓✓	During 2011-12, ADF legal officers provided legal advice, services and assistance in the Middle East, East Timor and Solomon Islands, as well as to other domestic, regional and minor ADF operations and exercises. This included the provision of advice and support to commanders on a range of international and domestic legal issues that affected the conduct of operations and exercises. Within Australia, the legal support provided included advocacy services for members, assistance in administrative inquiries, complaint handling and the proper and lawful functioning of the ADF discipline system.
(vii) Formulate concept, policy, legislation and procedure for the Defence legislative program, including a new Chapter III military court	✓✓✓	Defence, in partnership with the Attorney-General's Department, developed the Military Court of Australia Bill 2012 and the Military Court of Australia (Transitional Provisions and Consequential Amendments) Bill 2012 ('the Bills'). In developing the Bills, Defence and the Attorney-General's Department consulted with key stakeholders such as the Law Council of Australia, the Returned and Services League of Australia and the Australia Defence Association. The Bills were introduced into Parliament by the Attorney-General during the 2012 winter sitting.
(x) Continue implementation of the reforms to the Military Justice System	✓✓✓	On 21 June 2012, the Military Court of Australia Bill 2012 was introduced in the Parliament. The legislation will establish the Military Court of Australia under Chapter III of the Constitution to provide a permanent and constitutionally sound system of military justice for Australia's defence forces. The new Court will provide a modern system dedicated to trying serious service offences and will ensure independent and transparent military justice for service personnel on a long-term basis. A number of reviews that have implications for the military justice system reported throughout the year, including the Part Three Report of the <i>HMAS Success</i> Commission of Inquiry and the <i>Pathway to Change</i> strategy. On 8 November 2011, the Secretary and CDF appointed Head Defence Legal, Chief Audit Executive and Head People Capability to conduct a review of inquiry, investigation, review and audit systems, structures and processes in Defence. This project is not limited to military justice, but a number of aspects of the military justice system will be considered, including investigation of disciplinary matters, the redress of grievance system, and the operation of administrative inquiries. Relevant recommendations from recent reviews will be considered as part of this process to ensure that they are implemented in a cohesive and holistic fashion.

Chief Operating Officer Key Performance Indicators

KPI	Status 2011-12	Comment
(i) The Ministers are satisfied with the timeliness and quality of advice, including Cabinet documentation, provided by the department.	✓✓	Defence works to improve its processes to meet this KPI, which is linked to deliverables (iv) and (v). A total of 13,290 items of advice and correspondence were completed in 2011-12, which is 1,941 more items than in 2010-11. Timely responses to requests from Ministers were provided 89 per cent of the time in 2011-12, which is a slight improvement from 2010-11.
(ii) Support ADF operational capability, including through the deployment of ADF lawyers to provide access to relevant and timely legal support	✓✓✓	In 2011-12, the overall level of legal support within the deployed environment remained relatively constant.

Table 4.8: Cost Summary for Chief Operating Officer^{[1] [2]}

	2011-12 Budget Estimate \$'000	2011-12 Revised Estimate ^[3] \$'000	2011-12 Actual Result \$'000	Variation \$'000	%
Expenses					
Employees	1,192,613	1,248,104	1,272,991	24,887	2
Suppliers	2,621,121	3,089,251	3,039,761	-49,490	-2
Grants	1,440	9,428	9,171	-257	-3
Depreciation and amortisation	952,343	981,200	1,013,741	32,541	3
Finance cost	73,461	56,737	85,168	28,431	50
Write-down of assets and impairment of assets	81,779	65,198	82,134	16,936	26
Net losses from sale of assets	-	-	14,735	14,735	-
Other expenses	6,909	75,061	84,228	9,167	12
Total expenses	4,929,666	5,524,979	5,601,929	76,950	1
Income					
Revenues					
Goods and services	269,657	262,262	272,004	9,742	4
Other revenue	6,373	6,573	20,519	13,946	-
Total revenue	276,030	268,835	292,523	23,688	9
Gains					
Assets now recognised	11,326	9,820	5,524	-4,296	-44
Net gains from sale of assets	7,333	8,240	-	-8,240	-
Other gains	-	-	78,515	78,515	-
Total gains	18,659	18,060	84,038	65,978	-
Total income	294,689	286,895	376,561	89,666	31
Chief Operating Officer	4,634,977	5,238,084	5,225,368	-12,716	-

Notes

1. The newly created COO Organisation comprises Programs 1.6 Defence Support, 1.8 Chief Information Officer and 1.13 Defence People Group.
2. This table excludes Capital payments for Outcomes.
3. As published in the *Portfolio Budget Statements 2012-13* table 34.

Program 1.6

Chief Operating Officer – Defence Support

The Defence Support Group (DSG) is a multi-faceted business that brings together most of Defence's shared service responsibilities that support the ADF and other Defence customers. The Group is a fundamental part of Defence capability.

DSG supports Defence through the provision of a range of products and services including: housing; a range of personnel support functions; business services; base support services including catering, accommodation, cleaning and grounds maintenance; and managing, developing and sustaining the Defence estate, including the Major Capital Facilities Program.

Program 1.6 Deliverables

Deliverable	Status 2011-12	Comment
(i) Provision of timely, accurate and high quality advice on Defence Support matters to the CDF, the Secretary and the Government	✓✓✓	Defence Support Group remains responsive to the information needs of the Government. The provision of timely, accurate and high quality advice to the Secretary, CDF and Government was achieved.
(ii) Continue to drive DSG reform as part of the broader Defence Strategic Reform Program (SRP) including leading the non-equipment procurement and estate streams of reform and contributing to the shared services reform stream	✓✓	<p>DSG reform has made some progress, however the Non-Equipment Procurement stream did not meet its savings target for the financial year 2011-12. This was primarily due to an overachievement in building maintenance, due to bringing works forward on an opportunity basis. There are some concerns around the ability to meet future years' achievement, mainly due to affordability issues for base services.</p> <p>Work continues on developing the Garrison Estate Management System to support reform. DSG made good progress in workforce shared services reform, with reforms continuing in the payroll and personnel administration, whilst consolidation of regional support activities continues.</p> <p>Key estate reform initiatives have been delivered and the estate stream is moving into the continuous improvement phase.</p>
(iii) Development and delivery of the 2011-12 Major Capital Facilities Program within scope and budget as outlined in the following tables	✓✓✓	The 2011-12 Major Capital Facilities Program achieved its expenditure target, successfully delivering \$996.7 million of capital facilities projects within scope and budget. This was \$4.9 million or 0.5 per cent below the revised estimate. A variety of weather and site related issues and financial difficulties facing the construction industry resulted in revised expenditure for some projects.

Deliverable	Status 2011-12	Comment
(iv) Provision of facilities, housing and other DSG support services to support the Enhanced Land Force (ELF)	✓✓✓	<p>ELF Stage 1 remains within budget, with the majority of the works now completed across multiple sites. The project is on track for completion in early 2014.</p> <p>Gallipoli Barracks (Enoggera) works are well into delivery with many of the priority scope elements completed. The project is currently within budget and contracted elements under construction are all on schedule. Completion of construction remains planned for late 2015.</p> <p>Additional housing has been provided to meet the increased requirement for Townsville and Adelaide in support of the Enhanced Land Force initiative.</p>
(v) Development of environmental policies and strategies in accordance with Defence's obligations towards the Environment Protection and Biodiversity Conservation Act 1999 and other environmental policies	✓✓✓	<p>Defence continued to meet its <i>Environmental Strategic Plan 2010-2014</i> commitments and its obligations under the <i>Environment Protection and Biodiversity Conservation Act 1999</i> and other Commonwealth environment legislation and policies.</p> <p>Major achievements for the year have included: the completion of 14 Environmental Impact Assessments, Environmental Management Systems harmonisation, the development of pollution prevention policies, and revised guidance documents for bushfire Management.</p> <p>Further information on Defence's Environmental Performance can be found in Appendix 6 Environmental Management.</p>
(vi) Management of Defence's property leasing, acquisition and disposal programs	✓✓✓	<p>In 2011-12, Defence sold the surplus Ingleburn property for gross revenue of approximately \$62.5 million (excluding GST).</p> <p>In 2011-12, Defence held 770 revenue licences (on-base), which generated \$6.8 million in revenue and 468 domestic and 205 overseas expenditure leases (off-base) that cost \$168 million.</p> <p>Defence is progressing with the acquisition of land adjacent to Cultana Training Area. All four Indigenous groups, the Commonwealth Attorney General and the South Australian State Government have authorised the Indigenous Land Use Agreement. Pending final negotiations, Defence expects that the Indigenous Land Use Agreement will be signed by late 2012.</p>
(vii) Development of options for changes to the estate over a 25-30 year period through a comprehensive review of the Defence estate	✓	<p>The comprehensive review of the Defence estate is currently being revised and finalised to take into account the outcomes of the <i>ADF Posture Review</i> and any emerging strategic guidance. This work is part of the Future Defence Estate Project and will inform the <i>Defence White Paper 2013</i>.</p>

Deliverable	Status 2011-12	Comment
(viii) Provision of, through the centre of excellence, non-equipment procurement and contracting advice and support, and continuation of the improvement of procurement practices across Defence	✓✓✓	<p>DSG continues to manage the transition to a procurement shared service arrangement for Defence. This remains on track and is scheduled to be completed by 2014-15. In 2011-12, DSG:</p> <ul style="list-style-type: none"> • processed 108 requests for endorsement of procurement activities each with a total contract value in excess of \$1 million • provided 634 responses to requests for procurement advice • undertook category management for selected procurement categories to develop initiatives to achieve efficiencies. <p>In accordance with Joint Directive 26/2011 and the Procurement Assurance Framework, DSG conducted Procurement Assurance Reviews for complex procurement activities based on either their value (>\$10 million), impact on capability, risk sensitivity and/or potential to cause damage to Defence's reputation.</p>
(ix) Provision of garrison and other base support services to support Defence bases and establishments throughout Australia	✓✓	<p>In 2011-12, DSG continued to achieve greater efficiencies and effectiveness in managing its current contracts and in preparing for the re-tendering of its services. For current contracts revised governance performance validation and contract processes were implemented.</p> <p>In preparing to re-tender its services, DSG undertook significant consultation with the industry and across Defence to confirm that the requirements support capability contribute to reforms under the SRP and achieve value for money.</p> <p>DSG is re-tendering its Australian domestic requirements. The new contracts are expected to be implemented between July 2013 and the end of 2014.</p>
(x) Provision of nationally delivered whole-of-Defence corporate services, including accounts processing and travel	✓✓✓	<p>In 2011-12, DSG processed:</p> <ul style="list-style-type: none"> • 250,000 invoices (an increase of 50,000 in 2010-11) • 53,000 non payroll Defence debts (a reduction in debts over 2011-12) • 1.8 million Corporate Credit Cards transactions • 60,000 publishing and related. <p>As part of building a Finance Shared Service, accounts payable, accounts receivable, and corporate credit card transaction processing has transferred to the Chief Finance Officer Group for 2012-13. In 2011-12, the second phase of the whole-of-Australian-Government (WoAG) travel arrangements were finalised. Following competitive tender processes, a WoAG accommodation program manager, a panel for rental car providers and provider of travel cards have been appointed. The WoAG arrangements will contribute to SRP savings. Army Personnel Administration Centres (APACs) are on schedule with APACs in Darwin and Canberra and are fully functional.</p>

Deliverable	Status 2011-12	Comment
(xi) Establishment of business centres for simple procurement purchasing services and accounts receivable and the transition of accounts processing work from Groups/Services	✓✓✓	DSG established the simple procurement purchasing services and accounts receivable centres on 1 February 2011 and the transition of accounts processing work from Groups/Services to: Invoice Scanning and Imaging Systems and Accounts Receivable is on track for completion in 2012-13 Simple Procurement Purchasing Services is on track for completion of the majority of transition in 2012-13.
(xii) Implementation of key pay structures and other military pay reforms in accordance with policy and business requirements, including rectifying current deficiencies in the ADF payroll system, and accelerating the introduction of an improved pay system in support of the ADF Payroll Remediation Task Force	✓✓✓	Defence continued to deploy Payroll Inspection Teams (PITs) to provide assurance of payroll processing for Operation SLIPPER in Afghanistan and other smaller operations. Through 2011-12, there have been significant improvements in administering the International Campaign Allowance.
(xiii) Continue development of enhanced support to Defence families through development of a national service delivery model	✓✓✓	The Defence Community Organisation continued development of its national service delivery model, launching a centralised intake capability that provides a 24 hour a day, 7 day a week single point of contact for Defence families. The DCO also expanded its suite of FamilySMART group programs. FamilySMART fosters resilience among Defence families to help them deal with the challenges of the ADF lifestyle.
(xiv) Administration of the Defence Home Ownership Assistance Scheme	✓✓✓	The Department of Veterans' Affairs (DVA) is engaged under a Memorandum of Understanding as the Scheme Administrator. The DVA continued to meet their contract performance targets during the financial year. Interest in the scheme continues to be high during the financial year with a total of 6,472 applications received by the DVA and 6,204 Defence Home Ownership Assistance Scheme subsidy certificates issued to eligible ADF personnel.
(xv) Continue implementation of the Base Accountabilities Model across all Defence bases to provide a clear separation of responsibility for base management and support services from responsibility for capability	✓✓✓	All bases have implemented base accountabilities, which clearly separates base support from capability delivery.

Deliverable	Status 2011-12	Comment
(xvi) Implementation of DSG elements of the Base Security Improvement Program (BSIP)	✓✓	The BSIP has completed 30 of 33 recommendations from the <i>Review of Defence Protective Security Arrangements</i> . One recommendation relating to employment of subject matter experts in security at bases is expected to be completed early in 2012-13. The final two recommendations are well advanced. They are linked to longer term projects for the design and delivery of security related infrastructure works, and the development and delivery of a search and inspection regime in accordance with recently introduced legislation. All are on track for closure at the end of 2012.

Program 1.6 Key Performance Indicators

KPI	Status 2011-12	Comment
(i) Improve business outcomes as part of broader Defence reform, including ongoing implementation of the revised responsibilities and accountabilities for base support	✓✓✓	Consistency and efficiency of service delivery continued to improve as DSG consolidated transactional processing as part of shared services reform under the SRP. All bases have implemented base accountabilities, which clearly separates base support from capability delivery.
(ii) Deliver products and services on time and within budget to support the development and delivery of Defence capability	✓✓✓	Delivering products and services on time and within budget remained a priority in 2011-12. A whole-of-DSG product costing capability is being developed. This will increase visibility and transparency of DSG support costs and facilitate the development and implementation of SRP non-equipment procurement (NEP) reforms and savings, as well as support the maturing of the base accountabilities model. In preparation for the base services re-tender, DSG is reviewing the requirements for its products and services.
(iii) Develop industry engagement and collaborative relationships to ensure the effective and efficient delivery of products and services	✓✓✓	<p>DSG manages defence industry engagement and published the Defence NEP and Estate Industry Engagement Charter.</p> <p>DSG also engages with the industry through the CEO Breakfast program and facilitates the bi-annual Defence Procurement Conference with the next conference to be conducted in June 2013.</p>

KPI	Status 2011-12	Comment
(iv) Provide ADF members with high quality service residences, relocation and travel services using cost-effective contract arrangements	✓✓✓	<p>The purchaser-provider arrangement between Defence and Defence Housing Australia (DHA) has continued to provide quality housing to meet the operational needs of Defence.</p> <p>As at 30 June 2012, DHA had provided a total of 17,443 service residences for occupation by Defence personnel and their families.</p> <p>Toll Transitions is also contracted to provide relocation administration services and removal services for Defence personnel. During 2011-12, Toll Transitions received 24,505 applications for relocation and undertook 20,945 removals.</p> <p>Travel services for Defence continue to be transitioned to the new whole-of-Australian-Government arrangements, to deliver efficiencies and savings to the Government.</p> <p>This is also an SRP reform.</p>
(v) Manage, develop and sustain the Defence estate to meet Defence and Government requirements by developing and delivering major estate and environment programs on time, to budget and compliant with all appropriate regulatory requirements	✓✓✓	<p>DSG continues to deliver major estate programs of activity, including the Major Capital Facilities Program, the environment program, facilities lease program, and the property disposal program. Defence has continued to meet this KPI and continued to deliver these programs in 2011-12. The effectiveness of this KPI is linked to deliverables (iii) – (vii).</p> <p>Estate contracts have been amended to comply with the <i>Work Health and Safety Act 2011</i> (Commonwealth).</p>
(vi) Provide professional support services to ADF members and families, including delivery of family support programs and bereavement support in the situation of death and serious casualties	✓✓✓	<p>In 2011-12 DSG provided:</p> <ul style="list-style-type: none"> • bereavement support to the families of deceased ADF members • support to 3,559 ADF dependants recognised as having special needs • facilitation of Defence School Transition Aides in 133 primary schools and Defence Transition Mentors in 57 secondary schools around Australia • 1,149 long day care places per day at Defence Child Care Centres.

Table 4.9: Cost Summary for Program 1.6 Chief Operating Officer - Defence Support^{[1] [2]}

	2011-12 Budget Estimate ^[3] \$'000	2011-12 Revised Estimate ^[4] \$'000	2011-12 Actual Result \$'000	Variation \$'000	%
Expenses					
Employees	990,944	1,071,163	1,088,881	17,718	2
Suppliers	1,849,146	2,140,920	2,055,653	-85,267	-4
Grants	1,440	1,428	1,171	-257	-18
Depreciation and amortisation	822,400	846,702	852,412	5,710	1
Finance cost	69,554	52,830	74,859	22,029	42
Write-down of assets and impairment of assets	73,229	56,161	48,917	-7,244	-13
Net losses from sale of assets	-	-	13,744	13,744	-
Other expenses	6,909	75,061	84,224	9,163	12
Total expenses	3,813,622	4,244,265	4,219,860	-24,405	-1
Income					
Revenue					
Goods and services	266,702	259,187	271,728	12,541	5
Other revenue	6,373	6,573	19,870	13,297	-
Total revenue	273,075	265,760	291,598	25,838	10
Gains					
Assets now recognised	4,395	3,595	5,260	1,665	46
Net gains from sale of assets	7,333	8,240	-	-8,240	-
Other gains	-	-	78,515	78,515	-
Total gains	11,728	11,835	83,775	71,940	-
Total income	284,803	277,595	375,373	97,778	35
Program 1.6 Defence Support	3,528,819	3,966,670	3,844,487	-122,183	-3

Notes

1. Programs 1.6 Defence Support, 1.8 Chief Information Officer and 1.13 Defence People Group form the recently created Chief Operating Officer Organisation. These three Programs are presented together, however their Program numbers have not yet been reassigned in the Central Budget Management System and are therefore not in sequential order.
2. This table excludes Capital payments for Outcomes.
3. As published in the *Portfolio Budget Statements 2011-12* table 33.
4. As published in the *Portfolio Budget Statements 2012-13* table 35.

Program 1.8

Chief Operating Officer – Chief Information Officer

The Chief Information Officer Group (CIOG) provides Defence with dependable, secure and integrated information and communications technology (ICT) capabilities to support efficient and effective Defence operations, and the conduct of Defence business.

The Group continues to make significant contributions to the Defence-wide ICT Reform Program and after the first three years has achieved its aggregated savings target. CIOG also continues to be instrumental in improving ICT capability and efficiency for the whole department.

Program 1.8 Deliverables

Deliverable	Status 2011-12	Comment
(i) Provide ICT support to military operations: <ul style="list-style-type: none"> • support ADF preparedness through the provision of strategic planning and implementation of Communications and Information systems, and the management of Electromagnetic Spectrum and satellite usage • maintain support to ADF operations through the provision of agreed ICT support, the delivery of network defensive operations, and the maintenance of a disaster recovery capability • deliver the ICT elements of endorsed projects that directly support military operations 	✓✓✓	<p>CIOG supports ADF preparedness and planning and is a key contributor to the <i>Force Structure Review</i> to inform the new <i>Defence White Paper 2013</i>.</p> <p>CIOG has consistently provided strategic communications to all theatres of operation in Australia and overseas to the levels agreed with the Services and during planning with Joint Operations Command.</p> <p>CIOG has fully delivered the ICT elements of endorsed projects that directly support military operations, as well as the requirements to support military exercises, for example Talisman Sabre 2011.</p>
(ii) Enable the Raise-Train-Sustain, administration and business operations of Defence: <ul style="list-style-type: none"> • deliver ICT services in accordance with the Defence ICT Services Delivery Charter • manage Defence ICT under a centralised governance and strategy framework in accordance with the CIO's role as Coordinating Capability Manager for Defence ICT • maintain the integrity and security of the Defence Information Environment 	✓✓	<p>ICT Service Desks have been consolidated; IT Service Management Project continues to improve service management; and customer service has been recognised through an external award.</p> <p>CIOG is remediating core infrastructure components across three military establishments, reducing the risk of failure and outages. Asset management capability has been implemented, enabling a lower cost IT asset lifecycle, mitigating license and regulatory compliance risk and better aligning IT with corporate needs.</p> <p>CIOG continues to review and improve the integrity and security of the Defence Information Environment and develop a new comprehensive Single Information Environment Security Architecture. ICT security is subject to continuing and ongoing focus.</p>

Deliverable	Status 2011-12	Comment
<p>(iii) Lead and deliver ICT to the future force:</p> <ul style="list-style-type: none"> • progress the Integrated Defence Architecture • establish priorities and engagement strategies for ICT interoperability with allies and coalition partners through the management of the multinational engagement program • develop strategic partnerships with industry • deliver the ICT elements of endorsed projects in the Defence Capability Plan (DCP) 	✓✓✓	<p>The development of an end-to-end network architecture is on track.</p> <p>CIOG continues to lead Defence's engagement with allies and coalition partners regarding ICT interoperability. New capabilities are trialled as part of multinational exercises. Australia hosted and chaired the annual Combined Communications-Electronics Board meeting of Australia, United States, Canada, United Kingdom and New Zealand.</p> <p>CIOG, through the ICT SRP, is transforming Defence ICT through strategic partnering.</p> <p>CIOG continues its work on delivery of the ICT elements of endorsed DCP projects within agreed timelines. Projects closed this year include JP2064Ph2, JP2030Ph8 EVO1 and AIR 9000Ph4.</p>
<p>(iv) Lead and deliver the ICT components of the Strategic Reform Program:</p> <ul style="list-style-type: none"> • reform Defence ICT through establishing effective portfolio and program management; and driving change in support of ICT reform • develop improved project approval processes (Faster Time to Market) through the implementation of the whole-of-Government costing methodology and improved internal project approval processes • deliver the ICT elements of endorsed projects that support ICT and Defence reform 	✓✓	<p>Improvements to CIOG's project management framework include improved governance arrangements and enhanced project reporting and benefits analysis.</p> <p>CIOG is consulting with the Department of Finance and Deregulation to clarify and finalise the Defence ICT Two Pass and internal Defence ICT project approval processes.</p> <p>CIOG has commenced work to reform the ICT operational environment in preparation of the delivery of key ICT reform projects.</p> <p>Applications Managed Services Partnership Arrangement panel is in place and will deal with project surge capacity. ICT Service Charter Self Service portal has been rolled out.</p>
<p>(v) Lead and optimise Defence's ICT investment:</p> <ul style="list-style-type: none"> • rebalance spending between investment and sustainment through the standardisation and consolidation of Defence ICT; and the sustainment of existing ICT capabilities in a fit for purpose state • align ICT solutions with strategic priorities 	✓✓	<p>Rebalancing of expenditure between investment and sustainment continues through the ICT SRP.</p> <p>CIOG is fully focussed in ensuring ICT investments align with the needs of Defence. The ICT SRP, Stakeholder Engagement Teams, improved governance and many other initiatives are all directed at ensuring alignment between ICT and Defence's strategic priorities.</p>

Program 1.8 Key Performance Indicators

KPI	Status 2011-12	Comment
(i) Deliver strategic communications support to military operations	✓✓✓	This KPI is linked to deliverable (i).
(ii) Align Defence ICT strategy and capability with Defence priorities	✓✓✓	This KPI is linked to deliverables (iii) and (v). CIOG has continued to meet this KPI.
(iii) The Integrated Defence Architecture regulates the planning, development and configuration of Defence's ICT capabilities	✓✓	This KPI is linked to deliverables (i), (ii) and (v). CIOG has historically met this KPI. Particular focus is on the development of a new comprehensive Single Information Environment Security Architecture, which will be a component of the Integrated Defence Architecture.
(iv) Strategic investment in consolidated networks, infrastructure, service orientated architecture, applications and information management enables transition to a Single Information Environment	✓✓	This KPI is linked to all the deliverables and is an ongoing activity that was articulated in the 2009 Defence ICT Strategy, ICT Strategic Reform and ongoing work to improve the efficiency and effectiveness of Defence ICT.
(v) Develop and sustain ICT capabilities in accordance with agreed stakeholder priorities	✓✓✓	This KPI is linked to deliverables (i), (ii), (iii) and (v). CIOG has continued to meet this KPI.
(vi) Improve assurance regarding the state of ICT security within Defence and enhance controls that improve ICT security outcomes	✓✓	This KPI is linked to deliverables (i) and (ii). CIOG has continued to meet this KPI. ICT security is subject to continuing and ongoing focus.
(vii) Deliver ICT services and service support in accordance with the Defence ICT Services Delivery Charter and the Defence ICT Services Catalogue	✓✓	This KPI is linked to deliverable (ii). Articulation of ICT services through the Charter and their delivery through a catalogue is an ongoing process of engagement with Defence, and refinement of service provision based on balancing requirements with funds and resourcing.
(viii) Build an improved Defence Information Environment governance framework that can effectively support ADF operations and Defence business reform objectives through to 2030	✓✓✓	This KPI is linked to all the deliverables and is an ongoing activity that is integral to the 2009 Defence ICT Strategy, ICT Strategic Reform and, ongoing work to improve CIOG's management and delivery of Defence ICT.

Table 4.10: Cost Summary for Program 1.8 Chief Operating Officer - Chief Information Officer^{[1] [2]}

	2011-12 Budget Estimate ^[3] \$'000	2011-12 Revised Estimate ^[4] \$'000	2011-12 Actual Result \$'000	Variation \$'000	%
Expenses					
Employees	113,844	122,538	128,270	5,732	5
Suppliers	533,669	704,208	743,262	39,054	6
Grants	-	-	-	-	-
Depreciation and amortisation	129,834	133,635	160,519	26,884	20
Finance cost	3,907	3,907	10,309	6,402	-
Write-down of assets and impairment of assets	8,550	9,037	33,130	24,093	-
Net losses from sale of assets	-	-	991	991	-
Other expenses	-	-	4	4	-
Total expenses	789,804	973,325	1,076,485	103,160	11
Income					
Revenue					
Goods and services	2,955	2,955	207	-2,748	-93
Other revenue	-	-	526	526	-
Total revenue	2,955	2,955	733	-2,222	-75
Gains					
Assets now recognised	6,931	6,225	236	-5,989	-96
Net gains from sale of assets	-	-	-	-	-
Other gains	-	-	-	-	-
Total gains	6,931	6,225	236	-5,989	-96
Total income	9,886	9,180	969	-8,211	-89
Program 1.8 Chief Information Officer	779,918	964,145	1,075,517	111,372	12

Notes

1. Programs 1.6 Defence Support, 1.8 Chief Information Officer and 1.13 Defence People Group form the recently created Chief Operating Officer Organisation. These three Programs are presented together, however their Program numbers have not yet been reassigned in the Central Budget Management System and are therefore not in sequential order.
2. This table excludes Capital payments for Outcomes.
3. As published in the *Portfolio Budget Statements 2011-12* table 40.
4. As published in the *Portfolio Budget Statements 2012-13* table 36.

Program 1.13

Chief Operating Officer - Defence People Group

On 30 May 2012, within the context of the COO Organisation, a new Defence People Group (DPG) was established. It brings together various people functions from across Defence to form a cohesive new organisation focusing on people strategy, policy and service delivery. The new Group includes most of the former People Strategies and Policy Group, as well as specific functions from the Defence Support Group and other areas in Defence. On 30 June 2012, DPG included the Office of the Deputy Secretary Defence People, People Capability Division, People Policy and Culture Division, People Solutions Division and People Systems Division. The Directorate of Honours and Awards joined DPG on 1 July 2012. Further transfers of the Defence Community Organisation and the People Services Branch from the Defence Support Group, and elements of other Groups as part of the human resources shared service, are planned for later in 2012-13.

DPG's two primary objectives in delivering Program 1.13 are to: deliver sustainable people capability to support the achievement of Defence's key outcomes as articulated in the *White Paper 2009*; and lead workforce and shared service reform in the human resources function across the organisation.

Program 1.13 Deliverables

Deliverables	Status 2011-12	Comment
(i) Provide timely, accurate and high quality advice on key People issues to the Secretary, the CDF and the Government	✓✓✓	The Government, Secretary and CDF have been provided with comprehensive briefings on Workforce and Shared Service Reform and the ongoing development and implementation of organisation-wide policies and priority activities to address attraction and recruitment, retention, remuneration and reward, people development, Work Health and Safety (WHS), leadership capability and the working environment.
(ii) Complete the projects and initiatives described in the Annual People Plan in order to deliver sustainable people capability through the development of: <ul style="list-style-type: none"> • an attractive and compelling employment offer • a work environment that delivers on its commitments to our People • an effective and efficient People system 	✓✓	<p>The majority of projects and initiatives described in the <i>Annual People Plan 2011-12</i> have been progressed or completed according to their planned schedules. Notable initiatives completed include:</p> <ul style="list-style-type: none"> • finalisation of the Defence Enterprise Collective Agreement 2012-2014 • completion of the ADF Workplace Remuneration Arrangement • development of an implementation plan for the removal of gender restrictions in the ADF • establishment of the Defence Learning Branch • successful implementation of new WHS requirements • release of the ADF Recruiting Strategic Plan • finalisation of a new ADF Recruiting Services contract • realignment of ADF strength to guidance • Defence's sponsorship of a Youth Development Framework.

Deliverables	Status 2011-12	Comment
(iii) Lead the implementation of Human Resource Workforce and Shared Services reform and savings across the organisation	✓✓	<p>2011-12 saw the Workforce and Shared Services reform stream deliver in-year savings of \$155.8 million. Monitoring through benefits realisation indicates that the links between reductions and sustainable reform have improved. The amount of the program now considered being managed through flexible budget management is under 10 per cent.</p> <p>The Human Resource Shared Services Program commenced its planning and design phase with a view to a three-year implementation period. This is currently being reworked to accommodate an accelerated implementation plan to maximise savings.</p>
(iv) Deliver Group-specific reform and savings	✓✓	This deliverable is ongoing and has interdependencies with deliverable (iii).
(v) Establishment of an Organisational Development Unit within DPG to coordinate single service, APS and Defence wide implementation of the Pathway to Change	✓✓✓	The Organisational Development Unit has been established and work continues to progress on implementing culture reform across Defence.

Program 1.13 Key Performance Indicators

KPI	Status 2011-12	Comment
(i) Advice to the Secretary, CDF and Government on People issues is timely and of a high quality	✓✓✓	The effectiveness of this KPI is linked to deliverable (i).
(ii) Projects and initiatives described in the Annual People Plan, which are aimed at delivering a sustainable People capability for Defence, are completed in a timely manner and achieve the desired outcomes	✓✓	<p>The effectiveness of this KPI is linked to deliverables (ii).</p> <p>The majority of projects and initiatives described in the <i>Annual People Plan 2011-12</i> have been progressed or completed according to their planned schedules.</p>
(iii) Human Resource Workforce and Shared Services reforms are achieved in a timely manner, and are effective in reducing costs and improving efficiency across Defence	✓✓	The effectiveness of this KPI is linked to deliverables (iii) and (iv). This activity has been assessed as substantially achieved as further savings are programmed in future years.
(iv) Culture reform is implemented across Defence	✓✓	The effectiveness of this KPI is linked to deliverable (v). Implementation of culture reform across Defence is a five-year program.
(v) Group specific outcomes and programs (including those related to Workforce and Shared Services reform) are achieved in a timely manner	✓✓	The effectiveness of this KPI is linked to deliverables (i), (ii), (iii), (iv) and (v). Most of the planned activities that contribute towards this KPI were met during this period.

Table 4.11: Cost Summary for Program 1.13 Chief Operating Officer - Defence People Group^{[1] [2]}

	2011-12 Budget Estimate ^[3] \$'000	2011-12 Revised Estimate ^[4] \$'000	2011-12 Actual Result \$'000	Variation \$'000	%
Expenses					
Employees	87,825	54,403	55,840	1,437	3
Suppliers	238,306	244,123	240,847	-3,276	-1
Grants	-	8,000	8,000	-	-
Depreciation and amortisation	109	863	810	-53	-6
Finance cost	-	-	-	-	-
Write-down of assets and impairment of assets	-	-	87	87	-
Net losses from sale of assets	-	-	-	-	-
Other expenses	-	-	-	-	-
Total expenses	326,240	307,389	305,583	-1,806	-1
Income					
Revenue					
Goods and services	-	120	69	-51	-43
Other revenue	-	-	123	123	-
Total revenue	-	120	192	72	60
Gains					
Assets now recognised	-	-	28	28	-
Net gains from sale of assets	-	-	-	-	-
Other gains	-	-	-	-	-
Total gains	-	-	28	28	-
Total income	-	120	219	99	83
Program 1.13 Defence People Group	326,240	307,269	305,364	-1,905	-1

Notes

1. Programs 1.6 Defence Support, 1.8 Chief Information Officer and 1.13 Defence People Group form the recently created Chief Operating Officer Organisation. These three Programs are presented together, however their Program numbers have not yet been reassigned in the Central Budget Management System and are therefore not in sequential order.
2. This table excludes Capital payments for Outcomes.
3. As published in the *Portfolio Budget Statements 2011-12* table 47.
4. As published in the *Portfolio Budget Statements 2012-13* table 37.

Program 1.7

Defence Science and Technology

The Defence Science and Technology Organisation's (DSTO) principal objective in delivering Program 1.7 is to provide expert, impartial science and technology (S&T) advice, and innovative solutions to Defence and Australia's national security agencies.

This is achieved by enhancing capability, reducing risk and saving resources through applied research focussed on support to military operations, the current force, capability development and acquisition.

DSTO also works to prepare Defence for the challenges of the future by developing our S&T capability in alignment with Defence's evolving technology requirements, including those arising from the challenges of emerging technologies.

In order to achieve its objectives, DSTO draws upon the scientific ability and reputation of its staff, world class research facilities, and extensive networks with external organisations such as international defence research agencies, industry and academia.

Program 1.7 Deliverables

Deliverable	Status 2011-12	Comment
(i) Provide timely, accurate and high-quality S&T advice on defence and national security related matters to the Secretary, CDF, and Government	✓✓✓	In 2011-12, DSTO continued to provide accurate, timely and high quality advice to the Secretary, CDF and Government, with all submissions made within agreed timeframes.
(ii) Provide effective, relevant and timely S&T solutions and technical support to military operations, to the current force and to non-Defence national security agencies	✓✓	<p>DSTO's Fly Away Teams deployed 19 times in 2011-12 in support of military operations in Afghanistan, East Timor and Solomon Islands. The teams provided S&T support for enhanced force protection and counter insurgency, and state-of-the-art technologies to protect soldiers from improvised explosive devices.</p> <p>DSTO also supported campaign assessments in Afghanistan, East Timor and Solomon Islands; operational intelligence, surveillance and reconnaissance technologies; and command, control and intelligence information management analysis.</p> <p>Australia's national security capability continued to be enhanced through non-Defence agencies having access to unique DSTO capabilities in intelligence exploitation, chemical-biological defence, and explosives and blast protection.</p> <p>In February 2012, DSTO also assumed responsibility for the whole-of-Government coordination of national security S&T and the management of collaborative national security S&T research agreements with international partners.</p> <p>The 'Substantially Achieved' rating for this deliverable is due to some lower priority deliverables being deferred (in consultation with Capability Managers) in order to support all high priority current force requirements.</p>

Deliverable	Status 2011-12	Comment
(iii) Provide effective, relevant and timely S&T support to capability development and acquisition decision making, including technical risk assessment and certification for Defence Capability Plan projects	✓✓✓	DSTO provided technical risk assessments and certification for all capability projects proceeding to Government for decision during 2011-12. Analysis and technical advice was also provided to inform key Defence Capability Plan decisions.
(iv) Deliver a program of enabling research aimed at enhancing future Defence capabilities and maintaining world-class research expertise and facilities	✓✓✓	<p>The DSTO Enabling Research Program aims to 'future proof' Defence by evolving DSTO's scientific knowledge and skills to meet Defence's current and future capability and operational needs. The program is adaptable so that promising technologies and innovative developments can be fast-tracked, and systems can be fielded at the earliest available opportunity. The program continues to foster interactions with and leverage from industry, academia, and Australian and overseas research bodies.</p> <p>Notable achievements in 2011-12 include:</p> <ul style="list-style-type: none"> • field trials to assess effectiveness of new camouflage concepts for soldiers (Integrated Force Protection Program) • installation of a research engine at HMAS Cerberus to support research on submarine engines (Signature, Materials and Energy Program) • the inclusion of next generation Over the Horizon Radar (OTHR) advanced concepts into the mid-life upgrade to Jindalee Operational Radar Network (OTHR program).
(v) Manage productive engagement with external organisations, in particular international partners, local industry and academia, via appropriate avenues including the management of the Capability and Technology Demonstrator Program	✓✓✓	<p>In 2011-12, DSTO increased its level of engagement with industry and academia, and further developed its active S&T programs with partner nations. Highlights for the year included signing an extension to the Centre of Expertise Agreement in Physical Employment Standards with the University of Wollongong; hosting the DSTO Symposium for Amphibious Capability and showcasing the DSTO display at the Pacific 2012 International Maritime Exposition; hosting the Technical Cooperation Program 2011 Principals Meeting; and signing a cooperation memorandum of arrangement with New Zealand's Defence Technology Agency.</p> <p>All demonstrations for both the Capability and Technology Demonstrator (CTD) Program and the CTD Extension Program were successfully completed on time and within budget.</p>
(vi) Contribute to SRP outcomes by:	✓✓✓	<p>DSTO has successfully delivered all S&T Stream reforms. This stream has formally ceased.</p> <p>DSTO's ongoing contribution to reform will be through improving DSTO's support and input to the Defence Capability Plan, strategic workforce planning and improved program reporting.</p> <p>DSTO continues to monitor the reforms delivered under the S&T Stream in order to identify and implement improvements.</p> <ul style="list-style-type: none"> • continuing to monitor and track Science and Technology Stream reforms implemented under SRP to ensure these reforms achieve their intended benefits • continuing to seek and implement improvements in the way DSTO does business

Deliverable	Status 2011-12	Comment
(vii) Continue to achieve reforms in other SRP streams including; ICT, Workforce and Shared Services, Capability Development and Non-Equipment Procurement, and understand how this impacts on DSTO	✓✓	DSTO continues to work closely with the other SRP streams to implement reform initiatives, including Workforce and Shared Services. DSTO continues to monitor the impact of other SRP stream reforms on S&T delivery.

Program 1.7 Key Performance Indicators

KPI	Status 2011-12	Comment
(i) Advice to Defence and the Government on S&T matters is of high quality.	✓✓✓	The effectiveness of this KPI is linked to deliverables (i), (ii) and (iii). DSTO has consistently met this KPI.
(ii) The applied research program is balanced in meeting the needs of Defence in support of operations, the current force, capability development and acquisition, and of non-Defence national security.	✓✓✓	The effectiveness of this KPI is linked to deliverables (ii) and (iii). DSTO has consistently met this KPI.
(iii) Group-specific S&T outputs and programs are delivered on time and within agreed resources.	✓✓	The effectiveness of this KPI is linked to all deliverables. This KPI has been rated as 'Substantially Achieved' in both 2009-10 and 2010-11.
(iv) Outputs of the research program can be identified as innovative solutions that can be used to enhance Defence capability, reduce risk and save resources.	✓✓✓	The effectiveness of this KPI is linked to deliverables (ii) and (iii). DSTO has consistently met this KPI.
(v) Enabling research is focussed on supporting future Defence capability.	✓✓✓	The effectiveness of this KPI is linked to deliverable (iv). In 2011-12, a deep and comprehensive technical review was undertaken of DSTO's Corporate Enabling Research Program initiatives by international and national subject matter experts. The reviews found the research to be highly innovative and cutting edge, with the potential to achieve significant break-throughs for future Defence capability. The reviews also identified areas of the program to strengthen and improve in order to maximise value to Defence.
(vi) DSTO's S&T capability is contributed to by: <ul style="list-style-type: none"> • a workforce with world-class expertise and facilities • highly leveraged S&T engagement with international defence research organisations, industry and academia 	✓✓✓	The effectiveness of this KPI is linked to deliverables (iv) and (v). The 2011-12 technical review of DSTO's Corporate Enabling Research Program initiatives found the program to be in many areas as world-leading and critical to the development of key research infrastructure for Defence, Australia, and overseas. This KPI was rated 'Substantially Achieved' in 2010-11; subsequently DSTO placed greater emphasis on external engagement.

Table 4.12: Cost Summary for Program 1.7 Defence Science and Technology^[1]

	2011-12 Budget Estimate ^[2] \$'000	2011-12 Revised Estimate ^[3] \$'000	2011-12 Actual Result \$'000	Variation \$'000	%
Expenses					
Employees	304,728	310,163	307,336	-2,827	-1
Suppliers	140,652	169,952	159,240	-10,712	-6
Grants	-	2,108	1,885	-223	-11
Depreciation and amortisation	19,054	22,303	22,559	256	1
Finance cost	-	-	-	-	-
Write-down of assets and impairment of assets	2,929	3,021	1,202	-1,819	-60
Net losses from sale of assets ^[4]	-	-	-61	-61	-
Other expenses	-	-	-	-	-
Total expenses	467,363	507,547	492,161	-15,386	-3
Income					
Revenue					
Goods and services	31,293	43,742	39,355	-4,387	-10
Other revenue	-	-	448	448	-
Total revenue	31,293	43,742	39,803	-3,939	-9
Gains					
Assets now recognised	2,375	2,081	1,966	-115	-6
Net gains from sale of assets	-	-	-	-	-
Other gains	-	-	-	-	-
Total gains	2,375	2,081	1,966	-115	-6
Total income	33,668	45,823	41,769	-4,054	-9
Program 1.7 Defence Science and Technology	433,695	461,724	450,392	-11,332	-2

Notes

1. This table excludes Capital payments for Outcomes.
2. As published in the *Portfolio Budget Statements 2011-12* table 39.
3. As published in the *Portfolio Budget Statements 2012-13* table 38.
4. At the portfolio level Defence has achieved a total net loss from sale of assets. Whilst amounts shown in the 2011-12 actual result represents a gain for this Program, the overall Portfolio outcome is a loss.

Program 1.9

Vice Chief of the Defence Force

The Vice Chief of the Defence Force (VCDF) Group's mission is to develop, deliver, enable and ensure Defence Joint Capability in order to protect and advance Australia's national and strategic interests. The Group enables Defence to meet its objectives through the provision of military strategic effects and commitments advice and planning, joint professional military education and training, logistics support, health support, ADF Cadet and Reserve policy, joint capability coordination, and joint and combined ADF doctrine.

In addition, the Group has responsibility for the Australian Civil-Military Centre, the Australian Defence Simulation Office, the ADF Parliamentary Program, the Federation Guard, ADF ceremonial activities and the ADF Investigative Service.

Program 1.9 Deliverables

Deliverable	Status 2011-12	Comment
(i) Provide military strategic advice and coordination that enables the Government to continuously review its national strategic interests	✓✓✓	All targets for 2011-12 were met or exceeded. VCDF Group consistently provided timely and accurate advice, which allowed the Government to support global operations and to provide effective support to natural disasters in New South Wales, Queensland and Victoria.
(ii) Manage the SRP deliverables outlined in the mandates for the reform streams under Logistics, Reserves, Preparedness, and Personnel and Operating Costs, and deliver agreed SRP savings and reforms within the VCDF Group.	✓✓	Logistics, Reserves, Preparedness, and Personnel and Operating Costs reform streams substantially achieved reforms against their implementation plans. Group workforce reductions were not achieved in total during the financial year. The expectation is that these savings will be achieved in the next financial year.
(iii) Deliver coordinated logistic advice and services to the ADF, and provide Defence Strategic J4 services	✓✓✓	Joint Logistics Command continued to provide support to operations and exercises through the introduction of a more robust contract management and performance reporting system and consolidating multiple contracts into a single prime contract, such as the Middle East Logistics and Base Support contract in support of Operation SLIPPER. Joint Logistics Command also provided logistics support to major Exercises HAMEL and PITCH BLACK.
(iv) Provide policy advice and services to optimise the health of ADF personnel	✓✓✓	Health reforms have enhanced the delivery of health services to support Defence capability.

Deliverable	Status 2011-12	Comment
(v) Enhance Defence, inter-agency and combined capability coordination	✓✓✓	The Joint Capability Coordination Division ensures the engagement and cooperation with other agencies and international partners to improve interoperability. Specific initiatives this year included undertaking a combined exercise with Canada and the United States known as the Coalition Attack Guidance Experiment; developing a Battle Laboratory that may become a prototype for the amphibious Joint Fires C2 capability; developing a business model to operationalise the department's Network-Centric Warfare aspirations in conjunction with the Capability Development Group and Chief Information Officer Group; and a series of integration trials leading to a better integrated Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance, and Electronic Warfare (C4ISREW) capability.
(vi) Manage Defence professional and vocational education and training	✓✓✓	The Australian Defence College contributes to a coherent career continuum of Defence professional education and training.
(vii) Enhance the capacity of Reserves to support Defence capability	✓✓✓	Between 1 July 2011 and 30 April 2012, 1,116 Reservists had deployed on operations in Australia and overseas. Enhanced support has been achieved through the establishment of Memorandums of Understanding with major employers of reservists including State emergency and police forces and Qantas and expansion of the Supportive Employer program.
(viii) Provide a coordinated, coherent and well-governed approach to Youth Development Programs for the Defence organisation in order to provide a positive youth development experience	✓✓	<p>The Youth Engagement and Development Policy Statement was signed by the Secretary and CDF in June 2012. This notable endorsement reinforces the significant role Defence plays in developing Australia's youth and heralds a new coordinated approach to Defence's efforts in this regard.</p> <p>The Policy Statement was developed by the Defence Youth Engagement and Development Network (now Defence Youth Network), which is a group of Defence youth program representatives. The Defence Youth Network is chaired and managed by Cadet, Reserve and Employer Support Division (CRESO) and jointly sponsored by the VCDF and Deputy Secretary Defence People Group.</p> <p>A Defence Youth Congress was held in May 2012.</p> <p>The Defence Work Experience and Engagement Program was consolidated under the control of CRESO in June 2012.</p> <p>A Defence Youth Policy is expected before the end of 2012 and the Defence Youth Portal and Youth Brand initiatives will be delivered in early 2013.</p>

Deliverable	Status 2011-12	Comment
(ix) Promote best-practice civil-military engagement through the Australian Civil-Military Centre	✓✓✓	The Australian Civil-Military Centre continued to support the development of best-practice national civil-military capacity to prevent, prepare for and respond more effectively to conflicts and disasters overseas. The Centre achieved this through conducting a number of key activities to share knowledge with civil-military practitioners in order to enhance individual and collective capabilities, including the Civil-Military Interaction Seminar and the Civil-Military Affairs Conference.

Program 1.9 Key Performance Indicators

KPI	Status 2011-12	Comment
(i) Ensure the ADF operational tempo is managed within concurrency constraints	✓✓✓	This KPI is linked to deliverable (i). This KPI has continued to be met.
(ii) Ensure Group-specific SRP reform and savings have been achieved	✓✓	This KPI is linked to deliverable (ii). Group specific SRP savings in the areas of travel, professional service providers and training continue to be achieved and remain effective. The total scheduled workforce reductions were not achieved.
(iii) Ensure ADF operations and exercises receive effective logistics support and services	✓✓✓	<p>This KPI links to VCDF deliverable (iii), and has continued to be met. VCDF Group, through Joint Logistics Command, has:</p> <ul style="list-style-type: none"> • co-ordinated responsive logistic support to ADF operations, major exercises and directed activities to enable mission success • co-ordinated effective and efficient logistic support to enable Services to meet their Raise, Train and Sustain functions.
(iv) Ensure ADF operations and exercises receive effective health support and services	✓✓	<p>This KPI is linked to deliverable (iv). Health support to operations continues to improve with emphasis on the agility of the support organisations to deliver required levels of support in a timely manner (lead by Joint Health Command). There is improved integration between the deployed and deployable force elements and key enablers (Joint Health Command/Joint Operations Command/Joint Logistics Command/Defence Materiel Organisation).</p> <p>Equipment modernisation has not been fully completed and is being actively managed by Joint Health Command as the Co-ordinating capability manager.</p>
(v) Enhance ADF joint and combined operational capability	✓✓✓	This KPI is linked to deliverable (v). The ADF continues to enhance joint capability across a broad range of domains. Two new initiatives this year included a review of interoperability with New Zealand and implementing a series of recommendations; and discussions with Singapore to undertake a similar interoperability review.

KPI	Status 2011-12	Comment
(vi) Ensure ADF personnel are suitably trained to operate in a joint and/or combined operational environment	✓✓✓	<p>Learning outcomes are clearly linked to Defence capability requirements.</p> <p>Future Defence capability requirements are anticipated and articulated covering both ADF and APS requirements.</p> <p>Australian Defence College's Learning Centres make systematic curricula changes in response to operational lessons and technological developments.</p>
(vii) Ensure planning and policy frameworks are developed to enhance the contribution of the Reserves to Defence and the wider community	✓✓✓	<p>New Employer Support Payment Scheme legislation was introduced, which tightens various eligibility provisions governing claimants' entitlements for employer support payments to ensure the scheme continues to provide value for money.</p> <p>CRESO Reserve Reform Stream has developed Plan SUAKIN, Defence's workforce reform model, which will enhance the range of opportunities in which all defence personnel, including reservists, can serve.</p> <p>CRESO hosted Supportive Employer awards throughout Australia, including a national award ceremony at the Australian War Memorial, to recognise employers who support reserve service and who have been nominated by their Reservist employee.</p> <p>The number of registered supportive employers of ADF Reservists increased from over 300 in 2011 to 557 by June 2012.</p>
(viii) Develop governance and accountability frameworks to enhance the youth development experience within the ADF Cadets	✓✓	<p>Revised legislation giving CDF (and, as his delegate, VCDF) authority to give direction to the Service cadet organisations was enacted in early 2012. Regulations and processes to support this legislation are now under development.</p> <p>Heeding the Black Review recommendation to improve general process efficiency and ensure that executive decisions were being made at the correct level, extant governance arrangements for the ADF Cadets were revised in early 2012. The Joint Cadet Operational Committee has been disbanded and the Joint Cadet Executive Committee expanded to include National Adult Cadet Staff Commanders, to reflect their command responsibilities and senior technical advisory role. The first meeting of the new Joint Cadet Executive Committee took place in July 2012.</p>
(ix) Ensure the Australian Civil-Military Centre delivers its goals effectively and efficiently in accordance with Government instructions	✓✓✓	The effectiveness of this KPI is linked to deliverable (ix).

KPI	Status 2011-12	Comment
(x) Ensure ADF investigations are supported by effective and efficient administration	✓✓✓	A dedicated team of civilian and military administrative staff have provided ADF Investigators high quality administrative support, which has enabled investigators to commit their efforts and resources solely to the thorough and prompt conduct of investigations. Over the past 12 months the support provided by administrative staff has seen significant reductions in the number of outstanding and open investigations. Staff shortfalls in the Service Police Central Records Office and the Service Police Intelligence Office has necessitated extensive overtime to ensure timely responses to information requests.
(xi) Deliver Group-specific outcomes and programs on time and within agreed resources	✓✓	This KPI is linked to deliverables (i) to (ix).

Table 4.13: Cost Summary for Program 1.9 Vice Chief of the Defence Force^[1]

	2011-12 Budget Estimate ^[2] \$'000	2011-12 Revised Estimate ^[3] \$'000	2011-12 Actual Result \$'000	Variation \$'000	%
Expenses					
Employees	458,181	444,756	464,884	20,128	5
Suppliers	569,544	612,673	825,957	213,284	35
Grants	-	-	14,403	14,403	-
Depreciation and amortisation	15,892	20,441	26,416	5,975	29
Finance cost	-	-	-	-	-
Write-down of assets and impairment of assets	247,487	274,429	340,159	65,730	24
Net losses from sale of assets ^[4]	-	-	-301	-301	-
Other expenses	-	-	-	-	-
Total expenses	1,291,104	1,352,299	1,671,518	319,219	24
Income					
Revenue					
Goods and services	292,525	169,978	185,118	15,140	9
Other revenue	50,432	-	-3,907	-3,907	-
Total revenue	342,957	169,978	181,211	11,233	7
Gains					
Assets now recognised	92,540	93,561	107,303	13,742	15
Net gains from sale of assets	-	-	-	-	-
Other gains	-	-	-	-	-
Total gains	92,540	93,561	107,303	13,742	15
Total income	435,497	263,539	288,513	24,974	9
Program 1.9 Vice Chief of the Defence Force	855,607	1,088,760	1,383,004	294,244	27

Notes

1. This table excludes Capital payments for Outcomes.
2. As published in the *Portfolio Budget Statements 2011-12* table 41.
3. As published in the *Portfolio Budget Statements 2012-13* table 39.
4. At the portfolio level Defence has achieved a total net loss from sale of assets. Whilst amounts shown in the 2011-12 actual result represents a gain for this Program, the overall Portfolio outcome is a loss.

Program 1.10

Joint Operations Command

The Chief of Joint Operations (CJOPS) commands Joint Operations Command (JOC), which supports him in the planning and conduct of military campaigns, operations, joint exercises, preparation of military options for contingencies and crisis management. CJOPS is responsible to the CDF for the effective conduct of military planning and is the CDF's principal adviser on operational matters.

JOC ensures safe and effective conduct of joint and combined exercises through planning, conduct, and evaluation of joint and combined exercises in accordance with the endorsed Program of Major Service Activities. In 2011-12, all major exercise commitments were met including the following joint/combined exercises.

Program 1.10 Joint and combined exercises 2011-12

Exercise	Objective
Combined ADF/Five Power Defence Arrangement (FPDA) Exercises	
SUMAN WARRIOR September 2011	Exercise SUMAN WARRIOR is a rotational annual FPDA Command Post Exercise (CPX) designed to exercise elements of the FPDA Armies in the command and control of combined Land war fighting operations at brigade level.
BERSAMA LIMA October 2011	Exercise BERSAMA LIMA is an FPDA multilateral exercise that rotates between the armed forces of Malaysia and Singapore as host and lead planner. It consists of a Field Training Exercise (FTX) and CPX held within the airspace of Malaysia and Singapore and adjacent waters to exercise FPDA Defence Forces in the conduct of joint/combined operations for the defence of Malaysia and Singapore.
BERSAMA SHIELD April 2012	Exercise BESRAMA SHIELD, lead by Headquarters Integrated Area Defence Systems, is a regional multilateral Air Defence FTX held in Malaysia and Singapore airspace and adjacent waters to exercise FPDA Forces in the conduct of joint operations in a multi-threat environment for the defence of Malaysia and Singapore.
Combined ADF/United States Exercises	
AUSTRALIAN INSTRUCTOR SUPPORT TEAM February – July 2011 July – October 2011 October 2011 – February 2012	This exercise is a non-reciprocal exchange of Australian personnel to the United States.
TALISMAN SABRE July 2011	Exercise TALISMAN SABRE is a bilateral Australia-United States exercise conducted biennially in Australia to practice Combined Task Force (CTF) operations in a mid-intensity high-end war-fighting environment in order to improve combat readiness, enhance interoperability and trial emerging capabilities. The focus is to certify one of Commander United States Pacific Command subordinate commanders as a Joint Task Force (JTF) commander at the operational level and to confirm interoperability at the tactical level. This exercise series is a key element of the Australia-United States training program. Exercise TALISMAN SABRE provides the ADF with critical 'high-end' war-fighting training and an opportunity to reinforce the strategic relationship between Australia and the United States.

Exercise	Objective
SOUTHERN FRONTIER July 2011	A United States Marine Corps (USMC) annual F/A-18 deployment to Northern Australia for air-to-ground training including the use of Australian ranges.
GOLD EAGLE August 2011 October 2011 June 2011	GOLD EAGLE provides a company level exchange between the USMC and the Australian Army in order to enhance interoperability between the two services and to contribute to USMC and Australian Army relations.
LUNGFISH September 2011	Exercise LUNGFISH is a tactical development exercise that helps to develop doctrine and tactics for combined the United States Navy and the Royal Australian Navy Anti-submarine warfare Operations.
DAY COUGER September 2011	This is a joint training exercise between Special Operations Command and United States forces.
GLOBAL THUNDER October 2011	Exercise GLOBAL THUNDER is an annual United States Strategic Command sponsored Tier 1 CPX involving elements of the three Services in field activities including exercising of Command and Control.
DUGONG October 2011	This is a mine-clearance and explosive ordnance disposal exercise conducted by the Royal Australian Navy.
MOUNTAIN AND COLD WEATHER OPERATIONS January 2012	This is a mountain and cold weather operations exercise conducted by Special Operations Command.
NIGHT LIGHTNING February 2012	NIGHT LIGHTNING is a Command and Control integration exercise conducted by Special Operations Command.
FOMENT WATERS April 2012	FOMENT WATERS is a bilateral training exercise between Special Operations Command elements and United States forces.
VECTOR BALANCE ACTION June 2012	VECTOR BALANCE ACTION is a Special Operations Command Counter Proliferation Training Exercise conducted with the United States. Normally conducted in built up urban areas. Focus of the activity is to train in complex urban environments that are 'Exercised' as being external to Australia.
Other Joint/Combined Exercises	
PACIFIC PARTNERSHIP April – July 2011 May – August 2012	PACIFIC PARTNERSHIP is an annual Humanitarian Civic Assistance program sponsored by the Commander United States Pacific Fleet. It is a non-exercise activity, providing assistance to local populations in selected host nations. The activity is based on the United States Hospital Ship USNS MERCY during its biennial activation from reserve status in even-numbered years. In odd-numbered years the activity is undertaken by a United States Navy amphibious unit. Joint Operations Command supported by the three Services contribute to the exercise.
LONGLOOK March – July 2011 March – July 2012	LONGLOOK is an annual, reciprocal, individual exchange to promote interoperability and capability development between ADF and Her Majesty's Armed Forces.

Exercise	Objective
<p>RIFLE COMPANY BUTTERWORTH</p> <p>May – July 2011</p> <p>August – October 2011</p> <p>November 2011 – January 2012</p> <p>February – April 2012</p> <p>April – July 2012</p>	<p>This is a three-monthly rotational deployment of an Australian Army Infantry Company, Rifle Company Butterworth, from Australia to conduct training and participate in combined exercises.</p>
<p>HAMEL</p> <p>July 2011</p> <p>June – July 2012</p>	<p>Headquarters Forces Command Brigade FTX is designed to develop, confirm, and evaluate the foundation war fighting skills of the "Readying" Brigade in the Forces Command Force Generation Cycle.</p>
<p>TITAN HARPOON</p> <p>July 2011</p> <p>February – March 2012</p>	<p>TITAN HARPOON is an amphibious exercise using Para/Maritime insertion followed by point of entry seizure of air or sea port of debarkation. The exercise is led by Special Operations Command with participation by the three Services.</p>
<p>NIMBLE TITAN</p> <p>2 July 2011</p> <p>4 April 2012</p>	<p>NIMBLE TITAN is ADF participation with United States Strategic Command/Joint Functional Component Command for Integrated Missile Defence in an unclassified multilateral ballistic missile defence experimental activity exploring strategic policy and operational considerations.</p>
<p>POZIERS PROSPECT</p> <p>July 2011</p> <p>October 2011</p> <p>February – March 2012</p> <p>June – July 2012</p>	<p>This is a modified CPX/staff exercise intended to provide a higher control to support a series of Forces Command led exercises. The three Services and other government agencies participate.</p>
<p>EMPIRE CHALLENGE</p> <p>July 2011</p>	<p>EMPIRE CHALLENGE is ADF participation in an annual United States lead activity that focuses on integrating Allied Intelligence, Surveillance and Reconnaissance and Electronic Warfare capabilities, systems and data. This exercise aims to enhance interoperability and progress Intelligence, Surveillance and Reconnaissance (ISR) data fusion, dissemination and the review of future and emerging ISR technologies.</p>
<p>KHAAN QUEST</p> <p>July 2011</p>	<p>Exercise KHAAN QUEST (KQ) is a multilateral, tactical exercise conducted in Mongolia. The focus of KQ is to enhance regional interoperability in peace support operations, develop peace keeping capabilities and build military to military relationships in the Asia Pacific region. Joint Operations Command provides a small delegation.</p>
<p>RED FLAG NELLIS</p> <p>July 2011</p> <p>February 2012</p>	<p>Exercise RED FLAG is conducted by the United States Air Force at Nellis Air Force Base in Nevada. The exercise is conducted several times each year with differing levels of international participation. The Royal Australian Air Force participates.</p>
<p>ULCHI FREEDOM GUARDIAN</p> <p>August 2011</p>	<p>Exercise ULCHI FREEDOM GUARDIAN is an annual exercise conducted in the Republic of Korea designed to practice the Republic of Korea and United States forces in responding to security threats on the Korean Peninsula. Multi-national participation in the exercises is predicated upon member states being signatories of the 1953 Declaration and Commitment to the United Nations Command in Korea. Joint Operations Command supported by the three Services contribute to the exercise.</p>

Exercise	Objective
BLACK DAGGER August – September 2011 October – November 2011 April 2012	Exercise BLACK DAGGER is Australian Army and Royal Australian Air Force participation in Joint Terminal Attack Controller (JTAC) courses.
EXCHANGE SERIES ANXAC August – November 2011	ANZAC SERIES is a group name that incorporates Exercises ANZAC EXCHANGE, MERIT AND EXPERIENCE. All exercises are individual exchanges with the New Zealand Defence Force. ADF participation is from Forces Command.
PACIFIC ENDEAVOUR 11 August 2011	Exercise PACIFIC ENDEAVOUR 2011 (PE11) is part of the Multinational Communications Interoperability Program led by United States Pacific Command. The intent of PE11 was to develop a cooperative effort that brings nations in the Pacific Theatre together in order to integrate national communications and information systems, test compatibility and exercise command information systems interoperability. Participating nations are United States, Australia, New Zealand, Singapore, Japan, Mongolia, Sri Lanka, Philippines, Nepal and Maldives. ADF participation is from the three Services.
TAMEX August 2011 February – March 2012 June 2012	Exercise TAMEX is developed primarily as an anti-submarine warfare enabling activity for 92 the Royal Australian Air Force.
MNF SOP WORKSHOP August 2011 June 2012	The Multinational Planning Augmentation Team (MPAT) Multinational Force Standard Operating Procedure (MNF SOP) workshops are conducted by various countries in the Asia-Pacific Region as part of the MPAT program sponsored by United States Pacific Command. These workshops are conducted once or twice annually, dependant on commitments by contributing nations. The resultants are then tested in exercise events such as TEMPEST EXPRESS and COBRA GOLD. Joint Operations Command participates in the workshops.
NIGHT NIAP August 2011	Exercise NIGHT NIAP is a bilateral training activity held in Australia between Special Operations Command and the Papua New Guinea Defence Force aimed at enhancing jungle warfare training.
DAWN CARACHA August 2011	DAWN CARACHA is a Special Operations Command led Training Advisory Team exercise conducted in Philippines.
MARS MIX August 2011	MARS MIX is a Special Operations Command led Domestic Counter Terrorism exercise to validate operating with interstate Government Agencies.
PACIFIC AIR LIFT RALLY August 2011	PACIFIC AIR LIFT RALLY is Royal Australian Air Force participation in a biennial Pacific Air Forces sponsored military airlift symposium for countries in the Pacific and Asian regions. The exercise involves both a CPX and FTX component.
STAR LION August – September 2011	Exercise STAR LION is a bilateral training activity held in Australia between Special Operations Command and Singapore Armed Forces elements.
MATILDA August – September 2011	MATILDA is a company/squadron level non reciprocal exercise to achieve Army and Defence International Engagement objectives with Singapore Armed Forces Army through activities to enhance understanding of Singapore Armed Forces and Australian Army mechanised and armoured operations at the sub-unit level.

Exercise	Objective
CHAPEL GOLD August – September 2011	CHAPEL GOLD is a company level exchange to achieve Army and Defence International Engagement objectives with Thailand through activities to enhance understanding of Royal Thailand Armed Forces and the Australian Army small unit tactical operations in order to contribute to the development of Royal Thailand Armed Forces and Australian Army relations.
THAI BOOMERANG August – September 2011	THAI BOOMERANG is a Royal Australian Air Force squadron deployment to Thailand.
DAWN KOUPREY August – September 2011	DAWN KOUPREY is a Special Operations Command led Training Advisory Team exercise conducted in Cambodia with a Counter Terrorism focus.
TEMEST EXPRESS 20 September 2011	TEMPEST EXPRESS CPXs are conducted by various countries in the Asia-Pacific Region as part of the MPAT program sponsored by the United States. Joint Operations Command provides a small delegation.
OLGETTA WARRIOR 11 September 2011	Exercise OLGETTA WARRIOR is a combined FTX with the Papua New Guinea Defence Force designed to meet Army and Defence international engagement objectives with Papua New Guinea through activities to enhance mutual understanding and partnering of Papua New Guinea Defence Force and Australian Army tactical units, assisting development of Papua New Guinea Defence Force capacity and capabilities, and providing a challenging training environment for Australian Army personnel. The Royal Australian Navy supports Army in this exercise.
LOGI TURA 11 September 2011	LOGI TURA 11 focussed on the Australian Army hosting Papua New Guinea Defence Force Logistic personnel attached to an Australian Army Unit for mentoring and skills development.
ELANG AUSINDO September 2011	Exercise ELANG AUSINDO is a bi-lateral fighter exercise between the Indonesian Air Force and the Royal Australian Air Force.
NIGHT MAGINI September 2011 April – May 2012	Exercise NIGHT MAGANI is a bilateral training activity conducted in Papua New Guinea between Special Operations Command and the Papua New Guinea Defence Force.
DAWM KOMODO September 2011	DAWN KOMODO is a Special Operations Command led Training Advisory Team exercise conducted in Indonesia with a Counter Terrorism focus.
ELLIPSE CHARLIE September 2011	Exercise ELLIPSE CHARLIE (EC11) is a United States Joint Chiefs of Staff sponsored exercise to validate CONPLAN 0300 - the United States whole-of-Government plan for the employment of the National Mission Force in response to a significant overseas terrorist incident. Special Operations Command provides participants.
PUK PUK 11 September 2011	PUK PUK involves Australian Army Engineers exercising with the Papua New Guinea Defence Force Engineer Battalion for the purpose of promoting engineering interoperability.
WONTOK WARRIOR 11 September 2011	Annual Forces Command Exercise with Papua New Guinea Defence Force aims to develop relations and enhance interoperability.
EQUATEUR 11 September 2011	Exercise EQUATEUR is a Forces armées en Nouvelle Calédonie -led biennial multilateral CPX series held in New Caledonia to plan a combined operation to protect and then evacuate nationals as part of French regional engagement in the south west Pacific region. Joint Operations Command supported by the three Services contribute to the exercise.

Exercise	Objective
COALITION VIRTUAL FLAG September 2011	COALITION VIRTUAL FLAG is Royal Australian Air Force participation in a United States Air Force led virtual constructive activity spanning the United States, Australia, Canada and United Kingdom. The exercise is based on the Distributed Mission Operations Centre located at Kirtland AFB, Albuquerque, New Mexico and Southern Command located at Davis-Monthan Air Force Base, Tuscon, Arizona.
NIGHT LEOPARD 11 September 2011	Exercise NIGHT LEOPARD is a Special Operations Command combined training activity conducted in Brunei.
WAXING MOON September 2011	Exercise WAXING MOON is an annual unilateral domestic security FTX, conducted as an un-alerted call-out in accordance with the relevant Australian Operational Concept. The exercise links with Exercise HARVEST MOON. The two exercises are designed to test the ADF's domestic security responses in conjunction with government agencies.
NIGHT TIGER September 2011 May 2012	NIGHT TIGER is a Special Operations Command led Training Advisory Team exercise conducted in Malaysia with a Counter Terrorism focus.
NIGHT FALCON September – November 2011	NIGHT FALCON is Special Operations Command sub-unit collective training in a jungle environment. Normally conducted in Lae, but may be conducted in any location deemed suitable for this activity as agreed to by Papua New Guinea.
HELICON LUK September – October 2011	HELICON LUK is an annual high density rotary wing certification exercise for Australian Army aircrew conducted in the Papua New Guinea Highlands.
KIWI BLACK September – October 2011	Special Operations Command conducts Domestic Counter Terrorism Integration training with New Zealand Special Air Service.
KARTIKA BURRA 2011 October 2011	KARTIKA BURRA is an individual exchange and or Mobile Training Team /Training Advisory Team to develop and enhance opportunities for cooperation and training between the Australian and Indonesian Armies in support of Defence and Army International Engagement objectives. The three Services contribute to the activity.
PARADISE 2011 October 2011	PARADISE is a Royal Australian Navy Patrol Boat exercise that is the key maritime exercise with Papua New Guinea Maritime Operations Elements.
LONG REACH PAPUA NEW GUINEA October 2011	LONG REACH PAPUA NEW GUINEA is a combined planning activity aimed at developing contingency or operational plans for a military or security force response within a whole-of-Government approach to a natural disaster in the Host Nation. Forces Command participates in the activity.
DAWN BURAQ October 2011	DAWN BURAQ is a combined training activity held in the United Arab Emirates (UAE) between UAE Special Operations Command and Australian Special Operations Command
ELANGAROO October 2011	Exercise ELANGAROO is a Royal Australian Air Force Offensive Counter Air/Defensive Counter Air exercise with Malaysia.
CAMBRIAN PATROL October – November 2011	Exercise CAMBRIAN PATROL is the premier patrolling exercise for the British Regular and Reserve Army. The Patrol exercise is set within a tactical scenario in the hills and forests of mid-Wales, United Kingdom. Forces Command participates in the activity.

Exercise	Objective
VIGILANT PACIFIC 11 November 2011	Exercise VIGILANT PACIFIC is a Australia/Canada/United States/United Kingdom/New Zealand combined joint exercise. Joint Operations Command supported by the three Services contribute to the exercise.
SINGAROO 11 November 2011	SINGAROO is a combined maritime exercise designed to improve interoperability of the Royal Australian Navy and the Republic of Singapore Navy in all facets of naval warfare in order to undertake effective maritime combined or coalition operations.
DAWN TIGER November 2011	DAWN TIGER is a Special Operations Command training activity conducted in Malaysia.
EMU MOON November 2011 February – March 2012	EMU MOON is a biannual tactical parachuting continuation training activity conducted for Special Operations Command personnel.
POZIERES LAUNCH November 2011 February – March 2012	POZIERES LAUNCH is conducted by the Joint Planning Group from Forces Command, augmented by joint enabling staff and inter-agency representatives.
WARFARE ASSESSMENT WEEK November 2011	This activity is the Royal Australian Navy Principal Warfare Officer Sea Training.
TRITON WARRIOR November – December 2011	TRITON WARRIOR is a collective training concentrating on mariner skills and warfare disciplines with a focus on air warfare. Both the Royal Australian Navy and the Royal Australian Air Force participate in this exercise.
EAST COAST AIR DEFENCE EXERCISE November – December 2011	The focus of ECADEX is the tactical development of ADF Defensive Counter Air operations. This exercise is conducted by the Royal Australian Air Force and the Royal Australian Navy.
MARS OLYMPICS November – December 2011	MARS OLYMPICS is a Domestic Counter Terrorism (DCT) handover/takeover exercise conducted by Special Operations Command in preparation for the transfer of DCT responsibilities.
COOPERATION SPIRIT December 2011	COOPERATION SPIRIT is a Humanitarian Assistance/Disaster Relief themed bilateral activity with China. The activity is conducted by Joint Operations Command with support from other ADF elements.
PHOENIX BLACK December 2011 March 2012 May 2012 June 2012	These exercises are JTAC training series for qualified Special Operations Command JTAC personnel.
RAJAWALI AUSINDO 11 December 2011	RAJAWALI AUSINDO is an annual bilateral tactical airdrop FTX designed to enhance relations between Australia and Indonesia. The activity aims to promote an improved level of tactical low level flight and airdrop co-operations between the nations.
NIGHT KOI December 2011	NIGHT KOI is a Special Operations Command training with Japan.

Exercise	Objective
MILAN 12 February 2012	An Indian Navy-led Combined Patrol Boat exercise that is a biennial gathering of navies of the Indian Ocean region designed to build friendship and mutual understanding of participating navies. The Royal Australian Navy participates in the activity.
COPE NORTH GUAM 12 February 2012	Exercise COPE NORTH is designed to improve combined Air Defence operations of the United States and Japan. Australia participated with the deployment of Royal Australian Air Force fighter and Airborne Early Warning and Control aircraft.
COBRA GOLD February 2012	COBRA GOLD is a Thailand/United States planned activity held annually in Thailand. Indonesia, Japan and Singapore are also invited to participate in the exercise. The activity is focussed on planning and practicing Peacekeeping operations within a multinational Combined Task Force or a United Nations Peace Keeping Force context. Joint Operations Command provides a small delegation.
TRITON STORM February 2012 March 2012	TRITON STORM is a Royal Australian Navy training activity developing mariner skills and warfare disciplines.
KEY RESOLVE 12 February 2012	Exercise KEY RESOLVE is an annual United States/Republic of Korea exercise designed to practice response contingencies to a regime change or collapse of Government in North Korea. Joint Operations Command supported by the three Services contribute to the exercise.
SQUADDEX February – March 2012	SQUADDEX is a Royal Australian Navy basic amphibious collective training and evaluation.
KIWI FLAG March 2012	KIWI FLAG is a Royal Australian Air Force bilateral activity with New Zealand.
FOAL EAGLE March 2012	FOAL EAGLE is JTAC Continuation Training led by Special Operations Command.
STAR PANTHER March 2012	This is a Special Operations Command led Training Advisory Team conducted in Australia with Royal Thai Armed Forces.
SEA LION March 2012 June 2012	This is a Royal Australian Navy basic amphibious collective exercise in a non-hostile environment.
DAWN KOOKABURRA March – April 2012	DAWN KOOKABURRA is a Special Operations Command led Training Advisory Team exercise conducted in Australia with Indonesian Armed Forces.
ASEAN REGIONAL FORUM DISASTER RELIEF EXERCISE April 2012	ASEAN Regional Forum Disaster Relief Exercise provides a multinational Humanitarian Aid/Disaster Relief exercise forum focusing on improving international coordination and providing some national capacity building to the host state. Joint Operations Command contributes to the activity.

Exercise	Objective
BALIKATAN 12 April 2012	BALIKATAN has traditionally been a United States/Philippines bilateral exercise designed to train forces in a range of operational scenarios including conventional operations, peace support operations and Humanitarian Aid/Disaster Relief. The BALIKATAN 12 CPX was centred on a whole-of-Government response to a major disaster (Earthquake and Tsunami) in Manila. Joint Operations Command supported by the three Services contribute to the exercise.
GLOBAL LIGHTNING April – May 2012	GLOBAL LIGHTNING is an annual United States Strategic Command sponsored CPX and field activities including command and control and deterrence aspects. ADF participation is from the three Services.
AUSTRALIAN ARMY SKILL AT ARMS MEETING May 2012	This is an annual Skill at Arms competition involving Australian tri-service participation and international competitors.
BELL BUOY 1 May 2012	Exercise BELL BUOY is a Royal Australian Navy, Pacific and Indian Oceans Naval Cooperation and Guidance of Shipping (NCAGS) CPX, designed to test and evaluate interoperability of national NCAGS operations to meet a threat to sea lines of communications, as well as asymmetrical threat and crisis response operations.
EAGER LION May 2012	An annual exercise co-hosted by the Jordanian Air Force (JAF) and United States Central Command in Jordan. The exercise aims to facilitate interoperability between coalition partners in support of global contingency operations and to develop and enhance capabilities in the JAF whilst operating in a joint and inter-agency environment. Joint Operations Command supported by the three Services contribute to the exercise.
CASSOWARY May 2012	This is a Royal Australian Navy combined patrol boat exercise.
MARS FLASH May 2012	This is a Special Operations Command Maritime Domestic Counter Terrorism exercise.
DUSK KOUPREY May 2012	DUSK KOUPREY is a Special Operations Command training activity in Australia with Cambodia.
MAPLE FLAG 12 May 2012	Exercise MAPLE FLAG is Royal Australian Air Force participation in a combined joint air training exercise conducted by Canadian Forces in conjunction with 414 Combat Training Squadron. MAPLE FLAG combines air and ground forces in a high tempo, realistic, dynamic, large force employment exercise incorporating current and emerging threats.
HARVEST MOON May 2012	Exercise HARVEST MOON is an annual unilateral domestic security FTX, conducted as an un-alerted callout in accordance with the relevant Australian Operational Concept. The exercise links with Exercise WAXING MOON. The two exercises are designed to test the ADF's domestic security responses. Exercise HARVEST MOON requires a full domestic security response call-out. The ADF contributes to the exercise in conjunction with government agencies.
STAR KOUPREY May 2012	STAR KOUPREY is a Special Operations Command led Training Advisory Team activity conducted in Australia with Cambodia.

Exercise	Objective
PACIFIC BOND 12 May 2012	PACIFIC BOND promotes interoperability and capability development between the ADF and United States Army Pacific.
GOLDEN COYOTE June 2012	The activity is to exercise personnel in a joint multi-national Brigade and Battle Group Head Quarters exercise. The activity also provides an opportunity to enhance relations between the Australian Army Reserve and the United States National Guard.
RED FLAG ALASKA June 2012	The Royal Australian Air Force participate in this exercise several times per year, with differing levels of international participation.
SOUTHERN TIGER June 2012	SOUTHERN TIGER is a company-level exchange to achieve Army and Defence International Engagement objectives with Malaysia through activities to enhance understanding of Malaysia and Australian Army small unit tactical mechanised/motorised operations in order to contribute to the development of Malaysia/ADF relations.
TENDON VALIANT June 2012	Exercise TENDON VALIANT is a biennial United States-led Medical FTX held in Indonesia as a Medical Readiness Training Exercise with a Humanitarian Assistance focus. The three Services participate in this activity.
NICHIGOU TRIDENT June 2012	NICHIGOU TRIDENT is a combined Maritime exercise involving the Royal Australian Navy and the Royal Australian Air Force.
DAWN PANTHER June 2012	DAWN PANTHER is a Special Operations Command led Training Advisory Team activity conducted in Thailand.
PACIFIC BOND (Navy) June 2012	This is a trilateral Royal Australian Navy exercise between Australia, Japan and United States.
RIM OF THE PACIFIC June – August 2012	Exercise RIMPAC is a multilateral combined and joint exercise conducted biennially by the United States 3rd Fleet in the Hawaiian exercise areas to practise maritime operations (Air, Sea and Amphibious operations) and to enhance interoperability in coalition arrangements. Whilst originally a high-end warfighting activity, the expansion of the number of countries has reduced the level of warfighting practised in the exercise. Joint Operations Command supported by the Royal Australian Navy and the Royal Australian Air Force participate in this exercise.
PLATYPUS MOON June 2012	PLATYPUS MOON is a submarine training with Special Operations Command.

Program 1.10 Deliverables

Deliverable	Status 2011-12	Comment
(i) Effective command and control of ADF forces.	✓✓✓	Linked to Outcomes 2 and 3.
(ii) Conduct of operations and other activities as directed by the Government.	✓✓✓	Linked to Outcomes 2 and 3.
(iii) Conduct of joint and combined exercises.	✓✓✓	Joint and combined Exercises were conducted in accordance with the Program of Major Service Activities.
(iv) Contribute to Group-specific SRP reform and cost reductions.	✓✓✓	JOC completed SRP measures.

Program 1.10 Key Performance Indicators

KPI	Status 2011-12	Comment
(i) Enhance command and staff methodologies.	✓✓✓	Linked to deliverable (i). This KPI was introduced in 2009-10.
(ii) Joint preparedness levels meet the CDF's Preparedness Directive	✓✓✓	Linked to deliverables (i) and (ii). Defence has historically met this KPI.
(iii) ADF forces are effectively deployed and sustained	✓✓✓	Linked to deliverables (i) and (ii). Defence has historically met this KPI.
(iv) ADF forces are withdrawn for reconstitution when they are no longer required	✓✓✓	Linked to deliverables (i) and (ii). This KPI was introduced in 2009-10.
(v) Joint and combined exercises are conducted in accordance with the Program of Major Service Activities	✓✓✓	Linked to deliverable (iii). This KPI was introduced in 2009-10.
(vi) Deliver requested outcomes and programs on time, within agreed resources	✓✓✓	Linked to deliverables (i), (ii) and (iii). This KPI was introduced in 2009-10.

Table 4.14: Cost Summary for Program 1.10 Joint Operations Command^[1]

	2011-12 Budget Estimate ^[2] \$'000	2011-12 Revised Estimate ^[3] \$'000	2011-12 Actual Result \$'000	Variation \$'000	%
Expenses					
Employees	8,013	8,417	7,913	-504	-6
Suppliers	37,143	38,627	30,069	-8,558	-22
Grants	-	-	-	-	-
Depreciation and amortisation	1,552	2,187	1,846	-341	-16
Finance cost	-	-	-	-	-
Write-down of assets and impairment of assets	-	-	4	4	-
Net losses from sale of assets ^[4]	-	-	-1	-1	-
Other expenses	-	-	1	1	-
Total expenses	46,708	49,231	39,832	-9,399	-19
Income					
Revenue					
Goods and services	380	367	1,377	1,010	-
Other revenue	-	-	-	-	-
Total revenue	380	367	1,377	1,010	-
Gains					
Assets now recognised	-	-	49	49	-
Net gains from sale of assets	-	-	-	-	-
Other gains	-	-	-	-	-
Total gains	-	-	49	49	-
Total income	380	367	1,426	1,059	-
Program 1.10 Joint Operations Command	46,328	48,864	38,405	-10,459	-21

Notes

1. This table excludes Capital payments for Outcomes.
2. As published in the *Portfolio Budget Statements 2011-12* table 42.
3. As published in the *Portfolio Budget Statements 2012-13* table 40.
4. At the portfolio level Defence has achieved a total net loss from sale of assets. Whilst amounts shown in the 2011-12 actual result represents a gain for this Program, the overall Portfolio outcome is a loss.

Program 1.11

Capability Development

Capability Development Group (CDG) develops and manages the Government's plans for Defence's future capability outlined in the Defence Capability Plan (DCP). The DCP lists the Unapproved Major Capital Investment Program projects planned for Government consideration (First and/or Second Pass), covering a range of significant *Force 2030* capabilities including: maritime, land and air platforms and weapons systems; communications and intelligence systems; and enablers of Network Centric Warfare. The Group maintains close relationships with a range of stakeholders including the DMO, Capability Managers and industry.

The DCP is reviewed and updated on a regular basis to take account of factors that emerge as the capability development process progresses, including: changing strategic priorities and economic circumstances; the maturity of projects and the evolution of technology in options under consideration; and operational experience.

Program 1.11 Deliverables

Deliverable	Status 2011-12	Comment
(i) Provision of timely, accurate and high quality advice on all aspects of capability development to the Secretary, CDF and Government	✓✓	The Government gave approval for a total of 46 project submissions in 2011-12. In addition, CDG has provided a significant number of quality submission/briefs to the Ministers, the Secretary and the CDF to inform them on projects in development and capability reform initiatives.
(ii) Development of an affordable and executable DCP.	✓✓✓	An updated DCP was developed to support the annual Budget Submission. The Public DCP 2012 was subsequently updated in July 2012.
(iii) Management of the Unapproved Major Capital Investment Program and Net Personnel Operating Cost (as discussed below)	✓✓✓	The Government is committed to regularly updating the Unapproved Major Capital Investment Program and Net Personnel Operating Costs to deliver the capabilities identified in the <i>Defence White Paper</i> 2009.
(iv) Development of Defence capability investment proposals for consideration by the Government	✓✓	The Government gave First Pass approval to 11 capability investment proposals, Second Pass approval to 22 proposals and 13 other types of approvals during 2011-12. This represents an increase of 64 per cent in the approval rate compared to 2010-11.
(v) Update and publish the Defence Capability Development Handbook	✓✓✓	The Defence Capability Development Handbook was released in August 2011. Updated guidance was provided on Joint Project Directives, the roles and responsibilities of Capability Managers, formalisation of Project Initiation processes and introduction of the Capability Gate Review Board (in place of the Capability Development Board).

Deliverable	Status 2011-12	Comment
(vi) Implement the strategy-led capability development process and relevant reforms identified in the Defence Procurement and Sustainment Review 2008 (the Mortimer Review)	✓✓✓	Consistent with the Mortimer Review recommendations, project directives are issued by the Secretary and the CDF to ensure acquisitions progress according to Government direction. Further, acquisition proposals are benchmarked against off-the-shelf options where such options are available. Additionally, Defence has begun the introduction of the Capability Development Improvement Program (CDIP), which will progress the relevant recommendations from the Kinnaird, Mortimer and Black Reviews, and reforms arising from the SRP, as well as issues raised in the Preliminary Report of the Senate inquiry into Procurement Procedures for Defence Capital Projects. The CDIP will facilitate opportunities to improve the Defence capability development process, resulting in improved project outcomes and sustainable levels of project approval throughput. Defence is also developing and implementing a Defence Cost and Schedule Estimation Policy aimed at institutionalising best practice cost estimation.
(vii) Deliver Group-specific SRP reform	✓✓	CDG continued to progress SRP reforms to improve capability development processes. These reforms were incorporated into the Defence Capability Development Handbook and supporting guidance.

Program 1.11 Key Performance Indicators

KPI	Status 2011-12	Comment
<p>(i) Submit capability investment proposals to deliver <i>Force 2030</i> according to the White Paper, on schedule, within agreed resources and to an agreed standard:</p> <ul style="list-style-type: none"> • develop First and Second Pass DCP project approvals • introduce a new DCP reporting system to ensure transparency and accountability of DCP proposals • introduce process reforms to improve the timelines and quality of capability submissions, and reflect these reforms in an update to the Defence Capability Development Handbook 2011 	✓✓	<p>The effectiveness of this KPI is linked to deliverables (i) and (iv).</p> <p>CDG adopted a two-part strategy to improve DCP reporting:</p> <ul style="list-style-type: none"> • implemented a new project database and reporting system. This system maintains and presents comprehensive information on projects, including on status, risks and issues, and schedule. This data and an extensive, user-tailorable reporting capability is accessible to anyone in Defence with an interest in a project. This system is also used to generate project 'dashboard' reports to Defence Capability Committee and the Defence Capability Investment Committee. • continued to improve regular reporting to the Minister for Defence on key project issues and developments through the quarterly Early Indicators and Warnings system and DCP Highlights reports.

KPI	Status 2011-12	Comment
(ii) Increase the accuracy of costings within the Major Capital Investment Program facilitate cost estimation training to ensure 60 per cent of CDG project managers undertake the training and 75 per cent undertake skilling training by the end of 2011-12	✓✓	Cost Estimation Training has been developed as part of the Capability Development Skilling Program. Training is targeted towards CDG Project Managers but available to other Project Managers in Defence. Nineteen courses that trained 279 participants were conducted in 2011-12.

Table 4.15: Cost Summary for Program 1.11 Capability Development⁽¹⁾

	2011-12 Budget Estimate ⁽²⁾ \$'000	2011-12 Revised Estimate ⁽³⁾ \$'000	2011-12 Actual Result \$'000	Variation \$'000	%
Expenses					
Employees	17,430	20,465	18,995	-1,470	-7
Suppliers	369,435	257,310	273,359	16,049	6
Grants	-	-	-	-	-
Depreciation and amortisation	303,736	668	505	-163	-24
Finance cost	-	-	-	-	-
Write-down of assets and impairment of assets	163,069	126,573	87,286	-39,287	-31
Net losses from sale of assets	-	-	-	-	-
Other expenses	-	-	-	-	-
Total expenses	853,670	405,016	380,145	-24,871	-6
Income					
Revenue					
Goods and services	-	-	136	136	-
Other revenue	-	-	122,335	122,335	-
Total revenue	-	-	122,471	122,471	-
Gains					
Assets now recognised	105,821	73,708	17	-73,691	-
Net gains from sale of assets	-	-	-	-	-
Other gains	-	-	-	-	-
Total gains	105,821	73,708	17	-73,691	-
Total income	105,821	73,708	122,488	48,780	66
Program 1.11 Capability Development	747,849	331,308	257,657	-73,651	-22

Notes

1. This table excludes Capital payments for Outcomes.
2. As published in the *Portfolio Budget Statements 2011-12* table 43.
3. As published in the *Portfolio Budget Statements 2012-13* table 41.

Program 1.12

Chief Finance Officer

The Chief Finance Officer Group (CFOG) is responsible for giving strategic financial advice and information to Ministers, the Secretary, the CDF and Defence Senior Leaders. It provides a whole-of-Defence focus for planning, management, monitoring and reporting of key deliverables to the Government, including Defence's outputs.

The CFOG is responsible for Defence's financial governance and assurance and manages Defence's budget and its financial policies, principles and practices in accordance with the *Financial Management and Accountability Act 1997*.

The CFOG drives Defence's financial management and improvement programs through uniform financial management approaches, a streamlined accountability structure, a financial controls framework, and training and skilling programs.

Portfolio budget pressures and risks are managed through a strong culture of prioritising resource management.

The CFOG works with all Groups and Services to identify cost drivers for all key business elements.

Program 1.12 Deliverables

Deliverable	Status 2011-12	Comment
(i) Defence Financial Statements	✓✓✓	Defence's financial statements were prepared and submitted meeting all reporting deadlines.
(ii) Defence Portfolio Budget Statements	✓✓✓	Defence's Portfolio Budget Statements were prepared and submitted meeting all reporting deadlines.
(iii) Defence Portfolio Additional Estimates Statements	✓✓✓	Defence's Portfolio Additional Estimates Statements were prepared and submitted meeting all reporting deadlines.
(iv) Defence Control Effectiveness Report	✓✓✓	The Defence Control Effectiveness Report was delivered.
(v) Defence Chief Executive Instructions	✓✓✓	CEIs were maintained and updated to reflect changes to financial regulation and policy.
(vi) Monthly/Annual input to whole-of-Government reporting	✓✓✓	All reporting requirements were achieved.

Program 1.12 Key Performance Indicators

KPI	Status 2011-12	Comment
(i) provide timely and high quality financial advice to the Minister, the Secretary and CDF	✓✓✓	The effectiveness of this KPI is linked to deliverables (i), (ii), (iii) and (vi). Defence continues to meet this KPI.
(ii) produce Defence's Budget, Financial Statements and the annual Defence Management and Finance Plan within agreed statutory timeframes	✓✓✓	Defence's Budget, Financial Statements and the annual Defence Management and Finance Plan were all produced within agreed statutory timeframes. Defence continues to meet this KPI.
(iii) maintain un-qualified Financial Statements	✓✓✓	Defence has maintained un-qualified Financial Statements. Defence continues to meet this KPI.

Table 4.16: Cost Summary for Program 1.12 Chief Finance Officer^[1]

	2011-12 Budget Estimate ^[2] \$'000	2011-12 Revised Estimate ^[3] \$'000	2011-12 Actual Result \$'000	Variation \$'000	%
Expenses					
Employees	412,968	367,046	375,629	8,583	2
Suppliers	228,852	26,848	789,242	762,394	-
Grants	-	-	-	-	-
Depreciation and amortisation	12,441	2,687	31,634	28,947	-
Finance cost	-	-	2	2	-
Write-down of assets and impairment of assets	11,718	4,716	113,893	109,177	-
Net losses from sale of assets ^[4]	-	-	-540	-540	-
Other expenses	-	41,344	13,793	-27,551	-67
Total expenses	665,979	442,641	1,323,653	881,012	-
Income					
Revenue					
Goods and services	-	79,381	43,833	-35,548	-45
Other revenue	12,534	60,688	810,017	749,329	-
Total revenue	12,534	140,069	853,850	713,781	-
Gains					
Assets now recognised	8,957	2,969	275	-2,694	-91
Net gains from sale of assets	-	-	-	-	-
Other gains	-	4,879	4,982	103	2
Total gains	8,957	7,848	5,256	-2,592	-33
Total income	21,491	147,917	859,106	711,189	-
Program 1.12 Chief Finance Officer	644,488	294,724	464,547	169,823	58

Notes

1. This table excludes Capital payments for Outcomes.
2. As published in the *Portfolio Budget Statements 2011-12* table 46.
3. As published in the *Portfolio Budget Statements 2012-13* table 42.
4. At the portfolio level Defence has achieved a total net loss from sale of assets. Whilst amounts shown in the 2011-12 actual result represents a gain for this Program, the overall Portfolio outcome is a loss.

Program 1.14

Defence Force Superannuation Benefits

The objective of Program 1.14 is to administer and report member and employer contributions paid during the year to the Defence Force Retirement and Death Benefits Scheme (DFRDB) and the Military Superannuation and Benefits Scheme (MSBS). It accounts for the liability for these schemes plus the Defence Force Retirement Benefits (DFRB) scheme. This program includes payment of the MSBS Retention Benefit.

The DFRB commenced in 1948 and only covers members or their dependants who were in receipt of a pension at the time DFRDB commenced. This scheme does not have any contributing members.

The DFRDB was closed to new participants in 1991.

The MSBS commenced in 1991 and is available to all full-time members of the ADF.

All three schemes are managed on Defence's behalf by ComSuper.

Since 1991, Defence has paid the MSBS Retention Benefit to eligible MSBS members after 15 years of continuous eligible service. The purpose of the Retention Benefit is to encourage members to serve until they have completed 20 years of service. Due to legislative amendments passed in 2005, the Retention Benefit is not available to members who enlisted after 6 October 2005.

Program 1.14 Deliverable

Deliverable	Status 2011-12	Comment
(i) Report on superannuation contributions and the movement in liabilities associated with the three military superannuation schemes	✓✓✓	In 2011-12, DSG provided timely payments of member contributions to ComSuper and quality services for the administration of the schemes.

Program 1.14 Key Performance Indicator

KPI	Status 2011-12	Comment
(i) Provision of timely payments to ComSuper and quality administration of DFRB, DFRDB and MSBS employer and member contributions	✓✓✓	In 2011-12, DSG continued the prompt payment of member contributions to ComSuper and Retention Benefits, when members take up the offer.

Table 4.17: Cost Summary for Program 1.14 Defence Force Superannuation Benefits

	2011-12 Budget Estimate ^[1] \$'000	2011-12 Revised Estimate ^[2] \$'000	2011-12 Actual Result \$'000	Variation \$'000	%
Expenses					
Net foreign exchange losses	-	-	-	-	-
Retention benefits	52,443	52,443	56,525	4,082	8
Military superannuation benefits	1,137,000	1,385,390	1,429,874	44,484	3
Total expenses	1,189,443	1,437,833	1,486,399	48,566	3
Income					
Revenue					
Interest	-	-	-	-	-
Net foreign exchange gain	-	-	-	-	-
Military superannuation contributions	1,165,332	1,192,238	1,158,903	-33,335	-3
Total income	1,165,332	1,192,238	1,158,903	-33,335	-3
Program 1.14 Defence Force Superannuation Benefits	24,111	245,595	327,496	81,901	33

Notes

1. As published in the *Portfolio Budget Statements 2011-12* table 48.
2. As published in the *Portfolio Budget Statements 2012-13* tables 43.

Program 1.15

Defence Force Superannuation - Nominal Interest

The objective of Program 1.15 is to administer nominal interest for the three military superannuation schemes: the Defence Force Retirement Benefits (DFRB), the Defence Force Retirement and Death Benefits (DFRDB), and the Military Superannuation and Benefits Scheme (MSBS).

The DFRB commenced in 1948 and only covers members or their dependants who were in receipt of a pension at the time DFRDB commenced. This scheme does not have any contributing members.

The DFRDB was closed to new participants in 1991.

The MSBS commenced in 1991 and is available to all full-time members of the ADF.

All three schemes are managed on Defence's behalf by ComSuper.

Program 1.15 Deliverable

Deliverable	Status 2011-12	Comment
(i) Report on superannuation nominal interest associated with the three military superannuation schemes	✓✓✓	In 2011-12, DSG provided quality services for the administration of the schemes.

Program 1.15 Key Performance Indicator

KPI	Status 2011-12	Comment
(i) Provide quality administration services for DFRB, DFRDB and MSBS nominal interest transactions	✓✓✓	In 2011-12, DSG continued to provide quality services for nominal interest transactions.

Table 4.18: Cost Summary for Program 1.15 Defence Force Superannuation Nominal Interest

	2011-12 Budget Estimate ^[1] \$'000	2011-12 Revised Estimate ^[2] \$'000	2011-12 Actual Result \$'000	Variation \$'000	%
Expenses					
Net foreign exchange losses	-	-	-	-	-
Retention benefits	-	-	-	-	-
Military superannuation benefits	2,626,000	2,643,362	2,632,400	-10,962	-
Total expenses	2,626,000	2,643,362	2,632,400	-10,962	-
Income					
Revenue					
Interest	-	-	-	-	-
Net foreign exchange gain	-	-	-	-	-
Military superannuation contributions	-	-	-	-	-
Total income	-	-	-	-	-
Program 1.15 Defence Force Superannuation Nominal Interest	2,626,000	2,643,362	2,632,400	-10,962	-

Notes

1. As published in the *Portfolio Budget Statements 2011-12* table 48.
2. As published in the *Portfolio Budget Statements 2012-13* table 44.

Program 1.16

Housing Assistance

The Defence Home Ownership Assistance Scheme was established in order to support the Government's retention and recruitment initiatives and influence ADF members' decision to stay beyond critical career points. The scheme came into effect on 1 July 2008.

The scheme provides eligible ADF members and ex-serving members with assistance to either purchase a home, purchase land for the purpose of building a home, or to renovate or extend an existing home.

The scheme contains a three-tiered subsidised loan limit structure that provides increasing entitlements as members serve beyond key exit points.

Following a competitive tendering process, DVA was appointed the Scheme Administrator and a panel of three Home Loan Providers was established: National Australia Bank, Australian Defence Credit Union and the Defence Force Credit Union (now the Defence Bank).

Administered Program 1.16 Deliverables

Deliverable	Status 2011-12	Comment
(i) Provide ADF members with assistance to achieve home ownership that reflects the contemporary housing and home finance markets	✓✓✓	Defence continues to assist eligible ADF members with home ownership under the DHOAS. There was a continued high level of interest in the DHOAS with a total of 15,618 eligible members receiving subsidy assistance as at 30 June 2012.
(ii) Provide progressively higher levels of assistance for eligible members serving beyond the critical career points of four, eight and twelve years of service	✓✓✓	The DHOAS provides progressively higher levels of assistance for eligible ADF members.
(iii) Provision of quality services for the administration of the scheme, including the accurate and timely processing of member applications and issuing of Subsidy Certificates	✓✓✓	All contract performance targets were met by DVA, as the DHOAS Administrator, during the financial year 2011-12.

Program 1.16 Key Performance Indicators

KPI	Status 2011-12	Comment
(i) Members respond to and take up the scheme	✓✓✓	Uptake to the scheme continued to be high with a total of 6,472 applications received by DVA during the 2011-12 financial year. This compares with 6,774 applications received for the 2010-11 financial year.
(ii) Ensure that interest rates provided to ADF members by the Home Loan Providers are competitive with other interest rates in the market	✓✓✓	Interest rates provided by the Home Loan Providers continued to be competitive with other interest rates in the market.

Table 4.19: Cost Summary for Program 1.16 Housing Assistance

	2011-12 Budget Estimate ^[1] \$'000	2011-12 Revised Estimate ^[2] \$'000	2011-12 Actual Result \$'000	Variation \$'000	%
Expenses					
Net foreign exchange losses	-	-	-	-	-
Housing subsidies	113,480	97,882	96,585	-1,297	-1
Total expenses	113,480	97,882	96,585	-1,297	-1
Income					
Revenue					
Interest	-	-	-	-	-
Net foreign exchange gain	-	-	-	-	-
Dividends	-	-	-	-	-
License Fees	9,811	9,811	12,251	2,440	25
Other	-	-	-	-	-
Total income	9,811	9,811	12,251	2,440	25
Program 1.16 Housing Assistance	103,669	88,071	84,334	-3,737	-4

Notes

1. As published in the *Portfolio Budget Statements 2011-12* table 49.
2. As published in the *Portfolio Budget Statements 2012-13* table 45.

Program 1.17

Other Administered

Other administered comprises three elements:

- Interest on Government loans used by Defence Housing Authority (DHA) to fund the building of new accommodation
- DHA Dividends
- DHA state tax equivalent payments and departmental returns to the Official Public Account that include sale of assets with an original purchase price in excess of \$10 million and revenue from investments and royalties.

Administered Program 1.17 Deliverables

Deliverable	Status 2011-12	Comment
(i) Report on interest and other receipts transferred to the Official Public Account	✓✓✓	All interest and other receipts transferred to the Official Public Account were reported.

Program 1.17 Key Performance Indicators

KPI	Status 2011-12	Comment
(i) Accurate accounting and reporting of 'Other Administered'	✓✓✓	Defence has historically met this KPI. All performance targets were met this year.

Table 4.20: Cost Summary for Program 1.17 Other Administered

	2011-12 Budget Estimate ⁽¹⁾ \$'000	2011-12 Revised Estimate ⁽²⁾ \$'000	2011-12 Actual Result \$'000	Variation \$'000	%
Expenses					
Parliamentary entitlements	-	-	-	-	-
Write-down and impairment of assets	-	-	141	141	-
Net foreign exchange losses	-	-	-	-	-
Total expenses	-	-	141	141	-
Income					
Revenue					
Interest	5,299	32,104	35,517	3,413	11
Dividends	50,067	48,594	49,654	1,060	2
Other	35,985	50,684	59,585	8,901	18
Net foreign exchange gains	-	-	166	166	-
Total income	91,351	131,382	144,922	13,540	10
Program 1.17 Other Administered	-91,351	-131,382	-144,781	-13,399	10

Notes

1. As published in the *Portfolio Budget Statements 2011-12* table 50.
2. As published in the *Portfolio Budget Statements 2012-13* table 46.

Chapter 5

Outcome 2 Performance

Outcome 2: The advancement of Australia’s strategic interests through the conduct of military operations and other tasks as directed by Government.

Outcome 2 Summary

The Australian Defence Force (ADF) advances Australia’s strategic interests by planning for, and developing and maintaining, the capability to deter and defeat armed attacks on Australia (its principal task as described in the Defence White Paper) and by planning for, conducting, controlling and evaluating Defence and/or coalition, contributions to Australian Government directed operations. These operations include those that contribute to the Security of the Immediate Neighbourhood (Program 2.1) and those supporting wider interests (Program 2.2), and their objectives in relation to this outcome and current status are detailed in this chapter. Further information for each operation is also provided. In summary, the ADF has contributed to maintaining a stable security environment to enable national programs focused on peace, reconciliation, economic recovery, law and order and good governance to develop across all its operations.

The following Program Deliverables and Key Performance Indicators (KPIs) tables are assessed using the below Key system:

Key		
-	Not Achieved	None or minimal progress was made against targets in 2011-12. Explanations are provided in the ‘further information column.
✓	Partially Achieved	Some targets were met, and any issues are being managed.
✓✓	Substantially Achieved	Targets were mostly met and any issues are being managed.
✓✓✓	Achieved	All targets for 2011-12 were met or exceeded.

Table 5.1: Net Additional Cost of Operations

	2011-12 Budget Estimate ^[1] \$'000	2011-12 Revised Estimate ^[2] \$'000	2011-12 Actual Result \$'000	Variation \$'000
Operation ASTUTE	160,213	160,213	141,705	-18,508
Operation SLIPPER ^[5]	1,221,846	1,224,039	1,066,731	-157,308
Operation RESOLUTE ^[3]	9,829	9,829	13,493	3,664
Operation ANODE	43,457	43,457	38,496	-4,961
Operation KRUGER ^[3]	2,062	2,062	1,797	-265
Enhanced Force Protection in Afghanistan ^{[4][5]}	482,400	392,363	159,142	-233,221
Total Net Additional Costs	1,919,807	1,831,963	1,421,364	-410,599

Notes

1. As published in the *Portfolio Budget Statements 2011-12* table 13.
2. As published in the *Portfolio Budget Statements 2012-13* table 17.
3. Costs against Operation RESOLUTE and KRUGER have been absorbed by Defence in 2011-12.
4. Government supplementation for Enhanced Force Protection in Afghanistan costs are captured against Outcomes 1 and 2.
5. Government supplementation for Enhanced Force Protection in Afghanistan costs have been captured against Operation SLIPPER.

The Government provided \$1,919.8 million in the 2011-12 Budget for the net additional costs of current ADF operations. At Additional Estimates, the Government provided additional funding totalling \$2.2 million to enhance detainee management in Afghanistan. Defence funded support to Enhanced Force Protection in Afghanistan was increased by \$4.7 million and a further adjustment of -\$94.8 million was made post Additional Estimates for the re-programming of acquisition funds to align with revised acquisition schedules. This resulted in a net 2011-12 Revised Estimate of \$1,831.9 million.

Table 5.2: Net Additional Cost of Operations from 1999-00 to 2015-16

	1999-00 to 2007-08 Actual Result \$m	2008-09 Actual Result \$m	2009-10 Actual Result \$m	2010-11 Actual Result \$m	2011-12 Actual Result \$m	2012-13 Budget Estimate ^[1] \$m	2013-14 Forward Estimate ^[1] \$m	2014-15 Forward Estimate ^[1] \$m	2015-16 Forward Estimate ^[1] \$m	Total \$m
Operation Astute	3,611.1	164.7	144.9	155.7	141.7	87.6	0.8	0.6	-	4,307.1
Operation Bel Isi	47.7	-	-	-	-	-	-	-	-	47.7
Operation Slipper	1,200.2	701.9	1,125.3	1,088.9	1,066.7	1,189.8	351.5	131.5	50.0	6,905.8
Operation Resolute ^[2]	103.9	10.0	10.3	8.2	13.5	9.5	-	-	-	155.4
Operation Catalyst	2,062.2	290.9	11.4	-	-	-	-	-	-	2,364.5
Operation Anode	171.9	25.1	27.9	35.7	38.5	42.9	1.6	1.1	-	344.6
Operation Sumatra Assist	44.5	-	-	-	-	-	-	-	-	44.5
Operation Acolyte	10.5	-	-	-	-	-	-	-	-	10.5
Operation Deluge	6.7	-	-	-	-	-	-	-	-	6.7
Operation Pakistan Assist	9.8	-	-	-	-	-	-	-	-	9.8
Operation Outreach	12.3	2.3	-	-	-	-	-	-	-	14.6
Operation Kruger ^[3]	-	-	29.8	13.8	1.8	1.9	-	-	-	47.2
Enhanced Force Protection in Afghanistan ^{[4][5]}	-	-	80.3	196.0	159.1	211.5	10.0	-	-	657.0
Total Net Additional Costs	7,280.9	1,194.9	1,429.8	1,498.2	1,421.4	1,543.3	363.9	133.2	50.0	14,915.3
Sources of Funding for Operations										
Government Supplementation	7,249.5	112.5	1,386.7	1,320.1	1,246.9	1,320.3	353.9	133.2	50.0	13,173.1
Department of Foreign Affairs and Trade	9.1	-	-	-	-	-	-	-	-	9.1
Department of Defence (Absorbed)	22.3	1,082.4	43.1	178.1	174.4	222.9	10.0	-	-	1,733.2
Total Cost	7,280.9	1,194.9	1,429.8	1,498.2	1,421.4	1,543.3	363.9	133.2	50.0	14,915.3

Notes

1. The Budget Estimate and Forward Estimates include foreign exchange adjustments.
2. Costs against Operation Resolute have been absorbed by Defence in 2011-12 and Defence will absorb the cost of Operation Resolute in 2012-13.
3. Costs against Operation Kruger have been absorbed by Defence in 2011-12 and Defence will absorb the cost of Operation Kruger in 2012-13, which includes costs associated with the transition to a fully contracted security arrangement in 2011 as well as return of equipment to Australia and its remediation.
4. Enhanced Force Protection in Afghanistan costs are captured against Outcome 1 and are shown here for completeness.
5. Government supplementation for Enhanced Force Protection in Afghanistan costs have been captured against Operation Slipper.

Explanations for variations

Operations in Afghanistan (Operation SLIPPER)

The 2011-12 Budget initially provided \$1,221.8 million for the continuation of operations in Afghanistan in 2011-12. The Government provided a further \$2.2 million at Additional Estimates to enhance detainee management in Afghanistan taking the 2011-12 Revised Estimate to \$1,224.0 million.

Actual expenditure on Operation Slipper in 2011-12 was \$157.3 million less than the revised budget mainly due to slippage in facilities projects, delays in the implementation of the logistics and base support services contracts, lower than anticipated strategic lift requirements due to savings associated with the rotary wing contract, lower than anticipated costs against sustainment and remediation of equipment.

Enhanced Force Protection in Afghanistan

The 2011-12 Budget initially provided \$482.4 million for Enhanced Force Protection capabilities in Afghanistan. At the Additional Estimates Defence funded support to operations was increased by \$4.7 million and a further adjustment of -\$94.8 million was made post Additional Estimates for the re programming of acquisition funds to align with revised acquisition schedules. This resulted in a net 2011-12 Revised Estimate of \$392.4 million.

Actual expenditure for Enhanced Force Protection in Afghanistan was \$233.2 million less than the revised budget. The variation was mainly due to variations for the Indirect Fire Sense and Warn Capability (Counter Rocket and Mortar), cancellation of a proposed Intelligence Surveillance and Reconnaissance Electronic Warfare (ISREW) aircraft trial, and savings associated with the revised acquisition arrangements for the ISREW Persistent Surveillance Capability and the delivery under budget of reconnaissance robots.

Operations in Iraq (Operation KRUGER)

The 2011-12 Budget provided \$2.1 million for Operation KRUGER for the transition to a fully contracted security arrangement in 2011 as well as return of equipment to Australia and its remediation.

Actual expenditure for Operation KRUGER was \$0.3 million less than Budget due to lower than planned personnel costs.

Operations in East Timor (Operation ASTUTE)

The 2011-12 Budget provided \$160.2 million for the continuation of Operation ASTUTE.

Actual expenditure for Operation ASTUTE was \$18.5 million less than Budget due to lower than estimated personnel costs for Permanent and Reservists on continuous full time service, savings under the logistic support contract, variations in planned facilities works, lower than anticipated strategic lift requirements and lower than planned costs for sustainment and remediation of equipment.

Operations in Solomon Islands (Operation ANODE)

The 2011-12 Budget provided \$43.5 million for the continuation of Operation ANODE.

Actual expenditure for Operation ANODE was \$5.0 million less than Budget due to lower than estimated costs for the use of reservists on continuous full time service, lower than anticipated logistics support requirements, lower than planned strategic lift costs, and lower than planned costs for sustainment and remediation of equipment.

Coastal Surveillance Operations (Operation RESOLUTE)

The 2011-12 Budget provided \$9.8 million for the continuation of Operation RESOLUTE.

Actual expenditure for Operation RESOLUTE was \$3.6 million more than Budget due to the activation of the Learmonth base as a contingency for an expected increase in suspected illegal entry vessel arrivals.

Table 5.3: Total Cost of Defence Outcome 2^[1]

	2011-12 Budget Estimate ^[2] \$'000	2011-12 Revised Estimate ^[3] \$'000	2011-12 Actual Result \$'000	Variation \$'000	%
Program 2.1 - Operations Contributing to the Security of the Immediate Neighbourhood					
Revenue from other sources	5,500	5,500	5,074	-426	-8
Departmental outputs	203,669	203,669	176,296	-27,373	-13
Program 2.2 - Operations Supporting Wider Interests					
Revenue from other sources	40,891	40,891	29,024	-11,867	-29
Departmental outputs	1,375,285	1,247,823	782,667	-465,156	-37
Total resourcing					
Total Departmental outputs	1,578,954	1,451,492	958,963	-492,529	-34
Total Departmental revenue from other sources	46,391	46,391	34,098	-12,293	-26
Equity Injection	-	-	-	-	-
Total resources for Outcome 2	1,625,345	1,497,883	993,061	-504,822	-34

Notes

1. This table excludes Capital Payments for Outcomes.
2. As published in the *Portfolio Budget Statements 2011-12* table 51.
3. As published in the *Portfolio Budget Statements 2012-13* table 47.

Table 5.4: Departmental Cost Summary for Outcome 2^[1]

	2011-12 Budget Estimate ^[2] \$'000	2011-12 Revised Estimate ^[3] \$'000	2011-12 Actual Result \$'000	Variation \$'000	%
Expenses					
Employees	274,469	301,842	305,380	3,538	1
Suppliers	1,155,448	1,133,470	648,936	-484,534	-43
Grants	43,502	43,502	38,692	-4,810	-11
Depreciation and amortisation	-	-	-	-	-
Finance cost	-	-	-	-	-
Write-down of assets and impairment of assets	151,926	19,069	6	-19,063	-
Net losses from sale of assets	-	-	-	-	-
Other expenses	-	-	47	47	-
Total expenses	1,625,345	1,497,883	993,061	-504,822	-34
Income					
Revenue					
Goods and services	46,391	46,391	34,091	-12,300	-27
Other revenue	-	-	10	10	-
Total revenue	46,391	46,391	34,101	-12,290	-26
Gains					
Assets now recognised	-	-	-	-	-
Net gains from sale of assets	-	-	-	-	-
Other gains	-	-	-3	-3	-
Total gains	-	-	-3	-3	-
Total income	46,391	46,391	34,098	-12,293	-26
Total resources for Outcome 2	1,578,954	1,451,492	958,963	-492,529	-34

Notes

1. This table excludes Capital Payments for Outcomes.
2. Total aggregation of Outcome 2 programs as published in the *Portfolio Budget Statements 2011-12*.
3. Total aggregation of Outcome 2 programs as published in the *Portfolio Budget Statements 2012-13*.

Program 2.1

Operations Contributing to the Security of the Immediate Neighbourhood

Defence is focused on the security, stability and cohesion of our immediate neighbourhood, which we share with Indonesia, Papua New Guinea, East Timor, New Zealand and island countries of the South West Pacific. Defence has completed two short-notice operations and conducts six enduring operations in the Asia-Pacific region. The ADF continues to play a leading role in the region with more than 500 deployed personnel involved with enduring operations in East Timor working as part of, or in support to, the United Nations mission and in Solomon Islands through the Regional Assistance Mission to Solomon Islands. Additionally, the ADF provides support to explosive ordnance disposal in the Pacific region as part of Operation RENDER SAFE. Ongoing regional surveillance missions continue through Operations SOLANIA and GATEWAY. The ADF also contributed logistic elements to the whole-of-Government support package to the Papua New Guinea Government as part of their national elections. Further details on Defence activities that enhance the capabilities of the regional partner nations through the Defence Cooperation Program can be found at Appendix 4.

Program 2.1 Deliverables

Operation	Objective	Status 2011-12	Further Information
TOWER (2006 -)	Contribute to the United Nations Integrated Mission in East Timor	✓✓✓	The ADF provides four personnel to the United Nations mission in East Timor as an ongoing contribution to the development of East Timor security and stability in support of Australian national interests and the United Nations mandate. The current positions are Military Liaison Officers in Dili, the Operations Officer of the Military Liaison Group and the Deputy Chief of the Joint Mission Analysis Centre in Dili.
ASTUTE (2006 -)	Contribute security support to the Government of East Timor and the United Nations Mission in East Timor	✓✓✓	The ADF contributes approximately 390 personnel as part of the International Stabilisation Force (ISF). In addition to commanding the ISF, the ADF provides a Company Group, an Aviation Group, a Combat Service Support Group and a Force Communication Element. New Zealand contributes a national Support Element, a Platoon Group and mobility assets.

Operation	Objective	Status 2011-12	Further Information
ANODE (2003 -)	Contribute to the DFAT-led Regional Assistance Mission to Solomon Islands (RAMSI). The ADF mission is to assist the Solomon Islands Government maintaining a secure environment in order to foster social, economic and political stability in Solomon Islands	✓✓✓	The ADF leads the combined military contribution to the Regional Assistance Mission to Solomon Islands and provides around 110 personnel to the operation. New Zealand provides around 40 personnel. Tonga or Papua New Guinea each deploy one response force platoon on a rotational basis.
GATEWAY (1981-)	Conduct Northern Indian Ocean and South China Sea maritime surveillance patrols.	✓✓✓	The planned commitment is one AP-3C maritime patrol aircraft for four deployments per year. There were five deployments conducted during 2011-12.
SOLANIA (1988 -)	Conduct South-West Pacific maritime surveillance patrols	✓✓✓	The planned commitment is four AP-3C deployments per year, consisting of approximately four sorties each. In addition, Navy vessels operating or transiting the region provide surface reporting under Operation SOLANIA. There were 11 deployments conducted during 2011-12.
RENDER SAFE (2009 -)	To provide explosive ordnance disposal support to South West Pacific Island nations for the disposal of Unexploded Ordnance and Explosive Remnants of War	-	No Operation RENDER SAFE activities were planned in 2011-12.
CATHEDRAL (May – July 2012)	As part of a WoG commitment and supported by the New Zealand Defence Force to provide airlift support to the Government of Papua New Guinea during the period 30 May 12 to 30 Jul 12 in order to support the conduct of the 2012 Papua New Guinea National Election	✓✓✓	Combined Joint Task Force 630 consisting of about 230 personnel was deployed to Papua New Guinea in May. The deployment consisted of a Headquarters, Australia and New Zealand Defence Force helicopters, the Air Force fixed wing assets, and a Navy Landing Craft. Strategic air lift capability was also provided by aircraft based in Australia.

The ADF delivered the following operational effects in support of Government directives to assist in regional contingencies that occurred in 2011-12.

Operation	Objective	Status 2011-12	Further Information
PACIFIC PARTNERSHIP 2012 (May – August 2012)	To improve United States and Australian military, and partner nation capacity in dealing with future Humanitarian Assistance and Disaster Relief response contingencies in the region	✓✓✓	The deployment consisted of visits to Indonesia, the Philippines, Vietnam and Cambodia.
Support to Tuvalu	Assist the movement of water purification systems	✓✓✓	The ADF relocated New Zealand Defence Force water purification systems to assist drought relief activities in Tuvalu.

Program 2.2 Key Performance Indicators

KPI	Status 2011-12	Comment
(i) ADF operations meet their stated objectives within the Government's guidance	✓✓✓	This KPI has continued to be met. This KPI is applicable to all program 2.1 deliverables.
(ii) ADF forces are effectively deployed and sustained	✓✓✓	This KPI has continued to be met. This KPI is applicable to all program 2.1 deliverables.
(iii) ADF forces are withdrawn for reconstitution when they are no longer required	✓✓✓	This KPI has continued to be met. This KPI is applicable to all program 2.1 deliverables.

Table 5.5: Cost Summary for Program 2.1 Operations Contributing to the Security of the Immediate Neighbourhood^[1]

	2011-12 Budget Estimate ^[2] \$'000	2011-12 Revised Estimate ^[3] \$'000	2011-12 Actual Result \$'000	Variation \$'000	%
Expenses					
Employees	63,038	63,038	56,197	-6,841	-11
Suppliers	146,131	146,131	125,173	-20,958	-14
Grants	-	-	-	-	-
Depreciation and amortisation	-	-	-	-	-
Finance cost	-	-	-	-	-
Write-down of assets and impairment of assets	-	-	-	-	-
Net losses from sale of assets	-	-	-	-	-
Other expenses	-	-	-	-	-
Total expenses	209,169	209,169	181,370	-27,799	-13
Income					
Revenue					
Goods and services	5,500	5,500	5,074	-426	-8
Other revenue	-	-	-	-	-
Total revenue	5,500	5,500	5,074	-426	-8
Gains					
Assets now recognised	-	-	-	-	-
Net gains from sale of assets	-	-	-	-	-
Other gains	-	-	-	-	-
Total gains	-	-	-	-	-
Total income	5,500	5,500	5,074	-426	-8
Program 2.1 Operations Contributing to the Security of the Immediate Neighbourhood	203,669	203,669	176,296	-27,373	-13

Notes

1. This table excludes Capital Payments for Outcomes.
2. As published in the *Portfolio Budget Statements 2011-12* table 52.
3. As published in the *Portfolio Budget Statements 2012-13* table 48.

Program 2.2

Operations supporting wider interests

Under Operation SLIPPER, the ADF contributes to the North Atlantic Treaty Organisation led International Security Assistance Force (ISAF) in Afghanistan. Through the United Nations mandated international stabilisation effort in Afghanistan, ISAF seeks to bring security, stability and prosperity to Afghanistan and aims at preventing the country from again becoming a safe haven for international terrorists. With around 1,550 ADF personnel based within Afghanistan, and about 830 personnel deployed across the broader Middle East Area of Operations, Operation SLIPPER represents the most significant military operation for Defence and the Government.

During 2011-12, the main focus of the ADF effort in Afghanistan has remained the development of the Afghan security forces capability to take lead responsibility for the security of their country. To this end, the ADF has continued mentoring the Afghan National Army's 4th Brigade so it can take over lead responsibility for security in Uruzgan Province. The key components of the ADF's involvement include the troops of the Mentoring Task Force, recently replaced by the 3 RAR Task Group, Special Operations Task Group, Air Force C-130, P-3 and C-17 Globemaster III aircraft; and logistics, communication and movements personnel operating across key nodes of the Middle East. Additionally, the deployed Royal Australian Navy Major Fleet Unit contributes to counter-terrorism, maritime security and anti-piracy efforts in the maritime domain of the region.

In support of rules-based global security order, Defence continues to provide support to six United Nations missions and coalition operations. The ADF has maintained its longstanding links to the multi-national observer mission in Sinai, Egypt, under Operation MAZURKA, and five other United Nations missions in the Middle East and Africa, and concluded our support to the Australian Government diplomatic mission in Iraq.

Program 2.2 Deliverables

Operation	Objective	Status 2011-12	Further Information
PALADIN (1956-)	Contribute to the United Nations Truce Supervision Organisation in the Middle East	✓✓	Up to twelve ADF officers act as military observers in South Lebanon, Israel and Syria. On occasions they will serve in Egypt and as staff officers at the United Nations Truce Supervision Organisation headquarters in Jerusalem.
MAZURKA (1982-)	Contribute personnel to the Multi-national Force and Observers in the Sinai	✓✓	Twenty-five ADF personnel serve as staff officers or specialist staff.

Operation	Objective	Status 2011-12	Further Information
SLIPPER (2001-)	Contribute to the international coalition against international terrorism and assist with the reconstruction of Afghanistan	✓✓	<p>The ADF currently has around 2400 personnel deployed including:</p> <ul style="list-style-type: none"> • an Australian National Headquarters element commanded by a two star officer • the Mentoring Task Force (MTF), 3 Royal Australian Regiment (RAR) Task Group which advises an Afghan National Army Infantry Brigade and conducts project management tasks to assist the Afghan Government achieve a stable and secure future for its people. The MTF and 3 RAR TG also support a trade training school that provides instruction in basic trades • a Special Operations Task Group, partnering with the National Directorate of Security and National Interdiction Unit provides enhanced provincial security by disrupting the insurgency's command, control and supply routes • a Rotary Wing Group that provides helicopter support to the ADF and coalition forces deployed in southern Afghanistan • a Force Communications Unit that has staff deployed throughout the Middle East, providing specialist communications support to deployed Australian Forces • a Force Support Unit that is the main logistics supplier for personnel and equipment in the Middle East • a Navy command and staff element, which commands the Combined Task Force 150 on a rotational basis with coalition partners • a Royal Australian Navy Major Fleet Unit that undertakes counter-terrorism, maritime security, and counter-piracy operations in the Arabian Sea, Gulf of Aden and Arabian Gulf • an Air Component Command consisting of a Maritime Patrol Aircraft Group, which provides maritime surveillance of the Arabian Gulf, Arabian Sea, and an Air Movements Group, which provides air movements support to the ADF and coalition transport aircraft.

Operation	Objective	Status 2011-12	Further Information
AZURE (2005-2011)	Contribute to the United Nations Mission in Sudan	✓✓✓	Seventeen ADF personnel served with the United Nations Mission in Sudan as headquarters staff, United Nations Military Observers or national support staff. The operation transitioned to Operation ASLAN and formally ceased on 22 December 2011.
ASLAN (2011-)	Contribute to the United Nations Mission in the Republic of South Sudan	✓✓	Twenty ADF personnel serve with the United Nations Mission in South Sudan (UNMISS) as headquarters staff, military liaison officers, ADF liaison officers or national support staff.
PALATE II (2005-)	Provide Military Liaison Officers to the United Nations Assistance Mission in Afghanistan	✓✓	One military liaison officer is located in the United Nations Assistance Mission in Afghanistan headquarters, Kabul. A second military liaison officer is based with the United Nations Assistance Mission in Afghanistan in Kandahar City.
HEDGEROW (2008-2011)	Contribute to the hybrid United Nations and African Union Mission in Darfur (Sudan)	✓✓✓	ADF personnel served as United Nations headquarters staff or specialist officers with African Union Hybrid Mission in Darfur. No ADF personnel have deployed since August 2009. This operation formally ceased in July 2011.
KRUGER (2009-)	Support Government relations with Iraq through the delivery of tailored security support to the diplomatic mission	✓✓✓	The Security Detachment that supported Australian Embassy staff transitioned to a contracted security capability in August 2011.
RIVERBANK (2008-)	Contribute to the United Nations Assistance Mission for Iraq	✓✓	Two ADF personnel serve as military advisors with the United Nations Assistance Mission in Iraq, including the position of Senior Military Advisor to the Special Representative of the Secretary General.

Program 2.2 Key Performance Indicators

KPI	Status 2011-12	Comment
(i) ADF operations meet their stated objectives within the Government's guidance	✓✓✓	This KPI is applicable to all program 2.2 deliverables. JOC has continued to meet this KPI.
(ii) ADF forces are effectively deployed and sustained	✓✓✓	This KPI is applicable to all program 2.2 deliverables. JOC has continued to meet this KPI.
(iii) ADF forces are withdrawn for reconstitution when they are no longer required	✓✓✓	This KPI is applicable to all program 2.2 deliverables. JOC has continued to meet this KPI.

Table 5.6: Cost Summary for Program 2.2 Operations Supporting Wider Interests^[1]

	2011-12 Budget Estimate ^[2] \$'000	2011-12 Revised Estimate ^[3] \$'000	2011-12 Actual Result \$'000	Variation \$'000	%
Expenses					
Employees	211,431	238,804	249,183	10,379	4
Suppliers	1,009,317	987,339	523,763	-463,576	-47
Grants	43,502	43,502	38,692	-4,810	-11
Depreciation and amortisation	-	-	-	-	-
Finance cost	-	-	-	-	-
Write-down of assets and impairment of assets	151,926	19,069	6	-19,063	-
Net losses from sale of assets	-	-	-	-	-
Other expenses	-	-	47	47	-
Total expenses	1,416,176	1,288,714	811,691	-477,023	-37
Income					
Revenue					
Goods and services	40,891	40,891	29,018	-11,873	-29
Other revenue	-	-	10	10	-
Total revenue	40,891	40,891	29,027	-11,864	-29
Gains					
Assets now recognised	-	-	-	-	-
Net gains from sale of assets	-	-	-	-	-
Other gains	-	-	-3	-3	-
Total gains	-	-	-3	-3	-
Total income	40,891	40,891	29,024	-11,867	-29
Program 2.2 Operations Supporting Wider Interests	1,375,285	1,247,823	782,667	-465,156	-37

Notes

1. This table excludes Capital Payments for Outcomes.
2. As published in the *Portfolio Budget Statements 2011-12* table 53.
3. As published in the *Portfolio Budget Statements 2012-13* table 49.

Chapter 6

Outcome 3 Performance

Outcome 3: Support for the Australian community and civilian authorities as requested by Government.

Outcome 3 Summary

Outcome 3 focuses on the ability of the Australian Defence Force (ADF) to contribute to National Support Tasks in Australia (Program 3.1) where directed by Government, both in emergency and non-emergency situations.

Emergency assistance in Australia is provided and managed using the Australian Government emergency management plans and arrangements maintained by Emergency Management Australia. To support these plans, the ADF has developed a series of Defence standing plans for short-notice Defence Contribution to National Support Tasks, conducts training and exercises, and maintains selected force elements at preparedness levels should these plans be activated.

The following Program Deliverables and Key Performance Indicators (KPIs) tables are assessed using the below Key system:

Key		
-	Not Achieved	None or minimal progress was made against targets in 2011-12. Explanations are provided in the 'further information column.
✓	Partially Achieved	Some targets were met, and any issues are being managed.
✓✓	Substantially Achieved	Targets were mostly met and any issues are being managed.
✓✓✓	Achieved	All targets for 2011-12 were met or exceeded.

Table 6.1: Total Cost of Defence Outcome 3^[1]

	2011-12 Budget Estimate ^[2] \$'000	2011-12 Revised Estimate ^[3] \$'000	2011-12 Actual Result \$'000	Variation \$'000	%
Program 3.1 - Defence Contribution to National Support Tasks in Australia					
Revenue from other sources	-	-	-	-	-
Departmental outputs	9,829	9,829	18,461	8,632	88
Total resourcing					
Total Departmental outputs	9,829	9,829	18,461	8,632	88
Total Departmental revenue from other sources	-	-	-	-	-
Total resources for Outcome 3	9,829	9,829	18,461	8,632	88

Notes

1. This table excludes Capital Payments for Outcomes.
2. As published in the *Portfolio Budget Statements 2011-12* table 54.
3. As published in the *Portfolio Budget Statements 2012-13* table 50.

Table 6.2: Departmental Cost Summary for Outcome 3^[1]

	2011-12 Budget Estimate ^[2] \$'000	2011-12 Revised Estimate ^[3] \$'000	2011-12 Actual Result \$'000	Variation \$'000	%
Expenses					
Employees	1,269	1,269	233	-1,036	-82
Suppliers	8,560	8,560	18,228	9,668	-
Grants	-	-	-	-	-
Depreciation and amortisation	-	-	-	-	-
Finance Cost	-	-	-	-	-
Write-down of assets and impairment of assets	-	-	-	-	-
Net losses from sale of assets	-	-	-	-	-
Other expenses	-	-	-	-	-
Total expenses	9,829	9,829	18,461	8,632	88
Income					
Revenue					
Goods and services	-	-	-	-	-
Other revenue	-	-	-	-	-
Total revenue	-	-	-	-	-
Gains					
Assets now recognised	-	-	-	-	-
Net gains from sale of assets	-	-	-	-	-
Other gains	-	-	-	-	-
Total gains	-	-	-	-	-
Total Income	-	-	-	-	-
Total resources for Outcome 3	9,829	9,829	18,461	8,632	88

Notes

1. This table excludes Capital Payments for Outcomes.
2. Total aggregation of Outcome 3 programs as published in the *Portfolio Budget Statements 2011-12*.
3. Total aggregation of Outcome 3 programs as published in the *Portfolio Budget Statements 2012-13*.

Program 3.1

Defence Contribution to National Support Tasks in Australia

National support tasks undertaken by the ADF may include the security of the Australian coastline from illegal immigration, smuggling, quarantine evasion and other intrusions to Australian sovereignty, counter-terrorism responses, search and rescue, and natural disaster relief.

The ADF contributes to the Coastwatch civil surveillance program and Border Protection Command tasking, providing maritime surveillance assets that are routinely tasked in accordance with the Government's direction.

Pressures that may arise from sustained deployment of major force elements will be addressed through closely monitoring ADF concurrency to ensure the ADF retains flexible response options in support of the priorities of the Government. Possible significant deterioration in the security environment requiring additional ADF elements will be managed by working closely with federal and state agencies to monitor threats.

Program 3.1 Deliverables

Operation	Objective	Status 2011-12	Further Information
RESOLUTE (2006-)	Contribute to a whole-of-Government effort covering maritime enforcement activity	✓✓✓	The ADF currently provides the following major assets: at least seven Navy patrol boats; three P-3 maritime patrol aircraft; Army Regional Force Surveillance Units; a Transit Security Element (embarked in Navy patrol boats); and one Major Fleet Unit on standby.
Flood relief in Northern NSW, Southern QLD and VIC	The ADF provided support to the QLD, NSW and VIC Governments in the wake of serious flooding events	✓✓✓	
Support to Commonwealth Head of Government meeting (CHOGM) (Oct 2011)	Support to the Australian Government's contribution to the security of CHOGM	✓✓✓	The ADF provided a number of capabilities and specialist support to the Western Australia Police and other Government Agencies as part of the overall security arrangements for CHOGM.
Support to the United States President's Visit (Nov 2011)	Support security arrangements for the United States President's visit to Canberra and Darwin	✓✓✓	The ADF provided a number of capabilities to support the AFP, Northern Territory Police and other Government Agencies as part of the overall security arrangements for the US President's visit.

Program 3.1 Key Performance Indicators

KPI	Status 2011-12	Further Information
(i) Defence's contribution to national support tasks in Australia meets Government directives	✓✓✓	Linked to Deliverable (i). This KPI has continued to be met.
(ii) Defence's response to requests for Defence Force Aid to Civilian Authorities is effectively managed, sustained and reported	✓✓✓	This KPI has continued to be met.
(iii) Defence's response to requests for Defence Assistance to the Civil Community is effectively managed, sustained and reported.	✓✓✓	This KPI has continued to be met.

Table 6.3: Cost Summary for Program 3.1 Defence Contribution to national support tasks in Australia^[1]

	2011-12 Budget Estimate ^[2] \$'000	2011-12 Revised Estimate ^[3] \$'000	2011-12 Actual Result \$'000	Variation \$'000	%
Expenses					
Employees	1,269	1,269	233	-1,036	-82
Suppliers	8,560	8,560	18,228	9,668	-
Grants	-	-	-	-	-
Depreciation and amortisation	-	-	-	-	-
Finance Cost	-	-	-	-	-
Write-down of assets and impairment of assets	-	-	-	-	-
Net losses from sale of assets	-	-	-	-	-
Other expenses	-	-	-	-	-
Total expenses	9,829	9,829	18,461	8,632	88
Income					
Revenue					
Goods and services	-	-	-	-	-
Other revenue	-	-	-	-	-
Total revenue	-	-	-	-	-
Gains					
Assets now recognised	-	-	-	-	-
Net gains from sale of assets	-	-	-	-	-
Other gains	-	-	-	-	-
Total gains	-	-	-	-	-
Total income	-	-	-	-	-
Program 3.1 Defence Contribution to National Support Tasks in Australia	9,829	9,829	18,461	8,632	88

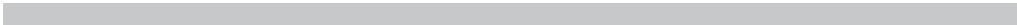
Notes

1. This table excludes Capital Payments for Outcomes.
2. As published in the *Portfolio Budget Statements 2011-12* table 55.
3. As published in the *Portfolio Budget Statements 2012-13* table 51.



SECTION THREE

Management and Accountability



Chapter 7

Governance and Accountability

The Defence Governance framework is designed to ensure that the Department has clearly defined roles, responsibilities and accountabilities, as well as mechanisms to manage and monitor progress and performance, and that Defence is accountable to the Government and legislation, with defined assurance and audit processes.

Defence Corporate Governance

Implementation of the Black Review

As one of the most largest and complex organisations in Australia, Defence needs to ensure it remains responsive and accountable. In order to support Government priorities and requirements, Defence is implementing the recommendations of the *Review of the Defence Accountability Framework* by Dr Rufus Black (the Black Review). The Black Review challenges Defence to improve its planning, decision making, project management, personal and institutional performance and accountability as well as the management of skills and specialisation.

2012-17 Defence Corporate Plan

A major achievement for 2011-12 was development of the *2012-17 Defence Corporate Plan*. This was a key recommendation of the Black Review. The Corporate Plan was developed over many months, drawing on government direction and strategic guidance as well as extensive consultation within the Defence Senior Leadership Group.

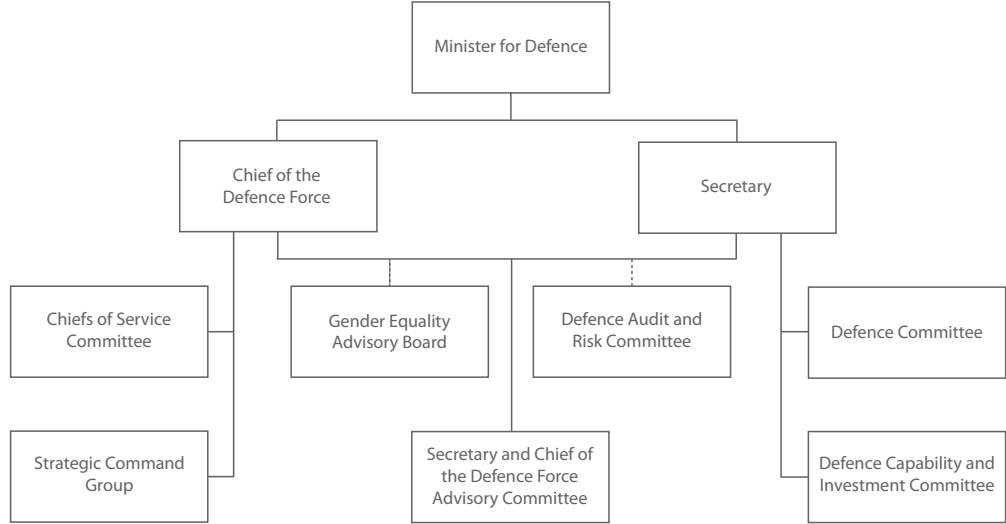
The Corporate Plan outlines the major activities to be undertaken in Defence over the next five years, and provides clear performance benchmarks to track implementation. The major activities covered by the plan include priorities such as support for operations and transition from Afghanistan and East Timor, regional engagement, capability acquisition and sustainment, infrastructure and the “Defence backbone” as well as important reforms including the Strategic Reform Program and *Pathway to Change*. The corporate planning process further supports accountability by identifying individuals responsible for delivering outcomes and the time periods for delivery. Implementation of the plan will be tracked quarterly, allowing the Secretary and CDF to identify areas of both strength and stress within the Defence organisation and take corrective action where appropriate. The Corporate Plan is a dynamic document and will be updated for new strategic guidance, such as the *Defence White Paper 2013*, when required.

Senior Management Committee System

A key outcome of implementing the Black Review is the rationalisation of senior Defence committees to streamline decision making, improve accountability, and reduce duplication across the organisation. Consequently, the total number of senior committees was reduced from 10 to seven, by incorporating three committees into the pre-eminent Secretary and Chief of the Defence Force Advisory Committee (SCAC). The SCAC is now a default Committee for business that requires the attention of the Secretary and the CDF.

The following figure shows seven senior Defence Committees, each of which plays an important role in the effective governance of Defence. All senior Defence committees have an advisory role with the chair exercising executive authority.

Figure 7.1: Structure of Senior Defence Committees



Establishment of the Chief Operating Officer

A further recommendation of the Black Review implemented by Defence was the establishment of a new Associate Secretary position to improve coordination and integration of services. In February 2012, Mr Simon Lewis was appointed Associate Secretary and Chief Operating Officer (COO). The (COO) organisation brings together Personnel Services and Policy (now Defence People Group), Defence Support, and Chief Information Officer groups, which provides an opportunity to deliver integrated corporate services to the department that best support the reforms. The COO is also responsible for implementing key parts of the Shared Services Review and achieving cost efficiencies and cultural change.

Other Governance Structures

Defence Strategic Reform Advisory Board (DSRAB)

The DSRAB was established by the Minister for Defence to provide external scrutiny of the Strategic Reform Program (SRP). The DSRAB enables Defence to draw on the combined insights of senior private-sector leaders with experience in large-scale organisational reform as well as the broader whole-of-Government perspectives of secretaries of key government departments. The DSRAB comprises a number of eminent Australians from the private and public sectors and meets quarterly.

The Board's primary function is to provide advice to Government, through the Minister for Defence, on implementation of the SRP, and to assist in ensuring that the reforms are being implemented in the way intended by Government.

Internal auditing

Audit Branch provides assurance to the Secretary, CDF, and to a lesser extent, to the Chief Executive Officer for the Defence Materiel Organisation (DMO), that financial and operational controls designed to manage Defence's major risks are in place and are operating in an efficient and effective manner. Audit Branch also assists Defence senior managers and the DMO Executive in improving the business performance of their organisations.

During 2011-12, Audit Branch provided internal audit services in accordance with the annual Audit Work Program that was approved by the Defence Audit and Risk Committee. These audits look into areas of high level risk or activities where there are potential control deficiencies that, either have or if not addressed as a matter of priority, could lead to significant financial loss, or expose Defence to serious reputational damage.

Audit Branch issued a total of 39 audit reports. In addition, four Australian National Audit Office performance audits were completed, with a further four underway, to which Audit Branch provided direct support.

Fraud and Ethics

Fraud and Ethics Awareness

A Fraud and Ethics Awareness Program underpins Defence's approach to fraud control. The awareness program comprises either a face-to-face presentation or completing an eLearning module, as well as videos, newsletters and a dedicated intranet site for information and advice. Fraud and Ethics awareness training is mandatory for all Defence personnel and must be completed at least every two years.

In 2011-12, 162 fraud and ethics awareness presentations were delivered to over 11,000 Defence personnel across Australia. In addition, over 20,000 personnel completed fraud and ethics awareness training through the Defence eLearning platform, CAMPUS.

Fraud Control

In accordance with the *Commonwealth Fraud Control Guidelines 2011*, following on from the fraud risk assessment conducted in the first half of 2011, Defence released the *Defence Fraud Control Plan No.9* in November 2011.

Fraud Investigations

There were 376 fraud investigations registered within Defence during 2011-12 and 404 investigations completed (a number of those completed were registered in previous years). Approximately 27 per cent of completed investigations resulted in criminal, disciplinary or administrative action. Of these, around 39 per cent related to action under the *Defence Force Discipline Act 1982*.

The determined fraud loss for completed cases in 2011-12 was \$1.1 million, while monies recovered amounted to just under \$0.5 million. As Table 7.1 shows, over the past five financial years, detected fraud has averaged at approximately \$1.2 million per year, within a range of \$0.7 million to \$2.3 million.

Table 7.1: Determined Fraud Loss and Recoveries 2007-08 to 2011-12^[1]

	2007-08 (\$)	2008-09 (\$)	2009-10 (\$)	2010-11 (\$)	2011-12 (\$)
Loss	2,302,281	690,452	1,039,721	916,419	1,102,979
Recovery^{[2] [3]}	189,494	300,796	359,393	422,691	493,210

Notes

1. The determined loss and recoveries information is based on investigations closed in the relevant year.
2. Debts are often not assessed and/or recovered in the same year that the loss occurred.
3. There are many factors that can contribute to the variable rate of recovery. Firstly, investigations often confirm a loss to the Commonwealth, but recoveries are not possible due to evidentiary limitations and/or the lack of a suspect. Secondly, serious frauds which have resulted in successful convictions often establish significant reparation amounts. Subsequent recoveries from convicted offenders, who may be been imprisoned, or unemployed, have few assets and are (or become) bankrupt, is very difficult. Even when a recovery arrangement has been successfully entered into with the offender, it is often many years before the full amount owed is recovered.

Information Publication Scheme

Agencies subject to the *Freedom of Information Act 1982* (FOI Act) are required to publish information to the public as part of the Information Publication Scheme (IPS). This requirement is in Part II of the FOI Act and has replaced the former requirement to publish a section 8 statement in an annual report. Each agency must display on its website a plan showing what information it publishes in accordance with the IPS requirements.

The IPS website and access to Defence publications is available at <www.defence.gov.au/ips/>. Statistics on Freedom of Information requests can be found under Annual Reporting on the Freedom of Information Website <www.defence.gov.au/foi/>, or on the Office of the Australian Information Commissioner website <www.oaic.gov.au/publications/reports.html>.

Chapter 8

External Scrutiny

Parliamentary Scrutiny

The level of Parliamentary interest in Defence matters continues to grow through private and public briefings and submissions to specific inquiries and through responses to written questions on notice.

In particular, the significant increase in the number of questions on notice has created challenges for Defence in providing comprehensive and timely responses. Table 8.1 below shows a 180 per cent increase in the overall number of questions on notice from last year.

Table 8.1: Questions on Notice received over the last three years

Source of Questions on Notice	2009-10	2010-11	2011-12
House of Representatives/Senate Notice Paper	195	104	358
Senate Estimates (October, February, May)	103	239	650
Parliamentary Inquiries	36	58	118
Total	334	401	1,126

In 2011-12, Defence provided 15 written submissions to various Senate, House of Representatives and Joint Committee inquiries, and contributed to one whole-of-Government submission. Defence witnesses appeared at 14 hearings providing evidence on a range of issues, and responded to 118 follow on questions on notice and either tabled or contributed to 5 government responses to Parliamentary Committee reports throughout the year.

To assist Parliamentary Committee members in gaining a better understanding of Defence issues, Defence also provided 12 private briefings on a range of subjects including counter insurgency, submarines, the joint strike fighter and amphibious capabilities.

Table 8.2 below shows Defence's increasing contribution to various Parliamentary Committees' activities over the last three years.

Table 8.2: Defence's Parliamentary contribution over the last three years

Parliamentary contribution	2009-10	2010-11	2011-12
Written submissions	6	12	15
Whole-of-Government submissions	1	3	1
Government responses	9	5	5
Public hearings	14	13	14
Private hearings	5	6	12
Total	35	39	47

In 2011–2012, Defence provided evidence and written submissions to various Senate, House of Representatives and Joint Committee inquiries, and contributed to one whole-of-Government submission. Defence witnesses appeared at hearings, providing evidence on a range of issues, including the Defence Trade Controls Bill, Mental Health and Workforce Participation and Veterans' Entitlements. The Department responded to 118 follow on questions on notice and either tabled or contributed to a number of Government responses to Parliamentary Committee reports throughout the year.

To assist Parliamentary Committee members in gaining a better understanding of Defence issues, Defence also provided private briefings on topics as diverse as Defence capability projects (including Future Submarines, Joint Strike Fighter and Armed Reconnaissance Helicopters), Wounded Soldier Care, Counter Insurgency and Recruitment Strategies and Programs.

Further information on Defence's specific Parliamentary Committee activities can be found in Appendix 2.

Judicial Decisions and Decisions of Administrative Tribunals

The *Military Justice (Interim Measures) Act (No. 2) 2009* (Interim Measures Act) was enacted on 22 September 2009, after the High Court held that the Australian Military Court was unconstitutional and its decisions were invalid (*Lane v Morrison* (2009) 239 CLR 230). The Interim Measures Act declared the rights of persons who had been punished by the Australian Military Court to be the same as if the invalid punishments had been imposed by a court martial. A long line of High Court authority had held that imposition of punishments by courts martial was consistent with the Constitution and this method of rectifying decisions rendered invalid for constitutional reasons had previously been upheld in *R v Humby ex parte Rooney* (1973) 129 CLR 231.

In late 2010 and early 2011, two Australian Defence Force members (one a former member) who had been convicted and sentenced by the Australian Military Court prior to the High Court's decision in *Lane* challenged the validity of the Interim Measures Act (*Haskins v the Commonwealth* [2011] HCA 28 and *Nicholas v The Commonwealth* [2011] HCA 29).

The plaintiff in each case challenged the validity of the Interim Measures Act on the ground that it amounted to a bill of pains and penalties. In the case of *Haskins*, the challenge was also based on a claim that the Interim Measures Act acquired property (namely a right to sue for damages for false imprisonment) other than on just terms, in breach of section 51(xxxi) of the Constitution.

The parties agreed that the cases would proceed by way of a stated Special Case and, on 10 August 2011, the High Court delivered judgment in these cases. The High Court upheld, by a majority in both cases, the validity of the Interim Measures Act.

Auditor-General's Reports

In 2011-12, the Auditor-General tabled four reports relating directly to Defence as well as two cross-portfolio reports.

This section provides specific information on the Auditor-General's reports that were tabled in 2011-12 that relate to Defence's activities.

Audit Report No 1 – *The Australian Defence Force's Mechanisms for Learning from Operational Activities*, tabled 12 July 2011.

The objective of this audit was to assess the effectiveness of the ADF's mechanisms for learning from its military operations and exercises. In particular, the audit focused on the systems and processes the ADF uses for identifying and acting on lessons, and for evaluating performance. The Australian National Audit Office also examined the manner in which information on lessons is shared within the ADF, with other relevant government agencies, and with international organisations. Reporting to Parliament was also considered.

Audit Report No 19 – *Oversight and Management of Defence's Information and Communication Technology*, tabled 20 December 2011.

The objective of the audit was to assess the development of Defence's oversight and management of its portfolio of ICT investments and projects. In particular, the audit examined Defence's:

- governance, strategic processes and decision-making structures that set out, prioritise and coordinate the integrated ICT reform portfolio and programs
- ICT risk management and capacity to identify and plan to achieve the benefits of its Strategic Reform Program (SRP) ICT stream reforms (including methodologies to measure the realisation of savings and non-savings benefits)
- level of portfolio and program management maturity
- the impact of improvement efforts on Defence's ability to deliver the ICT services capacity required to support the SRP.

Audit Report No 34 – *Upgrade of the M113 Fleet of Armoured Vehicles*, tabled 24 May 2012.

The objective of the audit was to assess the progress of the M113 Upgrade Project (Defence Project: LAND 106), including progress in the development of operational capability resulting from the introduction of the upgraded vehicles into service. The high-level audit criteria used to assess the project's progress and Defence's effectiveness in administering the M113 Upgrade Project were:

- the degree to which the schedule for the production and delivery of upgraded M113 vehicles to Defence had been recovered in accordance with Defence's response to the 2008–09 audit report and contractual requirements, as negotiated over the life of the contract
- Defence's measurement and allocation of the total cost of the upgrade project
- the development of capability arising from the upgrade project.

Audit Report No 52 – *Gate Reviews for Defence Capital Acquisition Projects*, tabled 26 June 2012.

The objective of this audit was to examine the effectiveness of the Defence Materiel Organisation's implementation of its Gate Review process for major Defence capital acquisition projects.

Cross-Portfolio Reports

This section provides specific information on the two cross-portfolio reports that were tabled by the Auditor-General's in 2011-12 that directly included Defence.

Audit Report No 33 -
Management of ePassports,
tabled 22 May 2012.

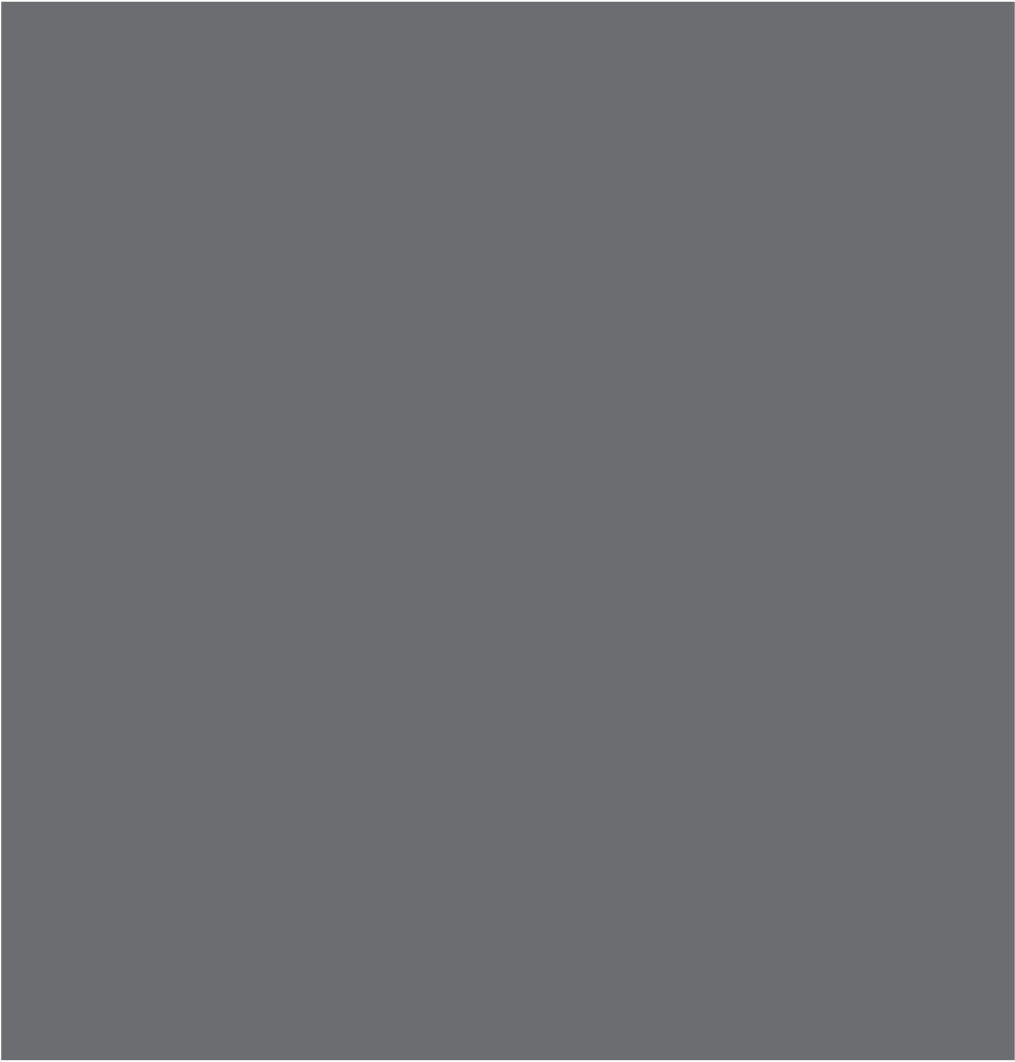
The objective of the audit was to assess whether Defence is effectively managing the Explosive Ordnance Services Contract. The audit focused mainly on Defence's contract management framework, including the arrangements to monitor the contractor's performance in delivering services under the contract. The audit also examined the processes used by Defence to develop the current version of the contract and the extent to which the revised contract provides an assurance of better value for money when compared to the original contract.

Audit Report No 49 – *Security Assessments of Individuals*,
tabled 25 June 2012.

The objective of the audit was to assess the effectiveness of Australian Security Intelligence Organisation's arrangements for providing timely and soundly based security assessments of individuals to client agencies.

Ombudsman's Reports

There were no formal reports to the Chief of the Defence Force pursuant to section 15 of the *Ombudsman Act 1976*, nor were any reports raised under section 16, 17 or 19 of the Act relating to the operations of the ADF during the period under review.



SECTION FOUR

Legislation Administered by Defence



Chapter 9

Annual Report on Administration and Operation of the Defence Home Loans Schemes

Defence currently has two home ownership schemes in operation.

The Defence Home Owner Scheme (DHOS) is administered under the *Defence Force (Home Loans Assistance) Act 1990* by the Scheme Administrator, the Department of Veterans' Affairs. Section 39 of the Act requires that an annual report be prepared for the Minister on the administration and operation of the Act. The annual report is set out below.

From 1 July 2008 the Scheme was superseded by the Defence Home Ownership Assistance Scheme (DHOAS). The DHOS closed to new applications from serving ADF members on 30 June 2008, and closed to new applications from former ADF members and other eligible persons on 30 June 2010. Subsidy continues to be paid to existing clients and the National Australia Bank has agreed to continue as sole provider for the Scheme.

The DHOAS commenced on 1 July 2008 and is administered under the *Defence Home Ownership Assistance Scheme Act 2008* by Department of Veterans' Affairs, the Scheme Administrator. While there is no statutory reporting requirement with respect to the DHOAS, an annual report is provided below for completeness and comparison with the DHOS.

The Defence Home Owner Scheme (Defence Force (Home Loans Assistance) Act 1990)

Objectives

The objectives of the Defence Home Owner Scheme (DHOS) were to:

- attract and retain ADF personnel
- encourage home ownership during service as a cost-effective alternative to rental assistance
- assist in the reintegration of ADF personnel into the community on return to civilian life.

Description

The DHOS Scheme provides a subsidy on the interest payable on home loans from \$10,000 to \$80,000 (held by clients who applied prior to 30 June 2010). The benefits are provided under an agreement between the National Australia Bank and the Commonwealth. The subsidy amount is calculated at 40 per cent of the average monthly interest on the loan.

Prior to its closure, the scheme was available to permanent ADF members who enlisted between 15 May 1985 and 30 June 2008 and to those permanent ADF members who elected to revoke their entitlement under the Defence Service Homes Scheme in favour of a DHOS entitlement. Reserves and Emergency Force personnel who provided efficient part-time service were also eligible for assistance. In some limited circumstances, eligible members who meet certain criteria and did not access their entitlement prior to the 30 June closure may apply for a similar benefit (a subsidised loan of up to \$80,000) under the new Defence Home Ownership Assistance Scheme.

Subsidy Entitlement

The subsidy entitlement period is calculated on the number of completed years of effective full-time service after completion of a five-year qualifying period. The qualifying period for Reservists is eight continuous years of effective service.

For members with recognised operational or war-like service, the qualifying period does not apply and the maximum period of the subsidy may be extended from 20 to 25 years. There are special considerations for re-joining members, widows and widowers, eligible persons and members discharged as a result of a compensable disability.

Performance for 2010-2011

With the closure of the DHOS on 30 June 2010, there were no new applications for entitlement received during 2011-12. The total number of approved loans current as at 30 June 2012 was 2,062. Since the introduction of the Defence Home Ownership Assistance Scheme on 1 July 2008, there has been a significant decline in the number of members in payment.

Performance evaluation of the scheme's administration

Defence is satisfied with DVA's performance in administering the DHOS. The National Australia Bank has met its obligations to the Commonwealth under the Act and has provided effective service to the scheme.

There were no appeals lodged with the Administrative Appeals Tribunal.

Table 9.1: Applications for Payment of Subsidy by Type of Assistance^[1]

Activity	2007-08	2008-09	2009-10	2010-11	2011-12
Buy a home	366	56	32	15	0
Re-finance a loan	154	46	17	20	0
Enlarge a home	1	1	-	-	0
Build a home	75	23	3	7	0
Renovate a home	14	6	7	4	0

Note

1. The figures are taken from the subsidy applications.

Table 9.2: Comparison of Activities

Activity	2007-08	2008-09	2009-10	2010-11	2011-12
Applications for entitlement Certificate received	801	230	193	2	0
Entitlement certificate issued ^[1]	770	196	146	0	0
Applications for entitlement certificate declined/withdrawn	31	34	47	2	0
Applications for payments of subsidy received	610	132	58	46	0
Applications for payments of subsidy approved	597	130	57	46	0
Applications for subsidy declined/withdrawn	13	2	1	0	0
Amount of Commonwealth subsidy paid	\$11.5m	\$8.1m	\$4.3m	\$4.3m	\$3.5m
Number of subsidy payees as at 30 June	6,665	6,272	4,176	3,172	2,564

Note

1. Entitlement certificates are valid for 12 months.

Operational costs

The DVA is paid a management and service delivery fee for its administration of both the DHOS and the DHOAS. The Operation Costs of the DHOS are reported as part of the administration of the DHOAS.

The Defence Home Ownership Assistance Scheme Act 2008

Objectives

The objectives of the Defence Home Ownership Assistance Scheme (DHOAS) are to:

- attract and retain ADF personnel
- encourage home ownership during service as a cost-effective alternative to rental assistance
- assist in the reintegration of ADF personnel into the community on return to civilian life.

The DHOAS provides progressively higher levels of benefits to ADF personnel as an incentive to remain in effective service. It is designed to respond to market conditions in the housing and finance sectors by providing eligible members with benefits that will assist them to afford home ownership in the current housing market.

Description

The DHOAS is a Commonwealth Government initiative that provides a subsidy on the interest payable on a home loan for members of the ADF. The scheme is open to current and former ADF members who have been in effective service in the ADF on or after 1 July 2008 and who have completed a qualifying period and accrued a Service Credit.

The Department of Veterans' Affairs (DVA), as the Scheme Administrator, is responsible for assessing member applications, issuing subsidy certificates to eligible members and processing subsidy payments.

Three appointed Home Loan Providers have the exclusive right to offer members DHOAS home loans. They are Australian Defence Credit Union, the Defence Bank (formerly the Defence Force Credit Union) and the National Australia Bank.

Subsidy Entitlement

There is a three tier system of subsidised loan limits that determine the amount of subsidy assistance members receive. The longer a member serves, the higher the member's subsidy tier level.

The subsidy benefit period is calculated on the number of completed years of effective service in either the Permanent Force or the Reserves, after completing a qualifying period. The qualifying period is four consecutive years of service for Permanent members and eight consecutive years of effective service for Reservists.

There is a maximum of up to 20 years of entitlement, without warlike service, and up to 25 years with warlike service.

There are special considerations for re-joining members, re-joining members, surviving partners of deceased members, and members discharged as a result of a compensable condition. Members who have accessed previous Defence home loan subsidy schemes is taken into account in assessing a benefit under the DHOAS.

Performance for 2011-2012

Performance evaluation of the scheme's administration

The scheme continues to attract a high level of interest from members. In 2011-2012, a total of 6,472 applications were registered and 6,204 members received Subsidy Certificates. In their applications, 3,505 or 54 per cent of the applicants indicated that the scheme was an influence on their decision to remain in the ADF and 2,797 or 43 per cent indicated it was a key factor in encouraging them to remain in the ADF.

As at 30 June 2012, a total of 15,618 members were receiving subsidy assistance. The value of the subsidy assistance for 2011-2012 was \$76.99 million. The total amount paid in subsidy assistance since the commencement of the scheme is \$208.4 million.

The DVA met its obligations to the Commonwealth under the Act and has provided effective service to the scheme. Defence is satisfied with DVA's performance in the administration of the scheme.

During the financial year there were three external reviews of a decision lodged with the Administrative Appeals Tribunal.

Table 9.3 Comparison of Activities

Activity	2008-09	2009-10	2010-11	2011-12
Applications for Subsidy Certificates registered	14,852	7,238	6,774	6,472
Subsidy Certificates issued	14,276	6,899	6,522	6204
Applications for Subsidy Certificate declined/withdrawn	576	339	252	268
Number of subsidy payees as at 30 June	6,989	10,367	13,259	15,618
Conditional Rejections	80	43	39	5
Amount of Commonwealth subsidy paid	\$22.23m	\$43.17m	\$65.97m	\$76.99m

Note

1. Subsidy Certificates are valid for 12 months.

Operational Costs

The DVA is paid an annual management and service delivery fee for the administration of both the DHOAS and the DHOS. In 2011-12, the administration costs totalled \$4.4 million (excluding GST).

During 2011-12 Defence received a total of \$10.54 million in remuneration from the three Home Loan Providers.

PART TWO

DEPARTMENT OF DEFENCE
ANNUAL REPORT

2011 – 2012

DEFENCE MATERIEL ORGANISATION





SECTION FIVE

DMO Overview



Chapter 10

DMO Overview

The Year in Review by the Chief Executive Officer

I am proud to report that the Defence Materiel Organisation (DMO) has had another successful year in delivering high quality equipment and support to the Australian Defence Force (ADF). As you will read in more detail in the remainder of this Report, this success has come in a range of areas including direct support to operations, increasing transparency and accountability in our work outputs, stronger relationships with our customers in Defence, and enhanced engagement with industry.

The DMO manages a broad portfolio of business that equates to expenditure of just under \$40 million each working day. But our performance cannot be measured relative to the size of our organisation or the amount of money that we spend; it is as much about how effectively, and how quickly, we respond to the materiel and sustainment requirements of the ADF and how we discharge our responsibilities as stewards of taxpayers' funds. In this latter context I am particularly proud to see that the DMO's financial accounts have again, this year, been audited and accepted without qualification.

The 2011-12 financial year covered by this Report has been peppered with change. Aside from my permanent appointment to the position of CEO DMO in February 2012, we have managed a range of reform activities and responded to adjustments made as a result of changes in customer requirements and Budget pressures. The DMO has worked tirelessly to ensure that we fulfil our duties to both the ADF and Government and respond appropriately to these changing circumstances.

A highlight for me in the last year – and something that demonstrates our ability to adapt – is how we worked to support Australia's land forces, particularly those deployed on operations. We have worked hard to develop a much better and more integrated system for trialling new equipment, which involves getting more direct feedback from the troops on the ground and getting new kit into theatre more quickly. This enhanced relationship with our Defence customer is extending from operations support across all of our business. I am determined to see the DMO delivering the materiel solutions required by the ADF, to the scope and specification approved by Government, and with an appropriate sense of measured urgency in our approach.

We have also seen improvements in the way we manage our projects. Over the last year we continued – on average – to deliver our projects according to budget – with latest figures showing that we use 98 per cent of available funding. While schedule remains our biggest concern, reforms are underway and we should see continued improvement on this front. 2011-12 also showed evidence that our review and remediation processes are working. In December 2011, another three projects were removed from the Projects of Concern list, leaving six projects on the watch-list. This is a credit to the teams (in DMO and industry) who have worked hard to remediate those projects. It is also, in a very real sense, a 'credit' to the national economy, representing billions of dollars of investment that might have been lost, through project cancellation, if those troubled projects had not been recovered.

We understand that industry is an essential element of our business, and so we continued to provide critical support to this sector. This support was and will continue to be tied to tangible outcomes and ways to better position both industry and Defence for future success. For example, \$14 million was provided to 109 companies for more than 4,000 training places in 2011-12 as part of the Skilling Australia's Defence Industry (SADI) program, to boost the skills of the Defence industry workforce.

Despite the success we have achieved, there are also many areas where we can and must continue to do better. Challenges, risks and complexity will always be part of our business because of the work that we do. Our projects are unrivalled in Australia for their complexity in terms of risk, technological change and keeping pace with changing threat assessments. We therefore need to make sure that our processes support our workforce to achieve the outcomes that we are seeking and that unnecessary procedures and room for error are reduced. We are committed to 'de-thatching' our business and streamlining our processes – in line with the rest of Defence – so that our staff are able to complete their jobs efficiently and effectively, ultimately enhancing our support to the men and women of the ADF.

The DMO has worked hard over the last year to incorporate the recommendations of various reforms into our business. This has involved contributions to Defence-wide initiatives like *Pathway to Change* and the Strategic Reform Program (SRP), and more targeted capability reviews like the Coles and Rizzo reports. Our priority – as well as our key challenge – has been to embed improvement deeply and permanently. We have now seen about \$1.1 billion in cost reductions achieved as a result of sensible and determined reform under the Smart Sustainment element of SRP to date. Significant steps have already been taken in the submarine programs in light of the Coles Review, including a new support contract and the creation of a new General Manager Submarines position to oversee all materiel related aspects of submarine support. Similarly, the implementation of Paul Rizzo's recommendations to remediate the support of the Navy's amphibious fleet has been a priority. Over the last year, the DMO and Navy focussed on reforming the policies and processes in critical areas like ageing vessels, industry partnerships, enabling Information Communication Technology and engineering functions. This has created a solid base for implementing the rest of Rizzo's recommendations. Looking ahead, reform success will be characterised by more than just activity-based results; there must be evidence that attitudes and behaviours are changing and are positively influencing decisions.

Another focus of 2011-12 was to strengthen our accountability processes so that our customers and the Government better understand the status of our projects and success can be more accurately measured. This has been achieved through an increased focus on our internal Gate Reviews, the Project of Concern process and how we communicate with our ministers. This has helped us to respond more rapidly to our soldiers' demands and has seen us deploy force insertion teams to key areas to improve equipment on the ground. These efforts have been recognised and I welcome the evidence tendered and comments made at parliamentary committee hearings on the 'significant, qualitative and identifiable improvements' that we have made.

Another benefit of this increased transparency is that it has made our successes more noticeable; the multi-million dollar projects that have been delivered on time and on budget. External stakeholders have been able to see when we have reached key materiel release milestones – for example with our radar, missile and protective equipment projects – and then follow equipment performance.

Current budget conditions are tight and the impacts cannot be avoided or ignored. The only way to survive is through expert management of our day to day business. For acquisition, this means extracting every bit of value from every dollar we spend. For sustainment, it means making every effort to align support concepts with customer demand, and ensuring that we do not allow capabilities to be hollowed out over time.

We must also continue to focus on engaging effectively with industry, not just to deliver today's requirements but also to plan effectively for what is ahead and ensure we have the capacity and capability to deliver future programs.

The people of the DMO have the skills and the commitment to meet these challenges, and I am confident that we will continue to enhance our performance in the coming year and in the years ahead.

Warren King

Chief Executive Officer, DMO

Organisational Framework

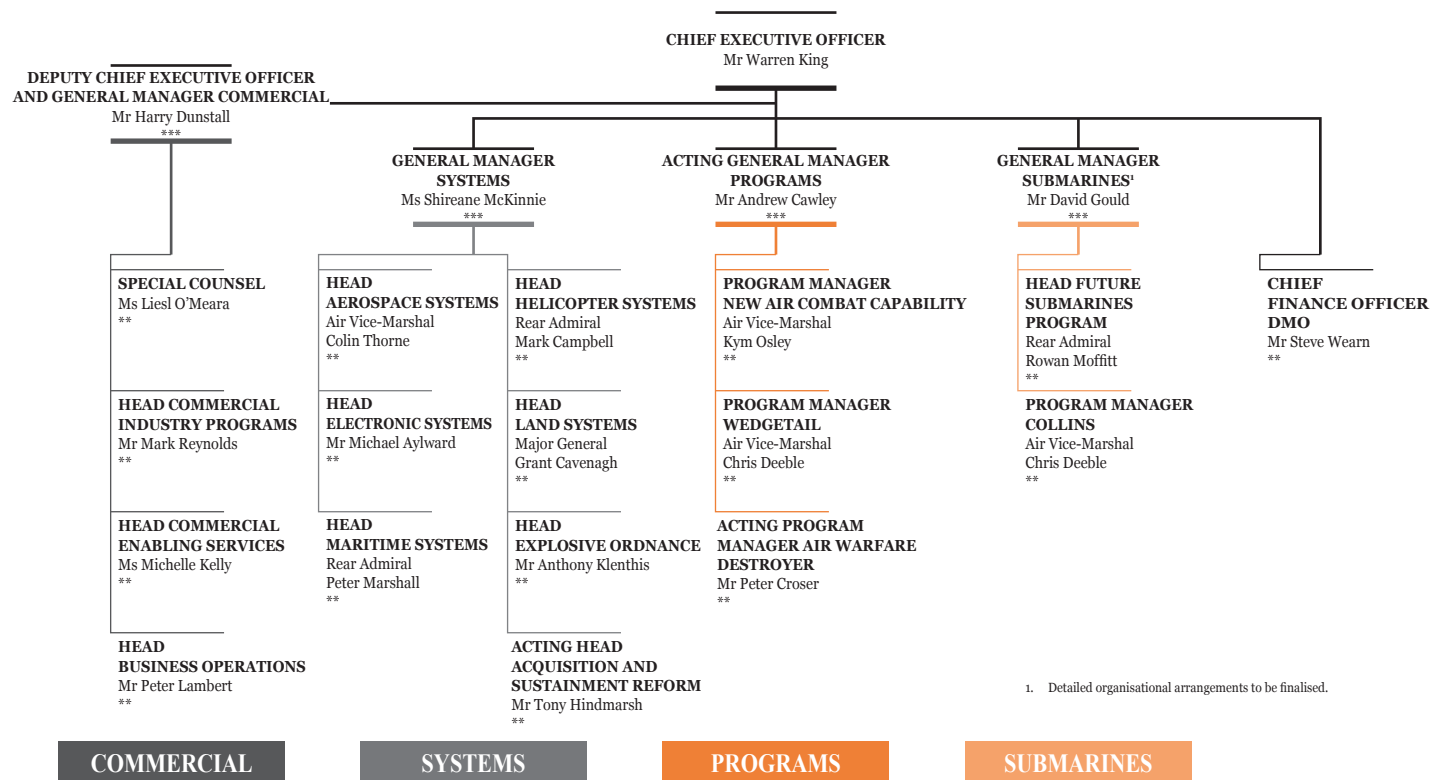
The DMO supports the ADF through provision of acquisition and sustainment services for Defence specialist military equipment. Many of these services are complex requiring specialist skills, management structures and business processes. As a prescribed agency, the DMO utilises a purchaser-provider model, underpinned by service agreements, to deliver commercial, engineering/logistics and project management services in an accountable, outcome-focused and business-like manner.

As the head of a prescribed agency, the CEO DMO has statutory responsibilities and authority under the *Financial Management and Accountability Act 1997*. The CEO DMO also has joint responsibilities to the Secretary of Defence and the Chief of the Defence Force, and is delegated powers from the Secretary to manage and allocate staff resources under the *Public Service Act 1999*.

As the National Armaments Director for Australia, the CEO DMO has cooperative links and enjoys high-level international relationships with the National Armaments Directors of other western democracies.

Organisational Structure

Figure 10.1: Organisational Chart as at 30 June 2012 (shows Band 2 and above)



1. Detailed organisational arrangements to be finalised.

DMO Strategic Priorities

DMO Performance Against 2011-12 Strategic Priorities

The DMO's performance against its key priorities, as identified in the *Portfolio Budget Statements 2011-12*, is outlined below.

Continuing support to ADF operations

Support to operations remains the highest priority for the DMO. The DMO provides support to ADF operations through the acquisition of equipment and supplies, sustainment of ADF capabilities and deployments of specialist staff.

The DMO has improved its operational procurement processes over the past years so the DMO can respond to an increasing number of short notice and limited timeframe operational materiel capability requests. Specific examples of force protection initiatives delivered include: the introduction of the Expedient Route Opening Capability; provision of SPARK mine rollers; upgrades of the enhanced combat helmet; introduction of Dragon Runner Reconnaissance Robots; the in-theatre installation of systems providing increased protection systems for both the Bushmaster Protected Mobility Vehicle and Australian Light Armoured Vehicle platforms; the provision of additional electronic counter measure systems; and the delivery of improved body armour and personnel protective clothing.

Achieving the Strategic Reform Program targets for the DMO

In 2011-12, the Smart Sustainment stream achieved its savings target of \$370 million through the combined efforts of capability managers (the Vice Chief of the Defence Force, the Navy, the Army, the Air Force and Chief Information Officer Group), the DMO and industry in developing and implementing more cost effective sustainment arrangements and changes to capability demand.

Highlights for 2011-12 include: introduction of enhanced equipment pooling on Unimog and Mack vehicle fleets, radios and generators; rationalisation of in-service diving sets; and improved interaction between operation and sustainment planning in the air combat domain, resulting in increased fleet availability and supportability across several platforms. Inventory reform and the Sustainment Business Model projects have both focused on streamlining and improving internal processes to increase the ability to deliver core sustainment business in an efficient and effective manner. Use of the eBusiness portal has increased from 36 per cent of purchase transactions made in March 2011 to over 64 per cent in May 2012, reducing administrative overhead of undertaking simple purchasing tasks.

A number of the activities currently under development or in implementation will take several years to achieve full effect but will deliver ongoing reform benefit.

Improving performance on procurement and sustainment

The DMO continued to introduce and implement initiatives to improve procurement and sustainment performance in 2011-12.

In 2011-12, the DMO continued to analyse the impact of acquisition reforms. For acquisition projects, the DMO's performance is measured in terms of cost, schedule and scope. During 2011-12, the DMO undertook analysis on the schedule and cost elements of project performance.

In relation to cost management, 259 projects approved between 1970 and 2006 and completed by 2011 were assessed. The analysis indicates that:

- 95 per cent closed on or under budget
- on average, the DMO continues to deliver projects under budget (about 98 per cent of available funding).

When the performance of these projects was plotted against their year of commencement, a steady improvement in cost management was identified.

Analysis of schedule performance has been undertaken for 149 current and completed projects approved between 1992 and 2011: this analysis demonstrates that prior to the DMO's formation in 2000, acquisition projects regularly exhibited schedule delays of 50 per cent or more.

Further examination of analysis of the 93 projects with commencement dates post 1999 revealed:

- a steady decrease in average delay, achieving 30 per cent by 2007
- the majority of projects that have commenced since 2007 have not had sufficient time for all potential slippage to be realised, therefore their schedule performance is still to be fully quantified.

Rizzo Review

In July 2011, the Ministers for Defence and Defence Materiel released the *Plan to Reform Support Ships Repair and Management Practices*, authored by a review team led by Mr Paul Rizzo. This review made 24 recommendations to improve the sustainment of maritime capability.

Planning, preparation and securing resources to implement changes in support of these recommendations has been a focal area for sustainment improvement in 2011-12. This first year has positioned the planned three year program of work well and has already achieved closure of two recommendations.

Delivering the approved materiel elements of Defence Capability Plan projects on time and on budget

The DMO achieved good overall progress in delivery against the Defence Capability Plan in 2011-12. Milestones for the period include:

- The delivery of the final four F/A-18F Super Hornet aircraft (AIR 5349 Phase 1).
- The fifth C-17 Globemaster III arrived in September 2011 and is now in service with the Air Force. The sixth aircraft was ordered and is due to arrive in late 2012 (AIR 8000 Phase 4).
- Arrival in Australia of HMAS Choules, procured as an additional amphibious capability from the United Kingdom Ministry of Defence (JP 3030). Initial Operational Capability was achieved December 2011.
- Accelerated procurement in March 2012 of the Australian Defence Vessel (ADV) Ocean Shield as an interim Humanitarian Assistance and Disaster Response capability, with the intention to transition the capability to the Australian Customs and Border Protection Service after delivery of the second Landing Helicopter Dock (JP 3033).
- Successful modification and release to the Air Force of 16 aircraft under the Hornet Upgrade Project (AIR 5376 Phase 2).
- Achievement of Initial Materiel Release (IMR) and Initial Operational Capability (IOC) for the Tactical Unmanned Aerial Vehicle (JP 129 Phase 2).
- The delivery of 31 supported special operations vehicles to achieve Final Materiel Release (FMR) (JP 2097 Phase 1A).

- The delivery of 35 towed howitzers to achieve IMR (LAND 17 Phase 1A.)
- Providing better early warning to troops in Uruzgan through achievement of IOC of Counter Rocket, Artillery and Mortar systems (LAND 19 Phase 7A).
- Achieving IOC with upgraded equipment under Soldier Enhancement v1.0 (LAND 125 Phase 3A).
- Delivery of Battlespace Communication Systems (Land) to achieve IOC (JP 2072 Phase 1).

An additional highlight was the December 2011 announcement by the Ministers for Defence and Defence Materiel, that the number of Projects of Concern had been halved over the preceding 12 months, reflecting the results of considerable remediation efforts by DMO staff.

Continuing implementation of the reforms resulting from the Defence Procurement and Sustainment Review (the Mortimer Review) and measuring outcomes

In 2011-12, Defence and the DMO continued implementation of the reforms agreed as a result of the Government's consideration of the 2008 Defence Procurement and Sustainment Review (the Mortimer Review). These reforms build upon those identified and implemented as a result of the earlier Defence Procurement Review (the Kinnaird Review). They are a critical enabler of more effective delivery of major Defence capital equipment acquisitions and the through-life support of that equipment. Achievements against these reforms in 2011-12 include:

- Implementation of benchmarking against off-the-shelf baseline options (where available) in project approval submissions to the Government, to improve rigour in the cost-benefit analysis underpinning proposals for additional capability. The Cost Estimation and Analysis Community of Practice is now working to improve the standard of cost estimation practice between Defence and the DMO.
- Implementation of Project Directives for all projects approved since March 2010. A baseline review of scope approved by the Government has also been completed for Systems Division projects that were approved prior to March 2010. The Project Directives record Government approved cost, schedule and scope baselines for Defence capabilities and provide clear direction for the development and revision of Materiel Acquisition Agreements between the DMO and its Defence customers.
- Implementation of a more disciplined process for changing the scope of a project, including the requirement that Defence seek the Government's approval for significant scope changes.
- Establishment of an Independent Project Performance Office within the DMO to review projects and assist project teams solve problems.
- Implementation of a modified two-pass approval system for minor capital equipment projects valued between \$8 million and \$20 million.
- Implementation of an Early Indicators and Warning system, which is undergoing continuous improvement. The system is designed to give early warning of projects that are at risk of running late, over budget or not delivering the required capability.
- Continuing expansion of the existing Gate Review process with approximately 140 major projects scheduled to undertake a Gate Review by the end of 2012.

In addition, Defence made good progress in aligning contracting with commercial practice via contracting template updates and has a process of continuous improvement in conjunction with the defence industry.

Chapter 11

DMO Outcome Performance

The Defence Materiel Organisation (DMO) outcome statement is - 'Contributing to the preparedness of Australian Defence Organisation through acquisition and through-life support of military equipment and supplies.'

The DMO's outcome describes the results the Government seeks from the DMO. The outcome for the reporting year was achieved through the successful delivery of programs to the standards set in the *Portfolio Budget Statements 2011-12* and, where applicable, revised in the *Portfolio Additional Estimates Statements 2011-12* and also published as estimated actuals in the *Portfolio Budget Statements 2012-13*. For 2011-12, the DMO had a single outcome and three programs:

- Program 1.1 - Management of Capability Acquisition
- Program 1.2 - Management of Capability Sustainment
- Program 1.3 - Provision of Policy Advice and Management Services.

The DMO delivered a 99 per cent achievement in outcome financial performance resulting from an actual result of \$10,082.5 million against a revised budget of \$10,116.2 million as per the *Portfolio Additional Estimates Statements 2011-12*. Details of the DMO's outcome performance are outlined in this Chapter.

The following Program Deliverables, Key Performance Indicators (KPIs) and Project Performance tables are assessed using the below Key system:

Key		
-	Not Achieved	None or minimal progress was made against targets in 2011-12. Explanations are provided in the 'further information column.'
✓	Partially Achieved	Some targets were met, and any issues are being managed.
✓✓	Substantially Achieved	Targets were mostly met and any issues are being managed.
✓✓✓	Achieved	All targets for 2011-12 were met or exceeded.

Program 1.1

Management of Capability Acquisition

Through Program 1.1 Management of Capability Acquisition, DMO acquires and delivers to Defence, in a transparent and accountable manner, specialist military equipment to enable the delivery of military capability to Government. Equipment is purchased by DMO acquisition projects in accordance with Materiel Acquisition Agreements (MAAs) between Defence and DMO. The MAAs define what is to be delivered, how much it is to cost and when it is to be delivered. The DMO has approximately 270 major and minor projects currently in progress that will deliver approximately \$74 billion worth of assets to Defence by the time they are completed.

The financial performance of the DMO Major Acquisition Program in 2011-12 was again successful. The outcome included the accelerated purchasing arrangements for AIR 8000 Phase 2 which will replace the Caribou aircraft with C-27J Spartans through an Foreign Military Sales (FMS) case with the United States Government.

In addition, the strong performance of the Program included the rapid ordering of a sixth C-17A Globemaster III heavy-lift aircraft and the purchase of Offshore Support Vessel MSV *Skandi Bergen* following the Government's announcement of these acquisitions in March 2012. The additional C-17A will provide the Government with increased options to support a wide range of contingencies that might require heavy-lift aircraft and will extend the life of the current C-17 fleet by reducing the use of each aircraft. The *Skandi Bergen* will add to the Royal Australian Navy's current amphibious ships, HMAS *Choules* and HMAS *Tobruk*.

Table 11.1 outlines the financial performance of Program 1.1 Management of Capability Acquisition against the planned outcome as at Additional Estimates 2011-12.

Top 30 Major Project Performance Summary

An assessment of the performance of the Top 30 major projects against the deliverables in the MAAs (described in the *Portfolio Budget Statements 2011-12*) is provided in table 11.1.

Table 11.1: Deliverables for the Top 30 Major Project in Program 1.1

	Project Number	Prime Contractor	Performance Summary	Status	
				Capability	Schedule
General Manager Systems					
Aerospace Systems					
Air to Air Refuelling Capability	AIR 5402	EADS CASA (Trading as Airbus Military – Spain)	<p>This project will deliver five new generation Airbus A330 Multi-Role Tanker Transport (MRTT) aircraft, to be known as the KC-30A in RAAF service, and the associated through-life support infrastructure for the new fleet.</p> <p>During 2011-12, the third and fourth KC-30A MRTT aircraft were accepted, with the third handed over to the Air Force and the fourth retained by Airbus Military in Madrid for further testing of changes to the military avionics and boom refuelling systems.</p> <p>Conversion of the fifth and final aircraft at the Australian Conversion Centre was completed on schedule, with acceptance scheduled in late 2012.</p> <p>The Simulation Devices and Facility were also accepted in an initial configuration, and aircrew currency training has commenced at RAAF Base Amberley using these training devices.</p> <p>In-service issues with the refuelling pods have delayed the conduct of Operational Test and Evaluation by the Air Force.</p> <p>This project is being managed as a Project of Concern.</p>	✓	✓
Bridging Air Combat Capability	AIR 5349 Phase 1	Boeing, through a Foreign Military Sales case with the United States Navy	<p>Phase 1 of the project has acquired and delivered 24 F/A-18F Super Hornets Block II multi-role aircraft and associated support systems and services. The air combat capability will be maintained through to the transition to the F-35 Joint Strike Fighter.</p> <p>During 2011-12, the project delivered the remaining four F/A-18F Super Hornets aircraft to RAAF Base Amberley. Delivery of mission and support equipment will continue throughout 2012 with Final Operational Capability expected in late 2012.</p>	✓✓✓	✓✓✓

	Project Number	Prime Contractor	Performance Summary	Status	
				Capability	Schedule
F/A-18 Hornet Upgrade	AIR 5376 Phase 2	<p>The DMO is the prime systems integrator of elements provided by:</p> <ul style="list-style-type: none"> • Boeing (United States) • Boeing Defence Australia • Raytheon • United States Navy • SAAB (Sweden) • Elta (Israel) • Elbit 	<p>The project will progressively deliver a comprehensive capability upgrade to the Air Force fleet of 71 Classic Hornets, including an electronic warfare modification program comprising a replacement radar warning receiver, a supplementary countermeasures dispenser and electronic countermeasures systems, and an enhanced data recording capability.</p> <p>During 2011-12, project activities included the Operational Test and Evaluation of electronic warfare components as well as the final stages of delivery and acceptance. Final deliveries and modifications are on schedule.</p>	✓✓✓	✓✓✓
Airborne Surveillance for Land Operations	JP 129 Phase 2	AAI Corporation through a Foreign Military Sales case with the United States Army	<p>This phase of the project delivers two RQ-7B Shadow 200 Tactical Unmanned Aerial System; each comprising five air vehicles, two ground control stations, a tactical launch and recovery element, associated tactical support systems, and logistics and training.</p> <p>Two Shadow 200 systems, based on a four air vehicle United States Army configuration, have been delivered under an accelerated arrangement with the United States Army.</p> <p>The first system was delivered to Australia in August 2011 and deployed to Afghanistan in December 2011. The second system arrived in country in April 2012 with the conduct of Brigade Integration Training/ New Equipment Training, and further system Test and Evaluation at the Woomera Test Facility commencing in July 2012.</p>	✓✓✓	✓✓✓
C-17 Globemaster III	AIR 8000 Phase 3	Boeing through a Foreign Military Sales case with the United States Air Force	<p>This project provides a global heavy airlift capability based around the Boeing C-17 Globemaster III aircraft and related provisions, including an enhanced US-common electronic warfare self-protection system.</p> <p>During 2011-12, the project continued maturing C-17 Globemaster III sustainment requirements including spares, and the procurement of ancillary items such as training devices, role expansion equipment, ground support equipment and materiel handling equipment.</p>	✓✓✓	✓✓✓

	Project Number	Prime Contractor	Performance Summary	Status	
				Capability	Schedule
Electronic Systems					
Next Generation Satellite Communications System	JP 2008 Phase 4	Boeing through a Foreign Military Sales case with the United States Government	<p>This project will deliver the next generation ADF wideband satellite communication system. The capability is being delivered under a Memorandum of Understanding (MOU) with the United States Government and has delivered Wideband Global SATCOM System (WGS) Service Initial Operational Capability and Interim Anchoring Capability.</p> <p>The fourth of six satellites under the MOU was launched from Cape Canaveral in January 2012 and is expected to become operational in August 2012. Progressive launches will end with the sixth satellite in 2013.</p> <p>WGS 6, which Australia is funding, is currently 86 per cent complete and the program is tracking to schedule and under budget.</p> <p>The Interim Anchoring terminal in Western Australia is operational and the WGS certification testing for Interim Anchoring terminal in Eastern Australia has been completed and expected to be fully operational by September 2012.</p>	✓✓✓	✓✓✓
Battlespace Communications Systems (LAND)	JP 2072 Phase 1	Harris Corporation and Raytheon Australia	<p>This phase of the project is delivering commercial off-the-shelf and military off-the-shelf communications systems that will provide capabilities to meet the high priority gaps identified in the current Battlespace Communications System (LAND). In particular the project will acquire the narrowband and wideband combat radio systems in support of the LAND 75/125 Battle Management System (BMS) and the Battlefield Command and Support System, through acquisition of the latest generation of digital radios.</p> <p>During 2011-12, this phase successfully demonstrated an Initial Operational Capability as a standalone radio system and as part of the BMS. The project has now completed delivery of all major equipment elements and continues to work on platform systems integration and introduction into service activities.</p>	✓✓✓	✓✓✓

	Project Number	Prime Contractor	Performance Summary	Status	
				Capability	Schedule
Battle Management System	LAND 75 Phase 3.4	Elbit Systems Limited	<p>This project will deliver Mounted Battle Management Systems including command post systems to the ADF in cooperation with LAND 125 Phase 3A (dismounted systems) and JP 2072 Phase 1 (Combat Radio Systems). The project is delivering into a Brigade group in support of a Network Enabled Army. Initial Materiel Release was achieved in June 2011. Chief of Army declared Initial Operational Capability in April 2012 following significant test and evaluation activities. Final Materiel Release is planned for 2013.</p> <p>In 2011-12, over 100 Bushmaster Protected Mobility Vehicles installed with the system were delivered to Army. Army has used the system on several major exercises. Coalition interoperability experiments have demonstrated a high degree of functionality across Coalition domains.</p>	✓✓✓	✓✓
Ultra High Frequency Satellite Communications	JP 2008 Phase 5A	Intelsat LLC	<p>This project is scoped to deliver UHF satellite communications to the ADF via a hosted payload on a commercial Intelsat satellite. The project will also deliver essential ground infrastructure to provide channel control. The launch of the Intelsat satellite occurred in March 2012.</p> <p>During 2011-12, this project delivered the UHF Satellite Payload, the Communications Systems Monitor, and the first phase of the infrastructure to provide channel control of the hosted payload on the IS-22 satellite.</p>	✓✓✓	✓✓✓
Dismounted Battlegroup and Below Command, Control Communication System	LAND 125 Phase 3A	Elbit Systems Limited	<p>This phase is tightly coupled and aligned with LAND 75 Phase 3.4 and JP 2072 Phase 1 and will deliver the dismounted components for the Battlegroup level BMS across a Brigade Group in support of a Network Enabled Army.</p> <p>Initial Materiel Release was achieved in June 2011. Initial Operational Capability was declared by the Chief of Army in April 2012 following detailed Operational Test and Evaluation activities. Final Materiel Release for the system is planned for 2013.</p> <p>During 2011-12, this project delivered over 100 Dismounted BMS to the Army. The Army has used the system on several major exercises. Coalition interoperability experiments have demonstrated a high degree of functionality across Coalition domains.</p>	✓✓✓	✓✓

	Project Number	Prime Contractor	Performance Summary	Status	
				Capability	Schedule
Joint Command Support Environment	JP 2030 Phase 8	System Integrator Contractor: CSC Australia; Capability Development & Support Contractor: Lockheed Martin Australia	JP 2030 Phase 8 is an evolutionary acquisition project established to deliver a cohesive and integrated Joint Command Support Environment for the efficient and effective planning and conduct of ADF operations for Headquarters Joint Operations Command. Two of the three evolutions have been approved. Evolution 3 has been cancelled as part of the decisions taken in the context of the 2012-13 Budget. During 2011-12, this project delivered the final Release of Evolution 1 and commenced development of the Evolution 2 system deliverables.	✓✓✓	✓✓
ADF Deployable Logistics Systems	JP 2077 Phase 2B.2	Mincom	A decision made in the context of the 2012-13 Budget has led to the cancellation of this phase of the Military Integrated Logistics Information System project pending a review and re-validation of the requirement for the Deployable Logistics System and the Integrated In-Transit Visibility system.	N/A	N/A
New Air Defence Command and Control Systems for Control Units 2 & 3	AIR 5333	Boeing Defence Australia Limited	Referred to as Project Vigilare, this project has replaced the Air Defence Command and Control System with new systems at Northern Regional Operations Centre (NROC) (declared operational in September 2010) and Eastern Regional Operations Centre (EROC) (operational status achieved in April 2011) located at RAAF Bases Tindal and Williamtown respectively. Outside the main contract with Boeing the project has also designed and delivered an integrated ADF Air Defence System communications network and integrated over 45 different interfaces and sensors. During 2011-12, this project completed Final Acceptance in October 2011 marking the completion of all contract Prime Equipment deliverables. Final Materiel Release was completed in August 2012 with the Air Force planning to declare Final Operational Capability in December 2012.	✓✓✓	✓✓✓

	Project Number	Prime Contractor	Performance Summary	Status	
				Capability	Schedule
Explosive Ordnance					
Follow-On Stand Off Weapon	AIR 5418 Phase 1	United States Government through Foreign Military Sales and Lockheed Martin through a direct commercial contract	<p>This project provides for the delivery of the AGM-158 Joint Air-to-Surface Standoff Missile (JASSM) and its integration with the F/A-18A/B Hornet. JASSM increases aircraft survivability and weapon terminal effectiveness against well defended targets.</p> <p>During 2011-12, this project achieved key project milestones namely completion of Operational Test and Evaluation, with two successful JASSM live warhead firings by an Air Force F/A-18A/B Hornet aircraft at the Woomera Test Range and declaration of Initial Operational Capability. These achievements signified the introduction into service of an initial Follow-On Stand Off Weapon capability. The project is working towards achieving Final Operational Capability in mid 2012.</p>	✓✓✓	✓✓✓
Lightweight Torpedo Replacement	JP 2070 Phase 3	Djimindi Alliance - EuroTorp, Thales and Commonwealth	<p>This phase of the project provides for the establishment of an Australian manufacturing and support capability for the EuroTorp MU90 lightweight torpedo and delivery of a sufficient quantity of these weapons to meet war reserve requirements.</p> <p>The MU90 lightweight torpedo is being assembled in Australia and additional quantities of the Mk1 torpedoes were delivered in 2011–12. Australian industry has also commenced production of prime items for MK II torpedoes. Quality assurance and reliability issues associated with European manufactured MU90 torpedoes and torpedo warheads delivered to Australia have been resolved and the delivery schedule for the remainder of the program has been re-baselined.</p> <p>JP 2070 (all phases) is being managed as a Project of Concern.</p>	✓✓✓	✓✓
Bridging Air Combat Capability	AIR 5349 Phase 2	United States Government through Foreign Military Sales	<p>This project provides for the delivery and introduction into service of weapons and countermeasures under the Australian Super Hornet Program.</p> <p>The AGM-154 Joint Stand Off Weapons variant C-1 (JSOW C-1) and Advanced Medium Range Air-to-Air Missiles variant C-7 (AMRAAM C-7) programs are being progressed within the United States Navy and United States Air Force. The updated schedules for delivery are 2014 and 2015 respectively.</p>	✓✓	✓✓

	Project Number	Prime Contractor	Performance Summary	Status	
				Capability	Schedule
Helicopter Systems					
Multi-Role Helicopter	AIR 9000 Phase 2	Australian Aerospace	<p>The Multi-Role Helicopter system consists of 46 MRH-90 helicopters and associated support and training systems for the Army and the Navy. The MRH-90 program continued to experience delays across 2011-12 and is now three years behind the original schedule. It was declared a Project of Concern in November 2011, with supportability and affordability remaining key risks to the program.</p> <p>Acceptance of MRH-90 recommenced in November 2011 after a 12 month hiatus while technical and contractual issues were defined and a plan to remedy them agreed with Australian Aerospace. A total of 16 aircraft have now been accepted. The annual MRH-90 flying rate of effort, while improved over previous years, did not achieve the required level and continued to impact on the program's progress towards certification and initial operational release.</p>	✓	✓
Armed Reconnaissance Helicopter	AIR 87 Phase 2	Australian Aerospace	<p>The Armed Reconnaissance Helicopter system consists of 22 Tiger helicopters, a software support facility, an electronic warfare mission support system, ground mission equipment, facilities, and a training system with a number of dedicated training devices including a full motion mission simulator. During 2011-12, the final three production aircraft were delivered, but the retro-fit program to bring early delivery aircraft up to the mature configuration experienced some delay due to global shortages of Tiger spares. The technical issues associated with the Tiger's helmet mounted sight and display were resolved and incremental improvement in the performance of the contractor's maintenance and supply support networks was achieved. However, while the Tiger flying rate of effort improved over previous years, the achieved annual flying rate remained below the planned level and impeded the development of the operational capability.</p>	✓✓	✓

	Project Number	Prime Contractor	Performance Summary	Status	
				Capability	Schedule
Land Systems					
Field Vehicles and Trailers	LAND 121 Phase 3	Light/Lightweight Vehicle Capability: Mercedes-Benz Australia-Pacific	LAND 121 is delivering the ADF's future field vehicles, modules and trailers. Phase 3 will acquire: <ul style="list-style-type: none">• unprotected light/lightweight Mercedes-Benz G-Wagon vehicles, specialist modules and associated trailers• protected and unprotected medium/heavy vehicles, specialist modules and associated trailers• Bushmaster protected mobility vehicles (reported under LAND 116).		
		Light/Lightweight Trailer Capability: Haulmark Trailers Australia	Phase 3A Light/Lightweight Capability		
		Medium/Heavy Vehicle Capability: Rheinmetall MAN Military Vehicles Australia (preferred tenderer as at December 2011)	Additional 959 G-Wagons and 826 trailers approved under LAND 121 Phase 5A. During 2011-12, receipt of production vehicles, refinement of through-life support and vehicle training continued. Preliminary roll-out occurred in November 2011 and the main roll-out will commence July 2012. Trailers will enter service from July 2012, aligning with G-Wagon roll-out.	✓✓✓	✓✓
		Medium/Heavy Trailer Capability: Haulmark Trailers Australia (preferred tenderer as at December 2011)	Phase 3B Medium/Heavy Capability	✓✓	✓
		Additional Bushmaster vehicles: Thales Australia	Activities during 2011-12 included source selection that was approved in December 2011, after extensive consideration of options. Offer definition activities commenced with the preferred tenderer, Rheinmetall MAN Military Vehicles Australia in April 2012. Contract signature is now planned for mid 2013.		

	Project Number	Prime Contractor	Performance Summary	Status	
				Capability	Schedule
Artillery Replacement 155mm Howitzer	LAND 17 Phase 1A	Through several United States Government Foreign Military Sales cases	<p>This project will deliver 35 M777A2 lightweight towed howitzers, a command and control battle management system and course correcting fuzes.</p> <p>During 2011-12, this project completed deliveries of 35 M777 Lightweight Howitzers, and achieved the final delivery of the Advanced Field Artillery Tactical Data System version 6.7 software that enables the battle management system. LAND 17 Phase 1A Initial Materiel Release was achieved on 23 November 2011, on schedule and under budget. Ongoing acquisition and integration activities are required before finalising introduction into service of these systems.</p> <p>The Course Correcting Fuze has not yet achieved United States Government materiel release, and is undergoing a remediation program and further environmental testing prior to a production decision, which is currently scheduled for December 2012.</p>	✓✓	✓✓
Upgrade of M113 Armoured Vehicles	LAND 106	BAE Systems Australia Defence	<p>This project will deliver 431 M113 AS4 vehicles in seven variants; personnel, fitters, recovery, command, ambulance, logistics and mortar. The project is upgrading the Army's M113 A1 vehicles to improve protection, lethality, mobility and habitability. The final contracted delivery date for all 431 vehicles is December 2012, but the contractor is currently delivering ahead of this schedule.</p> <p>During 2011-12, 129 upgraded vehicles were delivered with 389 of 431 vehicles delivered. Production of appliqué armour packs was completed. The project also delivered the second tranche of repair parts to support the in-service fleet.</p>	✓✓✓	✓✓✓
Counter Rocket, Artillery and Mortar (C-RAM)	LAND 19 Phase 7A	Saab AB (Sweden), Northrop Grumman (United States), SRC Tech (United States) and Coopers Notifications (United States)	<p>This project will deliver a Counter Rocket Artillery and Mortar (C-RAM) sense and warn capability for Australian bases in Afghanistan to provide early warning against enemy indirect fire attacks.</p> <p>During 2011-12, this project completed delivery of C-RAM capability to all remaining operational bases in Afghanistan, achieving Initial Operational Capability - Uruzgan in July 2011.</p>	✓✓✓	✓✓✓

	Project Number	Prime Contractor	Performance Summary	Status	
				Capability	Schedule
Bushmaster Protected Mobility Vehicle	LAND 116 Phase 3	Thales Australia	<p>This project, referred to as Project Bushranger, will deliver 838 vehicles in seven variants (troop, command, mortar, assault pioneer, direct fire weapon, ambulance and air defence). The vehicles will provide protected land mobility to Army units and Air Force Airfield Defence Guards. All 300 vehicles under the original contract have been delivered. Delivery of 144 Enhanced Land Force vehicles was completed in April 2009 and delivery of 293 Production Period 3 (project LAND 121) vehicles was completed in February 2012. The delivery of the additional 101 Production Period 4 vehicles commenced in February 2012 and will be completed in mid 2013.</p> <p>During 2011-12, this project delivered 97 vehicles and finalised the design for the external composite armour capability. The Army has reassessed the requirement for the 184 trailers and a decision is pending.</p>	✓✓✓	✓✓✓
Australian Light Armoured Vehicle – Additional	LAND 112 Phase 3	General Dynamics Land Systems - Canada (GDLS-C)	<p>The LAND 112 Phase 3 project acquired 144 additional ASLAVs, 59 remote weapon stations capability, nine Crew Procedural Trainers and conducted an automotive standardisation program for the Phase 2 vehicle. The project is currently acquiring Multi Spectral Surveillance Suites for integration on the ASLAV through the ASLAV Surveillance Project. Minor facility upgrades in the three units that operate the ASLAV fleet are also occurring.</p> <p>During 2011-12, the project undertook testing and rework in preparation for the First Article Test Review of the Multi Spectral Surveillance Suite, developed and reviewed key support documentation, conducted training for project office instructors and issued a Request for Tender for the through-life support of the system.</p>	✓✓✓	✓

	Project Number	Prime Contractor	Performance Summary	Status	
				Capability	Schedule
Maritime Systems					
Standard Missile Replacement	SEA 1390 Phase 4B	Through United States Government Foreign Military Sales case and various commercial contracts - Lockheed Martin-US, AAI Corporation, BAE Systems-United States and Thales Australia	<p>This project upgrades four Adelaide class frigates with the SM-2 Surface-to-Air Mid Course Guidance mode missile capability, to acquire the weapons, and to provide missile technician training.</p> <p>During 2011-12, as a result of a real cost decrease on Foreign Military Sales (FMS) contracts, a significant amount of funds were returned to the Defence Capability Plan (DCP) as cost savings. The completion of acceptance testing and evaluation of SM-2 Stage 2 Mid-Course Guidance system is now scheduled for late 2012.</p>	✓✓✓	✓✓
ANZAC Ship Anti-Ship Missile Defence	SEA 1448 Phase 2B	CEA Technologies Pty Ltd and the ANZAC Ship Integrated Material Support Program Alliance (comprising the DMO, Saab Technologies Australia and BAE Systems)	<p>This project will deliver a phased array radar system to the ANZAC class frigate for target indication/tracking, mid-course guidance and target illumination for the Evolved Sea Sparrow Missile in conjunction with other sensor and combat management system upgrades delivered under SEA 1448 Phase 2A.</p> <p>In November 2011, the Government approved the real cost increase for installation of the Anti Ship Missile Defence capability into the remaining seven ANZAC class ships. The project was removed from the Projects of Concern list.</p> <p>Development of the software upgrades for the Phased Array Radar and Combat Management System continues to progress to schedule, and installation in the second ship, HMAS <i>Arunta</i> is also on track.</p>	✓✓✓	✓✓✓

	Project Number	Prime Contractor	Performance Summary	Status	
				Capability	Schedule
General Manager Programs					
Air Warfare Destroyer					
Air Warfare Destroyer Build	SEA 4000 Phase 3	The AWD Alliance	<p>The Air Warfare Destroyer program is being delivered under an alliance-based contracting arrangement between ASC AWD Shipbuilder Pty Ltd, Raytheon Australia Pty Ltd and the Government, represented by the DMO.</p> <p>This project will deliver three Hobart Class Air Warfare Destroyers and their support systems to the Navy providing a significant increase in defence capabilities, from area air-defence and escort duties, right through to peacetime national tasking and diplomatic missions.</p> <p>During 2011-12, the project allocated construction work for the third ship between shipyards in Australia and Spain. Seven keel blocks for Ship 01; were transported to Adelaide by barge from Melbourne. The Outfit Support Towers on the Common User Facility were completed in readiness for Ship 01 consolidation. Work is well advanced on all blocks for Ship 01, work commenced on half the blocks for Ship 02 and steel was cut for the first Ship 03 blocks. Combat system deliveries included the Vertical Launch System, SPQ 9B radar and two of four SPY 1D(V) radar arrays for Ship 01. The United States Navy has commenced test and evaluation of the Aegis software developed for the AWDs for delivery in early 2013.</p>	✓✓✓	✓✓
Amphibious Deployment and Sustainment					
Amphibious Deployment and Sustainment	JP 2048 Phase 4A/4B	BAE Systems Australia Defence	<p>This project will acquire two Canberra Class Amphibious Assault Ships referred to as Landing Helicopter Dock (LHD). This project is one of a number of projects grouped under the Amphibious Deployment and Sustainment (ADAS) Program, designed to replace and enhance Navy's amphibious and afloat support capability.</p> <p>During 2011-12, this project completed construction of the first ship superstructure and mast blocks, commenced combat and communication system testing in a Land Based Test Site and undertook initial harbour acceptance trials on key propulsion in the first hull.</p>	✓✓✓	✓✓✓

	Project Number	Prime Contractor	Performance Summary	Status	
				Capability	Schedule
Wedgetail					
Airborne Early Warning and Control Aircraft	AIR 5077 Phase 3	Boeing (United States)	<p>This phase, referred to as Project Wedgetail, will provide the ADF with an Airborne Early Warning and Control Aircraft (AEW&C) capability comprising six aircraft and associated supplies and support.</p> <p>During 2011-12, this project delivered the fifth and sixth aircraft to the Air Force in an initial acceptance configuration and all support systems in initial acceptance configurations to enable the continued ramp up of operational capability. As Boeing failed to deliver all aircraft hardware by end 2011 and was unable to deliver the final software configuration by March 2012, Boeing and the Commonwealth negotiated a Remediation Plan in December 2011 to complete the remaining activities. System development was completed under this plan in April 2012 and acceptance of the first fully configured aircraft is now planned to occur in December 2012, which will represent a 73 month delay against the original contract baseline.</p> <p>This project is being managed as a Project of Concern.</p>	✓✓	✓✓
New Air Combat Capability					
Joint Strike Fighter Aircraft	AIR 6000 Phase 2A/B	Lockheed Martin is contracted to the United States Government for the development and production of the F-35 Joint Strike Fighter. Australia is procuring the aircraft through a government-to-government agreement.	<p>During 2011-12, this project signed the long lead acquisition contract for Australia's first two Joint Strike Fighter (JSF) Aircraft. Production of aircraft components has commenced to support delivery to the United States Pilot Training Centre in early 2014. Full contract signature (known as definitisation) has been delayed and is not expected to occur until mid 2013, however this is not expected to impact the 2014 delivery.</p> <p>In the 2012-13 Budget, the Australian Government confirmed its commitment to the first two JSF aircraft but deferred the acquisition of the subsequent 12 aircraft by two years. This decision was taken to maintain alignment with the United States Program which had recently deferred the acquisition of 179 Aircraft.</p>	✓✓✓	✓✓

Top 30 Major Projects by Expenditure

Table 11.2 provides details of the top 30 major projects (by forecast expenditure in the *Portfolio Budget Statements 2011-12*). Expenditure for the top 30 projects represented 69 per cent of total expenditure on major capital equipment projects in 2011-12.

Table 11.2: Top 30 major projects by expenditure as forecast in the *Portfolio Budget Statements 2011-12*

Project Name	Project Number/ Phase	Approved Project Expenditure \$m	Cumulative Expenditure to 30 June 2011 \$m	Budget Estimate 2011-12 \$m	Revised Estimate 2011-12 ^[1] \$m	Final Plan 2011-12 ^[2] \$m (a)	Actual Expenditure 2011-12 ^[3] \$m (b)	Variation \$m (b-a)
General Manager Systems								
Aerospace Systems								
Air to Air Refuelling Capability	AIR 5402	1,796	1,328	235	151	150	138	-12
Bridging Air Combat Capability	AIR 5349 Phase 1	3,266	2,590	177	108	108	107	-2
F/A-18 Hornet Upgrade	AIR 5376 Phase 2	1,875	1,541	90	73	73	71	-2
C-17 Globemaster III	AIR 8000 Phase 3	1,844	1,318	49	16	16	18	2
Airborne Surveillance for Land Operations	JP 129 Phase 2	92	27	34	5	5	20	16
Electronic Systems								
Next Generation Satellite Communications System	JP 2008 Phase 4	861	387	135	98	98	81	-17
Battlespace Communications Systems (LAND)	JP 2072 Phase 1	254	103	109	94	94	84	-10
Battle Management System	LAND 75 Phase 3.4	306	83	101	61	61	49	-12
Ultra High Frequency Satellite Communications	JP 2008 Phase 5A	433	247	84	35	35	65	30
Dismounted Battlegroup and Below Command, Control Communication System	LAND 125 Phase 3A	105	28	53	46	46	26	-20

Project Name	Project Number/ Phase	Approved Project Expenditure \$m	Cumulative Expenditure to 30 June 2011 \$m	Budget Estimate 2011-12 \$m	Revised Estimate 2011-12 ^[1] \$m	Final Plan 2011-12 ^[2] \$m (a)	Actual Expenditure 2011-12 ^[3] \$m (b)	Variation \$m (b-a)
Joint Command Support Environment	JP 2030 Phase 8	256	83	30	32	55	40	-16
New Air Defence Command and Control Systems for Control Units 2 & 3	AIR 5333	274	230	30	16	16	16	..
ADF Deployable Logistics System	JP 2077 Phase 2B.2	49	14	29	9	9	7	-2
Explosive Ordnance								
Follow-On Stand Off Weapon	AIR 5418 Phase 1	341	245	43	33	33	32	..
Lightweight Torpedo Replacement	JP 2070 Phase 3	300	243	29	19	18	16	-2
Bridging Air Combat Capability	AIR 5349 Phase 2	272	103	29	20	20	20	..
Helicopter Systems								
Multi-Role Helicopter	AIR 9000 Phase 2	3,628	1,838	393	265	260	210	-50
Armed Reconnaissance Helicopter	AIR 87 Phase 2	2,029	1,733	118	87	85	80	-5
Land Systems								
Field Vehicles and Trailers	LAND 121 Phase 3	985	105	136	113	109	128	19
Artillery Replacement 155mm Howitzer	LAND 17 Phase 1A	321	89	111	33	33	33	..
Upgrade of M-113 Armoured Vehicles	LAND 106	883	698	100	66	66	70	5
Counter Rocket, Artillery and Mortar (C-RAM)	LAND 19 Phase 7A	251	96	85	52	52	52	..
Bushmaster Protected Mobility Vehicle	LAND 116 Phase 3	1,032	684	67	87	87	87	..

Project Name	Project Number/ Phase	Approved Project Expenditure \$m	Cumulative Expenditure to 30 June 2011 \$m	Budget Estimate 2011-12 \$m	Revised Estimate 2011-12 ^[1] \$m	Final Plan 2011-12 ^[2] \$m (a)	Actual Expenditure 2011-12 ^[3] \$m (b)	Variation \$m (b-a)
Australian Light Armoured Vehicle - Additional	LAND 112 Phase 3	690	601	34	9	9	8	-1
Maritime Systems								
Standard Missile Replacement	SEA 1390 Phase 4B	399	295	90	27	19	12	-7
ANZAC Ship Anti-Ship Missile Defence	SEA 1448 Phase 2B	676	283	59	65	69	58	-11
General Manager Programs								
Air Warfare Destroyer								
Air Warfare Destroyer Build	SEA 4000 Phase 3	7,853	3,038	841	701	695	802	106
Amphibious Deployment and Sustainment								
Amphibious Deployment and Sustainment	JP 2048 Phase 4A/4B	3,052	1,569	707	636	623	616	-6
Collins and Wedgetail								
Airborne Early Warning and Control Aircraft	AIR 5077 Phase 3	3,830	2,972	401	313	314	283	-31
New Air Combat Capability								
Joint Strike Fighter Aircraft	AIR 6000 Phase 2A/2B	2,538	71	65	58	58	59	..
Total -Top 30 Projects		40,490	22,640	4,465	3,328	3,317	3,287	-30

Notes

1. The revised budget for 2011-12 was published in the *Portfolio Additional Estimates Statements 2011-12*.
2. The Final Plan for 2011-12 is the final approved annual plan for the project inclusive of variations for foreign exchange movements and changes to Materiel Acquisition Agreements.
3. Actual expenditure will include transactions in foreign currency applicable at the exchange rate at the time of the transaction. The Budget Estimate, Revised Estimate and Final Plan will include foreign currency exposures converted using the budgeted exchange rates applicable to the respective budget update.

Table 11.3: Variation to project approval for the 2011-12 top 30 major projects

Project Number / Phase	Initial Project Approval Date	Original Approval	Price Indexation Variation	Exchange Variation	Real Variation ^[1]	Current Approval	Real Variations 2nd Pass Approval ^[2]	Scope ^[3]	Transfers ^[4]	Others ^[5]	Total Real
		\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
General Manager Systems											
Aerospace Systems											
AIR 5402	17 Jul 03	2,077	484	-476	-289	1,796			-136	-154	-289
AIR 5349	31 Jul 07	3,546	367	-407	-240	3,266			-132	-107	-240
Phase 1											
AIR 5376	21 Apr 98	1,300	323	-1	253	1,875		223 ^[6]	34	-3	253
Phase 2											
JP 129	30 Sep 04	2	24	-31	97	92	97			..	97
Phase 2											
AIR 8000	01 Mar 06	1,864	124	-144	-	1,844					
Phase 3											
Electronic Systems											
JP 2008	28 Sep 07	885	132	-156	-	861					
Phase 4											
JP 2072	04 Oct 02	98	40	-42	159	254	148		..	11	159
Phase 1											
LAND 75	06 Dec 05	8	16	-36	318	306	325			-7 ^[7]	318
Phase 3.4											
JP 2008	16 Feb 09	4	18	-46	457	433	457				457
Phase 5A											
LAND 125	07 Apr 10	120	4	-20	-	105					
Phase 3A											
JP 2030	22 Aug 06	42	8	..	207	256	98	109 ^[8]			207
Phase 8											
AIR 5333	01 Nov 92	48	75	10	140	274		117 ^[9]	23	..	140
JP 2077	09 Aug 05	83	19	..	-53	49		32 ^[10]		-85 ^[11]	-53
Phase 2B.2											

Project Number / Phase	Initial Project Approval Date	Original Approval	Price Indexation Variation	Exchange Variation	Real Variation ^[1]	Current Approval	Real Variations 2nd Pass Approval ^[2]	Scope ^[3]	Transfers ^[4]	Others ^[5]	Total Real
		\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Explosive Ordnance											
AIR 5418 Phase 1	30 Sep 04	15	63	-42	305	341	355	-50 ^[12]		..	305
JP 2070 Phase 3	21 Jan 04	246	69	-16	..	300				..	..
AIR 5349 Phase 2	31 Jul 07	182	24	-33	99	272			99		99
Helicopter Systems											
AIR 9000 Phase 2	22 Apr 04	3	680	-367	3,312	3,628	954	2,597 ^[13]	-239		3,312
AIR 87 Phase 2	16 Mar 99	1,584	418	118	-91	2,029			-84	-7	-91
Land Systems											
LAND 121 Phase 3	14 Aug 07	2,686	691	-196	-2,197	985	-2,187 ^[14]	-15 ^[15]	4		-2,197
LAND 17 Phase 1A	30 Nov 09	348	17	-45	-	321					
LAND 106	01 Nov 93	40	155	-1	689	883		441 ^[16]	250	-2	689
LAND 19 Phase 7A	28 Apr 10	266	5	-20	-	251					
LAND 116 Phase 3	30 Nov 98	295	125	-7	619	1,032	104	515 ^[17]			619
LAND 112 Phase 3	01 Dec 97	491	91	56	51	690			52	..	51
Maritime Systems											
SEA 1390 Phase 4B	30 Sep 04	553	128	-73	-209	399	-206 ^[18]			-2	-209
SEA 1448 Phase 2B	01 Nov 05	249	76	-12	363	676	215 ^[19]		149		363

Project Number / Phase	Initial Project Approval Date	Original Approval \$m	Price Indexation Variation \$m	Exchange Variation \$m	Real Variation ^[1] \$m	Current Approval \$m	Real Variations 2nd Pass Approval ^[2] \$m	Scope ^[3] \$m	Transfers ^[4] \$m	Others ^[5] \$m	Total Real \$m
General Manager Programs											
Air Warfare Destroyer											
SEA 4000 Phase 3	19 Jun 07	7,207	1,173	-528	-	7,853					
Amphibious Deployment and Sustainment											
JP 2048 Phase 4A/4B	27 Jan 04	3	428	-344	2,965	3,052	2,950	5 ^[20]	9	..	2,965
Collins and Wedgetail											
AIR 5077 Phase 3	01 Dec 97	2,170	723	-123	1,059	3,830		226 ^[21]	619	215	1,059
New Air Combat Capability											
AIR 6000 Phase 2A/B	07 Apr 10	2,752	351	-564	-	2,538					

Notes

1. Real Variation is the total of all variations except Price Indexation and Exchange. Real Variations are divided into: Second Pass Approval, Scope, Transfers and Other.
2. Second Pass Approval – Under processes introduced as part of the Kinnaird reforms, Major Capital Equipment projects are now generally managed in two stages – a definition stage which is funded at first pass and an acquisition stage which is funded at second pass. On occasions, the second pass stage is funded as a separate project. Many of the projects detailed in the table were approved before the two-pass process was implemented.
3. Scope – Any Real Cost Increase/Decrease provided to address a formal scope increase/decrease.
4. Transfers – Any Real Cost Increase/Decrease to a project as a result of a transfer in budget to another Project, Group or to Sustainment with no net change to the existing Project Approval.
5. Others – All other Real Variations e.g. Real Increases needed to fund underestimates/budget overruns.
6. Increase in scope associated with the approval of Hornet Electronic Warfare Self Protection – AIR 5376 Phase 2 and the Hornet Jammer – AIR 5376 Phase 3C projects in May 2007.
7. Government agreed at 2012-13 Budget to reduce scope by cancelling the installation in the M-113 fleet.
8. Increase in scope to further develop the Joint Planning Suite approved in September 2011.
9. Increase in scope associated with the incorporation of the Command and Control Capability to support Air Defence, August 2003.
10. Increase in scope to enable acquisition of Deployable Supply Chain Infrastructure Hardware.
11. Government agreed at 2012-13 Budget to cancel this project.
12. Real Cost Decrease reflects the removal of moving target capability and improved definition of supplies, approved June 2011.
13. Incorporation of Phase 4 Black Hawk upgrade/replacement and Phase 6 Maritime Support Helicopter and Full Flight and Mission Simulator facilities, April 2006.
14. Decrease in scope to recognise the transfer and management of Medium and Heavy Capability, Field Vehicles, Modules and Trailers to LAND 121 Phase 3B.
15. Reduction represents the return of Enhanced Land Force Funding.
16. Result of the Defence White paper deliberations, (\$227 million) inclusion of an additional 81 M-113 Armoured Personnel Carriers (\$214 million).
17. Increase in scope associated with the purchase of 250 additional vehicles for the Enhanced Land Force budget measure.
18. Real cost decrease to reflect Government decision made on 16 September 2011 for the transfer to SEA 4000 Phase 3.2 of \$86.480 million and savings of \$120 million.
19. The Acquisition Strategy approved by Government on 21 November 2011, to deliver the full Stage 2 Anti Ship Missile Defence capability to ships 2-8, installation through the Alliance and complete the Stage 2 capability in HMAS *Perth*.
20. Increase in scope due to risk reduction activity for the Project to obtain design data and develop designs to meet Australian essential requirement – between First and Second Pass.
21. Increase in scope associated with the decision to purchase two additional aircraft (to a total of six) in June 2004.

Previously Reported Top 30 Major Projects

An update on the status of the top 30 major projects reported in the previous five financial years that have fallen below the threshold is available on the internet version of this volume at <www.defence.gov.au/annual-reports>.

New Major Projects

During 2011-12, 27 major projects were transferred to the DMO following Government approval. These are shown in table 11.4. The DMO classifies a project as having been transferred on the signing of MAA between the DMO and Defence.

Table 11.4: New major projects transferred to the DMO in 2011-12^[1]

Project Name	Project Number/ Phase	Programmed Estimate \$m	Actual Expenditure 2011-12 \$m	Acquisition Cost Categorisation ^[2]	Project Information
General Manager Systems					
Aerospace Systems					
Lead-In Fighter Capability Assurance Program	AIR 5438 Phase 1A	7	8	Level 3	Lead-In Fighter Capability Assurance Program (LIFCAP) has been raised to ensure the effectiveness and viability of the Lead-In Fighter Training System until its Planned Withdrawal Date of 2026.
Battlefield Airlift – Caribou Replacement	AIR 8000 Phase 2	19	113	Level 2	Caribou Replacement seeks to enhance the ADF's intra-theatre and regional airlift capability. AIR 8000 Phase 2 is scoped to acquire a fleet of ten new Light Tactical Fixed Wing aircraft.
Electronic Systems					
Battlespace Communications System (LAND)	JP 2072 Phase 2A	53	59	Level 3	Second Pass. This phase has commenced procurement and received first deliveries of a modern, secure, digital radio fleet to replace the legacy dismounted voice communication systems. Roll out of the radios to high readiness land formations and units of the ADF will commence late 2012.

Project Name	Project Number/ Phase	Programmed Estimate \$m	Actual Expenditure 2011-12 \$m	Acquisition Cost Categorisation ^[2]	Project Information
Battlespace Communications System (LAND)	JP 2072 Phase 2B	2	..	Level 1	First Pass. This phase aims to provide enhanced Command and Control (C2) services including enhanced trunking and switching infrastructure in the land environment. Request for Tender responses were received in February 2012 and are currently under evaluation.
Fixed Base Air Traffic Management and Control Systems	AIR 5431 Phase 2/3	..	..	Level 2	First Pass. This phase will procure a new Defence Air Traffic Management and Control System (DATMCS) to replace the existing Australian Defence Air Traffic System (ADATS). This includes the replacement of fixed site sensors and air traffic management systems with some requirements being coordinated jointly with Air Services Australia.
ADF Identification Friend or Foe and Automatic Dependant Surveillance – Broadcast	JP 90 Phase 1	..	..	Level 2	First Pass. This project aims to update legacy ADF platforms to ensure compliance with new military and civil Identification and Air Traffic Management Surveillance Systems requirements.
Maritime Rapid Environmental Assessment (REA)	JP 1770 Phase 1	1	..	Level 3	First Pass. This project seeks to provide the fixed and deployable maritime Rapid Environmental Assessment capability in order to enhance the direction, collection, processing and dissemination of tactical maritime environmental information. A Request for Tender was issued in April 2012 to shortlist tenderers and identify market capability and capacity.
Wideband Transportable Land Terminals	JP 2008 Phase 5B1	1	..	Level 3	First Pass. This phase seeks to deliver a wideband satellite communications (SATCOM) capability to the ADF via the acquisition and in service support of a family of Wideband Global SATCOM (WGS) certified transportable land terminals. Selected existing terminals and communications infrastructure will be upgraded to support ADF network enabled operations. The project will utilise advanced waveform technology to support meshed communications between deployed elements.

Project Name	Project Number/ Phase	Programmed Estimate \$m	Actual Expenditure 2011-12 \$m	Acquisition Cost Categorisation ^[2]	Project Information
Satellite Ground Station – East and Wideband SATCOM Network Management	JP 2008 Phase 5B2	1	..	Level 3	First Pass. This phase seeks to deliver a wideband satellite communications (SATCOM) capability to support future operational needs of the ADF. Phase 5B2 will expand the ADF wideband SATCOM strategic interface capability; implementation and In-service support a new Satellite Ground Station to be located in the east of Australia (Satellite Ground Station - East) and a Wideband SATCOM Network Management System.
JCTC – Mobile Electronic Warfare Threat Emitter System	JP 3021 Phase 1	..	..	Level 3	First Pass. This project will acquire a Mobile Electronic Warfare Threat Emitter System (MEWTES) that can be deployed to nominated Australian ranges. The MEWTES will support counter Ground Based Air Defence training and mission rehearsal for the ADF by simulating the Radio Frequency signals of emitters associated with threat systems.
Woomera Range Remediation	JP 3024 Phase 1	2	..	Level 3	First Pass. This project aims to replace aerospace test and research evaluation systems at the Woomera Test Range that are near the end of their useful life.
Handheld Component of ADF Navigation Warfare (NAVWAR) Capability	JP 5408 Phase 3	8	2	Level 3	First Pass. This phase seeks to provide GPS protection and enhancement to 12 ADF platform types. Government has approved splitting this project into two stages, with the first stage acquiring the handheld military GPS receivers for dismounted forces and the second stage acquiring military GPS receivers for various ADF platforms. The first stage has received Second Pass approval and the second stage will be the subject of a separate Second Pass approval.
Military Satellite Capability – (WTT)	JP 2008 Phase 3H	3	4	Level 3	First Pass. This phase seeks to support the delivery of a wideband satellite communications (SATCOM) capability to the ADF via the acquisition and in-service support of a single type of Wideband Global SATCOM (WGS) certified transportable land terminal to optimise the early use of Australia's WGS space segment.

Project Name	Project Number/ Phase	Programmed Estimate \$m	Actual Expenditure 2011-12 \$m	Acquisition Cost Categorisation ^[2]	Project Information
Explosive Ordnance					
Evolved Sea Sparrow Missile Upgrade	SEA 1352 Phase 1	10	9	Level 4	Pre-First Pass approval was provided by Government on 29 August 2011. This pre-first pass project will fund Australia's contribution to the multi-national Evolved Seasparrow Missile (ESSM) Consortium-lead Risk Reduction Studies (RRS) in support of the development of the ESSM Block 2 short range surface-to-air missile. The outcomes of the RRS will support future First and Second Pass considerations by Government to approve the Engineering Manufacture and Development and Missile Production phases of the ESSM Block 2 Program.
Standard Missile-2 Conversion and Upgrade	SEA 4000 Phase 3.2	8	1	Level 4	Combined First and Second Pass approval was provided by Government on 29 August 2011. This project will acquire the materiel for and implement the conversion and upgrade of the ADF's inventory of medium range Standard Missile 2 surface-to-air missiles for use in the Hobart class Guided Missile Destroyers.
Joint Direct Attack Munition Enhancement	JP 3027 Phase 1	7	6	Level 4	Combined First and Second Pass approval was provided by Government on 10 October 2011. This project will enhance the RAAF's Joint Direct Attack Munition (JDAM) precision strike capability. The enhancements include: a precision laser guidance system, a low collateral damage war head, a range extension wing kit for the MK82 bomb and additional JDAM tail kit assemblies.

Project Name	Project Number/ Phase	Programmed Estimate \$m	Actual Expenditure 2011-12 \$m	Acquisition Cost Categorisation ^[2]	Project Information
Helicopter Systems					
Additional CH-47D Chinook Helicopter Capability	AIR 9000 Phase 5D	26	19	Level 4	This project acquired two ex-United States Army CH-47D Chinooks to replace the loss of Chinook A15-102 in-theatre on 30 May 2011 and to improve the robustness of the Chinook fleet until it is replaced by seven CH-47F Chinooks under AIR 9000 Phase 5C. Initial Operational Capability in support of domestic raise train sustain operations is to be achieved in mid 2012 and Final Operational Capability in support of a deployable capability is to be achieved by mid 2013.
Land Systems					
Enhanced F88	LAND 125 Phase 3C	5	4	Level 3	This project will deliver an Improved Rifle Platform and Grenade Launcher Attachment. The variation was driven by postponement of a milestone payment due to a delay in obtaining import licences for some weapon components, and explosive ordnance certification costs being met by the ammunition procurement agency.
Australian Protected Route Clearance Capability	JP 154 Phase 3A	15	13	Level 4	This phase will procure the Australian Protected Route Clearance Capability comprising of four route clearance systems to counter the current and enduring improvised explosive threat through protected equipment designed to detect, mitigate and exploit Improvised Explosive Devices.
Integrated Soldier System (DIGGERWORKS)	LAND 125 Phase 4	2	1	Level 4	This project allocates specified funding from the LAND 125 Phase 4 Defence Capability Plan provision for use by the DMO to enable the Defence Material Technology Centre - Program 7, to provide supplies and services for the project. This project will coordinate and manage a program of work for industry and academia to deliver technology developments to enhance soldier survivability.

Project Name	Project Number/ Phase	Programmed Estimate \$m	Actual Expenditure 2011-12 \$m	Acquisition Cost Categorisation ^[2]	Project Information
Land Force Mortar Replacement Project	LAND 136 Phase 1	..	..	Level 4	This phase will replace the current Army mortar capability with a lightweight, digitally networked mortar capability.
OVERLANDER – Medium and Heavy Capability, Field Vehicles, Modules and Trailers	LAND 121 Phase 3B	3	3	Level 1	This phase is replacing the current fleet of ADF medium and heavy field vehicles along with their associated modules and trailers. It includes the acquisition of around 2,700 medium and heavy trucks; around 290 Bushmaster Protected Mobility Vehicles (PMV); and associated modules and trailers. Field vehicles and trailers are an essential element of combat, combat support and combat service support capabilities of the ADF. Around one third of the fleet of vehicles is to be armoured to protect personnel.
Maritime Systems					
Interim Maritime Humanitarian Assistance and Disaster Relief Capability	JP 3033	130	128	Level 3	Government-directed purchase of an offshore support vessel to supplement maritime support for Humanitarian Assistance and Disaster Relief operations.
Deployable Mine Countermeasures (MCM)	SEA 1778 Phase 1	1	..	Level 3	The project will provide the Navy an initial capability by acquiring a system that can be deployed for the conduct of Mine Countermeasures by a single Maritime Task Group.

Notes

- Three new classified projects have been created during 2011-12 and are not included in this table due to their classified nature
- Acquisition Cost Categorisations are taken from the DCP (Defence Capability Plan) where applicable and are as follows:
 - Level 1 (Very High): >\$1,500 million
 - Level 2 (High): \$500 million - \$1,500 million
 - Level 3 (Moderate): \$100 million - \$500 million
 - Level 4 (Low): < \$100 million.

Closed Major Projects

In 2011-12, 32 major projects were successfully closed. All MAA deliverables were delivered and accepted with no outstanding issues and consequently closed. The DMO continues to work closely with Capability Development Group and other stakeholders to ensure that all closures comply with, and maintain the integrity of, Government approvals.

Table 11.5: Closed major projects in 2011-12^[1]

Project Name	Project Number/ Phase	Project Approval Value \$m	Total Expenditure \$m	Savings in Project Approval ^[2] \$m
General Manager Systems				
Aerospace Systems				
C-130J-30 Strategic Air lift Capability	AIR 5216 Phase 1/2	1,050	1,024	26
AP-3C Advanced Flight Simulator	AIR 5276 Phase 3	63	61	2
Electronic Warfare Self-Protection for the AP-3C	AIR 5276 Phase 4	45	42	3
F/A-18 Hornet Upgrade Phase 3.1 - Structural Refurbishment	AIR 5376 Phase 3.1	124	111	14 ^[3]
F/A-18 Hornet Upgrade Phase 3.2 - Structural Refurbishment	AIR 5376 Phase 3.2	952	319	633 ^[4]
Electronic Systems				
Narrowband Secure Voice Equipment	JP 2036 Phase 1	70	35	35 ^[5]
Air Command Support System	JP 2030 Phase 5B	57	55	2 ^[6]
Sidearm	AIR 5419 Phase 1	4	4	..
Joint Command Support Environment	JP 2030 Phase 3	56	55	1
Air Command Support System	JP 2030 Phase 7B	74	67	7 ^[7]
GPS for ADF Aircraft	JP 5195 Phase 3C	33	20	12 ^[8]
High Frequency Surface Wave Radar	JP 2084 Phase 1	24	21	4
Digital Radio Frequency Surveillance System	JP 2081 Phase 1	6	6	..
Mine Warfare Command Support System (MWCSS)	SEA 1297 Phase 3	29	26	3
Geospatial Information Infrastructure and Services	JP 2064 Phase 2	17	12	5
Explosive Ordnance				
Non Stand-Off Semi Hardened and Area Weapons	AIR 5398 Phase 3&4	27	20	7
Helicopter Systems				
Seahawk Capability Assurance Program Phase 1	AIR 9000 SCAP 1	5	3	2

Project Name	Project Number/ Phase	Project Approval Value \$m	Total Expenditure \$m	Savings in Project Approval ^[2] \$m
Land Systems				
Incident Response Regiment Equipment Capability Project	JP 2087 Phase 1	18	15	3
Aircraft Rescue and Fire Fighting Vehicles	JP 2095 Phase 1	32	25	7
Chemical, Biological, Radiological Response	JP 141 Phase 1	38	23	15 ^[9]
AN/TPG-36 Weapon Locating Radar Life of Type Extension	LAND 58 Phase 3	32	28	3 ^[10]
Project Overlander	LAND 121 Phase 2	94	71	23 ^[11]
Maritime Systems				
Australian Acoustic Generator	SEA 1424 Phase 1A	10	10	..
Airborne Laser Bathymetry Project	SEA 1102 Phase 3A	16	14	3
Hydrographic Ship Construction	SEA 1401 Phase 2	225	217	8
General Manager Programs				
Amphibious Deployment and Sustainment				
Maritime Operations Support Capability - HMAS SIRIUS	SEA 1654 Phase 2A	139	139	..
Collins and Wedgetail				
UHF MILSATCOM	SEA 1420 Phase 1	45	44	1
Total		3,290	2,471	819

Notes

- Five classified projects have been closed during 2011-12 and are not included in this table due to their classified nature.
- This is the reduction in Materiel Acquisition Agreement agreed price at project closure and includes transfers to other projects and sustainment products, to enable more efficient delivery of remaining scope.
- \$13.910 million transferred to Sustainment.
- \$632.752 million transferred to Sustainment.
- \$1.577 million transferred to Sustainment.
- \$1.372 million transferred to Sustainment.
- \$3.077 million transferred to Sustainment.
- \$3.400 million transferred to Sustainment.
- \$1.347 million transferred to Sustainment.
- \$0.220 million transferred to Sustainment.
- \$23.340 million transferred to project LAND 121 Phase 3B.

Top 10 Minor Projects

Minor projects are undertaken to address emerging requirements - often to enhance or replace existing capability. They are funded from outside the DCP and are usually of relatively low value. There are currently about 86 such projects, with an average value of approximately \$9 million. A total of \$76.9 million was expended on minor capital investment projects during 2011-12, compared to \$88.7 million in 2010-11.

Top 10 Minors Project Performance Summary

An assessment of the performance of the top 10 minor projects against the deliverables in the MAAs (described in the *Portfolio Budget Statements 2011-12*) is provided in table 11.6.

Table 11.6: Top 10 minor capital investment project deliverables in program 1.1 in 2011-12

	Project Number	Prime Contractor	Performance Summary	Status	
				Capability	Schedule
Navy					
Digital Voice Recording Equipment	NMP 1822	SonarTech Atlas Proprietary Limited	<p>The project scope is to design and install 30 digital voice recording systems for use in 27 ships and three training facilities. The system is to be capable of continuous recording of voice communications over ship internal communication circuits and external radio channels, and between ship bridge and operations room.</p> <p>During 2011-12, this project completed factory acceptance testing of the initial production units, and the first preliminary installation onboard HMAS <i>Leeuwin</i>. Completion of 'set to work' onboard HMAS <i>Leeuwin</i>, together with the first-of-class installations onboard a Survey Motor Launch and Landing Craft Heavy, have been rescheduled for late 2012.</p>	✓✓	✓✓
Army					
Field Refrigeration Storage & Distribution	AMP 081.03	Klinge Corporation (United States)	<p>The project is acquiring a foodstuff distribution and storage capability consisting of 60 twenty foot refrigerated distribution containers, 125 ten foot field kitchen refrigerated containers, 250 Insulated Perishable Food Load Units, 1,500 Non-insulated Perishable Food Load Units and associated ancillary systems.</p> <p>During 2011-12, the project delivered all principal equipment and completed a majority of introduction into service requirements. Procurement of spare parts and ancillary systems is yet to be finalised. Final Operational Capability and project closure is expected by December 2012.</p>	✓✓	✓✓

	Project Number	Prime Contractor	Performance Summary	Status	
				Capability	Schedule
Light Tracked Bulldozer	AMP 007.25	Hitachi Construction Machinery Australia	<p>This project will deliver 21 light tracked bulldozers to replace the existing in-service fleet of Caterpillar D3C bulldozers. These are predominantly used by Combat Engineer Regiments and Construction Squadrons within Army.</p> <p>During 2011-12, this project delivered 21 John Deere 450J bulldozers together with the Complete Equipment Schedule and conducted introduction into service operator and maintainer training.</p>	✓✓✓	✓✓✓
Replacement of Truck Fire Fighting Rural	AMP 85.06	SEM Fire and Rescue Pty Ltd	<p>This project is acquiring 16 Rural Fire Fighting vehicles to replace the Mercedes Benz 911 vehicle fleet operated by Force Engineer Branch units, Incident Response Regiment and RAAF Security and Fire School.</p> <p>During 2011-12, the project delivered all 16 rural fire trucks and completed 'train the trainer' training.</p>	✓✓✓	✓✓✓
Enhanced Land Force Weapons Training Simulator System	AMP 029.44	Meggitt Training Systems Australia	<p>This project will deliver five additional Weapons Training Simulation Systems at: Edinburgh, South Australia; Townsville and Enoggera, Queensland; Singleton and Kapooka, New South Wales. The initial capability comprises the supply and installation of simulated in-service weapons. The final capability will introduce new simulated weapon types and training scenarios.</p> <p>During 2011-12, initial delays with the solicitation process delayed the signing of a contract with Meggitt Training Systems Australia. The project has established an interim system at Edinburgh with the full capability to be completed in December 2012.</p>	✓✓	✓✓
Bullet Trap Blank Firing Attachment	AMP 048.42	Thales Australia Limited	<p>This project is delivering 44,620 Bullet Trap Blank Firing Attachment (BTBFA) for the F88 Austeyr Family of Weapons and 1,485 M4A1 Carbine Modular Weapon System. Currently all F88 variants have been delivered and a review of the requirement for the M4A1 Carbine variant will be completed by August 2012 aiming for completion of deliveries and project closure by December 2012.</p> <p>During 2011-12, this project delivered 17,186 F88 BTBFA and 6,134 F88 Carbine BTBFA.</p>	✓✓✓	✓✓✓

	Project Number	Prime Contractor	Performance Summary	Status	
				Capability	Schedule
Australian Light Armoured Vehicle Crew Procedural Trainers	AMP 002.12	Thales Australia Limited	<p>This project will deliver nine Australian Light Armoured Vehicle crew procedural trainers to supplement the existing nine crew procedural trainers that were introduced into service in 2006. The facilities for housing the crew procedural trainers are also being upgraded.</p> <p>Following contract signature in May 2011, this project finalised plans and design activities for the crew procedural trainer in February 2012; with production and testing of the prototype successfully completed in June 2012.</p>	✓✓✓	✓✓✓
Air Force					
Traffic Alert and Collision Avoidance System	AFM1001	BAE Systems	<p>During 2011-12, the project successfully completed modification of the prototype aircraft, culminating in delivery of the first aircraft with the Traffic Alert and Collision Avoidance System to Air Force in mid 2012. Incorporation of the Traffic Alert and Collision Avoidance System capability into the AP-3C Orion fleet has commenced.</p>	✓✓✓	✓✓
Tactical Communication Router	AFM 0935	Indra Australia	<p>The Tactical Communication Router (TCR) will enable airspace communications support to deployed airspace coordination elements and mobile air operations teams and be a fully deployable system compliant with International Civil Aviation Organisation and ADF requirements enabling secure communications.</p> <p>During 2011-12, delays occurred in finalisation of an agreed contract, however outstanding issues have now been resolved and contract signature occurred in July 2012. As a result of the delays, planned expenditure in 2011-12 has been re-phased to 2012-13.</p>	✓✓	✓
462SQN Electronic Combat and Monitoring System	AFM 00977	Contract signature is delayed to allow for adjustments in Minor project funding	<p>The Project will provide Air Force with new capability for electronic support, radio communications intercept, direction finding, and increased processing power to provide greater spectrum situational awareness.</p> <p>During 2011-12, a preferred vendor has been selected from a Request for Tender process, with contract negotiations to be held in the third quarter of 2012 and contract signature planned by the end of 2012.</p>	✓✓✓	✓✓✓

Table 11.7 Top 10 minor capital investment projects in 2011-12

Project Name	Project Number/ Phase	Expenditure \$m	Approved Project Expenditure \$m	Budget Estimate 2011-12 \$m	Revised Estimate 2011-12 \$m	Actual Expenditure 2011-12 \$m	Variation \$m	Explanation for Significant Variation on Expenditure
Navy								
Digital Voice Recording Equipment	NMP1822	20	3	3	3	2	-1	Minor Variation
Army								
Field Refrigeration Storage and Distribution	AMP081.03	22	8	6	3	3	..	Minor Variation
Light Tracked Bulldozer (RPT)	AMP007.25	8	..	5	4	4	..	Minor Variation
Replacement Fire Fighting Truck Rural	AMP085.06	12	4	5	5	5	..	Minor Variation
Enhanced Land Force (ELF) Weapons Training Simulator System (WTSS)	AMP029.44	34	..	4	..	..	..	Minor Variation
Bullet Trap Blank Firing Attachment	AMP048.42	11	3	4	3	4	1	Minor Variation
Australian Light Armoured Vehicle Crew Procedural Trainers	AMP002.12	44	3	3	6	8	2	The contractor successfully achieved contracted milestones ahead of schedule.
Air Force								
Traffic Alert and Collision Avoidance System (TCAS)	AFM01001	25	5	10	11	12	1	Minor Variation
Tactical Communications Router	AFM00935	3	..	3	..	..	..	Minor Variation
462SQN Electronic Combat and Monitoring System	AFM00977	3	..	3	..	..	..	Minor Variation
Total		182	26	46	35	38	3	

New Minor Projects

During 2011-12, 8 minor projects were transferred to the DMO following approval. These are shown in table 11.8. The DMO classifies a project as having been transferred on the signing of MAA between the DMO and Defence.

Table 11.8: New Minor Projects transferred to the DMO in 2011-12

Project Name	Project Number/ Phase	Programmed Estimate \$m	Actual Expenditure 2011-12 \$m	Acquisition Cost Categorisation ^[1]	Project Information
Navy					
Self Locating DATUM Marker Buoy	NMP1862	..	..	Level 4	Procurement of Self Locating Datum Marker Buoys, storage containers and training materials to augment the existing Search and Rescue capability.
Army					
Rotary Wing Secure Crew Briefing System for Blackhawk and Chinook	AMP015.56	2	1	Level 4	This project will modify 12 S-70A-9 Black Hawk and 5 CH-47D Chinook helicopters by installing a wireless intercommunications system capability. Higher priorities for DMO engineering resources has resulted in delays to the project.
Kiowa Pilot Seating	AMP015.58	1	1	Level 4	The project will facilitate the installation of energy attenuating pilot seats to 24 Bell 206B-1 Kiowa helicopters.
Army Field Catering Equipment	AMP500.09	..	-	Level 4	This project is acquiring portable catering equipment for Army.
Enhanced Static Line Parachute Capability Project	AMP058.08	5	..	Level 4	Project acquisition is via a Foreign Military Sales Case with the United States Department of Defense. Variation is due to delays in letting the contract for delivery. However, it is still expected that the final delivery will meet the currently agreed project schedule.

Project Name	Project Number/ Phase	Programmed Estimate \$m	Actual Expenditure 2011-12 \$m	Acquisition Cost Categorisation ^[1]	Project Information
Air Force					
Deployable Tactical Air Navigation (DTACAN)	AFM01006	..	-	Level 4	First Pass. This project will replace existing Deployable Tactical Air Navigation systems nearing the end of their useful life.
RAAF Intelligence Deployable LAN (RIDL)	AFM01003	2	2	Level 4	Second Pass. The RAAF Intelligence Deployable LAN (RIDL) will allow users to deploy a secure and networked intelligence analysis capability to remote locations without Information and Communications Technology support. The preliminary design of the deployed component is complete and the fixed component to Air Force Tactical Intelligence Flights has been delivered for installation on the Defence Secret Network.
Defence People Group					
Occupational Hygiene Monitoring Equipment	HMP00001	2	1	Level 4	This project is to provide occupational hygiene monitoring equipment for workplace and individual occupational hygiene related monitoring across Defence. Variation in expenditure was due to the transfer of funds not occurring until April 2012 and from savings achieved during the initial equipment acquisitions.

Notes

1. Acquisition Cost Categorisations are as follows:

- Level 1 (Very High): >\$1,500 million
- Level 2 (High): \$500 million - \$1,500 million
- Level 3 (Moderate): \$100 million - \$500 million
- Level 4 (Low): < \$100 million.

Closed Minor Projects

In 2011-12, 23 minor projects were successfully closed.

The total reduction of project approval at closure represented 26 per cent of the project approval value for these projects.

Table 11.9: Closed minor projects in 2011-12

Project Name	Project Number/ Phase	Project Approval Value	Total Expenditure	Savings in Project Approval ^[1]
		\$m	\$m	\$m
Navy				
Multi Media for Major Fleet Units (including INMARSAT B)	NMP1785	5	5	..
Digital Satellite TV for HMA Ships STUART and PARRAMATTA	NMP01905	1	1	..
Portable Fire and Salvage Pumps	NMP1737	4	4	..
Mine Countermeasures Underwater Computer System (MUCS)	NMP1740	9	9	..
Flight Deck Low Light TV System for Air Capable Ships	NMP1770	2	1	1
Ballistic Protection for Upperdeck Personnel	NMP1827	4	2	2
Portable Radio Communication System	NMP1843	11	6	5
Bridge Simulator Upgrade	NMP1867	13	8	5
Submarine Internet Protocol (SIP)	NMP1880	..	..	..
Digital Satellite TV for HMA Ships ANZAC and ARUNTA	NMP1888	1	1	..
Digital Satellite TV for HMAS WARRAMUNGA	NMP1891	..	..	..
Army				
Rapid Geospatial Support System (RGSS)	AMP021.23	3	2	1
Intercommunication Set Gun Control (ISGC)	AMP989.05	1	1	..
Black Hawk Maintenance Training Aid (BHMTA) Upgrade	AMP015.46	4	..	4
Portable Floodlighting Equipment	AMP012.01	5	5	..
Indirect Forward Observer Trainer Upgrade	AMP029.39	3	3	..
Portable Search and Target Acquisition Radar - Extended Range (PSTAR-ER)	AMP041.70	8	7	1
High Altitude Parachute Operations (HAPO)	AMP066.50	4	2	2 ^[2]

Project Name	Project Number/ Phase	Project Approval Value	Total Expenditure	Savings in Project Approval ^[1]
		\$m	\$m	\$m
Air Force				
AOSG Mass Properties Measurement Instrument	AFM00029	1	1	..
AOSG Real Time Monitoring Facility Upgrade	AFM00951	3	3	..
AOSG Fast Jet Digital Imagery Capability	AFM00954	4	4	..
Over The Horizon Radar to Vigilare Air Defence Systems Link Interface	AFM00967	4	4	..
MK93 Bombs - Introduction into Service	AFM00950	1	1	..
Total		91	70	21

Notes

1. This is the reduction in Materiel Acquisition Agreement agreed price at project closure and includes transfers to other projects and Sustainment products.
2. \$0.314 million transferred to Sustainment.

Program 1.2

Management of Capability Sustainment

The objective for Program 1.2 is to sustain the ADF and its capabilities. Each financial year, the DMO enters into an agency level bilateral agreement with each Defence Capability Manager known as a Material Sustainment Agreement (MSA). The MSA details the level of performance and support required, within an agreed price, as well as key performance indicators for which service delivery will be measured.

The Program supported around 115 products for Defence which ranged from high grade specialised military platforms such as the C-17 Globemaster III heavy airlift aircraft, the Hercules C-130H aircraft and the Super Hornet multi-role F/A-18 aircraft, to clearance diving systems and patrol boats as well as commodity type items such as rifles and ADF clothing.

Support to ADF operations is the highest priority for the DMO. Significant manpower is put towards ensuring our forces are effectively deployed and maintained. This task includes ensuring these forces are supported from the outset through training and exercise regimes, to well serviced and maintained platforms and are also equipped with both the supplies and support needed to do the job. This outcome can only be achieved through planning for, and implementing, efficient procurement activities and maintenance programs.

Program 1.2 represented around 53 per cent of the DMO's expenses in 2011-12. Further details on the top 20 Products and their performance is detailed in this chapter with some of the key achievements for the 2011-12 financial year.

Top 20 Sustainment Products Performance Summary

An assessment of the performance of the Top 20 sustainment products against the deliverables in the MSAs (described in the *Portfolio Budget Statements 2011-12*) is provided in table 11.10.

Table 11.10: Deliverables for the top 20 DMO sustainment products under management in program 1.2

Further Information		Status 2011-12
General Manager Systems		
Aerospace Systems		
Aerospace Systems Division sustains 13 fixed wing aircraft types including the F/A-18 Hornet and Super Hornet, AP-3C Orion, C-17 Globemaster III, C-130H and J and PC-9. The Division also sustains a number of advanced flight simulators	<p>Achievements:</p> <ul style="list-style-type: none"> • exceeded Smart Sustainment reform targets • commenced sustainment support for the AEW&C weapon system • supported operationally deployed weapon systems such as C-130, AP-3C and Heron Unmanned Aerial Systems • took final delivery of F/A-18F Super Hornet, KC-30A Multi-Role Tanker Transport, and fifth C-17A Globemaster III aircraft and continued the development of support arrangements. 	
F/A-18 Hornet Weapons System	<p>The fleet of 24 aircraft and associated support systems continue to be sustained through a combination of in-house, Defence and commercial support arrangements. Materiel Sustainment Agreement requirements were substantially met or exceeded, despite emerging maintenance issues related to corrosion and aircraft ageing. Recovery plans were successfully developed and implemented to manage these issues.</p> <p>Challenges facing sustainment of the fleet are: emerging structural work; obsolescence and ageing aircraft issues; and balancing modifications and upgrades to maintain aircraft availability.</p> <p>An Ageing Aircraft Systems Audit report was delivered in May 2012. An implementation plan for endorsed recommendations is being developed.</p>	✓✓✓

Further Information		Status 2011-12
P-3C/AP-3C Orion Weapons System	<p>The fleet of 19 P-3 Orion aircraft and the associated ground-based training facilities continue to progress through a program of key systems upgrades to improve the supportability and capability of major systems. The weapon system requires significant management focus to address increased deeper maintenance, obsolescence and supportability costs associated with an ageing aircraft. The majority of the fleet has reached the original safe life design limit and has transitioned to a maintenance-intensive safety-by-inspection program, comprising targeted structural inspections and repairs.</p> <p>During 2011-12, Maritime Patrol System Program Office undertook a substantial maintenance program re-engineering activity. This cleared a backlog of three aircraft servicings at the major P-3 deeper maintenance venue, and optimised P-3 deeper maintenance scheduling to ensure that a maintenance backlog does not re-occur. A new aircraft painting contractor was engaged early 2012 and the first aircraft was inducted for repaint mid 2012.</p>	✓✓
F/A-18F Block II Super Hornet Weapons System	<p>Twenty-four aircraft have been received and are being operated at a mature rate of effort. This weapon system is common in the United States Navy and is therefore tied to the United States Navy for configuration and supply chain performance.</p> <p>Despite challenges with establishing the supply system and maturing the organisation, good progress continues to be made to transition from acquisition to sustainment operations. Work is now underway to determine future deeper maintenance requirements.</p>	✓✓
Lead-in Fighter Hawk 127 Weapons System	<p>The Hawk-127 aircraft is used to train pilots for the F/A-18 Classic and Super Hornet, and in the future, the Joint Strike Fighter. Comprising 33 Hawk-127 aircraft, training and support systems, the weapon system is maintained under a performance-based contract with BAE Systems Australia. An open Request for Tender for the In-Service Support contract was released in March 2012.</p> <p>Pilot training was impacted for three months when Rolls Royce imposed limitations on the aircraft engine following Low Pressure Turbine blade failures in other fleets. Remediation of the Low Pressure Turbine blades is expected to be completed by end 2013.</p>	✓✓
C-17 Heavy Air Lift	<p>The C-17 fleet comprises five aircraft, an aircrew training simulator and other training devices. Primary support is provided through a Foreign Military Sales with the United States Air Force as part of a global support arrangement.</p> <p>During 2011-12, a fifth aircraft was successfully added to the fleet with substantial preparations undertaken for delivery of a sixth aircraft in late 2012. Average aircraft availability and support performance exceeded agreed targets.</p>	✓✓✓

Further Information		Status 2011-12
C-130J-30 Weapons System	<p>The C-130J fleet consists of 12 aircraft and a Level 5 aircrew training simulator. Australian Aerospace is responsible for engineering, logistics and deeper maintenance support, and Standard Aero provides propulsion system support.</p> <p>During 2011-12, C-130J aircraft provided critical support to ADF operations.</p> <p>Average aircraft availability exceeded agreed targets. Spares provision and related support performance remained below target due mainly to challenges in supporting extended supply chains, but these shortfalls were actively managed to prevent any adverse effect on support to operationally deployed aircraft.</p>	✓✓
C-130H Weapons System	<p>The C-130H fleet comprises 12 aircraft and a level 5 aircrew training simulator. Five aircraft have been placed in preservation as part of a progressive drawdown of the fleet.</p> <p>During 2011-12, detailed preparations for withdrawal and disposal of the fleet were commenced following the Government decision for early retirement of the fleet in late 2012.</p> <p>Average aircraft availability exceeded Air Force requirements, enabling the Air Force to achieve planned rate of effort and meet operational taskings. Ageing aircraft issues such as fatigue and corrosion remain the key support risk and are being actively managed through to withdrawal.</p>	✓✓✓
Airborne Early Warning and Control (AEW&C) System	<p>The AEW&C sustainment infrastructure continued to mature in 2011-12 in line with residual Project AIR 5077 Phase 3 deliveries (including the last two aircraft, the mission simulator and software laboratory). Key achievements included establishing the support arrangements for the electronic warfare sub-systems, the delivery of additional (but not all) spares and support equipment to prime repair pipelines, managing the retrofit of technical changes as part of an incremental acceptance strategy, and supporting the increasing flying rate of effort by No 2 Squadron.</p>	✓✓

Further Information		Status 2011-12
Electronic Systems		
Electronic Systems Division (ESD) manages the sustainment of much of the ADF's Electronic Systems Materiel both domestically and operationally through its 19 System Program Offices (SPO/SSO). The sustained materiel includes command and control systems, communications, airspace surveillance and control systems, electronic warfare systems (including self-protection) satellite communications, logistics information systems and tactical interoperability systems.	<p>Achievements:</p> <ul style="list-style-type: none"> • Communications: <ul style="list-style-type: none"> » successfully introduced into service the latest generation communications harness, known as the SOTAS (Signal Onboard Two Wire Audio System), for the ADF's Protected Mobility Vehicle Fleet » successfully supporting High Grade Cryptographic Equipment across Defence and the wider Australian Government. • Satellites and Tactical Interoperability: <ul style="list-style-type: none"> » development and implementation of support concepts for project equipment provisioned under the Wideband Global Satellite Communications partnership with the United States. • Surveillance and Control: <ul style="list-style-type: none"> » transition of Vigilare system from acquisition to sustainment. • Logistics Information Systems: <ul style="list-style-type: none"> » annual recertification of the LOGIS sustainment organisation against ISO 20000 IT Service Management standards was achieved in October 2011. • Electronic Warfare (EW): <ul style="list-style-type: none"> » negotiated and awarded the Large Aircraft Infrared Countermeasures (LAIRCM) through-life support contract with Northrop Grumman » negotiation and awarded a new Nulka In-Service Support Contract (ISSC) was entered into with BAE Systems Australia. • Command and Support Systems: <ul style="list-style-type: none"> » continued to provide high levels of support to the numerous command, control and intelligence systems currently deployed with our troops on operations 	
Wide Area Surveillance Capability	Wide Area Surveillance across the northern sea and air approaches to Australia is provided through a network of three Over the Horizon Radars. Capability availability targets were met and consistently exceeded. Strategic Reform Program (SRP) targets were achieved through multiple efficiency initiatives. Skills retention ensuring Priority Industry Capability is being progressed.	✓✓✓

Further Information		Status 2011-12
Explosive Ordnance		
<p>The Explosive Ordnance Division provides a dedicated focus to the management of explosive ordnance acquisition and sustainment outcomes.</p> <p>Guided Weapons Branch manages the acquisition and in-service support of all guided weapons and Munitions Branch manages the acquisition and in-service support of all non-guided munitions, pyrotechnics and countermeasures for the ADF.</p>	<p>Achievements:</p> <ul style="list-style-type: none"> • The Domestic Munitions Manufacturing Arrangements Project short listed global suppliers and progressed the development of tender documentation. • The SRP was further implemented in the Division, with sustainable savings derived from existing commercial arrangements. • The transition of inventory management from the Explosive Ordnance inventory system, to the Defence Military Integrated Logistics Information System (MILIS) continued. • The collaboration with Defence Support Group to manage risks to health, safety and environment at the Mulwala facility continued. • Improvement to sustainment management practices across the Division supported by end-to-end process reviews, continued. • Capability and competency of all staff continued to be progressed through a Division-wide professionalisation and competency development program. 	
Explosive Ordnance – Navy, Army, Air Force	<p>Performance against Explosive Ordnance sustainment outcomes for the Navy, the Army and the Air Force continued to improve during 2011-12. Guided Weapons availability continued to improve, along with spares demand satisfaction rates and availability of repairable items. Improved inventory management practices resulted in reduced spares holdings and more effective spares procurement. Financial achievement was in line with budget and SRP savings were achieved through smarter contracting practices, increased focus on serviceability levels and process efficiencies.</p> <p>Continued easing of demand in the global munitions market during 2011-12, along with signs of increased manufacturing capability, relieved price and lead time pressures, which enabled the Division to keep on delivering significant improvements in sustainment outcomes.</p>	✓✓

Further Information		Status 2011-12
Helicopter Systems		
<p>Helicopter Systems Division provides through-life support to seven rotary-wing platforms and one unmanned aerial system through System Program Offices based at Nowra, Oakey and Brisbane. They provide fleet-wide engineering, repair parts, contract management for deeper level maintenance and replacement of ageing and obsolescent aircraft equipment.</p> <p>The sustainment activity supports the Army and the Navy raise, train and sustain requirements and the current operational deployments to Afghanistan (Chinook and Shadow), the Middle East (Seahawk), and Timor Leste and Papua New Guinea (Black Hawk).</p>	<p>Achievements:</p> <ul style="list-style-type: none"> • ongoing Black Hawk Modification Program with 19 of 22 aircraft now complete • continued incremental improvement in support for the Tiger and MRH-90 fleets • an extension to Chinook servicing intervals that reduced costs and increased the available flying hours without impacting reliability or safety • the provision of an enhanced electro-optical capability for Seahawks deployed on operations • the safe retirement of the Sea King in December 2011. 	
Multi-Role Helicopter	Acceptance of MRH-90 recommenced in November 2011 after a 12 month hiatus while technical and contractual issues were defined and a plan to remedy them agreed with Australian Aerospace, the prime contractor. A total of 16 out of the planned 46 MRH-90s have now been accepted. The MRH-90 flying rate of effort, while improving, is not yet at the required level and is continuing to impact on the program's progress towards certification and initial operational release.	✓
S70A-9 Black Hawk Weapons System	The fleet of 34 Black Hawk helicopters contributes to the airmobile and special operations helicopter capabilities for the Army. Carefully managed upgrades were used to address system obsolescence and ensure operational viability and will continue to be selectively applied until the Black Hawk is replaced by the MRH-90.	✓✓✓
Armed Reconnaissance Helicopter Weapons System	All 22 Tigers have been accepted with 20 now being operated in the mature configuration. The technical issues associated with the helmet mounted sight and display have been resolved and incremental improvement in the performance of contractor's maintenance and supply support networks has been achieved. The Tiger flying rate of effort improved over previous years, however the flying rate remains below the planned level and development of the operational capability has continued to be impacted as a result.	✓

Further Information		Status 2011-12
S70B-2 Seahawk Weapons System	The fleet of 16 Seahawk helicopters contributes to Navy's anti-surface and anti-submarine warfare capabilities. Careful management of the principal Seahawk sustainment risks, largely relating to airframe corrosion and mission system obsolescence issues, enabled a stable embarked presence at sea to be maintained and a healthy training regime ashore to continue. These key risks will continue to be closely managed to keep the Seahawk a viable capability until replaced by the new MH 60R Seahawk Romeo.	✓✓✓
Land Systems		
Land Systems Division manages materiel sustainment across 27 product schedules that provide a diverse range of equipment for the ADF and manages over 220,000 lines of supply. Specific fleets include armoured and non-armoured vehicles, engineer plant, artillery, weapons, soldier protection systems, uniforms, medical and dental stores, combat rations, surveillance and simulation systems.	<p>Achievements:</p> <ul style="list-style-type: none"> • provided clothing and personal equipment items for personnel deploying on operations • completed enhanced blast absorbing seating and flooring survivability upgrades to Protected Mobility Vehicles • delivered Force Protection Review equipment for deployed personnel, initiatives included Explosive Ordnance Disposal robots and enhanced body armour and ASLAV survivability upgrades • undertook a range of operational procurements including vehicle mine rollers, mine detectors and search tools • planned and tasked approximately 845,000 hours of maintenance work • conducted equipment pool trials in Townsville, Brisbane and Darwin, aimed at reducing the total cost of ownership. 	
General Service B Vehicle Fleet	<p>Full support for operations continues to be provided, with additional Up Armoured Cabins being delivered for Unimog and Mack vehicles.</p> <p>The age of the fleet continues to pose technical challenges, particularly with certification, tyres and spare parts obsolescence. Servicing optimisation was implemented and savings realised. One Logistic Support Contract was awarded and another is under consideration.</p> <p>Fleet reduction is a priority given impending roll-out of LAND 121 Phase 3A. During 2011-12, completed disposal of 783 assets and issued disposal directives for 975 assets. Another 98 assets are identified as potential disposal candidates.</p>	✓✓

Further Information		Status 2011-12
ADO Commercial Vehicle Fleet	<p>The Defence Commercial Vehicle Program has approximately 6,100 vehicles and trailers under management.</p> <p>During 2011-12, 1,084 vehicles were replaced. This included 894 passenger and light commercial vehicles, 35 vehicles for use by ADF personnel in Malaysia, 60 medium cargo trucks and 95 medium buses.</p> <p>The program has implemented a number of initiatives under the SRP and in 2011-12, generated savings of over \$17 million. Initiatives included extending operational life of some vehicle types, rationalising vehicle numbers and reducing the number of vehicle variants in the fleet.</p>	✓✓✓
Maritime Systems		
The Maritime Systems sustainment concept is to support the Navy and the Army maritime capability through cost effective materiel design, engineering maintenance and logistic support to platforms, equipment and systems. The provision of these sustainment services is under a structure of SPOs that are collocated regionally with the Navy force element by ship class, and under various forms of outsourced commercial contracts.	<p>Achievements</p> <ul style="list-style-type: none"> • The ANZAC Alliance is now focussed on the ANZAC Capability Improvement Program and reduction of through-life support costs. The first of the Major Fleet Unit Repair and Maintenance Reform Program contracts was signed in May 2012. • The Life-Of-Type Extension Study for most ships is with Navy to assist with capability life cycle considerations. • Under the Rizzo Reform Program, improvements to data integrity and functionality of the Navy maintenance management information system have improved maintenance baselines for major surface ships. • The Amphibious and Afloat Support System Program was restructured and new project and maintenance management procedures were implemented. • Smart Sustainment initiatives were implemented to improve the efficiency of the Mine Hunter and other capabilities; and support all Divisional project offices. • The final Armidale Class Patrol Boats achieved Operational Release. 	
Fuels and Lubricants – Navy, Army, Air Force	During 2011-12, this product successfully concluded the implementation of revised contracting arrangements with industry for fuel, oils and lubricants. In addition, the replenishment of fuel stocks to meet the requirements of the ADF was achieved. Work continues with respect to the identification of optimal operational and reserve holding requirements for bulk facilities across the ADF.	✓✓✓
ANZAC class frigate	During 2011-12, this product substantially achieved the ANZAC class Smart Sustainment assessment, and awarded the ANZAC Group Maintenance Contract. Inventory management reform has delivered tools to determine inventory requirements and a program to reduce the repair backlog is currently being undertaken. Preparations are complete for the new Anti Ship Missile Defence capability and upgrade of the remaining seven ANZAC ships. Continual achievement of capability sustainment has met the ANZAC class operational requirements.	✓✓

Further Information		Status 2011-12
Adelaide class frigate	During 2011-12, this product provided ongoing sustainment of materiel capability to meet Navy's operational requirements, and undertake and complete scheduled ship maintenance activities for the frigates. Deployments to the Middle East Area of Operations were also completed successfully.	✓✓
General Manager Programs		
	<p>Achievements:</p> <ul style="list-style-type: none"> • The Future Submarine program continues to engage United States support through the Program Executive Officer Submarines via a FMS case. The major activity in the past year has been campaign modelling. • The In-Service Support Contract for the Collins class submarine was signed with ASC in late June 2012. • Phase 1 and 2 of the Coles study has commenced with the final phase to be undertaken early 2012-13. • Parts for the first two Australian JSF aircraft are being produced under contract. The Air Combat Transition Office was established in late 2011 to oversee the introduction of the JSF capability into Australian service. 	
Collins		
Collins Class Submarines	<p>The support objective is to maintain the Australian submarine materiel capability, optimise the logistic cost of ownership of the submarines and provide sustainable and cost effective design, engineering and logistics support for platform and combat systems through agreements with industry partners including ASC, Raytheon Australia, Thales and BAE Systems.</p> <p>The planned outcome for 2011-12 was increasingly reliable delivery of platform availability to the Navy. This has been achieved through a range of incremental reform initiatives aimed at safety and reliability, optimising the maintenance program, reforming supply support, establishing strategic performance based contracts and culture change. A key achievement in 2011-12 has been the realisation of a performance-based In-Service Support Contract (ISSC) for the Collins class submarines with ASC. This ISSC will establish the foundation for ongoing Collins sustainment efficiency and effectiveness improvements. Alignment of related Defence wide initiatives including the Navy Continuous Improvement Program and Rizzo initiatives has commenced and has been further informed by the Coles Study outcomes. The Collins Reform Program combined with these other initiatives aims to incrementally improve availability, reliability and sustainment efficiencies of the CCSM capability over the next few years.</p>	✓✓

Top 20 Sustainment product expenditure

Table 11.11 and the descriptions that follow provide details of the top 20 sustainment products by forecast expenditure in the *Portfolio Additional Estimates Statements 2011-12*. Expenditure for the top 20 products represented 55 per cent of total expenditure on Program 1.2 in 2011-12.

Table 11.11: Top 20 sustainment products by expenditure as forecast in the *Portfolio Budget Statements 2011-12*

	Budget Estimate 2011-12 \$m	Revised Estimate 2011-12 \$m	Actual Expenditure 2011-12 \$m	Variation \$m	Reason for Significant Variation in Product Expenditure 2011-12
General Manager Systems					
Aerospace Systems					
Airborne Early Warning & Control	171	153	159	6	The AEW&C capability is transitioning from the acquisition phase, and the maturity of operations and sustainment is maturing. Estimates were revised down based on performance early in the financial year, but progress recovered later in the financial year.
F/A-18 Hornet Weapons System	187	151	157	6	The variation was due to the age of the F/A-18 A/B and the increase in unscheduled emergent aircraft work, predominantly engine mount cracks and corrosion. This increase in emergent work has delayed scheduled maintenance and increased associated contract costs.
P-3C/AP-3C Orion Weapons System	111	136	149	13	Additional funding was allocated to build sonobuoy stocks, to provide a number of essential avionics systems, to address increases in the cost of hydraulic system repairable item maintenance, and to sustain additional capabilities delivered under AP-3C upgrade projects.
F/A-18F Block II Super Hornet Weapons System	110	86	93	7	The significant drivers for the variation were an increase in rate of effort (flying hours) above contracted engine hours bandwidth which incurred additional cost, and the need to procure additional critical spares through Foreign Military Sales procurement.

	Budget Estimate 2011-12 \$m	Revised Estimate 2011-12 \$m	Actual Expenditure 2011-12 \$m	Variation \$m	Reason for Significant Variation in Product Expenditure 2011-12
Lead-in Fighter Hawk 127 Weapons System	89	79	76	-3	Significant drivers for the variation include sub-contractor delayed delivery of Multi-Function Display deliverables, liability determination for one engine breakdown not resolved by end of financial year as anticipated, and the inability to recover schedule for Full Scale Fatigue Testing following discovery of longeron cracking.
C-130J-30 Weapons System	78	74	79	5	The variation was due to earlier than planned deliveries of critical logistics items and increased deeper maintenance activity.
C-17 Heavy Air Lift	57	38	40	2	The variation was due to foreign exchange losses for goods and services procured through the Foreign Military Sales system.
C-130H Weapons System	57	57	58	1	The variation was due to the remediation of corrosion and increased deeper maintenance activity, in management of the ageing C-130H fleet.
Electronic Systems					
Wide Area Surveillance Capability	88	87	87	0	Nil variation.
Explosive Ordnance					
Explosive Ordnance - Navy, Army, Air Force	308	291	285	-6	Brought forward procurement of Explosive Ordnance inventory from Financial Year 2012-13 offset by realignment of Strategic Reform Program saving targets.
Helicopter Systems					
Multi Role Helicopter	104	89	87	-2	Lower than expected rate of effort reduced planned expenditure.

	Budget Estimate 2011-12 \$m	Revised Estimate 2011-12 \$m	Actual Expenditure 2011-12 \$m	Variation \$m	Reason for Significant Variation in Product Expenditure 2011-12
S70A-9 Black Hawk Weapons System	96	95	91	-4	Strategic Reform Program savings associated with the introduction of the new performance based contract for deeper maintenance exceeded forecast resulting in an expenditure reduction of \$1.475 million. Favourable foreign exchange rates continued to reduce actual expenditure against original forecasts.
Armed Reconnaissance Helicopter Weapons System	96	96	103	7	Higher than forecast expenditure was due to a backlog of repairable items returned, and invoiced, from foreign vendors; and Prime Contractor clearing a backlog in invoicing for repairs carried out in previous financial years.
S70B-2 Seahawk Weapons System	63	64	78	14	The variation is due to transfer of funding from AIR 9000 SCAP to complete obsolescence works plus an operational upgrade to Seahawks deployed to the Middle East Area of Operations.
Land Systems					
General Service B Vehicle Fleet	79	84	96	12	The Capability Manager provided an additional \$12 million of allocated funding post Additional Estimates. This was to account for increasing costs required to support the ageing fleet, and the creation of the Enhanced Equipment pools.
ADO Commercial Vehicle Fleet	62	54	57	3	This variation was due to commercial vehicles originally programmed for delivery in July 2012 being delivered earlier than scheduled.
Maritime Systems					
Fuels and Lubricants - Navy, Army, Air Force	478	419	448	29	Variation is attributed to Navy platform availability, unscheduled tank maintenance and a higher than anticipated RAAF and Army fuel expenditure

	Budget Estimate 2011-12 \$m	Revised Estimate 2011-12 \$m	Actual Expenditure 2011-12 \$m	Variation \$m	Reason for Significant Variation in Product Expenditure 2011-12
ANZAC Class Frigate	211	189	204	15	The variation is due to a number of deliverables being brought forward from Financial Year 2012-13 and an advanced partial payment under the maintenance contract for HMAS <i>Parramatta</i> .
Adelaide Class Frigate	106	127	120	-7	The variation is attributed to delays in the Ship Repair In-Service Support contract and maintenance work for HMAS <i>Sydney</i> .
General Manager Programs					
Collins Class Submarines	443	479	476	-3	End of financial year result indicated expenditure represented a variance of less than one per cent. Slight underachievement against supplementary funding received mid financial year was primarily driven by delays associated with the diesel remediation project which were not recovered prior to end of financial year.
Total Top 20 Sustainment Products	2,995	2,848	2,943	95	
Other Sustainment Products	1,293	1,355	1,402	47	
Total Sustainment Products	4,288	4,203	4,345	142	
Support to Operations	599	591	453	-138	
Total Sustainment and Operations	4,887	4,794	4,798	4	

Program 1.3

Provision of Policy Advice and Management Services

Under this Program the DMO delivered procurement policy advice to Defence, the Government and a range of industry programs and engagement activities under the Defence and Industry Policy Statement 2010. This Program also covers corporate functions that would exist regardless of the scale or nature of the DMO's business.

The objective for Program 1.3, as outlined in the *Portfolio Budget Statement 2011-12*, is for the DMO to meet Ministerial, Government, Defence and DMO's expectations and timeframes for the provision of policy, advice and support, including delivery of programs to support Australian defence industry. The key performance indicator involves meeting these expectations and timeframes. The deliverables include specialist legal/ procurement and contracting policy, acquisition and sustainment advice and industry engagement.

Program 1.3 represented about one per cent of the DMO's expenditure in 2011-12 (similar to 2010-11 levels). Expenses under this Program include:

- procurement policy advice to Defence and the DMO and contracting services for the DMO and various Defence procurement activities
- the delivery of industry programs and engagement activities for Government and Defence
- corporate governance and reporting to meet the Government's requirements.

The planned resource use for Program 1.3 was revised from \$116.0 million in the *Portfolio Budget Statements 2011-12* to \$130.3 million in the *Portfolio Additional Estimates Statements 2011-12*.

The DMO's 2011-12 actual result against this Program was \$108.7 million. In 2011-12, the DMO achieved approximately 83 per cent of the revised budget published in the *Portfolio Additional Estimates Statements 2011-12* for Program 1.3. This resulted from lower than anticipated activity in the Industry initiatives, including Skilling Australian Defence Industry and Defence Industry Policy Strategies initiatives.

An assessment of the performance of Program 1.3 is provided in the following tables and the descriptions that follow.

Program 1.3 Deliverables

Deliverable	Further Information	Status 2011–12
Specialist legal and procurement contracting policy	Office of Special Counsel (OSC) in the DMO provided extensive specialist legal advice to support business areas, Systems Program Offices and projects (DMO Legal raised 400 new internal legal matters with a further 71 new external legal service engagements). Updates have been made to maintain currency in procurement policy through the Defence Procurement Policy Manual. In addition, new and updated contracting templates have been incorporated into the Australian Defence Contracting suite of tendering and contracting templates. There has also been significant development and promulgation of operational guidance in the form of Defence Materiel Instructions and Handbooks.	✓✓
Acquisition and sustainment advice to support the Government and Defence	High quality and timely advice was provided through regular reports and Ministerial correspondence on acquisition and sustainment issues.	✓✓
Industry engagement	Delivery of Industry programs supporting Australian defence industry continued through 2011-12 despite the difficult global economic conditions facing the industry. Support was broadened in the area of skilling, and the Priority Industry Capability Innovation Program completed its first round.	✓✓

Program 1.3 Key Performance Indicator^[1]

Key Performance Indicator	Further information	Status 2011–12
The DMO is meeting Ministerial, Government, Defence and DMO expectations and timeframes for provision of policy, advice and support.	Measures were taken during the year to improve on the timeliness of advice provided to Ministers and the Government.	✓✓

Note

1. The level of advice provided to Government fluctuates as a result of a number of factors including the needs of Government for such advice and the length of caretaker periods that fall within the reporting timeframe.

Specialist Legal, Procurement and Contracting Policy

Working within the DMO Commercial Group, OSC makes an important contribution to the acquisition and support of ADF capability through its two key enabling business areas comprising DMO Legal and the Commercial Policy and Practice Branch (CPPB). DMO Legal's primary role includes the provision of strategic commercial law and policy advice (including intellectual property and commercial risk allocation) while CPPB assists Defence achieve more efficient and effective procurement outcomes through the development and dissemination of mandatory and best practice Defence procurement policy and process tools and templates.

OSC is also responsible (in conjunction with the DMO's Standardisation Office) for the maintenance and development of the Australian Standard for Defence Contracting (ASDEFCON) suite of tendering and contracting templates, with much of the development work done in consultation with defence industry. Major ASDEFCON achievements for 2011-12 include the release of an exposure draft productivity and performance based contracting template and significant 'work health safety' amendments to the ASDEFCON Support template in response to the Work Health Safety legislation that commenced operation on 1 January 2012.

2011-12 also saw the launch of the Approved Contractor Insurance Program and the establishment of the joint Defence and Industry Intellectual Property Working Group. These important initiatives, coupled with the 'cost of tendering' reforms, which were piloted in a number of DMO procurement processes during 2011-12, demonstrate the DMO's strong and ongoing commitment to working with industry to improve the efficiency and effectiveness of Defence's procurement processes and outcomes.

In recognition of the critical role that appropriately skilled and trained staff have on the achievement of efficient and effective procurement outcomes, OSC also continued its focus on professionalisation and training. During the year, DMO Legal delivered contract risk training to over 300 DMO officers across Australia and CPPB continued to develop the procurement and contracting job family with the aim of providing relevant staff a career path that develops and reinforces appropriate learning and expertise.

E-procurement was a further significant growth area for OSC, with business improvement initiatives focused on AusTender operations and reporting compliance, moving the DMO to AusTender level 3 functionality and more general application of digital certificates.

Ministerial Support

Providing policy advice and support to the Minister for Defence and the Minister for Defence Materiel is a key function of the DMO. The key to maintaining trust and credibility with our principal stakeholders is timely and accurate provision of responses to Ministerial representations and other parliamentary questions, and Ministerial submissions.

Table 11.12 lists the correspondence by type of advice provided to the Ministers and the then Parliamentary Secretary's offices during 2011-12.

Table 11.12: Statistics on Advice provided to the Government by the DMO

Text styles	Number
Submissions	858
Speeches	6
Responses to Parliamentary Questions on Notice	23 ¹
Questions taken on notice in the course of Parliamentary inquiries	27
Questions taken on notice at Senate Estimates Hearings	155
Media releases	53
Ministerial correspondence	407
Question Time Briefs	127
Hot Issues Briefs	2

Note

1. The DMO also provided input for 42 portfolio Questions on Notice.

Industry Engagement – Enabling Our Business

Implementation of the *Defence Industry Policy Statement 2010* (DIPS 2010) has been further progressed in a difficult global economic environment for industry generally, and defence-related industry in particular. The DIPS 2010 initiatives aim to assist local companies to maintain a competitive local industry base to support ADF operations.

Australian Industry Capability

The Australian Industry Capability (AIC) program was created to systematically identify opportunities for local industry during the tendering process for Defence contracts and to encourage foreign prime contractors and Original Equipment Manufacturers to invest in transfer technology in Australia.

As announced by the Minister for Defence Materiel in June 2011, the AIC program was strengthened by: lowering the threshold from \$50 million to \$20 million; introducing Conditions of Tender allowing companies to be excluded from tenders where they have previously failed to meet their AIC Program obligations; introducing AIC Plan performance reporting in the DMO's Company ScoreCards system; and including the requirement to manage AIC Plans in DMO Product and Project Manager Charters. In line with changes to the Australian Industry Participation National Framework, Defence also introduced the requirement to publish publicly releasable versions of AIC Plans (Public AIC Plans).

A key focus for 2011-12 was facilitating both Defence and industry's understanding of changes to the AIC program, through the Defence Industry Assistance Program Update Seminars, and ensuring that eligible DCP projects and project phases maximised AIC Plan opportunities.

Global Supply Chain Programs

A further Global Supply Chain (GSC) deed between Defence and multi national primes has been signed, bringing the total number of GSC deeds to seven. Of these, six have been activated with funding provided by Defence and implementation activities undertaken by the respective companies.

Under the GSC program, a company actively matches competitive Australian industry capabilities with opportunities in their own and their major suppliers' global supply chains. The value of contracts won by Australian companies under this program has grown by over 25 per cent. Most of these successful Australian companies are Small to Medium Enterprises (SMEs) that have each established an internationally competitive edge. The GSC program has provided greater business opportunities for Australian companies, although the present global economic environment and defence budget impacts are impacting on the program's rate of growth.

Priority Industry Capabilities

The Defence White Paper outlined the Government's commitment to manage certain industry capabilities considered strategically advantageous and operationally essential to Australia. In July 2009, the Government announced a set of 12 Priority Industry Capabilities (PICs). That list was confirmed in the DIPS 2010, which also provided more information on the background to the PIC concept and the application of PIC considerations in acquisition decision-making.

The PICs will be reviewed during the development of the *Defence White Paper 2013* and as part of the updated Defence Industry Policy Statement. They will also be subject to continual reassessment and analysis to determine those elements that are critically important to the ADF.

The DMO is currently undertaking a review and health check of the current PICs to improve their definition, assess their health, establish implications for Government and, where necessary, determine appropriate intervention strategies. With the results of six PIC health checks publicly released as of 01 July 2012, the remaining health checks are scheduled for completion by the end of 2012.

More detailed information on the PICs can be found at: <www.defence.gov.au/dmo/id/pic/>.

Priority Industry Capability Innovation Program

The DIPS 2010 provided for the establishment of a PIC Innovation Program. This program was created to provide direct financial support to Australian defence industry, particularly SMEs, to pursue innovative projects that will enhance one or more of the PICs.

The first grants were awarded under the PIC Innovation Program in 2011-12. Following a competitive assessment process, funding agreements were entered into with nine Australian defence companies. The successful projects will support developments in nine of the 12 PICs outlined in the DIPS 2010.

Public Defence Capability Plan 2012

The Minister for Defence and Minister for Defence Materiel released the Public Defence Capability Plans (DCP) in July 2012.

The Public DCP contains 111 projects, or phases of projects, planned for either First or Second Pass approval over the four year Forward Estimates period. The release of a four year Public DCP was based on consultation with Australian defence industry and aligns the Public DCP with the four year Forward Estimates period in the Budget. This provides greater certainty for the industry.

A new document to complement the Public DCP, the Defence Capability Guide (DCG), will provide general guidance for defence industry on projects over the six year period following the four years of the DCP. The six year period DCG will be released during 2012-13.

Defence Materials Technology Centre

The Defence Materials Technology Centre (DMTC) has continued to work collaboratively on delivering advanced materials, technologies and manufacturing processes to Australia's defence industry. The DMTC now has 19 active projects within its core research programs of air, maritime, armour applications and propulsion systems. These projects are closely aligned with Defence's priorities. Additionally, the DMTC is providing scholarships to a number of PhD students working on DMTC projects. The DMTC has also commenced work on the new 'Personnel Survivability' program, a collaborative effort between Defence, defence industry and Australian research organisations.

A performance review of the DMTC was undertaken in February 2012. The overall findings of this review were very positive, with a number of recommendations made to maximise the benefits to Australia's future defence capabilities. Implementation of the recommendations has commenced.

Defence + Industry ePortal

The Defence + Industry (D+I) ePortal provides comprehensive and authoritative information on Australian industry capability supplied by companies for Defence and other potential customers. The ePortal is also designed to provide industry with a tool to access a wide and comprehensive range of Defence information, such as opportunities for companies, including SMEs, to participate in Defence acquisition and sustainment programs and access assistance programs.

The ePortal enables businesses to register and showcase their capabilities and obtain access to information on business opportunities. This provides a vehicle for companies to share information on their respective capabilities, with the aim of helping them find partners to compete for Defence business. As approximately 80 per cent of the current registered businesses on the D+I ePortal are SMEs, the D+I ePortal becomes a valuable tool that assists Defence procurement officers increase competition in accordance with the new Commonwealth Procurement Rules, which came into effect on 1 July 2012.

Since its launch in July 2008, the home page has been accessed more than 616,000 times and more than 40,900 capability and 27,200 organisation searches have been conducted. There are 11,470 company capabilities and 231 organisations that have been added to the ePortal database during the year. In addition to work undertaken to improve the quality of the data in the system, the ePortal's internet graphical user interface received a significant upgrade to markedly improve its look and feel.

The D+I ePortal was also enhanced to enable companies to provide feedback to Defence on the commercial impacts of any DMO delays in issuing Request for Tender and Contract Change Proposal documentation.

Company ScoreCard Program

The Company ScoreCard Program has continued to monitor and report key aspects of DMO contracts. The program has again completed two assessment rounds, supporting measurement of the performance of the DMO and its most significant contractors.

Performance was assessed against a number of key categories over two six-monthly reporting periods. These included the critical areas of technical performance, cost and schedule. Companies were given the opportunity to review and comment on the DMO's assessments of their performance, and the results have been made available to inform future source selection processes.

An annual benchmarking report was also prepared. This report allows companies participating in the ScoreCard Program to compare their individual performance with that of their competitors. This report continues to encourage companies to maintain or improve their performance and productivity.

The Company ScoreCard Program has been fine-tuned to ensure that it tracks performance in categories of importance to the DMO. A greater managerial focus on achievement of AIC requirements was reflected in the two reporting rounds conducted this year, with the introduction of AIC as a distinct category.

The 360° ScoreCard reports, prepared by key companies to assess the DMO's performance as a contract manager, have also been adjusted to incorporate a greater focus on the achievement on Australian industry involvement. Contractors were again invited to provide their honest assessments of the DMO's performance for inclusion in 360° ScoreCard reports at six-monthly intervals. This feedback was provided to the DMO Executive for consideration and discussion with project staff, and it is used to drive contract and project management improvement.

Defence Industry Workforce Strategy

Following a request by the Minister for Defence Materiel in September 2011, the DMO worked with Skills Australia to deliver the Defence Industry Workforce Strategy. This Strategy will provide recommendations on developing the workforce skills and capacity that will enable Australia's defence materiel industries to meet Defence's future capability acquisition and sustainment plans.

A discussion paper was released by the Minister for Defence Materiel in February 2012. National consultations were conducted on the Strategy in March 2012, and public submissions were received in April 2012. Skills Australia (now the Australian Workforce and Productivity Agency) provided a draft Strategy in June 2012 and this is currently being considered.

International Defence Materiel Relationships

The DMO continues to maintain a number of effective relationships with partner and allied nations to ensure that Australia has access to world best technologies, systems and capabilities. The most significant of these is our participation in the Australia - United States Ministers Defence Acquisition Committee. The Committee last met in April 2012 and focused on cooperative programs, science and technology, and strengthening the FMS process.

In addition, annual bilateral cooperative forums were held with the United Kingdom, Germany, Spain, France, Sweden, the Netherlands and South Korea. The DMO has also continued bilateral dialogue on materiel issues with other nations including Canada and Denmark. These relationships assist in promoting best practice in defence contracting and coordinating global responses to commercial behaviours in defence supply chains. In addition, our international engagement provides a framework for technology transfer in support of equipment and for sharing data on like capabilities, and encouraging industry cooperation where there is mutual benefit.

Defence Export Unit

The Defence Export Unit (DEU) continued to assist Australia's defence industry achieve export sales through the funding of an Australian pavilion at selected trade shows overseas and through the organisation of trade missions to the United States, United Kingdom, South America, Middle East and South East Asia.

There were 118 Australian companies that participated in 11 trade shows and four associated missions. A further 44 companies participated in the United States Foreign Comparative Testing Program facilitated by the DEU. This United States Department of Defense program seeks to acquire, from foreign countries, capability solutions that are more mature than developments in the United States. The program has proved increasingly popular and successful for innovative Australian companies.

Direct advocacy and support continued to be provided through specialist Two Star military personnel, letters of support for individual companies, and the facilitation of incoming visits by, and meetings with, foreign delegations and militaries.

Export readiness workshops, and tradeshow and presentation skills training were also introduced to support the increasing number of companies entering the competitive export market.

Industry Skilling Programs

The Minister for Defence Materiel directed the Skilling Australia's Defence Industry (SADI) Program to undergo a comprehensive program review process. Consultation with the industry, program managers and other internal and external stakeholders was undertaken through an online survey, interviews, and a series of industry round tables. A set of recommendations that focussed on enhancing program and financial controls was released in November 2011. Implementation of the recommendations began immediately, and the majority of changes to the program are now in place ready for the 2012-13 funding round.

In its biggest year to date, the SADI Program extended funding to 108 eligible grant recipient organisations, supporting a range of skilling activities across trade, technical and professional skill sets that contribute to Defence capability.

Defence Industry Innovation Centre

The DMO continues to fund the Defence Industry Innovation Centre. The initiative assists Australian defence SMEs to develop strategies to become more competitive and globally integrated. Australian defence SMEs are provided with better access to new ideas, knowledge and technologies to improve their productivity, capacity, efficiency and sustainability. Australian defence SMEs are assisted to reach into the research sector to attain the latest in technology and encourage innovation.

Defence Industry Innovation Centre expert business advisers provide an integrated and practical service focused on the Defence sector. Services include business reviews, benchmarking best practices and defence industry change plans. Australian defence SMEs are encouraged to access Government grant funding provided by the DMO and other agencies, to implement the findings of the business review or defence industry change plan to improve their defence business. Growing the capacity and competitiveness of Australia's defence industry is Fundamental to the Enterprise Connect Defence Industry Innovation Centre.

Defence + Industry Conference

The Defence and Industry (D+I) Conference is a biennial event which was last held in 2011. The Conference is a key platform for Government and senior members of Defence and the DMO to deliver key messages to industry regarding policy, programs and projects. Following consultation with industry, the format and venue of the D+I Conference are currently under review.

Other

The DMO Business Access Offices are regional centres of expertise located in each mainland capital city that provide a local point of contact for Defence industry, particularly small to medium enterprises, to engage with Defence.

The offices have continued an extensive industry engagement program, regularly meeting and visiting defence industry sites, placing emphasis on engaging with small to medium enterprises that are in or looking to enter the Defence sector. This program provides companies with information about Defence's procurement and sustainment activities, changes in industry and contracting policies, assistance programs that are available to increase their competitiveness and productivity and potential opportunities for companies in the Defence sector.

The Business Access Office industry engagement program enables Defence to better understand the capabilities of its industry base to support not only current capabilities but also to deliver efficiencies and maximise value for money in future procurements with the identification of emerging company capabilities.

The Business Access Offices have continued the series of Defence Awareness Briefings and Defence Updates around Australia in cooperation with other Defence Groups, relevant Commonwealth and state agencies and industry associations. These briefings inform companies, especially those who are new to the Defence environment, on how to do business with Defence, the local opportunities that are available, and where to find further information.

A program of active engagement has continued with industry associations in each of the states and territories to build enhanced relationship and enable better two-way information exchange between Defence and the broad industry base. Engagement activities have also continued with state and territory governments through annual formal Defence consultative forums as well as regular informal meetings.

Australian Military Sales Office

Preliminary work to determine the efficacy of the concept of an Australian Military Sales Office was undertaken. This includes the scope of activities to be undertaken as well as the lead activities and processes for establishing a government-to-government sales framework. The Australian Military Sales Office will likely incorporate the activities of the Defence Export Unit, International Materiel Cooperation, the Global Supply Chain program and the Defence Disposal Agency.

Defence Disposal Agency

The Defence Disposal Agency continues to reform disposal processes to meet departmental priorities within the bounds of Commonwealth and international treaty obligations. The four key priorities remain: to reduce if not eliminate Defence major disposals cost; to return funding to the sustainment of current capability; to generate and then maximise revenue from the sale of Defence's military assets; and to ensure that Defence heritage, particularly war heritage, is appropriately recognised and preserved.

Key disposal items this year were the Boeing 707s, Iroquois, Caribou, and some associated heritage items.

Defence Disposal Agency has also sought to provide opportunities for industry to add value in the disposal of Defence's military assets by completing broadened tender processes for ships and vehicles.

Key relationships are being built and maintained with both industry and Australian military heritage and historical organisations.

Management Services

Management Services provided by the DMO are largely performed by Finance Division and the Business Operations Division. The role of these areas is to provide financial, human resource and corporate support services to meet the information needs of Ministers and the Parliament, fulfilling the CEO DMO's statutory duties and governance accountabilities, and working with other Defence stakeholders to effectively operationalise the Defence-DMO business model.

Functions include:

- forecasting and managing the DMO's cash requirements
- providing asset and inventory accounting services to Defence
- assuring the DMO's financial data through appropriate systems, controls, user training, internal audit and risk management
- preparing the DMO's financial statements and liaising with the Australian National Audit Office throughout the audit process
- support to Ministerial and Parliamentary oversight through a range of routine and annual reports such as the Acquisition and Sustainment Performance Reports, the Major Projects Report, as well as contributing to the Portfolio Budget Statements and Defence Annual Report
- support to internal governance including the Materiel Audit Risk Committee
- human resource management functions including recruiting, professionalisation and workforce planning
- information systems management
- implementation of the Defence-DMO business model through coordination of agency agreements.

In 2011-12, the DMO has continued to strive for ongoing improvement in the delivery of Management Services. Key achievements include:

- the production of Financial Statements with an unmodified audit opinion of only two category B findings
- becoming a CPA Recognised Employer, the second Commonwealth Agency to obtain this partnership for providing a workplace with a strong commitment to the learning and development needs of staff supporting their professional careers
- maintaining an ISO 9001 Quality Management Certification for the provision of financial and human resource services.

Chapter 12

DMO Financial Performance

The DMO receives the majority of its funding from Defence under agency agreements; about nine per cent of its funding is provided via a direct appropriation and own-source revenue. This section provides an assessment of the DMO's financial performance in 2011-12 against budget projections. The DMO's audited *2011-12 Financial Statements* are included at Appendix 11.

2011-12 Financial Summary

The total net resourcing available to the DMO in 2011-12, as published in the *Portfolio Budget Statement 2012-13*, was \$11,289.0 million. This comprised:

- payment from Defence: \$9,751.3 million
- special account opening balance: \$550.4 million
- appropriation receipts: \$931.3 million
- non-appropriation receipts: \$114.7 million.

During the course of financial year, the DMO budget may vary for a number of reasons such as changes in demand by Defence, foreign exchange fluctuations or reprogramming of cash flow to meet contractual obligations.

Table 12.1 reflects the financial resource position taking all of these factors into consideration as at 30 June 2012. The table reflects an increase in appropriation receipts – adjustments for other agencies of \$469.8 million (Defence), increase in non appropriation receipts of \$58.7 million and a post *Portfolio Budget Statements 2012-13* adjustment (decrease reflects a change in accounting treatment for payment files) to the special account opening balance of \$113.5 million resulting in a total resourcing of \$11,704.1 million.

During 2011-12, the DMO made payments of \$11,304.9 million and returned to Government an amount of \$72.5 million in unspent appropriations from previous years, resulting in a special account closing balance of \$326.6 million as at 30 June 2012.

The variation between DMO's special account closing balance of \$326.6 million as at 30 June 2012 and the estimated 2011-12 special account balance of \$415.5 million as at *Portfolio Budget Statements 2012-13* was largely as a result of return of unspent appropriations of \$72.5 million to the Government.

The Special Account balance remains within the overall Official Public Account, providing the flexibility to meet cash flow requirements across financial years to align with capability delivery across DMO programs.

Table 12.1: DMO Resource Statement 2011-12

		Actual Available Appropriations for 2011-12 \$'000 (a)	Payments Made 2011-12 \$'000 (b)	Balance Remaining 2011-12 \$'000 (a-b)
Ordinary Annual Services^[1]				
Departmental appropriation				
Departmental appropriation		931,270	870,000	61,270
Total departmental appropriation	A	931,270	870,000	61,270
Special Account				
(Departmental and Administered)				
Opening balance		436,932		
Appropriation receipts ^[1]		931,270		
Appropriation receipts				
- other agencies ^[2]		9,751,316		
- adjustment for other agencies ^[2,3]		469,833		
Non-appropriation receipts to Special Accounts		56,012		
Adjustment for non-appropriation receipts to Special Accounts ^[3]		58,704		
GST credits				
Interest ^[4]		2		
Payments made ^[5]			11,304,928	326,647
Appropriation Reduction			72,494	
Total special account	B	11,704,069	11,377,422	326,647
Less appropriations drawn from annual or special appropriations above and credited to special accounts	C	931,270	870,000	61,270
Total Resourcing and Payments (A+B-C)		11,704,069	11,377,422	326,647

Notes

1. Appropriation Bill (No.1) 2011-12 and Appropriation Bill (No.3) 2011-12.
2. Appropriation receipts from Defence credited to DMO's special accounts.
3. Adjustment is variance between estimated actuals as at *Portfolio Budget Statements 2012-13* and actual available appropriations for 2011-12 as at 30 June 2012.
4. Administered interest received from overseas bank accounts which is remitted to the Official Public Account.
5. Includes GST.

Operating Performance

At the time of the *Portfolio Additional Estimates Statements 2011-12*, the DMO budgeted for a break-even operating result, that is income and expenses were to equal each other. This reflects that the DMO is funded for the activity it performs. However, DMO was able to save money resulting in an operating surplus of \$47.5 million in 2011-12, whereby expenses and income differed by 0.5 per cent. The main element of the surplus was unspent appropriation related to an underachievement against funded staffing levels, savings in operating expenses and lower than estimated outcomes for Industry programs.

Table 12.2: Statement of Comprehensive Income for the period ended 30 June 2012

	Revised Budget 2011-12 \$'000	Actual Result 2011-12 \$'000	Variation ⁽¹⁾ 2011-12 \$'000
EXPENSES			
Employee benefits	591,329	592,265	936
Suppliers	9,493,762	9,466,221	-27,541
Grants	28,670	20,800	-7,870
Depreciation and amortisation	2,465	1,680	-785
Write-down and impairment of assets	-	1,237	1,237
Other expenses	-	353	353
Total expenses	10,116,226	10,082,556	-33,670
LESS:			
OWN-SOURCE INCOME			
Revenue			
Sale of goods and rendering of services	9,147,621	9,196,171	9,140
Interest	-	1,444	1,444
Other revenue	-	37,966	37,966
Total revenue	9,147,621	9,196,171	48,550
Gains			
Foreign Exchange Gains	-	932	932
Reversals of Previous Asset Write-Downs	-	59	59
Other gains ⁽²⁾	37,335	1,400	-35,935
Total gains	37,335	2,391	-34,944
Total own-source income	9,184,956	9,198,562	13,606
Net Cost of (contribution by) services	931,270	883,994	-47,276
Revenue from Government	931,270	931,270	-
Surplus (Deficit) attributable to the Australian Government	-	47,276	47,276
OTHER COMPREHENSIVE INCOME			
Changes in asset revaluation reserves	-	239	239
Total other comprehensive income	-	239	239
Total comprehensive income (loss) attributable to the Australian Government	-	47,515	47,515

Notes

1. The variation is between the actual result as disclosed in the DMO's audited 2011-12 Financial Statements and the revised budget published in the *Portfolio Additional Estimates Statements 2011-12*.
2. The Revised Budget for resources received free of charge from Defence that was disclosed under Other Gains, has been reclassified as Other Revenue as the related services are provided by Defence in the ordinary course of DMO's operations.

Financial Position

Table 12.3: Balance Sheet as at 30 June 2012

	Revised Budget 2011-12 \$'000	Actual Result 2011-12 \$'000	Variation ⁽¹⁾ 2011-12 \$'000
ASSETS			
Financial assets			
Cash and cash equivalents	43,027	24,722	-18,305
Trade and other receivables	495,215	684,228	189,013
Total financial assets	538,242	708,950	170,708
Non-financial assets			
Property, plant and equipment	6,989	6,871	-118
Intangibles	320	56	-264
Other non-financial assets	1,385,147	1,366,024	-19,123
Total non-financial assets	1,392,456	1,372,951	-19,505
Total assets	1,930,698	2,081,901	151,203
LIABILITIES			
Payables			
Suppliers	1,293,416	1,429,807	136,391
Unearned income	-	-	-
Grants	4,809	5,161	352
Other payables	54,475	76,923	22,448
Total payables	1,352,700	1,511,891	159,191
Provisions			
Employees	184,287	194,287	10,000
Other Provisions	3,189	5,698	2,509
Total provisions	187,476	199,985	12,509
Total liabilities	1,540,176	1,711,876	171,700
Net assets	390,522	370,025	-20,497
EQUITY			
Parent entity interest			
Retained surpluses or accumulated deficits	235,154	214,418	-20,736
Asset revaluation reserves		239	239
Contributed equity	155,368	155,368	-
Total parent entity interest	390,522	370,025	-20,497
Total equity	390,522	370,025	-20,497

Note

1. The variation is between the actual result as disclosed in the DMO's audited 2011-12 Financial Statements and the revised budget published in the *Portfolio Additional Estimates Statements 2011-12*.

Explanation of Major Variations

The variances between the revised budget and the actual result for 2011-12 in the balance sheet mainly reflects:

- an increase in assets of \$151.2 million – mainly representing an increase in receivables offset by decreases in cash and other non-financial assets
- an increase in liabilities of \$171.7 million – representing an increase in supplier payables, other payables and employee provisions
- a decrease in equity of \$20.5 million – largely representing a return of previous years unspent appropriations to the Government offset by the operating surplus
- the variations primarily reflect accelerated performance outcomes achieved for Defence whereby work was brought forward from 2012-13 into 2011-12.

Cash Position

The DMO receives the majority of its cash from Defence in payments for goods and services provided by the DMO. All sources of revenue, such as those paid by Defence, received from other sources or appropriated by the Government, 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 future expenditure requirements and liabilities as they fall due, including employee liabilities. This flexibility is an essential enabler for effective program delivery to the Australian Defence Force (ADF) of specialised military equipment.

Use of Cash in 2011-12

At 30 June 2012, the DMO had cash at bank of \$24.7 million. The decrease in cash at bank reflects a change in accounting treatment for payment instruction files sent to the Reserve Bank of Australia for processing, offset by higher than estimated balances in overseas accounts.

Table 12.4: Cash Flow Statement for the period ended 30 June 2012

	Revised Budget 2011-12 \$'000	Actual Result 2011-12 \$'000	Variation ^[1] 2011-12 \$'000
OPERATING ACTIVITIES			
Cash received			
Goods and services	10,030,221	10,517,058	486,837
Appropriations	920,969	870,000	-50,969
Net GST received	688,201	676,359	-11,842
Activities performed on behalf of foreign governments	-	27,677	27,677
Other cash received	56,012	944	-55,068
Total cash received	11,695,403	12,092,038	396,635
Cash used			
Employees	580,627	570,710	-9,917
Suppliers	10,395,039	10,545,553	150,514
GST paid	688,201	-	-688,201
Funds returned to Defence	-	858,219	858,219
Grants	28,670	20,448	-8,222
Other cash used	-	4	4
Total cash used	11,692,537	11,994,934	302,397
Net cash from or (used by) operating activities	2,866	97,104	94,238
INVESTING ACTIVITIES			
Cash used			
Purchase of property, plant and equipment and intangibles	2,866	1,890	-976
Total cash used	2,866	1,890	-976
Net cash from or (used by) investing activities	-2,866	-1,890	976
Net increase or (decrease) in cash held	-	95,214	95,214
Cash at the beginning of the reporting period	43,027	-70,492	-113,519
Cash at the end of the reporting period	43,027	24,722	-18,305

Note

1. The variation is between the actual result as disclosed in the DMO's audited 2011-12 Financial Statements and the revised budget published in the *Portfolio Additional Estimates Statements 2011-12*.

Explanation of Major Variations

The variances of the cash flow are consistent with the variances provided for the income statement and balance sheet. In accordance with the Defence and the DMO business model, the cash prepayment from Defence will be adjusted during the year to reflect the agreed level of activity (largely relating to sustainment), and cash adjustments relating to foreign exchange budget movement.

The funds returned to Defence during 2011-12 of \$858.2 million reflects the flow of activity transacted through the DMO Special Account. In previous years these adjustments were processed by the Department of Finance and Deregulation through appropriation balance adjustments.

Administered Schedules

Table 12.5: Income administered on behalf of the Government for the period ended 30 June 2012

	Revised Budget 2011-12 \$'000	Actual Result 2011-12 \$'000	Variation ⁽¹⁾ 2011-12 \$'000
Expenses administered on behalf of Government			
Foreign Exchange losses	-	705	705
Total Expenses	-	705	705
Income administered on behalf of Government			
Interest	1,000	542	-458
Other	-	42	42
Total Income	1,000	584	-416

Note

1. The variation is between the actual result as disclosed in the DMO's audited 2011-12 Financial Statements and the revised budget published in the *Portfolio Additional Estimates Statements 2011-12*.

Table 12.6: Assets administered on behalf of Government as at 30 June 2012

	Revised Budget 2011-12 \$'000	Actual Result 2011-12 \$'000	Variation ⁽¹⁾ 2011-12 \$'000
ASSETS			
Financial assets			
Receivables	4,217	4,342	125
Total financial assets	4,217	4,342	125
Total assets administered on behalf of Government	4,217	4,342	125

Note

1. The variation is between the actual result as disclosed in the DMO's audited 2011-12 Financial Statements and the revised budget published in the *Portfolio Additional Estimates Statements 2011-12*.

Table 12.7: Administered Cash flows for the period ended 30 June 2012

	Revised Budget 2011-12 \$'000	Actual Result 2011-12 \$'000	Variation ⁽¹⁾ 2011-12 \$'000
OPERATING ACTIVITIES			
Cash received			
Interest	9,400	3,673	-5,727
Total cash received	9,400	3,673	-5,727
Net increase or (decrease) in cash held	9,400	3,673	-5,727
Cash at the beginning of the reporting period	-	-	-
Cash to the Official Public Account for interest	9,400	3,673	-5,727
Cash at the end of the reporting period	-	-	-

Note

1. The variation is between the actual result as disclosed in the DMO's audited 2011-12 Financial Statements and the revised budget published in the *Portfolio Additional Estimates Statements 2011-12*.

Special Accounts

At 30 June 2012, the DMO had two special accounts: the Defence Materiel Special Account and the Services for Other Entities and Trust Moneys Special Account.

The Defence Materiel Special Account is the main operating account from which most business activities are conducted. The purposes for which the funds in the Defence Materiel Special Account can be used are:

- a. supporting the ADF's capability through development, acquisition, sustainment, disposal, and provision of goods and/or services
- b. developing, acquiring, sustaining and providing goods and/or services for foreign governments and other bodies
- c. managing and marketing the Agency whose chief executive has been allocated responsibility for the Special Account
- d. 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
- e. to make a notional payment to the Department of Defence to return amounts received from, or on behalf of the Department of Defence
- f. activities that are incidental to a purpose mentioned in paragraphs (a), (b), (c), (d) and (e)
- g. to reduce the balance of the Special Account (and therefore, the available appropriation for the Special Account) without making a real or notional payment
- h. to repay amounts where an Act or other law requires or permits the repayment of an amount received.

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

- future acquisition and sustainment activities for the Department of Defence
- trade creditors
- employee liabilities
- activities to be undertaken for other governments and other Government departments
- future workforce and operating expenses of the DMO.

At 30 June 2012, the balance of the Defence Materiel Special Account totaled \$326.6 million. The balance of the Services for Other Entities and Trust Moneys Special Account at 30 June 2012 was nil. Cash flow through and contained within the resulting balance of the Special Account provides the flexibility to meet the evolving service delivery requirements of the ADF in a timely and effective manner.

Table 12.8: Actual Special Accounts Cash Flows and Balances

	Outcome	Opening Balance 2011-12 \$'000	Receipts 2011-12 \$'000	Payments 2011-12 \$'000	Adjustments 2011-12 \$'000	Closing Balance 2011-12 \$'000
Defence Materiel						
Special Account ^[D&A]	1	436,932	11,267,137	11,304,928	-72,494	326,647
Services for Other						
Entities and Trust						
Monies - Defence						
Materiel Organisation ^[T]	1	-	-	-	-	-
Total special accounts		436,932	11,267,137	11,304,928	-72,494	326,647

Notes

1. [D&A] = Departmental and Administered.
2. [T] = Trust Money for Comcare Receipts.

Appropriations and Other Resources

The DMO delivers three programs contributing to the single Outcome described in Chapter 11. The DMO workforce and operating expenses (along with Industry programs) are directly appropriated by Government through Appropriation Bill (No.1) and Appropriation Bill (No.3). The DMO has flexibility over the allocation of its workforce across the various programs it delivers. Variations for programs from the revised budget to the actual result may reflect ongoing changes to activity levels prescribed by Defence, budgeted cash flow adjustments for movements in foreign exchange rates or delivery of programs with fewer resources.

Program 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 Program 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 subsequent years. Program 1.3 was funded largely through a direct appropriation.

Table 12.9: Budgeted Expenses and Resources for Outcome 1

Contributing to the preparedness of Australian Defence Organisation through acquisition and through-life support of military equipment and supplies	Revised Budget 2011-12 \$'000	Actual Result 2011-12 \$'000	Variation ⁽¹⁾ 2011-12 \$'000
Program 1.1: Management of Capability Acquisition			
Departmental expenses			
Ordinary annual services (Appropriation Bill No.1 & 3)	251,755	214,978	-36,777
Special Accounts	4,311,512	4,359,127	47,615
Expenses not requiring Appropriation	8,582	10,297	1,715
Subtotal for Program 1.1	4,571,849	4,584,403	12,554
Program 1.2: Management of Capability Sustainment			
Departmental expenses			
Ordinary annual services (Appropriation Bill No.1 & 3)	558,915	567,566	8,651
Special Accounts	4,835,094	4,798,566	-36,528
Expenses not requiring Appropriation	20,026	23,283	3,257
Subtotal for Program 1.2	5,414,035	5,389,415	-24,620
Program 1.3: Provision of Policy Advice and Management Services			
Departmental expenses			
Ordinary annual services (Appropriation Bill No.1 & 3)	120,600	103,897	-16,703
Special Accounts	1,015	-	-1,015
Expenses not requiring Appropriation	8,727	4,841	-3,886
Subtotal for Program 1.3	130,342	108,738	-21,604
Total Departmental expenses for Outcome 1	10,116,226	10,082,556	-33,670

Note

1. The variation is between the actual result as disclosed in the DMO's audited 2011-12 Financial Statements and the revised budget published in the *Portfolio Additional Estimates Statements 2011-12*.



SECTION SIX

Management and Accountability



Chapter 13

Governance and Accountability

DMO Corporate Governance and Risk Management

DMO Ministerial Directive

The current Ministerial Directive was issued on 28 July 2008 to the then Chief Executive Officer Defence Materiel Organisation (CEO DMO). The DMO continues to operate within the principles established by the Directive. The Directive establishes the accountability of the CEO DMO to the Minister to achieve the following outcomes:

- a. timely, accurate and considered advice in the CEO DMO's role as principal adviser to the Minister on equipment acquisition and fleet sustainment
- b. efficient and effective acquisition and through-life support of materiel for Defence capabilities
- c. sound management of financial and other resources, operating within the budget and meeting statutory requirements for preparing financial statements
- d. appropriately skilled and experienced workforce whilst providing a working environment that attracts and retains people
- e. high quality governance and management, implementing agreed reform initiatives and embedding continuous improvement within business processes
- f. savings and efficiencies for re-investment in priority areas in Defence
- g. appropriate representation of Australia internationally in the CEO DMO's role of National Armaments Director.

Accountability and Financial Management

Under the *Financial Management and Accountability Act 1997*, the CEO DMO is directly responsible to the Portfolio Minister for managing the affairs of the DMO in a way that promotes proper use of the Commonwealth of Australia resources for which the DMO is responsible.

The 2011-12 Financial Statements are included at Appendix 11 of this Annual Report. The CEO DMO and the Chief Finance Officer (CFO) DMO have concluded that the financial statements are true and fairly stated.

Relationship with Defence

Defence and the DMO are working together to deliver the operational capability required by the Australian Defence Force (ADF). From a governance perspective this business relationship operates under a Memorandum of Arrangements (MoA) signed by the Secretary of Defence, the Chief of the Defence Force and the CEO DMO on 25 June 2006.

The MoA contains a framework of five types of agreements between Defence and the DMO that formalise the provision of products, services and resources between Defence and the DMO. The agreements have continued to evolve since the DMO's prescription to provide greater clarity of requirements and to delineate responsibilities and accountabilities. The current focus is to provide agreements with clear service standards and expectations as the basis for the DMO and Defence to understand the cost of doing business and to foster cost conscious, business-like behaviours.

Customer-Supplier Arrangements

The categories of customer-supplier agreements between Defence and the DMO are:

- Materiel Acquisition Agreements (MAA)
- Materiel Sustainment Agreements (MSA)
- Shared Services Agreements
- Defence Service Agreements
- Military Workforce Agreements.

These agreements cover major and minor materiel acquisition projects, sustainment of ADF fleets, services provided to facilitate these activities, and the military personnel posted to the DMO in support of these activities.

During 2011-12, a major activity was undertaken to ensure all major acquisition projects had transitioned to a tripartite agreement (MAA) between the designated Lead Capability Manager, Head Capability Development Group (CDG) and the CEO DMO for output delivery management. The scope, cost and schedule were confirmed during transition to align with Government stated approval.

The Rizzo review, released in July 2011, recommended improvements to Defence's accountability, procurement and sustainment practices. A review is being undertaken into the MSA process to reduce the time taken to develop and approve the agreement.

Governance

Early Indicators and Warnings

Early Indicators and Warnings (EI&W) aims to identify problems with projects 'early' in the acquisition life-cycle to increase the opportunity for remediation of issues before they impact on delivery. The EI&W system uses a set of defined triggers to allow project performance to be measured against schedule, cost, capability and commercial risk thresholds. The EI&W system continues to evolve to introduce more quantifiable and leading indicators that can reveal early drift from an approved project's baseline.

Each project's performance is compared against defined parameters from the Government-approved baselines at Second Pass. A project triggering a breach against these mandated thresholds will be identified and advised to the Government through quarterly reporting. Projects triggering on EI&W thresholds are considered through the Gate Review process to identify specific remedial actions to minimise future under-performance and potentially regain lost ground.

A number of EI&W scans were conducted by Defence during 2011-12. The EI&W scans measured the performance of DMO and CDG major capital acquisition projects against agreed performance thresholds in relation to cost, schedule and capability deliverables.

The system has been refined during the reporting period to increase the focus on identifying potential problems early in the lifecycle of project delivery and to improve accuracy and repeatability. Accordingly, the latest reporting from the DMO has focused on projects within the first 50 per cent of their acquisition lifecycle. The EI&W system has allowed project managers and line management to more effectively focus on identifying and remediating these early problems and, as a result, a number of projects that triggered against EI&W thresholds no longer trigger in the latest scans.

The EI&W system is still relatively immature, and will continue to evolve over the next 18 months. The key focus will be to more effectively integrate the EI&W system within existing reporting mechanisms.

Table 13.1 provides a list of nine early DMO projects that have triggered against EI&W criteria during 2011-12 and were reported to Government. The majority of projects triggered on the schedule criteria. Of the five projects that no longer triggered at the end of the reporting period one project was managed back to acceptable performance, two were rebaselined, one project was cancelled, and one was declared a Project of Concern. The four projects remaining on the EI&W list will be subject to increased monitoring and internal management processes.

Table 13.1: Early DMO projects triggering against EI&W thresholds during 2011-12

	Project	End of year status	Outcome
1	LAND 40 Phase 2 Direct Fire Support Weapons	On	Subject to further consideration by Government to determine project's future.
2	AIR 9000 Phase 5C Additional Medium Lift Helicopters	On	Gate Review undertaken and remediation actions identified.
3	AIR 5440 Phase 1 C130J Block Upgrade	On	Gate Review undertaken and remediation actions identified.
4	JP 5408 Phase 2B GPS Protection and Enhancement	On	Gate Review undertaken and remediation actions identified.
5	LAND 75 Phase 3.4 Battle Management System	Off	Declared Initial Operational Capability in April 2012, following successful testing.
6	AIR 9000 Phase 2, 4, 6 Multi Role Helicopter	Off	Declared a Project of Concern in November 2011 and no longer reported under the EI&W system.
7	JP 2089 Phase 2B Tactical Information Exchange Domain F/A-18	Off	Rebaselined in June 2012 and no longer triggers against EI&W thresholds.
8	JP 2077 Phase 2B.2 Deployable Logistics System	Off	Cancelled in May 2012.
9	AIR 8000 Phase 4 Additional Globemaster	Off	Rebaselined and no longer triggers against EI&W thresholds.

Table 13.2 provides a list of CDG post First Pass but pre Second Pass projects that have triggered against EI&W criteria during 2011-12. Projects in the First to Second Pass phase are highly dynamic by design, as risks are identified and mitigated through the process. The EI&W process has been successful in identifying projects not proceeding to the First Pass Government parameters so that action can be taken.

Of the 22 projects that triggered in the period 15 have been remediated.

Table 13.2: CDG projects triggering against EI&W thresholds during 2011-12

	Project	End of year status	Outcome
1	AIR 5416 Phase 4B2 C-130J Large Aircraft Infrared Countermeasures	On	Project Managers are still engaging with the United States to finalise contracts.
2	AIR 9000 Phase 7 Helicopter Aircrew Training System	On	Project Managers are engaged with the Defence Support Group to resolve outstanding facilities issues.
3	JP 66 Phase 1 Replacement for Air Defence Targets	On	The engaged supplier is no longer able to provide the capability.
4	LAND 121 Phase 4 Overlander - Protected Mobility Vehicle – Light	On	Current cost estimates exceed program provision.
5	SEA 1439 Phase 5B.2 Collins Continuous Improvement Program	On	The challenge of managing Full Cycle Docking workloads with planned and remedial maintenance is ongoing.
6	JP 2090 Phase 1C Combined Information Environment	On	Now reported directly by the Chief Information Officer Group (CIOG). This project will be cancelled.
7	JP 2099 Phase 1 Identity Management	On	CIOG reports directly on the project.
8	AIR 5428 Phase 1 Pilot Training System	Off	Schedule has been revised.
9	AIR 5431 Phase 1 Deployable Defence Air Traffic Management and Control System	Off	Non Personnel Operating Cost issues have been addressed.
10	AIR 7000 Phase 2B Maritime Patrol Aircraft Replacement	Off	Cost issues have been addressed.
11	AIR 9000 Phase 5D Additional CH-47D Chinook	Off	The project was approved by Government in 2011.
12	DEF 501 Phase 1 Shapes Vector	Off	Outcomes were achieved by another project.
13	JP 154 Phase 3A Ningau	Off	The project was approved by Government in 2011.
14	JP 2057 Phase 3 Overhead Persistent Infrared Capability	Off	The project was approved by Government in 2011.

	Project	End of year status	Outcome
15	JP 2069 Phase 2 High Grade Cryptographic Equipment	Off	The project was approved by Government in 2011.
16	JP 2077 Phase 2D Improved Logistics Information System	Off	Non Personnel Operating Costs have been addressed.
17	JP 2085 Phase 2/3 Explosive Ordnance War Stock	Off	This project was inadvertently reported in 2011 EI&W report. It is not reportable as it has not yet achieved First Pass.
18	JP 5408 Phase 3 ADF Navigation Warfare Capability	Off	The project was approved by Government in 2011.
19	LAND 125 Phase 3B Soldier Enhancement Version 2 – Survivability	Off	Scope has been confirmed.
20	LAND 125 Phase 3C Soldier Enhancement Version 2 – Lethality	Off	Contract has been agreed.
21	SEA 1397 Phase 5C Nulka Missile Decoy Enhancements	Off	Schedule has been revised.
22	SEA 1442 Phase 4 Maritime Communication Modernisation	Off	Schedule has been revised.

Gate Reviews

Gate Reviews are an important part of the DMO's assurance process. Gate Reviews are designed to improve overall project outcomes and ensure the DMO is able to provide high quality and reliable advice to Defence and the Government regarding the health and outlook of major capital acquisition projects at key stages (or gates) of a project's development. A combination of senior DMO executives and external Board members provide an assessment of project maturity, performance and plans against the Government-approved business case, normally in the lead up to key project decision points. Based on the findings of the Board, assistance and direction are provided to the project. The Chair of each Gate Review Board makes a recommendation to the DMO senior executive regarding the readiness of the project to progress to the next stage in the project life cycle.

In response to a June 2011 announcement by the Ministers for Defence and Defence Materiel, the Independent Project Performance Office further expanded the Gate Review program. In 2011-12, the program focused on: conducting reviews for 119 high-value and high-risk projects (up from 50 in the 2010-11); performance measurement; lessons learned; and increasing the number of external Board members. The number of Gate Reviews should reach the required ceiling of approximately 140 projects by the end of 2012.

Projects of Concern

The Projects of Concern (PoC) regime is closely linked to both the EI&W framework and the Gate Review process. Once troubled projects have been identified through triggering one or more of the EI&W thresholds, and have undergone a diagnostic Gate Review to identify specific and measurable remediation objectives, a recommendation may be made to the Government to add a project to the formal list of PoC. Once listed, the primary objective of the PoC regime is to remediate these projects through the implementation of an agreed remediation plan to resolve any significant commercial, technical, cost and/or schedule difficulties. PoCs receive targeted senior management attention and are required to report more regularly to the Government.

Since its introduction in early 2008, the DMO has been working closely with the industry, Defence and the Government to successfully remediate these projects with the goal of returning them to a standard management regime.

Significant outcomes during 2011-12 included:

- continuation of the PoC summits between the Minister for Defence Materiel, the DMO, Defence Capability Managers and CEOs from the industry with responsibility for projects on the list
- the successful remediation of the following projects and subsequent removal from the list of PoC:
 - » ANZAC class Anti-Ship Missile Defence (SEA 1448 Phase 2B)
 - » Medium and heavy vehicles, trailers and modules (LAND 121 Phase 3B)
 - » Tactical Unmanned Aerial Vehicles (JP 129 Phase 2)
 - » Joint Air-to-Surface Standoff Missile (AIR 5418 Phase 1)
- the addition of Multi-Role Helicopter (AIR 9000 Phase 2,4,6) to the PoC list due to schedule and contractor performance.

Table 13.3: Current Projects of Concern as at 30 June 2012

Project Name	Project Number/ Phase	Date Added
Collins Class Submarines	CN 10	November 2008
'Wedgetail' Airborne Early Warning and Control aircraft	AIR 5077 Phase 3	January 2008
Lightweight Torpedo Replacement	JP 2070 Phase 2/3	January 2008
Multi-Role Tanker Transport aircraft - Air to Air Refuelling Capability	AIR 5402	October 2010
Electronic Support Measures upgrade for AP-3C Orion aircraft	AIR 5276 Phase 8B	October 2010
Multi-Role Helicopter	AIR 9000 Phase 2,4,6	November 2011

Table 13.4: Former Projects of Concern as at 30 June 2012

Project	Description	Removed	Outcome
SEA 1411	Sea Sprite Helicopter	Mar 2008	Cancelled
AIR 87	Armed Reconnaissance Helicopter	Apr 2008	Remediated
LAND 106	M-113 Armoured Personnel Carrier Upgrade	May 2008	Remediated
JP 2088 Phase 1A	SF Air Drop Rigid Hull Inflatable Boat Trailers	Sep 2009	Remediated
SEA 1390 Phase 2.1	Guided Missile FFG Upgrade	Jan 2010	Remediated
AIR 5416 Phase 2	Project 'Echidna'	Jul 2010	Scope reduced
JP 2048 Phase 1A	LCM2000 Watercraft for Amphibious Ships	Feb 2011	Cancelled
JP 2043 Phase 3A	High Frequency Communications Modernisation	Jun 2011	Remediated
AIR 5333	Air Defence Command and Control System 'Vigilare'	Jun 2011	Remediated
SEA 1448 Phase 2B	ANZAC - class Anti-Ship Missile Defence (ASMD)	Nov 2011	Remediated
LAND 121 Phase 3B	Medium and heavy vehicles, trailers and modules	Dec 2011	Remediated
JP 129 Phase 2	Tactical Unmanned Aerial Vehicles	Dec 2011	Remediated
AIR 5418 Phase 1	Joint Air-to-Surface Standoff Missile (JASSM)	Dec 2011	Remediated

Managing Interdependent Risks

The need for the management of interdependent risks was identified by Mr Paul Rizzo in his review titled *Plan to Reform Support Ship Repair and Management Practices*, published in July 2011.

The DMO and the Navy have since developed an Interdependent Mission Management System (IMMS). In a mature form IMMS will enable the Chief of Navy (CN) to view how interdependent risks shared with the DMO, but not necessarily recognised, impact upon delivery of maritime capability. The CN will be able to view the five Navy enterprise risks as the DMO see them, and recognise any associated threats to delivery of maritime capability as part of the Navy Strategic Management System. Similarly, the DMO will be able to view its respective outputs within the respective strategic and performance measurement systems, against the five Navy enterprise risks.

IMMS is designed to focus attention and conversation leading to strategic decisions. Requirements of the Navy and DMO interdependent mission will be viewed through the lenses of risk controls and priorities.

IMMS is being developed in close consultation with the Rizzo Reform Program Project 5 (Seaworthiness and Integrated Risk Management Framework). Project 5 sees IMMS as achieving Mr Rizzo's recommendations for integrated enterprise risk management and closer cooperation between the DMO and the Navy.

IMMS is a contributor to the Navy Strategic Management System. However the DMO believe it also has scope for wider application across Defence. Initially linked to Maritime Systems Division, it is intended that all relevant DMO divisions supplying the CN are aligned within IMMS.

PART THREE

DEPARTMENT OF DEFENCE
ANNUAL REPORT

2011 – 2012

APPENDICES

Appendix 1

Strategic Reform Program

In 2011-12, the Strategic Reform Program (SRP) continued to provide a means for long-term business transformation that would make the Defence organisation more efficient, effective and accountable and will continue to be implemented in the context of an expanding reform agenda.

The priority is to ensure that the SRP integrates effectively with the broader reforms, while continuing to pursue efficiencies and cost reduction in a tight fiscal environment. The Associate Secretary Chief Operating Officer (COO) now has oversight responsibility for the SRP. The COO will assist Defence to position reform as mainstream business, drive further reforms and integrate business processes across Defence Groups.

The Defence Portfolio achieved \$1,240.8 million, which is 97 per cent of its cost reduction target of \$1,284 million for the financial year 2011-12, and a significant achievement in difficult fiscal circumstances. This outcome is exclusive of non-SRP related investment and expenses that impacted on the portfolio business outcomes and were outside the control of SRP management. This adjustment of \$323.1 million includes elements such as: building maintenance works brought forward due to pressures and Work Health and Safety compliance liabilities; additional investment in Information and Communications Technology (ICT) activities and licensing arrangements; an array of extra sustainment investments across a number of platforms covering all capability managers; and removing operational expenses inappropriately captured in the Logistics stream data. Key ongoing cost reductions and stream achievements are listed in the table below.

Table A1.1: Key ongoing cost reductions and stream achievements

Stream	Achievement ^[1]	Key On-going Cost Reduction Initiatives
ICT	\$215.8m	Provide a simplified and modern ICT infrastructure that reduces maintenance costs, increases productivity and enables other reforms, through: <ul style="list-style-type: none"> • remediation of ICT infrastructure • data centre migration • next generation desktop • centralised processing and terrestrial communications.
Smart Sustainment	\$389.1m	Control equipment sustainment costs through: <ul style="list-style-type: none"> • grouping contracts to generate efficiencies and reduce duplication • optimising the Navy's Fleet Support Units as lead repair agencies for the fleet through the up-skilling of the Navy's technical workforce • maximising contractual arrangements • streamlining usage and reducing active items in service • better aligning facility usage with workforce requirements.
Non-Equipment Procurement	\$147.7m	Improved demand management of travel, training, professional services and garrison support through: <ul style="list-style-type: none"> • base Services Re-Tender • mess closures and consolidations including the conversion of Russell Messes to the Russell Conference Centre • continued success of the online travel booking tool.
Workforce and Shared Services	\$155.8m	Achievement in the three areas of reform - Workforce, Business Improvements and Shared Services - through: <ul style="list-style-type: none"> • conversion of contractors to Australian Public Service (APS) positions • rationalised Customer Service Centres • civilianisation of Australian Defence Force (ADF) to APS positions • leaning of base estate and garrison support • reduction in contract management costs • rationalised libraries • consolidation of mail and records • finance, HR and Non-Equipment Procurement shared services reform planning and implementation.
Reserves	\$46.7m	Savings made through: <ul style="list-style-type: none"> • reduction in the use of Reservists • reduction of Army personnel on High Readiness Reserve • reduction in the frequency of training.
Logistics	\$0.3m	Savings made through: <ul style="list-style-type: none"> • rationalisation of wholesale storage and distribution arrangements including second pass approval for delivery of the program.
Other	\$285.4m	Savings made through: <ul style="list-style-type: none"> • changes in the way financial risk is managed.

Note

1. Adjusted to exclude non-SRP related investment/expense decisions.

White Paper and SRP Workforce Implications

Table A1.2 shows the savings targets as at 1 July 2012, including the revised SRP savings of 1,629 military and 1,573 civilian workforce positions over the period to 2018-19.

Table A1.2: White Paper adjustments and SRP workforce savings targets as at 1 July 2012

Military Workforce	2012-13	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
White Paper ^[1]	1,375	1,656	1,887	2,077	2,157	2,225	2,165	1,979
Strategic Reform Program (SRP) ^[1]								
– Efficiency improvements	-96	-228	-255	-362	-401	-401	-401	-400
– Civilianisation	-351	-699	-708	-708	-688	-658	-588	-535
– ADF Gap Year Savings	-199	-239	-239	-239	-239	-239	-239	-239
– Support Productivity Improvements (0.7%)	-	-	-	-91	-182	-273	-364	-455
SRP – net military workforce adjustment	-646	-1,166	-1,202	-1,400	-1,510	-1,571	-1,592	-1,629
Total military workforce ^[2]	57,994	58,031	58,589	58,872	59,018	58,999	58,880	58,657
Civilian Workforce ^[3]	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
White Paper ^[1]	1,556	1,801	2,064	2,153	2,193	2,347	2,303	2,290
Strategic Reform Program (SRP) ^[1]								
– Efficiency improvements	-699	-955	-1,087	-1,320	-1,320	-1,337	-1,356	-1,374
– Civilianisation	247	699	708	708	688	658	588	535
– Contractor Conversions (increase in APS)	655	846	884	887	887	887	887	881
– Contractor Conversions (decrease in contractors)	-655	-846	-884	-887	-887	-887	-887	-881
– ADF Gap Year Savings	4	-2	-5	-5	-5	-5	-5	-5
– Support Productivity Improvements (0.7%)	-	-	-	-149	-296	-441	-586	-729
SRP – net civilian workforce adjustment	-454	-261	-384	-766	-933	-1,125	-1,359	-1,573
Further Shared Services Reform ^{[1] [5]}	-631	-832	-1,000	-1,000	-1,000	-1,000	-1,000	-1,000
Total civilian workforce ^{[2] [3]}	22,230	22,397	22,347	22,205	22,042	21,975	21,627	21,400

Logistics Workforce Savings ^[6]	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Military Workforce	0	0	0	0	0	0	0	0
Civilian Workforce	0	-11	-26	-61	-76	-90	-96	-96

Notes

1. These adjustments have been incorporated into Defence's total workforce numbers.
2. The figure for 2011-12 represents actual achievement, while those for 2012-13 onward are estimates current as at the *Portfolio Budget Statements 2012-13*.
3. The civilian workforce comprises Australian Public Servants and contractors.
4. The ADF Gap Year was cancelled as part of the *Portfolio Budget Statements 2012-13*, leading to further savings in addition to the SRP savings listed in this table.
5. Introduced through the *Portfolio Budget Statements 2011-12*.
6. These adjustments have not been incorporated into Defence's Workforce Guidance Trails, as they are estimates and yet to be confirmed.

Appendix 2

Parliamentary Committees

Joint Committees

Joint Committee on Public Accounts and Audit

The Joint Committee on Public Accounts and Audit tabled its report entitled *Report 422: Review of the 2009-10 Defence Materiel Organisation Major Projects Report* on 11 May 2011.

The Government response to this report was released publicly in November 2011.

"Maintenance of the Defence Estate" featured as a chapter in the Joint Committee of Public Accounts and Audit report reviewing the Auditor-General's Reports Nos. 16 to 46 2010-11. *Report 428 - Review of Auditor-General's Reports Nos. 16 to 46 2010-11* was released on 24 November 2011.

Defence appeared at a public hearing relating to this report on 21 September 2011 while the department's contribution to the Government response was tabled in August 2012.

Report 429: Review of the 2010-11 Defence Materiel Organisation Major Projects Report was tabled by the Joint Committee of Public Accounts and Audit on 21 May 2012.

The Department of Defence contributed to this report by appearing at a public hearing of the Committee on 21 March 2012. The Government response to this report was tabled in late August 2012.

Joint Parliamentary Committee on Intelligence and Security

The Joint Parliamentary Committee on Intelligence and Security tabled its report entitled *Review of Administration and Expenditure No. 9 (2009-2010) – Australian Intelligence Agencies* on 18 June 2012.

The Department of Defence contributed to the report through the submission of classified submissions; namely from the Defence Imagery and Geospatial Organisation (DIGO), the Defence Intelligence Organisation (DIO) and the Defence Signals Directorate (DSD).

The Joint Parliamentary Committee on Intelligence and Security commenced a review entitled *Review of Administration and Expenditure No. 10 (2010 – 2011) – Australian Intelligence Agencies* during the reporting period.

Once again the Department of Defence is contributing the review through the provision of classified submissions from DIGO, DIO and DSD. This inquiry was ongoing at the time of publishing.

Joint Standing Committee on Foreign Affairs, Defence and Trade

In June 2008, the then Minister for Trade, the Hon Simon Crean MP, asked the Committee to inquire into and report on *Australia's Trade and Investment Relations with Asia, the Pacific and Latin America*. Subsequently, during December 2010, the Minister for Trade, the Hon Dr Craig Emerson MP, re-referred the inquiry with original terms of reference to the Committee. Minister Emerson also asked that the Committee take into consideration the review of Australia's future trade policy framework.

On 22 August 2011, the Joint Standing Committee on Foreign Affairs, Defence and Trade presented its report entitled *Inquiry into Australia's Trade and Investment Relations with Asia, the Pacific and Latin America*.

The Department of Defence contributed to this report via a submission provided to the Committee in September 2008.

The Defence Sub-Committee of the Joint Standing Committee on Foreign Affairs, Defence and Trade reviewed the *Defence Annual Report 2009-2010*.

The Department of Defence provided submissions to the review during March and June 2011 and also appeared at a public hearing on 25 March 2011.

The report entitled *Review of the Defence Annual Report 2009-2010* was released by the Committee on 27 February 2012, which was responded to by the Government on 24 May 2012.

The Committee continued an *Inquiry into Australia's trade and investment relationship with Japan and the Republic of Korea* during the reporting period.

The Department of Defence contributed to this inquiry by providing a submission in July 2011 and appearing at a public hearing of the Committee on 21 September 2011.

Defence was invited to provide input to the *Inquiry into Australia's Overseas Representation*. The inquiry commenced during September 2011 and to date Defence has provided three written submissions (one primary and two supplementary submissions) and appeared at a public hearing relating to the inquiry on 10 February 2012.

The *Inquiry into the Defence Trade Controls Bill 2011 and Customs Amendment (Military End-Use) Bill 2011* was carried out during November 2011.

The Committee noted that no Government response was required.

The *Review of the Defence Annual Report 2010-2011* commenced on 24 November 2011. To date the Department of Defence has provided both a written submission and appeared at a public hearing relating to this inquiry – both events occurred on 16 March 2012.

The Minister for Defence Science and Personnel, the Hon Warren Snowdon MP, asked the Committee to inquire into, and report on, the *Care of ADF Personnel Wounded and Injured on Operations* in mid June 2012. This inquiry will commence during the 2012–2013 reporting period.

Joint Standing Committee on Public Works

Throughout the reporting period, a number of Department of Defence projects were reviewed by the Committee. The reviews related to the projects listed below have been completed, reports have been tabled and the works have been approved:

- Proposed Contamination Remediation Works, Former Fire Training Area, RAAF Base Williams – Point Cook, Victoria
 - Proposed Specific Nutritional Capability Project for Defence Science and Technology Organisation – Scottsdale, Tasmania
 - Proposed HMAS Albatross Redevelopment (Stage 3) – Nowra, New South Wales
 - RAAF Base East Sale Redevelopment – Sale Victoria
 - LAND 17 Phase 1A Infrastructure Project
 - Proposed Development and Construction of Housing for Defence – Ermington, New South Wales
 - Proposed Development and Construction of Housing for Defence – Rasmussen, Queensland
- Reviews of additional Defence projects were commenced during the reporting period.

The following inquiries were ongoing at the time of publishing:

- Base Infrastructure Works Project under the Base Security Improvement Program
- Defence Logistics Transformation Program
- Development and construction of housing for Defence Members and their families – Kellyville, New South Wales
- High Voltage Electrical Distribution Upgrade – Liverpool Military Area, New South Wales
- Moorebank Units Relocation – Holsworthy, New South Wales.

Joint Standing Committee on Treaties

On 1 November 2011, the Committee released the *Report 121: Review into Treaty tabled on 16 August 2011*. This report was relevant to the Department of Defence as it reviewed the *Agreement between the Government of Australia and the Government of the United States of America Relating to the Operation of, and Access to, an Australian Naval Communication Station at North West Cape in Western Australia, done at Washington on 16 July 2008*.

Defence contributed to the review by appearing at a public hearing of the Committee on 19 September 2011. The Committee noted that no Government response was required.

House of Representatives Committees

House of Representatives Standing Committee on Education and Employment

The Department of Defence contributed to the *Inquiry into Mental Health and Workforce Participation* by appearing at a public hearing of the Committee during October 2011 and providing a written submission in December 2011.

The Committee's final report *Work Wanted: Mental Health and Workforce Participation* was tabled on 28 June 2012.

Senate Committees

Joint Select Committee on the Christmas Island Tragedy of 15 December 2010

During August 2011, the Department of Defence provided input into the whole-of-Government response to the *Government Response to the Report of the Joint Select Committee on the Christmas Island Tragedy*.

Senate Standing Committee on Foreign Affairs, Defence and Trade

Three Senate Estimates hearings were conducted during the reporting period. The Department of Defence appeared at each of the hearings detailed below, and responded to a number of Questions on Notice arising from these hearings:

- Supplementary Budget Estimates 2011–2012 – 19 October 2011
- Additional Budget Estimates 2011–2012 – 15 February 2012
- Budget Estimates 2012–2013 – 28–29 May 2012.

Foreign Affairs, Defence and Trade Legislation Committee

The Senate referred the Veterans' Entitlements Amendment Bill 2011 for inquiry and report on 15 June 2011. The Department of Defence contributed to this inquiry by providing a written submission to the Committee on 18 July 2011.

The Committee's final report was tabled on 18 August 2011.

The *Inquiry and Review into the Defence Trade Controls Bill 2011* commenced during the reporting period. To date Defence has appeared at two public hearings of the Committee (2 March and 21 March 2012) and provided two written submissions to the inquiry (during June 2012 and August 2012).

Foreign Affairs, Defence and Trade References Committee

The Committee conducted an inquiry into the Department of Defence's *Request for Tender for Aviation Contracts and Associated Issues*.

Defence supported this inquiry by providing a written submission during March 2011 and appearing at two public hearings of the Committee (29 March 2011 and 28 June 2011) relating to the inquiry.

The Committee's final report was tabled in August 2011 and a Government response to the report was tabled on 9 February 2012.

The *Inquiry into an Equity and Diversity Health Check in the Royal Australian Navy-HMAS Success* originally commenced on 26 November 2009 following a referral from the Senate. On 30 September 2010, the Senate re-adopted the inquiry, not disposed of at the end of the 42nd Parliament, with a reporting date of 12 May 2011.

An Interim Report was tabled in March 2010, followed by the release of a Second Interim Report during August 2010.

Part I of the Final Report, titled *Incidents onboard HMAS Success between March and May 2009 and Subsequent Events* was released in May 2011. Part II of the report was tabled during September 2011.

The *Government Response to Part II of the Incidents onboard HMAS Success between March and May 2009 and Subsequent Events Final Report* was released in December 2011.

The Department of Defence contributed to the inquiry into the *Effectiveness of the Australian Government's Response to Australian Citizens Who are Kidnapped and Held for Ransom Overseas* by providing a written submission to the Committee during October 2011.

The Committee tabled its final report, titled *Held Hostage: Government's Response to Kidnapping of Australian Citizens Overseas*, on 25 November 2011.

The Senate referred the *Procurement Procedures for Defence Capital Projects* to the Committee during February 2011. Subsequent to the original inquiry being referred to the Committee the Terms of Reference for the inquiry were amended on 5 July 2011 to include an "assessment of the effectiveness of the Defence Materiel Organisation".

The Department of Defence supported the inquiry by appearing at two public hearings of the Committee (5 October 2011 and 7 October 2011).

The Committee tabled their Interim Report during November 2011, followed by their Preliminary Report which was tabled in December 2011.

Defence appeared at a further public hearing of the Committee (13 June 2012) and also provided two written submissions to the Committee. A supplementary written submission, regarding the Capability Investment and Resources Division and the Project Initiation and Review Board of the Defence Materiel Organisation, was then provided to the Committee following an undertaking to do so at the 13 June public hearing.

The *Procurement Procedures for Defence Capital Projects* Final Report from this inquiry was released on 30 August 2012.

Two inquiries also commenced during the reporting period. These inquiries were ongoing at the time of publishing:

- *Inquiry into the Indian Ocean Region and Australia's Foreign, Trade and Defence Policy*
- *The Administration, Management and Objective of Australia's Overseas Development Programs in Afghanistan in the Context of the 'Transition Decade'.*

Senate Standing Committee on Legal and Constitutional Affairs Legislation

The Senate referred the Inspector-General of Intelligence and Security Amendment Bill 2011 for inquiry and report on 12 May 2011. The Department of Defence contributed to this inquiry by providing a written submission to the Committee on 06 June 2011.

The Committee's final report was tabled on 07 July 2011.

A further inquiry, covering two Bills jointly referred to the Committee, commenced during the reporting period. The *Inquiry relating to the Military Court of Australia Bill 2012 and Military Court of Australia (Transitional Provisions and Consequential Amendments) Bill 2012* was ongoing at the time of publishing.

Appendix 3

Capital Investment Program

Capital Overview

The Capital Investment Program comprises four elements:

1. Major Capital Investment Program, including:

- The Unapproved Major Capital Investment Program - known as the Defence Capability Plan, and managed by the Chief of Capability Development Group - is a costed, detailed development plan for Australia's future military capabilities over a ten-year period. The plan is reviewed regularly to take account of changing strategic circumstances, new technologies and changed priorities, in the context of the overall Defence budget. The plan sets out the proposed investment in new capability, reviewed and revised as part of the financial year 2012-13 budget.
- The Approved Major Capital Investment Program - managed predominantly by the Chief Executive Officer DMO - comprises both major and minor projects which, following approval, have been transferred from the Defence Capability Plan to the Defence Materiel Organisation (DMO).

2. Major Capital Facilities Program - managed by the Deputy Secretary of the Defence Support Group - funds the construction of buildings and infrastructure including specialised ranges, training and accommodation facilities, maintenance hangers, messes and warehouse facilities.

3. Other Investment - managed by the Service Chiefs, Group Heads and the DMO - consists of Plant and Equipment, including Information and Communication Technology equipment, Minor Capital Investment projects, infrastructure costs, non-capital facilities building projects, intangibles and purchase of repairable items. Minor capital projects cover new equipment, modifications to existing equipment or enhancements to new equipment. After approval, funding for minor projects is generally transferred to the DMO for the acquisition phase.

4. Capital Receipts Program - managed by the Service Chiefs and Group Heads - comprises proceeds from disposal of properties, specialised military equipment, commercial vehicles and other plant and equipment items. Defence is required to return property disposal proceeds to the Government in the form of equity, but is authorised to increase its departmental appropriation by the costs of remediation and disposal from the sale proceeds of properties.

Table A3.1: Total Net Capital Investment Program

	2011-12 Budget Estimate ^[1] \$'000	2011-12 Revised Estimate ^[2] \$'000	2011-12 Actual Result \$'000	Variation \$'000
Major Capital Investment Program ^[3]	5,128,578	4,381,958	4,207,905	-174,053
Major Capital Facilities Program	1,180,254	1,001,600	996,674	-4,926
Other Investment	739,806	1,475,939	739,137	-736,802
Net Capital Receipts	-60,691	- 55,358	-45,166	10,192
Total Net Capital Investment Program^[4]	6,987,947	6,804,139	5,898,550	-905,589

Notes

1. As published in the *Portfolio Budget Statements 2011-12* tables 14 and 15.
2. As published in the *Portfolio Additional Estimates Statements 2011-12* tables 14 and 15.
3. Funding allocated to Defence Groups for the delivery of Approved Major Capital Investment Program is not represented in the actual figure.
4. Budget and actual figures are represented on a cash basis.

Approved Major Capital Investment Program

Funding for approved major and minor capital equipment projects, including project management and overhead costs, is generally provided by Defence to the DMO under separate Materiel Acquisition Agreements for each project.

Projects costing between \$20 million and \$100 million are approved jointly by the Ministers for Defence and Finance and Deregulation. Projects costing more than \$100 million are approved by the National Security Committee of Cabinet.

Following approval, funding for projects is transferred from the Defence Capability Plan to the AMCIP program. The DMO manage the acquisition phase in accordance with each project's Materiel Acquisition Agreement (MAA). Chief Information Officer Group, Intelligence and Security Group and Defence Support Group also manage elements of AMCIP acquisitions under separate agreements.

The AMCIP outcome reflects budget adjustments post the Additional Estimates process, including increased investment and foreign exchange adjustments, and improved performance in the AMCIP for 2011-12.

The DMO closed 32 projects in 2011-12. Of these, the five projects with the highest expenditure at closure were:

- C-130J-30 Strategic Air lift Capability - \$1,024 million
- F/A-18 Hornet Upgrade Phase 3.2 - Structural Refurbishment - \$319 million
- Hydrographic Ship Construction - \$217 million
- Maritime Operations Support Capability - HMAS *Sirius* - \$139 million
- F/A-18 Hornet Upgrade Phase 3.1 - Structural Refurbishment - \$111 million.

2011-12 Achievements

During 2011-12, a total of 46 projects and studies were approved with a combined value of approximately \$4.4 billion. Significant amongst these was the Australian Government approval to acquire:

- the replacement under project AIR 8000 Phase 2, of the DHC4 Caribou transport aircraft with C-27J Spartan Battlefield Airlift Aircraft
- the improved under project JP 2072 Phase 2A, Battlespace Communications Systems – digital combat net radios
- 12 medium-sized fast landing craft (LCM-1E) for the Canberra Class Landing Helicopter Dock ships under project JP 2048 Phase 3
- a further 959 G-Wagons under project LAND 121 Phase 5A
- Anti-Ship Missile Defence systems under project SEA 1448 Phase 2B for the ANZAC Class frigates.

Table A3.2 shows those Major Capital Investment Projects approved by the Government during 2011-12.

Table A3.2: List of Major Capital Investment Projects Approved by the Government in 2011-12

Project No.	Phase	Name	Approval Budget (Band \$m)	Status as at 30 June 2012
First Pass Approval				
AIR 5431	2/3	Fixed Base Air Traffic Management and Control Systems	<\$100m	4
AIR 5438	1A	Lead In Fighter Capability Assurance Program	<\$100m	5
JP 90	1	ADF Identification Friend or Foe (ADF IFF)	<\$100m	2
JP 1770	1	Rapid Environmental Assessment	<\$100m	3
JP 2008	5B	Military Satellite Capability – Wideband Terrestrial Infrastructure	<\$100m	Split into 5B.1 – 3 5B.2 – 4
JP 2080	2B.1	Defence Management System Improvement - Personnel Systems Modernisation	\$100m-\$500m	TBA CIOG
JP 3021	1	Joint Combined Training Capability - Mobile Electronic Warfare Threat Emitter System	<\$100m	4
JP 3024	1	Woomera Range Remediation	<\$100m	4
LAND 136	1	Land Force Mortar Replacement	<\$100m	4
LAND 998	1	Replacement Aviation Fire Trucks	<\$100m	4
SEA 1778	1	Deployable MCM - Organic Mine Counter Measures	<\$100m	1

Project No.	Phase	Name	Approval Budget (Band \$m)	Status as at 30 June 2012
Second Pass Approval				
AIR 8000	2	Battlefield Airlift - Caribou Replacement	>\$1000m	1
AIR 8000	4	Additional C-17 Globemaster	\$100m-\$500m	1
AIR 9000	5D	Additional Chinooks	<\$100m	1
JP 154	3A	Counter IED - Ningau - HMEE	<\$100m	4
JP 154	3A	Counter IED - Ningau - Full System	<\$100m	4
JP 2030	8	Joint Command Support Environment	\$100m-\$500m	1
JP 2048	3	Amphibious Watercraft Replacement	\$100m-\$500m	1
JP 2069	2	High Grade Cryptographic Equipment	<\$100m	5
JP 2069	2	High Grade Cryptographic Equipment (Additional approval)	<\$100m	Split into Tranche 1 – 1 Tranche 2, 3 & 4 - 5
JP 2072	2A	Battlespace Communications Systems (Land)	\$100m-\$500m	1
JP 3027	1	JDAM Enhancements	<\$100m	1
JP 3033	1	Interim Maritime Humanitarian Assistance and Disaster Relief Capability	\$100m-\$500m	1
JP 5408	3	ADF Navigation Warfare (NAVWAR) Capability - Handhelds (Pass 1 of 2)	<\$100m	1
LAND 17	1B	Artillery Replacement - Digital Fire Control Systems	<\$100m	1
LAND 116	3.2	Protected Mobility Vehicle (PMV) Production	\$100m-\$500m	1
LAND 121	5A	Overlander - Field Vehicles and Trailers	\$100m-\$500m	Ph 5A has been integrated with Ph 3A - 1
SEA 1352	1	Evolved Sea Sparrow Missiles (ESSM) Upgrade & Inventory Replenishment (Risk Reduction Study)	<\$100m	1
SEA 4000	3.2	SM2 Conversion and Upgrade	<\$100m	1
Other Approvals				
AIR 5438	1A	Lead In Fighter Capability Assurance Program (Spares buy)	<\$100m	5
AIR 5349	3	EA-18G Growler Airborne Electronic Attack Capability (Long Lead Items)	<\$100m	1
AIR 7000	2B	Maritime Patrol Aircraft Replacement (Intermediate Pass)	<\$100m	2
JP 2070	2	Light Weight Anti-Submarine Torpedo Replacement (release of preserved funds)	<\$100m	1
JP 3033	1	Interim Maritime Humanitarian Assistance and Disaster Relief Capability (NPOC)	<\$100m	1

Project No.	Phase	Name	Approval Budget (Band \$m)	Status as at 30 June 2012
LAND 112	4	ASLAV Enhancement Project (Cancellation)	<\$100m	5
LAND 116	3.2	Thales Production (Long Lead Items)	<\$100m	1
LAND 121	3B	Field Vehicles & Trailers (Down select decision)	<\$100m	2
LAND 121	4	Field Vehicles & Trailers - PMV-L MSA Intermediate Pass	<\$100m	1
LAND 121	5B	Field Vehicles & Trailers (Bring forward decision)	<\$100m	4
LAND 125	3C	Soldier Enhancement Version 2 - Lethality (Intermediate pass)	<\$100m	1
SEA 1000	1&2	Future Submarine Design and Construction (Initial Consideration)	\$100m-\$500m	5
SEA 1448	2B	ANZAC Anti-Ship Missile Defence Update - Ships 2-8 (Revised scope)	\$100m-\$500m	1

Status:

1. Project Underway (Contract signed)
2. Tender Closed
3. Out to Tender
4. Yet to Go to Tender
5. Various: Either contributing to more than one project or consisting of several internal phases of varying status.

Notes

1. Four classified projects received Second Pass approval.

Major Capital Facilities Program

The Major Capital Facilities program develops facilities and infrastructure to support the AMCIP, sustain current capability requirements, support other government initiatives, meet legislative obligations and assist initiatives that support Defence personnel. A significant proportion of the program funding is directed towards the provision of basic engineering and infrastructure services, either in support of new projects or upgrades to existing facilities.

Approval processes for capital facilities projects vary according to value. Major capital facilities projects costing over \$15 million are subject to Government approval, and review by the Joint Standing Committee on Public Works (PWC). Projects approved by the PWC in 2011-12 are listed in Appendix 2 – Parliamentary Committees. Medium facilities projects between \$2 million and \$15 million are subject to departmental or Government approval, but are generally not subject to inquiry by the PWC.

Approved major capital facilities projects

Table A3.3: Approved major capital facilities projects by State and Federal electorate

	Total Estimated Expenditure \$m	Cumulative Expenditure to 30 June 2012 \$m	2011- 2 Budget Estimate \$m	2011-12 Additional Estimate \$m	2011-12 Actual \$m
NEW SOUTH WALES					
Gilmore					
HMAS Albatross					
Aircraft Pavements and Airfield Lighting ^{[1][3]}	-	4.7	0.6	0.6	0.2
Redevelopment Stage 3 ^[2]	192	-	-	-	-
Hunter					
Singleton					
Enhanced Land Force Stage 1 Works ^{[1][4]}	-	64.9	7.2	8.5	15
Enhanced Land Force Stage 2 Works ^{[1][5]}	-	97.6	46.3	46.3	62.7
MacKellar					
Pittwater Annexe					
HMAS Penguin and Pittwater Annexe Redevelopment ^{[1][6]}	-	2.7	5	3.5	2
Riverina					
Kapooka					
Enhanced Land Force Stage 1 Works ^{[1][4]}	-	102.1	18.9	11.5	10.6
Warringah					
HMAS Penguin					
HMAS Penguin and Pittwater Annexe Redevelopment ^{[1][6]}	-	20	21	21.6	16.6
Total New South Wales	192	292	99	92	107.1

	Total Estimated Expenditure \$m	Cumulative Expenditure to 30 June 2012 \$m	2011- 2 Budget Estimate \$m	2011-12 Additional Estimate \$m	2011-12 Actual \$m
VICTORIA					
Corangamite					
Defence Facilities at HMAS Harman and Other Locations ^{[1][7]}	-	29.7	0.8	2.8	3
Gippsland					
East Sale					
RAAF Base East Sale Redevelopment ^[2]	185.6	-	-	-	-
Indi					
Bandiana					
Joint Logistics Unit Victoria Warehousing	36.4	32.2	2.2	2.5	2.1
Gaza Ridge Barracks					
Facilities for Project Overlander (LAND 121) ^{[1][8]}	-	1.4	16.4	8	1.4
Facilities for Replacement Towed Artillery (LAND 17) ^{[1][2][9]}	-	0.1	-	-	0.1
Jagajaga					
Watsonia					
Defence Force School of Signals	101.3	90.9	9.9	2.1	1.6
Enhanced Land Force Stage 2 Works ^{[1][5]}	-	20.6	7.9	7.9	13.4
McEwen					
Puckapunyal					
Enhanced Land Force Stage 1 Works ^{[1][4]}	-	43.9	31.3	21.5	8.5
Enhanced Land Force Stage 2 Works ^{[1][5]}	-	-	10.8	0.7	0
Facilities for Replacement Towed Artillery (LAND 17) ^{[1][2][9]}	-	0.1	-	-	0.1
Total Victoria	323.3	218.9	79.3	45.5	30.2
QUEENSLAND					
Blair					
Amberley					
RAAF Base Amberley Redevelopment Stage 3	331.5	297.2	39.1	9	11.1
Australian Super Hornet Facilities ^{[1][10]}	110.1	106.9	7.4	8.5	7.7
Heavy Airlift Capability – Permanent Facilities ^{[1][11]}	-	148.8	12	12.3	10.5

	Total Estimated Expenditure \$m	Cumulative Expenditure to 30 June 2012 \$m	2011- 2 Budget Estimate \$m	2011-12 Additional Estimate \$m	2011-12 Actual \$m
Enhanced Land Force Stage 1 Works ^{[1][4]}	-	98.4	7	9.7	5.6
Enhanced Land Force Stage 2 Works ^{[1][5]}	-	9.5	6.9	6.9	8.6
Facilities for Project Overlander (LAND 121) ^{[1][8]}	-	7.9	12	8.1	7.9
Ryan					
Enoggera					
Base Redevelopment Stage 1	80.2	77.1	1.9	2.4	2.4
Enhanced Land Force Stage 2 Works ^{[1][6]}	-	441.3	100	179.7	286.3
Facilities for Replacement Towed Artillery (LAND 17) ^{[1][2][9]}	-	0.1	-	-	0.1
Forde					
Canungra					
Enhanced Land Force Stage 2 Works ^{[1][5]}	-	16.8	32.5	32.5	14.8
Groom					
Oakey					
Aircraft Pavements and Airfield Lighting ^{[1][3]}	-	5.6	0.7	0.7	4.9
Herbert					
Townsville					
Lavarack Barracks Redevelopment Stage 4	207.2	207.2	3.6	2	2.4
Multi Role Helicopter Facilities ^{[1][12]}	-	24.9	1.6	5.9	-
Enhanced Land Force Stage 1 Works ^{[1][4]}	-	168.4	50.8	15.9	9.3
Enhanced Land Force Stage 2 Works ^{[1][5]}	-	58.5	23.3	23.3	26.1
Facilities for Replacement Towed Artillery (LAND 17) ^{[1][2][9]}	-	0.1	-	-	0.1
Kennedy					
Townsville Field Training Area (High Range)					
Enhanced Land Force Stage 2 Works ^{[1][5]}	-	3.9	1.3	1.3	1.3
Lilley					
Damascus Barracks					
Facilities for Project Overlander (LAND 121) ^{[1][8]}	-	11.9	18.2	12.5	11.9

	Total Estimated Expenditure \$m	Cumulative Expenditure to 30 June 2012 \$m	2011- 2 Budget Estimate \$m	2011-12 Additional Estimate \$m	2011-12 Actual \$m
Rankin					
Greenbank Training Area					
Enhanced Land Force Stage 2 Works ^{[1][5]}	-	13.2	40.4	5.8	9.9
Wide Bay					
Wide Bay Training Area					
Enhanced Land Force Stage 2 Works ^{[1][5]}	-	44.6	37	37	20.3
Total Queensland	729	1,742.3	395.7	373.5	441.2
SOUTH AUSTRALIA					
Barker					
Murray Bridge Training Area					
Hardened and Networked Army Facilities ^{[1][13]}	-	16.5	1	5	-
Wakefield					
Edinburgh Defence Precinct					
Hardened and Networked Army Facilities ^{[1][13]}	-	544.1	46	14.3	14.3
Facilities for Replacement Towed Artillery (LAND 17) ^{[1][2][9]}	-	0.1	-	-	0.1
RAAF Base Edinburgh					
Redevelopment Stage 2	99.6	86.2	37	37.9	42
Enhanced Land Force Stage 1 Works ^{[1][4]}	-	19.5	10.5	1.6	1.9
Enhanced Land Force Stage 2 Works ^{[1][5]}	-	14.1	18.2	18.2	14.1
Total South Australia	99.6	680.5	112.7	77	72.4
WESTERN AUSTRALIA					
Hasluck					
RAAF Gin Gin					
Aircraft Pavements and Airfield Lighting ^{[1][3]}	-	5.6	0.8	0.8	3.1
Pearce					
RAAF Base Pearce – Redevelopment Stage 1	142.2	130.8	10	11.8	5.5
Aircraft Pavements and Airfield Lighting ^{[1][3]}	-	5.4	0.6	0.6	2.6
Total Western Australia	142.2	141.8	11.4	13.2	11.2

	Total Estimated Expenditure \$m	Cumulative Expenditure to 30 June 2012 \$m	2011- 2 Budget Estimate \$m	2011-12 Additional Estimate \$m	2011-12 Actual \$m
TASMANIA					
Bass					
Scottsdale Specific Nutritional Capability	18.7	0.9	-	3.7	0.9
Total Tasmania	18.7	0.9	-	3.7	0.9
NORTHERN TERRITORY					
Solomon					
Darwin					
Robertson Barracks Redevelopment	72.1	60.3	36.3	39.7	38
Robertson Barracks Electrical Reticulation System Upgrade	43.4	3.6	-	4.9	3.6
Facilities for Replacement Towed Artillery (LAND 17) ^{[1][2][9]}	-	0.1	-	-	0.1
RAAF Base Darwin Redevelopment Stage 2	49.8	43	16.4	18.8	16.6
Heavy Airlift Capability – Permanent Facilities	-	40.8	1.7	4	0.5
Total Northern Territory	165.3	147.8	54.4	67.4	58.8
AUSTRALIAN CAPITAL TERRITORY					
Canberra					
Defence Facilities at HMAS Harman and Other Locations ^{[1][7]}	-	25.9	49	49	19.5
Australian Defence Force Academy: Living-In Accommodation Refurbishment	34.7	21.7	9.1	10.3	13.6
Australian Defence Force Academy Redevelopment	98.5	4.8	-	13.3	4.8
Fraser					
HMAS Creswell					
Redevelopment	83.6	82.5	3.6	6	5
Majura Field Training Area					
Enhanced Land Force Stage 2 Works ^{[1][6]}	-	13.5	0.5	0.5	0.6
Royal Military College					
Enhanced Land Force Stage 2 Works ^{[1][6]}	-	9	3.3	3.3	3.3
Total Australian Capital Territory	216.8	157.4	65.5	82.4	46.8

	Total Estimated Expenditure \$m	Cumulative Expenditure to 30 June 2012 \$m	2011- 2 Budget Estimate \$m	2011-12 Additional Estimate \$m	2011-12 Actual \$m
VARIOUS LOCATIONS ^[1]					
Aircraft Pavements and Airfield Lighting ^[3]	32.2	-	-	-	-
Enhanced Land Force – Facilities Stage 1 ^[4]	793.1	-	-	-	-
Enhanced Land Force – Facilities Stage 2 ^[5]	1,457.8	-	-	-	-
HMAS Penguin and Pittwater Annexe Redevelopment ^[6]	63.3	-	-	-	-
Defence Facilities at HMAS Harman and Other Locations ^[7]	193.4	-	-	-	-
Facilities for Project Overlander (LAND 121) ^[8]	50.3	-	-	-	-
Facilities for Replacement Towed Artillery (LAND 17) ^{[2][9]}	46.5	-	-	-	-
Heavy Airlift Capability – Permanent Facilities ^[11]	268.2	-	-	-	-
Multi Role Helicopter Facilities ^[12]	137.2	-	-	-	-
Hardened and Networked Army Facilities ^[13]	597.4	-	-	-	-
Total Various Locations	3,639.4	-	-	-	-
Total	5,526.3	3,381.6	818.0	754.7	768.6

Notes

1. These projects cross state and electoral boundaries. Expenditure estimates for 2011-12 are provided in the table per location.
2. Project approved after publication of the Defence *Portfolio Additional Estimates Statements 2011-12*.
3. Aircraft Pavements and Airfield Lighting has an approved budget of \$32.2 million covering four locations: HMAS Albatross, Army Aviation Centre Oakey, RAAF Base Pearce and RAAF Base Gin Gin.
4. Enhanced Land Force Stage 1 has an approved budget of \$793.1 million covering the following locations: Singleton, Kapooka, Puckapunyal, RAAF Base Amberley, Lavarack Barracks and RAAF Base Edinburgh. Works at RAAF Base Richmond, Holsworthy, Townsville High Range Training Area and Campbell Barracks are completed.
5. Enhanced Land Force Stage 2 has an approved budget of \$1,457.8 million covering the following locations: Singleton, Watsonia, Puckapunyal, RAAF Base Amberley, Enoggera, Canungra, Lavarack Barracks, Townsville Field Training Area, Greenbank Training Area, Wide Bay Training Area and RAAF Base Edinburgh. Works at Garden Island, HMAS Penguin, Majura Field Training Area and Royal Military College Duntroon are completed.
6. HMAS Penguin and Pittwater Annexe Redevelopment has an approved budget of \$63.3 million covering two locations: HMAS Penguin and the Pittwater Annexe.
7. Defence Facilities at HMAS Harman and Other Locations has an approved budget increase to \$193.4 million. This project covers two locations: Army facilities in Victoria and Defence facilities at HMAS Harman, ACT.
8. Facilities for Project Overlander (LAND 121) has an approved budget of \$50.3 million. This project covers three locations: Gaza Ridge Barracks North Bandiana, Damascus Barracks Meeandah and RAAF Base Amberley.
9. Facilities for Replacement Towed Artillery (LAND 17) has an approved budget of \$46.5 million. This project covers six sites: Enoggera, Puckapunyal, Townsville, Edinburgh, Darwin and Bandiana.
10. The \$117.1 million budget for Australian Super Hornet Facilities includes both the development and delivery phase budgets leaving a delivery budget of \$110.1 million.
11. Heavy Airlift Capability - Permanent Facilities has an approved budget of \$268.2 million covering five locations: RAAF Base Amberley, RAAF Base Edinburgh, RAAF Base Darwin, RAAF Base Townsville and RAAF Base Pearce. Construction works at RAAF Bases Townsville, Edinburgh, Pearce and Darwin are complete.
12. Multi Role Helicopter Facilities has an approved budget of \$168.7 million covering four locations: HMAS Albatross (Nowra), RAAF Base Townsville, the Army Aviation Centre (Oakey) and Gallipoli Barracks, Enoggera (construction completed). The budget includes \$31.5 million for simulation facilities being delivered and reported by the DMO.
13. The \$623.7 million budget for Hardened and Networked Army Facilities includes the development and delivery phase budgets leaving a delivery phase budget of \$597.4 million. Hardened and Networked Army Facilities project covers three locations: Edinburgh Defence Precinct, Murray Bridge Training Area and Cultana Training Area. The project does not include similarly named works at Robertson Barracks.

Table A3.4: Performance of major capital facilities projects

Location	Status 2011-12	2011-12 Achievements
Victoria		
Bandiana - Joint Logistics Unit Victoria Warehousing	✓✓✓	This project provided new and upgraded warehousing, storage and ancillary support facilities at Bandiana. All works have been completed.
Watsonia - Defence Force School of Signals	✓✓	This project is providing new working accommodation, improved security arrangements and upgraded living-in accommodation for the Defence Force School of Signals at Simpson Barracks. Construction commenced in October 2008. The Living In Accommodation component is now complete. Completion of the refurbishment elements is currently being assessed in relation to remaining funds available to the project
Queensland		
Amberley - RAAF Base Amberley Redevelopment Stage 3	✓✓	This project has provided new trainee living-in accommodation and messing facilities, physical fitness facilities, office, medical and working accommodation, consolidation of maintenance facilities, construction of a new fuel farm and a base security upgrade. Construction commenced in 2008. All works are complete with the exception of Package 6, Passive Defence Augmentation. Completion is scheduled for mid 2013.
Amberley - Australian Super Hornet Facilities	✓✓✓	This project provided new, expanded and modified facilities and infrastructure at RAAF Base Amberley to support the introduction of the Super Hornet aircraft. Key facilities have been progressively completed from late 2009. All works have been completed.
Enoggera - Base Redevelopment Stage 1	✓✓✓	This project has provided new working accommodation for Headquarters 7th Brigade, upgrade base engineering services, and upgrade messing facilities. Construction was completed in late 2010. Some demolition works are outstanding and will be completed by late 2012.
Townsville Lavarack Barracks Redevelopment Stage 4	✓✓	This project provided upgraded working accommodation for Army elements located at Lavarack Barracks. Construction commenced in 2007 with the final elements, 4th Field Regiment and 3rd Combat Engineer Regiment facilities, being completed in early 2011. All works have been completed.
South Australia		
Edinburgh Defence Precinct - Redevelopment Stage 2	✓✓	This project is providing new working accommodation and upgrades to engineering services. Construction commenced in late 2010 and most elements were completed in mid 2012. There has been a delay in the delivery of ordnance loading facilities. This element is scheduled to be completed by early 2013.
Western Australia		
RAAF Base Pearce – Redevelopment Stage 1	✓✓	This project has provided new and refurbished operational, training, domestic support and aircraft maintenance facilities, improvements and upgrading of engineering services and demolition of redundant facilities. Favourable tendering conditions have allowed for the inclusion of approved deferred works. Construction commenced in 2008, with completion scheduled in early 2013.

Location	Status 2011-12	2011-12 Achievements
Northern Territory		
Darwin - Robertson Barracks Redevelopment	✓✓	This project comprises three individual project elements: the Robertson Barracks redevelopment project; LAND 907 facilities project; and the Hardened and Networked Army (HNA) facilities project (which is separately funded and distinct from the HNA facilities project supporting the hardened and networked capability). The Robertson Barracks redevelopment project is providing new and upgraded facilities for training, emergency response, working accommodation and equipment support. The HNA facilities project is providing additional working accommodation and other support facilities. The LAND 907 and the redevelopment components are complete with only some HNA elements to be delivered. Construction commenced in 2009, with completion scheduled in early 2013.
Darwin – Robertson Barracks Electrical Reticulation System Upgrade	✓✓	This project will provide Robertson Barracks with a reliable high voltage electrical distribution system that rectifies identified deficiencies and is capable of meeting current and future demands. Construction commenced in late 2011 with completion scheduled in mid 2013.
Darwin - RAAF Base Darwin Redevelopment Stage 2	✓✓✓	This project will provide new facilities and an upgrade to existing facilities including fuel farms and workshops. Construction commenced in late 2010, with completion scheduled in late 2012.
Tasmania		
Scottsdale Specific Nutritional Capability	✓✓	This project provides a reinvestment in the existing Defence Science and Technology Organisation nutritional capability at Scottsdale through the construction of replacement food technology laboratories and working facilities. Construction commenced in early 2012, with completion scheduled in late 2014.
Australian Capital Territory		
ADFA: Living-In Accommodation Refurbishment	✓✓✓	This project will refurbish existing living-in accommodation for the Australian Defence Force Academy (ADFA) cadets. Construction commenced in late 2010, with completion scheduled in late 2013.
ADFA Redevelopment	✓✓	This project aims to address the functional deficiencies of the teaching, training, office and living-in accommodation and mess facilities at ADFA to meet current and future academic and military training needs. Construction commenced in November 2011 and is scheduled for completion in mid 2015.
HMAS Creswell	✓✓✓	This project provided new and upgraded facilities for the training of Navy officers upon initial entry and senior sailors in the areas of leadership, management and personal development. The works include upgrades to base engineering services and infrastructure, new and refurbished classrooms, office and living-in accommodation and specialised training facilities. Construction commenced in 2009. All works have been completed.

Location	Status 2011-12	2011-12 Achievements
Various Locations		
Aircraft Pavements and Airfield Lighting	✓✓✓	This project will involve the resurfacing of asphalt pavement and replacement of airfield lighting at RAAF Base Pearce, RAAF Base Gin Gin, HMAS Albatross and the Army Aviation Training Centre (Oakey). PWC exemption was granted in November 2010. Construction commenced in March 2011 and the majority of works are complete with some minor works at Gin Gin scheduled to be completed by late 2012.
Enhanced Land Force – Facilities Stage 1	✓✓✓	<p>This project is providing modern, purpose-built facilities and supporting infrastructure for the relocation of the 3rd Battalion, the Royal Australian Regiment from Sydney to Townsville. The works have involved the construction of new and refurbished accommodation and training facilities, as well as the construction of common use facilities and site infrastructure upgrades at Townsville and other Defence sites across five states.</p> <p>Facilities at Kapooka, Singleton, Holsworthy and Puckapunyal will provide modern accommodation and supporting infrastructure for increased Army initial employment training. At RAAF Bases Amberley, Edinburgh and Richmond, new facilities will be provided for joint enabling elements supporting the enhanced land force capabilities. Facilities at RAAF Base Richmond, Campbell Barracks Perth, Holsworthy, Singleton and RAAF Base Amberley have been completed. Construction commenced in mid 2009 and completion of the remaining elements is scheduled by late 2012.</p>
Enhanced Land Force – Facilities Stage 2	✓✓	<p>This project will provide modern purpose-built facilities and supporting infrastructure for the 8th/9th Battalion the Royal Australian Regiment and supporting elements of the Army's 7th Brigade at Gallipoli Barracks in Enoggera, Brisbane. The project includes the construction of new and refurbished accommodation and training facilities, as well as common use facilities and site infrastructure upgrades at Enoggera and other Defence sites across four states and both mainland territories.</p> <p>Facilities at Townsville, Singleton, Duntroon and Watsonia will provide modern accommodation and supporting infrastructure for increased Army career training. In Sydney and at RAAF Bases Amberley and Edinburgh and at nine Defence Training Areas, new and refurbished facilities and site infrastructure upgrades will be provided for the Army and joint enabling elements supporting the Enhanced Land force capabilities. Works at Garden Island and Balmoral were completed in 2010. Facilities at Garden Island, HMAS Penguin, Watsonia, Puckapunyal, RAAF Base Amberley, Townsville Field Training Area, Majura Field Training Area and Royal Military College Duntroon have been completed. Construction commenced in mid 2010 and is scheduled to be completed by late 2014.</p>
HMAS Penguin and Pittwater Annexe Redevelopment	✓✓✓	This project will provide a comprehensive upgrade of base-wide engineering services infrastructure, security works and working accommodation for training and support functions. Construction commenced in mid 2011 and is scheduled to be completed in late 2013.

Location	Status 2011-12	2011-12 Achievements
Defence Facilities at HMAS Harman and Other Locations	✓✓	This project will provide an extension to the existing Defence Network Operation Centre that controls and monitors communication activities within Defence, as well as providing new data storage facilities for other capability projects and additional support facilities for the Army. Completion is scheduled for July 2013.
Facilities for Project Overlander (LAND 121)	✓✓	This project will provide the facilities to enable vehicle and conversion training for drivers and vehicle maintainers at three locations: Gaza Ridge Barracks, North Bandiana; Damascus Barracks, Meeandah; and RAAF Base Amberley. Construction commenced in early 2012 with completion scheduled for 2013.
Heavy Airlift Capability – Permanent Facilities	✓✓✓	This project provided new facilities for the C-17 Globemaster III aircraft. The works include a headquarters, maintenance facilities, air movements and cargo facilities, a simulator, warehousing and support facilities and airfield pavement works at the Amberley home base. The upgrading of airfield pavements, movements and cargo facilities and supporting infrastructure at RAAF Bases Edinburgh, Townsville, Darwin and Pearce will also be included. Construction commenced in 2008. The works at RAAF Bases Amberley, Townsville, Edinburgh and Darwin were completed in late 2009. The works at RAAF Base Pearce were completed in late 2010. All works have been completed.
Multi Role Helicopter Facilities	✓✓✓	This project is providing a range of helicopter shelters, maintenance and operational facilities, simulator buildings and deeper maintenance facilities to support the introduction of the Multi Role Helicopter aircraft. The works involve new facilities and refurbishment of existing facilities. The proposed facilities and infrastructure will be located at: HMAS Albatross, Nowra; Gallipoli Barracks, Enoggera, Brisbane; RAAF Base Townsville; and the Army Aviation Centre, Oakey. The works at Enoggera are now complete. The remaining works are scheduled to be completed in 2012.
Hardened and Networked Army Facilities	✓✓✓	This project is providing facilities and infrastructure to support a mechanised battle group in the Edinburgh Defence Precinct. Some additional infrastructure will also be provided at Murray Bridge. Construction commenced in late 2008. While the project is not planned to be complete until late 2012, progressive occupation of facilities commenced in December 2010.
Facilities for Replacement Towed Artillery (LAND 17)	✓	This project will provide new and upgraded facilities to support the introduction into service of the new towed artillery. The works will be at six sites: Enoggera, Puckapunyal, Townsville, Edinburgh, Darwin and Bandiana. The project received Parliamentary clearance in March 2012. Construction will commence in mid 2012, with completion scheduled in mid 2013.

Status of Major Projects foreshadowed for Government and/or Parliamentary Joint Standing Committee on Public Works Consideration in 2011-2012

Table A3.5 provides details of the proposed major capital projects expected to be referred to the PWC in 2011-12. In some cases, the projects may require the Government's approval before referral to the committee.

Table A3.5: Program of major works by state, federal electorate and locality

Status as at 30 June 2012	
New South Wales	
Gilmore	
HMAS Albatross Redevelopment Stage 3 ^[1]	Expediency motion 1 March 2012
Victoria	
Gippsland	
RAAF Base East Sale Redevelopment ^[1]	Expediency motion 1 March 2012
Lalor	
Contamination Remediation project at RAAF Base Williams, Point Cook ^[2]	Expediency motion 13 October 2011
Tasmania	
Bass	
Scottsdale: Specific Nutritional Capability	Expediency motion 12 October 2011
Northern Territory	
Solomon	
Robertson Barracks Electrical Reticulation and System Upgrade	Expediency motion 7 July 2011
Australian Capital Territory	
Fraser	
Australian Defence Force Academy – Redevelopment	Expediency motion 7 July 2011
Various Locations	
Facilities for Towed Artillery (LAND 17)	Expediency motion 1 March 2012
Facilities for Chinook Helicopter (AIR 9000 Phases 5B and 5C)	In development
Facilities for Force Protection Research and Training (JP 154)	In development
Facilities for Air Warfare Destroyer (SEA 4000)	In development
Facilities for Amphibious Deployment and Sustainment (JP 2048)	In development
Facilities for Future Naval Aviation Combat System Support (AIR 9000 Phase 8)	In development
Aircraft Pavements and Airfield Lighting at RAAF Base Amberley, RAAF Base Darwin, RAAF Base Townsville and RAAF Base Williamtown	In development

Notes

1. These projects received expediency late in 2011-12 and did not have expenditure in 2011-12.
2. Contamination Remediation project at RAAF Base Williams, Point Cook is a remediation project and does not form part of the Major Capital Facilities Program.

Approved medium capital facilities projects

Table A3.6: Spending in 2011-12 for medium facilities projects

	Total Estimated Expenditure \$'000	Cumulative Expenditure to 30 Jun 2012 \$'000	2011-12 Budget Estimate \$'000	2011-12 Additional Estimate \$'000	2011-12 Actual \$'000
NEW SOUTH WALES					
Hughes					
Holsworthy					
Countermine Capability Facilities (LAND 144) ⁽¹⁾⁽³⁾	-	255	135	255	254
6th Aviation Regiment – Expanded 171 Aviation Squadron Facilities	12,684	235	-	4,445	235
Newcastle					
RAAF Base Williamtown					
Additional Working Accommodation Tactical Fighter Systems Program Office	1,451	1,380	500	860	1,202
Corrosion Control Facility Upgrade	6,200	-	-	-	-
Riverina					
RAAF Base Wagga					
Headquarters Ground Training Wing	1,255	1,191	200	16	62
Wentworth					
Victoria Barracks					
Military Law Centre / Asia Pacific Centre for Military Law	7,825	5,507	2,400	3,222	3,352
Total New South Wales	29,415	8,568	3,235	8,798	5,105
VICTORIA					
Lalor					
RAAF Base Williams					
Australian Operational Concept Contingency and Stores ⁽¹⁾⁽⁵⁾	-	42	-	200	42
Total Victoria	-	42	-	200	42
QUEENSLAND					
Blair					
RAAF Base Amberley					
Head Quarters 82 Wing Security Upgrade	1,450	1,187	-	1,150	1,187

	Total Estimated Expenditure \$'000	Cumulative Expenditure to 30 Jun 2012 \$'000	2011-12 Budget Estimate \$'000	2011-12 Additional Estimate \$'000	2011-12 Actual \$'000
Capricornia					
Shoalwater Bay Training Area					
Camp Growl Stage 2	7,977	7,957	300	16	-
Maritime Warfare Facilities (Triangular Island)	2,150	93	-	-	93
Groom					
Oakey					
Fuel Farm Upgrade	9,257	8,929	150	1,803	328
Herbert					
Lavarack Barracks					
Countermine Capability Facilities (LAND 144) ^{[1][3]}	-	18	189	237	18
RAAF Townsville					
Australian Operational Concept Contingency and Stores ^{[1][6]}	-	17	-	900	17
Rankin					
Greenbank Training Area					
Countermine Capability Facilities (LAND 144) ^{[1][3]}	-	1	496	376	-
Ryan					
Enoggera					
Countermine Capability Facilities (LAND 144) ^{[1][3]}	-	10 ^[4]	22	-	-
Communication Training Facility (LAND 200) ^[6]	5,500	4,291	-	-	1,200
Australian Operational Concept Contingency and Stores ^{[1][5]}	-	15	-	200	15
Total Queensland	26,334	22,518	1,157	4,682	2,858
SOUTH AUSTRALIA					
Wakefield					
RAAF Edinburgh					
Australian Operational Concept Contingency and Stores ^{[1][5]}	-	19	-	300	19
Total South Australia	-	19	-	300	19
WESTERN AUSTRALIA					
Curtin					
Campbell Barracks					
Helicopter Underwater Escape Training Facility	9,723	8,823	504	339	201

	Total Estimated Expenditure \$'000	Cumulative Expenditure to 30 Jun 2012 \$'000	2011-12 Budget Estimate \$'000	2011-12 Additional Estimate \$'000	2011-12 Actual \$'000
Pearce					
RAAF Base Pearce					
Potable Water Supply Upgrade	3,144	373	2,500	1,569	130
Total Western Australia	12,867	9,196	3,004	1,908	331
TASMANIA					
Denison					
Derwent Barracks					
Australian Operational Concept Contingency and Stores ^{[1][5]}	-	18	-	300	18
Total Tasmania	-	18	-	300	18
NORTHERN TERRITORY					
Lingiari					
RAAF Base Tindal					
Mount Bunday Training Area – Medical Facility ^[2]	4,260	524	3,725	1,583	524
Corrosion Control Facility ^[2]	3,565	3	-	890	3
Solomon					
Darwin					
Australian Operational Concept Contingency and Stores ^{[1][5]}	-	18	-	1,000	18
Naval Fuel Installation Rectification	10,690	7,418	200	4,900	2,073
Robertson Barracks					
Countermining Capability Facilities (LAND 144) ^{[1][3]}	-	5	370	-	4
1st Aviation Regiment Facilities Upgrade	2,250	1,026	249	1,007	1,020
Total Northern Territory	20,765	8,994	4,544	9,380	3,642
VARIOUS LOCATIONS ^[1]					
Countermining Capability Facilities (LAND 144) ^[3]	1,420	-	-	-	-
Australian Operational Concept Contingency and Stores ^[5]	7,900	-	-	-	-
Total Various Locations	9,320				
Total	98,701	49,355	11,940	25,568	12,015

Notes

1. These projects cross state and electoral boundaries. Expenditure estimates for 2011-12 are provided in the table by location.
2. Project approved after publication of the *Defence Annual Report 2010-11*.
3. Countermine Capabilities Upgrade has a budget of \$1.4 million covering five locations; Holsworthy Barracks, Lavarack Barracks, Greenbank Training Area, Gallipoli Barracks, Enoggera and Robertson Barracks.
4. The cumulative spend for Countermine Capabilities Upgrade Enoggera was incorrectly reported in the *Portfolio Additional Estimates 2011-12*. The cumulative spend to June 2011 should have read \$10,000.
5. Australian Operational Concept Contingency Vehicles & Stores has a budget of \$7.9 million covering six locations; RAAF Bases Williams, Darwin, Townsville, Edinburgh, and Gallipoli and Derwent Barracks.
6. Communication Training Facilities, Enoggera was omitted in error from the *Defence Annual Report 2010-11*.

Medium Capital Projects for Consideration in 2011-2012

Table A3.7: Proposed medium capital projects for consideration in 2011-12

State	Federal Electorate	Locality	Status
New South Wales			
	Calare	Bathurst Regional Airport: Australian Air Force Cadets	In development
	Hughes	6th Aviation Regiment – Expanded 171 Aviation Squadron Facilities	Approved
	Newcastle	RAAF Base Williamtown: Corrosion Control Facility	Delivery
	Warringah	HMAS Penguin – ADF Centre for Mental Health Facility	In development
Queensland			
	Capricornia	Shoalwater Bay Training Area: Maritime Warfare Facilities (Triangular Island)	Delivery
South Australia			
	Grey	Woomera Prohibited Area: Disposal Explosive Ordnance Storage Facilities	In development
	Wakefield	Port Wakefield: Vibration Test Facility	In development
Northern Territory			
	Lingiari	RAAF Base Tindal: Corrosion Control Facility Remediation	Delivery
	Solomon	RAAF Base Darwin: Flood Mitigation Works	In development
Various Locations			
		ASLAV Additional Facilities	In development

Joint Standing Committee on Public Works

Approved projects being developed under a public private partnership arrangement

Project Single Living Environment Precinct is a multi phase project to deliver up to 6,400 permanent Living-In Accommodation units as part of the strategy to replace substandard living-in accommodation for single Australian Defence Force personnel with new accommodation that meets contemporary standards. On 8 June 2011, Defence entered a contract with Plenary Living Pty Ltd under a Public Private Partnership arrangement to deliver project Single Living Environment Precinct phase 2. Financial close was achieved on 28 June 2011. Plenary Living will be providing the financing, construction, operating and whole of life maintenance for 3,014 Living-In Accommodation units and support facilities at 14 Defence bases over a 33 year period. Construction commenced in September 2011 and completion of the final package is scheduled for February 2014. Table 3.8 provides details of the 14 sites included in Phase 2.

Table A3.8: Single leap phase 2 (by state, federal electorate, and locality including units and capital cost)

State/Site	Living-In Units	Capital Cost (Nominal)	Federal Electorate	Completion Date
New South Wales				
RAAF Base Wagga	50	\$14.7m	Riverina	August 2013
Blamey Barracks, Kapooka	90	\$24.6m	Riverina	August 2013
HMAS Albatross, Nowra	170	\$39.4m	Gilmore	September 2013
Victoria				
South Bandiana, AWMA	50	\$14.5m	Indi	September 2013
Simpson Barracks, Watsonia	120	\$28.8m	Jaga Jaga	October 2013
Puckapunyal Military Area	201	\$56.7m	McEwen	October 2013
Queensland				
Lavarack Barracks, Townsville - Stage 1	272	\$69.5m	Herbert	October 2012
Lavarack Barracks, Townsville - Stage 2	270	\$59.8m	Herbert	July 2013
South Australia				
Edinburgh Military Precinct, Elizabeth - Stage 1	200	\$45.7m	Wakefield	December 2012
RAAF Base Edinburgh, Elizabeth - Stage 2	232	\$43.6m	Wakefield	July 2013
Western Australia				
HMAS Stirling, Rockingham	268	\$59.3m	Brand	December 2012
Campbell Barracks, Swanbourne	60	\$16.3m	Curtin	July 2013

State/Site	Living-In Units	Capital Cost (Nominal)	Federal Electorate	Completion Date
Northern Territory				
HMAS Coonawarra, Larrakeyah Barracks, Darwin	232	\$71.9m	Solomon	June 2013
Robertson Barracks, Palmerston - Stage 1	334	\$99.8m	Solomon	February 2014
Robertson Barracks, Palmerston- Stage 2	352	\$71.4m	Solomon	February 2014
Australian Capital Territory				
ADFA, Campbell	80	\$18.9m	Fraser	December 2013
RMC Duntroon, Campbell	33	\$12.3m	Fraser	December 2013
Total	3,014	\$747.2m		

Appendix 4

Defence Cooperation Program

The Defence Cooperation Program (DCP) has the broad aim of enhancing the defence related capabilities of regional partner nations.

Papua New Guinea

In 2011-12 the DCP was significantly expanded to ensure it continued to meet the evolving needs of Papua New Guinea Defence Force (PNGDF) and was commensurate with the priority Australia assigns to this relationship. In 2011, we continued to provide support to the PNGDF through a program of training, exercises, technical advice and infrastructure upgrades, facilitated by the Australian Defence Force (ADF) personnel posted to 'in-line' and adviser positions within the PNGDF. In future, we look to further increase our training and adviser support to the PNGDF and Papua New Guinea Department of Defence, and provide additional assistance to planning and management functions. A key achievement during this financial year also included the leasing of three helicopters to assist the PNGDF's in managing the national election logistics challenges and to reinvigorate the Air Transport Wing capability. ADF's engagement in Papua New Guinea will continue to focus on assisting PNGDF to revitalise its capability in core areas, including border and maritime security, contributions to United Nations and multilateral peacekeeping missions, and cooperation with the ADF in areas such as disaster relief.

East Timor

In 2011-12, the DCP continued to support the development of the East Timorese Defence Force (F-FDTL) and the East Timorese Secretariat of Defence through training and advisory programs in the fields of engineering, maritime security, logistics, strategic policy, governance, finance, medical, communications and English language. Key achievements during 2011-12 included: the construction of secure weapons armouries at F-FDTL bases; assistance in preparing the F-FDTL for its first United Nations peacekeeping operation deployments; and training of F-FDTL soldiers in specialised skills and mariners in basic seamanship. DCP continues to support senior Defence leadership with placements on overseas courses and seminars with the aim of increasing regional awareness.

South Pacific Region

In 2011-12, the DCP in the South Pacific continued to provide assistance to regional defence and police forces through support to the Pacific Patrol Boat (PPB) Program (see below), the provision of in-country advisers, capability and infrastructure development, and support for participation in bilateral and multilateral exercises. Australia continued to support the deployment of Tongan contingents to the Regional Assistance Mission to Solomon Islands and Afghanistan. Defence engagement with Fiji remained suspended. Key achievements in 2011-12 included support for the completion of the master scoping and development plan for the proposed Tongan naval base upgrade; the refurbishment of the Tongan Defence Services' fire-arms training facility; and the completion of stage two of the Vanuatu Policy Maritime Wing's Mala Base upgrade.

Pacific Patrol Boat Program (PPB)

The PPB Program is the core of Australia's defence engagement in the region and provides financial, technical, logistics, maintenance, training and other support to 19 patrol boats across 11 Pacific Island Countries (not including Fiji). The boats are the sovereign assets of the Pacific nations and are used principally for maritime surveillance and law enforcement tasks. Defence's support is underpinned by 26 Navy maritime surveillance and technical advisers located across the Pacific (two of whom are Royal New Zealand Navy personnel). In 2011-12 the final scheduled Patrol Boat completed its refit as part of the Defence-sponsored Life Extension Program that extends the life of the platforms from 15 to 30 years. A new support contract for the fleet commenced 1 July 2011. Defence supported an increase in cooperative patrols between Pacific island countries, with fuel subsidies facilitating patrol boats patrolling of neighbouring Exclusive Economic Zones. During 2011-12, Defence assumed responsibility for developing Australia's Pacific Maritime Security Program to succeed the PPB Program when the patrol boats progressively reach their end of service life from 2018. The Pacific Maritime Security Program confirms Australia's long-term commitment to regional security and stability.

South-East Asia

In 2011-12, Defence continued to work closely on security cooperation with partner countries in the region, specifically, Indonesia, Singapore, Malaysia, the Philippines, Thailand, Brunei, Vietnam, Cambodia and Laos. Priority areas for cooperation include counter-terrorism, peacekeeping, maritime security, defence reform, and English language training. Key achievements during 2011-12 include advancing the Australia-Indonesia defence relationship through the inaugural Australia-Indonesia 2+2 meeting of Foreign and Defence Ministers in March 2012, conducting the third annual Coordinated Maritime Patrol in April 2012, and hosting the Commander-in-Chief of the Indonesian National Defence Forces in December 2011 for his first visit to Australia in four years. The relationship with Singapore was advanced through numerous senior level visits and strategic dialogues, including the agreement between Australia and Singapore to hold an annual Defence Ministers dialogue in 2013, our cooperation in Afghanistan and through hosting high level visits in early 2012 by Singapore's Minister of Defence and Permanent Secretary (Defence). The relationship with Malaysia continued to strengthen our people-to-people links by launching the Malaysia-Australia Defence Alumni Association in June 2012, and continued our peacekeeping engagement through co-delivery of training courses under the Joint Malaysia-Australia Peacekeeping Training Initiative. We also provided continued support to Vietnam in English language training as they prepared for their inaugural United Nations peacekeeping deployment.

Multilateral General Assistance

In 2011-12 there continued to be strong support for regional multilateral security institutions such as the Association of South East Asian Nations (ASEAN) Defence Minister's Meeting-Plus (ADMM-Plus) and ASEAN Regional Forum (ARF). Australia and Malaysia have co-chaired two meetings of the ADMM-Plus Maritime Security Experts' Working Group in July 2011 (Perth) and February 2012 (Kota Kinabalu, Malaysia). Defence also actively contributed in ADMM-Plus Experts' Working Group meetings on counter-terrorism, humanitarian assistance and disaster relief, military medicine and peacekeeping operations.

Five Power Defence Arrangements

Australia's membership of the Five Power Defence Arrangements (FPDA) remains a key element of defence cooperation between the five member nations Malaysia, Singapore, Australia, New Zealand and the United Kingdom. Now entering its 41st year, the FPDA has effectively evolved and adapted to the regional strategic environment over the last few decades. The FPDA continues to provide a stabilising influence in the region. A stocktake of the FPDA arrangements was endorsed at the November 2011 FPDA Defence Ministers Meeting. The stocktake reaffirmed current FPDA principles and practices, and recommended improvements to FPDA exercises and its joint and combined capacity to meet conventional threats, as well as developing capacity to respond to emerging non-conventional regional security challenges by incorporating maritime security and humanitarian assistance and disaster relief scenarios into exercises.

Pakistan

In 2011-12, over 140 Australia based training and education courses were offered to Pakistan, aimed at enhancing Pakistan's counterinsurgency capability. While this represents a similar number as was offered in 2010-11, more places were taken up in 2011-12 allowing Defence to increase its cooperation program with Pakistan. The counterinsurgency exchange between respective Staff Colleges continued into 2011-12, and Australia seconded a Pashto/Urdu linguist from the Pakistan military to teach at the ADF's School of Languages.

Middle East

Australia's defence cooperation activities in the Middle East continued to focus on training and capacity building with Iraq and Jordan. These DCP elements contribute to Australia's important engagement in the Middle East, which aims to build collaborative approaches to common security challenges with both DCP countries and other key partners such as the United Arab Emirates, Kuwait and Qatar. Key achievements during the 2011-12 included the successful transitioning of security and support for the Australian Embassy in Baghdad from an ADF security operation to a commercial solution under the control of the Department of Foreign Affairs and Trade, and increased attendance by Jordanian officers on Defence courses in Australia in areas such as civil-military cooperation, aviation safety and operations law.

Table A4.1: Defence Cooperation Expenditure 2010-11 to 2011-12

	2010-11 Actual Result \$'000	2011-12 Budget Estimate \$'000	2011-12 Revised Estimate \$'000	2011-12 Actual Result \$'000
Papua New Guinea	9,488	10,545	12,250	11,485
South Pacific Region	35,515	36,569	31,612	29,884
South-East Asia ^[1]	17,404	17,400	16,782	18,064
Other regional activities	4,775	5,757	6,502	6,319
Defence International Training Centre ^[2]	4,193	5,091	5,357	5,327
Total	71,375	75,362	72,503	71,079

Note

1. The 2009-10 Actual Result for South-East Asia was understated by \$1,106,000 in this table in the *Defence Annual Report 2009-10*.

2. The Defence International Training Centre provides training in Australia to the defence forces of South-East Asia and South Pacific nations and to other selected overseas personnel. The Defence International Training Centre is managed by Vice Chief of the Defence Force Group.

Table A4.2: South Pacific region expenditure, 2010-11 to 2011-12

	2010-11 Actual Result \$'000	2011-12 Budget Estimate \$'000	2011-12 Revised Estimate \$'000	2011-12 Actual Result \$'000
Timor-Leste	6,191	6,105	5,771	4,743
Vanuatu	722	1,046	947	879
Solomon Islands	476	865	792	909
Tonga	979	1,744	1,663	1,802
Western Samoa	129	69	72	59
Cook Islands	114	99	91	158
Republic of the Marshall Islands	329	300	241	296
Federates States of Micronesia	233	154	183	138
Tuvalu	375	297	260	251
Kiribati	265	257	376	367
Palau	158	131	222	109
DCP Housing	1,180	1,514	2,424	1,691
Multilateral General Assistance	24,364	23,988	18,570	18,482
Total	35,515	36,569	31,612	29,884

Table A4.3: South-East Asia region expenditure, 2010-11 to 2011-12

	2010-11 Actual Result \$'000	2011-12 Budget Estimate \$'000	2011-12 Revised Estimate \$'000	2011-12 Actual Result \$'000
Singapore	79	77	114	103
Philippines	4,738	3,178	3,686	3,857
Thailand	2,575	3,079	2,913	3,117
Malaysia	2,989	3,445	3,229	3,324
Indonesia	4,240	4,685	3,834	4,360
Vietnam	1,658	1,800	1,760	2,021
Cambodia and Laos	1,096	1,109	1,197	1,237
Brunei	29	27	49	45
Total	17,404	17,400	16,782	18,064

Appendix 5

Managing our People

Outline of Key People Initiatives

People in Defence - Generating the Capability for the Future Force and its companion document, the *Annual People Plan 2011-12*, provide a strategic approach to people matters in Defence. They articulate key strategic people objectives and identify a range of people-related projects and initiatives that have been undertaken in 2011-12. Collectively, these projects and initiatives are aimed at ensuring Defence maintains the workforce capability required to achieve its strategic outcomes as directed by the Government. The three key strategic people objectives are to:

1. build and communicate an attractive and compelling employment offer
2. develop a work environment that delivers our commitments to our people
3. create an effective and efficient people system to achieve more consistently effective people outcomes with greater efficiency.

In the context of the key strategic people objectives, this section outlines changes in the workforce that have occurred during 2011-12 and provides workforce information as at 30 June 2012.

Remunerating Defence's People

Defence remuneration is a key component of the Defence Employment Offer, which realises the People in Defence vision. It provides a key motivator for people to join Defence, develop personally and professionally and choose to remain in Defence. It is comprehensive and compelling and provides our people with fair and competitive remuneration as well as a broad suite of relevant financial and non-financial benefits.

Due to the diverse nature of the Australian Defence Force (ADF) and Australian Public Service (APS) remuneration requirements within Defence, there are separate ADF and APS remuneration structures. These structures are explained within the following paragraphs.

The Defence Enterprise Collective Agreement (DECA) 2012-2014 sets out many of the terms and conditions of employment, including remuneration, performance management and flexible work arrangements for Defence's non Senior Executive Service (SES) APS employees. The legal framework that underpins the DECA includes the *Fair Work Act 2009*, the *Public Service Act 1999* and government policy. The DECA is developed, negotiated and governed consistent with legislation and broader government policy. The DECA came into effect in April 2012 and will nominally expire on 30 June 2014. It was developed through extensive consultation with Defence employees and their representatives.

The DECA is a key enabler to attract and retain employees with the right skill and experience to meet Defence capability. It is a principles-based agreement which supports the deregulation of Defence's employment policies, and the People in Defence agenda. The DECA provides managers and supervisors with the flexibility to make and implement decisions in their workplaces that meet the needs of both Defence and its employees.

Through the DECA, Defence can provide its employees an attractive employment offer and in return, employees and supervisors have a range of responsibilities (including mutual responsibilities) articulated in the DECA that must be fulfilled as part of their employment with Defence.

Table A5.1: Defence APS base salary ranges by classification as at 30 June 2012

Classification	Salary Range (\$)	
	Minimum	Maximum
SES Band 3 ^[1]	\$202,356	\$441,907
SES Band 2 ^[2]	\$164,584	\$241,377
SES Band 1	\$136,143	\$167,097
Executive Level 2 ^[3]	\$108,118	\$174,903
Executive Level 1 ^[4]	\$93,740	\$130,639
APS Level 6 ^[5]	\$74,169	\$87,281
APS Level 5 ^[6]	\$67,702	\$73,077
APS Level 4	\$61,694	\$67,354
APS Level 3	\$54,463	\$59,512
APS Level 2 ^[7]	\$47,814	\$54,305
APS Level 1	\$42,250	\$47,427

Notes

1. Includes rates for Chief of Division 3.
2. Includes rates for Chief of Division 2 and Medical Officer Class 6.
3. Includes rates for EL 2.1, EL 2.2, Legal and Science specialist structures and Medical Officer Class 3 and 4.
4. Includes rates for Public Affairs and Legal specialist structures and Medical Officer Class 1-2.
5. Includes rates for Public Affairs Grade 2 retained pay point.
6. Includes rates for Senior Technical Officer Grade 1 retained pay point.
7. Includes rates for Technical Assistant Grade 2 retained pay point.

The independent Defence Force Remuneration Tribunal established under section 58H of the *Defence Act 1903*, is responsible for setting pay and pay related allowances for ADF members. Other financial conditions of service that recognise the special characteristics of service are determined by the Minister for Defence under section 58B of the *Defence Act 1903*.

The ADF Workplace Remuneration Arrangement (WRA) 2011-2014 is the military version of the DECA. The WRA process is in accord with the ADF Remuneration Framework and is consistent with the Government's broader workplace relations policies. The WRA is part of the ADF remuneration initiative aimed at attracting and retaining military personnel.

The WRA forms a significant part of the employment offer by delivering increases to salary and salary related allowances for all personnel up to the rank of Colonel (equivalent) in return for improvements in organisational efficiency and productivity. Other non-salary related conditions of service are set under section 58B of the *Defence Act 1903*. The current WRA runs until 3 November 2014.

Table A5.2: Permanent ADF salary ranges as at 30 June 2012

Rank	Salary Range (\$)	
	Minimum	Maximum
Officer of the Permanent Force (Equivalent)		
General (E) ^[1]	\$441,000	\$612,500
Lieutenant General (E) ^[1]	\$267,850	\$380,880
Major General (E) ^[2]	\$204,970	\$241,893
Brigadier (E) ^{[2] [3]}	\$140,869	\$221,893
Colonel (E) ^{[2] [3]}	\$125,720	\$220,369
Lieutenant Colonel (E) ^{[2] [3]}	\$102,126	\$209,688
Major (E) ^[2]	\$77,410	\$189,050
Captain (E) ^[2]	\$60,629	\$179,437
Lieutenant (E) ^[4]	\$50,400	\$105,648
2nd Lieutenant (E) ^[4]	\$47,089	\$98,626
Other rank of the Permanent Force (Equivalent)		
Warrant Officer Class 1 (E)	\$68,656	\$113,027
Warrant Officer Class 2 (E)	\$63,235	\$97,911
Staff Sergeant (E)	\$61,114	\$94,456
Sergeant (E)	\$54,643	\$90,333
Corporal (E)	\$47,219	\$82,602
Lance Corporal (E)	\$43,434	\$76,777
Private Proficient (E)	\$42,537	\$75,879
Private (E)	\$41,658	\$75,002

Notes

1. General (E) and some Lieutenant General (E) rates are set by the Remuneration Tribunal.
2. Includes rates for Medical Officers on specialist structure.
3. Includes rates for Chaplains.
4. Includes transitional rates for other rank appointed as officer.

Senior Leadership Group Remuneration

In accordance with Government policy, SES employees in Defence have their conditions of employment, including level of remuneration, set by a 'collective' determination made under section 24(1) of the *Public Service Act 1999* overlaid by individual common law agreements. As Defence operates in a values-based employment framework, mutual responsibilities for SES employees in areas including accountability, performance and productivity, are also outlined in these instruments.

The Senior Officer Remuneration Arrangement 2011-2014 is the WRA counterpart applying to all generalist Brigadier (equivalent) and Major General (equivalent) ADF officers. All other Senior Officers (excluding non statutory office holders) may be remunerated by way of a determination from the Defence Force Remuneration Tribunal under section 58H of the *Defence Act 1903*, which sets base salary. Other non-salary related conditions of service are determined by the Minister for Defence under section 58B of the *Defence Act 1903*.

Statutory office holders, for example the Chief of the Defence Force and Service Chiefs, may be remunerated by way of a determination from the Remuneration Tribunal under the *Remuneration Tribunal Act 1973*.

Workplace Diversity

Defence supports the Government's commitment to improving the representation of diverse groups within the workplace. To maintain competitiveness in the employment marketplace and sustain ADF capability through its people, Defence is striving to create an organisation that is both attractive to, and representative of, the Australian community that it serves.

In order to achieve diversity, Defence has developed and implemented a series of initiatives that are designed to improve the recruitment and retention of women, Indigenous Australians, people from culturally and linguistically diverse backgrounds, and people with a disability.

Defence recognises that diversity brings innovation, creativity and different ways of addressing situations based on experiences. Support for diversity and inclusion is a priority for Defence's top leadership. Defence has consolidated its approach to diversity and has commenced implementation of a range of initiatives. Defence agreed to the recommendations from the *Review of Employment Pathways for APS Women in the Department of Defence* to create a Defence Diversity Council, to be made up from Defence's top leaders, to identify a Defence Diversity Champion and to release a corporate Statement of expectations regarding diversity. Work is progressing on the development of a Diversity Strategy, with sign-off expected in early 2012-13 to draw together the many elements of managing and increasing diversity and inclusion across the organisation.

A number of cultural reviews were initiated in 2010-11 and completed in 2011-12. In response to the reviews, Defence has developed a strategy for cultural change and reinforcement titled *Pathway to Change: Evolving Defence Culture*, and will continue to focus on expanding the diversity of its workforce.

Women in Defence

Defence maintains a strong commitment to gender equity. The organisation continues to work hard to promote, enhance and structurally support a long-term sustainable gender diversified workforce. To achieve this, over the last year the organisation has given particular attention to initiatives that will assist Defence overcome system, cultural, attitudinal and behavioural aspects of the environment that directly or indirectly discriminates against the recruitment, retention, development and management of women. Initiatives include the *Review of Employment Pathways for APS Women in the Department of Defence*; the *Chief of Defence Force Action Plan on the Recruitment and Retention of Women*; the removal of gender restrictions on ADF combat role employment categories; and the formation of the gender Equality Advisory Board. Implementation of the recommendations from these reviews will continue in the coming reporting period.

Indigenous Participation

The Diversity Directorate within Defence People Group oversees the implementation of initiatives and strategies arising from the *Defence Reconciliation Action Plan 2010-14* and the whole-of-Government targets set under the Closing the Gap on Indigenous Disadvantage agenda. Funding for these strategies is provided under the *Defence White Paper 2009*.

To contribute to the ongoing development of a culturally aware workforce, Defence released a Defence Indigenous Handbook for Commanders, Managers and Supervisors during National Reconciliation Week. This handbook is the first of a suite of cultural awareness products being developed by Defence. Other initiatives include: Defence participation in the APS Commission and Jawun Indigenous corporate partnership program; a three day Indigenous workshop as part of the Centre for Defence and Strategic Studies academic program conducted at the Australian Defence College; and a number of Navy, Army and Air Force single Service initiatives ranging from youth engagement programs to creation of Indigenous-content web pages for Service members. These initiatives are monitored and progressed by the Indigenous Affairs Directorate.

Defence continued the delivery of the Defence Indigenous Development Program in Katherine and Cairns in 2011 and 2012. The program currently commences in March and concludes in November of each year. All graduates complete a range of vocational training and skills development with the 2011 program achieving positive results (with a majority of graduates gaining employment post the program). The 2011 and 2012 programs are being internally evaluated to propose and develop options for its future in particular the sustainability of the program under the current delivery model to a more streamlined course, or suite of courses, with tailored objectives and outcomes.

During the 2011-12 reporting period there has been a focus on the Indigenous Employment Strategy, with strategies being examined that will improve recruitment of Indigenous peoples into Defence. A refreshed strategy is being considered for implementation during the new reporting period.

Changes to disability reporting in annual reports

Since 1994, Commonwealth departments and agencies have reported on their performance as policy adviser, purchaser, employer, regulator and provider under the Commonwealth Disability Strategy. In 2007-08, reporting on the employer role was transferred to the APS Commission's State of the Service Report and the APS Statistical Bulletin. These reports are available at <www.apsc.gov.au>. From 2010-11, departments and agencies have no longer been required to report on these functions.

The Commonwealth Disability Strategy has been overtaken by a new National Disability Strategy, which sets out a ten year national policy framework for improving life for Australians with disability, their families and carers. A high level report to track progress for people with disability at a national level will be produced by the Standing Council on Community, Housing and Disability Services to the Council of Australian Governments and will be available at <www.fahcsia.gov.au>. The Social Inclusion Measurement and Reporting Strategy agreed by the Government in December 2009 will also include some reporting on disability matters in its regular *How Australia is Faring* report and, if appropriate, in strategic change indicators in agency Annual Reports. More detail on social inclusion matters can be found at <www.socialinclusion.gov.au>.

Work Health and Safety

Defence is committed to maintaining a safe, healthy and positive working experience for all workers to enable them to contribute their best to delivering Defence's capability requirements.

The harmonisation of work health and safety legislation has focused the efforts of health and safety in Defence on legislative compliance and the efforts required to comply with changes to legislation.

The *Work Health and Safety Act 2011* (the WHS Act) requires a proactive approach to workplace safety by all workers and identifies roles and responsibilities for leaders, managers, supervisors, contractors and volunteers and others to ensure everyone's work environment is safe and healthy.

Defence is well placed to achieve the proactive approach required by legislation with a 17-element safety management system and supporting maturity model that identifies the long term goal for health and safety in Defence is to be a learning organisation.

The *2012-2017 Defence Work Health and Safety Strategy* has been developed to drive continuous improvement of the work health and safety systems across the whole-of-Defence: it was released on 1 January 2012 to coincide with the implementation of the WHS Act.

The nature of Defence military operations requires that at times our people operate in hazardous or extreme risk environments. The continuous improvement of Defence work health and safety means that information on risk and hazard mitigation together with lessons learnt will be available and utilised by workers, ensuring that the safest possible environment is achieved for everyone.

Initiatives that ensure the health, safety and welfare of Defence workers

A prioritised, focused effort continued toward achieving the *2007-2012 Occupation Health and Safety (OHS) Strategy* while concurrently transitioning to the new WHS Act and developing the 2012-2017 Strategy.

The following high priority health and safety initiatives were resourced and progressed in the implementation plan this year:

- development of detailed design requirements and conduct of proof of concept trials by the Work Health and Safety Management Information System project for an enterprise Management Information System, with documentation for Second Pass approval developed with implementation planned for late 2012 through 2014
- purchase of occupational hygiene surveillance equipment to facilitate Defence's capacity to undertake and sustain environmental monitoring of Defence workplaces
- continued implementation, monitoring and improvement of the 17-element work health and safety management systems across all Defence Groups and Services
- redevelopment of the SafetyMAN suite of manuals in line with the WHS Act
- continued focus on the hazardous chemicals project to implement a comprehensive, consistent and inclusive hazardous chemicals management system
- development and release of contemporary Health and Safety Awareness programs for managers and leaders specifically in relation to the roles and responsibilities under the WHS Act

- development of a series of three legislatively compliant audit tools to be used to support Defence, and Group and Service, due diligence requirements
- continuing the Jet Fuels Exposure Study with the delivery of a Research Report (or series of reports) addressing the relationship between exposure to jet fuel/solvents in the F-111 Deseal/Reseal programs and mitochondrial genetic changes
- Defence and the Department of Veterans' Affairs are committed to improving the processes for support, rehabilitation and return to work for ADF members who are wounded, injured or ill. The Support for Wounded, Injured and Ill Program makes a significant contribution in this area. Where return to work is not possible then programs are available to support a transition to civilian life.

An annual report on the *Defence OHS Strategy 2007-2012* is available on the Work Health and Safety Branch website <<http://www.defence.gov.au/dpe/ohsc/default.htm>>.

Health and Safety Outcomes achieved from 2011-2012

Ongoing commitment by Defence and its leaders toward improving the Defence safety culture is achieving results. Initiatives including Safety Day and the Defence Safety Awards have seen Defence culture surveys indicate a steady increase in health and safety awareness and positive attitudes across both the ADF and APS.

Continued focus on incorporating safety into the design and planning phases of all Defence activities should maintain the positive trend in safety culture. Activities commenced toward this outcome are:

- review of contractor safety and update of Defence Procurement Policy Manual to ensure safety considerations in all contracts
- resources dedicated to an APS psychological health strategy
- development of Human Systems Integration (HSI) and upstream safety Subject Matter Expertise to provide advice and support to Defence
- a three-year rolling program for Safety Day initiatives developed in line with the *Defence Work Health and Safety Strategy 2012-17*.

Complaint Handling and Resolution

Defence employees have the right to complain if they are aggrieved by matters related to their employment. ADF members (permanent and reserve) may apply for redress of grievance under the provisions of Part XV of the Defence Force Regulations 1952. APS members may seek a review of actions under the *Public Service Act 1999*.

On average 300 formal requests for redress are lodged by ADF members annually, representing approximately three complaints per thousand members. Similarly APS employees lodge an average of 80 formal requests for review of an action affecting them which represents five complaints per thousand employees.

Military Redress of Grievance

Three hundred and eleven new applications for redress of grievance were received in the reporting period and 358 applications were finalised at unit level (a similar number to last year). Of these, 275 (77 per cent) were withdrawn, not granted or not reviewable; the remainder being granted or partly granted. The primary focus of complaints remains termination of service decisions, career management issues, and conditions of service entitlements.

A significant proportion of members who are dissatisfied with the redress decision of their commanding officer refer their complaint to their Service Chief or to the Chief of the Defence Force (CDF) for further review. On average one third of redress of grievance applicants exercise this entitlement.

When a redress of grievance is referred to the CDF or to a Service Chief, priority is allocated based on the nature of the complaint. Referrals contesting termination of service decisions continue to account for a significant proportion (38 per cent) of referred complaints. These cases are given the highest priority, often at the expense of other complaints and this has resulted in a backlog of cases developing over the last three years. In response to this backlog Defence undertook a six month long project this year using external legal professionals. The work of the project team resulted in the completion of an additional 52 redress of grievance at the Service Chief level. This has significantly reduced the size of the backlog of referred complaints and resulted in an overall improvement of redress of grievance handling times.

APS Review of Actions

The total number of applications for Review of Actions received across Defence increased by 11 from the previous year. This increase is attributed to an increased awareness of employees that they are able to have their disputed performance assessments reviewed under Review of Actions provisions.

The following subjects featured the most regularly in applications for review:

- performance feedback/assessment and salary progression
- handling and outcome of unacceptable behaviour complaints by line management
- access to leave or other conditions of employment.

Defence employees may make a complaint to line management about any incident of unacceptable behaviour. Defence policy requires that any complaint of unacceptable behaviour is to be reported and provides guidelines and support mechanisms to ensure that complaints are managed and resolved appropriately.

All Defence employees are required to undertake annual equity and diversity training, which includes information about expectations of behaviour and on dealing with unacceptable behaviour. Given the nature of service in the ADF, it should be noted that, for the majority of ADF members, this policy applies to their behaviour 24 hours a day, seven days a week.

There are, on average, between 700 and 750 complaints of unacceptable behaviour lodged across Defence each year. In 2011-12, 705 complaints of unacceptable behaviour were received. Complaints fall into the following seven main categories:

- abuse of power
- discrimination
- harassment
- sexual harassment
- sexual offence
- workplace bullying
- inappropriate workplace relationships and conflict of interest.

On average only 11 per cent of unacceptable behaviour complaints are found to have substance each year. The number of allegations of unacceptable behaviour made continues to represent complaints from less than one per cent of the Defence workforce.

The way in which Defence collects information about complaints of unacceptable behaviour has been discussed in a number of reviews in 2011-12. The *Pathway to Change* and the recent *DLA Piper Report of the Review of allegations sexual and other abuse in Defence* Volume 1 both address with the collection and use of information about unacceptable behaviour. Defence has initiated action to improve information systems dealing with unacceptable behaviour.

The number unacceptable behaviour complaints that were substantiated and resulted in formal outcomes across the three reporting years are as follows:

- 2009-10 – 84 substantiated cases representing 13.2 per cent of all reported complaints
- 2010-11 – 71 substantiated cases representing 9 per cent of all reported complaints
- 2011-12 – 88 substantiated cases representing 12.5 per cent of all reported complaints.

Across the three reporting years 2009-10 to 2011-12 the type of behaviour that resulted in the most number of formal outcomes included:

- harassment - 54 cases or 22 per cent of formal resolution outcomes
- workplace bullying - 51 cases or 21 per cent of formal resolution outcomes
- sexual harassment - 40 cases or 16.5 percent of formal resolution outcomes.

Alternative dispute resolution, prevention and early intervention strategies

Alternative Dispute Resolution (ADR) is the preferred method for resolution of workplace conflict for Defence employees and members. The key principle of the ADR program is to enable the resolution of issues at the lowest possible level in the earliest possible time. ADR empowers individuals to resolve conflict, either individually or as a team and assists in supporting, maintaining and repairing workplace relationships to enable effective and productive outcomes.

The ADR program is delivered in Defence through the Fairness and Resolution Centres in each mainland capital city. The Fairness and Resolution Centres provide a one stop shop for assistance and support in relation to dispute resolution and equity issues for the Defence Organisation.

The focus in 2011-12 was the continued expansion of ADR services, promotion of the Fairness and Resolution Centres and their function and professionalising the equity adviser network.

The take up of the services offered by the Fairness and Resolution Centres has increased steadily in recent years as commanders, managers and Defence people have become aware of the ADR and equity advice services available. This is reflected in the rapidly increasing number of enquiries to the Fairness and Resolution Centres.

Development of the equity adviser network has also been a focus of activity in 2011-12. A review of their training has been completed and a Memorandum of Understanding which identifies the responsibilities of an equity adviser has been introduced. This has addressed the requirement to better skill, manage and maintain currency of the equity advisers across the department. The commander, manager and supervisor workshops that aim to improve the way in which unacceptable behaviour complaints are managed have been well attended across the department.

In summary, this year the number of enquiries received by Fairness and Resolution Centres has doubled and the number of training sessions has remained consistent with previous years. Participation in ADR interventions has remained steady in comparison to 2010-2011.

Compensation for Detriment Caused by Defective Administration

The Defence Legal Division manages claims made under the Compensation for Detriment Caused by Defective Administration (CDDA) scheme. The Department of Finance and Deregulation has general oversight of the scheme¹. The parameters of the CDDA scheme are promulgated in Finance Circular 2009/09, along with guidance on other discretionary compensation mechanisms such as act of grace payments and ex-gratia payments as well as guidance on the Finance Minister's power to waive debts. In Defence, the majority of claims made under the CDDA scheme are from currently serving or former members of the ADF. Although the scheme has not been developed specifically to deal with ADF disputes, it has been used as a means by which ADF members can seek compensation, whether or not any redress of grievance has been upheld. The criteria that apply under the scheme are such that compensation can be considered only where there has been a quantifiable loss.

1. An explanation of how the scheme and other discretionary remedies operate can be found on the Department of Finance and Deregulation website at <www.finance.gov.au>.

Table A5.3: Compensation for Detriment Caused by Defective Administration Claims Summary

Financial Year	Claims Received	Payments Made	Amounts Paid (\$)
2011-12	43	9	463,588
2010-11	40	17	178,503
2009-10	41	38	736,195
2008-09	41	20	624,558
2007-08	34	19	451,497
2006-07	40	20	652,035
2005-06	50	20	321,660
2004-05	47	29	332,062

Code of Conduct

The APS Code of Conduct (the Code) and the APS Values are set out in the *Public Service Act 1999* in Section 13 and Section 10 respectively. The Code articulates the conduct expected of APS employees and obligates all employees to uphold the values. The values establish the framework in which the APS operates, underpinning relationships and behaviour.

During 2011-12, the Directorate of Conduct, Performance and Probation in Defence People Group finalised investigations into 96 employees for suspected breaches of the Code. This figure represents less than one percent of the Defence APS workforce. Of the 96 employees investigated, 43 were found to have breached at least one element of the code and 56 sanctions were imposed. It is worth noting that an employee can receive more than one sanction for a breach finding. Employment was terminated in 12 cases and a financial penalty was applied in 23 cases. A further 16 employees resigned during the investigative process or before any sanctions were imposed. There were 43 employees who breached the Code last financial year.

In 2011-12, the most common type of misconduct (39 out of 43 cases) was inappropriate behaviour during work hours, for example, failing to treat other employees, clients or stakeholders with respect. The second most common type of misconduct (14 cases) was harassment and/or bullying.

Table A5.4: Code of Conduct investigations

	2008-09	2009-10	2010-11	2011-12
Number of employees investigated	107	85	62	96
Number of employees who breached the Code	45	40	37	43
Number of sanctions issued	71	105	54	56
Terminations	7	11	11	12
Financial Sanctions	27	22	20	23

Defence Actual Staffing

This section outlines the changes in the workforce that occurred during 2011-12 and provides workforce information as at 30 June 2012. It includes numbers of people, employment categories, locations and gender information.

As at 30 June 2012, Defence had 79,582 permanent employees (headcount) comprising 56,722 permanent ADF members (excluding Gap Year) and 22,860 ongoing APS staff. An additional 444 APS staff were employed on a non-ongoing basis.

In the 12 months to June 2012, the permanent ADF strength (headcount) decreased by 1,409. The Reserve Force comprised 26,427 active employees. The total ADF workforce was 83,318, and included 18,863 Navy Permanent, Gap Year and Reserve members, 46,252 Army Permanent, Gap Year and Reserve members and 18,203 Air Force Permanent, Gap Year and Reserve members. In the 12 months to 30 June 2012, the Reserve component of the ADF increased by 958, from 25,469 to 26,427. This included both Reservists on Continuous Full Time Service and Active Reserves. At 30 June 2012, 1,766 Reservists were also Defence APS employees.

As at 30 June 2012, there were 6,316 APS staff in DMO and 16,988 in the remainder of Defence. This number included all APS staff recorded as active employees and included full time, part time, ongoing and non ongoing, and paid and unpaid employees.

The DMO combined APS, ADF and contractor workforce achievement was 7,440. This is consistent with the Revised Estimate of 7,439 as reported in *Portfolio Additional Estimates Statements 2011-12*.

In addition to military and APS employees, Defence engages a number of contractors as part of its total workforce. Further details are provided in Chapter 2 of this report.

Defence workforce by gender and employment category

Table A5.5: ADF Permanent, Gap Year and Reserve Forces, and APS, by gender and employment category^{[1][2][3]}

	As at 30 June 2011				As at 30 June 2012			
	Men	%	Women	%	Men	%	Women	%
Navy^{[4][5][6]}								
Trained Force								
Officers	1,873	13.4%	438	3.1%	1,915	14.0%	465	3.4%
Other ranks	7,050	50.4%	1,527	10.9%	7,122	52.1%	1,565	11.4%
Training Force								
Officers	655	4.7%	206	1.5%	643	4.7%	175	1.3%
Other ranks	1,826	13.1%	413	3.0%	1,463	10.7%	321	2.3%
Total Navy	11,404	81.5%	2,584	18.5%	11,143	81.5%	2,526	18.5%
Army^[7]								
Trained Force								
Officers	4,466	15.1%	723	2.5%	4,465	15.5%	735	2.5%
Other ranks	19,392	65.7%	1,860	6.3%	18,439	64.0%	1,860	6.5%
Training Force								
Officers	804	2.7%	173	0.6%	791	2.7%	176	0.6%
Other ranks	1,923	6.5%	160	0.5%	2,222	7.7%	145	0.5%
Total Army	26,585	90.1%	2,916	9.9%	25,917	89.9%	2,916	10.1%
Air Force^[8]								
Trained Force								
Officers	3,225	22.0%	720	4.9%	3,244	22.8%	747	5.3%
Other ranks	7,835	53.5%	1,478	10.1%	7,667	53.9%	1,428	10.0%
Training Force								
Officers	504	3.4%	174	1.2%	505	3.6%	149	1.0%
Other ranks	579	4.0%	127	0.9%	394	2.8%	86	0.6%
Total Air Force	12,143	82.9%	2,499	17.1%	11,810	83.1%	2,410	16.9%
ADF Permanent								
Trained Force								
Officers	9,564	16.5%	1,881	3.2%	9,624	17.0%	1,947	3.4%
Other ranks	34,277	59.0%	4,865	8.4%	33,228	58.6%	4,853	8.6%
Training Force								
Officers	1,963	3.4%	553	1.0%	1,939	3.4%	500	0.9%
Other ranks	4,328	7.4%	700	1.2%	4,079	7.2%	552	1.0%
Total ADF Permanent	50,132	86.2%	7,999	13.8%	48,870	86.2%	7,852	13.8%

	As at 30 June 2011				As at 30 June 2012			
	Men	%	Women	%	Men	%	Women	%
Gap Year								
Navy	45	12.0%	48	12.8%	1	0.6%	0	0.0%
Army	192	51.1%	91	24.2%	134	79.3%	34	20.1%
Air Force	-	-	-	-	-	-	-	-
Total Gap Year^[9]	237	63.0%	139	37.0%	135	79.9%	34	20.1%
Reserves^[10]								
Navy	3,880	15.2%	996	3.9%	4,133	15.6%	1,060	4.0%
Army ^[11]	14,642	57.5%	2,269	8.9%	14,915	56.4%	2,336	8.8%
Air Force ^[12]	2,895	11.4%	787	3.1%	3,133	11.9%	850	3.2%
Total Reserves^[9]	21,417	84.1%	4,052	15.9%	22,181	83.9%	4,246	16.1%
APS (less DMO) ^{[13][14]}	9,357	41.7%	7,060	31.5%	9,638	41.4%	7,350	31.5%
APS (DMO) ^{[13][14]}	4,003	17.8%	2,023	9.0%	4,207	18.1%	2,109	9.0%
Total APS	13,360	59.5%	9,083	40.5%	13,845	59.4%	9,459	40.6%
Grand Total^[15]	63,492	78.8%	17,082	21.2%	62,715	78.4%	17,311	21.6%

Notes

- Figures in this table show actual employee numbers (headcount) as at 30 June 2011 and 30 June 2012.
- ADF permanent headcount does not include Gap Year participants who are reported separately in this table.
- Percentage figures are calculated against the individual Service totals.
- The Navy's permanent strength as at 30 June 2011 is adjusted to account for the inclusion of six backdated separations, two failed to enlist and one backdated termination cancellation.
- The Navy's Reserve and Gap Year strength as at 30 June 2011 was adjusted to account for retrospective transactions.
- Seaman rank sailors have been counted in the Navy's Training Force.
- The Army's gender distribution as at 30 June 2011 is adjusted to account for one retrospective transaction.
- The Air Force's trained and training force distribution for 30 June 2011 has been adjusted to account for retrospective processing due to a Chief of Air Force Determination.
- Vertical addition of percentages may result in rounding errors.
- Reserves include all active members (training, deployed and other part-time military work commitments) and those on Continuous Full-Time Service as at 30 June 2012.
- The Army's gender distribution as at 30 June 2011 and ADF Gap Year strength as at 1 Jul 2012 was adjusted to account for retrospective transactions.
- The Air Force's Reserve strength as at 30 June 2011 was adjusted to account for retrospective transactions.
- 30 June 2012 figures for APS include 1,766 employees who are also counted as Reserve members.
- APS strength as at 30 June 2011 was adjusted to account for retrospective hire, separation and transfer transactions.
- Grand Total only includes Total ADF Permanent and Total APS.

Table A5.6: APS personnel by gender and category^{[1][2]}

	As at 30 June 2011 ^[3]			As at 30 June 2012		
	Full-time	Part-time ^[4]	Total	Full-time	Part-time ^[4]	Total
Ongoing employees						
Males	12,995	184	13,179	13,473	182	13,655
Females	7,918	934	8,852	8,217	988	9,205
Total Ongoing	20,913	1,118	22,031	21,690	1,170	22,860
Non-ongoing employees						
Males	162	19	181	170	20	190
Females	193	38	231	215	39	254
Total Non-ongoing	355	57	412	385	59	444
Males	13,157	203	13,360	13,643	202	13,845
Females	8,111	972	9,083	8,432	1,027	9,459
Total	21,268	1,175	22,443	22,075	1,229	23,304

Notes

1. Figures in this table are actual employee numbers (headcount) as at 30 June 2011 and 30 June 2012.
2. Figures include paid and unpaid employees.
3. Figures as at 30 June 2011 have been adjusted to account for retrospective transactions.
4. Part-time includes staff with weekly hours less than the standard hours, regardless of position type, rather than only members in part-time positions.

Defence Workforce by Employment Location

Table A5.7: Distribution of Defence workforce by employment location as at 30 June 2012^[1]

	NSW	Vic.	Qld.	SA	WA	Tas.	NT	ACT ^[2]	O/S ^[3]	Total
Permanent Forces^{[4][5][6]}										
Navy	6,773	1,377	955	77	2,205	17	737	1,353	175	13,669
Army	5,586	3,156	11,648	1,573	832	70	3,520	2,165	283	28,833
Air Force	5,247	864	2,978	1,811	391	6	1,069	1,638	216	14,220
Sub-total	17,606	5,397	15,581	3,461	3,428	93	5,326	5,156	674	56,722
Gap year										
Navy	0	0	0	1	0	0	0	0	0	1
Army	65	69	17	15	0	0	2	0	0	168
Air Force	-	-	-	-	-	-	-	-	-	-
Sub-total	65	69	17	16	0	0	2	0	0	169
Reserve Forces^{[6][7]}										
Navy	1,400	583	871	209	927	160	136	902	5	5,193
Army	4,844	3,049	3,987	1,289	1,796	595	690	1,000	1	17,251
Air Force	1,000	384	1,028	446	286	49	147	643	0	3,983
Sub-total	7,244	4,016	5,886	1,944	3,009	804	973	2,545	6	26,427
ADF Total	24,915	9,482	21,484	5,421	6,437	897	6,301	7,701	680	83,318
APS (Defence) ^{[8][9]}	2,414	2,729	1,175	2,135	405	97	328	7,648	57	16,988
APS (DMO) ^{[8][9]}	1,363	1,914	384	296	225	0	32	2,084	18	6,316
Total	28,692	14,125	23,043	7,852	7,067	994	6,661	17,433	755	106,622

Notes

- Figures in this table show actual employee numbers (headcount) as at 30 June 2012, not average funded strengths.
- ACT figures include employees located in Jervis Bay Territory.
- Overseas figures represent employees posted for long-term duty.
- Permanent Force figures include paid and unpaid members.
- Employees are shown in the location where they are administered.
- Members serving on ships are included against the State or Territory in which the ship is home-ported.
- Reserve Force figures include Reserves on Continuous Full-Time Service.
- APS figures include paid and unpaid employees, which covers full-time, part-time, ongoing and non-ongoing staff.
- 30 June 2012 figures for APS include 1,766 APS employees who are also counted as Reserve members.

Table A5.8: Distribution of APS by employment location as at 30 June 2012^[1]

	NSW	Vic.	Qld	SA	WA	Tas.	NT	ACT ^[2]	O/S ^[3]	Total
Secretary								1		1
Senior Executive Service ^[4]	1	7	1	10				135	2	156
SES relief staffing ^[5]								19		19
Executive levels ^[6]	553	1,057	172	925	107	8	38	3,922	30	6,812
Executive relief staffing ^[7]	46	58	15	15	5		5	274		418
Other APS Levels ^[8]	3,177	3,521	1,371	1,481	518	89	317	5,381	43	15,898
Total	3,777	4,643	1,559	2,431	630	97	360	9,732	75	23,304

Notes

- Figures show actual employee numbers as at 30 June 2012 and include paid and unpaid staff.
- ACT figures include employees located in Jervis Bay Territory.
- Overseas figures represent staff posted for long-term duty.
- SES includes Deputy Secretary, First Assistant Secretary, Assistant Secretary, Chief of Division and Medical Officer Class 6 classifications.
- SES relief staffing indicates non-SES officers who are temporarily acting in SES positions. These officers are on Additional Responsibility Payments while the incumbents are taking leave, acting in higher positions or on secondment to other agencies.
- Includes Executive Levels 1 and 2.
- Executive relief staffing indicates APS levels on Additional Responsibility Payments while the incumbents are taking leave, acting in higher positions or on secondment to other agencies.
- Other APS levels include levels APS 1 to 6.

Defence Senior Management

Table A5.9: Star Ranked officers as at 30 June 2012^{[1][2]}

	Total Star Rank			2011-12 promotions ^[3]			2011-12 separations ^[4]		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Four star									
Navy	0	0	0	0	0	0	0	0	0
Army	1	0	1	1	0	1	0	0	0
Air Force	0	0	0	0	0	0	1	0	1
Three star									
Navy	2	0	2	1	0	1	0	0	0
Army	2	0	2	0	0	0	1	0	1
Air Force	2	0	2	1	0	1	1	0	1
Two star									
Navy	10	1	11	1	1	2	2	0	2
Army	18	0	18	1	0	1	5	0	5
Air Force	10	1	11	3	0	3	1	0	1
One star									
Navy ^[5]	40	1	41	8	1	9	2	1	3
Army ^[5]	51	5	56	7	1	8	4	0	4
Air Force ^[5]	39	1	40	9	0	9	5	0	5
Total	175	9	184	32	3	35	22	1	23

Notes

1. Officers on acting or higher duties are not included.
2. Figures only include Reserve Officers completing Continuous Full-Time Service.
3. Promotions include those officers promoted between levels.
4. Separations include Permanent officers and Reserve officers completing Continuous Full-Time Service.
5. Figures include three Chaplains (one from each Service).

Table A5.10: APS SES employees as at 30 June 2012^{[1][2]}

	Total SES			2011-12 engagements ^[3]			2011-12 separations ^[4]		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Senior Executive									
Secretary	1	0	1	1	0	1	1	0	1
Band 3	8	3	11	1	1	2	4	0	4
Band 2 ^[5]	26	8	34	0	2	2	1	0	1
Band 1	68	27	95	4	1	5	8	2	10
Chief of Division									
Grade 3	3	0	3	0	0	0	0	0	0
Grade 2	10	3	13	1	0	1	1	0	1
Senior Executive									
Relief staff ^[6]	12	7	19	0	0	0	0	0	0
Total	128	48	176	7	4	11	15	2	17

Notes

- Figures in this table show actual employee numbers at their substantive level, but not staff on longer term unpaid leave.
- Gains and losses do not reflect movement of officers between levels in each of the SES and Chief of Division streams.
- Engagement figures include new engagements and transfers from other agencies.
- Separation figures include resignations, retirements, redundancies, promotions and transfers to other departments.
- SES Band 2 includes Medical Officer Grade 6.
- Relief staff indicates non-SES officers who are temporarily acting in SES/Chief of Division positions while the incumbents are taking leave, acting in higher positions or on overseas duty.

Appendix 6

Environmental Management

Environmental Performance

This section reports on Defence's environmental performance and contribution during 2011-12 to ecologically sustainable development under section 516A of the *Environment Protection and Biodiversity Conservation Act 1999* (EPBC Act). Overall, Defence continued to progress the environmentally sound management of Defence activities through the implementation of key priorities under the *Defence Environmental Strategic Plan 2010-2014*¹.

Land management and biodiversity conservation

Defence continued to develop site based land management related plans across its estate. These include sustainability monitoring and reporting plans, soil management, and biodiversity related and overabundant species plans. Defence completed draft revisions to the Bushfire Management Policy and Guidelines and completed reviews of biosecurity risks and control procedures for the Northern Territory and HMAS Stirling, Garden Island, Western Australia.

Defence commenced development of an estate wide strategy for managing airfield wildlife hazards.

Interaction with marine and aquatic environments

Defence activities in the marine environment were undertaken in accordance with the Australian Defence Force (ADF) Maritime Activities Environmental Management Plan. The plan guides the full range of activities Defence is likely to undertake in the marine environment and mitigates potential risks to marine fauna, including noise disturbance, entanglement, habitat degradation and collision.

The plan identifies limits on the scale of activities, and when activities exceeded these limits additional management was applied through development of an Environmental Clearance Certificate (ECC). The ECC process includes an assessment as to whether the activity needs to be referred to the Department of Sustainability, Environment, Water, Population and Communities for consideration under the EPBC Act.

Additional planning guides and procedures have been included for new Navy related equipment entering into service. A planning guide and procedure card have also been developed to guide Navy personnel assisting in whale strandings.

Heritage management

Defence developed a draft revised Defence Heritage Strategy and continued to develop and implement heritage management plans to support the management of heritage values for the Defence estate. Defence held an open day at Anglesea Barracks in Tasmania, in December 2011, to celebrate its 200th Anniversary as a military establishment, and published the Defence Heritage Places in Tasmania pamphlet.

1. The Defence Environmental Strategic Plan 2010-14 can be accessed at: www.defence.gov.au/environment/strat_plan.pdf.

Climate change

Defence continued to support the Government's agenda on climate change, implementing resource efficiency strategies and awareness raising initiatives. Defence also commenced a study at selected bases to identify the infrastructure and other risks associated with the predicted rises in sea levels and storm surges. The study will also identify mitigation and remediation measures to protect Defence assets from associated flooding and erosion events.

Earth Hour 2012 was observed with many Defence bases across Australia switching off non-essential lights and other electrical equipment in facilities where possible.

Energy management

Defence continued to report energy consumption in accordance with the Energy Efficiency in Government Operations policy. As part of the Defence Energy Strategy, each Defence region continued to implement Energy Action Plans, which identify actions to reduce energy demand and improve energy efficiency. Defence is continuing to improve its capacity to monitor and report on energy consumption through the installation of electricity sub meters.

Defence infrastructure projects have continued to incorporate energy saving measures into the design and development of new facilities. These measures include energy efficient designs, fittings and equipment and, where cost effective, using renewable energy sources such as solar hot water systems and solar hybrid power systems.

Water and waste management

Water saving initiatives continue to be implemented across the Defence estate including rainwater harvesting and reuse at various locations. Water saving features are incorporated into the design phase of all new developments. Defence undertook a National Water Audit which is being used to inform future priorities for improving water efficiency.

Defence continued to meet its reporting requirements under the National Australian Packaging Covenant by reporting waste diverted from landfill and rates of recycling for key sites. Defence revised its procurement policy manual to reflect the National Waste Policy. Consistent with the National Waste Policy, Defence is developing waste minimisation targets to drive reductions in waste to landfill. Defence completed a review of waste management practices, which included identifying opportunities for improving rates of recycling for key waste streams.

Pollution prevention and contaminated sites management

Defence uses a number of hazardous substances that have the potential to pollute the environment. Through the Defence Pollution Prevention program Defence has continued to develop policy and guidelines in support of a range of operational activities to assist in preventing pollution, particularly where hazardous substances are being used.

The Defence National Contamination Remediation Program commenced in 2003. In 2011-12, the program undertook environmental remediation activities at 20 sites across Australia. The Program is focused on cleaning up sites where historic use by Defence may have left a contamination legacy. Significantly, in the past year, the Program undertook activities to remediate the former United States World War II ammunition depot at the Columboola site near Chinchilla in Southern Queensland. The majority of the work during 2011-12 has involved extensive geophysical survey to clear the site of any residual ordnance to enable coal mining to proceed. Completion is expected by September 2012.

Defence engaged with the Cooperative Research Centre for Contamination Assessment and Remediation of the Environment to improve understanding about contamination pathways and clean-up technologies for toxic chemical compounds associated with firefighting foams and lead. The National Contamination Remediation Program has also been working with the United States Army's Edgewood Chemical and Biological Centre on the development of policies and guidelines for the future remediation of sites impacted by old chemical weapons and chemical warfare agents.

In March 2012, the National Contamination Remediation Program incorporated the functions of the former Defence National Unexploded Ordnance Office into its wider program of contamination remediation.

National Environment Protection Measures

Defence continued to contribute to the Government's implementation of National Environment Protection Measures and their effectiveness. Defence continued to report under the National Pollutant Inventory.

Infrastructure development

Defence developed its Building Energy Performance Manual, which has a focus on promoting energy efficiency into the design of new building developments and major refurbishments.

Ozone depleting substances and synthetic greenhouse gases

Under the *Ozone Protection and Synthetic Greenhouse Gas Act 1989*, Defence holds six licences and permits. The Defence Ozone Depleting Substances and Synthetic Greenhouse Gases Manual establishes policy and offers guidance to Defence managers of platforms and equipment that are charged with fire extinguishing agents and refrigerant gases. Defence continues to work closely with the Department of Sustainability, Environment, Water, Population and Communities and the United States Defense Logistics Agency on the transfer of all ADF and United States Department of Defence Halon stock to the new National Halon Bank in Melbourne.

Environmental training and awareness

Defence continued to develop and deliver environmental training and awareness initiatives under the Defence Environmental Education Strategy. Initiatives included the delivery of various induction courses to Defence personnel at various bases and training areas.

Defence continued the annual scheme of Environment and Heritage Awards by the Chief of the Defence Force and the Secretary of Defence. At a ceremony in November 2011, four teams were recognised for major achievements in environmental management.

Strategic partnerships

Defence continued to establish and maintain strategic partnerships with universities, local community groups, key stakeholders, local governments and non-government organisations.

Defence Environmental Management System (EMS)

A major review of the design and functionality of the Defence EMS was conducted during 2011-2012. Work is commencing to evolve the Defence EMS to standardise its architecture across the Defence estate and to integrate the system across the business of Defence. Certification was maintained for the EMS at RAAF Base Townsville, Queensland; and Puckapunyal Military Area, Victoria.

Environmental impact assessment

Environmental impact assessment ensures that Defence considers the potential environmental impacts when deciding whether to proceed with a project. Defence undertakes a number of environmental impact assessments to ensure that the range of environmental risks associated with Defence actions and activities are appropriately considered and managed. The types of environmental risks and hazards that are likely to be present or forecasted with the different types of actions and activities will determine the level of complexity of the environmental impact assessment.

Defence has a number of internal management tools that assist in the management of the environment. One example includes an internal environmental impact approval process involving ECCs for actions or activities that are unlikely to have a significant environmental impact under the provisions of the EPBC Act.

Activities or actions with substantial environmental risks are considered through higher level assessments. These higher level assessments are conducted for actions or activities that are likely to have a significant impact on the environment under the provisions of the EPBC Act. Comprehensive assessments such as the preparation of an environmental impact statement are conducted in accordance with the provisions of the EPBC Act and involve community consultation.

Defence referrals under the EPBC Act

Under the EPBC Act, Defence is required to refer an action that will have, or is likely to have a significant impact on the environment to the Department of Sustainability, Environment, Water, Population and Communities. Section 26 of the EPBC Act outlines the requirement for approval of activities involving Commonwealth land whilst section 28 of the EPBC Act outlines the requirement for approval of activities of Commonwealth agencies that will have, or is likely to significantly affect the environment. In 2011-12, Defence formally referred three actions for assessment and approval under the EPBC Act, as shown in the following table.

Table A6.1: Defence actions referred under the *Environment Protection and Biodiversity Conservation Act 1999*, 2011-12

Referral Title	Number	Date referred	Referral decision	Current status
Demolition of Four Buildings, Gallipoli Barracks, Enoggera, QLD	2011/6039	13 July 2011	Not controlled action – in a particular manner	Referral decision August 2011: “was not a controlled action if undertaken in a particular manner”.
Point Wilson Explosives Waterside Infrastructure Remediation, Port Phillip Bay, VIC	2012/6376	8 May 2012	Not a controlled action – in a particular manner	Referral decision August 2012: “was not a controlled action if undertaken in a particular manner”.
Garden Island Hammerhead Crane Proposed Removal, Garden Island, NSW	2012/6430	15 Jun 2012	Controlled action	The project will be assessed by preliminary documentation approach.

Of the three activities referred by Defence during the financial year 2011-12, one activity (Hammerhead Crane removal) was determined likely to result in a significant impact on the environment on the basis of impacts on heritage values. Defence is required to prepare further information about the impacts on the heritage values of the crane and consult the public before seeking the Environment Minister's approval for the action.

Defence Environment and Heritage Panel

The Defence Environment and Heritage Panel provides a range of specialist environmental consultancy services to assist Defence in the identification, mitigation and management of environmental risks and impacts. The panel was established in February 2009 and runs until February 2013. To date, the panel has let contracts to the value of \$71.5 million.

Incident reporting

Defence maintained its environmental incident reporting processes under the Defence EMS to support continual improvement for environmental performance. In 2011-12, there were 482 incidents reported across the Defence estate, none of which were considered to have a significant impact on the environment.

DMO Environmental Performance

Environmental management controls and procedures form part of the Defence Materiel Organisation's (DMO) acquisition, sustainment and disposal processes to identify and manage potential environmental impacts and related risks of materiel introduced to the ADF. Identification of these risks at the earliest possible stage in the materiel life-cycle reduces the likelihood for costly mitigation strategies to address capability inhibiting environmental impacts of provided materiel. Such a process assists projects to 'design out' environmentally damaging features and to acquire, sustain and dispose of materiel with less negative impact on the environment.

The DMO's achievements in environmental management during 2011-12 include:

- introduction of a Corporate level Environmental Management Plan across all Project Offices and System Program Offices to record and manage enterprise environmental risk resulting in more efficient and effective management and reporting processes
- release of new policy, procedures and guidance in support of Defence and DMO corporate environmental management
- support to the *Defence Environmental Strategic Plan 2010-14* through continued commitment to the Defence Environmental Management Forum
- ongoing contribution to the Defence Industry Environmental Sustainability Forum.

Appendix 7

Purchasing and Contracting

Assessment of Purchasing Against Core Policies and Principles and Effectiveness of Asset Management

Defence's procurement policies are developed and managed by the Defence Materiel Organisation (DMO) in accordance with the Commonwealth Procurement Guidelines. Defence and DMO procurement activities are governed by the Defence and DMO Chief Executives' Instructions and a range of associated internal guidance on procurement processes and practices. During 2011-12, this ensured that Defence's procurement was undertaken in an accountable and transparent manner compliant with relevant legislation and general Government policies. Competitive procurement processes were encouraged, ensuring value for money through the efficient, effective, ethical and economical use of resources. As required by the Commonwealth Procurement Guidelines, Defence's Annual Procurement Plan is available online at <www.AusTender.gov.au>.

The Defence Support Group (DSG) places importance on managing relationships with Australian industry and providing contracting opportunities in support of Defence capability. DSG aims to work together with industry as partners to support and maintain a sustainable and high performance Defence organisation. DSG announces business opportunities through a range of mediums including approach to market (ATM) notices published on the AusTender website and advertisements in newspapers. Notification of ATMs enhances DSG's ability to achieve value for money by encouraging competition. When engaged in commercial and business relationships, DSG and industry must both endeavor to demonstrate ethical practices at all times and deal with each other on a basis of mutual trust and respect. Adopting an ethical, transparent approach enables business to be conducted fairly, reasonably and with integrity.

Contracts (including ANAO Access Clauses and Contracts Exempt from AusTender)

Australian National Audit Office Access Clauses

Table A7.1: Contracts that do not include the ANAO access clause

Type	Purpose	Amount	Reason for exclusion
Navy			
Australian Submarine Corp	Procurement of Computer Training Equipment (Hardware) software and Multimedia development services	\$337,700	The contract does not contain any confidentiality provisions that protect information in the contract or it does not contain any confidentiality provisions that protect information arising from the carrying out of the contract.
Beaufort Shipping Agency Co	Charter of Windermere	\$15,601,450	Specialist vessel lease. Industry based standard contract does not contain ANAO access provisions.
Booz & Company (Australia) Ltd	Business Reform / Continuous Improvement Activities	\$1,760,000	The contract does not contain any confidentiality provisions that protect information in the contract or it does not contain any confidentiality provisions that protect information arising from the carrying out of the contract.
Dynamic Business Systems Pty Ltd	Business Reform / Continuous Improvement Activities	\$220,000	The contract does not contain any confidentiality provisions that protect information in the contract or it does not contain any confidentiality provisions that protect information arising from the carrying out of the contract.
FMS Account	Provision of Technical Services	\$1,523,158	FMS standard terms and conditions do not contain ANAO access provisions.

Type	Purpose	Amount	Reason for exclusion
Futura Simulations Limited	To implement a Royal Australian Navy (RAN) All-Platform Capability Transition Solution (CTS) system to address the challenges associated with the planning required to support capability transition plans	\$1,701,000	The contract does not contain any confidentiality provisions that protect information in the contract or it does not contain any confidentiality provisions that protect information arising from the carrying out of the contract.
KPMG Melbourne	Business Reform / Continuous Improvement Activities	\$666,490	The contract does not contain any confidentiality provisions that protect information in the contract or it does not contain any confidentiality provisions that protect information arising from the carrying out of the contract.
PriceWaterHouse Coopers	Business Reform / Continuous Improvement Activities	\$978,528	The contract does not contain any confidentiality provisions that protect information in the contract or it does not contain any confidentiality provisions that protect information arising from the carrying out of the contract.
PriceWaterHouse Coopers	Business Reform / Continuous Improvement Activities	\$550,000	The contract does not contain any confidentiality provisions that protect information in the contract or it does not contain any confidentiality provisions that protect information arising from the carrying out of the contract.
QINETIQ	Training for Helo test pilot / flight test engineer	\$2,308,237	For delivery of services overseas. Industry contract does not contain ANAO access provisions.
Total Navy		\$25,646,562	

Type	Purpose	Amount	Reason for exclusion
Defence Science and Technology Organisation			
Alphawest Pty Ltd	Purchase of Goods/ Services - network cabling	\$126,908	The contract does not contain any confidentiality provisions that protect information in the contract or it does not contain any confidentiality provisions that protect information arising from the carrying out of the contract.
Anritsu Pty Ltd	Purchase of Goods - network analyser	\$329,168	The contract does not contain any confidentiality provisions that protect information in the contract or it does not contain any confidentiality provisions that protect information arising from the carrying out of the contract.
Australian National University	Contract for Research	\$110,000	The contract does not contain any confidentiality provisions that protect information in the contract or it does not contain any confidentiality provisions that protect information arising from the carrying out of the contract.
Ball Services Solutions	Professional Services - software engineer	\$107,000	The contract does not contain any confidentiality provisions that protect information in the contract or it does not contain any confidentiality provisions that protect information arising from the carrying out of the contract.
Ball Services Solutions	Professional Services - aeronautical engineer	\$110,899	The contract does not contain any confidentiality provisions that protect information in the contract or it does not contain any confidentiality provisions that protect information arising from the carrying out of the contract.
Ball Services Solutions	Professional Services - software developer	\$210,000	The contract does not contain any confidentiality provisions that protect information in the contract or it does not contain any confidentiality provisions that protect information arising from the carrying out of the contract.

Type	Purpose	Amount	Reason for exclusion
Ball Services Solutions	Professional Services - aeronautical engineer	\$104,731	The contract does not contain any confidentiality provisions that protect information in the contract or it does not contain any confidentiality provisions that protect information arising from the carrying out of the contract.
Calytrix Technologies Pty Ltd	Professional Services - software developer	\$174,482	The contract does not contain any confidentiality provisions that protect information in the contract or it does not contain any confidentiality provisions that protect information arising from the carrying out of the contract.
Canberra Professional Equipment	Purchase of Goods/ Services - supply and install video conferencing equipment	\$205,512	The contract does not contain any confidentiality provisions that protect information in the contract or it does not contain any confidentiality provisions that protect information arising from the carrying out of the contract.
Canberra Professional Equipment	Purchase of Goods/ Services - supply and install video conferencing equipment	\$831,562	The contract does not contain any confidentiality provisions that protect information in the contract or it does not contain any confidentiality provisions that protect information arising from the carrying out of the contract.
Data 3 Limited	Purchase of Goods - computing equipment	\$132,944	The contract does not contain any confidentiality provisions that protect information in the contract or it does not contain any confidentiality provisions that protect information arising from the carrying out of the contract.
DMS Maritime Pty Ltd	Purchase of Services - vessel charter	\$211,200	The contract does not contain any confidentiality provisions that protect information in the contract or it does not contain any confidentiality provisions that protect information arising from the carrying out of the contract.

Type	Purpose	Amount	Reason for exclusion
Elsevier B.V.	Purchase of Goods - periodical subscriptions	\$196,130	The contract does not contain any confidentiality provisions that protect information in the contract or it does not contain any confidentiality provisions that protect information arising from the carrying out of the contract.
Engineering & Scientific Systems Pty Ltd	Purchase of Services - web administrator	\$139,497	The contract does not contain any confidentiality provisions that protect information in the contract or it does not contain any confidentiality provisions that protect information arising from the carrying out of the contract.
EOS Space Systems Pty Ltd	Purchase of Services - development and demonstration of Capability and Technology Demonstrator	\$3,420,969	The contract does not contain any confidentiality provisions that protect information in the contract or it does not contain any confidentiality provisions that protect information arising from the carrying out of the contract.
Fortburn Pty Ltd	Professional Services - aircraft technician	\$132,365	The contract does not contain any confidentiality provisions that protect information in the contract or it does not contain any confidentiality provisions that protect information arising from the carrying out of the contract.
Fortburn Pty Ltd	Professional Services - aeronautical engineer	\$158,918	The contract does not contain any confidentiality provisions that protect information in the contract or it does not contain any confidentiality provisions that protect information arising from the carrying out of the contract.
Fortburn Pty Ltd	Professional Services - materials scientist	\$106,157	The contract does not contain any confidentiality provisions that protect information in the contract or it does not contain any confidentiality provisions that protect information arising from the carrying out of the contract.

Type	Purpose	Amount	Reason for exclusion
Fortburn Pty Ltd	Professional Services - materials scientist	\$100,240	The contract does not contain any confidentiality provisions that protect information in the contract or it does not contain any confidentiality provisions that protect information arising from the carrying out of the contract.
Google	Purchase of Goods - software	\$119,159	The contract does not contain any confidentiality provisions that protect information in the contract or it does not contain any confidentiality provisions that protect information arising from the carrying out of the contract.
IBM Australia Ltd	Purchase of Goods - computing equipment	\$392,450	The contract does not contain any confidentiality provisions that protect information in the contract or it does not contain any confidentiality provisions that protect information arising from the carrying out of the contract.
Inspection Systems Pty Ltd	Purchase of Goods - scientific equipment	\$178,277	The contract does not contain any confidentiality provisions that protect information in the contract or it does not contain any confidentiality provisions that protect information arising from the carrying out of the contract.
Leaseplan	Purchase of Services - vehicle lease costs	\$108,920	The contract does not contain any confidentiality provisions that protect information in the contract or it does not contain any confidentiality provisions that protect information arising from the carrying out of the contract.
LJF Communications	Purchase of Goods/ Services - network cabling	\$102,698	The contract does not contain any confidentiality provisions that protect information in the contract or it does not contain any confidentiality provisions that protect information arising from the carrying out of the contract.

Type	Purpose	Amount	Reason for exclusion
Maser Technology Group Pty Ltd	Purchase of Goods - network equipment	\$139,275	The contract does not contain any confidentiality provisions that protect information in the contract or it does not contain any confidentiality provisions that protect information arising from the carrying out of the contract.
Measurement & Analysis Camera	Purchase of Goods - optical equipment	\$153,195	The contract does not contain any confidentiality provisions that protect information in the contract or it does not contain any confidentiality provisions that protect information arising from the carrying out of the contract.
Nautronix Ltd	Purchase of Services - development and demonstration of Capability and Technology Demonstrator	\$2,606,650	The contract does not contain any confidentiality provisions that protect information in the contract or it does not contain any confidentiality provisions that protect information arising from the carrying out of the contract.
Optus Networks Pty Ltd	Purchase of Services - communications network	\$266,815	The contract does not contain any confidentiality provisions that protect information in the contract or it does not contain any confidentiality provisions that protect information arising from the carrying out of the contract.
Phoenix Engineering Systems Pty Ltd	Purchase of Services - development and demonstration of Capability and Technology Demonstrator	\$2,164,160	The contract does not contain any confidentiality provisions that protect information in the contract or it does not contain any confidentiality provisions that protect information arising from the carrying out of the contract.
Qinetiq Aerostructures Pty Ltd	Professional Services - analyst	\$327,250	The contract does not contain any confidentiality provisions that protect information in the contract or it does not contain any confidentiality provisions that protect information arising from the carrying out of the contract.

Type	Purpose	Amount	Reason for exclusion
Qinetiq Aerostructures Pty Ltd	Professional Services - aerospace engineer	\$214,416	The contract does not contain any confidentiality provisions that protect information in the contract or it does not contain any confidentiality provisions that protect information arising from the carrying out of the contract.
Qinetiq Aerostructures Pty Ltd	Professional Services - aeronautical engineer	\$139,966	The contract does not contain any confidentiality provisions that protect information in the contract or it does not contain any confidentiality provisions that protect information arising from the carrying out of the contract.
Qinetiq Aerostructures Pty Ltd	Professional Services - aeronautical engineer	\$181,495	The contract does not contain any confidentiality provisions that protect information in the contract or it does not contain any confidentiality provisions that protect information arising from the carrying out of the contract.
Reed Elsevier Nederland B.V.	Purchase of Goods - scientific publication subscription	\$107,628	The contract does not contain any confidentiality provisions that protect information in the contract or it does not contain any confidentiality provisions that protect information arising from the carrying out of the contract.
Sabrenet Ltd	Purchase of Goods - network subscription	\$103,970	The contract does not contain any confidentiality provisions that protect information in the contract or it does not contain any confidentiality provisions that protect information arising from the carrying out of the contract.
Security & Technology Services (SA) Pty Ltd	Purchase of Goods/ Services - supply and install video equipment	\$101,908	The contract does not contain any confidentiality provisions that protect information in the contract or it does not contain any confidentiality provisions that protect information arising from the carrying out of the contract.

Type	Purpose	Amount	Reason for exclusion
Silicon Graphics Pty Ltd	Purchase of Goods/ Services - computing equipment	\$275,000	The contract does not contain any confidentiality provisions that protect information in the contract or it does not contain any confidentiality provisions that protect information arising from the carrying out of the contract.
Simsol Australia	Professional Services - software engineer	\$107,250	The contract does not contain any confidentiality provisions that protect information in the contract or it does not contain any confidentiality provisions that protect information arising from the carrying out of the contract.
Sonartech Atlas Pty Ltd	Purchase of Services - development and demonstration of Capability and Technology Demonstrator	\$1,617,000	The contract does not contain any confidentiality provisions that protect information in the contract or it does not contain any confidentiality provisions that protect information arising from the carrying out of the contract.
The Mathworks Australia Pty Ltd	Purchase of Services - software licensing	\$195,888	The contract does not contain any confidentiality provisions that protect information in the contract or it does not contain any confidentiality provisions that protect information arising from the carrying out of the contract.
Total Defence Science and Technology Organisation		\$16,512,052	
Vice Chief of the Defence Force			
SME Gateway Ltd	Design training management plan for medical course	\$225,000	Defence Support Group Consultancy Services Standing Offer panel deed does not contain an access clause specifically for audit purposes. Was not manually included.
SME Gateway Ltd	Project support to Strategic Alliance Pilot Program	\$250,294	Defence Support Group Consultancy Services Standing Offer panel deed does not contain an access clause specifically for audit purposes. Was not manually included.
KPMG Australia	Simpson Assist and Support for Wounded or Ill programs	\$1,774,640	Defence Support Group Consultancy Services Standing Offer panel deed does not contain an access clause specifically for audit purposes. Was not manually included.

Type	Purpose	Amount	Reason for exclusion
Oakton AA Services Pty Ltd	Test manager for electronic health data information system	\$311,850	Defence Support Group Consultancy Services Standing Offer panel deed does not contain an access clause specifically for audit purposes. Was not manually included.
OTTO BOCK Australia	Supply of prosthetic systems	\$629,200	Adding of access clause to ASDEFCON (Goods Short Form) template overlooked
University of Queensland	Relocation, refurbishment and display of World War 1 pathology specimens	\$100,000	Services performed under a Memorandum of Understanding, which did not contain access clause and was not manually included.
University of Queensland	Establishment of professor of military surgery	\$1,400,000	Services performed under a Memorandum of Understanding, which did not contain access clause and was not manually included.
Dr Duncan Wallace	Psychiatric services	\$300,186	Adding of access clause to a variant of ASDEFCON Services contract overlooked.
Laerdal Pty Ltd	Supply of medical equipment	\$1,084,815	Adding of access clause to ASDEFCON (Goods Short Form) template overlooked.
Dialog	IT Support	\$200,000	Adding of access clause to ASDEFCON Services Short Form) template overlooked.
Dialog	Software Enhancements	\$1,024,650	Adding of access clause to ASDEFCON Services Short Form) template overlooked.
Total Vice Chief of the Defence Force		\$7,300,635	
Joint Operations Command			
Northline	Road Transport Services for Exercise Talisman Sabre 2011	\$286,130	The contract does not contain any confidentiality provisions that protect information in the contract or it does not contain any confidentiality provisions that protect information arising from the carrying out of the contract.
Adagold Aviation PTY LTD	Air Transport Charter for Exercise Talisman Sabre 2011 Troop Redeployment	\$999,410	The contract does not contain any confidentiality provisions that protect information in the contract or it does not contain any confidentiality provisions that protect information arising from the carrying out of the contract.

Type	Purpose	Amount	Reason for exclusion
Simon National Carriers	Road Transport Services for Exercise Talisman Sabre 2011	\$347,160	The contract does not contain any confidentiality provisions that protect information in the contract or it does not contain any confidentiality provisions that protect information arising from the carrying out of the contract.
Brisbane Buslines	Bus Services for Exercise Talisman Sabre 2011	\$116,514	The contract does not contain any confidentiality provisions that protect information in the contract or it does not contain any confidentiality provisions that protect information arising from the carrying out of the contract.
PDL Toll	Road Transport Services for Exercise Talisman Sabre 2011	\$632,529	The contract does not contain any confidentiality provisions that protect information in the contract or it does not contain any confidentiality provisions that protect information arising from the carrying out of the contract.
Alltrans International	Air Charter for Operation Anode Troop Redeployment	\$390,712	The contract does not contain any confidentiality provisions that protect information in the contract or it does not contain any confidentiality provisions that protect information arising from the carrying out of the contract.
Air Charter Network	Air Charter for Operation Anode Troop Redeployment	\$230,048	The contract does not contain any confidentiality provisions that protect information in the contract or it does not contain any confidentiality provisions that protect information arising from the carrying out of the contract.
Integrated Transport Services Family Trust	Road Transport Services for Exercise Talisman Sabre 2011	\$143,644	The contract does not contain any confidentiality provisions that protect information in the contract or it does not contain any confidentiality provisions that protect information arising from the carrying out of the contract.

Type	Purpose	Amount	Reason for exclusion
PDL Toll	Sealift support for Exercise Olgetta Warrior	\$247,572	The contract does not contain any confidentiality provisions that protect information in the contract or it does not contain any confidentiality provisions that protect information arising from the carrying out of the contract.
Alltrans International	Air Transport Charter for Operation Anode	\$171,530	The contract does not contain any confidentiality provisions that protect information in the contract or it does not contain any confidentiality provisions that protect information arising from the carrying out of the contract.
Alltrans International	Air Transport Charter for Operation Anode	\$325,250	The contract does not contain any confidentiality provisions that protect information in the contract or it does not contain any confidentiality provisions that protect information arising from the carrying out of the contract.
Alltrans International	Sealift support for Exercise Hamel 2012	\$5,738,643	The contract does not contain any confidentiality provisions that protect information in the contract or it does not contain any confidentiality provisions that protect information arising from the carrying out of the contract.
Adagold Aviation PTY LTD	Air Transport Charter for Operation Anode	\$185,120	The contract does not contain any confidentiality provisions that protect information in the contract or it does not contain any confidentiality provisions that protect information arising from the carrying out of the contract.
Indepentent Aviation Pty Ltd	Air Transport Charter for Exercise Predators Run	\$1,436,200	The contract does not contain any confidentiality provisions that protect information in the contract or it does not contain any confidentiality provisions that protect information arising from the carrying out of the contract.

Type	Purpose	Amount	Reason for exclusion
PDL Toll	Air Transport Charter	\$412,500	The contract does not contain any confidentiality provisions that protect information in the contract or it does not contain any confidentiality provisions that protect information arising from the carrying out of the contract.
PDL Toll	Road Transport Charter for Exercise Predators Run	\$310,915	The contract does not contain any confidentiality provisions that protect information in the contract or it does not contain any confidentiality provisions that protect information arising from the carrying out of the contract.
Simon National Carriers	Road Transport Charter for Exercise Predators Run	\$103,125	The contract does not contain any confidentiality provisions that protect information in the contract or it does not contain any confidentiality provisions that protect information arising from the carrying out of the contract.
Booz & Company (Australia) Ltd	Management Consultancy for Headquarters First Joint Movement Group	\$389,825	The contract does not contain any confidentiality provisions that protect information in the contract or it does not contain any confidentiality provisions that protect information arising from the carrying out of the contract.
Alltrans International	Air Transport Charter	\$1,933,745	The contract does not contain any confidentiality provisions that protect information in the contract or it does not contain any confidentiality provisions that protect information arising from the carrying out of the contract.
Total Joint Operations Command		\$14,400,572	
Defence Materiel Organisation			
Foreign Military Sales (FMS) Account	FMS Case For Procurement Of Shadow 200 Publications	\$288,625	FMS standard terms and conditions do not contain ANAO access provisions.
FMS Account	Purchase P-3 aircraft spares FMS Case AT-P-REY	\$388,048	FMS standard terms and conditions do not contain ANAO access provisions.
FMS Account	FMS case for M777A2 Spare parts	\$499,350	FMS standard terms and conditions do not contain ANAO access provisions.

Type	Purpose	Amount	Reason for exclusion
FMS Account	FMS - Aircraft Parts	\$499,974	FMS standard terms and conditions do not contain ANAO access provisions.
FMS Account	Freight forwarders services	\$516,795	FMS standard terms and conditions do not contain ANAO access provisions.
FMS Account	System Support and Software Services	\$519,729	FMS standard terms and conditions do not contain ANAO access provisions.
FMS Account	Foreign Military Sales (FMS) Case AT-P-GSO	\$993,509	FMS standard terms and conditions do not contain ANAO access provisions.
FMS Account	FMS Case For Portable Vision System	\$1,175,649	FMS standard terms and conditions do not contain ANAO access provisions.
FMS Account	Foreign Military Sales Case for Chinook Helicopter	\$2,161,832	FMS standard terms and conditions do not contain ANAO access provisions.
FMS Account	FMS Case for BLU-126	\$2,163,858	FMS standard terms and conditions do not contain ANAO access provisions.
FMS Account	Ammunition & Explosives	\$2,261,716	FMS standard terms and conditions do not contain ANAO access provisions.
FMS Account	Procurement of Secure COMMS Equipment	\$2,372,131	FMS standard terms and conditions do not contain ANAO access provisions.
FMS Account	FMS Case for 60mm Mortar capability	\$2,574,546	FMS standard terms and conditions do not contain ANAO access provisions.
FMS Account	General Weapon System Support Services	\$3,588,559	FMS standard terms and conditions do not contain ANAO access provisions.
FMS Account	FMS Case At-Bugu Project Cerebro (Diggerworks) Helmet Mounted Sensor System	\$3,722,145	FMS standard terms and conditions do not contain ANAO access provisions.
FMS Account	Cartridge 60mm and Technical Data	\$5,438,451	FMS standard terms and conditions do not contain ANAO access provisions.
FMS Account	Explosive Ordnance	\$8,483,283	FMS standard terms and conditions do not contain ANAO access provisions.
FMS Account	Through Life Support Equipment and return, repair a reshipment of Standard Missile 2 (SM-2)	\$9,082,620	FMS standard terms and conditions do not contain ANAO access provisions.

Type	Purpose	Amount	Reason for exclusion
FMS Account	Foreign Military Sales Case for Chinook Helicopter Spare Parts	\$9,856,100	FMS standard terms and conditions do not contain ANAO access provisions.
FMS Account	FMS Case for Fuses	\$10,129,042	FMS standard terms and conditions do not contain ANAO access provisions.
FMS Account	FMS case for LAIRCM support - ATDQAM	\$10,376,506	FMS standard terms and conditions do not contain ANAO access provisions.
FMS Account	JSOW Follow on support	\$10,956,780	FMS standard terms and conditions do not contain ANAO access provisions.
FMS Account	Missiles	\$12,361,934	FMS standard terms and conditions do not contain ANAO access provisions.
FMS Account	FMS Case For Acquisition Of Hellfire & Support	\$12,985,060	FMS standard terms and conditions do not contain ANAO access provisions.
FMS Account	Additional TUAS Equipment	\$13,236,426	FMS standard terms and conditions do not contain ANAO access provisions.
FMS Account	AIM9X Follow-on support	\$13,261,957	FMS standard terms and conditions do not contain ANAO access provisions.
FMS Account	Procurement of CH-47D Helicopters	\$15,424,065	FMS standard terms and conditions do not contain ANAO access provisions.
FMS Account	AIR9000PH8 Future Naval Aviation Combat System (Sustainment)	\$16,212,899	FMS standard terms and conditions do not contain ANAO access provisions.
FMS Account	FMS Case For SM2 Vertical Launch Canisters	\$17,012,898	FMS standard terms and conditions do not contain ANAO access provisions.
FMS Account	FMS Case for acquisition of Overhead Persistent Imaging Radar system	\$17,684,184	FMS standard terms and conditions do not contain ANAO access provisions.
FMS Account	CH-47 Product Improvement Program	\$18,409,774	FMS standard terms and conditions do not contain ANAO access provisions.
FMS Account	Harpoon Missile Follow On Support FMS Case	\$19,574,422	FMS standard terms and conditions do not contain ANAO access provisions.
FMS Account	Follow On Support For LSA-N Purchased DRP Spares	\$20,269,400	FMS standard terms and conditions do not contain ANAO access provisions.
FMS Account	Explosive Ordnance	\$24,609,354	FMS standard terms and conditions do not contain ANAO access provisions.

Type	Purpose	Amount	Reason for exclusion
FMS Account	Explosive Ordnance	\$38,319,980	FMS standard terms and conditions do not contain ANAO access provisions.
FMS Account	FMS Case for Harpoon Missile Test Set	\$40,760,580	FMS standard terms and conditions do not contain ANAO access provisions.
FMS Account	FMS Case Procurement Of Husky	\$51,730,471	FMS standard terms and conditions do not contain ANAO access provisions.
FMS Account	FMS Case For SM2 Conversion To Vertical Launch and Block IIIB	\$61,783,025	FMS standard terms and conditions do not contain ANAO access provisions.
FMS Account	Explosive Ordnance	\$62,514,948	FMS standard terms and conditions do not contain ANAO access provisions.
FMS Account	Procurement of AMRAAM Missiles	\$104,106,104	FMS standard terms and conditions do not contain ANAO access provisions.
FMS Account	MK54 Torpedoes	\$164,976,820	FMS standard terms and conditions do not contain ANAO access provisions.
FMS Account	FMS Case For Acquisition For C-17	\$279,259,294	FMS standard terms and conditions do not contain ANAO access provisions.
FMS Account	AIR9000PH8 Future Naval Aviation Combat System (Acquisition)	\$2,083,529,493	FMS standard terms and conditions do not contain ANAO access provisions.
Mincom Limited	Maintenance Report DDAW01	\$109,674	Header contract terms and conditions predated the Senate clause.
Mincom Limited	Advanced Inventory managment System	\$131,126	Header contract terms and conditions predated the Senate clause.
Mincom Limited	Maintenance report DDAW04	\$146,508	Header contract terms and conditions predated the Senate clause.
Mincom Limited	Rectification of Invalid rolled out AUC assets	\$193,595	Header contract terms and conditions predated the Senate clause.
Mincom Limited	Mincom Web Services Technical Support	\$262,446	Header contract terms and conditions predated the Senate clause.
Mincom Limited	Create an Additional MILIS report for MSB68Y	\$272,494	Header contract terms and conditions predated the Senate clause.
Mincom Limited	Incorrect Faulting of WBS Code in MILIS Allocation	\$468,465	Header contract terms and conditions predated the Senate clause.

Type	Purpose	Amount	Reason for exclusion
NATO Seasparrow Surface Missile System	Spares For Maintenance Facility, Software Improvements, Hazard Classification For ESSM	\$757,937	FMS standard terms and conditions do not contain ANAO access provisions.
NATO Seasparrow Surface Missile System	NSPO In Service Support FY08 Budget	\$10,294,341	FMS standard terms and conditions do not contain ANAO access provisions.
NATO Seasparrow Surface Missile System	Equipment and Spares For Sustainment Of Evolved Seasparrow Missiles	\$11,105,200	FMS standard terms and conditions do not contain ANAO access provisions.
NATO Seasparrow Surface Missile System	NATO Seasparrow Consortium Risk Reduction Study For Evolved Seasparrow Missile Block 2	\$20,076,657	FMS standard terms and conditions do not contain ANAO access provisions.
Sikorsky Aircraft Aust Ltd	Black Hawk Engineering & Maintenance Approved Contractor Services	\$724,598	Header contract terms and conditions predated the Senate clause.
Total Defence Materiel Organisation		\$3,220,615,377	

Contracts exempt from AusTender

In 2011-12, Defence (including the DMO) reported a total of 117 contracts, standing offers or variations thereto, with a total value of \$44.3 million which were subject to an exemption under the *Freedom of Information Act 1982*.

Professional Services

Consultancies

Defence engages consultants where it lacks specialist expertise or when independent research and assessment is required. The process for selecting consultants is consistent with Defence's procurement policies and the Commonwealth Procurement Guidelines. Reasons for engagement include skills currently unavailable, the need for specialised or professional skills and the need for independent research or assessment.

During 2011-12, 533 new consultancy contracts (339 with a value greater than \$10,000) were entered into involving total actual expenditure of \$24.2 million (including GST). In addition, 273 ongoing consultancy contracts were active during the 2011-12 year, involving total actual expenditure of \$37.3 million (including GST).

Annual reports contain information about actual expenditure on contracts for consultancies. Information on value of contracts and consultancies is available on the AusTender website <www.tenders.gov.au>.

Table A7.2: Total expenditure on consulting contracts over 3 years, 2009-10 to 2011-12

	2009-10 Actual \$m	2010-11 Actual \$m	2011-12 Actual \$m
Defence	79.1	59.5	61.5
DMO	5.1	0.3	5.1
Total	84.2	59.8	66.6

Table A7.3: Consultancies let in 2011-12 by Output Group (greater than \$10,000)

Output Group	Number of contracts let	Total contract value (\$)
Office of the Secretary and CDF	19	1,722,307
Navy Capabilities	2	493,363
Army Capabilities	1	80,545
Air Force Capabilities	1	51,150
Intelligence	17	1,970,503
Defence Support Group	244	20,873,556
Defence Science and Technology Organisation	-	-
Chief Information Officer Group	6	623,994
Vice Chief of the Defence Force	21	2,405,372
Joint Operations Command	8	928,527
Capability Development Group	-	-
Chief Finance Officer Group	5	566,300
Defence People Group	15	16,733,244
Defence Materiel Organisation	24	5,041,861
Total	339	51,409,722

Legal Expenses

Legal Expenses - Defence

Expenditure on internal and external legal services in 2011-12 is shown in the following tables. Internal expenses include salaries for military and civilian staff, divisional operating costs and military justice reimbursements. External expenses are professional fees, disbursements and legal assistance at Commonwealth expense. All figures are GST inclusive.

Table A7.4: Estimated expenditure on internal and external legal services 2010-11 and 2011-12

Type of Legal Expenditure	2010-11 \$m	2011-12 \$m
Internal	37.9	41.6
External	23.9	36.3
Total	61.8	77.9

Table A7.5: Estimated cost breakdown of internal legal expenses

Items	2010-11 \$m	2011-12 \$m
Salaries for military lawyers	14.4	16.6
Salaries for civilian staff	12.3	13.2
ADF Reserve legal officers	6.9	7.7
Operating costs of the Division	2.9	3.4
Military justice reimbursements	1.4	0.7
Total	37.9	41.6

Table A7.6: Estimated cost breakdown of external legal expenses

Items	2010-11 \$m	2011-12 \$m
Professional fees—Defence legal panel	22.0	31.9
Disbursements	1.5	4.0
Legal Assistance at Commonwealth Expense	0.4	0.4
Total	23.9	36.3

Legal Expenses - Defence Materiel Organisation

DMO expenditure on internal and external legal services is shown in tables A7.7 and A7.8. Internal expenditure includes salaries for civilian staff and operating costs that are directly related to the provision of legal services by DMO. External expenditure includes professional fees, disbursements and other legal expenditure incurred principally through the Strategic Commercial Legal Panel. With the exception of table A7.9, all figures are GST exclusive.

Table A7.7: Estimated expenditure on internal and external legal services 2010-11 and 2011-12

Type of Legal Expenditure	2010-11 \$m	2011-12 \$m
Internal	2.4	2.9
External	11.5	11.5
Total	13.9	14.4

Table A7.8: Estimated cost breakdown of internal legal expenses

Items	2010-11 \$m	2011-12 \$m
Salaried legal staff costs	2.1	2.3
Operating costs attributable to legal services	0.3	0.6
Total	2.4	2.9

Table A7.9: Expenditure external legal services

Items	2010-11 \$m	2011-12 \$m
Professional Fees—Defence legal panel	11.5	11.5
Professional Fees – Attorney-General's Department	-	-
Legal Expenditure - Other	-	-
Total	11.5	11.5

Advertising and Market Research

Table A7.10: Total advertising and market research expenditure by type of agency

	2009-10 (\$)	2010-11 (\$)	2011-12 (\$)
Advertising	8,075,720	11,427,695 ^[1]	15,167,861
Market research	1,132,157	1,054,905	1,196,990
Polling	11,360	-	-
Direct Mail	52,937	-	-
Media Advertising	29,215,223	23,781,701	26,491,700
Total	38,487,397	36,264,301	42,856,551

Note

1. The 2010-11 figure was erroneously omitted in the *Defence Annual Report 2010-11*. For further details see Part 4 Errors and Omissions.

Table A7.11: Total advertising and market expenditure by Group

Group	2009-10 (\$)	2010-11 (\$)	2011-12 (\$)
Office of the Secretary and CDF	99,152	50,092	39,011
Navy	100,309	100,584	78,372
Army	36,985	63,769	65,411
Air Force	146,092	197,373	174,617
Intelligence and Security Group	209,017	330,796	778,748
Chief Operating Officer	-	-	80,626
Defence Support Group	1,185,996	1,370,048	1,222,359
Chief Information Officer Group	119,192	41,374	70,400
Defence People Group	34,972,601	32,246,988	38,827,678
Defence Science and Technology Organisation	187,512	151,634	62,618
Vice Chief of the Defence Force Group	836,627	886,207	917,068
Joint Operations Command	19,473	37,191	-
Capability Development Group	-	19,699 ^[1]	22,251
Chief Finance Officer Group	40,805	10,609	40,444
Defence Materiel Organisation	533,636	762,177	476,949
Total	38,487,397	36,268,541	42,856,551

Note

1. The 2010-11 figure was erroneously omitted in the *Defence Annual Report 2010-11*. For further details see Part 4 Errors and Omissions.

Table A7.12: Particulars of advertising and market research by Group

Group	2011-12	Purpose
Office of the Secretary and CDF		
Media Advertising		
Adcorp Australia Pty Ltd	\$12,724	Public Notices including ADF Posture Review notification, Skyfire advertising and DECO Outreach Program Information Sessions
Adcorp Australia Pty Ltd	\$26,287	Recruitment Advertising (Civillian)
Total Office of the Secretary and CDF	\$39,011	
Navy		
Advertising		
Adcorp Australia Pty Ltd	\$20,614	General Advertising
Baird Publications Pty Ltd	\$12,000	General Advertising
Informa Australia Pty Ltd	\$15,000	General Advertising
Adcorp Australia Pty Ltd	\$30,757	Recruitment Advertising
Total Navy	\$78,372	
Army		
Advertising		
Adcorp Australia Pty Ltd	\$35,522	Civilian Recruitment
Adcorp Australia Pty Ltd	\$16,134	Australian Army History Grant Program
Adcorp Australia Pty Ltd	\$13,755	Public Notices Advertising
Total Army	\$65,411	
Air Force		
Advertising		
Adcorp Australia Pty Ltd	\$60,176	Recruitment (Civilian)
Adcorp Australia Pty Ltd	\$14,191	Recruitment (Military)
Media Advertising		
Fairfax Media Limited	\$10,000	Royal Australian Air Force Pearce Air Show Radio Advertising
Fairfax Media Limited	\$22,974	Royal Australian Air Force Museum Radio Advertising
Grant Broadcasters Pty Ltd	\$13,599	Royal Australian Air Force Museum Radio Advertising
Lastminute Radio Pty Ltd	\$24,454	Royal Australian Air Force Museum Radio Advertising
Australian Radio Network Pty Ltd	\$12,370	Royal Australian Air Force Museum Radio Advertising
Source 2 Source	\$16,853	Royal Australian Air Force Museum Television Advertising
Total Air Force	\$174,617	
Intelligence and Security		
Advertising		
Adcorp Australia Pty Ltd	\$778,748	Recruitment (Civilian)
Total Intelligence and Security	\$778,748	

Group	2011-12	Purpose
Chief Operating Officer		
Advertising		
Adcorp Australia Pty Ltd	\$45,567	Advisement of Defence Honours and Awards Appeals Tribunal Public Hearings (Dates/Locations)
Adcorp Australia Pty Ltd	\$35,058	Recruitment Advertising
Total Chief Operating Officer	\$80,626	
Defence Support Group		
Advertising		
Adcorp Australia Pty Ltd	\$435,369	Recruitment Advertising
Australia Public Service Commission	\$490,425	Recruitment Advertising
DFP Recruitment Services	\$17,031	Recruitment Advertising
Hays Specialist Recruitment	\$112,673	Recruitment Advertising
Kowalski Recruitment	\$16,921	Recruitment Advertising
Recruitment Management Company	\$42,842	Recruitment Advertising
Wizard People Pty Ltd	\$107,098	Recruitment Advertising
Total Defence Support Group	\$1,222,359	
Chief Information Officer Group		
Media Advertising		
Seek	\$70,400	Recruitment Advertising (Civilian)
Total Chief Information Officer Group	\$70,400	
Defence People Group		
Advertising		
Adcorp Australia Pty Ltd	\$53,826	SES recruitment
George Patterson Y&R	\$8,890,371	Advertising material and retainer fees
Young & Rubicam Brands	\$3,553,178	Online advertising material including retainer fees
Market Research		
GfK Blue Moon Research	\$302,247	Qualitative research to maximise ADF recruitment targets
Hall & Partners Open Mind	\$589,876	Qualitative and quantitative research to maximise ADF recruitment targets
Horizon Research	\$304,867	Qualitative and quantitative research to maximise ADF recruitment targets
Media advertising		
Adcorp Australia Pty Ltd	\$9,189	SES recruitment
Universal McCann Australia	\$21,922,915	Advertising placement, including dissemination fees
Adcorp Australia Pty Ltd	\$3,173,386	Planning and placement of non-campaign advertising for Defence Force Recruitment
EWK International	\$27,823	SES recruitment
Total Defence People Group	\$38,827,678	

Group	2011-12	Purpose
Defence Science and Technology Organisation		
Advertising		
Adcorp Australia Pty Ltd	\$62,017	General Recruitment
Career Hub	\$491	Scholarship and Graduate Recruitment
	\$110	Graduate Recruitment
Total Defence Science and Technology Organisation	\$62,618	
Vice Chief of the Defence Force Group		
Advertising		
Adcorp Australia Pty Ltd	\$169,734	Non campaign ad placement
Adcorp Australia Pty Ltd	\$2,200	Design of online and press advertisements (recruitment)
Army, Air Force & Navy Service papers	\$48,658	Non campaign ad placement
Canberra FM radio station FM104.7	\$7,628	Advertising for ADFA Open Day
George Patterson Y & R	\$17,071	Creative development - print, digital television advertisements to support Reserve and Employer Support Campaign
Media Advertising		
Adcorp Australia Pty Ltd	\$322,006	Advertising for ADF cultural reviews
Adcorp Australia Pty Ltd	\$161,982	Recruitment Advertising (Civilian)
Adcorp Australia Pty Ltd	\$9,611	Reserve and Employer Support Campaign advertisement placements
Internet	\$43,996	Recruitment Advertising (Civilian)
Malaysia-Butterworth - Star Publications	\$1,088	Recruitment Advertising (Civilian)
Royal NSW Regiment Association Magazine	\$500	Reserve and Employer Support Campaign advertisement placements
Universal McCann	\$128,139	Reserve and Employer Support Campaign advertisement placements
Wings (Official Journal of the Royal Australian Air Force Association)	\$4,455	Reserve and Employer Support Campaign advertisement placements
Total Vice Chief of the Defence Force Group	\$917,068	
Capability Development Group		
Advertising		
Canberra Times	\$14,219	APS Recruitment
Kowalski Recruitment	\$8,032	APS Recruitment
Total Capability Development Group	\$22,251	

Group	2011-12	Purpose
Chief Finance Officer Group		
Advertising		
Adcorp Australia Pty Ltd	\$40,444	Recruitment Services Payment for Online, Press and Print Advertisement
Total Chief Finance Officer Group	\$40,444	
Defence Materiel Organisation		
Media Advertising		
Adcorp Australia Pty Ltd	\$457,842	Recruitment advertising / Advertising for tenders and industry briefs
Yaffa Publishing Group	\$19,107	Advertising for the Defence & Industry study course and national events.
Total Defence Materiel Organisation	\$476,949	

Appendix 8

Financial Transparency

Purchaser-provider arrangements

Under the Defence/Defence Materiel Organisation (DMO) Business Model, acquisition and sustainment of capital equipment is governed by a series of Materiel Acquisition Agreements and Materiel Sustainment Agreements.

Table A8.1: Total Planned Payments to the DMO

Serial		2011-12 Budget Estimate ^[1] \$'000	2011-12 Revised Estimate ^[2] \$'000	2011-12 Actual Result \$'000	Variation \$'000	%
	Defence Capability Plan (DCP) ^[3]	647,053	335,440	-	-335,440	-100
	Approved Major Capital Investment Program (AMCIP)	4,329,067	3,850,582	4,207,905	357,323	9
1	Total Major Capital Investment Program	4,976,120	4,186,022	4,207,905	21,883	1
2	Approved Minor Programs	73,842	72,737	62,213	-10,524	-15
3	Unapproved Minor Programs ^[4]	39,492	52,753	-	-52,753	-100
4	Total minor programs (2+3)	113,334	125,490	62,213	-63,277	-50
5	Total acquisition (DMO Program 1.1) (1+4)	5,089,454	4,311,512	4,270,118	-41,394	-1
6	Sustainment (DMO Program 1.2)	5,010,037	4,835,094	4,651,756	-183,338	-4
7	Total planned payments to the DMO (5+6)^[5]	10,099,491	9,146,606	8,921,874	-224,732	-3

Notes

1. As published in the *Portfolio Budget Statements 2011-12* table 10.
2. As published in the *Portfolio Additional Estimates Statements 2011-12* table 11.
3. As DCP projects are approved by Government, funding is subsequently transferred to the DMO through AMCIP.
4. As minor projects are approved by Government, funding is subsequently transferred to the DMO through the Approved Minors Program.
5. Budget and actual figures are represented on a cash basis.

ComSuper

Defence pays ComSuper an agreed annual administration fee for providing administration services for current and former military personnel who are either contributing, deferred benefit, or pensioner members of the Military Superannuation and Benefits (MSB) scheme, Defence Force Retirement and Death Benefits (DFRDB) scheme, or the Defence Forces Retirement Benefits scheme. The expenses for 2011-12 were \$25.233 million.

The Department of Finance and Deregulation is responsible for negotiating the Commonwealth-wide superannuation administration services provided by ComSuper for APS employees. Defence is required to pay the fees negotiated for APS employees, which for 2011-12 were \$4.268 million.

Performance service level standards, which form part of the 2011-13 Service Level Agreement apply to the delivery of services provided by ComSuper. The Service Level Agreement was negotiated with ComSuper, Defence, the former MSB Board and the former DFRDB Authority (the latter two are now encompassed under the governance arrangements of the Commonwealth Superannuation Corporation).

Comcare

Defence pays an annual workers compensation premium to Comcare to meet the cost of workers compensation claims for civilian personnel who suffer work-related injuries or illnesses during the year and the cost of managing those claims. The premium paid for 2011-12 was \$21.858 million.

Defence is also required to pay regulatory contributions to Comcare to fund costs incurred by Comcare and the Safety Rehabilitation and Compensation Commission for regulatory functions performed under the *Safety Rehabilitation and Compensation Act 1988* and the *Occupational Health and Safety Act 1991*. For 2011-12 the regulatory contributions were \$3.718 million for the Australian Defence Force and \$1.479 million for civilian personnel.

Defence has a positive and collaborative working relationship with Comcare, which promotes regular review of claims management performance and Defence's injury prevention and return to work performance indicators, as well as sharing information to improve performance. Defence was satisfied with the level of service provided by Comcare in 2011-12.

Grants

Defence

Information on grants awarded by the Department of Defence during the period 1 July 2011 to 30 June 2012 is available at <www.defence.gov.au/header/publications.htm>.

For the period 1 July 2011 to 30 June 2012 the following grants were paid.

Table A8.2: Grants Paid, 2010-11 and 2011-12

	2010-11 Actual ^[1] \$'000	2011-12 Actual ^[1] \$'000
Grants Program		
Army Military History Research Grants Scheme	75	71
Defence Family Support Funding Program	1,130	1,171
Research Support for National Security	-	1,885
Other Grants		
Afghan National Army Trust Fund Contribution	38,369	38,692
Anglesea Barracks Bicentenary Book	43	15
Australian Defence Force Academy/University of NSW	-	130
Australian Member Committee of the Council for Security Cooperation in the Asia-Pacific (multi-year Grant)	40	50
ANU Centre for International Governance and Justice	-	133
Australian Strategic Policy Institute	3,000	3,051
Chartis Australia Insurance Limited	1,935	-
Commando Welfare Trust	-	8,000
Fisher House Foundation	-	125
International Institute for Strategic Studies (IISS)	83	77
Kokoda Foundation	105	95
Legacy Services Trust	-	14,000
Royal United Services Institute (RUSI) of Australia	91	93
Strategic and Defence Centre Post Doctoral Fellowship	172	159
Sir Arthur Tange Defence PhD Scholarships	58	58
The Australian Army Centenary History of the Great War 1914-1918	80	-
United Nations Trust Fund for the African Union Mission in Somalia	-	3,500
Total Additional Grants	45,181	71,305

Note

1. All figures are exclusive of GST.

DMO

Information on Discretionary Grants provided by DMO during the period 1 July 2011 to 30 June 2012 have been reported on the website for the particular initiative. The Grant recipients can be found at:

<www.defence.gov.au/dmo/id/sadi/index.cfm>

<www.defence.gov.au/dmo/id/industry_skilling>

<www.defence.gov.au/dmo/id/picip/>

<www.defence.gov.au/dmo/jsf/NACC_ISP.cfm>

Asset Management

Defence manages \$70.6 billion of total assets. This comprises approximately \$40.3 billion of specialist military equipment, \$21.1 billion of land building and infrastructure, \$5.7 billion of inventory, \$1.0 billion of Heritage and Cultural assets and \$2.1 billion of other items including cash, receivables and prepayments.

In accordance with section 44 of the *Financial Management and Accountability Act 1997*, the Chief Executive of Defence has a responsibility to manage Defence assets in a way that promotes efficient, effective, economical and ethical use of Commonwealth resources.

Defence Groups are accountable for the financial records of assets under their control and are supported in this role by the DMO who acts as project manager on behalf of Defence for both the acquisition and sustainment of Defence military assets and inventories.

During 2011-12, Defence has worked to secure and advance the improvements in financial asset management achieved in previous years. This has been achieved by:

- continuing to deliver clearer policies and reports to support accountable managers to effectively perform their asset management duties
- using the extant mature controls environment to swiftly identify and resolve asset management issues as they occur
- maintaining analytical reporting regimes that assess controls and performance matters.

These improvements are reflected in two Australian National Audit Office Category A findings (for the Military Integrated Logistics Information System project governance and general stores inventory and repairable items quantities) in 2010-11 downgraded to Category B in 2011-12.

The DMO manages its assets in accordance with its Chief Executive Instructions, relevant accounting standards and internal DMO guidelines.

The DMO's property, plant and equipment, which were valued at \$6.9 million, are subject to an annual stock take to ensure records are accurate. Impairment reviews were also undertaken as at 30 June 2012 and valuations are conducted as outlined in Note 1.22 of the DMO Financial Statements.

The Tactical Payment Scheme

The Tactical Payments scheme was legislated on 1 July 2009, under sections 123H and J of the *Defence Act 1903*. The scheme was introduced in financial year 2009-10 in order to provide a means for making expeditious non-liability payments resulting from military actions by deployed forces. This scheme is critical for maintaining local community support and thereby ensuring the safety of deployed forces.

In 2011-12, 1041 individual payments totalling \$44,877 were made under the Tactical Payments scheme. Further information is outlined in Note 34 of the 2011-12 Financial Statements.

Payment of Accounts

In 2011-2012, Defence paid 2,160,900 or 95.2 per cent of all payment transactions by their due date. This result is ahead of the 90 per cent Government benchmark. The volume of payments through Defence Purchase and Travel Cards represents more than 81 per cent (79 per cent in 2010-11) of all payments, which continues to have a positive effect on the paid by due date result.

Table A8.3: Accounts paid by due date, 2009-10 to 2011-12

	2009-10	2010-11	2011-12
Number of Accounts Paid	1,578,283	2,012,530	2,269,781
Accounts Paid by Due Date	1,484,407	1,910,906	2,160,900
Percentage of Accounts Paid by Due Date	94.1	95.0	95.2

DMO Assurance and Risk Management

Materiel Audit and Risk Committee

The Materiel Audit and Risk Committee (MARC) is the DMO's external independent governance and assurance body. The Committee comprises four independent members. The Chief Audit Executive (CAE) DMO and the Chief Finance Officer DMO attend as advisers.

In 2011-12, the MARC met to discuss emerging risks and current issues including:

- progress with financial controls and assurance framework including monitoring to reduce the findings in the Australian National Audit Office's audit of Financial Statements
- Certificate of Compliance
- assurances on DMO Strategic Reform Program achievements relating to Smart Sustainment and Mortimer activities.

The MARC works in conjunction with the Defence Audit and Risk Committee to oversee matters of shared importance to the DMO and Defence.

Internal Audit and Risk Management Arrangements

The DMO internal audit activity was conducted by two audit entities: Defence Audit Division (to be reported by Defence Audit Division) and two External Service Providers (Ernst & Young Australia and Protiviti Pty Ltd) under the direction of the CAE DMO.

Three audits from the 2011-12 DMO Internal Audit Work Program were undertaken. The audits have provided recommendations for business improvements in the areas of schedule slippage, risk management, governance, and compliance with procedural guidelines.

Assurance Rationalisation Program

The DMO Assurance Rationalisation Program is an ongoing effort to ensure maximum benefit is derived from audit and assurance activities. It identifies areas of strategic risk for greater assurance attention and contributes to the maturing of the associated control frameworks.

In 2011-12, the Assurance Rationalisation Program continued to ensure greater rigour and discipline is applied in managing DMO's assurance obligations.

At 30 June 2012, the following outcomes were achieved:

- further rationalisation and reduction in the volume of assurance activities, with no negative impact on business outcomes
- development of the consolidated 2011-12 DMO Assurance Program and identification of mandatory assurance activities
- initial mapping of assurance activities to identified DMO wide and business level risks.

Appendix 9

Consolidated Defence and Defence Materiel Organisation Financial Statements

The consolidated Defence and DMO financial statements have been prepared using the audited financial statements for each agency. The consolidated financial statements represent the combined Defence/DMO financial position, adjusted for inter-agency transactions and balances.

The consolidation of these statements has not been audited by the ANAO.

Table A9.1: Consolidated Departmental Net Cost of Service (cash)

	2011-12 Budget Estimate ^[1] \$'000	2011-12 Revised Estimate ^[2] \$'000	2011-12 Actual Result \$'000	Variation \$'000
OPERATING ACTIVITIES				
Cash received				
Goods and services (including cost recovery)	405,715	595,995	424,837	-171,158
Net GST received	1,263,346	1,326,682	1,217,247	-109,435
Other cash received	135,182	123,361	282,305	158,944
Total cash received	1,804,243	2,046,038	1,924,389	-121,649
Cash used				
Employees	10,104,691	10,237,494	10,211,933	-25,561
Suppliers	8,796,934	9,092,272	9,695,555	603,283
Net GST paid	1,263,346	1,326,682	626,715	-699,967
Grants	77,309	86,536	91,017	4,481
Other cash used	58,026	75,061	69,883	-5,178
Total cash used	20,300,306	20,818,045	20,695,103	-122,942
Net cash flows from (used by) operating activities	-18,496,063	-18,772,007	-18,770,714	1,293
INVESTING ACTIVITIES				
Cash received				
Proceeds from sales of land and buildings	89,088	61,625	51,165	-10,460
Proceeds from sales of specialist military equipment	-	-	6,929	6,929
Proceeds from sales of infrastructure, plant and equipment	28,739	28,739	26,271	-2,468
Other cash received	-	-	1,026	1,026
Total cash received	117,827	90,364	85,391	-4,973
Cash used				
Purchase of land and buildings	1,116,415	820,926	675,386	-145,540
Purchase of infrastructure, plant and equipment	327,179	338,431	426,143	87,712
Purchase of specialist military equipment	5,193,700	4,993,736	4,967,268	-26,468
Purchase of intangibles	31,446	23,353	34,465	11,112
Purchase of inventory	1,253,513	1,151,768	1,153,994	2,226
Purchase of heritage and cultural assets	-	-	-	-
Selling costs on sale of assets	25,952	12,041	13,443	1,402
Finance costs	75,478	66,842	52,766	-14,076
Total cash used	8,023,683	7,407,097	7,323,465	-83,632
Net cash flows from (used by) investing activities	-7,905,856	-7,316,733	-7,238,074	78,659

	2011-12 Budget Estimate ^[1] \$'000	2011-12 Revised Estimate ^[2] \$'000	2011-12 Actual Result \$'000	Variation \$'000
FINANCING ACTIVITIES				
Cash used				
Repayment of debt (including finance lease principal)	76,873	70,115	66,982	-3,133
Return of contributed equity	-	-	-	-
Total cash used	76,873	70,115	66,982	-3,133
Net cash from (used by) financing activities	-76,873	-70,115	-66,982	3,133
Total net cost of service	-26,478,792	-26,158,855	-26,075,770	83,085
FUNDED BY				
Appropriations				
Appropriations (current year)	23,577,995	24,233,292	23,304,418	-928,874
Appropriations (prior year)	-	-	50,122	50,122
Receipts from OPA	6,389	6,389	1,665,917	1,659,528
Receipts transferred to the OPA	-6,909	-125,718	-1,670,514	-1,544,796
Appropriations - contributed equity (current year)	2,909,317	2,052,892	2,773,786	720,894
Total Appropriations	26,486,792	26,166,855	26,123,729	-43,126
Change in cash at bank	-8,000	-8,000	-47,959	-39,959
Total funding source	26,478,792	26,158,855	26,075,770	-83,085

Notes

1. As published in the *Portfolio Budget Statements 2011-12* table 76.
2. As published in the *Portfolio Budget Statements 2012-13* table 72.

Table A9.2: Consolidated Departmental Statement of Comprehensive Income

	2011-12 Budget Estimate ^[1] \$'000	2011-12 Revised Estimate ^[2] \$'000	2011-12 Actual Result \$'000	Variation \$'000
Expenses				
Employee benefits	10,169,355	10,374,715	10,433,665	58,950
Supplier expenses	9,710,214	9,740,430	9,809,285	68,855
Grants	77,309	86,536	92,105	5,569
Depreciation and amortisation	3,443,720	3,791,718	3,632,664	-159,054
Finance costs	91,882	89,956	100,547	10,591
Write-down and impairment of assets	1,244,054	1,057,469	934,701	-122,768
Foreign exchange losses	-	-	-	-
Losses from asset sales	-	-	13,216	13,216
Other expenses	6,909	116,405	97,768	-18,637
Total expenses	24,743,443	25,257,229	25,113,951	-143,278
LESS				
OWN-SOURCE INCOME				
Own- source revenue				
Sale of goods and rendering of services (including cost recovery)	453,601	451,744	429,695	-22,049
Rental income	6,373	6,373	9,481	3,108
Other revenue	133,688	60,976	197,500	136,524
Total own-source revenue	593,662	519,093	636,676	117,583
Gains				
Foreign exchange gains	-	-	1,300	1,300
Assets now recognised	574,954	498,725	479,632	-19,093
Other gains	4,832	10,318	85,748	75,430
Total gains	579,786	509,043	566,680	57,637
Total own-source income	1,173,448	1,028,136	1,203,356	175,220
Net cost of services	23,569,995	24,229,093	23,910,595	-318,498
Revenue from Government	23,569,995	24,235,593	23,397,697	-837,896
Surplus (deficit) attributable to the Australian Government	-	6,500	-512,898	-519,398
Other comprehensive income				
Changes in asset revaluation reserves	-	-	150,804	150,804
Total comprehensive income (loss) attributable to the Australian Government	-	6,500	-362,094	-368,594

Notes

1. As published in the *Portfolio Budget Statements 2011-12* table 74.
2. As published in the *Portfolio Budget Statements 2012-13* table 70.

Table A9.3: Consolidated Departmental Balance Sheet

	2011-12 Budget Estimate ^[1] \$'000	2011-12 Revised Estimate ^[2] \$'000	2011-12 Actual Result \$'000	Variation \$'000
ASSETS				
Financial assets				
Cash and cash equivalents	144,666	115,898	42,813	-73,085
Trade and other receivables	1,146,605	1,083,905	842,055	-241,850
Total financial assets	1,291,271	1,199,803	884,868	-314,935
Non-financial assets				
Land and buildings	15,834,983	15,725,838	15,695,215	-30,623
Infrastructure, plant and equipment	6,045,512	6,450,086	6,737,274	287,188
Specialist military equipment	41,366,780	39,947,219	40,327,792	380,573
Intangibles	495,097	510,178	575,062	64,884
Heritage and cultural	900,600	965,944	984,939	18,995
Inventories	5,466,811	5,425,175	5,686,425	261,250
Prepayments	1,568,842	1,539,992	1,520,202	-19,790
Total non-financial assets	71,678,625	70,564,432	71,526,909	962,477
Assets held for sale	28,465	53,512	25,698	-27,814
Total assets	72,998,361	71,817,747	72,437,475	619,728
LIABILITIES				
Payables				
Suppliers	1,996,700	2,233,076	2,351,977	118,901
Other	634,942	421,422	502,498	81,076
Total payables	2,631,642	2,654,498	2,854,475	199,977
Interest bearing liabilities				
Leases	826,250	691,063	748,717	57,654
Total interest bearing liabilities	826,250	691,063	748,717	57,654
Provisions				
Employee provisions	2,497,796	2,477,637	2,421,944	-55,693
Restoration, decontamination and decommissioning	787,509	864,120	876,140	12,020
Other	14,834	9,547	9,520	-27
Total provisions	3,300,138	3,351,304	3,307,604	-43,700
Total liabilities	6,758,030	6,696,865	6,910,796	213,931
NET ASSETS	66,240,331	65,120,882	65,526,679	405,797
EQUITY				
Contributed equity	17,381,029	16,677,309	17,400,719	723,410
Reserves	14,042,887	14,565,010	14,715,815	150,805
Retained surplus (accumulated deficit)	34,816,415	33,878,563	33,410,145	-468,418
Total equity	66,240,331	65,120,882	65,526,679	405,797

Notes

1. As published in the *Portfolio Budget Statements 2011-12* table 75.
2. As published in the *Portfolio Budget Statements 2012-13* table 71.

Table A9.4: Consolidated Administered Net Cost of Service (cash)

	2011-12 Budget Estimate ^[1] \$'000	2011-12 Revised Estimate ^[2] \$'000	2011-12 Actual Result \$'000	Variation \$'000	%
Cost of service					
Employees	1,987,100	1,852,303	1,899,936	47,633	3
Subsidies	113,480	97,882	92,061	-5,821	-6
Grants	-	-	-	-	-
Loans to CAC Act bodies	-	-	-	-	-
CAC Act body investments	-	-	-	-	-
Other	-	-	-	-	-
Total cash used	2,100,580	1,950,185	1,991,997	41,812	2
Cash received					
Military superannuation contributions	1,165,332	1,192,126	1,212,438	20,312	2
Fees	9,811	9,811	11,216	1,405	14
Interest	6,799	41,504	35,846	-5,658	-14
Dividends	47,593	52,332	52,379	47	-
Other	64,042	54,761	74,472	19,711	36
Total cash received	1,293,577	1,350,534	1,386,351	35,817	3
Net cost of service (cash)	807,003	599,651	605,646	5,995	1
Funded by					
Appropriations					
Cash from the Official Public Account for appropriations	2,100,580	1,950,185	1,991,997	41,812	2
Cash transfer to the Official Public Account	-1,293,577	-1,350,534	-1,386,351	-35,817	3
Cash holdings at the beginning of the reporting period	-	-	-	-	-
Total funding source	807,003	599,651	605,646	5,995	1

Notes

1. As published in the *Portfolio Budget Statements 2011-12* table 79.
2. As published in the *Portfolio Budget Statements 2012-13* table 75.

Table A9.5: Consolidated Administered Income and Expenses

	2011-12 Budget Estimate ^[1] \$'000	2011-12 Revised Estimate ^[2] \$'000	2011-12 Actual Result \$'000	Variation \$'000	%
Expenses administered on behalf of Government					
Military superannuation benefits	3,763,000	4,028,752	4,062,274	33,522	1
Military retention benefits	52,443	52,443	56,525	4,082	8
Subsidies	113,480	97,882	96,585	-1,297	-1
Grants	-	-	-	-	-
Foreign exchange losses	-	-	705	705	-
Other	-	-	141	141	-
Total expenses	3,928,923	4,179,077	4,216,230	37,153	1
Income administered on behalf of Government					
Interest	6,799	33,104	36,059	2,955	9
Foreign exchange gains	-	-	166	166	-
Military superannuation contributions	1,165,332	1,192,238	1,158,903	-33,335	-3
Dividends	50,067	48,594	49,654	1,060	2
Fees	9,811	9,811	12,251	2,440	25
Other	35,985	50,684	59,627	8,943	18
Total income	1,267,994	1,334,431	1,316,660	-17,771	-1

Notes

1. As published in the *Portfolio Budget Statements 2011-12* table 77.
2. As published in the *Portfolio Budget Statements 2012-13* table 73.

Table A9.6: Consolidated Assets and Liabilities Administered on Behalf of Government

	2011-12 Budget Estimate ^[1] \$'000	2011-12 Revised Estimate ^[2] \$'000	2011-12 Actual Result \$'000	Variation \$'000	%
ASSETS ADMINISTERED ON BEHALF OF GOVERNMENT					
Financial assets					
Cash and cash equivalents	-	-	-	-	-
Receivables	64,068	72,417	68,460	-3,957	-6
Investments accounted for using the equity method	2,174,330	2,309,508	2,275,236	-34,272	-2
Loans	84,580	509,580	509,580	-	-
Total financial assets	2,322,978	2,891,505	2,853,276	-38,229	-1
Non-financial assets					
Prepayments	170,549	170,549	170,095	-454	-
Total non-financial assets	170,549	170,549	170,095	-454	-
Total assets administered on behalf of Government	2,493,527	3,062,054	3,023,371	-38,683	-1
LIABILITIES ADMINISTERED ON BEHALF OF GOVERNMENT					
Payables					
Other	40,970	-	5,159	5,159	-
Total payables	40,970	-	5,159	5,159	-
Provisions					
Superannuation - DFRB ^[3]	502,000	503,457	634,100	130,643	26
Superannuation - DFRDB ^[4]	25,468,000	25,380,808	38,677,000	13,296,192	52
Superannuation - MSBS ^[5]	20,023,000	21,336,681	46,479,000	25,142,319	-
Total provisions	45,993,000	47,220,946	85,790,100	38,569,154	82
Total liabilities administered on behalf of Government	46,033,970	47,220,946	85,795,259	38,574,313	82

Notes

1. As published in the *Portfolio Budget Statements 2011-12* table 78.
2. As published in the *Portfolio Budget Statements 2012-13* table 74.
3. Defence Force Retirement Benefits.
4. Defence Force Retirement and Death Benefits.
5. Military Superannuation and Benefits Scheme.

Appendix 10

Defence Financial Statements

Department of Defence

Financial Statements

For the period ended 30 June 2012



Auditor-General for Australia



INDEPENDENT AUDITOR'S REPORT

To the Minister for Defence

Report on the Financial Statements

I have audited the accompanying financial statements of the Department of Defence for the year ended 30 June 2012, which comprise: a Statement by the Secretary and Chief Finance Officer; Statement of Comprehensive Income; Balance Sheet; Statement of Changes in Equity; Cash Flow Statement; Schedule of Commitments; Schedule of Contingencies; Administered Statement of Comprehensive Income; Administered Schedule of Assets and Liabilities; Administered Reconciliation Schedule; Administered Cash Flow Statement; and Notes to and forming part of the financial statements comprising a Summary of Significant Accounting Policies and other explanatory information.

Secretary's Responsibility for the Financial Statements

The Secretary of the Department of Defence is responsible for the preparation of financial statements that give a true and fair view in accordance with the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*, including the Australian Accounting Standards, and for such internal control as is necessary to enable the preparation of financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on the financial statements based on my audit. I have conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. These auditing standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Department of Defence's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department of Defence's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Secretary of the Department of Defence, as well as evaluating the overall presentation of the financial statements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

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Independence

In conducting my audit, I have followed the independence requirements of the Australian National Audit Office, which incorporate the requirements of the Australian accounting profession.

Opinion

In my opinion, the financial statements of the Department of Defence:

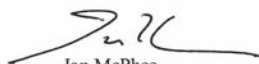
- (a) have been prepared in accordance with the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*, including the Australian Accounting Standards; and
- (b) give a true and fair view of the matters required by the Finance Minister's Orders including the Department of Defence's financial position as at 30 June 2012 and of its financial performance and cash flows for the year then ended.

Report on Other Legal and Regulatory Requirements

Note 32 *Compliance with Statutory Conditions for Payments from the Consolidated Revenue Fund* discloses information on the Department of Defence's review of its exposure to risks of not complying with statutory conditions on payments from special appropriations and special accounts, and annual appropriations which fund statutory programs. Non-compliance with statutory conditions may lead to a contravention of section 83 of the Constitution, which requires that no money shall be drawn from the Treasury of the Commonwealth except under an appropriation made by law.

As disclosed in Note 32, payments were identified in 2011–12 which were potentially in breach of section 83 of the Constitution, totalling some \$1,559,000 under the *Defence Forces Retirement Benefits Act 1948* and *Defence Forces Retirement and Death Benefits Act 1973*; \$1,532,000 under the *Military Superannuation and Benefits Act 1991*; \$31,000 under the *Defence Force (Home Loans Assistance) Act 1990*; \$2,284,000 under the *Defence Home Ownership Assistance Scheme Act 2008*; and \$144,000 under the *Financial Management and Accountability Act 1997 s.28(2)*.

Australian National Audit Office



Ian McPhee

Auditor-General

Canberra

28 September 2012

STATEMENT BY THE CHIEF EXECUTIVE AND CHIEF FINANCE OFFICER

In our opinion, the attached financial statements for the year ended 30 June 2012 are based on properly maintained financial records and give a true and fair view of the matters required by the Finance Minister's Orders made under the Financial Management and Accountability Act 1997, as amended.

Signed



Duncan Lewis AO, DSC, CSC
Secretary

28 September 2012

Signed



P J Prior
Chief Finance Officer

28 September 2012

Department of Defence
STATEMENT OF COMPREHENSIVE INCOME
for the period ended 30 June 2012

	Notes	2012 \$'000	2011 \$'000
EXPENSES			
Employee benefits	3A	9,841,400	9,538,241
Supplier expenses	3B	10,665,998	9,520,250
Grants	3C	71,305	45,181
Depreciation and amortisation	3D	3,630,984	3,796,572
Finance costs	3E	100,547	96,545
Write-down and impairment of assets	3F	933,464	861,880
Losses from asset sales	3H	13,216	30,205
Other expenses	3I	97,415	197,252
Total expenses		25,354,329	24,086,126
LESS:			
OWN-SOURCE INCOME			
Own-source revenue			
Sale of goods and rendering of services	4A	778,992	739,709
Rental income	4B	9,481	9,240
Other revenue	4C	976,158	860,924
Total own-source revenue		1,764,631	1,609,873
Gains			
Foreign exchange gains	3G	368	7,464
Reversals of previous asset write-downs and impairment	4D	479,573	377,567
Other gains	4E	84,348	50,937
Total gains		564,289	435,968
Total own-source income		2,328,920	2,045,841
Net cost of services		23,025,409	22,040,285
Revenue from Government	4F	22,466,427	21,069,544
Surplus (Deficit) attributable to the Australian Government		(558,982)	(970,741)
OTHER COMPREHENSIVE INCOME			
Changes in asset revaluation reserves		150,565	522,124
Total other comprehensive income		150,565	522,124
Total comprehensive income (loss) attributable to the Australian Government		(408,417)	(448,617)

Defence is appropriated on a net cash basis which includes the appropriation revenue of \$22,466m (2010-11: \$21,070m) included in the Statement of Comprehensive Income, and the equity injection of \$2,774m (2010-11: \$2,756m) included in the Balance Sheet.

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

Department of Defence
BALANCE SHEET
as at 30 June 2012

	Notes	2012 \$'000	2011 \$'000
ASSETS			
Financial Assets			
Cash and cash equivalents	5A	18,091	64,871
Trade and other receivables	5B	433,696	569,529
<i>Total financial assets</i>		<u>451,787</u>	<u>634,400</u>
Non-Financial Assets			
Land and buildings	6A, 6G	15,695,215	15,569,795
Specialist military equipment	6B, 6G	40,327,792	38,638,060
Infrastructure	6C, 6G	5,386,670	5,240,585
Plant and equipment	6D, 6G	1,343,733	1,264,661
Heritage and cultural assets	6E, 6G	984,939	965,944
Intangibles	6F, 6G	575,006	575,391
Inventories	6H	5,686,425	5,422,087
Prepayments	6I	154,178	154,845
<i>Total non-financial assets</i>		<u>70,153,958</u>	<u>67,831,368</u>
Assets held for sale	6J	25,698	53,512
<i>Total Assets</i>		<u>70,631,443</u>	<u>68,519,280</u>
LIABILITIES			
Payables			
Suppliers	7A	1,182,758	1,662,905
Other payables	7B	434,503	528,700
<i>Total payables</i>		<u>1,617,261</u>	<u>2,191,605</u>
Interest Bearing Liabilities			
Finance leases	8A	748,717	648,238
<i>Total interest bearing liabilities</i>		<u>748,717</u>	<u>648,238</u>
Provisions			
Employee provisions	9A	2,227,657	2,162,515
Restoration, decontamination and decommissioning	9B	876,140	841,006
Other provisions	9C	3,822	6,358
<i>Total provisions</i>		<u>3,107,619</u>	<u>3,009,879</u>
<i>Total Liabilities</i>		<u>5,473,597</u>	<u>5,849,722</u>
<i>NET ASSETS</i>		<u>65,157,846</u>	<u>62,669,558</u>
EQUITY			
Contributed equity		17,245,351	14,467,639
Reserves		14,715,576	14,565,011
Retained surplus		33,196,919	33,636,908
<i>TOTAL EQUITY</i>		<u>65,157,846</u>	<u>62,669,558</u>

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

Department of Defence
STATEMENT OF CHANGES IN EQUITY
for the period ended 30 June 2012

	Retained Surplus		Asset Revaluation Reserves		Contributed Equity		Total Equity	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Opening balance								
Balance carried forward from previous period	33,636,908	34,481,049	14,565,011	14,042,887	14,467,639	11,711,732	62,669,558	60,235,668
Adjustment for errors ^{1,2}	118,993	43,117	-	-	-	-	118,993	43,117
Prior year adjustments ³	-	83,483	-	-	-	-	-	83,483
Adjusted opening balance	33,755,901	34,607,649	14,565,011	14,042,887	14,467,639	11,711,732	62,788,551	60,362,268
Comprehensive income								
Other comprehensive income	-	-	150,565	522,124	-	-	150,565	522,124
Surplus (Deficit) for the period	(558,982)	(970,741)	-	-	-	-	(558,982)	(970,741)
Total comprehensive income attributable to the Australian Government	(558,982)	(970,741)	150,565	522,124	-	-	(408,417)	(448,617)
Transactions with owners:								
Distributions to owners:								
Returns of equity								
Returns to OPA	-	-	-	-	-	-	-	-
Contributions by owners:								
Equity injection - Appropriations	-	-	-	-	2,773,786	2,755,907	2,773,786	2,755,907
Restructuring (Note 10)	-	-	-	-	-	-	-	-
Transfers from other entities	-	-	-	-	3,926	-	3,926	-
Sub-total transactions with owners	-	-	-	-	2,777,712	2,755,907	2,777,712	2,755,907
Closing balance as at 30 June attributable to the Australian Government	33,196,919	33,636,908	14,715,576	14,565,011	17,245,351	14,467,639	65,157,846	62,669,558

¹ In 2011-12, prior year errors have been corrected for \$118.993m comprising of: non-current assets first found \$162.018m and interest and depreciation associated with a finance lease not recognised \$43.025m. The errors have been corrected in the current year, and as the amount is immaterial, comparatives have not been restated.

² In 2010-11, prior year errors were corrected for \$43.117m in work in progress - SME.

³ Represents adjustment made in 2010-11 for unspent service fee receivable by DMO from 2005-06 to 2008-09.

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

Department of Defence
CASH FLOW STATEMENT
for the period ended 30 June 2012

	Notes	2012 \$'000	2011 \$'000
OPERATING ACTIVITIES			
Cash received			
Appropriations (current year)		22,434,418	21,190,716
Appropriations (prior year)		50,122	89,746
Section 31 receipts from OPA		1,665,917	469,758
Goods and services (including cost recovery)		751,279	732,688
Interest received		4	-
Net GST received		540,888	634,572
Other cash received		253,680	212,516
Total cash received		25,696,308	23,329,996
Cash used			
Employees		(9,641,223)	(9,363,834)
Suppliers		(9,135,283)	(7,827,935)
Net GST paid		(626,715)	(560,332)
Grants		(70,569)	(44,911)
Section 31 receipts transferred to the OPA		(1,670,514)	(470,251)
Other cash used		(69,879)	(84,617)
Total cash used		(21,214,183)	(18,351,880)
Net cash flows from (used by) operating activities	11	4,482,125	4,978,116
INVESTING ACTIVITIES			
Cash received			
Proceeds from sales of land and buildings		51,165	87,332
Proceeds from sales of specialist military equipment		6,929	26,676
Proceeds from sales of plant and equipment		25,698	24,373
Proceeds from sales of heritage and cultural assets		573	-
Other cash received		1,026	77
Total cash received		85,391	138,458
Cash used			
Purchase of land and buildings		(675,386)	(1,042,035)
Purchase of specialist military equipment		(4,967,268)	(4,808,075)
Purchase of infrastructure		(225,969)	(241,165)
Purchase of plant and equipment		(198,284)	(231,418)
Purchase of heritage and cultural assets		-	(5)
Purchase of intangibles		(34,465)	(60,678)
Purchase of inventory		(1,153,994)	(1,217,893)
Selling costs on sale of assets		(13,443)	(23,176)
Finance costs		(52,766)	(61,175)
Total cash used		(7,321,575)	(7,685,620)
Net cash flows from (used by) investing activities		(7,236,184)	(7,547,162)

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

Department of Defence
CASH FLOW STATEMENT (continued)
for the period ended 30 June 2012

	Notes	2012 \$'000	2011 \$'000
FINANCING ACTIVITIES			
Cash received			
Contributed equity (current year)		<u>2,773,786</u>	<u>2,755,907</u>
Total cash received		<u>2,773,786</u>	<u>2,755,907</u>
Cash used			
Repayment of debt (including finance lease principal)		<u>(66,982)</u>	<u>(171,669)</u>
Total cash used		<u>(66,982)</u>	<u>(171,669)</u>
Net cash from (used by) financing activities		<u>2,706,804</u>	<u>2,584,238</u>
Net (decrease)/increase in cash held		<u>(47,255)</u>	<u>15,192</u>
Cash and cash equivalents at the beginning of the reporting period		<u>64,871</u>	<u>52,226</u>
Effect of exchange rate movements on cash and cash equivalents		<u>475</u>	<u>(2,547)</u>
Cash and cash equivalents at the end of the reporting period	5A	<u>18,091</u>	<u>64,871</u>

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

Department of Defence

SCHEDULE OF COMMITMENTS

as at 30 June 2012

	2012 \$'000	2011 \$'000
BY TYPE		
Commitments receivable		
Lease rental income ¹	(35,993)	(39,038)
GST recoverable on commitments ²	(2,214,588)	(2,651,821)
Total commitments receivable	(2,250,581)	(2,690,859)
Commitments payable		
Capital commitments		
Land and buildings ³	1,904,658	1,979,288
Specialist military equipment ⁴	10,857,162	11,719,876
Infrastructure, plant and equipment ⁵	228,427	189,421
Other capital commitments ⁶	199,593	61,077
Total capital commitments	13,189,840	13,949,662
Other commitments		
Operating leases ⁷	5,866,792	5,351,312
Research and development ⁸	144,073	134,249
Other non-capital commitments ⁹	17,503,370	19,237,665
Total other commitments	23,514,235	24,723,226
Net commitments by type	34,453,494	35,982,029
BY MATURITY		
Commitments receivable		
Lease rental income		
One year or less	(20,215)	(19,603)
From one to five years	(7,123)	(10,317)
Over five years	(8,655)	(9,118)
Total lease rental income	(35,993)	(39,038)
Other commitments receivable		
One year or less	(702,601)	(837,485)
From one to five years	(1,257,185)	(1,336,737)
Over five years	(254,802)	(477,599)
Total other commitments receivable	(2,214,588)	(2,651,821)
Commitments payable		
Capital commitments		
One year or less	3,794,672	4,896,460
From one to five years	7,673,613	7,203,492
Over five years	1,721,555	1,849,710
Total capital commitments	13,189,840	13,949,662
Operating lease commitments		
One year or less	755,440	786,281
From one to five years	2,860,507	2,813,014
Over five years	2,250,845	1,752,017
Total operating lease commitments	5,866,792	5,351,312

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

Department of Defence
SCHEDULE OF COMMITMENTS (continued)
as at 30 June 2012

	2012 \$'000	2011 \$'000
Other commitments		
One year or less	5,256,209	5,086,920
From one to five years	8,795,056	8,806,434
Over five years	3,596,178	5,478,560
Total other commitments	17,647,443	19,371,914
Net commitments by maturity	34,453,494	35,982,029

Notes

Commitments are GST inclusive where relevant.

Commitments managed by the Defence Materiel Organisation (DMO) on behalf of Defence total \$17,448m, comprising:

- commitments receivable of \$1,404m;
 - capital commitments of \$11,065m; and
 - other commitments payable of \$7,787m.
1. The lease rental income includes rental contributions from Defence service members for residences sub-leased by Defence. The lease term is normally 3 to 5 years. The lease rental receivable is calculated for 28 days which is the minimum period of notice Defence members are required to provide before terminating the lease.
 2. Net GST recoverable from ATO on commitments payable and receivable.
 3. Outstanding contractual payments for buildings under construction.
 4. Outstanding contractual payments for specialist military equipment under construction. The majority of these commitments relate to Materiel Acquisition Agreements with the DMO.
 5. Infrastructure, plant and equipment capital commitments include outstanding contractual payments including the maintenance of hardware and software.
 6. Other capital commitments include contractual payments for software licence agreements.
 7. Operating leases included are effectively non-cancellable and are described in the table below.
 8. Outstanding commitments on research and development for projects including Through Life Support agreements.
 9. Outstanding commitments on supplier type expenditure including general goods and services, communications, domestic and overseas travel, removal costs, and Materiel Sustainment expenditure payable to the DMO.

Nature of leases	General description of leasing arrangement
DHA property leases	Defence leases residences under a service agreement with Defence Housing Australia (DHA) to provide accommodation to eligible service members. The total commitment has been calculated based on an initial forecast of housing demand for the period of the agreement, which is 12 years. Lease payments are subject to the terms and conditions of the lease and are payable to DHA.
Other property leases	Defence leases both residential and commercial properties in Australia and overseas in support of its activities. Lease payments are subject to the terms and conditions of the lease. Generally the leases are subject to market reviews, reviews in accordance with agreed indexation or a combination of both. The terms range between 1 and 100 years.
Aircraft leases	Defence leases aircraft in support of scientific and military operations and in support of parliamentary services. Lease terms range between 2 and 12 years.
Equipment leases	Defence has leases for items of equipment including computer hardware, multifunction devices and communication equipment. General lease terms are 2 to 5 years.
Property revenue leases	Defence receives revenue from the lease of property and office space. Office space is generally let to contractors in support of Defence activities and to other government agencies or to local civic authorities. The terms of these leases range between 1 and 99 years.

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

Department of Defence
SCHEDULE OF CONTINGENCIES

as at 30 June 2012

	2012 \$'000	2011 ¹ \$'000
Contingent assets		
Claims for damages or costs	<u>1,374</u>	<u>77,620</u>
Total contingent assets	<u>1,374</u>	<u>77,620</u>
Contingent liabilities		
Claims for damages or costs	<u>48,514</u>	<u>1,412</u>
Total contingent liabilities	<u>48,514</u>	<u>1,412</u>
Net contingent assets (liabilities)	<u>(47,140)</u>	<u>76,208</u>

¹ Contingent assets and contingent liabilities for matters managed by DMO on behalf of Defence were not included in 2010-11 figures. The table above has been restated to include 4 instances of contingent assets. The change has resulted in an increase to contingent assets in 2010-11 from \$0.088m to \$77.62m.

Details of each class of contingent liabilities and contingent assets listed above are disclosed in Note 12: Contingent Liabilities and Contingent Assets, along with information on significant remote contingencies and contingencies that cannot be quantified.

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

Department of Defence**ADMINISTERED STATEMENT OF COMPREHENSIVE INCOME***for the period ended 30 June 2012*

	Notes	2012 \$'000	2011 \$'000
EXPENSES			
Employee benefits	19A	4,118,799	3,927,925
Subsidies	19B	96,585	85,241
Write-down and impairment of assets ¹	19C	141	293
Foreign exchange losses	19D	-	803
Total expenses administered on behalf of government		4,215,525	4,014,262
LESS:			
OWN-SOURCE INCOME			
Own-source revenue			
Non taxation revenue			
Fees and fines	18A	12,251	7,833
Interest ²	18B	35,517	31,107
Dividends	18C	49,654	52,379
Military superannuation contributions	18D	1,158,903	1,135,592
Other revenue ²	18E	59,585	127,479
Foreign exchange gains	19D	166	-
Total non-taxation revenue		1,316,076	1,354,390
Total own-source income administered on behalf of Government		1,316,076	1,354,390
Net cost of services		2,899,449	2,659,872
Revenue from Government	18F	-	-
Surplus (Deficit) attributable to the Government		(2,899,449)	(2,659,872)
OTHER COMPREHENSIVE INCOME			
Changes in asset revaluation reserves		(32,736)	(2,118)
Actuarial gains/(losses) on defined benefit plans		(33,385,800)	244,100
Total other comprehensive income		(33,418,536)	241,982
Total comprehensive income (loss)		(36,317,985)	(2,417,890)

¹ In 2010-11, a change in the estimated value of a receivable of \$0.255m was disclosed as an 'Adjustment for errors'. The amount has been reclassified to 'Note 19C: Write down and impairment of assets' within Administered expenses.

² In 2010-11 interest from Official Bank Accounts and Overdue debts from Departmental Accounts of \$0.015m was classified as interest. The amount has been reclassified as Other Revenue.

Administered activities performed by Defence on behalf of the Government relate mainly to the provision of superannuation and housing support services to current and retired Defence personnel.

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

Department of Defence**ADMINISTERED SCHEDULE OF ASSETS AND LIABILITIES***as at 30 June 2012*

	Notes	2012 \$'000	2011 \$'000
ASSETS			
Financial assets			
Cash and cash equivalents	20A	-	-
Trade and other receivables	20B	573,698	585,577
Investments accounted for using the equity method	20C/27	2,275,236	2,307,972
Total financial assets		2,848,934	2,893,549
Non-financial assets			
Prepayments	20D	170,095	157,134
Total non-financial assets		170,095	157,134
TOTAL ASSETS ADMINISTERED ON BEHALF OF GOVERNMENT		3,019,029	3,050,683
LIABILITIES			
Payables			
Other payables	21A	5,159	47
Total payables		5,159	47
Provisions			
Employee provisions	21B/22	85,790,100	50,118,200
Total provisions		85,790,100	50,118,200
TOTAL LIABILITIES ADMINISTERED ON BEHALF OF GOVERNMENT		85,795,259	50,118,247
NET LIABILITIES		(82,776,230)	(47,067,564)
Administered activities performed by Defence on behalf of the Government relate mainly to the provision of superannuation and housing support services to current and retired Defence personnel. Defence also administers reimbursements from the United Nations for costs associated with East Timor and returns the receipts to the Government.			

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

Department of Defence
ADMINISTERED RECONCILIATION SCHEDULE
for the period ended 30 June 2012

	Notes	2012 \$'000	2011 \$'000
Opening administered assets less administered liabilities as at 1 July		(47,067,564)	(45,277,199)
Adjustment for errors ¹		-	11,166
Adjusted opening administered assets less administered liabilities		(47,067,564)	(45,266,033)
Plus: Administered income	18/19D	1,316,076	1,354,390
Less: Administered expenses (non CAC) ¹	19	(4,215,525)	(4,014,262)
Payments to CAC Act bodies		-	-
Other comprehensive income:			
Administered revaluations taken to/from reserves – DHA		(35,268)	(3,824)
Administered revaluations taken to/from reserves – Small portfolio entities		2,532	1,706
Actuarial gains/(losses)		(33,385,800)	244,100
Administered transfers to/from Australian Government:			
Appropriation transfers from Official Public Account:			
Annual appropriations for payment to CAC Act bodies		-	44,100
Special appropriations (unlimited) (non CAC)		1,991,997	1,965,021
Transfers to Official Public Account		(1,382,678)	(1,392,762)
Closing administered assets less administered liabilities as at 30 June		(82,776,230)	(47,067,564)

¹ In 2010-11, a change in the estimated value of a receivable of \$0.255m was disclosed as an 'Adjustment for errors'. The amount has been reclassified to 'Note 19C: Write down and impairment of assets' within Administered expenses.

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

Department of Defence

ADMINISTERED CASH FLOW STATEMENT

for the period ended 30 June 2012

	Notes	2012 \$'000	2011 \$'000
OPERATING ACTIVITIES			
Cash received			
Fees		11,216	7,742
Interest ¹		32,173	31,107
Superannuation contributions		1,212,438	1,179,662
Other cash received ¹		74,472	121,549
Total cash received		1,330,299	1,340,060
Cash used			
Subsidies paid		(92,061)	(89,814)
Employees		(1,899,936)	(1,875,206)
Total cash used		(1,991,997)	(1,965,020)
Net cash flows (used by) operating activities	23	(661,698)	(624,960)
INVESTING ACTIVITIES			
Cash received			
Dividends		52,379	52,700
Total cash received		52,379	52,700
Cash used			
Loans to CAC Act bodies		-	(44,100)
Total cash used		-	(44,100)
Net cash flows from investing activities		52,379	8,600
Net (decrease) in cash held		(609,319)	(616,360)
Cash and cash equivalents at the beginning of the reporting period		-	1
Cash from the Official Public Account for:			
Appropriations		1,991,997	2,009,121
Cash to the Official Public Account for:			
Appropriations		(1,382,678)	(1,392,762)
Cash and cash equivalents at the end of the reporting period	20A	-	-

¹ In 2010-11 interest from Official Bank Accounts and Overdue debts from Departmental Accounts of \$0.015m was classified as interest. The amount has been reclassified as Other cash received.

Administered activities performed by Defence on behalf of the Government relate mainly to the provision of superannuation and housing support services to current and retired Defence personnel.

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

Department of Defence**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS***for the period ended 30 June 2012***Notes**

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Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2012

Note 1. Summary of Significant Accounting Policies

1.1 Objective of Defence

Defence is an Australian Government controlled entity which comprises the Department of Defence, as an Australian Public Service organisation, and the Australian Defence Force. The objective of Defence is to defend Australia and its national interests.

Defence is structured to meet three outcomes:

- Outcome 1 – The protection and advancement of Australia's national interests through the provision of military capabilities and the promotion of security and stability;
- Outcome 2 – The advancement of Australia's strategic interests through the conduct of military operations and other tasks directed by the Government; and
- Outcome 3 – Support to the Australian community and civilian authorities as requested by Government.

Defence activities contributing toward these outcomes are classified as either departmental or administered. Departmental activities involve the use of the assets, liabilities, revenues and expenses controlled or incurred by Defence in its own right. Administered activities involve the management or oversight by Defence, on behalf of the Government, of items controlled or incurred by the Government.

Defence's Outcome 1 includes both departmental and administered items, while Outcomes 2 and 3 are departmental only. Defence's administered appropriations included in Outcome 1 relate to Superannuation and Housing Support Services for current and retired Defence personnel.

An overview of Defence's outcome structure is described in Chapter 3 of the Annual Report.

The continued existence of Defence in its present form, and with its present outcomes and related programs, is dependent on Australian Government policy and on continuing appropriations by Parliament for Defence's administration and the running of programs.

1.2 Basis of Preparation of the Financial Statements

The financial statements and notes are required by section 49 of the *Financial Management and Accountability Act 1997* and are general purpose financial statements.

The financial statements and notes have been prepared in accordance with:

- Finance Minister's Orders (or FMOs) for reporting periods ending on or after 1 July 2011; and
- Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that apply for the reporting period.

The financial statements and notes have been prepared on an accrual basis and are in accordance with the historical cost convention, except for certain assets at fair value. Except where stated, no allowance is made for the effect of changing prices on the results or the financial position.

The financial statements and notes are presented in Australian dollars and values are rounded to the nearest thousand dollars unless disclosure of the full amount is specifically required by the FMOs.

Unless alternative treatment is specifically required by an accounting standard or the FMOs, assets and liabilities are recognised in the balance sheet when, and only when, it is probable that the future economic benefits will flow to the entity (in the case of an asset) or it is probable that the outflow of resources embodying economic benefits will result (in the case of a liability) and these amounts can be reliably measured. However, assets and liabilities arising under Executory Contracts are not recognised unless required by an accounting standard. Liabilities and assets that are unrecognised are reported in the Schedule of Commitments or the Schedule of Contingencies (other than Unquantifiable Contingencies, which are reported at Note 12).

Unless alternative treatment is specifically required by an accounting standard, income and expenses are recognised in the statement of comprehensive income when, and only when, the inflow, consumption or loss of economic benefits has occurred and can be reliably measured.

Administered transactions

Administered revenues, expenses, assets, liabilities and cash flows reported in the administered financial statements and related notes and schedules are accounted for on the same basis and using the same policies as for departmental items, except as otherwise stated in Note 1.28.

Trust transactions

Defence has responsibility for transactions and balances relating to trust funds on behalf of third parties external to the Australian Government. As Defence acts only in a custodial role in respect of these transactions, they are not recognised in the financial statements but are disclosed in Note 35 Assets Held in Trust.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2012

1.3 Significant Accounting Judgements and Estimates

(a) Significant accounting judgements

In the process of applying Defence's accounting policies listed in this note, management has made no judgements that would have a significant impact on the amounts recorded in the financial statements.

(b) Significant accounting estimates and assumptions

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The following accounting assumptions and estimates have been identified that have a significant risk of causing a material adjustment to carrying amounts of asset and liabilities within the next accounting period:

- Provisions for land decontamination, site restoration and SME decommissioning are based on Defence's estimates of future obligations relating to the underlying assets. Some of these estimates are supported by external valuer's opinions;
- Provisions for annual leave and long service leave are estimates based on expert actuarial assumptions on the likely tenure of existing staff, patterns of leave claims and payouts, future salary movements and future discount rates;
- Other provisions are estimates for compensation claimed by victims of the disastrous collision between HMAS Melbourne and HMAS Voyager; and compensation for illnesses as a consequence of exposure on the F-111 Deseal/Reseal;
- Estimates and assumptions have been made in relation to inventory obsolescence in order to determine the remaining service potential for inventory items which have experienced obsolescence or impairment and the pricing of certain legacy items;
- Low value asset pooling estimates have been made to determine the net book value of other plant and equipment asset pools. These include estimates relating to useful economic lives and disposal rates;
- Defence assesses non-financial assets for impairment by monitoring impairment indicators specific to an asset's use in the Defence context. Where these indicators signify that an asset is impaired, management has made an estimate of the recoverable amount of those assets to determine any impairment loss; and
- Defence heritage and cultural assets are stored, managed, repaired and restored in ways that will maintain their heritage and cultural value over time. As such, an assumption is made that these assets have indefinite useful lives and therefore no depreciation is recognised.

1.4 Changes in Australian Accounting Standards

(a) Adoption of new Australian Accounting Standard requirements

No accounting standard has been adopted earlier than the application date as stated in the standard. No new standards are applicable to Defence in the current reporting period.

Other standards, amendments or interpretations which have become effective in the current reporting period and prior to signing of statements have had no financial or disclosure impact or do not apply to the operations of Defence.

(b) Future Australian Accounting Standard requirements

Prior to the signing of the Financial Statements, the Australian Accounting Standards Board issued new standards, amendments to standards and interpretations that will be effective in future reporting periods. The standards and amendments will be applicable in future reporting periods but they are not expected to have a material impact on the financial statements. The adoption of these standards and amendments is based on Defence's initial assessment at reporting date.

1.5 Revenue

(a) Revenue from Government

Amounts appropriated for departmental appropriation for the year (adjusted for any formal additions and reductions) are recognised as revenue when Defence gains control of the appropriation, except for certain amounts that relate to activities that are reciprocal in nature, in which case revenue is recognised only when it has been earned.

Defence draws down appropriations on a just-in-time basis. The undrawn appropriations as at 30 June 2012 are reflected as a receivable and are available to be drawdown to meet future obligations. Appropriations receivable are recognised at their nominal amounts.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2012

(b) Revenue from Sale of Goods and Rendering of Services

Revenue from the sale of goods is recognised when:

- the risks and rewards of ownership have been transferred to the buyer;
- Defence retains no managerial involvement nor effective control over the goods;
- the revenue and transaction costs can be reliably measured; and
- it is probable that the economic benefits associated with the transaction will flow to Defence.

Revenue from the rendering of services is recognised by reference to the stage of completion of contracts at reporting date. The revenue is recognised when:

- the amount of revenue, stage of completion and transaction costs incurred can be reliably measured; and
- it is probable the economic benefits of the transaction will flow to Defence.

The stage of completion of contracts at the reporting date is determined by reference to the proportion that costs incurred to date bear to the estimated costs of the transaction.

(c) Rental Revenue

Rental revenue is accounted for on a straight line basis over the lease term. Contingent rental revenue is recognised as revenue in the periods in which it is earned. Lease incentives granted are recognised as an integral part of the total rental revenue.

(d) Resources Received Free of Charge

Resources received free of charge for goods and services are recognised as revenue when and only when a fair value can be reliably determined and the services would have been purchased if they had not been donated. Use of those resources is recognised as an expense. Fair value is determined based on actual full cost if the resources were to be purchased.

1.6 Gains

(a) Resources Received Free of Charge – ANAO

Resources received free of charge includes \$4.644m (2010-11: \$4.644m) for audit services provided by the Australian National Audit Office.

(b) Contributions of Assets

Contributions of assets at no cost or for nominal consideration are recognised as gains at their fair value when the asset qualifies for recognition (with the exception of assets valued at cost), unless received from another Government agency as a consequence of a restructuring of administrative arrangements (Refer to Note 1.8(b)). Fair value is assessed by asset class as described in Note 1.20(f).

(c) Sale of Assets

Gains from disposal of non-current assets are recognised when control of the asset has passed to the buyer. The gain or loss on disposal of non-current assets is determined as the difference between the carrying amount of the asset at the time of disposal and the net proceeds of disposal (after deducting sale costs).

(d) Other Gains

Other gains may be realised or unrealised and are usually recognised on a net basis. These include gains arising on foreign exchange transactions and balances.

1.7 Grants

Contributions by Defence to other government entities, private sector organisations and individuals which have been identified as a grant are recognised as an expense when incurred.

1.8 Transactions with the Australian Government as Owner

(a) Equity injections

Amounts appropriated which are designated as ‘equity injections’ (less any formal reductions) are recognised directly in contributed equity in that year. Equity injection appropriations in Acts passed after the commencement of the period are recognised from the date of royal assent.

(b) Restructuring of Administrative Arrangements

Net assets/liabilities received from or relinquished to another Australian Government agency or authority under a restructuring of administrative arrangements are recognised as contributions or distributions of equity respectively, at their net book value.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2012

(c) Other Distributions to Owners including Repayments of Appropriations

The FMOs require that distributions to owners be debited to contributed equity unless it is a dividend. Repayments and reductions of Appropriations are recognised either as a reduction of appropriation revenue or as a reduction of contributed equity. In 2011-12 appropriation of \$2,199.1m (2010-11: \$468.3m) was returned to the Official Public Account. In recognising the repayments and reductions of appropriations funding, during the year the Minister for Finance and Deregulation issued determinations to reduce Departmental appropriations as follows:

Date	Year	Departmental Items \$'000	Equity Injections \$'000
9 December 2011	2010-11	1,111,633	935,054
7 May 2012	2011-12	16,835	135,531
	Total	1,128,468	1,070,585

1.9 Cash and Cash Equivalents

Cash and cash equivalents includes notes and coins held, and any deposits in bank account held at call with a bank. Cash is measured at its nominal amount.

1.10 Financial Risk Management

Under relevant legislation and Australian Government policy, Defence is restricted from entering into borrowings, some investments and entering into derivative transactions to offset risk exposure. As such, Defence's exposure to risk is primarily related to credit risk on trade receivables and foreign currency risk in relation to payments to overseas suppliers of goods and services received. However, this exposure is minimal in terms of the operations of Defence as Defence is subject to a no win/no loss funding arrangement for foreign exchange gains and losses.

Defence is also exposed to some contract price escalation risk. This risk exposure is due to the difference in the basis on which Defence is funded for price escalations from government (being the non-farm GDP deflator) to the price escalation clauses embedded within the contracts. The risk of increased cost is managed by Defence to ensure exposure to the Australian Government is minimised.

1.11 Derecognition of Financial Assets and Liabilities

Financial assets are derecognised when the contractual rights to the cash flows from the financial assets expire or the assets with the associated risks and rewards are transferred to another entity. Financial liabilities are derecognised when the obligation under the contract is discharged, cancelled or has expired.

1.12 Receivables

Receivables for goods and services are generally receivable within the short term and are measured at their nominal amounts less any allowance for impairment. The collectability of receivables is assessed periodically with allowances made for doubtful debts when there is objective evidence that Defence will not be able to collect the debt. No allowance is made for Australian Government, foreign government and employee debts as they are normally deemed to be collectable unless there is objective evidence to the contrary.

1.13 Employee Benefits

Defence's workforce comprises Australian Public Service (APS, i.e. civilians) and Australian Defence Force (ADF, i.e. military) personnel. Employee benefits for each workforce component are based on the relevant employment agreements and legislation. Liabilities for services rendered by employees are recognised at the reporting date to the extent that they have not been settled.

Liabilities for wages and salaries (including non-monetary benefits), annual leave and other entitlements expected to be settled within 12 months of the reporting date are measured at their nominal amounts which are calculated with regard to the rates expected to be paid on settlement of the liability.

All other employee benefit liabilities (including long service leave) are measured at the present value of the estimated future cash outflows to be made in respect of services provided by employees up to the reporting date.

(a) Leave

The liability for employee benefits includes provisions for annual leave and long service leave. No provision has been made for sick leave as all sick leave is non-vesting and the average sick leave taken in future years by employees of Defence is estimated to be less than the annual entitlement for sick leave. The leave liabilities are calculated on the basis of employees' remuneration, including Defence's employer superannuation contribution, at the estimated rates that will be applied at the time that leave is taken, to the extent that leave is likely to be taken during service rather than paid out on termination.

Department of Defence**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS***for the period ended 30 June 2012*

The liability for long service leave has been determined by reference to the work of the Australian Government Actuary in the current year. The estimate of the present value of the liability takes into account attrition rates and pay increases through promotion and inflation.

(b) Separation and Redundancy

Provision is made for separation and redundancy benefit payments. Defence recognises a provision for termination when it has a detailed formal plan for the terminations and has informed those employees affected that the terminations will be carried out.

(c) Superannuation – APS Employees

Permanently appointed APS employees of Defence are members of the Commonwealth Superannuation Scheme (CSS), the Public Sector Superannuation Scheme (PSS), the PSS Accumulation Plan (PSSap) and other superannuation schemes held outside the Commonwealth.

The CSS and PSS are defined benefit schemes for the Australian Government. The PSSap is a defined contribution scheme.

The liability for defined benefits is recognised in the financial statements of the Australian Government and is settled by the Australian Government in due course. This liability is reported by the Department of Finance and Deregulation as an administered item.

Defence makes employer contributions to the employee superannuation schemes at rates determined by an actuary to be sufficient to meet the current cost to the Government of the superannuation entitlements of Defence's employees. Defence accounts for these contributions as if they were contributions to defined contribution plans in accordance with AASB 119.

The liability for superannuation recognised in the departmental statements as at 30 June represents outstanding contributions yet to be paid.

(d) Superannuation – ADF Members

The Defence Force Retirement and Death Benefits Scheme (DFRDB) and the Military Superannuation Benefits Scheme (MSBS) are defined benefit superannuation plans for ADF members. Defence accounts for these contributions in its departmental statements as if they were contributions to defined contribution plans in accordance with AASB 119. The liability for DFRDB and MSBS is recognised in Defence's administered statements.

The liability for superannuation recognised in the departmental statements as at 30 June represents outstanding contributions yet to be paid.

Refer to Note 1.28 (e) and (f) for recognition in the administered statements.

(e) Paid Parental Leave

Defence provide payments to employees under the Government Paid Parental Scheme. The receipts received are offset by the payments made to the employees and any balance outstanding at the end of the year is recognised as a liability.

1.14 Leases

A distinction is made between finance and operating leases. Finance leases effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of leased assets. In operating leases, the lessor effectively retains substantially all such risks and benefits.

Where an asset is acquired by means of a finance lease, the asset is capitalised and recognised at the lower of the fair value of the leased asset or the present value of minimum lease payments at the inception of the contract and a corresponding liability is also recognised at this time for the same amount. The discount rate used to calculate the present value of the minimum lease payments is the interest rate implicit in the lease. Assets acquired under a finance lease are amortised over the useful life of the asset. Lease payments are allocated between the principal component and the interest expense.

Operating lease payments are expensed on a straight line basis over the term of the lease which is representative of the pattern of benefits derived from the leased assets.

Lease incentives taking the form of 'free' leasehold improvements and rent holidays are recognised as an integral part of the total consideration agreed for the use of the leased asset.

1.15 Suppliers and Other Payables

Defence's suppliers and other payables are generally payable within the short term and are recognised at the amount of cash or cash equivalents required to settle the liability. Liabilities are recognised to the extent that the goods or services have been received (irrespective of having been invoiced).

1.16 Contingent Liabilities and Contingent Assets

Contingent liabilities and contingent assets are not recognised in the balance sheet but are disclosed in the relevant schedules and notes. They may arise from uncertainty as to the existence of a liability or asset, or represent an existing liability or asset in respect of which settlement is not probable or the amount cannot be reliably measured. Contingent assets are disclosed when settlement is probable but not virtually certain, and contingent liabilities are disclosed when settlement is greater than remote.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2012

1.17 Acquisition of Assets

Assets are recorded at cost on acquisition except as stated below. The cost of acquisition includes the fair value of assets exchanged and liabilities undertaken. Financial assets are initially measured at their fair value plus transaction costs where appropriate.

Assets acquired at no cost, or for nominal consideration are initially recognised as assets and revenues at their fair value at the date of acquisition, unless acquired as a consequence of restructuring of administrative arrangements. In the latter case, assets are initially recognised at the amounts at which they were recognised in the transferor agency's accounts immediately prior to the restructuring.

1.18 Impairment of Assets

Defence applies its impairment testing to the smallest identifiable group of assets that is useful to Defence in achieving its objectives and whose utility/usefulness is largely independent of the utility provided to Defence by other assets or groups of assets. All relevant assets were assessed for impairment during the year. Where indications of impairment exist, the asset's recoverable amount is estimated and an impairment adjustment made if the asset's recoverable amount is less than its carrying amount.

The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. Value in use is the present value of the future cash flows expected to be derived from the asset. Where the future economic benefit of an asset is not primarily dependent on the asset's ability to generate future cash flows, and the asset would be replaced if Defence was deprived of the asset, its value in use is taken to be its depreciated replacement cost.

1.19 Derecognition of Assets

Assets are derecognised upon disposal or when no further economic benefits or capability are expected from its use or disposal.

1.20 Property, Plant and Equipment including Land, Buildings, Infrastructure, Heritage and Cultural Assets, and Specialist Military Equipment

(a) Individual Asset Recognition Threshold

Purchases of property, plant and equipment including land, buildings and infrastructure are recognised initially at cost where they meet the individual asset recognition threshold. Individual items are capitalised where the individual value is equal to or exceeds \$5,000 for buildings, infrastructure and heritage and cultural assets; \$2,000 for other plant and equipment; and \$0.01 for specialist military equipment and land.

(b) Componentisation

Major assets, such as specialist military equipment, are componentised if it is likely that the components will have useful lives that differ significantly from the other parts of the asset. The useful lives of components may be determined with reference to the individual component or the related primary asset.

(c) Decontamination, Restoration and Decommissioning Costs

Where a legal or constructive obligation arises on acquisition to restore an asset back to its original condition, or dismantle an asset at the end of its useful life, the net present value of estimated restoration and/or decommissioning costs are capitalised and added to the cost of the underlying asset and depreciated over the asset's useful life. At the same time, a corresponding provision is recognised for these costs. The carrying amount of the provision is adjusted to reflect the passage of time and any incremental costs are recognised as finance costs.

Where a legal or constructive obligation arises as a result of operations of Defence (i.e. use of the asset) the cost of restoration is recognised as an expense in the period in which the obligation arises.

One of the following past events would give rise to a constructive obligation:

- A public announcement or statement by Government or Defence that a site would be restored;
- The existence of an established pattern of past practice of restoring sites of a particular nature or type; or
- A specific policy adopted by Government with regard to restoration of sites of a particular nature or type.

(d) Reversal of Previous Asset Write-Downs

These are amounts relating to assets which have been previously written down or expensed in prior periods. In the current year, these items have been either reversed as a write down or capitalised for the first time due to either exceeding the capitalisation threshold or through identification during stocktakes. They may include identification of heritage and cultural assets not previously recognised as assets.

(e) Assets under construction (AUC)

Assets under construction (AUC) are carried at cost and are separately identified as 'work in progress' in Note 6. They include expenditure to date on major military capability and facilities projects. AUC projects are reviewed annually for indicators of impairment. Prior to rollout into service, the accumulated AUC balance is reviewed to ensure accurate capitalisation.

Department of Defence**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS***for the period ended 30 June 2012**(f) Subsequent valuations*

Land, buildings, infrastructure, plant and equipment and heritage and cultural assets are measured and disclosed at fair value, less any accumulated depreciation and accumulated impairment losses. Specialist military equipment is carried at cost less any accumulated depreciation and accumulated impairment losses, in accordance with the FMOs.

The basis for determining fair value is by reference to the highest and best use that is physically possible, legally permissible and financially feasible. Where an active and liquid market exists, fair value is determined by reference to market values, noting the highest and best use criteria and any specific factors that have been noted by the valuer.

Fair values for each class of asset are determined as shown below:

Asset Class	Active and Liquid Market Exists	Active and Liquid Market does not exist
Land	Market selling price	Replacement cost
Buildings	Market selling price	Depreciated replacement cost or net present value of lease payments for leased assets
Infrastructure	Market selling price	Depreciated replacement cost
Plant & Equipment	Market selling price	Depreciated replacement cost or net present value of lease payments for leased assets
Heritage and Cultural	Estimated market selling price	Depreciated reproduction cost

Following initial recognition at cost, valuations are conducted with sufficient frequency to ensure that the carrying amounts of assets do not materially differ from the assets' fair values as at the reporting date. Revaluations for land, buildings and infrastructure are conducted every three years; other plant and equipment are revalued annually on a sample basis.

Revaluation adjustments are made on a class basis. Any revaluation increment is recognised as Other Comprehensive Income under the heading of Changes in Asset Revaluation Reserves except to the extent that it reverses a previous revaluation decrement of the same class that was previously recognised in the surplus/deficit. Revaluation decrements for a class of assets are recognised directly in the surplus/deficit except to the extent that they reverse a previous revaluation increment for that class.

Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the asset is restated to the revalued amount.

Refer to Note 1.21 for policy regarding revaluation of intangible assets.

(g) Depreciation

Property, plant and equipment items having limited useful lives are systematically depreciated over their estimated useful lives on a straight-line basis. Pooled assets are depreciated using an estimated useful life based on the average useful lives of assets contained in the relevant pool.

The aggregate amount of depreciation allocated for each class of asset during the reporting period is disclosed in Note 3D.

Depreciation rates (useful lives) are determined upon acquisition and are reviewed at each subsequent reporting date, and necessary adjustments are made in the current, or current and future reporting periods, as appropriate. Residual values are re-estimated only when assets are revalued.

The following are minimum and maximum useful lives for the different asset classes. These are not necessarily indicative of typical useful lives for these asset classes.

	<u>2011-12</u>	<u>2010-11</u>
Buildings	1 to 99 years	2 to 99 years
Infrastructure	1 to 99 years	4 to 99 years
Specialist military equipment	1 to 53 years	1 to 49 years
Other plant and equipment	2 to 75 years	2 to 70 years
Assets under finance lease	3 to 60 years	3 to 60 years

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2012

Heritage and cultural assets within Defence have been assessed to have indefinite lives. These heritage and cultural assets are stored, managed, displayed, repaired and restored in ways that will maintain their cultural or heritage value over time. Where conservation, restoration and preservation activities demonstrate that an asset will be maintained for an indefinite period, these items are considered to have indefinite useful lives and therefore, not subject to depreciation which is in accordance with the implementation guidance (G4) provided in AASB 116.

Road earthworks are depreciated over the estimated useful life of the asset except where an engineering review has determined the useful life to be indefinite, in which case no depreciation is applied.

(h) Heritage and Cultural Assets

Heritage and cultural items include;

- artefacts and memorabilia that are or may be of national historical or cultural significance. While many of these items represent military achievements, including paintings, memorabilia and other military items, others are associated with developments in science and exploration such as museum pieces, decommissioned aircraft and military equipment, or with significant personal achievements, such as medals, badges, uniforms and other regalia.
- buildings of historical or cultural significance. These buildings may be used for office accommodation, residences, chapels, storage and gymnasiums but are primarily held for heritage and cultural purposes.

Heritage and cultural assets are stored and managed in ways to preserve their heritage and cultural value over time.

Artefacts and memorabilia are stored and managed by Service Museums (Navy, Army and Air Force). Each Service maintains their own documented processes and procedures for the storage, documentation, restoration and preservation of various artefacts depending on their type and sensitivity.

Conservation and preservation policies include the storage of these items under appropriate conditions including, exposure to minimal UV light, stable humidity and temperatures and maintaining a dust and pest free environment as well as cataloguing and maintenance. In addition, conservation programs within Service museums aim to identify items requiring restoration with annual budgets being allocated to conduct this conservation and restorative work.

Heritage buildings are managed by Defence Environmental Management. All Defence heritage buildings are included in the Defence Heritage Register and managed using the Defence Heritage Toolkit. This Toolkit sets out the strategies and policies for managing heritage buildings across the Defence estate as well as ensuring all disposals, acquisitions and development activities to these sites look at heritage issues and assess possible risks to any values and mitigation strategies via Heritage Impact Assessments. The Toolkit has been established in accordance with the *Environment Protection and Biodiversity Conservation Act 1999*. Further information on heritage management across the Defence estate can be obtained from the following site: <http://www.defence.gov.au/environment/heritage.htm>

1.21 Intangibles

Defence's intangibles comprise externally acquired and internally developed computer software for internal use and other externally acquired and internally developed intangibles. Intangibles with gross values greater than \$150,000 are capitalised when they meet the recognition criteria in AASB 138 *Intangible Assets*.

All intangibles are amortised on a straight-line basis over its anticipated useful life. The useful lives of Defence software are 1-24 years (2010-11: 1-24 years) and the useful lives of Defence's other intangibles are 4-35 years (2010-11: 4-35 years). All intangible assets are assessed annually for indications of impairment.

Defence recognises its intangible assets initially at cost and measures those which have an active market at fair value subsequent to initial recognition. If an intangible asset is acquired at no cost or for nominal consideration, other than those acquired through restructuring, it is recognised initially at fair value as at the date of acquisition.

All Defence intangible assets are currently stated at cost or fair value less any subsequent accumulated amortisation and accumulated impairment losses.

Acquired intellectual property may form part of the acquisition of particular tangible assets. Where the acquired intellectual property is inseparable from the underlying tangible asset it is reflected in the value of the tangible asset in the balance sheet.

Defence reviews the useful life of intangible assets annually based on the service potential of the assets. All Defence intangible assets have finite useful lives and are amortised over their anticipated useful lives. Where there is an indication that the service potential of an intangible asset is impaired, the recoverable amount of that asset is determined based on the remaining service potential. Where the recoverable amount is lower than the carrying amount, the asset is written down to its recoverable amount.

Department of Defence**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS***for the period ended 30 June 2012***1.22 Inventories**

Defence holds inventory for its own use and does not ordinarily hold inventory for sale. Sales of inventory relate to minor fuel sales to foreign governments. Inventory held for use is valued at cost adjusted where applicable for loss of service potential. Defence considers that loss of operating capacity due to obsolescence is the most appropriate basis for loss of service potential of its inventories.

Costs incurred in bringing each item of inventory (primarily explosive ordnance and general stores inventory) to its present location and condition that are capable of being allocated on a reasonable basis are assigned to inventory. The costs of inventories are assigned by using the weighted average cost formula.

Inventories acquired at no cost or nominal considerations are measured at current replacement cost at the date of acquisition.

1.23 Assets Held for Sale

Non-current assets are classified as held for sale if the carrying amount is to be recovered principally through a sale transaction rather than through continuing use. Classification as held for sale occurs when the asset is available for immediate sale in its present condition, and the sale is highly probable. On classification as held for sale, the asset is measured at the lower of its carrying amount and fair value less costs to sell. Any write down to fair value less costs to sell is recognised as an impairment loss. Assets which have been classified as held for sale are no longer subject to depreciation or amortisation.

1.24 Prepayments

Prepayments, excluding those paid to DMO or to employees as retention benefit payments, are recognised if the value of the payment is \$50,000 or greater.

Prepayments made to DMO for acquisition and sustainment services and to employees for retention benefits, are recognised when the payment is made irrespective of the amount.

1.25 Foreign Currency

Transactions denominated in a foreign currency are converted at the exchange rate on the date of transaction. Foreign currency receivables and payables are translated at the exchange rate at the balance date.

Non-financial items that are measured at cost in a foreign currency are translated using the spot exchange rate at the date of the initial transaction. Non-financial items that are measured at fair value in a foreign currency are translated using the spot exchange rates at the date when the fair value was determined.

All exchange gains and losses are reported in the Statement of Comprehensive Income.

1.26 Taxation

Defence is exempt from all forms of taxation except Fringe Benefits Tax (FBT), the Goods and Services Tax (GST) and certain excise and customs duties.

Revenues, expenses, assets and liabilities are recognised net of GST, except:

- where the amount of GST incurred is not recoverable from the Australian Taxation Office; and
- for receivables and payables which are recognised inclusive of GST.

1.27 Investments in Co-operative Research Centres

Defence has interests, through partial ownership or through participation in governance, in several Co-operative Research Centres external to the Commonwealth. These centres are: the Co-operative Research Centre for Advance Composite Structures (CRC ACS); the Co-operative Research Centre for Contamination Assessment and Remediation of the Environment (CRC CARE); the Co-operative Research Centre for Spatial Information (CRC SI) and the CAST Co-operative Research Centre (CAST CRC) CAST CRC Limited (CAST).

Defence does not have control, joint control or significant influence over these entities. As Defence's interest in these entities is immaterial, they have not been recognised in the financial statements.

1.28 Reporting of Administered Activities

Administered revenues, expenses, assets, liabilities, contingencies and commitments and cash flows are disclosed in the administered financial statements and related schedules and notes.

Except where otherwise stated below, administered items are accounted for on the same basis and using the same policies as for departmental items, including the application of Australian Accounting Standards.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2012

(a) Administered Cash Transfers to and from Official Public Account

Revenue collected by Defence, for use by the Australian Government rather than Defence, is administered revenue. Collections are transferred to the Official Public Account (OPA) maintained by the Department of Finance and Deregulation. Conversely, cash is drawn from the OPA to make payments under Parliamentary appropriations on behalf of the Australian Government. These transfers to and from the OPA are adjustments to the administered cash held by the entity on behalf of the Government and reported as such in the schedule of administered cash flows and in the administered reconciliation schedule.

(b) Revenue

All administered revenues relate to activities performed by Defence on behalf of the Australian Government. Administered revenues mainly comprise military superannuation contributions, payments received from the United Nations and foreign governments, bank interest, dividends paid by Defence Housing Australia and licence fees received under the Defence Home Ownership Assistance Scheme.

(c) Loans Receivables

Where loans and receivables are not subject to concessional treatment, they are carried at amortised cost using the effective interest method. Gains and losses due to impairment, derecognition and amortisation are recognised as income or expense.

(d) Administered Investments

Defence reports the Australian Government's capital investment in Defence Housing Australia (DHA) which is outlined at Notes 20C and 27. The investment is classified as 'available for sale' and is measured at fair value using the net assets valuation approach in accordance with the FMOs. The investment was assessed for impairment at year end and no indicators of impairment were noted.

The following Commonwealth Authorities and Companies are small portfolio bodies within the Defence Portfolio:

- Australian Strategic Policy Institute Limited;
- Army and Air Force Canteen Service (*Frontline Defence Services*);
- Australian Military Forces Relief Trust Fund (*Army Relief Trust Fund*);
- Royal Australian Air Force Veterans' Residences Trust Fund;
- Royal Australian Air Force Welfare Trust Fund;
- Royal Australian Navy Central Canteens Board;
- Royal Australian Navy Relief Trust Fund;
- AAF Company; and
- RAAF Welfare Recreational Company.

The Australia Strategic Policy Institute Limited is a Commonwealth company that provides policy-relevant research and analysis to inform Government decisions and public understanding of strategic and defence issues.

The remaining bodies were established through either their own enabling legislation or constitution to provide services/support to military personnel (including retired personnel in some circumstances). The Government has an oversight role on the investment in these bodies on behalf of the beneficiaries.

These investments are classified as 'available for sale' and are measured at fair value using the net assets valuation approach in accordance with the FMOs.

(e) Military Retention Benefits

Certain categories of ADF personnel, who are members of the Military Superannuation Benefits Scheme (MSBS) and have had 15 years of service, receive retention benefits as an incentive for continued service. Retention benefit payments are initially recorded as prepayments and amortised over the expected period of service.

(f) Military Superannuation

The Defence Force Retirement and Death Benefits Scheme (DFRDB) is a fully unfunded scheme and the Military Superannuation and Benefits Scheme (MSBS) is a partly funded scheme. MSBS member contributions are paid into the Military Super and Benefits Fund that is controlled by the Commonwealth Superannuation Corporation and are therefore not reflected in the administered financial statements. The Australian Government, on behalf of the MSB Fund, makes funded benefit payments to members of the scheme and is reimbursed by the MSB Fund for these payments.

The Australian Government Actuary (AGA) estimates the provisions and expected future cash flows as at 30 June each year. These estimates are reflected in the administered financial statements. The AGA completes a full review of the unfunded liabilities every three years and issues a Long Term Cost Report. This was last completed in 2011.

Actuarial gains and losses for defined benefit plans are recognised applying the "direct to equity" option as outlined in AASB 119.

Department of Defence
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the period ended 30 June 2012

(g) Other Guarantees

There are no quantifiable administered amounts guaranteed by the Commonwealth to disclose in the administered financial statements.

There are no unquantifiable guarantees disclosed in the Administered Contingent Liabilities and Contingent Assets in Note 25.

(h) Indemnities

There are currently no quantifiable indemnities to disclose in the administered financial statements. There are no unquantifiable indemnities disclosed in the Administered Contingent Liabilities and Contingent Assets in Note 25.

(i) Subsidies

Defence administers the Defence Home Owner Subsidy Scheme and the Defence Home Ownership Assistance Scheme on behalf of the Government. Subsidy liabilities are recognised to the extent that: (i) the services required to be performed by the recipient have been performed; or (ii) eligibility criteria have been satisfied, but payments due have not been made.

(j) Payments to CAC Act Bodies

Payments to CAC Act bodies from amounts appropriated for that purpose are classified as either administered expenses, loans receivable or an increase to the carrying amount of the investment held in the relevant portfolio department. Defence acts as the relevant portfolio department for Defence Housing Australia. The appropriation to Defence is disclosed in Table A in Note 31.

Note 2. Events after the Reporting Period

Departmental

There are no post balance sheet events with a material effect on the financial statements.

Administered

There are no post balance sheet events with a material effect on the financial statements.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2012

	2012 \$'000	2011 \$'000
Note 3. Expenses		
Note 3A. Employee benefits		
Australian Public Service (APS) employee benefits		
Wages and salaries	1,176,331	1,087,650
Superannuation:		
Defined contribution plans	76,376	61,757
Defined benefit plans	120,817	128,574
Leave and other entitlements	175,374	143,684
Fringe Benefits Tax	4,096	5,550
Separations and redundancies	3,243	1,256
Other allowances (including overseas allowances, overseas rent and salary allowances)	26,054	23,237
Health expenses	5,089	4,410
Other employee expenses (including home purchase/sale expense allowance)	1,009	1,161
Total APS employee benefits	1,588,389	1,457,279
Australian Defence Force (ADF) employee benefits		
Wages and salaries	4,229,674	4,126,487
Superannuation:		
Defined benefit plans	1,336,983	1,303,429
Housing ¹	776,850	717,070
Leave and other entitlements	494,172	491,014
Fringe Benefits Tax	356,205	369,818
Overseas allowances	279,612	279,121
Separations and redundancies	16,185	8,904
Other allowances (including field and cadet forces allowances)	339,809	348,626
Health expenses	313,689	296,603
Other employee expenses (including retention/completion bonuses, home purchase assistance scheme and conditions of service – travel)	109,832	139,890
Total ADF employee benefits	8,253,011	8,080,962
Total employee benefits	9,841,400	9,538,241

¹ Housing expenses include lease payments made to DHA for the provision of housing for Australian Defence Force (ADF) members with families. Due to their nature, these payments are classified as employee expenses. Residences leased from DHA are subleased by Defence to ADF members for a nominal charge. Sublease expenses are paid by Defence to DHA and recognised as part of ADF Housing expenses. For the current financial year, sublease expenses were \$477.05m (2010-11: \$440.72m).

Department of Defence**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS***for the period ended 30 June 2012*

	2012 \$'000	2011 \$'000
Note 3B. Suppliers		
Goods and services		
Inventory consumption	1,069,409	955,520
Sustainment	4,003,243	3,701,126
Garrison support and mess operations	665,737	607,816
Travel	226,382	211,257
Freight, storage and removal	425,343	501,366
Training	325,963	290,049
Repair and overhaul	199,750	164,654
Communications and information technology	717,786	563,871
Professional services/technical advice	555,258	530,253
Estate upkeep	757,224	496,910
Research and development	140,860	146,920
Utilities	170,173	163,100
Purchase of minor assets	118,743	97,514
Other (including capital construction support charges, rations and mess operations and minor expenses)	892,051	711,821
Total goods and services	10,267,922	9,142,177
Goods and services are made up of:		
Provision of goods - related entities	62,102	16,095
Provision of goods - external parties	1,502,460	1,425,666
Rendering of services - related entities	4,184,007	3,925,900
Rendering of services - external parties	4,519,353	3,774,516
Total goods and services	10,267,922	9,142,177
Other supplier expenses		
Operating lease rentals - related entities:		
Minimum lease repayments	4,570	7,623
Operating lease rentals - external parties:		
Minimum lease repayments	353,967	328,286
Contingent rentals	8,785	11,118
Sublease	3,734	3,754
Finance lease contingent rentals	342	451
Workers compensation premiums	26,678	26,841
Total other supplier expenses	398,076	378,073
Total supplier expenses	10,665,998	9,520,250
Note 3C. Grants		
Public sector:		
State and Territory Governments	217	310
Private sector:		
Non-profit organisations	28,819	6,419
Overseas	42,269	38,452
Total grants	71,305	45,181

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2012

	2012 \$'000	2011 \$'000
Note 3D. Depreciation and amortisation		
Depreciation		
Buildings	483,112	465,290
Buildings – leasehold improvements	13,796	13,586
Specialist military equipment	2,545,733	2,709,951
Infrastructure	289,954	268,329
Plant and equipment	157,173	172,045
Total depreciation	3,489,768	3,629,201
Amortisation		
Buildings under finance lease	29,495	38,757
Infrastructure under finance lease	388	175
Plant and equipment under finance lease	29,643	31,249
Software under finance lease	-	12,068
Software	62,996	60,459
Other intangibles	18,694	24,663
Total amortisation	141,216	167,371
Total depreciation and amortisation	3,630,984	3,796,572
The aggregate amounts of depreciation or amortisation expensed during the reporting period for each class of depreciable assets are as follows:		
Buildings	526,403	517,633
Specialist military equipment	2,545,733	2,709,951
Infrastructure	290,342	268,504
Plant and equipment	186,816	203,294
Software and intangibles	81,690	97,190
Total depreciation and amortisation	3,630,984	3,796,572
Note 3E. Finance costs		
Finance leases	66,359	65,183
Unwinding of discount for restoration, decontamination and decommissioning	34,186	31,356
Bank interest	2	6
Total finance costs	100,547	96,545

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2012

	2012 \$'000	2011 \$'000
Note 3F. Write-down and impairment of assets		
Financial assets		
Receivables	896	1,277
Total financial assets	896	1,277
This is represented by:		
Bad debts written off	673	497
Impairment allowance	223	780
	896	1,277
Non-financial assets		
Land and buildings		
Assets in use	42,968	37,286
Work in progress	1,063	1,484
Total land and buildings	44,031	38,770
Specialist military equipment		
Assets in use	268,052	405,044
Work in progress	190,293	118,791
Total specialist military equipment	458,345	523,835
Infrastructure		
Assets in use	2,827	4,800
Work in progress	3,303	46
Total infrastructure	6,130	4,846
Plant and equipment		
Assets in use	14,075	4,666
Work in progress	5,065	10,200
Total plant and equipment	19,140	14,866
Heritage and cultural assets		
Assets in use	4,999	498
Total heritage and cultural assets	4,999	498
Intangibles		
Assets in use	26,573	849
Work in progress	3,344	16,147
Total intangibles	29,917	16,996
Inventory		
Write down of general stores inventory	242,256	118,130
Write down of explosive ordnance	125,080	139,560
Write down of fuel	2,670	3,102
Total inventory	370,006	260,792
Total write-down and impairment of assets	933,464	861,880

Department of Defence
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the period ended 30 June 2012

	2012 \$'000	2011 \$'000
Note 3G. Foreign exchange		
Foreign exchange gains		
Non-speculative	5,008	41,254
Foreign exchange losses		
Non-speculative	(4,640)	(33,790)
Total net gain (loss) foreign exchange	368	7,464
Note 3H. Sale of assets		
Land and buildings		
Proceeds from sale	78,875	90,129
Carrying value of assets sold	(87,128)	(109,296)
Selling expense	(5,479)	(12,384)
Net (loss) from sale of land and buildings	(13,732)	(31,551)
Specialist military equipment		
Proceeds from sale	598	3,400
Carrying value of assets sold	(108)	-
Selling expense	-	-
Net gain from sale of specialist military equipment	490	3,400
Infrastructure		
Proceeds from sale	-	-
Carrying value of assets sold	-	-
Selling expense	(140)	(511)
Net (loss) from sale of infrastructure	(140)	(511)
Plant and equipment		
Proceeds from sale	24,329	23,623
Carrying value of assets sold	(23,148)	(22,461)
Selling expense	(1,657)	(1,156)
Net gain (loss) from sale of plant and equipment	(476)	6
Heritage and cultural assets		
Proceeds from sale	573	438
Carrying value of assets sold	(596)	(2,115)
Selling expense	(192)	(197)
Net gain from sale of heritage and cultural assets	(215)	(1,874)
Other assets		
Proceeds from sale	857	325
Carrying value of assets sold	-	-
Selling expense	-	-
Net gain from sale of other assets	857	325
Total net (loss) from sale of assets	(13,216)	(30,205)

Department of Defence**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS***for the period ended 30 June 2012*

	2012 \$'000	2011 \$'000
Note 31. Other expenses		
Act of Grace payments section 33	394	1,137
Ex-gratia payments	600	1,170
Tactical Payment Scheme payments	45	39
Defective Administration Scheme payments	464	179
Restoration, decontamination and decommissioning costs	82,157	112,709
Other	13,755	82,018
Total other expenses	97,415	197,252

Department of Defence
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the period ended 30 June 2012

	2012 \$'000	2011 \$'000
Note 4. Income		
<u>Revenue</u>		
Note 4A. Sale of goods and rendering of services		
Sale of goods		
Rations and quarters	53,460	54,427
Sales of fuel	52,154	42,790
Other (including sale of obsolete and surplus inventory)	36,338	22,861
Total sale of goods	141,952	120,078
Sale of goods to:		
Related entities	15,021	15,332
External parties	126,931	104,746
Total sale of goods	141,952	120,078
Rendering of services		
Recovery of military salary from DMO	151,607	155,555
Sale of services to DMO	197,690	187,917
Group rental scheme	185,133	169,421
Other (including the recovery of logistics support from foreign forces)	102,610	106,738
Total rendering of services	637,040	619,631
Rendering of services to:		
Related entities	352,907	343,472
External parties	284,133	276,159
Total rendering of services	637,040	619,631
Total sale of goods and rendering of services	778,992	739,709
Note 4B. Rental income		
Operating leases:		
Other	9,481	9,240
Total rental income	9,481	9,240
Note 4C. Other revenue		
Excise refunds	6,120	1,088
Claims for damages	169,024	35,632
Foreign military sales refunds	2,371	1,073
Other minor revenues	17,110	72,719
Resources received free of charge		
DMO acquisition and sustainment services	781,045	746,250
Other resources received free of charge	488	4,162
Total other revenue	976,158	860,924

Department of Defence**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS***for the period ended 30 June 2012*

	2012	2011
	\$'000	\$'000

Gains**Note 4D. Reversals of previous asset write-downs and impairments**

Land and buildings	4,032	16,738
Specialist military equipment	357,417	256,872
Infrastructure	2,152	3,201
Plant and equipment	3,092	3,626
Heritage and cultural assets	8,178	12,937
Software and intangibles	501	87
<i>Total property, plant and equipment and intangibles</i>	<u>375,372</u>	<u>293,461</u>
Receivables	470	664
Inventory	103,731	83,442
<i>Total reversals of previous asset write-downs and impairments</i>	<u>479,573</u>	<u>377,567</u>

Note 4E. Other gains

Resources received free of charge	4,644	4,644
Other gains	79,704	46,293
<i>Total other gains</i>	<u>84,348</u>	<u>50,937</u>

Revenue from Government**Note 4F. Revenue from Government**

Appropriations:

Departmental appropriation	22,466,427	21,069,544
<i>Total revenue from Government</i>	<u>22,466,427</u>	<u>21,069,544</u>

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2012

	2012 \$'000	2011 \$'000
Note 5. Financial Assets		
Note 5A. Cash and cash equivalents		
Cash on hand	5,570	6,640
Cash at bank – at call	12,521	58,231
Total cash and cash equivalents	18,091	64,871
Note 5B. Trade and other receivables		
Goods and Services:		
Related entities	26,056	36,221
External parties	95,881	51,775
Total receivables for goods and services	121,937	87,996
Appropriation receivable:		
For existing programs	34,164	42,122
For departmental supplementation	-	8,000
Total appropriations receivable	34,164	50,122
Other receivables:		
GST receivable from the Australian Taxation Office	84,062	112,449
Accrued revenue	26,692	9,865
Other ¹	173,156	315,991
Total other receivables	283,910	438,305
Total trade and other receivables (gross)	440,011	576,423
Less impairment allowance account:		
Goods and services	(6,315)	(6,894)
Total impairment allowance account	(6,315)	(6,894)
Total trade and other receivables (net)	433,696	569,529
Trade and other receivables are expected to be recovered in:		
Less than 12 months	417,942	555,809
More than 12 months	15,754	13,720
Total trade and other receivables (net)	433,696	569,529

¹ In 2010-11, \$83.5m relating to unspent service fee receivable from DMO for 2005-06 to 2008-09 was recognised.

Department of Defence**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS***for the period ended 30 June 2012*

	2012 \$'000	2011 \$'000
Note 5B. Trade and other receivables (continued)		
Trade and other receivables (gross) are aged as follows:		
Not overdue	397,135	548,389
Overdue by:		
Less than 30 days	8,776	12,058
31 to 60 days	870	1,159
61 to 90 days	17,187	6,718
More than 90 days	<u>16,043</u>	<u>8,099</u>
Total trade and other receivables (gross)	<u>440,011</u>	<u>576,423</u>
The impairment allowance account is aged as follows:		
Not overdue	-	-
Overdue by:		
Less than 30 days	-	-
31 to 60 days	-	-
61 to 90 days	-	-
More than 90 days	<u>(6,315)</u>	<u>(6,894)</u>
Total impairment allowance account	<u>(6,315)</u>	<u>(6,894)</u>
Reconciliation of the impairment allowance account:		
Opening balance	(6,894)	(6,828)
Amounts written off	58	50
Amounts recovered and reversed	746	664
(Increase)/decrease recognised in net surplus/(deficit)	<u>(225)</u>	<u>(780)</u>
Closing balance	<u>(6,315)</u>	<u>(6,894)</u>

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2012

	2012 \$'000	2011 \$'000
Note 6. Non-Financial Assets		
Note 6A. Land and Buildings		
Land		
At fair value*	4,491,934	4,526,693
Land held under finance lease	87,541	98,234
Total land	4,579,475	4,624,927
Buildings		
Buildings on freehold land		
At fair value*	9,431,952	8,857,004
Accumulated depreciation	(203,193)	(267,046)
Accumulated impairment losses	(25,717)	(144)
Total buildings on freehold land	9,203,042	8,589,814
Work in progress – at cost	1,262,498	1,622,019
Buildings held under finance lease	659,774	760,787
Accumulated amortisation	(9,574)	(27,752)
	650,200	733,035
Total buildings	11,115,740	10,944,868
Total land and buildings	15,695,215	15,569,795

* All independent valuations were conducted by the Australian Valuation Office in accordance with the revaluation policy stated at Note 1.20(f).

Land and buildings held for sale are included at Note 6J.

Department of Defence**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS***for the period ended 30 June 2012*

	2012 \$'000	2011 \$'000
Note 6B. Specialist Military Equipment		
Specialist military equipment in use other than military support items		
At cost	50,624,577	47,930,269
Accumulated depreciation	(25,971,592)	(25,886,572)
Accumulated impairment losses	(326,957)	(368,089)
Net carrying value of specialist military equipment	24,326,028	21,675,608
Military support items		
At cost ¹	13,577,942	13,284,498
Accumulated depreciation	(8,176,538)	(7,931,564)
Accumulated impairment losses	(112,049)	(123,990)
Net carrying value of military support items	5,289,355	5,228,944
Work in progress – at cost ¹	10,712,409	11,733,508
Total specialist military equipment	40,327,792	38,638,060

¹ In 2010-11, \$7.346m was incorrectly classified between Military Support items and Work in Progress – SME. The comparative figures have been corrected.

Specialist Military Equipment held for sale is included at Note 6J.

Note 6C. Infrastructure

At fair value*	5,307,259	5,086,447
Accumulated depreciation	(117,872)	(119,902)
	5,189,387	4,966,545
Work in progress – at cost	188,510	269,827
Infrastructure held under finance lease	8,805	4,272
Accumulated amortisation	(32)	(59)
	8,773	4,213
Total infrastructure	5,386,670	5,240,585

* All independent valuations were conducted by the Australian Valuation Office in accordance with the revaluation policy stated at Note 1.20(f).

Infrastructure held for sale is included at Note 6J.

Department of Defence**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS***for the period ended 30 June 2012*

	2012 \$'000	2011 \$'000
Note 6D. Plant and Equipment		
At fair value*	1,164,245	1,012,903
Accumulated depreciation	(249,890)	(119,448)
Accumulated impairment losses	(16,155)	(17,491)
	<u>898,200</u>	<u>875,964</u>
Work in progress – at cost	339,552	262,364
Plant and equipment under finance lease	112,872	197,745
Accumulated amortisation	(6,891)	(71,412)
	<u>105,981</u>	<u>126,333</u>
Total plant and equipment	<u>1,343,733</u>	<u>1,264,661</u>

* All independent valuations were conducted by the Australian Valuation Office in accordance with the revaluation policy stated at Note 1.20(f).

Plant and equipment held for sale is included at Note 6J.

Note 6E. Heritage and Cultural Assets

At fair value*	984,939	965,944
Total heritage and cultural assets	<u>984,939</u>	<u>965,944</u>

* All independent valuations were conducted by the Australian Valuation Office in accordance with the revaluation policy stated at Note 1.20(f).

Heritage and Cultural Assets held for sale are included at Note 6J.

Department of Defence
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the period ended 30 June 2012

	2012 \$'000	2011 \$'000
Note 6F. Intangibles		
Computer software		
<i>Purchased</i>		
At cost	667,326	603,716
Accumulated amortisation	(294,022)	(246,740)
Accumulated impairment losses	(2,933)	(2,732)
	<u>370,371</u>	<u>354,244</u>
Work in progress – at cost	113,303	95,261
Computer software under finance lease	64,944	124,715
Accumulated amortisation	(64,944)	(100,580)
	<u>-</u>	<u>24,135</u>
<i>Total purchased computer software</i>	<u>483,674</u>	<u>473,640</u>
<i>Internally generated</i>		
At cost	83,543	77,453
Accumulated amortisation	(52,993)	(44,680)
Accumulated impairment losses	(46)	-
	<u>30,504</u>	<u>32,773</u>
<i>Total internally generated computer software</i>	<u>30,504</u>	<u>32,773</u>
<i>Total computer software</i>	<u>514,178</u>	<u>506,413</u>
Other intangibles		
<i>Purchased</i>		
At cost	83,471	72,417
Accumulated amortisation	(43,577)	(38,890)
Accumulated impairment losses	(3,226)	(776)
	<u>36,668</u>	<u>32,751</u>
Work in progress – at cost	26	3,806
<i>Total other intangibles purchased</i>	<u>36,694</u>	<u>36,557</u>
<i>Internally generated</i>		
At cost	71,703	66,050
Accumulated amortisation	(44,655)	(30,715)
Accumulated impairment losses	(2,914)	(2,914)
	<u>24,134</u>	<u>32,421</u>
<i>Total other intangibles internally generated</i>	<u>24,134</u>	<u>32,421</u>
<i>Total other intangibles</i>	<u>60,828</u>	<u>68,978</u>
<i>Total intangibles</i>	<u>575,006</u>	<u>575,391</u>

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2012

Note 6G. Reconciliation of the opening and closing balances of property, infrastructure, plant and equipment and intangibles (2011-12)

	Land \$'000	Buildings \$'000	Specialist Military Equipment \$'000	Infrastructure \$'000	Plant and Equipment (owned & leased) \$'000	Heritage and Cultural Assets ¹ \$'000	Computer Software Purchased \$'000	Computer Software Internally Generated \$'000	Other Intangibles Purchased \$'000	Other Intangibles Internally Generated \$'000	Total \$'000
As at 1 July 2011											
Gross book value	4,624,927	11,239,810	72,948,275	5,360,546	1,473,012	965,944	823,692	77,453	76,223	66,050	97,655,932
Accumulated depreciation/amortisation & impairment	-	(294,942)	(34,310,215)	(119,961)	(208,351)	-	(350,052)	(44,680)	(39,666)	(33,629)	(35,401,496)
Net book value 1 July 2011	4,624,927	10,944,868	38,638,060	5,240,585	1,264,661	965,944	473,640	32,773	36,557	32,421	62,254,436
Additions											
By purchase	21,971	693,027	4,325,195	244,895	285,056	24	88,088	2,149	32	381	5,660,818
By finance lease	-	-	-	-	8,806	-	-	-	-	-	8,806
First found assets recognised	-	34,317	104,495	22,680	526	-	-	-	-	-	162,018
Revaluations/impairments recognised in other comprehensive income	(26,658)	89,910	-	61,971	11,105	14,237	-	-	-	-	150,565
Reclassification	(3,854)	(66,750)	(60,633)	110,869	(418)	715	1,196	5,858	7,694	5,323	-
Depreciation/amortisation expense	-	(526,403)	(2,545,733)	(290,342)	(186,816)	-	(52,598)	(10,398)	(4,703)	(13,991)	(3,630,984)
Revaluations/write-downs and impairments recognised in operating result	(1,425)	(42,606)	(458,345)	(6,130)	(19,140)	(4,999)	(26,985)	(46)	(2,886)	-	(562,562)
Other movements											
Reversal of previous asset write-downs	2	4,030	357,417	2,152	3,092	8,178	333	168	-	-	375,372
Transfers in (out)	-	(40)	(21,716)	(10)	(182)	-	-	-	-	-	(21,948)
Transfers to/from Assets Held for Sale	37,611	(584)	(10,840)	-	191	1,436	-	-	-	-	27,814
Disposals:											
Other disposals	(73,099)	(14,029)	(108)	-	(23,148)	(596)	-	-	-	-	(110,980)
Net book value 30 June 2012	4,579,475	11,115,740	40,327,792	5,386,670	1,343,733	984,939	483,674	30,504	36,694	24,134	64,313,355
Net book value as of 30 June 2012 represented by:											
Gross book value	4,579,475	11,354,224	74,914,928	5,504,574	1,616,669	984,939	845,573	83,543	83,497	71,703	100,039,125
Accumulated depreciation/amortisation and impairment	-	(238,484)	(34,587,136)	(117,904)	(272,936)	-	(361,899)	(53,039)	(46,803)	(47,569)	(35,725,770)
Closing net book value at 30 June 2012	4,579,475	11,115,740	40,327,792	5,386,670	1,343,733	984,939	483,674	30,504	36,694	24,134	64,313,355

¹ Where land, buildings and other infrastructure plant and equipment meet the definition of a heritage and cultural item, they have been disclosed in the heritage and cultural asset class.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2012

Note 6G (continued). Reconciliation of the opening and closing balances of property, infrastructure, plant and equipment and intangibles (2010-11)

	Land \$'000	Buildings \$'000	Specialist Military Equipment \$'000	Infrastructure \$'000	Plant and Equipment (owned & leased) \$'000	Heritage and Cultural Assets ¹ \$'000	Computer Software Purchased \$'000	Computer Software Internally Generated \$'000	Other Intangibles Purchased \$'000	Other Intangibles Internally Generated \$'000	Total \$'000
As at 1 July 2010											
Gross book value	4,555,773	10,624,087	69,269,941	5,353,396	1,493,796	900,602	773,145	90,654	66,496	65,700	93,193,590
Accumulated depreciation/amortisation & impairment	-	(266,082)	(32,913,541)	(144,254)	(304,094)	-	(289,311)	(54,596)	(40,592)	(13,542)	(34,026,012)
Net book value 1 July 2010	4,555,773	10,358,005	36,356,400	5,209,142	1,189,702	900,602	483,834	36,058	25,904	52,158	59,167,578
Additions											
By purchase	4,721	963,011	5,314,805	234,562	286,223	6	61,834	1,572	1,443	419	6,868,596
By finance lease	-	6,246	-	-	12,968	-	-	-	-	-	19,214
By donation/gift	-	-	-	-	25	29	3,151	-	-	-	3,205
First found assets recognised	-	-	-	-	-	-	-	-	-	-	-
Revaluations/impairments recognised in other comprehensive income	151,586	216,881	-	65,384	31,865	56,408	-	-	-	-	522,124
Reclassifications	40,184	(49,365)	1,787	1,702	(17,452)	27	(1,258)	6,004	18,233	138	-
Depreciation/amortisation expense	-	(517,633)	(2,709,951)	(268,504)	(203,294)	-	(61,751)	(10,776)	(4,550)	(20,113)	(3,796,572)
Revaluations/write-downs and impairments recognised in operating result	-	(38,770)	(523,835)	(4,846)	(14,866)	(498)	(12,257)	(85)	(4,473)	(181)	(599,811)
Other movements											
Reversal of previous asset write-downs	-	16,738	256,872	3,201	3,626	12,937	87	-	-	-	293,461
Transfers in (out)	-	(34)	(62,378)	(56)	(1,956)	(16)	-	-	-	-	(64,440)
Transfers to/from Assets Held for Sale	(24,014)	(4,238)	4,360	-	281	(1,436)	-	-	-	-	(25,047)
Disposals:											
Other disposals	(103,323)	(5,973)	-	-	(22,461)	(2,115)	-	-	-	-	(133,872)
Net book value 30 June 2011	4,624,927	10,944,868	38,638,060	5,240,585	1,264,661	965,944	473,640	32,773	36,557	32,421	62,254,436
Net book value as of 30 June 2011 represented by:											
Gross book value	4,624,927	11,239,810	72,948,275	5,360,546	1,473,012	965,944	823,692	77,453	76,223	66,050	97,655,932
Accumulated depreciation/amortisation and impairment	-	(294,942)	(34,310,215)	(119,961)	(208,351)	-	(350,052)	(44,680)	(39,666)	(33,629)	(35,401,496)
Closing net book value at 30 June 2011	4,624,927	10,944,868	38,638,060	5,240,585	1,264,661	965,944	473,640	32,773	36,557	32,421	62,254,436

¹ Where land, buildings and other infrastructure plant and equipment meet the definition of a heritage and cultural item, they have been disclosed in the heritage and cultural asset class.

Department of Defence
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the period ended 30 June 2012

	2012 \$'000	2011 \$'000
Note 6H. Inventories		
Inventories - General	2,143,361	2,086,572
Inventories - Explosive ordnance	3,389,161	3,190,835
Inventories - Fuel	153,903	144,680
Total inventories	5,686,425	5,422,087

Inventories are expected to be consumed in:

No more than 12 months	710,705	777,521
More than 12 months	4,975,720	4,644,566
Total inventories	5,686,425	5,422,087

Inventory valuation dissection

Balance at cost as at 1 July	5,422,087	5,161,135
Inventory acquired during period	1,639,016	1,383,145
Reversal of previous inventory write downs during period	103,731	83,442
Inventory consumed during period	(1,069,409)	(955,520)
Inventory write downs during period	(370,006)	(260,792)
Transfer to inventory during period	7,103	20,716
Transfer from inventory during period	(46,097)	(10,039)
Closing balance as at 30 June	5,686,425	5,422,087

No items of inventory were recognised at fair value less cost to sell.

Note 6L. Prepayments

Capital prepayments	9,837	1,606
Non capital prepayments	144,341	153,239
Total prepayments	154,178	154,845

Prepayments are expected to be recovered in:

No more than 12 months	132,451	128,570
More than 12 months	21,727	26,275
Total prepayments	154,178	154,845

Note 6J. Assets held for sale

Land and buildings	7,084	44,111
Specialist military equipment	18,458	7,618
Heritage and cultural	-	1,436
Other infrastructure, plant and equipment	156	347
Total assets held for sale	25,698	53,512

Department of Defence**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS***for the period ended 30 June 2012*

	2012 \$'000	2011 \$'000
Note 7. Payables		
Note 7A. Suppliers		
Trade creditors and accruals – non-capital ^{1,2,3}	885,992	859,718
Trade creditors and accruals – capital	255,636	769,848
Operating lease rentals ¹	41,130	33,339
Total suppliers payable	1,182,758	1,662,905
Supplier payables expected to be settled within 12 months:		
Related entities	251,606	815,814
External parties	877,474	847,091
Total	1,129,080	1,662,905
Supplier payables expected to be settled in greater than 12 months:		
Related entities	53,678	-
External parties	-	-
Total	53,678	-
Total suppliers payable	1,182,758	1,662,905

Settlement is usually made within 30 days.

¹ In 2010-11, Operating lease rentals of \$350.78m were disclosed separately under suppliers. Only \$33.34m of this amount correctly related to operating lease rentals. \$317.44m has been reclassified to trade creditors and accruals – non-capital.

Note 7B. Other Payables**Australian Public Service (APS) employee payables**

Salaries and wages	37,967	31,477
Superannuation	5,582	4,717
Separations and redundancies	-	148

Australian Defence Force (ADF) employee payables

Salaries and wages	147,327	118,714
Superannuation	34,712	27,269
Separations and redundancies	-	369

Other ^{2,3}	208,915	346,006
Total other payables	434,503	528,700

Total other payables are expected to be settled in:

No more than 12 months	407,379	490,920
More than 12 months	27,124	37,780
Total other payables	434,503	528,700

² 2010-11 Smart Salary Employee Contributions have been reclassified from Suppliers Payable to Other Payables as they relate to amounts payable on behalf of Commonwealth employees.

³ A non-capital, non-trade creditor of \$149.306m has been reclassified from Suppliers Payable to Other Payables.

Department of Defence
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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	2012 \$'000	2011 \$'000
Note 8. Interest Bearing Liabilities		
Note 8A. Finance Leases*		
Payable:		
Within one year:		
Minimum lease payments	204,574	122,403
Deduct: future finance charges	(54,363)	(55,672)
In one to five years:		
Minimum lease payments	353,599	390,114
Deduct: future finance charges	(202,383)	(209,881)
In more than five years:		
Minimum lease payments	857,906	837,596
Deduct: future finance charges	(410,616)	(436,322)
Finance leases recognised on the balance sheet	748,717	648,238

* 20 (2010-11: 23) finance leases exist in relation to properties and technology. The leases are non-cancellable and for fixed terms with an average remaining term of 10.1 years (2010-11: 8.6 years). The maximum number of years remaining is 26.6 (2010-11: 27.9 years) relating to the Amberley Single Leap finance lease to 31 January 2039 (2010-11: Amberley Single Leap finance lease to 31 January 2039). The lease assets secure the lease liabilities. Interest rates applied averaged 7.97% (2010-11: 7.73%).

Contingent rent (representing the portion of the lease payments made that were not fixed and subject to CPI finance lease contract clauses) were expensed in the periods in which they were incurred on 3 finance leases (2010-11: 3 finance leases). For residential properties this is reported in Employee Benefits Expenses (refer Note 3A), for non residential properties this is reported in Supplier Expenses (refer Note 3B).

Department of Defence**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS***for the period ended 30 June 2012*

	2012 \$'000	2011 \$'000
Note 9. Provisions		
Note 9A. Employee Provisions		
Australian Public Service (APS) employee provisions		
Leave	528,647	478,633
Total APS employee provisions	528,647	478,633
Australian Defence Force (ADF) employee provisions		
Leave	1,691,955	1,650,693
Other provisions	7,055	33,189
Total ADF employee provisions	1,699,010	1,683,882
Total employee provisions	2,227,657	2,162,515
Employee provisions are expected to be settled in:		
No more than 12 months	533,254	699,440
More than 12 months	1,694,403	1,463,075
Total employee provisions	2,227,657	2,162,515
Note 9B. Restoration, decontamination and decommissioning		
Provisions for restoration and decommissioning	431,477	358,591
Provision for decontamination ¹	444,663	482,415
Total restoration, decontamination and decommissioning provisions	876,140	841,006
Restoration, decontamination and decommissioning provisions are expected to be settled in:		
No more than 12 months	98,510	155,280
More than 12 months	777,630	685,726
Total restoration, decontamination and decommissioning provisions	876,140	841,006
¹ This provision does not represent the total cost of remediating contamination on all Defence sites rather, it provides an estimate of the present obligation that exists in relation to these sites (see Note 1.20c for the accounting policy on this matter). Refer to Note 9D for a reconciliation of this balance.		
Note 9C. Other provisions		
Other provisions	3,822	6,358
Total other provisions	3,822	6,358
Other provisions are expected to be settled in:		
No more than 12 months	2,522	4,358
More than 12 months	1,300	2,000
Total other provisions	3,822	6,358
Refer to Note 9D for a reconciliation of this balance.		

Department of Defence
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the period ended 30 June 2012

Note 9D. Reconciliation of provision balances:

Movement in relation to 2011-12

	Restoration and decommissioning provisions \$'000	Decontamination provisions \$'000	Other provisions \$'000
Carrying amount 1 July 2011	358,591	482,415	6,358
Additional provisions made	69,193	92,120	600
Amounts used	(200)	(76,527)	(310)
Amounts reversed	(11,476)	(72,162)	(2,826)
Unwinding of discount or change in discount rate	15,369	18,817	-
Closing balance 30 June 2012	431,477	444,663	3,822

Department of Defence
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the period ended 30 June 2012

Note 10. Restructuring

Note 10A. Departmental Restructuring

	2012 National Security Science and Technology Branch ¹ \$'000	2011 Centralised security vetting ² \$'000	Cyber policy co-ordination ³ \$'000
Functions assumed			
Assets recognised			
Receivables	-	-	-
Total Assets recognised	-	-	-
Liabilities recognised			
Payables	-	-	-
Total Liabilities recognised	-	-	-
Net Assets recognised	-	-	-
Income			
Recognised by the receiving entity	2,233	-	90
Recognised by the losing entity	(2,233)	-	(90)
Total Income	-	-	-
Expenses			
Recognised by the receiving entity	2,233	-	90
Recognised by the losing entity	(2,233)	-	(90)
Total Expenses	-	-	-

¹ 2011-12: **National Security Science and Technology Branch** – Machinery of Government changes resulted in the transfer of the National Security Science and Technology Branch from the Department of the Prime Minister and Cabinet to the Defence Science and Technology Organisation. This transferred funds of \$2.2m in 2011-12.

² 2010-11: Centralised security vetting – The Australian Government announced on 1 December 2009, that Commonwealth security vetting processes would be centralised in the Department of Defence to create a single, centralised vetting agency called Australian Government Security Vetting Agency (AGSVA). Implementation of the AGSVA has been part of a Better Regulation Ministerial Partnership initiative between the Attorney-General, the Minister for Finance and Deregulation and the Minister for Defence to reduce costs and improve the efficiency of the security vetting process. On 1 October 2010, the AGSVA was established in the Department of Defence.

As part of this initiative, the Australian Security Vetting Service (ASVS) was transferred from the Attorney-General's Department to the Department of Defence. During 2010-11 there was a transfer of twenty five staff from the Attorney General's Department to the Department of Defence, no assets or liabilities were transferred.

³ 2010-11: Transfer of cyber policy co-ordination functions from the Department of Defence to the Department of the Prime Minister and Cabinet – On 14 September 2010 ministerial portfolios were restructured and departments were renamed in accordance with changes to the *Administrative Arrangement Order*. Functions relating to cyber policy co-ordination were transferred from the Department of Defence to the Department of the Prime Minister and Cabinet. As a result, the *Appropriation Act (No. 1) 2010-2011* was amended and the Defence departmental appropriation reduced by \$0.09m. No assets or liabilities were transferred as part of this *Administrative Arrangement Order*.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2012

	2012 \$'000	2011 \$'000
Note 11. Cash Flow Reconciliation		
Reconciliation of cash and cash equivalents as per Balance Sheet to Cash Flow Statement		
Cash and cash equivalents as per:		
Cash Flow Statement	18,091	64,871
Balance Sheet	18,091	64,871
<i>Difference</i>	-	-
Reconciliation of net cost of services to net cash from operating activities:		
Net cost of services	(23,025,409)	(22,040,285)
Add revenue from Government	22,466,427	21,069,544
Adjustments for non-cash items		
Depreciation / amortisation	3,630,984	3,796,572
Foreign exchange (gains) losses	(368)	(7,464)
Reversals of previous asset write-downs	(479,573)	(377,567)
(Gains) losses from assets sales	13,216	30,205
Net write-down and impairment of assets	933,464	861,880
Finance costs	100,547	96,545
Inventory consumed or expensed	1,069,409	955,520
Changes in assets/liabilities		
Decrease/(increase) in inventory related to operations	(261,447)	106,052
Decrease/(increase) in trade and other receivables	145,517	20,456
Decrease/(increase) in prepayments	8,898	8,497
Increase/(decrease) in suppliers	(110,838)	225,777
Increase/(decrease) in other payables	(92,868)	173,453
Increase/(decrease) in employee provisions	65,142	29,602
Increase/(decrease) in restoration/decontamination provision	(2,536)	(8,476)
Increase/(decrease) in other provisions	21,560	37,805
<i>Net cash from / (used by) operating activities</i>	4,482,125	4,978,116

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2012

Note 12. Contingent Liabilities and Contingent Assets

	Claims for damages / costs		Total	
	2012 \$'000	2011 ¹ \$'000	2012 \$'000	2011 ¹ \$'000
Contingent assets				
Balance from previous period	77,620	105,896	77,620	105,896
New	1,133	77,620	1,133	77,620
Re-measurement	353	(38,984)	353	(38,984)
Assets recognised	(77,532)	(66,861)	(77,532)	(66,861)
Expired	(200)	(51)	(200)	(51)
Total contingent assets	1,374	77,620	1,374	77,620
Contingent liabilities				
Balance from previous period	1,412	27,485	1,412	27,485
New	20,870	694	20,870	694
Re-measurement	29,053	(26,767)	29,053	(26,767)
Liabilities recognised	(2,685)	-	(2,685)	-
Obligations expired	(136)	-	(136)	-
Total contingent liabilities	48,514	1,412	48,514	1,412
Net contingent assets (liabilities)	(47,140)	76,208	(47,140)	76,208

¹ Contingent assets and contingent liabilities for matters managed by DMO on behalf of Defence were not included in 2010-11 figures. The table above has been restated to include 4 instances of contingent assets. The change has resulted in an increase to contingent assets in 2010-11 from \$0.088m to \$77.62m.

Quantifiable Contingencies

Contingent Assets: At 30 June 2012, the Schedule of Contingencies contains 21 (2010-11: 6)¹ instances of non-remote, quantifiable contingent assets in respect of claims by the Department valued at \$1.37m (2010-11: \$77.62m)¹. The Department is expecting to succeed in its claims. The estimated figure is determined by conducting an objective analysis of the probable amounts owing to the Department.

Contingent Liabilities: At 30 June 2012, the Schedule of Contingencies contains 45 (2010-11: 13) instances of non-remote, quantifiable contingent liabilities in respect of claims on the Department valued at \$48.5m (2010-11: \$1.41m). The estimated figure is determined by conducting an objective analysis of the probable amount payable for all the matters managed by the members of Defence's Legal Services Panels and those being handled in-house by Defence Legal Division. However, as an estimate, the exact amount payable under those claims is uncertain. The Department of Defence is defending the claims or is trying to resolve them by recourse to alternative dispute resolution measures.

Unquantifiable Contingencies

Contingent Assets: At 30 June 2012 Defence had nil (2010-11: 1) instances of unquantifiable non-remote contingent assets.

Contingent Liabilities: At 30 June 2012 Defence had 9 (2010-11: 2) instances of unquantifiable non-remote contingent liabilities.

It was not possible to estimate the amounts of any eventual payments or receipts that may eventuate in relation to these claims. These are not included in the Schedule of Contingencies.

Department of Defence**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS***for the period ended 30 June 2012***Note 12: Contingent Liabilities and Contingent Assets (continued)****Remote Contingencies**

The comparative figures for quantifiable remote contingent liabilities have been restated from \$4,192.23m to \$2,518.46m and 457 instances restated to 764. The number of unquantifiable remote contingent liabilities have also been restated from 9,869 to 13.

Quantifiable Remote Contingencies

Remote Contingent Assets: At 30 June 2012 Defence had 5 (2010-11: 5) instances of quantifiable remote contingent assets valued at \$0.85m (2010-11: \$20.89m).

Remote Contingent Liabilities: At 30 June 2012 Defence had 1,192 (2010-11: 764) instances of quantifiable remote contingent liabilities valued at \$3,132.35m (2010-11: \$2,518.46m).

These are not included in the Schedule of Contingencies.

Unquantifiable Remote Contingencies

Contingent Assets: At 30 June 2012 Defence had 5 instances of unquantifiable remote contingent assets (2010-11: 1).

Contingent Liabilities: At 30 June 2012 Defence had 4 instances of unquantifiable remote contingent liabilities (2010-11: 13).

These are not included in the Schedule of Contingencies.

Significant Remote Contingencies

At 30 June 2012 Defence had the following significant remote contingent liabilities:

ADI Limited – Officers' and Directors' Indemnities: Under the sale agreements for ADI Ltd, the Australian Government agreed to indemnify the directors, officers and employees for claims and legal costs associated with assistance related to the sale of the Australian Government's shares in the company. The Australian Government has provided an indemnity to ADI Ltd for uninsured losses relating to specific heads of claims.

Cockatoo Island Dockyard (CODOCK): On 13 October 2001, CODOCK commenced proceedings against the Commonwealth (Defence) in the NSW Supreme Court seeking full reimbursement from the Commonwealth for personal injury claims costs incurred by CODOCK after 31 October 1995 in relation to asbestos exposure. Following decisions in the NSW Supreme Court on 17 December 2004 and 4 February 2005, and the NSW Court of Appeal on 23 November 2006, CODOCK was awarded a complete indemnity from the Commonwealth for its uninsured exposure to asbestos damages claims, plus profit of 7.5%.

Decontamination of Defence sites: Defence has made financial provision for the possible costs involved in restoring, decontaminating and decommissioning Defence sites in Australia where a legal or constructive obligation has arisen. For those sites for which there is no legal or constructive obligation, the potential costs have not been assessed and are unquantifiable.

Claims and Litigation Cases: The Department of Defence is involved in a wide range of litigation and other claims for compensation and/or damages that may result in litigation where the matters are not able to be finalised by use of negotiation. The litigation includes common law liability claims, including for injury alleged to have resulted from the F-111 Deseal/Reseal programmes. A number of claims have also been received for damage caused by the use of a Defence Practice Area. There is also the potential for a number of claims to arise out of reviews into ADF and Defence Culture.

These are not included in the Schedule of Contingencies.

Department of Defence
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the period ended 30 June 2012

Note 13. Senior Executive Remuneration

	2012	2011
	\$	\$
Note 13A. Senior Executive Remuneration Expenses for the Reporting Period		
Short-term employee benefits		
Salary	61,408,819	58,600,301
Annual leave accrued	777,562	576,210
Performance bonus	90,319	82,702
Other ¹	19,166,690	14,245,527
Total short-term employee benefits	81,443,390	73,504,740
Post-employment benefits		
Superannuation	12,493,762	11,789,292
Total post-employment benefits	12,493,762	11,789,292
Other long-term benefits		
Long-service leave	2,965,293	3,707,629
Total other long-term benefits	2,965,293	3,707,629
Termination benefits	3,194,584	1,664,629
Total	100,097,029	90,666,290

Notes

1. "Other" includes leased motor vehicles, car parking, housing, medical benefits and other allowances.
2. Note 13A is prepared on an accrual basis (therefore the performance bonus expense disclosed above may differ from the 'Bonus paid' amount in Note 13B).
3. Note 13A excludes acting arrangements and part-year services where total remuneration expensed was less than \$150,000 per FMO23.6.
4. Excludes Star Ranked Reservists who are not employed on a continuous full time basis and whose reportable remuneration is less than \$150,000 per FMO17.14.
5. Includes all Military Star Ranked Officers who have been posted to the Defence Materiel Organisation (DMO) per FMO 23.54P. In 2011-12 there were 28 such Officers (2010-11: 26 officers). The total remuneration for these Officers was \$7,923,745 including \$535,589 in separation/redundancy payments (2010-11: \$6,861,971 including \$171,335 in separation/redundancy payments). Whilst these Officers undertake a management function within DMO they remain employees of the Department of Defence. Defence will receive a payment from the DMO for these Officers in accordance with the Military Workforce Agreement.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2012

Note 13B. Average Annual Reportable Remuneration Paid to Substantive Senior Executives During the Reporting Period

Average annual reportable remuneration ¹	Senior executives No.	2012				Total \$
		Reportable salary ^{2,6} \$	Contributed superannuation ^{3,6} \$	Reportable allowances ⁴ \$	Bonus paid ⁵ \$	
Total Remuneration (including part-time arrangements)						
Less than \$150,000	48	72,607	19,211	203	-	92,021
\$150,000 to \$179,999	17	126,549	35,294	310	1,695	163,848
\$180,000 to \$209,999	63	168,422	30,890	188	40	199,540
\$210,000 to \$239,999	51	188,504	35,855	306	164	224,829
\$240,000 to \$269,999	103	205,823	48,071	501	419	254,814
\$270,000 to \$299,999	27	225,943	57,850	412	-	284,205
\$300,000 to \$329,999	19	243,990	66,920	538	-	311,448
\$330,000 to \$359,999	3	276,213	71,505	103	-	347,821
\$360,000 to \$389,999	2	331,536	39,675	215	-	371,426
\$390,000 to \$419,999	3	330,882	66,425	229	2,500	400,036
\$420,000 to \$449,999	4	350,433	79,513	2	-	429,948
\$450,000 to \$479,999	2	371,179	81,773	10	-	452,962
\$480,000 to \$509,999	1	497,470	-	-	-	497,470
\$540,000 to \$569,999	1	496,373	62,509	-	-	558,882
Total	344					

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2012

Note 13B. Average Annual Reportable Remuneration Paid to Substantive Senior Executives During the Reporting Period (*continued*)

Average annual reportable remuneration ¹	2011					Total \$
	Senior executives No.	Reportable salary ^{2,6} \$	Contributed superannuation ^{3,6} \$	Reportable allowances ⁴ \$	Bonus paid ⁵ \$	
Total Remuneration (including part-time arrangements)						
Less than \$150,000	45	74,254	23,198	292	-	97,744
\$150,000 to \$179,999	23	134,108	35,270	235	-	169,613
\$180,000 to \$209,999	73	161,714	31,506	178	82	193,480
\$210,000 to \$239,999	69	183,390	44,330	424	403	228,547
\$240,000 to \$269,999	67	194,420	56,778	522	-	251,720
\$270,000 to \$299,999	29	213,175	71,681	511	-	285,367
\$300,000 to \$329,999	7	247,243	62,185	538	-	309,966
\$330,000 to \$359,999	5	281,556	54,778	-	3,743	340,077
\$360,000 to \$389,999	4	287,444	86,243	46	-	373,733
\$390,000 to \$419,999	2	331,961	61,704	-	10,842	404,507
\$450,000 to \$479,999	1	365,436	77,600	-	7,500	450,536
\$480,000 to \$509,999	1	433,493	52,000	-	-	485,493
\$510,000 to \$539,999	1	415,526	123,559	-	-	539,085
\$600,000 to \$629,999	2	575,634	43,163	-	-	618,797
Total	329					

Notes

1. This table reports substantive senior executives who received remuneration during the reporting period. Each row is an averaged figure based on headcount for individuals in the band.
2. Reportable salary includes the following:
 - gross payments (less any bonuses paid, which are separated out and disclosed in the 'Bonus paid' column);
 - reportable fringe benefits (at the net amount prior to 'grossing up' to account for tax benefits); and
 - exempt foreign employment income.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2012

Note 13B. Average Annual Reportable Remuneration Paid to Substantive Senior Executives During the Reporting Period (*continued*)

3. The 'contributed superannuation' amount is the average actual superannuation contributions paid to senior executives in that reportable remuneration band during the reporting period, including any salary sacrificed amounts, per the individuals' payment summaries. Senior executives were members of one of the following superannuation funds:
 - Defence Force Retirement and Death Benefit Scheme (DFRDB). The DFRDB was closed to new participants in 1991. Employer contributions are set at 33.4 per cent (2011: 33.4 per cent) (including productivity component). More information can be found at <http://www.militarysuper.gov.au>;
 - Military Superannuation and Benefits Scheme (MSBS). MSBS has been available to all full time members of the ADF. Employer contributions are set at 29.1 per cent (2011: 29.1 per cent) (including productivity component). More information can be found at <http://www.militarysuper.gov.au>;
 - Australian Government Employee Superannuation Trust (AGEST): this fund is for senior executives who were employed for a defined period. Employer contributions were set at 9 per cent (2011: 9 per cent). More information on AGEST can be found at <http://www.agest.com.au>;
 - Commonwealth Superannuation Scheme (CSS): this scheme is closed to new members, and employer contributions were averaged 18.8 per cent (2011: 20.4 per cent) (including productivity component). More information on CSS can be found at <http://www.css.gov.au>;
 - Public Sector Superannuation Scheme (PSS): this scheme is closed to new members, with current employer contributions were set at 15.2 per cent (2011: 15.9 per cent) (including productivity component). More information on PSS can be found at <http://www.pss.gov.au>;
 - Public Sector Superannuation Accumulation Plan (PSSap): employer contributions were set at 15.4 percent (2011: 15.4 per cent), and the fund has been in operation since July 2005. More information on PSSap can be found at <http://www.pssap.gov.au>; and
 - Other: there were some senior executives who had their own superannuation arrangements (e.g. self-managed superannuation funds). Their employer contributions were set at 15.4 per cent (2011: 15.4 per cent).
4. 'Reportable allowances' are the average actual allowances paid as per the 'total allowances' line on individuals' payment summaries.
5. 'Bonus paid' represents average actual bonuses paid during the reporting period in that reportable remuneration band. The 'bonus paid' within a particular band may vary between financial years due to various factors such as individuals commencing with or leaving the entity during the financial year.
6. Various salary sacrifice arrangements were available to senior executives including superannuation, motor vehicle and expense payment fringe benefits. Salary sacrifice benefits are reported in the 'reportable salary' column, excluding salary sacrificed superannuation, which is reported in the 'contributed superannuation' column.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2012

Note 13C. Other Highly Paid Staff

Average annual reportable remuneration ¹	2012					
	Staff	Reportable salary ^{2,6,7}	Contributed superannuation ^{3,6}	Reportable allowances ⁴	Bonus paid ⁵	Total
	No.	\$	\$	\$	\$	\$
Total Remuneration (including part-time arrangements)						
\$150,000 to \$179,999	2,814	127,786	35,224	576	-	163,586
\$180,000 to \$209,999	1,305	151,226	40,457	617	-	192,300
\$210,000 to \$239,999	325	174,605	44,620	620	-	219,845
\$240,000 to \$269,999	126	214,327	40,078	631	-	255,036
\$270,000 to \$299,999	74	235,818	45,943	651	-	282,412
\$300,000 to \$329,999	34	266,607	44,610	672	-	311,889
\$330,000 to \$359,999	16	286,289	55,774	468	-	342,531
\$360,000 to \$389,999	3	268,417	97,299	680	-	366,396
\$450,000 to \$479,999	1	400,971	60,396	680	-	462,047
Total	4,698					

Average annual reportable remuneration ¹	2011					
	Staff	Reportable salary ^{2,6,7}	Contributed superannuation ^{3,6}	Reportable allowances ⁴	Bonus paid ⁵	Total
	No.	\$	\$	\$	\$	\$
Total Remuneration (including part-time arrangements)						
\$150,000 to \$179,999	2,740	129,525	34,815	586	-	164,926
\$180,000 to \$209,999	1,046	154,066	39,844	599	-	194,509
\$210,000 to \$239,999	237	184,390	39,673	595	-	224,658
\$240,000 to \$269,999	119	213,153	40,610	654	-	254,417
\$270,000 to \$299,999	58	240,930	44,213	769	-	285,912
\$300,000 to \$329,999	17	260,271	51,172	673	-	312,116
\$330,000 to \$359,999	5	298,763	48,899	680	-	348,342
Total	4,222					

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2012

Notes

1. This table reports staff:

- who were employed by the entity during the reporting period;
- whose reportable remuneration was \$150,000 or more for the financial period; and
- were not required to be disclosed in the tables in notes 13A or 13B.

Each row is an averaged figure based on headcount for individuals in the band.

2. 'Reportable salary' includes the following:

- gross payments (less any bonuses paid, which are separated out and disclosed in the 'bonus paid' column);
- reportable fringe benefits (at the net amount prior to 'grossing up' to account for tax benefits); and
- exempt foreign income.

3. The 'contributed superannuation' amount is the average actual superannuation contributions paid to staff in that reportable remuneration band during the reporting period, including any salary sacrificed amounts, as per the individuals' payment summaries.

4. 'Reportable allowances' are the average actual allowances paid as per the 'total allowances' line on individuals' payment summaries. This is uniform allowance for military members.

5. 'Bonus paid' represents average actual bonuses paid during the reporting period in that reportable remuneration band. The 'bonus paid' within a particular band may vary between financial years due to various factors such as individuals commencing with or leaving the entity during the financial year.

6. Various salary sacrifice arrangements were available to other highly paid staff including superannuation, motor vehicle and expense payment fringe benefits. Salary sacrifice benefits are reported in the 'reportable salary' column, excluding salary sacrificed superannuation, which is reported in the 'contributed superannuation' column.

7. In 2011-12 there were 794 Military members who received a retention payment (2010-11: 1,357) for them to sign up for a further period of specific service or because they have critical skills. This is not a performance payment. If the military member does not serve the specified extra time then the outstanding amount must be repaid. These amounts are reflected in the 'reportable salary' column as reported on the members' payment summaries.

Department of Defence
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the period ended 30 June 2012

2012	2011
\$'000	\$'000

Note 14. Remuneration of Auditors

Financial statement audit services are provided free of charge to the Department.

The fair value of the services provided by the Auditor General was:

4,644	4,644
<u>4,644</u>	<u>4,644</u>

No other services were provided by the auditors of the financial statements.

Department of Defence**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS***for the period ended 30 June 2012*

2012	2011
\$'000	\$'000

Note 15. Financial Instruments**Financial risk management objectives and policies**

Details of the significant accounting policies and methods adopted, including the criteria for recognition and the basis for measurement in respect of each class of financial asset and financial liability are disclosed in Note 1 to the financial statements.

In accordance with Australian Government policy, Defence does not enter into reportable derivative financial instruments.

Note 15A. Categories of financial instruments**Financial Assets**

Loans and receivables:

Cash and cash equivalents	18,091	64,871
Trade and other receivables	315,470	406,958

Total	333,561	471,829
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Carrying amount of financial assets	333,561	471,829
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Financial Liabilities

At amortised cost:

Suppliers	1,182,758	1,662,905
Other payables	284,022	434,121
Finance lease	748,717	648,238

Total	2,215,497	2,745,264
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Carrying amount of financial liabilities	2,215,497	2,745,264
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Note 15B. Net income and expense from financial assets**Loans and receivables**

Exchange gains/(loss)	4,937	(4,470)
Impairment	(426)	(613)

Net gain/(loss) on loans and receivables	4,511	(5,083)
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Net gain/(loss) on financial assets	4,511	(5,083)
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There is no interest income from financial assets not at fair value through the profit or loss.

Note 15C. Net income and expense from financial liabilities**At amortised cost**

Exchange gains/(loss)	(4,569)	11,934
Interest expense	(66,361)	(65,189)

Net gain/(loss) financial liabilities – at amortised cost	(70,930)	(53,255)
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Net gain/(loss) on financial liabilities	(70,930)	(53,255)
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Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2012

Note 15D. Fair Value of Financial Instruments

The fair values of cash, non-interest bearing monetary financial assets, trade creditors and finance leases approximate their carrying amounts (AASB 7 paragraph 29). Finance Leases are recognised at the lower of fair value and net present value of the minimum lease payments (AASB 117) at lease inception. The carrying amounts reported represent the amounts required to settle each liability.

Note 15E. Credit Risk

Defence's maximum credit risk at the reporting date in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the Balance Sheet. Defence has endorsed policies and procedures for debt management to reduce the incidence of credit risk. The majority of goods or services provided by Defence are provided to other government entities and employees and therefore represent minimal credit risk exposure for Defence.

The carrying amount of financial assets, net of impairment losses, reported in the Balance Sheet represents Defence's exposure to credit risk. Defence has no significant exposures to any concentrations of credit risk.

Credit quality of financial instruments not past due or individually determined as impaired:

		Not Past Due Nor Impaired	Not Past Due Nor Impaired	Past Due Or Impaired	Past Due Or Impaired
		2012	2011	2012	2011
	Notes	\$'000	\$'000	\$'000	\$'000
Financial assets:					
Cash and cash equivalents	5A	18,091	64,871	-	-
Trade and other receivables	5B	278,909	385,817	42,876	28,035
Total		297,000	450,688	42,876	28,035

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2012

Note 15E. Credit Risk (continued)

Ageing of financial assets that are past due but not impaired

	Notes	0 to 30 days		31 to 60 days		61 to 90 days		Over 90 days		Total	
		2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets:											
Trade and other receivables	5B	8,776	12,058	870	1,159	17,187	6,718	9,728	1,205	36,561	21,140
Total		8,776	12,058	870	1,159	17,187	6,718	9,728	1,205	36,561	21,140

Note 15F. Liquidity Risk

Defence's financial liabilities are payables and finance leases. The exposure to liquidity risk is based on the notion that Defence will encounter difficulty in meeting its obligations associated with financial liabilities. This is highly unlikely due to appropriation funding and mechanisms available to Defence (e.g. Advance to the Finance Minister) and internal policies and procedures put in place to ensure there are appropriate resources to meet its financial obligations.

The following table illustrates the maturities for non-derivative financial liabilities.

	Notes	On demand		Within 1 year		1 to 2 years		2 to 5 years		> 5 years		Total	
		2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial Liabilities:													
Suppliers	7A	-	-	1,182,758	1,662,905	-	-	-	-	-	-	1,182,758	1,662,905
Other payables	7B	-	-	258,468	407,737	150	2,087	7,237	3,923	18,167	20,374	284,022	434,121
Finance lease	8A	-	-	150,211	66,731	104,194	104,204	47,022	76,029	447,290	401,274	748,717	648,238
Total		-	-	1,591,437	2,137,373	104,344	106,291	54,259	79,952	465,457	421,648	2,215,497	2,745,264

Defence has no derivative financial liabilities in both the current and prior year.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2012

Note 15G. Market Risk

Currency risk

Foreign currency transactions are recorded at the rate of exchange at the date of the transaction.

Foreign currency receivables, payables and provisions are translated at exchange rates current at the balance date. Exchange gains and losses are brought to account in determining the operating result for the year. These exchange gains and losses are not speculative and no hedging is undertaken.

Defence is exposed to foreign exchange rate risk through primary financial assets and liabilities yet a change in risk variable will not have a significant effect on the Balance Sheet or the Statement of Comprehensive Income.

The following table summarises the currency risk in respect of recognised financial assets and financial liabilities.

	United States Dollar AS'000	Malaysian Ringgit AS'000	United Arab Emirates Dirham AS'000	Canadian Dollars AS'000	Euro AS'000	British Pound Sterling AS'000	Solomon Islands Dollar AS'000	Afghan Afghani AS'000	Other AS'000	Total AS'000
Financial Assets										
Cash	6,167	372	217	-	2	221	76	80	51	7,186
Receivables	26,915	-	331	-	-	-	-	-	7	27,253
	<u>33,082</u>	<u>372</u>	<u>548</u>	<u>-</u>	<u>2</u>	<u>221</u>	<u>76</u>	<u>80</u>	<u>58</u>	<u>34,439</u>
Financial Liabilities										
Suppliers	18,715	2,553	400	7	106	158	-	-	72	22,011
	<u>18,715</u>	<u>2,553</u>	<u>400</u>	<u>7</u>	<u>106</u>	<u>158</u>	<u>-</u>	<u>-</u>	<u>72</u>	<u>22,011</u>

Departmental currency risk is minimised through budget supplementation for any adverse movements in exchange rates on financial assets and financial liabilities held in foreign currencies.

Interest rate risk

Defence reports interest-bearing finance leases that bear interest at a fixed interest rate at inception. Therefore, a change in interest rates at the reporting date would have a nil impact.

Other price risk

Defence is exposed to a variety of commodity price risks relating to various supply contracts. These do not have a material impact on Defence's financial liabilities.

Department of Defence**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS***for the period ended 30 June 2012*

	2012 \$'000	2011 \$'000
Note 16. Financial Assets Reconciliation		
Total financial assets per balance sheet	451,787	634,400
Less: non-financial instrument components		
GST receivable from the Australian Taxation Office	(84,062)	(112,449)
Appropriation receivable	(34,164)	(50,122)
Total non-financial instrument components	(118,226)	(162,571)
Total financial assets as per financial instruments note	333,561	471,829

Note 17. Accounting for Errors

There are no adjustments to the prior period resulting from accounting errors.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2012

	2012 \$'000	2011 \$'000
Note 18. Income Administered on Behalf of Government		
REVENUE		
Non-taxation revenue		
Note 18A. Fees and Fines		
Licence fees	10,485	7,833
Levies	1,766	-
Total fees and fines	12,251	7,833
Note 18B. Interest¹		
Loans to Defence Housing Australia	32,173	31,107
Other	3,344	-
Total interest	35,517	31,107
Note 18C. Dividends		
Australian Government Entities – Defence Housing Australia	49,654	52,379
Total dividends	49,654	52,379
Note 18D. Military superannuation contributions		
Military superannuation contributions	1,158,903	1,135,592
Total military superannuation contributions	1,158,903	1,135,592
Note 18E. Other revenue		
Competitive Neutrality Revenue – Defence Housing Australia	36,005	42,204
Other ¹	23,580	85,275
Total other revenue	59,585	127,479
Note 18F. Revenue from Government		
Appropriations:		
Administered appropriations	-	-
Administered special appropriations	-	-
Total revenue from government	-	-
¹ In 2010-11 Interest from Official Bank Accounts and Overdue debts from Departmental Accounts of \$0.015m was classified as Interest. The amount has been reclassified as Other revenue.		

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2012

	2012 \$'000	2011 \$'000
Note 19. Expenses Administered on Behalf of Government		
EXPENSES		
Note 19A. Employee benefits		
Superannuation:		
Defined benefit plans	4,062,274	3,883,408
Retention benefits	56,525	44,517
Total employee benefits	4,118,799	3,927,925
Note 19B. Subsidies		
Defence Force Home Loans Assistance	3,483	4,293
Defence Home Ownership Assistance Scheme	93,102	80,948
Total subsidies	96,585	85,241
Note 19C. Write-Down and impairment of assets		
Impairment on financial instruments ¹	141	293
Total write-down and impairment of assets	141	293
¹ In 2010-11, a change in the estimated value of a receivable of \$0.255m was disclosed as an 'Adjustment for errors'. The amount has been reclassified to 'Note 19C: Write down and impairment of assets' within Administered expenses.		
Note 19D. Foreign Exchange		
Foreign exchange gains		
Non-speculative	166	-
Foreign exchange losses		
Non-speculative	-	(803)
Total net gain/(loss) foreign exchange	166	(803)

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2012

	2012 \$'000	2011 \$'000
Note 20. Assets Administered on Behalf of Government		
FINANCIAL ASSETS		
Note 20A. Cash and Cash Equivalents		
Cash on hand or on deposit	-	-
Total cash and cash equivalents	-	-
Note 20B. Trade and other receivables		
Goods and services:		
Goods and services receivable - external parties	8,572	8,078
Total receivables for goods and services	8,572	8,078
Other receivables:		
Accrued superannuation	508	447
Dividends	49,654	52,379
Loans receivable – Defence Housing Australia	509,580	509,580
Competitive neutrality – Defence Housing Australia	5,384	15,131
Total other receivables	565,126	577,537
Total receivables (gross)	573,698	585,615
Less impairment allowance account:		
Goods and services	-	(38)
Total impairment allowance account	-	(38)
Total receivables (net)	573,698	585,577
Receivables are expected to be recovered in:		
No more than 12 months	194,118	206,477
More than 12 months	379,580	379,100
Total receivables (net)	573,698	585,577
Receivables are aged as follows:		
Not overdue	573,560	581,452
Overdue by:		
Less than 30 days	79	4,125
30 to 60 days	-	-
61 to 90 days	-	-
More than 90 days	59	38
Total receivables (gross)	573,698	585,615

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2012

Note 20B. Trade and other receivables (continued)		
	2012	2011
	\$'000	\$'000
The impairment allowance account is aged as follows:		
Not overdue	-	-
Overdue by:		
Less than 30 days	-	-
30 to 60 days	-	-
61 to 90 days	-	-
More than 90 days	-	(38)
Total impairment allowance account	-	(38)
Reconciliation of the impairment allowance account		
Opening balance	(38)	(15)
Amounts written off	38	15
Amounts recovered and reversed	-	-
Increase/decrease recognised in net surplus	-	(38)
Closing balance	-	(38)

Department of Defence**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS***for the period ended 30 June 2012*

	2012	2011
	\$'000	\$'000
Note 20C. Investments accounted for using the equity method		
Other investments shares (or equity interest in) - Defence Housing Australia	2,197,408	2,232,676
Other investments – Small portfolio bodies ¹	77,828	75,296
Total investments	2,275,236	2,307,972
Investments are expected to be recovered in:		
No more than 12 months	-	-
More than 12 months	2,275,236	2,307,972
Total investments	2,275,236	2,307,972
¹ A list of all small portfolio bodies can be found in note 1.28(d).		
Non-financial assets		
Note 20D. Other non-financial assets		
Prepayments – retention benefits	170,095	157,134
Total other non-financial assets	170,095	157,134
Total other non-financial assets are expected to be recovered in:		
No more than 12 months	50,530	45,647
More than 12 months	119,565	111,487
Total other non-financial assets	170,095	157,134

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2012

	2012 \$'000	2011 \$'000
Note 21. Liabilities Administered on Behalf of Government		
Payables		
Note 21A. Other payables		
Other payables	5,159	47
Total other payables	5,159	47
Total other payables are expected to be settled in:		
No more than 12 months	5,159	47
More than 12 months	-	-
Total other payables	5,159	47
Provisions		
Note 21B. Employee provisions		
Superannuation – DFRDB	39,311,100	28,587,200
Superannuation – MSBS	46,479,000	21,531,000
Total employee provisions	85,790,100	50,118,200
Employee provisions are expected to be settled in:		
No more than 12 months	1,854,000	1,902,000
More than 12 months	83,936,100	48,216,200
Total employee provisions	85,790,100	50,118,200

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2012

	2012 \$'000	2011 \$'000
Note 22. Defined Benefit Superannuation Plans Administered on Behalf of Government		
Defence administers on behalf of the Australian Government, two defined benefit superannuation plans for ADF members. The two plans are the Defence Force Retirement and Death Benefits Scheme (DFRDB) and the Military Superannuation and Benefits Scheme (MSBS). A general description of the plans and Defence's accounting policy for recognising actuarial gains and losses can be found in Note 1.28(f) of these statements. The following is a reconciliation of the two plans as required by AASB 119: <i>Employee Benefits</i> .		
<u>Defence Force Retirement and Death Benefits Scheme (DFRDB)</u>		
The amounts recognised in the balance sheet are as follows:		
Present value of funded obligations	-	-
Fair value of plan assets	-	-
Present value of unfunded obligations	39,311,100	28,587,200
Unrecognised past service cost	-	-
<i>Net liability in balance sheet</i>	39,311,100	28,587,200
Amounts in balance sheet:		
Liabilities	39,311,100	28,587,200
Assets	-	-
<i>Net liability in balance sheet</i>	39,311,100	28,587,200
The amounts recognised in income or expense are as follows:		
Current service cost	139,000	172,000
Interest on obligation	1,478,400	1,450,400
Expected return on plan assets	-	-
Past service cost	-	-
Losses (gains) on curtailment and settlements	-	-
<i>Expense</i>	1,617,400	1,622,400
Net actuarial losses (gains) recognised in equity	10,630,800	(84,100)
Changes in the value of defined benefit obligation are as follows:		
Net liability at 1 July	28,587,200	28,558,700
Current Service cost	139,000	172,000
Interest cost	1,478,400	1,450,400
Actuarial losses (gains)	10,630,800	(84,100)
Benefits paid	(1,524,300)	(1,509,800)
Past service cost	-	-
<i>Net liability as at 30 June</i>	39,311,100	28,587,200
Changes in the fair value of plan assets are as follows:		
Opening fair value of plan assets	-	-
Contributions by employer	1,524,300	1,509,800
Benefits paid	(1,524,300)	(1,509,800)
<i>Closing value of plan assets</i>	-	-

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2012

Note 22. Defined Benefit Superannuation Plans Administered on Behalf of Government (continued)

	2012 \$'000	2011 \$'000
Principal actuarial assumptions at the reporting date (expressed as weighted averages):		
Discount rate at 30 June	3.1%	5.3%
Expected return on plan assets	0.0%	0.0%
Future salary increases*	4.0%	4.0%
Future pension increases	2.5%	2.5%

The demographic assumptions used for 30 June 2011 are those used for the preparation of Long Term Cost Report for the DFRDB and MSBS as at 30 June 2008. The demographic assumptions used for 30 June 2012 are those used for the preparation of the Long Term Cost Report for the MSBS, DFRBD and DFRB as at 30 June 2011.

* Separate promotional salary scales are used to allow for promotional salary increases.

Historical information:

	Financial Year Ended 30 June:				
	2012 \$'000	2011 \$'000	2010 \$'000	2009 \$'000	2008 \$'000
Present value of defined benefit obligation	39,311,100	28,587,200	28,558,700	26,689,000	22,329,000
(Fair value of scheme assets)	-	-	-	-	-
(Surplus)/deficit in scheme	39,311,100	28,587,200	28,558,700	26,689,000	22,329,000
Experience adjustments (gain)/loss – scheme assets	-	-	-	-	-
Experience adjustments (gain)/loss – scheme liabilities	10,630,800	(84,100)	1,644,900	3,563,000	5,000

Notes:

1. Service cost includes the cost of benefits accruing as a result of contributions deducted from members' salaries that are paid into Consolidated Revenue.
2. Benefits payable under the *Defence Force Retirement and Death Benefits Act 1973* are paid from Consolidated Revenue on an emerging (or pay as you go) basis. Benefits paid under the *Defence Act 1903 Determination* are paid by the Department of Defence on an emerging cost basis. Thus contributions made equal benefits paid for the DFRDB.
3. The expected employer contributions in respect of 2012-13 are \$1,544m which is the expected amount of benefit payments. Note that member contributions paid to Consolidated Revenue would be an offset to this.
4. The figures shown above include the 3% Productivity Benefit.
5. The cumulative actuarial losses and gains recognised in equity are as follows:

Opening balance as at 30 June 2004	-
2004-05 loss	3,528,000
30 June 2005 cumulative loss	3,528,000
2005-06 gain	(2,457,000)
30 June 2006 cumulative loss	1,071,000
2006-07 gain	(1,503,000)
30 June 2007 cumulative gain	(432,000)
2007-08 loss	5,000
30 June 2008 cumulative gain	(427,000)
2008-09 loss ¹	3,563,500
30 June 2009 cumulative loss ¹	3,136,500
2009-10 loss	1,644,900
30 June 2010 cumulative loss	4,781,400
2010-11 gain	(84,100)
30 June 2011 cumulative loss	4,697,300
2011-12 loss	10,630,800
30 June 2012 cumulative loss	15,328,100

¹2008-09 loss has been restated as \$3,563,500 as per Actuary advice (DFRDB AASB119 figures as at 28 July 2009).

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2012

Note 22. Defined Benefit Superannuation Plans Administered on Behalf of Government (continued)		
	2012	2011
	\$'000	\$'000
<u>Military Superannuation and Benefits Scheme (MSBS)</u>		
The amounts recognised in the balance sheet are as follows:		
Present value of funded obligations	4,012,000	3,741,000
Fair value of plan assets	4,012,000	3,741,000
Present value of unfunded obligations	46,479,000	21,531,000
Unrecognised past service cost	-	-
<i>Net liability in balance sheet</i>	46,479,000	21,531,000
Amounts in balance sheet:		
Liabilities	50,491,000	25,272,000
Assets	4,012,000	3,741,000
<i>Net liability in balance sheet</i>	46,479,000	21,531,000
The amounts recognised in income or expenses are as follows:		
Current service cost	1,499,000	1,422,000
Interest on obligation	1,427,000	1,270,000
Expected return on plan assets	(273,000)	(238,000)
Past service cost	-	-
Losses (gains) on curtailment and settlements	-	-
<i>Expense</i>	2,653,000	2,454,000
Liability actuarial losses (gains) recognised in equity	22,431,000	(230,000)
Actual return on plan assets:		
Expected return on plan assets	273,000	238,000
Actual return on plan assets	(51,000)	168,000
Actuarial gains (loss) on plan assets recognised in equity	(324,000)	(70,000)
Changes in the value of defined benefit obligation are as follows:		
Net liability at 1 July	25,272,000	22,922,000
Current Service cost	1,499,000	1,422,000
Non-employer contributions	247,000	242,000
Interest cost	1,427,000	1,270,000
Actuarial losses (gains)	22,431,000	(230,000)
Benefits paid	(385,000)	(354,000)
Past service cost	-	-
<i>Closing value of plan liabilities</i>	50,491,000	25,272,000

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2012

Note 22. Defined Benefit Superannuation Plans Administered on Behalf of Government (continued)					
	2012		2011		
	\$'000		\$'000		
Changes in the fair value of plan assets are as follows:					
Opening fair value of plan assets	3,741,000		3,239,000		
Expected return on plan assets	273,000		238,000		
Actuarial gains and losses	(324,000)		(70,000)		
Contributions by employer	460,000		446,000		
Funded non-employer contributions	247,000		242,000		
Benefits paid	(385,000)		(354,000)		
Closing value of plan assets	4,012,000		3,741,000		
The major categories of plan assets as a percentage of total assets are as follows:					
Australian equities	24%		28%		
Overseas equities	19%		13%		
Property & Infrastructure	8%		13%		
Private equity	22%		13%		
Hedge funds	4%		4%		
Cash, debt instrument and other	23%		29%		
Principal actuarial assumptions at the reporting date (expressed as weighted averages):					
Discount rate at 30 June (unfunded component)	3.1%		5.3%		
Discount rate at 30 June (funded component)	6.1%		6.5%		
Expected return on plan assets	7.0%		7.0%		
Future salary increases *	4.0%		4.0%		
Future pension increases	2.5%		2.5%		
The demographic assumptions used for 30 June 2011 are those used for the preparation of the Long Term Cost Report for the DFRDB and MSBS as at 30 June 2008. The demographic assumptions used for 30 June 2012 are those used for the preparation of the Long Term Cost Report for the MSBS, DFRBD and DFRB as at 30 June 2011.					
* Separate promotional salary scales are used to allow for promotional salary increases.					
Historical Information:					
	Financial Year Ended 30 June:				
	2012	2011	2010	2009	2008
	\$'000	\$'000	\$'000	\$'000	\$'000
Present value of defined benefit obligation	50,491,000	25,272,000	22,922,000	18,781,000	13,634,000
Fair value of scheme assets	4,012,000	3,741,000	3,239,000	2,811,000	2,929,000
(Surplus)/deficit in scheme	46,479,000	21,531,000	19,683,000	15,970,000	10,705,000
Experience adjustments (gain)/loss – scheme assets	324,000	70,000	124,000	612,000	284,000
Experience adjustments (gain)/loss – scheme liabilities	22,431,000	(230,000)	1,850,000	3,179,000	(365,000)

Department of Defence**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS***for the period ended 30 June 2012***Note 22. Defined Benefit Superannuation Plans Administered on Behalf of Government (continued)**

Notes:

1. Employer contributions of 3% of superannuation salary are paid into the MSBS Fund. The balance of superannuation benefits payable, after allowing for any funded part of the benefit, under the Military Superannuation and Benefits Act 1991 are paid from Consolidated Revenue on an emerging (or pay as you go) basis. In addition, employer salary sacrifice contributions and Superannuation Guarantee top up payments are paid into the MSBS fund.
2. The expected employer contributions in respect of 2012-13 are \$502m.
3. The expected return on assets reflects the fact that the majority of plan assets are in growth assets which would be expected to return a premium over fixed interest investments in the long term. In recent years, the real yield on Government bonds has been of the order of 2.5% p.a. to 3.5% p.a. In this context, a 4.5% p.a. real rate of return on plan assets is reasonable giving a nominal rate of return on plan assets of 7% p.a.
4. The cumulative actuarial losses and gains recognised in equity are as follows:

Opening balance as at 30 June 2004	-
2004-05 Liability loss	2,551,000
2004-05 Asset gain	(75,000)
30 June 2005 cumulative loss	2,476,000
2005-06 Liability gain	(1,642,000)
2005-06 Asset gain	(169,000)
30 June 2006 cumulative loss	665,000
2006-07 Liability gain	(901,000)
2006-07 Asset gain	(212,000)
30 June 2007 cumulative gain	(448,000)
2007-08 Liability gain	(365,000)
2007-08 Asset loss	284,000
30 June 2008 cumulative gain	(529,000)
2008-09 Liability loss	3,179,000
2008-09 Asset loss	612,000
30 June 2009 cumulative loss	3,262,000
2009-10 Liability loss	1,850,000
2009-10 Asset loss	124,000
30 June 2010 cumulative loss	5,236,000
2010-11 Liability gain	(230,000)
2010-11 Asset loss	70,000
30 June 2011 cumulative loss	5,076,000
2011-12 Liability loss	22,431,000
2011-12 Asset loss	324,000
30 June 2012 cumulative loss	27,831,000

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2012

	Notes	2012 \$'000	2011 \$'000
Note 23. Administered Cash Flow Reconciliation			
Reconciliation of cash and cash equivalents as per Administered Balance Sheet to Administered Cash Flow Statement			
Cash and cash equivalents as per:			
Administered Cash flow statement		-	-
Administered Balance sheet		-	-
Difference		-	-
Reconciliation of net cost of services to net cash from operating activities:			
Net cost of services		(2,899,449)	(2,659,872)
Adjustments for non-cash items			
Foreign exchange (gains) losses		(166)	803
Dividends		(49,654)	(52,379)
Net write-down and impairment of assets		141	293
Changes in assets/liabilities			
Decrease/(increase) in trade and other receivables		11,879	(53,605)
Decrease/(increase) in prepayments		(12,961)	(34,619)
Increase/(decrease) in other payables		5,112	(30)
Increase/(decrease) in employee provisions		2,283,400	2,174,449
Net cash from / (used by) operating activities		(661,698)	(624,960)

Department of Defence**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS***for the period ended 30 June 2012***Note 24. Administered Commitments**

There are no material Administered commitments to report for the current period or the prior period.

Note 25. Administered Contingent Liabilities and Contingent Assets**Quantifiable Contingencies**

There are no quantifiable contingencies to report in the current or prior year.

Unquantifiable Contingencies***Legal claims***

During this year and prior years, ComSuper made some underpayments and overpayments of pensions and benefits. While these underpayments and overpayments have been corrected, there is a possibility of legal claims against the Commonwealth.

No claims have been received to date.

Guarantees

Prior to the legislative change mentioned below, the acts of the former Commissioner for Superannuation and his staff done in the name of, or on behalf of, the former MSB Board were taken to be acts of the MSB Board. In 2005, the then Minister for Finance and Administration provided authorisation under Regulation 10 of the Financial Management and Accountability Regulations 1997 for a guarantee to the MSB Board from the Commonwealth, to cover any losses the MSB Fund may suffer as a result of liabilities arising from the actions of the then Commissioner for Superannuation, and the staff of ComSuper who assist the Commissioner in administering the MSB Fund. The creation of the Commonwealth Superannuation Corporation on 1 Jul 2011 through the Governance of Australian Government Superannuation Schemes Act 2011 (in conjunction with the Superannuation Legislation (Consequential Amendments and Transitional Provisions) Act 2011 and the ComSuper Act 2011) removes the necessity for the guarantee.

Contingent Assets

There are no contingent assets to report in the current or prior year.

Significant Remote Contingencies

There are no significant remote contingencies to report in the current or prior year.

Note 26. Administered Asset Additions

Defence has no Administered asset additions in either the current or the immediately preceding reporting periods.

Note 27. Administered Investments

For Administered investments in Defence Housing Australia (DHA):

The Australian Government holds a 100% interest in DHA which is a Government Business Enterprise.

The principal activity of DHA is:

To deliver adequate and suitable housing and housing related services that meet Defence operational needs and the requirements of the Department.

For Administered investments in small portfolio entities:

A list of all small portfolio bodies can be found in note 1.28(d).

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2012

	2012	2011
	\$'000	\$'000
Note 28. Administered Financial Instruments		
Details of the significant accounting policies and methods adopted, including the criteria for recognition and the basis for measurement in respect of each class of financial asset and financial liability are disclosed in Note 1 to the financial statements.		
Note 28A. Categories of financial instruments		
Financial Assets		
Loans and receivables:		
Cash and cash equivalents	-	-
Receivables	573,698	585,577
Total	573,698	585,577
Available for sale:		
Investment – Defence Housing Australia	2,197,408	2,232,676
Investment – Small portfolio bodies	77,828	75,296
Total	2,275,236	2,307,972
Carrying amount of financial assets	2,848,934	2,893,549
Financial Liabilities		
At amortised cost:		
Other payables	5,159	47
Total	5,159	47
Carrying amount of financial liabilities	5,159	47
Note 28B. Net income and expense from financial assets		
Loans and receivables		
Interest revenue ¹	35,517	31,107
Impairment ²	-	(38)
Exchange gain/(loss)	166	(803)
Net gain/(loss) loans and receivables	35,683	30,266
Available for sale		
Dividend revenue	49,654	52,379
Net gain/(loss) available for sale	49,654	52,379
Net gain/(loss) from financial assets	85,337	82,645

¹ In 2010-11 interest from Official Bank Accounts and Overdue debts from Departmental Accounts of \$0.015m was classified as interest. The amount has been reclassified as Other Revenue.

² In 2010-11, a change in the estimated value of a receivable of \$0.255m was disclosed as an 'Adjustment for errors'. The amount has been reclassified to 'Note 19C: Write down and impairment of assets' within Administered expenses.

Department of Defence**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS***for the period ended 30 June 2012***Note 28C. Net income and expense from financial liabilities**

There were no net gain/(loss) from financial liabilities.

Note 28D. Fair values of financial instruments

Financial assets at fair value – Reconciliation of level 3 fair value hierarchy

	2012	2011
	\$'000	\$'000
Investment – Defence Housing Australia		
Opening balance	2,232,676	2,236,500
Total gains or losses recognised in other comprehensive income	(35,268)	(3,824)
Closing balance	2,197,408	2,232,676
Investment – Small portfolio entities		
Opening balance	75,296	73,590
Total gains or losses recognised in other comprehensive income	2,532	1,706
Closing balance	77,828	75,296

The fair value of all other financial instruments approximate their carrying amounts.

Note 28E. Credit Risk

Defence's maximum credit risk at each class of recognised financial assets is the carrying amount of those assets as indicated in the Administered Schedule of Assets and Liabilities. Defence has endorsed policies and procedures for debt management to reduce the incidence of credit risk. The majority of goods or services provided by Defence are provided to other government entities and employees and therefore represent minimal credit risk exposure for Defence.

The carrying amount of financial assets, net of impairment losses, reported in the Administered Schedule of Assets and Liabilities represents Defence's exposure to credit risk. Defence has no significant exposures to any concentrations of credit risk.

Credit quality of financial instruments not past due or individually determined as impaired:

		Not Past Due Nor Impaired 2012 \$'000	Not Past Due Nor Impaired 2011 \$'000	Past Due Or Impaired 2012 \$'000	Past Due Or Impaired 2011 \$'000
	Notes				
Financial assets:					
Cash and cash equivalents	20A	-	-	-	-
Receivables	20B	573,560	581,452	138	4,163
Investments	20C	2,275,236	2,307,972	-	-
Total		2,848,796	2,889,424	138	4,163

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2012

Note 28E. Credit Risk (continued)

Ageing of financial assets that are past due but not impaired:

	Note	0 to 30 days		31 to 60 days		61 to 90 days		Over 90 days		Total	
		2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets											
Receivables	20B	79	4,125	-	-	-	-	59	-	138	4,125
Total		79	4,125	-	-	-	-	59	-	138	4,125

Note 28F. Liquidity Risk

Defence's administered financial liabilities are payables. The exposure to liquidity risk is based on the notion that Defence will encounter difficulty in meeting its obligations associated with financial liabilities. This is highly unlikely due to appropriation funding and mechanisms available to Defence (e.g. Advance to the Finance Minister) and internal policies and procedures put in place to ensure there are appropriate resources to meet its financial obligations.

The following table illustrates the maturities for non-derivative financial liabilities:

	Note	On demand		Within 1 year		1 to 2 years		2 to 5 years		> 5 years		Total	
		2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial liabilities													
Other payables	21A	-	-	5,159	47	-	-	-	-	-	-	5,159	47
Total		-	-	5,159	47	-	-	-	-	-	-	5,159	47

There are no derivative financial liabilities in both the current and prior year.

Note 28G. Market Risk

Defence Administered has no material exposure to currency risk, interest rate risk or other price risk.

Department of Defence**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS***for the period ended 30 June 2012*

Note 29. Administered Financial Assets Reconciliation		
	2012	2011
	\$'000	\$'000
Total financial assets per schedule of administered assets and liabilities	2,848,934	2,893,549
Less: non-financial instrument components	-	-
Total financial assets as per financial instruments note	2,848,934	2,893,549

Note 30. Administered Accounting for Errors

There are no adjustments to the prior period resulting from accounting errors.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2012

Note 31. Appropriations

As per Note 1, Defence is structured to meet three outcomes:

Outcome 1: The protection and advancement of Australia's national interests through the provision of military capabilities and the promotion of security and stability;

Outcome 2: The advancement of Australia's strategic interests through the conduct of military operations and other tasks as directed by Government; and

Outcome 3: Support to the Australian community and civilian authorities as requested by Government.

Accordingly for Table A below, all items are attributable to three outcomes.

Table A: Annual Appropriations ('Recoverable GST exclusive')

	2011-2012 Appropriations						Appropriation applied in 2012 (current and prior years) \$'000	Variance ⁽³⁾ \$'000	
	Appropriation Act			FMA Act					
	Annual Appropriation \$'000	Appropriations reduced ⁽¹⁾ \$'000	AFM ⁽²⁾ \$'000	Section 30 \$'000	Section 31 \$'000	Section 32 \$'000			Total appropriation \$'000
DEPARTMENTAL									
Ordinary annual services	22,648,794	(1,128,468)	-	-	1,670,514	4,533	23,195,373	(23,536,483)	(341,110)
Other services									
Equity	2,909,317	(1,070,585)	-	-		-	1,838,732	(2,773,786)	(935,054)
Loans	-	-	-	-		-	-		
Total departmental	25,558,111	(2,199,053)	-		1,670,514	4,533	25,034,105	(26,310,269)	(1,276,164)
ADMINISTERED									
Ordinary annual services									
Administered items	-	-	-	-		-	-	-	-
Payments to CAC Act bodies	-	-	-	-		-	-	-	-
Other services									
Specific payments to States, ACT, NT and Local government	-	-	-	-		-	-	-	-
New administered outcomes	-	-	-	-		-	-	-	-
Administered assets and liabilities	-	-	-	-		-	-	-	-
Payments to CAC Act Bodies	-	-	-	-		-	-	-	-
Total administered	-	-	-	-		-	-	-	-

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2012

Note 31: Appropriations (continued)

Table A: Annual Appropriations ('Recoverable GST exclusive') (continued)

Notes:

¹ Appropriations reduced under Appropriation Acts (No. 1,3,5) 2011-12: sections 10, 11, 12 and 15 and under Appropriation Acts (No. 2,4,6) 2011-12: sections 12,13, 14 and 17. Departmental appropriations do not lapse at financial year-end. However, the responsible Minister may decide that part or all of a departmental appropriation is not required and request the Finance Minister to reduce that appropriation. The reduction in the appropriation is effected by the Finance Minister's determination and is disallowable by Parliament. The Finance Minister determined a reduction in departmental appropriations following requests by the Minister for Defence. The amount of the reduction determined was:

	\$'000
9 December 2011 Appropriation Act (No. 1) 2010-2011	\$ 15,069
9 December 2011 Appropriation Act (No. 1) 2010-2011	\$ 956,989
9 December 2011 Appropriation Act (No. 1) 2010-2011	\$ 139,575
7 May 2012 Appropriation Act (No. 1) 2011-2012	<u>\$ 16,835</u>
Total	\$1,128,468
9 December 2011 Appropriation Act (No. 2) 2010-2011	\$ 822,254
9 December 2011 Appropriation Act (No. 4) 2010-2011	\$ 112,800
7 May 2012 Appropriation Act (No. 2) 2011-2012	<u>\$ 135,531</u>
Total	\$ 1,070,585

² No advance to the Finance Minister (AFM) – Appropriation Acts (No. 1,3,5) 2011-12: section 13 and Appropriation Acts (No. 2,4,6) 2011-12: section 15.

³ Reasons for material variance:

	Ordinary Annual Service \$'000	Equity \$'000
Prior year appropriations reduced (refer Footnote 1 above) (excludes current year return)	\$ (1,111,633)	\$ (935,054)
Prior year appropriation drawn down	\$ (50,122)	\$ -
Undrawn departmental annual appropriations 2011-12 (refer Table B)	\$ 193,930	\$ -
Amounts drawn down for GST payments to suppliers and ATO	<u>\$ 626,715</u>	<u>\$ -</u>
Total	\$ (341,110)	\$ (935,054)

Department of Defence
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the period ended 30 June 2012

Note 31: Appropriations (continued)

Table A: Annual Appropriations ('Recoverable GST exclusive') (continued)

	2010-11 Appropriations							Appropriation applied in 2011 (current and prior years) \$'000	Variance ⁽³⁾ \$'000
	Appropriation Act			FMA Act			Total appropriation \$'000		
	Annual Appropriation \$'000	Appropriations reduced ⁽¹⁾ \$'000	AFM ⁽²⁾ \$'000	Section 30 \$'000	Section 31 \$'000	Section 32 \$'000			
DEPARTMENTAL									
Ordinary annual services	22,194,762	(273,423)	-	411,328	470,251	(90)	22,802,828	(21,581,821)	1,221,007
Other services									
Equity	3,690,961	(194,836)	-	-		-	3,496,125	(2,755,907)	740,218
Loans	-	-	-	-		-	-	-	-
Previous years' outputs	-	-	-	-		-	-	-	-
Total departmental	25,885,723	(468,259)	-	411,328	470,251	(90)	26,298,953	(24,337,728)	1,961,225
ADMINISTERED									
Ordinary annual services									
Outcomes	-	-	-	-		-	-	-	-
Payments to CAC Act bodies	-	-	-	-		-	-	-	-
Other services									
Specific payments to States, ACT, NT and Local government	-	-	-	-		-	-	-	-
New administered outcomes	-	-	-	-		-	-	-	-
Administered assets and liabilities	-	-	-	-		-	-	-	-
Payments to CAC Act Bodies	44,100	-	-	-		-	44,100	(44,100)	-
Total administered	44,100	-	-	-		-	44,100	(44,100)	-

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2012

Note 31: Appropriations (*continued*)

Table A: Annual Appropriations ('Recoverable GST exclusive') (*continued*)

Notes:

¹ Appropriations reduced under Appropriation Acts (No. 1,3,5) 2010-11: sections 10, 11, 12 and 15 and under Appropriation Acts (No. 2,4,6) 2010-11: sections 12,13, 14 and 17. Departmental appropriations do not lapse at financial year-end. However, the responsible Minister may decide that part or all of a departmental appropriation is not required and request the Finance Minister to reduce that appropriation. The reduction in the appropriation is effected by the Finance Minister's determination and is disallowable by Parliament. The Finance Minister determined a reduction in departmental appropriations following requests by the Minister for Defence. The amount of the reduction determined was:

	\$'000
29 March 2011 Appropriation Act (No. 1) 2010-2011	\$ 19,395
19 April 2011 Appropriation Act (No. 1) 2009-2010	\$ 763
19 April 2011 Appropriation Act (No. 3) 2009-2010	\$ 99,187
19 April 2011 Appropriation Act (No. 3) 2008-2009	\$ 78,115
19 April 2011 Appropriation Act (No. 3) 2007-2008	\$ 20,163
19 April 2011 Appropriation Act (No. 3) 2005-2006	<u>\$ 55,800</u>
Total	\$273,423
19 April 2011 Appropriation Act (No. 2) 2009-2010	\$141,401
19 April 2011 Appropriation Act (No. 2) 2007-2008	\$ 24,607
19 April 2011 Appropriation Act (No. 2) 2004-2005	<u>\$ 28,828</u>
Total	\$194,836

² No advance to the Finance Minister (AFM) – Appropriation Acts (No. 1,3,5) 2010-11: section 13 and Appropriation Acts (No. 2,4,6) 2010-11: section 15.

³ Reasons for material variance:

	Ordinary Annual	
	Service	Equity
	\$'000	\$'000
Prior year appropriations reduced (refer Footnote 1 above) (excludes current year return)	(\$ 254,028)	(\$ 194,836)
Prior year appropriation drawn down	(\$ 89,746)	-
Undrawn departmental annual appropriations 2010-11 (refer Table B)	\$ 1,004,449	\$ 935,054
Amounts drawn down for GST payments to suppliers and ATO	<u>\$ 560,332</u>	-
Total	\$ 1,221,007	\$ 740,218

Department of Defence
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the period ended 30 June 2012

Note 31: Appropriations (continued)
Table A: Annual Appropriations ('Recoverable GST exclusive') (continued)

⁴ The following adjustments meet the recognition criteria of a formal addition or reduction in revenue or contributed equity, in accordance with FMO Div 101, but at law the appropriations have not been amended before the end of the reporting period:

	\$'000
Adjustment for departmental supplementations	\$ 8,000
Return of departmental appropriation	(\$ 1,111,633)
Return of departmental appropriation - equity	<u>(\$ 935,054)</u>
	(\$ 2,038,687)

Department of Defence**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS***for the period ended 30 June 2012***Note 31: Appropriations (continued)****Table B: Unspent Annual Appropriations ('Recoverable GST exclusive')**

Authority	2012 \$'000	2011 \$'000
DEPARTMENTAL		
Operating		
Act 1 2011-12	193,930	
Act 1 2010-11	-	1,004,449
Act 1 2009-10	-	-
Act 3 2009-10	-	-
Act 3 2008-09	-	-
Act 3 2007-08	-	-
Act 3 2005-06	-	-
	193,930	1,004,449
Equity		
Act 1 2011-12	-	
Act 2 2010-11 Equity	-	822,254
Act 4 2010-11 Equity	-	112,800
Act 2 2009-10 Previous Years' Output	-	-
Act 2 2007-08 Previous Years' Output	-	-
Act 2 2004-05 Equity	-	-
	-	935,054
Total	193,930	1,939,503

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2012

Note 31: Appropriations (continued)

Table C: Special Appropriations ('Recoverable GST exclusive')

Authority	Nature	Type	Purpose	Appropriation applied	
				2012 \$'000	2011 \$'000
Defence Force Retirement Benefits Act 1948, Administered ^(a)	Administered	Unlimited Amount	To provide Retirement Benefits for Members of the Defence Force who enlisted before 1 October 1972, and for other purposes.	59,301	64,766
Defence Force Retirement and Death Benefits Act 1973, Administered ^(a)	Administered	Unlimited Amount	To make provision for and in relation to a Scheme for Retirement and Death Benefits for Members of the Defence Force who enlisted before 1 October 1991.	1,432,962	1,416,698
Military Superannuation and Benefits Act 1991, Administered ^(a)	Administered	Unlimited Amount	To make provision for and in relation to an occupational superannuation scheme for, and the payment of other benefits to members of the Defence Force, and for related purposes.	337,508	312,470
Defence Force (Home Loans Assistance) Act 1990, Administered	Administered	Unlimited Amount	To provide for the payment of home loan subsidies in respect of certain members of the Defence Force and certain other persons, and for related purposes.	3,513	4,352
Defence Home Ownership Assistance Scheme Act 2008, Administered	Administered	Unlimited Amount	To provide financial assistance to members of the Defence Force and certain other persons, for the purchase, maintenance and development of their homes, and for related purposes.	88,548	85,462
Military Superannuation and Benefits Act 1991, Administered	Administered	Unlimited Amount	To make provision for and in relation to retention benefits for ADF personnel.	70,165	79,473
Financial Management and Accountability Act 1997 s.28(2), Administered	Administered	Refund	To provide an appropriation where an Act or other law requires or permits the repayment of an actual amount received by the Commonwealth and apart from this section there is no specific appropriation for the repayment.	787	582
War Gratuity Act 1945	Administered	-	An Act relating to the payment of War Gratuity to members of the Defence Force in respect of War Service	-	-
Total				1,992,784	1,963,803

Notes:

(a) ComSuper draw funds from the CRF on behalf of Defence.

Department of Defence
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the period ended 30 June 2012

Note 31: Appropriations (continued)

Table D: Disclosure by Agent in Relation to Annual and Special Appropriations (*Recoverable GST exclusive*)

	Department of Finance and Deregulation*
2012	\$'000
Total receipts	-
Total payments	-

	Department of Finance and Deregulation*
2011	\$'000
Total receipts	1,534
Total payments	1,534

* The receipts and payments are related to lease aircraft for politicians under the Parliamentary Entitlements Act 1990 (*Purpose: An act relating to the provision of benefits to the Members of each House of Parliament for charter of Special Purpose Aircraft. This act is administered by Department of Finance and Deregulation*).

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

*for the period ended 30 June 2012*Note 31: Appropriations (*continued*)

Table E: Reduction in Administered Items ('Recoverable GST exclusive')

2012	Amount required – by Appropriation Act	Total amount required	Total amount appropriated	Total reduction
Ordinary annual services				
Nil	-	-	-	-
Other services				
Nil	-	-	-	-

2011	Amount required – by Appropriation Act	Total amount required	Total amount appropriated	Total reduction
Ordinary annual services				
Nil	-	-	-	-
Other services				
Nil	-	-	-	-

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2012

Note 32. Compliance with Statutory Conditions for Payments from the Consolidated Revenue Fund

Section 83 of the Constitution provides that no amount may be paid out of the Consolidated Revenue Fund except under an appropriation made by law. The Department of Finance and Deregulation (Finance) provided information to all agencies in 2011 regarding the need for risk assessments in relation to compliance with statutory conditions on payments from special appropriations, including special accounts. Defence reported the possibility of this being an issue for the agency in Note 29 Appropriations Table C to the 2010-11 financial statements and undertook to investigate the issue during 2011-12.

During 2011-12, Defence developed a plan to review exposure to risks of non-compliance in circumstances where payments do not accord with conditions included in relevant legislation.

The review was classified into the following categories:

- identifying each special appropriation and special account, and the types of payment made;
- determining the risk of non-compliance by assessing the difficulty of administering the statutory conditions and, where relevant, the extent to which existing payment systems and processes satisfy those conditions;
- determining procedures to confirm risk assessments in medium risk cases and to quantify the extent of non-compliance, if any, in higher risk situations;
- obtaining legal advice as appropriate to resolve questions of potential non-compliance; and
- considering legislative or procedural changes to reduce the risk of non-compliance in the future to an acceptably low level.

The work conducted to date has identified that a number of potential issues exist. Current and proposed remedial action will consist of procedural, legislative and system changes. Many of the legislative changes were included in the recently commenced Financial Framework Legislation Amendment Act (No. 1) 2012 (FFLA Act No.1), Financial Framework Legislation Amendment Act (No. 2) 2012 (FFLA Act No.2) and Financial Framework Legislation Amendment Act (No. 3) 2012 (FFLA Act No.3). As at 30 June 2012 discussions are still underway with ComSuper and Department of Veterans' Affairs regarding systems and procedural changes. As at 30 June 2012, Defence had either completed or made significant progress in respect of all appropriations with statutory conditions for payments as follows:

Legislation / Authority to pay ^{1,5}	Risk assessment progress as at 30 June 2012 ²	Remedial action taken or proposed ³	Potential breaches ⁴		
			No.	Value \$'000	Recovered \$'000
<i>Defence Forces Retirement Benefits Act 1948; and *Defence Forces Retirement and Death Benefits Act 1973*</i>	Completed	LM	595	1,559	1,036
<i>Military Superannuation and Benefits Act 1991*</i>	Completed	LM	51	416	189
<i>Military Superannuation and Benefits Act 1991 – Retention Benefits*</i>	Completed	LM	32	1,116	506
<i>Defence Force (Home Loans Assistance) Act 1990</i>	Completed	LP	22	31	26
<i>Defence Home Ownership Assistance Scheme Act 2008</i>	Completed	LP, SM	218	2,284	2,217
<i>Financial Management and Accountability Act 1997 s.28(2)</i>	Completed	SM	1	144	144
<i>Service for Other Entities and Trust Monies – Defence Special Account</i>	Completed	N/A	N/A	N/A	N/A
<i>Defence Endowments Special Account</i>	Completed	N/A	N/A	N/A	N/A
<i>Young Endeavour Youth Program Special Account</i>	Completed	N/A	N/A	N/A	N/A
<i>Fedorczenko Legacy Special Account</i>	Completed	N/A	N/A	N/A	N/A

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2012

Note 32. Compliance with Statutory Conditions for Payments from the Consolidated Revenue Fund (continued)

¹ Legislation

Amounts paid under each legislation are disclosed in Note 31C *Special Appropriations* and Note 33 *Special Accounts*.

² Risk assessment

Defence has undertaken an assessment of the inherent level of risk of a breach. Legislation marked as “Completed” has undergone internal assessment by business area.

³ Remedial action taken or proposed (L=legislative change; S=systems change; P=planned; M=made)

Legislative changes made in relation to the above mentioned (*) acts were included in the recently enacted FFLA Act No.1, FFLA Act No.2 and FFLA Act No.3. In particular, the following are some key legislative changes made in the FFLA Act No. 2:

- provides a mechanism, called a ‘recoverable payment’, to address administrative issues common to ComSuper, that provides authority for the inadvertent overpayments of some benefits, and for their recovery in line with the duty to pursue recovery of a debt under section 47 of the Financial Management and Accountability Act 1997 (FMA Act);
- to authorise ComSuper to make ‘recoverable death payments’ until ComSuper is notified of a benefit recipient’s death; and
- to validate certain benefits under the Defence Forces Retirement and Death Benefits Act 1973 to regularise the treatment of certain benefit recipients.

⁴ Potential breaches

The work conducted to date has identified that a number of potential issues exist. Amounts reported have been derived by analysing data on recovery of overpayments and other identified risk areas for 2011-12. There exists business processes to ensure that identified overpayments are recovered. The numbers and amounts represent the overpayments made during 2011-12.

⁵ Other Acts

An Act not identified above that has a Special Appropriation is the War Gratuity Act 1945. Payments have not been made under this Act for many years and has therefore been excluded from the work performed to date. Consideration will be given to repealing the Act.

Whilst Defence has made a thorough effort to identify instances of potential section 83 breaches, other instances may exist which will be addressed in the future when such potential breaches are identified.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2012

Note 33. Special Accounts

Note 33A: Special Accounts (Recoverable GST exclusive)

	Service for Other Entities and Trust Moneys – Defence Special Account ¹		Young Endeavour Youth Program Special Account ²		Defence Endowments Special Account ³		Fedorchenko Legacy Special Account ⁴	
	2012	2011	2012	2011	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance brought forward from previous period	114,880	118,830	1,167	997	322	322	162	156
Increases:								
Appropriation for reporting period	-	-	-	-	-	-	-	-
Costs recovered	55,736	73,240	58	221	-	-	-	6
Realised investments	-	-	-	-	-	-	-	-
Other receipts	-	-	-	-	29	25	8	-
Total increases	55,736	73,240	58	221	29	25	8	6
Available for payments	170,616	192,070	1,225	1,218	351	347	170	162
Decreases:								
Special Public Money								
Payments made to suppliers	(59,872)	(77,190)	(8)	(51)	(23)	(25)	(8)	-
Total special public money decreases	(59,872)	(77,190)	(8)	(51)	(23)	(25)	(8)	-
Total decreases	(59,872)	(77,190)	(8)	(51)	(23)	(25)	(8)	-
Total balance to be carried forward to next period	110,744	114,880	1,217	1,167	328	322	162	162

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2012

Note 33A: Special Accounts (Recoverable GST exclusive) (continued)

1. Appropriation: *Financial Management and Accountability Act 1997; section 20*

Establishing Instrument: *Financial Management and Accountability Determination 2009/15.*

Purpose: This account was created to disburse amounts held on trust or otherwise for the benefit of persons other than the Commonwealth.

Special account is disclosed on a recoverable GST exclusive basis.

This account is non-interest bearing.

2. Appropriation: *Financial Management and Accountability Act 1997; section 20*

Establishing Instrument: *Financial Management and Accountability Determination 2009/02.*

Purpose: For the receipt and payment of money in connection with the operations and activities of the STS Young Endeavour, as specified by the Young Endeavour Program Board of Management or by the Commonwealth.

Special account is disclosed on a recoverable GST exclusive basis.

This account is interest bearing.

3. Appropriation: *Financial Management and Accountability Act 1997; section 20*

Establishing Instrument: *Financial Management and Accountability Determination 2009/11.*

Purpose: For expenditure in accordance with the terms provided for in the endowments.

Special account is disclosed on a recoverable GST exclusive basis.

This account is interest bearing.

4. Appropriation: *Financial Management and Accountability Act 1997; section 20*

Establishing Instrument: *Financial Management and Accountability Determination 2009/13.*

Purpose: For expenditure in relation to the defence of Australia of the residue of the estate of the late Petro Fedorczenko.

Special account is disclosed on a recoverable GST exclusive basis.

This account is interest bearing.

Note 33B: Investments made under section 39 of the FMA Act (Recoverable GST exclusive)

There were nil (2010-11: Nil) investments made under section 39 of the FMA Act.

Department of Defence**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS***for the period ended 30 June 2012*

	2012 \$	2011 \$
Note 34. Compensation and Debt Relief		
Departmental		
25 'Act of Grace' expenses were incurred during the reporting period (2011: 26 expenses).	394,057	1,136,924
All of the above expenses were paid on a periodic basis (2011: 14 expenses amounting to \$0.897m). These are expected to continue in future years. The estimated amount outstanding in relation to payments being made on a periodic basis as at 30 June 2012 was \$5.892m (2011: \$4.143m). This estimate was determined by the Australian Government Actuary.		
During 2012, 1,041 (2011: 671) individual payments were made under the Tactical Payments Scheme. Payments were in relation to the following Operations:		
- Operation Astute	-	-
- Operation Kruger	-	-
- Operation Slipper	44,877	39,183
5 waivers of amounts owing to the Australian Government were made pursuant to subsection 34(1) of the Financial Management and Accountability Act 1997 (2011: 21 waivers).	86,511	133,819
8 payments were provided under the Compensation for Detriment caused by Defective Administration (CDDA) Scheme during the reporting period (2011: 7 payments made).	460,411	178,503
13 ex-gratia payments were made during the reporting period (2011: 38 payments).	310,000	1,219,929
The present value of future payments at the end of the reporting period is \$5.732m for 31 claims (2011: \$4.209m for 32 claims).		
No payments were provided in special circumstances relating to APS employment pursuant to s73 of the Public Service Act 1999 (PS Act) during the reporting period (2011: No payments).	-	-

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2012

Note 35. Assets Held in Trust

Monetary Assets

	2012 \$'000	2011 \$'000
Young Endeavour Youth Program Public Fund (Trust)		
Monetary assets held in trust were also disclosed in Note 33 Special Accounts in the table titled "Young Endeavour Youth Program Special Account" (Special Public Money).		
<i>Purpose of trust arrangement: To create a capital fund for the purpose of furthering youth development initiatives, to make specific acquisitions and to support the Young Endeavour Youth Scheme through sail training for young Australians.</i>		
The fund is listed as a deductible gift recipient.		
Total amount held at the beginning of the reporting period	1,009	951
Other receipts	50	58
Total credits	1,059	1,009
Payments made to suppliers	-	-
Total debits	-	-
Total amount held at the end of the reporting period	1,059	1,009

Peter Mitchell Trust Fund (Trust)		
Monetary assets held in trust were also disclosed in Note 33 Special Accounts, in the table titled "Services for Other Entities and Trust Moneys" (Special Public Money).		
<i>Purpose of trust arrangement: To disburse amounts held on trust or otherwise for the benefit of a person other than the Commonwealth.</i>		
Total amount held at the beginning of the reporting period	-	2
Other receipts	2	-
Total credits	2	2
Payments made to suppliers	(1)	(2)
Total debits	(1)	(2)
Total amount held at the end of the reporting period	1	-

RAAF Air Power Conference (Trust)		
Monetary assets held in trust were also disclosed in Note 33 Special Accounts, in the table titled "Services for Other Entities and Trust Moneys" (Special Public Money).		
<i>Purpose of trust arrangement: To disburse amounts held on trust or otherwise for the benefit of a person other than the Commonwealth.</i>		
Total amount held at the beginning of the reporting period	107	34
Other receipts	97	73
Total credits	204	107
Payments made to suppliers	(23)	-
Total debits	(23)	-
Total amount held at the end of the reporting period	181	107

Department of Defence
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the period ended 30 June 2012

Note 35: Assets Held In Trust (continued)

<p>Comcare Trust Account (Trust)</p> <p><i>Purpose of trust arrangement: Moneys held in trust and advanced to Defence by Comcare for the purposes of distributing compensation payments made in accordance with the Safety Rehabilitation and Compensation Act 1998.</i></p> <p>Monetary assets held in trust were also disclosed in Note 33 Special Accounts, in the table titled “Services for Other Entities and Trust Moneys” (Special Public Money).</p>

<p>Defence Endowments Special Account (Trust)</p> <p>Monetary assets held in trust were also disclosed in Note 33 Special Accounts, in the table titled “Defence Endowments Special Account” (Special Public Money).</p>

<p>Fedorczenko Legacy Fund Special Account (Trust)</p> <p>Monetary assets held in trust were also disclosed in Note 33 Special Accounts, in the table titled “Fedorczenko Legacy Special Account” (Special Public Money).</p>
--

Non-Monetary Assets

Defence accommodates and operates some non-monetary assets on behalf of other governments; however, their disclosure would compromise the activities of these assets. In accordance with clauses 17.5 and 38.54 of the FMOs the Minister for Finance granted an exemption from disclosing these assets.

Department of Defence**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS***for the period ended 30 June 2012***Note 36. Reporting of Outcomes**

As per Financial Statement Note 1, Defence is structured to meet three outcomes, as follows:

OUTCOME 1. THE PROTECTION AND ADVANCEMENT OF AUSTRALIA'S NATIONAL INTERESTS THROUGH THE PROVISION OF MILITARY CAPABILITIES AND THE PROMOTION OF SECURITY AND STABILITY

- 1.1 Office of the Secretary and CDF
- 1.2 Navy Capabilities
- 1.3 Army Capabilities
- 1.4 Air Force Capabilities
- 1.5 Intelligence Capabilities
- Chief Operating Officer¹
 - 1.6 Defence Support
 - 1.8 Chief Information Officer
 - 1.13 People Strategies and Policy²
- 1.7 Defence Science and Technology
- 1.9 Vice Chief of the Defence Force
- 1.10 Joint Operations Command
- 1.11 Capability Development
- 1.12 Chief Finance Officer
- 1.14 Defence Force Superannuation Benefits
- 1.15 Defence Force Superannuation – Nominal Interest
- 1.16 Housing Assistance
- 1.17 Kings Highway Upgrade
- 1.18 Other Administered

OUTCOME 2. THE ADVANCEMENT OF AUSTRALIA'S STRATEGIC INTERESTS THROUGH THE CONDUCT OF MILITARY OPERATIONS AND OTHER TASKS AS DIRECTED BY GOVERNMENT

- 2.1 Operations Contributing to the Security of the Immediate Neighbourhood
- 2.2 Operations Supporting Wider Interests

OUTCOME 3. SUPPORT TO THE AUSTRALIAN COMMUNITY AND CIVILIAN AUTHORITIES AS REQUESTED BY GOVERNMENT

- 3.1 Defence Contribution to National Support Tasks in Australia

¹ 1.6 Defence Support, 1.8 Chief Information Officer and 1.13 People Strategies and Policy form the newly created Chief Operating Officer Group.

² People Strategies and Policy has recently adopted the title "Defence People Group".

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2012

Note 36: Reporting of Outcomes (continued)

Note 36A: Net cost of outcome delivery

	Outcome 1		Outcome 2		Outcome 3		Payments to/from CAC Act bodies ¹		Total	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Departmental										
Expenses	(24,342,807)	(22,972,640)	(993,061)	(1,102,724)	(18,461)	(10,762)			(25,354,329)	(24,086,126)
Own-source income	2,294,822	2,014,011	34,098	31,830	-	-	-	-	2,328,920	2,045,841
Administered²										
Expenses	(4,215,525)	(4,014,262)	-	-	-	-			(4,215,525)	(4,014,262)
Own-source income	1,283,903	1,323,283	-	-	-	-	32,173	31,107	1,316,076	1,354,390
Net cost of outcome delivery	(24,979,607)	(23,649,608)	(958,963)	(1,070,894)	(18,461)	(10,762)	32,173	31,107	(25,924,858)	(24,700,157)

Outcomes 1, 2 and 3 are described in Note 1.1. Net costs shown include intra-government costs that are eliminated in calculating the actual Budget Outcome. Refer to Outcome 1 Resourcing Table, Outcome 2 Resourcing Table and Outcome 3 Resourcing Table of this Annual Report.

¹ Payments to/from CAC Act bodies are not related to outcomes. They are included here so the total can agree to the resourcing table.

² This table includes income from activities subject to competitive neutrality.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2012

Note 36: Reporting of Outcomes (continued)

Note 36B: Major Classes of Departmental Expense, Income, Assets and Liabilities by Outcome

	Outcome 1		Outcome 2		Outcome 3		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Departmental Expenses:								
Employee benefits	9,535,787	9,209,296	305,380	328,717	233	228	9,841,400	9,538,241
Supplier expenses	9,998,834	8,774,117	648,936	735,599	18,228	10,534	10,665,998	9,520,250
Grants	32,613	6,812	38,692	38,369	-	-	71,305	45,181
Depreciation and amortisation	3,630,984	3,796,572	-	-	-	-	3,630,984	3,796,572
Finance costs	100,547	96,545	-	-	-	-	100,547	96,545
Write-down and impairment of assets	933,458	861,880	6	-	-	-	933,464	861,880
Foreign exchange losses	-	-	-	-	-	-	-	-
Losses from asset sales	13,216	30,205	-	-	-	-	13,216	30,205
Other expenses	97,368	197,213	47	39	-	-	97,415	197,252
Total	24,342,807	22,972,640	993,061	1,102,724	18,461	10,762	25,354,329	24,086,126
Departmental Income:								
Revenue								
Revenues from Government ¹	21,185,262	19,677,108	1,271,336	1,377,184	9,829	15,252	22,466,427	21,069,544
Sale of goods and rendering of services	744,901	707,937	34,091	31,772	-	-	778,992	739,709
Rental income	9,481	9,240	-	-	-	-	9,481	9,240
Other revenue	976,148	860,871	10	53	-	-	976,158	860,924
Total revenue	22,915,792	21,255,156	1,305,437	1,409,009	9,829	15,252	24,231,058	22,679,417
Departmental Gains:								
Foreign exchange gains	371	7,459	(3)	5	-	-	368	7,464
Reversal of previous asset write-downs	479,573	377,567	-	-	-	-	479,573	377,567
Other gains	84,348	50,937	-	-	-	-	84,348	50,937
Total gains	564,292	435,963	(3)	5	-	-	564,289	435,968
Total	23,480,084	21,691,119	1,305,434	1,409,014	9,829	15,252	24,795,347	23,115,385

¹ The 2010-2011 'Revenues from Government' figure was not correctly allocated to Outcome 3. This has been corrected, resulting in an increase of \$15.252m to Outcome 3 and a subsequent decrease of \$15.252m to Outcome 1.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2012

Note 36: Reporting of Outcomes (continued)

Note 36B: Major Classes of Departmental Expense, Income, Assets and Liabilities by Outcome (continued)

	Outcome 1		Outcome 2		Outcome 3		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Departmental Assets:								
Cash and cash equivalents	10,972	64,367	7,119	504	-	-	18,091	64,871
Trade and other receivables	400,106	542,140	33,587	27,386	3	3	433,696	569,529
Land and buildings	15,695,215	15,569,795	-	-	-	-	15,695,215	15,569,795
Specialist military equipment	40,327,792	38,638,060	-	-	-	-	40,327,792	38,638,060
Infrastructure	5,386,670	5,240,585	-	-	-	-	5,386,670	5,240,585
Plant and equipment	1,343,733	1,264,661	-	-	-	-	1,343,733	1,264,661
Heritage and cultural assets	984,939	965,944	-	-	-	-	984,939	965,944
Intangibles	575,006	575,391	-	-	-	-	575,006	575,391
Inventories	5,686,425	5,422,087	-	-	-	-	5,686,425	5,422,087
Prepayments	149,027	149,891	5,151	4,954	-	-	154,178	154,845
Assets held for sale	25,698	53,512	-	-	-	-	25,698	53,512
Total	70,585,583	68,486,433	45,857	32,844	3	3	70,631,443	68,519,280
Departmental Liabilities:								
Suppliers	1,135,034	1,629,064	47,706	33,822	18	19	1,182,758	1,662,905
Other payables	434,503	528,700	-	-	-	-	434,503	528,700
Leases	748,717	648,238	-	-	-	-	748,717	648,238
Employee provisions	2,227,657	2,162,515	-	-	-	-	2,227,657	2,162,515
Restoration, decontamination and decommissioning	876,140	841,006	-	-	-	-	876,140	841,006
Other provisions	3,822	6,358	-	-	-	-	3,822	6,358
Total	5,425,873	5,815,881	47,706	33,822	18	19	5,473,597	5,849,722

Outcomes 1, 2 and 3 are described in Note 1.1. Net costs shown include intra-government costs that are eliminated in calculating the actual Budget outcome.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2012

Note 36: Reporting of Outcomes (continued)

Note 36C: Major Classes of Administered Expenses, Income, Assets and Liabilities by Outcome

	Outcome 1		Payments to/from CAC Act Bodies		Total	
	2012	2011	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Administered Expenses:						
Employee benefits	4,118,799	3,927,925			4,118,799	3,927,925
Subsidies	96,585	85,241			96,585	85,241
Write-down and impairment of assets	141	293			141	293
Foreign exchange losses	-	803			-	803
Total	4,215,525	4,014,262			4,215,525	4,014,262
Administered Income						
Fees and fines	12,251	7,833			12,251	7,833
Interest	3,344	-	32,173	31,107	35,517	31,107
Dividends	49,654	52,379			49,654	52,379
Military superannuation contributions	1,158,903	1,135,592			1,158,903	1,135,592
Other revenue	59,585	127,479			59,585	127,479
Foreign exchange gains	166	-			166	-
Total	1,283,903	1,323,283	32,173	31,107	1,316,076	1,354,390

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 30 June 2012

Note 36: Reporting of Outcomes (continued)

Note 36C: Major Classes of Administered Expenses, Income, Assets and Liabilities by Outcome (continued)

	Outcome 1		Payments to/from CAC Act Bodies		Total	
	2012	2011	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Administered Assets:						
Cash and cash equivalents	-	-			-	-
Trade and other Receivables	64,118	75,997	509,580	509,580	573,698	585,577
Investments accounted for using the equity method	2,275,236	2,307,972	-	-	2,275,236	2,307,972
Prepayments	170,095	157,134			170,095	157,134
Total	2,509,449	2,541,103	509,580	509,580	3,019,029	3,050,683
Administered Liabilities:						
Other payables	5,159	47			5,159	47
Employee provisions	85,790,100	50,118,200			85,790,100	50,118,200
Total	85,795,259	50,118,247			85,795,259	50,118,247

Outcomes 1, 2 and 3 are described in Note 1.1.

Department of Defence**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS***for the period ended 30 June 2012***Note 37. Competitive Neutrality and Cost Recovery**

	2012	2011
	\$'000	\$'000

Note 37A: Receipts Subject to Cost Recovery Policy**Significant cost recovery arrangements**

Defence Cost Recovery Framework ¹	20,911	12,090
--	--------	--------

Total receipts subject to Cost Recovery Policy

	20,911	12,090
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¹ The Cost Recovery Impact Statement titled, 'Defence Cost Recovery Framework' covers Defence's cost recovery arrangements under cost recovery policy for receipts from sale of fuel to non government entities, sale of charts and maps, sale of casual meals to non-Defence staff in messes and receipts from provision of non-emergency assistance to the Civil Community.

Note 37B: Competitive Neutrality – Administered Expenses

There were nil (2010-11: nil) competitive neutrality amounts relating to Administered Expenses.

Note 37C: Administered Receipts Subject to Cost Recovery Policy

There were nil (2010-11: nil) Administered receipts subject to Cost Recovery arrangements.

Appendix 11

DMO Financial Statements

Defence Materiel Organisation
Financial Statements
for the period ended 30 June 2012



INDEPENDENT AUDITOR'S REPORT

To the Minister for Defence

Report on the Financial Statements

I have audited the accompanying financial statements of the Defence Materiel Organisation for the year ended 30 June 2012, which comprise: a Statement by the Chief Executive Officer and Chief Finance Officer; Statement of Comprehensive Income; Balance Sheet; Statement of Changes in Equity; Cash Flow Statement; Schedule of Commitments; Schedule of Contingencies; Administered Schedule of Comprehensive Income; Administered Schedule of Assets and Liabilities; Administered Reconciliation Schedule; Administered Cash Flow Statement; and Notes comprising a Summary of Significant Accounting Policies and other explanatory information.

Chief Executive Officer's Responsibility for the Financial Statements

The Chief Executive Officer of the Defence Materiel Organisation is responsible for the preparation of financial statements that give a true and fair view in accordance with the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*, including the Australian Accounting Standards, and for such internal control as is necessary to enable the preparation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on the financial statements based on my audit. I have conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. These auditing standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Defence Materiel Organisation's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Defence Materiel Organisation's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Chief Executive Officer of the Defence Materiel Organisation's as well as evaluating the overall presentation of the financial statements.



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

Independence

In conducting my audit, I have followed the independence requirements of the Australian National Audit Office, which incorporate the requirements of the Australian accounting profession.

Opinion

In my opinion, the financial statements of the Defence Materiel Organisation:

- (a) have been prepared in accordance with the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*, including the Australian Accounting Standards; and
- (b) give a true and fair view of the matters required by the Finance Minister's Orders including the Defence Materiel Organisation's financial position as at 30 June 2012 and of its financial performance and cash flows for the year then ended.

Australian National Audit Office



Michael J. Watson

Group Executive Director

Delegate of the Auditor-General

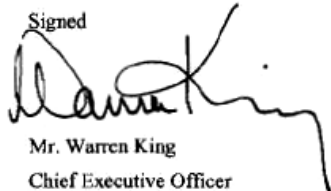
Canberra

21 September 2012

Defence Materiel Organisation

STATEMENT BY THE CHIEF EXECUTIVE OFFICER AND CHIEF FINANCE OFFICER

In our opinion, the attached financial statements for the year ended 30 June 2012 are based on properly maintained financial records and give a true and fair view of the matters required by the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*, as amended.

Signed

Mr. Warren King
Chief Executive Officer
21 September 2012

Signed

Mr. Steve Wearn
Chief Finance Officer
21 September 2012

Defence Materiel Organisation
STATEMENT OF COMPREHENSIVE INCOME
for the period ended 30 June 2012

	Notes	2012 \$'000	2011 \$'000
EXPENSES			
Employee benefits	3A	592,265	531,619
Suppliers	3B		
Goods and services:			
Cost of goods sold to Defence		5,847,044	6,666,776
Other goods and services procured on behalf of Defence		3,275,956	3,050,702
DMO goods and services		306,896	287,884
Other suppliers		36,325	84,464
Total supplier expenses		9,466,221	10,089,826
Grants	3C	20,800	9,126
Depreciation and amortisation	3D	1,680	1,706
Write-down and impairment of assets	3E	1,237	948
Other	3F	353	97
Total expenses		10,082,556	10,633,322
LESS:			
OWN-SOURCE INCOME			
Own-source revenue			
Sale of goods and rendering of services	4A	9,156,761	9,736,088
Interest	4B	1,444	1,291
Other	4C	37,966	37,076
Total own-source revenue		9,196,171	9,774,455
Gains			
Foreign exchange gains	4D	932	67,398
Reversals of previous asset write-downs and impairments	4E	59	-
Other	4F	1,400	1,954
Total gains		2,391	69,352
Total own-source income		9,198,562	9,843,807
Net cost of (contribution by) services		883,994	789,515
Revenue from Government	4G	931,270	847,282
Surplus (deficit) attributable to the Australian Government		47,276	57,767
OTHER COMPREHENSIVE INCOME			
Changes in asset revaluation reserves		239	-
Total other comprehensive income		239	-
Total comprehensive income (loss) attributable to the Australian Government		47,515	57,767

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

Defence Materiel Organisation
BALANCE SHEET
as at 30 June 2012

	Notes	2012 \$'000	2011 \$'000
ASSETS			
Financial assets			
Cash and cash equivalents	5A	24,722	(70,492)
Trade and other receivables	5B	684,228	1,364,047
Total financial assets		708,950	1,293,555
Non-financial assets			
Property, plant and equipment	6A	6,871	6,669
Intangibles	6B	56	239
Prepayments	6D	1,366,024	989,629
Total non-financial assets		1,372,951	996,537
Total assets		2,081,901	2,290,092
LIABILITIES			
Payables			
Suppliers	7A	1,429,807	1,561,383
Unearned income	7B	-	83,484
Grants	7C	5,161	4,809
Other	7D	76,923	65,908
Total payables		1,511,891	1,715,584
Provisions			
Employee provisions	8A	194,287	176,315
Other provisions	8B	5,698	3,189
Total provisions		199,985	179,504
Total liabilities		1,711,876	1,895,088
Net assets		370,025	395,004
EQUITY			
Retained surplus		214,418	239,636
Asset revaluation surplus		239	-
Contributed equity		155,368	155,368
Total equity		370,025	395,004

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

Defence Materiel Organisation
STATEMENT OF CHANGES IN EQUITY
for the period ended 30 June 2012

Item	Retained surplus		Asset revaluation surplus		Contributed equity		Total equity	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Opening balance	239,636	178,677	-	-	155,368	155,368	395,004	334,045
Adjustment for changes in accounting policies ¹	-	3,192	-	-	-	-	-	3,192
Adjusted opening balance	239,636	181,869	-	-	155,368	155,368	395,004	337,237
Comprehensive income								
Other comprehensive income			239	-			239	
Surplus (Deficit) for the period ¹	47,276	57,767					47,276	57,767
Total comprehensive income	47,276	57,767	239	-	-	-	47,515	57,767
Transactions with Owners								
Distributions to Owners								
Returns of Capital								
Other – Reduction in prior year appropriation receivable	(72,494)	-	-	-	-	-	(72,494)	-
Subtotal transactions with owners	(72,494)	-	-	-	-	-	(72,494)	-
Closing balance as at 30 June	214,418	239,636	239	-	155,368	155,368	370,025	395,004

¹ Revenue (2011: \$1.29m) and receivables (2011: \$4.48m) previously recognised as Administered in 2010-11 have been reclassified as Departmental in accordance with the revision to accounting policy outlined at Note 1.26(b)

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

Defence Materiel Organisation
CASH FLOW STATEMENT
for the period ended 30 June 2012

	Notes	2012 \$'000	2011 \$'000
OPERATING ACTIVITIES			
Cash received			
Sale of goods and rendering of services		10,517,058	9,312,982
Appropriations		870,000	778,293
Net GST received		676,359	690,356
Activities performed on behalf of foreign governments		27,677	27,285
Other		944	5,451
Total cash received		12,092,038	10,814,367
Cash used			
Employees		570,710	521,142
Suppliers		10,545,553	10,170,833
Funds returned to Defence		858,219	61,987
Grants		20,448	8,865
Other		4	59
Total cash used		11,994,934	10,762,886
Net cash from (used by) operating activities	9	97,104	51,481
INVESTING ACTIVITIES			
Cash used			
Purchase of property, plant and equipment		1,890	839
Total cash used		1,890	839
Net cash from (used by) investing activities		(1,890)	(839)
Net increase (decrease) in cash held		95,214	50,642
Cash and cash equivalents at the beginning of the reporting period		(70,492)	(121,134)
Cash and cash equivalents at the end of the reporting period	5A	24,722	(70,492)

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

Defence Materiel Organisation
SCHEDULE OF COMMITMENTS
as at 30 June 2012

	2012 \$'000	2011 \$'000
BY TYPE		
Commitments receivable ¹		
Commitments receivable	(17,580,339)	(18,851,987)
Net GST recoverable on commitments	(1,663,741)	(1,769,142)
Total commitments receivable	(19,244,080)	(20,621,129)
Commitments payable		
Project commitments		
Land and buildings ²	17,006	13,769
Property, plant and equipment ³	16,409	3,743
Specialist military equipment ⁴	10,698,333	11,339,826
Other project commitments ⁵	621,584	414,828
Total project commitments	11,353,332	11,772,166
Other commitments		
Operating leases ⁶	32,364	21,298
Research and development ⁷	3,251	13,114
Materiel Sustainment Agreement commitments ⁸	7,820,279	8,784,960
Other non-capital commitments ⁹	76,542	95,461
Total other commitments	7,932,436	8,914,833
Net commitments by type	41,688	65,870
BY MATURITY		
Commitments receivable		
One year or less	(5,352,235)	(6,335,558)
From one to five years	(11,919,970)	(11,335,236)
Over five years	(1,971,875)	(2,950,335)
Total commitments receivable	(19,244,080)	(20,621,129)
Commitments payable		
Project commitments		
One year or less	3,144,445	4,166,486
From one to five years	7,358,998	6,656,050
Over five years	849,889	949,630
Total project commitments	11,353,332	11,772,166
Operating lease commitments		
One year or less	6,607	3,687
From one to five years	21,041	10,814
Over five years	4,716	6,797
Total operating lease commitments	32,364	21,298
Other commitments		
One year or less	2,224,196	2,204,621
From one to five years	4,558,384	4,695,005
Over five years	1,117,492	1,993,909
Total other commitments	7,900,072	8,893,535
Net commitments by maturity	41,688	65,870

Defence Materiel Organisation
SCHEDULE OF COMMITMENTS
as at 30 June 2012

NB: Commitments are GST inclusive where relevant.

- ¹ Commitments receivable includes the GST receivable on the gross commitments payable and the revenue due to DMO for activities undertaken on behalf of Defence that give rise to commitments payable.
- ² Outstanding contractual payments for buildings under construction on behalf of Defence under Materiel Acquisition Agreements.
- ³ Outstanding contractual payments for Property, Plant and Equipment purchases on behalf of Defence under Materiel Acquisition Agreements (P,P&E under construction) and Materiel Sustainment Agreements. Also includes outstanding contractual payments for DMO Property, Plant and Equipment.
- ⁴ Outstanding contractual payments for Specialist Military Equipment (SME) purchases on behalf of Defence under Materiel Acquisition Agreements (SME under construction) and Materiel Sustainment Agreements.
- ⁵ Outstanding contractual payments for Intangibles purchases and project maintenance on behalf of Defence under Materiel Acquisition Agreements and Materiel Sustainment Agreements. Also includes outstanding contractual payments for DMO Intangibles.
- ⁶ Leases for motor vehicles to senior executive officers, pool vehicles, data lines and overseas property. Operating leases included are effectively non-cancellable.
- ⁷ Outstanding commitments on research and development projects undertaken on behalf of Defence.
- ⁸ Outstanding commitments on Materiel Sustainment Agreement activity expenditure incurred on behalf of Defence.
- ⁹ Includes outstanding commitments on activities covered by DMO's direct appropriation.
- ¹⁰ Defence and DMO are ATO approved deferred tax customers on the purchase of overseas goods. As such, the phasing of both GST commitments receivable and payable are based upon DMO's estimate of delivery dates.

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

Defence Materiel Organisation
SCHEDULE OF CONTINGENCIES
as at 30 June 2012

	2012	2011
	\$'000	\$'000
Contingent assets		
Claims for damages or costs	-	55,380
Total contingent assets	-	55,380
Contingent liabilities		
Claims for damages or costs	1,000	81,380
Total contingent liabilities	1,000	81,380
Net contingent assets (liabilities)	(1,000)	(26,000)

Details of each class of contingent assets and contingent liabilities listed above are disclosed in Note 10: Contingent Assets and Liabilities, along with information on significant remote contingencies and contingencies that cannot be quantified.

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

Defence Materiel Organisation
ADMINISTERED SCHEDULE OF COMPREHENSIVE INCOME
for the period ended 30 June 2012

	Notes	2012 \$'000	2011 \$'000
EXPENSES			
Foreign exchange losses	15	705	-
Total expenses administered on behalf of Government		705	-
LESS:			
OWN-SOURCE INCOME			
Own-source revenue			
Non-taxation revenue			
Interest	16A	542	994
Other	16B	42	97
Total non-taxation revenue		584	1,091
Total own-source revenue administered on behalf of Government		584	1,091
Total own-source income administered on behalf of Government		584	1,091
<i>Net cost of (contribution by) services</i>		121	(1,091)
<i>Surplus (Deficit)</i>		(121)	1,091
<i>Total comprehensive income (loss)</i>		(121)	1,091

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

Defence Materiel Organisation
ADMINISTERED SCHEDULE OF ASSETS AND LIABILITIES
as at 30 June 2012

	Notes	2012 \$'000	2011 \$'000
Financial assets			
Trade and other receivables	17	4,342	8,136
Total financial assets		4,342	8,136
Total assets administered on behalf of Government		4,342	8,136
Net assets /(liabilities)		4,342	8,136
The above schedule should be read in conjunction with the accompanying notes.			

Defence Materiel Organisation
ADMINISTERED RECONCILIATION SCHEDULE
for the period ended 30 June 2012

	2012	2011
	\$'000	\$'000
Opening administered assets less administered liabilities as at 1 July	8,136	11,294
Adjustment for change in accounting policies	-	(3,191)
Adjusted opening administered assets less administered liabilities	8,136	8,103
Surplus (deficit) items:		
Plus: Administered income	584	1,091
Less: Administered expenses	(705)	-
Administered transfers to/from Australian Government:		
Transfers to OPA	(3,673)	(1,058)
Closing administered assets less administered liabilities as at 30 June	4,342	8,136

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

Defence Materiel Organisation
ADMINISTERED CASH FLOW STATEMENT
for the period ended 30 June 2012

	Notes	2012 \$'000	2011 \$'000
OPERATING ACTIVITIES			
Cash received			
Interest		3,673	1,058
Total cash received		3,673	1,058
Net cash flows from (used by) operating activities	18	3,673	1,058
Net increase (decrease) in cash held		3,673	1,058
Cash and cash equivalents at the beginning of the reporting period		-	-
Cash to Official Public Account for transfer to other entities (Finance – Whole of Government)		(3,673)	(1,058)
Cash and cash equivalents at the end of the reporting period		-	-
Administered activities performed by DMO on behalf of the Government relate to receipt of interest and levies on overseas bank accounts and advance payments.			
The above statement should be read in conjunction with the accompanying notes.			

Defence Materiel Organisation

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

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Defence Materiel Organisation**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS****Note 1 Summary of Significant Accounting Policies****1.1 Objective of the Defence Materiel Organisation (DMO)**

The Defence Materiel Organisation (DMO) is an Australian Government controlled entity. It is a not-for-profit entity. The objective of DMO is to equip and sustain the Australian Defence Force.

DMO has one Outcome: Contributing to the preparedness of the Australian Defence Organisation through acquisition and through-life support of military equipment and supplies.

DMO activities contributing toward this outcome are classified as either departmental or administered.

Departmental activities involve the use of assets, liabilities, income and expenses controlled or incurred by DMO in its own right. Administered activities involve the management or oversight by the DMO, on behalf of the Government, of items controlled or incurred by the Government.

DMO collects administered revenues on behalf of the Australian Government. Administered revenues comprise levies received from overseas consortium partners, interest earned on overseas bank accounts and interest earned on project advances that have been returned to the Commonwealth.

The continued existence of DMO in its present form and with its present activities is dependent on Government policy and on continuing appropriations by Parliament for the Department of Defence and DMO activities.

1.2 Basis of Preparation of the Financial Statements

The Financial Statements are required by section 49 of the *Financial Management and Accountability Act 1997* (FMA Act) and are General Purpose Financial Statements.

The financial statements have been prepared in accordance with:

- Finance Minister's Orders (FMOs) for reporting periods ending on or after 1 July 2011; and
- Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that apply for the reporting period.

The financial statements have been prepared on an accrual basis and in accordance with the historical cost convention, except for certain assets and liabilities at fair value. Except where stated, no allowance is made for the effect of changing prices on the results or the financial position.

The financial statements are presented in Australian dollars and values are rounded to the nearest thousand dollars unless disclosure of the full amount is specifically required.

Unless an alternative treatment is specifically required by an Accounting Standard or the FMOs, assets and liabilities are recognised in the balance sheet when, and only when, it is probable that the future economic benefits will flow to DMO or a future sacrifice of economic benefits will be required and the amounts of assets and liabilities can be reliably measured. However, assets and liabilities arising under executory contracts are not recognised unless required by an Accounting Standard. Liabilities and assets that are not recognised are reported in the Schedule of Commitments or the Schedule of Contingencies.

Unless alternative treatment is specifically required by an Accounting Standard, income and expenses are recognised in the Statement of Comprehensive Income when, and only when, the flow, consumption or loss of economic benefits has occurred and can be reliably measured.

Defence Materiel Organisation

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1.3 Significant Accounting Judgements and Estimates

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. No accounting assumptions or estimates have been identified that have a significant risk of causing a material adjustment to carrying amounts of assets and liabilities within the next accounting period except in relation to provisions for annual leave and long service leave. Provisions for annual leave and long service leave are estimates based on expert actuarial assumptions on the likely tenure of existing staff, patterns of leave claims and payouts, future salary movements and future discount rates.

In the process of applying the accounting policies listed in this note, DMO has made no judgements that have a significant impact on the financial statements.

1.4 New Australian Accounting Standards

Adoption of new Australian Accounting Standard requirements

No accounting standard has been adopted earlier than the application date as stated in the standard.

New standards/revised standards/interpretations/amending standards that were issued prior to the signing of the statement by the Chief Executive and Chief Financial Officer and are applicable to the current reporting period did not have a financial impact, and are not expected to have a future financial impact on DMO.

Future Australian Accounting Standard requirements

New standards/revised standards/Interpretations/amending standards that were issued prior to the signing of the statement by the Chief Executive and Chief Financial Officer and are applicable to the future reporting period are not expected to have a future financial impact on DMO.

1.5 Revenue

(a) Revenue from Government

Amounts appropriated for departmental outputs for the year (adjusted for any additions and reductions) are recognised as revenue when DMO gains control of the appropriation except for certain amounts that relate to activities that are reciprocal in nature, in which case revenue is recognised only when it has been earned.

(b) Sale of Goods and Rendering of Services

Revenue from goods and services provided to Defence is recognised by reference to the stage of completion of contracts or other agreements to provide services. The stage of completion is determined according to the level of costs incurred at the reporting date. DMO is the purchasing or acquiring agent for Defence and engages in the purchase of Fuel, General Stores Inventory (GSI), Explosive Ordnance (EO), Supply Chain Assets (including Military Support Items) and Commercial Vehicles (CVs) on behalf of Defence.

DMO also provides services to sustain Defence materiel. Revenue for sustainment services is recognised in accordance with expense incurred.

Goods and services sold to, and procured on behalf of, Defence have been separately disclosed in the face of this statement due to the materiality of Defence amounts under this category. There are also components of employee benefits, other supplier expenses and other expenses that were incurred on behalf of Defence. Details for these categories of expense are disclosed in the notes to this statement.

The amount of contract revenue recognised during the period is disclosed under sale of goods and rendering of services in Note 4A.

Defence Materiel Organisation

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Costs incurred include all expenditure related directly to specific acquisition projects and sustainment activities and an allocation of fixed and variable overheads incurred in DMO's contract activities specifically chargeable to Defence under the terms of the agreements. This excludes DMO operational and infrastructure costs which are funded through departmental appropriation. The amount of costs incurred during the period is disclosed in Note 3B.

During the financial year prepayments may be made to suppliers with the balance as at the end of the financial year as disclosed in Note 6D. Defence provides funding in advance for acquisition and sustainment activities. If the prepayment from Defence increases during the financial year, this will be reflected as unearned income from Defence in Note 7B, as this represents the extent of acquisition or sustainment activities yet to be provided. If the prepayment decreases during the financial year, this will be reflected as a decrease in unearned income from Defence in Note 7B, as this represents acquisition or sustainment activities that have been provided during the financial year. If DMO provide acquisition and/or sustainment activities in excess of the Defence prepayment this will be reflected as other receivables in Note 5B.

Revenue from the sale of goods is recognised when:

- the risks and rewards of ownership have been transferred to the buyer;
- DMO retains no managerial involvement or effective control over the goods;
- the revenue and transaction costs incurred can be reliably measured; and
- it is probable that the economic benefits associated with the transaction will flow to DMO.

Revenue is recognised from services at the time the service is provided.

(c) Other Revenue

Interest revenue is recognised using the effective interest method as set out in AASB 139 *Financial Instruments: Recognition and Measurement*.

Resources Received Free of Charge

Resources received free of charge are recognised as revenue when and only when a fair value can be reliably determined and the services would have been purchased if they had not been donated. Use of those resources is recognised as an expense. Resources received free of charge are recorded as either revenue or gains depending on their nature.

(d) Receivables

Receivables for goods and services, which have 30 day terms, are recognised at the nominal amount due less any impairment allowance account. The collectability of receivables is reviewed as at balance date. Allowances are made when collectability of the receivable is no longer probable (see Note 5B).

The appropriations receivable in Note 5B constitute annual revenue from Government for existing programs and the balance of the DMO Special Account held in the Official Public Account, which is deemed to be appropriated to the DMO Special Account.

Appropriations receivable are recognised at their nominal amounts.

Defence Materiel Organisation**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

1.6 Gains*Resources Received Free of Charge*

Resources received free of charge are recognised as gains when and only when a fair value can be reliably determined and the services would have been purchased if they had not been donated. Use of those resources is recognised as an expense. Resources received free of charge are recorded as either revenue or gains depending on their nature.

Contributions of assets at no cost of acquisition or for nominal consideration are recognised as gains at their fair value when the asset qualifies for recognition, unless received from another Government entity as a consequence of a restructuring of administrative arrangements (refer to Note 1.7).

Sale of Assets

Gains from the disposal of assets are recognised when control of the asset has passed to the buyer.

1.7 Transactions with the Government as Owner*Equity Injections*

Amounts appropriated which are designated as 'equity injections' for the reporting period (less any formal reductions) are recognised directly in Contributed Equity in that period.

Restructuring of Administrative Arrangements

Net assets received from or relinquished to another Government entity under a restructuring of administrative arrangements are adjusted at their book value directly against contributed equity.

Other Distributions to Owners

The FMOs require that distributions to owners be debited to Contributed Equity, unless it is in the nature of a dividend. On 26 June 2012 the Finance Minister issued a determination to reduce Departmental Output Appropriations by \$72,494,216.

1.8 Employee Benefits

Liabilities for 'short-term employee benefits' (as defined in AASB 119 *Employee Benefits*) and termination benefits due within 12 months of balance date are measured at their nominal amounts.

The nominal amount is calculated with regard to the rates expected to be paid on settlement of the liability.

All other employee benefit liabilities are measured at the present value of the estimated future cash outflows to be made in respect of services provided by employees up to the reporting date.

Liabilities for military staff posted to DMO are not disclosed as employee benefits as military staff remain employees of Defence and are reported in the Defence Financial Statements.

Leave

The liability for employee benefits includes provision for annual leave and long service leave. No provision has been made for sick leave as all sick leave is non-vesting and the average sick leave taken in future years by employees of DMO is estimated to be less than the annual entitlement for sick leave.

The leave liabilities are calculated on the basis of employees' remuneration at the estimated salary rates that will apply at the time the leave is taken, including DMO's employer superannuation contribution rates to the extent that the leave is likely to be taken during service rather than paid out on termination.

The liability for long service leave has been determined by reference to the work of the Australian Government Actuary as at 30 June 2012. The estimate of the present value of the liability takes into account attrition rates and pay increases through promotion and inflation.

Defence Materiel Organisation**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS***Superannuation*

Permanently appointed DMO employees are members of the Commonwealth Superannuation Scheme (CSS), the Public Sector Superannuation Scheme (PSS), the PSS accumulation plan (PSSap) and other superannuation funds held outside the Commonwealth.

The CSS and PSS are defined benefits schemes for the Australian Government. The PSSap is a defined contribution scheme.

The liability for defined benefits is recognised in the financial statements of the Australian Government and is settled by the Australian Government in due course. The liability is reported by the Department of Finance and Deregulation's administered schedules and notes.

DMO makes employer contributions to employees' superannuation schemes at rates determined by an actuary to be sufficient to meet the current cost to the Government of the superannuation entitlements of DMO's employees. DMO accounts for the contributions as if they were contributions to defined contribution plans.

The liability for superannuation recognised as at 30 June 2012 represents outstanding contributions for the final fortnight of the year.

Separation and Redundancy

DMO recognises a provision for termination when it has developed a detailed formal plan for the terminations and has informed those employees affected that it will carry out the terminations.

1.9 Leases

A distinction is made between finance leases and operating leases. Finance leases effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of leased assets. An operating lease is a lease that is not a finance lease. In operating leases, the lessor effectively retains substantially all such risks and benefits.

Where an asset is acquired by means of a finance lease, the asset is capitalised at the lower of the fair value of the leased asset or, if lower, the present value of minimum lease payments at the inception of the contract. A liability is recognised at the same time and for the same amount. DMO does not have any finance leases.

The discount rate used is the interest rate implicit in the lease. Leased assets are amortised over the period of the lease. Lease payments are allocated between the principal component and the interest expense.

Operating lease payments are recognised as an expense on a straight-line basis, which is representative of the pattern of the benefits derived from the leased assets.

1.10 Borrowing Costs

All borrowing costs are expensed as incurred.

1.11 Grants

DMO administers a number of grants providing assistance to Defence industry to address shortfalls in the quantity and quality of professional and technical workforce skills.

Grant liabilities are recognised to the extent that (i) the services required to be performed by the grantee have been performed or (ii) the grant eligibility criteria have been satisfied, but payments due have not been made. A commitment is recorded when the Government enters into an agreement to make these grants but services have not been performed or criteria satisfied.

1.12 Cash

Cash and cash equivalents includes cash on hand, cash held by outsiders, demand deposits in bank accounts with an original maturity of 3 months or less that are readily convertible to known amounts of cash and subject to insignificant risk of changes in value. Cash is recognised at its nominal amount.

Defence Materiel Organisation**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

1.13 Foreign Military Sales

The Foreign Military Sales program operates a bank account, which is domiciled with the Federal Reserve Bank (FRB) New York, and DMO is responsible for the management of the account.

The moneys paid into FRB are in accordance with the Special Billing arrangements negotiated by Australia with the United States Department of Defense.

The program requires periodic quarterly payments in advance of financial performance and the moneys held in the FRB account attract interest, which is paid to the Australian Government Consolidated Revenue Fund. This interest is reported in the Administered Schedule of Comprehensive Income (see Note 1.26).

The administrative arrangements between the United States and Australia results in DMO transactions within the account being reported as prepayments in DMO's financial statements.

1.14 Financial Assets

All of DMO's financial assets are classified as loans and receivables.

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets are recognised and derecognised upon trade date.

Effective Interest Method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or, where appropriate, a shorter period.

Income is recognised on an effective interest rate basis.

Loans and Receivables

Trade receivables and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'receivables'. Receivables are measured at amortised cost less impairment.

1.15 Financial Liabilities

Financial liabilities are classified as either financial liabilities 'at fair value through profit or loss' or other financial liabilities. Financial liabilities are recognised and derecognised upon 'trade date'.

Financial liabilities at Fair Value Through Profit or Loss

Financial liabilities at fair value through profit or loss are initially measured at fair value. Subsequent fair value adjustments are recognised in the profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability.

Other Financial Liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or, where appropriate, a shorter period.

Supplier and other payables are recognised at amortised cost. Liabilities are recognised to the extent that the goods or services have been received (and irrespective of having been invoiced).

Defence Materiel Organisation**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS****1.16 Derecognition of Financial Assets and Financial Liabilities**

Financial assets are derecognised when the contractual rights to the cash flows from the financial assets expire or the asset is transferred to another Entity. In the case of a transfer to another entity, it is necessary that the risks and rewards of ownership are also transferred.

Financial liabilities are derecognised when the obligation under the contract is discharged, cancelled or expires.

1.17 Impairment of financial assets

Financial assets are assessed for impairment at each balance date.

1.18 Interest Bearing Loans and Borrowings

DMO had no interest bearing loans and borrowings as at 30 June 2012.

1.19 Contingent Assets and Contingent Liabilities

Contingent Assets and Contingent Liabilities are not recognised in the balance sheet but are reported in the relevant schedules and notes. They may arise from uncertainty as to the existence of a liability or asset, or represent a liability or asset in respect of which the amount cannot be reliably measured. Contingent assets are disclosed when settlement is probable but not virtually certain and contingent liabilities are disclosed when settlement is greater than remote.

1.20 Financial Guarantee Contracts

Financial guarantee contracts are accounted for in accordance with AASB 139 *Financial Instruments: Recognition and Measurement*. They are not treated as a contingent liability as they are regarded as financial instruments outside of the scope of AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*.

1.21 Acquisition of Assets

Assets are recorded at cost on acquisition except as stated below. The cost of acquisition includes the fair value of assets transferred in exchange and liabilities undertaken. Financial assets are initially measured at their fair value plus transaction costs where appropriate.

Assets acquired at no cost, or for nominal consideration, are initially recognised as assets and income at their fair value at the date of acquisition, unless acquired as a consequence of restructuring of administrative arrangements. In the latter case, assets are initially recognised as contributions by owners at the amounts at which they were recognised in the transferor's accounts immediately prior to the restructuring.

1.22 Property, Plant and Equipment*Asset Recognition Threshold*

Purchases of property, plant and equipment are recognised initially at cost in the balance sheet, except for purchases costing less than \$2,000 which are expensed in the year of acquisition (other than where they form part of a group of similar items which are significant in total).

The initial cost of an asset includes an estimate of the cost of dismantling and removing the item and restoring the site on which it is located.

Revaluations

Following initial recognition at cost, property, plant and equipment were carried at fair value less subsequent accumulated depreciation and accumulated impairment losses. Valuations were conducted with sufficient frequency to ensure that the carrying amount of each asset is not materially different, at reporting date, from its fair value. The regularity of independent valuations depends upon the volatility of movements in market values for the relevant assets. The Australian Valuation Office provided independent advice on the valuation of DMO assets as at 30 June 2012.

Defence Materiel Organisation**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

Fair values for each class of asset are determined as shown below:

Asset Class:	Fair value measured at:
Property, Plant and Equipment	Market selling price

Revaluation adjustments were made on a class basis. Any revaluation increment was credited to equity under the heading of asset revaluation surplus except to the extent that it reverses a previous revaluation decrement of the same asset class that was previously recognised in the surplus/deficit. Revaluation decrements for a class of assets were recognised directly in the surplus/deficit except to the extent that they reverse a previous revaluation increment for that class.

Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the asset restated to the revalued amount.

Depreciation

Depreciable property, plant and equipment assets are written-off to their estimated residual values over their estimated useful lives to DMO using, in all cases, the straight-line method of depreciation.

Depreciation rates (useful lives), residual values and methods are reviewed at each reporting date and necessary adjustments are recognised in the current, or current and future reporting periods, as appropriate.

Depreciation rates applying to each class of depreciable asset are based on the following useful lives:

	2012	2011
Property, Plant and Equipment	2 to 10 years	2 to 10 years

Impairment

All assets have been assessed for impairment at 30 June 2012. Where indications of impairment exist, the asset's recoverable amount is estimated and an impairment adjustment made if the asset's recoverable amount is less than its carrying amount.

The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. Value in use is the present value of the future cash flows expected to be derived from the asset. Where the future economic benefit of an asset is not primarily dependent on the asset's ability to generate future cash flows and the asset would be replaced if DMO were deprived of the asset, its value in use is taken to be its depreciated replacement cost.

Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

1.23 Intangibles

DMO's intangible assets primarily comprise purchased computer software for internal use. All intangibles with gross values greater than \$100,000 are capitalised. DMO carries intangible assets at cost less accumulated amortisation and accumulated impairment losses.

The service potential of non-current intangible assets is reviewed annually. If an intangible asset is regarded as being impaired, the asset is written down to reflect its remaining service potential.

Intangibles are amortised on a straight-line basis over the following anticipated useful lives:

	2012	2011
Intangibles	3 to 10 years	3 to 10 years

All software assets were assessed for indications of impairment as at 30 June 2012.

Defence Materiel Organisation**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS****1.24 Taxation**

DMO's activities are exempt from all forms of taxation except Fringe Benefits Tax (FBT) and the Goods and Services Tax (GST).

Revenues, expenses, assets and liabilities are recognised net of GST except:

- where the amount of GST incurred is not recoverable from the Australian Taxation Office; and
- for receivables and payables.

1.25 Foreign Exchange

Transactions denominated in a foreign currency are converted at the exchange rate on the date of the transaction. Foreign currency receivables and payables are translated at the exchange rate current as at the balance date. Exchange gains and losses are reported in the Statement of Comprehensive Income.

Non-financial items that are measured at cost in a foreign currency are translated using the spot exchange rate at the date of the initial transaction. Non-financial items that are measured at fair value in a foreign currency are translated using the spot rates at the date when the fair value was determined.

1.26 Reporting of Administered Activities

Administered expenses, revenues, assets and cash flows are disclosed in the Administered Schedule of Assets and Liabilities and related notes. Administered Items are accounted for on the same basis and using the same policies as for departmental items, including the application of Australian Accounting Standards.

(a) Administered Cash Transfers to and from the Official Public Account

Revenue collected by DMO for use by the Government, rather than DMO, is administered revenue. Collections are transferred to the Official Public Account (OPA) maintained by the Department of Finance and Deregulation. These transfers to the OPA are adjustments to the administered cash held by DMO on behalf of the Government and are reported as such in the Administered Cash Flow Statement and Administered Reconciliation Schedule.

(b) Revenue

Administered revenues relate to activities performed by DMO on behalf of the Australian Government. Administered revenues are generated as a result of holding overseas bank accounts and from the sale of excess stocks by consortium project offices. Administered revenue is only recognised where there is a specific legal requirement or Ministerial determination to do so. Prior to 30 June 2012, DMO recognised all revenues associated with project advances through the Administered accounts. Following review of the nature of these advances, from 1 July 2011, all interest earned on project advances has been reclassified as departmental revenue, unless returned to the Commonwealth as fortuitous savings.

This change in accounting policy has resulted in reclassification of interest receivable on advance payments being reclassified from Administered Revenue (\$1,290,994 – refer note 16) and Receivables (\$4,482,119 – refer note 17) to Departmental Revenue and Advance Payments (refer Notes 4B and 6D). Departmental Other Receivables and Other Payables (\$4,482,119), which previously recorded the interest earned but unpaid on these advances that was to be returned to the Commonwealth have also been reduced (refer Notes 5B and 7B)

(c) Receivables

Interest receivable reported in the Administered Schedule of Assets and Liabilities comprises the balance of interest payable on overseas bank accounts. Interest receivable is measured at amortised cost less impairment.

(d) Expenses

Receivables denominated in a foreign currency are converted at the exchange rate on the date of the transaction. Foreign currency receivables are translated at the exchange rate current as at the balance date. Exchange gains and losses are reported in the Administered Schedule of Comprehensive Income.

Defence Materiel Organisation**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS****Note 2 Events after the Reporting Period**

There was no subsequent event that had the potential to significantly affect DMO's ongoing structure or activities.

2012	2011
\$'000	\$'000

Note 3 Expenses**Note 3A Employee benefits**

Wages and salaries	440,253	394,350
Superannuation		
Defined contribution plans	30,921	23,979
Defined benefit plans	43,112	45,322
Leave and other entitlements	64,173	54,180
Separations and redundancies	1,448	1,388
Other	12,358	12,400
Total employee benefits	592,265	531,619

Employee benefits expense reported in this note includes \$6.8m incurred on behalf of Defence (2010-11: \$10.7m).

Employee benefits do not include payments made in relation to military employees. Military employees are posted to DMO in accordance with the Military Workforce Agreement with Defence. The cost of the Military Workforce is disclosed at Note 3B Supplier expenses.

Defence Materiel Organisation

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

	2012 \$'000	2011 \$'000
Note 3B Suppliers		
Goods and services		
Cost of goods sold to Defence:		
General Stores Inventory	588,568	513,620
Explosive Ordnance	239,702	187,984
Fuel	482,849	399,683
Assets Under Construction	4,117,510	5,180,397
Supply Chain Assets	373,346	338,763
Commercial Vehicles	45,069	46,329
Total cost of goods sold to Defence	5,847,044	6,666,776
Other goods and services procured on behalf of Defence:		
Repair and overhaul	2,650,924	2,313,382
General goods and services	429,603	537,630
DMO military workforce	3,454	4,011
Communications and information technology	113,784	101,679
Domestic travel	8,094	6,334
Training	18,316	39,217
Overseas travel	4,893	5,784
Advertising	30	27
Freight and storage	25,859	22,642
Operating lease rentals ¹	20,999	19,996
Total other goods and services procured on behalf of Defence	3,275,956	3,050,702
DMO goods and services:		
General goods and services	101,965	84,456
DMO military workforce	146,961	148,007
Communications and information technology	6,704	8,488
Domestic travel	20,328	19,187
Training	25,544	22,216
Overseas travel	4,351	4,421
Advertising	720	803
Freight and storage	138	11
Operating lease rentals ¹	185	295
Total DMO goods and services	306,896	287,884
Other supplier expenses		
Research and development ²	36,325	84,464
Total other supplier expenses	36,325	84,464
Total supplier expenses	9,466,221	10,089,826

¹ These comprise minimum lease payments only

² Includes \$26.0m incurred on behalf of Defence (2010-11: \$76.1m)

Defence Materiel Organisation**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

	2012 \$'000	2011 \$'000
Supplier expenses are made up of:		
Provision of goods – related entities	447,747	498,246
Provision of goods – external parties	5,660,671	6,514,320
Rendering of services – related entities	580,703	572,154
Rendering of services – external parties	2,755,916	2,484,815
Operating lease rentals – external parties	21,184	20,291
Total supplier expenses	9,466,221	10,089,826

Note 3C Grants

Private Sector:

Defence Industry	20,800	9,126
Total Grants	20,800	9,126

Note 3D Depreciation and Amortisation**Depreciation**

Property, plant and equipment	1,605	1,625
Total depreciation	1,605	1,625

Amortisation

Intangibles – Computer software purchased	75	81
Total amortisation	75	81

Total depreciation and amortisation	1,680	1,706
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Note 3E Write-Down and Impairment of Assets**Asset write-downs and impairments from:**

Impairment on financial instruments	1,154	882
Impairment of property, plant & equipment ¹	83	66
Total write-down and impairment of assets	1,237	948

¹. Asset transfers previously classified as 'Impairment of property, plant & equipment in 2010-11 (\$0.072m) have been reclassified as 'Resources transferred to Defence free of charge' (Note 3F)

Note 3F Other Expenses

Resources transferred to Defence free of charge ¹	349	72
Other	4	25
Total other expenses	353	97

¹. Asset transfers previously classified as 'Impairment of property, plant & equipment in 2010-11 (\$0.072m) have been reclassified as 'Resources transferred to Defence free of charge' (Note 3E)

Other expenses reported in this note have been incurred on behalf of Defence.

Defence Materiel Organisation

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

	2012 \$'000	2011 \$'000
Note 4 Income		
Own-source revenue		
<u>Note 4A Sale of Goods and Rendering of Services</u>		
Provision of goods – related entities ¹	6,100,442	6,666,776
Rendering of services – related entities	3,056,319	3,069,312
<i>Total sale of goods and rendering of services</i>	9,156,761	9,736,088
Goods and services are represented by:		
Defence Materiel Acquisition Agreement activity	4,358,195	5,522,884
Defence Materiel Sustainment Agreement activity	4,798,566	4,213,204
<i>Total sales of goods and rendering of services</i>	9,156,761	9,736,088
¹ Revenue previously classified as ‘Provision of goods – related entities’ in 2010-11 (\$3,069.3m) has been reclassified as ‘Rendering of services – related entities’		
<u>Note 4B Interest</u>		
Prepayments ¹	1,444	1,291
<i>Total interest</i>	1,444	1,291
¹ Revenue previously recognised as administered in 2010-11 (\$1.29m) has been reclassified as departmental in accordance with the revision to accounting policy outlined at Note 1.26(b)		
<u>Note 4C Other Revenue</u>		
Resources received free of charge ¹	37,022	34,519
Other	944	2,557
<i>Total other revenue</i>	37,966	37,076

¹ Resources received free of charge from Defence, previously disclosed under Note 4F Other Gains, have been reclassified as Other Revenue as the related services are provided by Defence in the ordinary course of DMO's operations

Defence Materiel Organisation

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

	2012 \$'000	2011 \$'000
Gains		
<u>Note 4D Foreign Exchange</u>		
Foreign exchange gains:		
Non-speculative	46,339	84,321
Foreign exchange losses:		
Non-speculative	(45,407)	(16,923)
<i>Net foreign exchange (losses) / gains</i>	<u>932</u>	<u>67,398</u>

Note 4E Reversal of Previous Asset Write-Downs and Impairments

Reversal of impairment losses	59	-
<i>Total reversal of previous asset write-downs and impairments</i>	<u>59</u>	<u>-</u>

Note 4F Other Gains¹

Resources received free of charge:		
Australian National Audit Office	1,400	1,950
<i>Total resources received free of charge</i>	<u>1,400</u>	<u>1,950</u>
Other	-	4
<i>Total other gains</i>	<u>1,400</u>	<u>1,954</u>

¹ Resources received free of charge from Defence, previously disclosed under this note, have been classified as Other Revenue as the related services are provided by Defence in the ordinary course of DMO's operations (Note 4C)

Revenue from Government**Note 4G Revenue from Government**

Appropriations:		
Departmental appropriation	931,270	847,282
<i>Total revenue from Government</i>	<u>931,270</u>	<u>847,282</u>

Defence Materiel Organisation**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

	2012 \$'000	2011 \$'000
Note 5 Financial Assets		
Note 5A Cash and Cash Equivalents		
Special account cash held in DMO Official bank accounts ¹	(41,124)	(86,633)
Cash held in overseas bank accounts	65,846	16,141
Total cash and cash equivalents	24,722	(70,492)
<p>¹ To facilitate the whole of government management of cash balances, cash in excess of working capital needs is held in the Official Public Account (OPA) reported by the Department of Finance and Deregulation. DMO is able to draw on these funds as required and reports an Appropriation receivable in Note 5B. The negative cash balance at 30 June 2011 is due to a timing difference between processing of overseas payments and the draw down of cash from the Special Account receivable balance held in the OPA. This is a technical adjustment only and does not reflect the physical balance in the bank account</p> <p>The 2011 comparative balance of Special Account cash held by DMO has been reduced by \$113.52m for the reclassification of payment clearing accounts from Suppliers Payable (Note 7A) to Special Account cash. The amount required to fund the payment clearing accounts is included as Special Account cash held in the OPA (refer Note 5B)</p>		
Note 5B Trade and Other Receivables		
Goods and Services:		
Goods and services – related entities	3,488	6,331
Goods and services – external parties	507	4,363
Total receivables for goods and services	3,995	10,694
Appropriation receivable:		
Special Account cash held in the Official Public Account	69,414	263,689
Annual Appropriations for existing programs	232,511	243,735
Total appropriations receivable	301,925	507,424
Other receivables:		
GST receivable from the Australian Taxation Office	115,911	103,047
Other receivables from Defence	261,780	738,349
Other ¹	721	5,730
Total other receivables	378,412	847,126
Total trade and other receivables (gross)	684,332	1,365,244
Less impairment allowance account:		
Goods and services	(75)	(300)
Other	(29)	(897)
Total impairment allowance account	(104)	(1,197)
Total trade and other receivables (net)	684,228	1,364,047

¹ The other receivables balance for 2010-11 has been restated in line with the accounting policy specified at note 1.26(b). This has reduced the balance in question by \$4.48m

Defence Materiel Organisation**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

	2012 \$'000	2011 \$'000
Receivables are expected to be recovered in:		
No more than 12 months	645,917	1,364,047
More than 12 months	38,311	-
<i>Total trade and other receivables (net)</i>	684,228	1,364,047
Receivables are aged as follows:		
Not overdue	683,752	1,340,802
Overdue by:		
0 to 30 days	560	462
31 to 60 days	2	33
61 to 90 days	-	37
More than 90 days	18	23,910
<i>Total receivables (gross)</i>	684,332	1,365,244
The impairment allowance account is aged as follows:		
Not overdue	75	124
Overdue by:		
0 to 30 days	-	-
31 to 60 days	-	-
61 to 90 days	-	-
More than 90 days	29	1,073
<i>Total impairment allowance account</i>	104	1,197
Reconciliation of the impairment allowance account		
Movements in relation to 2012 and 2011		
Opening balance	1,197	316
Amounts written off	(1,034)	(1)
Amounts recovered or reversed	-	(1)
Increase / (decrease) recognised in net surplus	(59)	883
<i>Closing balance</i>	104	1,197

Defence Materiel Organisation

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

	2012	2011
	\$'000	\$'000

Note 6 Non-Financial Assets**Note 6A Property, Plant and Equipment**

Property, plant and equipment

Fair value

7,120 10,677

Accumulated depreciation

(249) (4,008)

Total property, plant and equipment***6,871 6,669***

DMO does not hold any property, plant or equipment under finance leases.

No property, plant or equipment is expected to be sold or disposed of within the next 12 months.

Revaluations of non-financial assets

All revaluations were conducted in accordance with the revaluation policy stated at Note 1.22, as at 30 June 2012 by independent valuer.

A revaluation increment of \$239,383 (2011: \$0) for plant and equipment was credited to the asset revaluation surplus asset class and included in the equity section of the balance sheet: no decrements were expensed (2011: \$0)

Note 6B Intangibles

Computer software:

Purchased – in progress

- 108

Purchased – in use

292 292

Internally developed – in use

1,101 1,101

Accumulated amortisation

(1,337) (1,262)

Total computer software***56 239******Total intangibles******56 239***

No intangibles are expected to be sold or disposed of within the next 12 months.

Defence Materiel Organisation

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note 6C Analysis of Property, Plant and Equipment

TABLE A – Reconciliation of the Opening and Closing Balances of Property, Plant and Equipment and Intangibles (2011-2012)

Item	Property, plant and equipment	Computer software purchased	Computer software internally developed	Total
	\$'000	\$'000	\$'000	\$'000
As at 1 July 2011				
Gross book value	10,677	400	1,101	12,178
Accumulated depreciation/amortisation and impairment	(4,008)	(161)	(1,101)	(5,270)
Net book value 1 July 2011	6,669	239	-	6,908
Additions:				
By purchase or internally developed	1,890	-	-	1,890
By donation/gift	-	-	-	-
From acquisition of entities or operations (including restructuring)	-	-	-	-
Revaluations and impairments recognised in other comprehensive income	239	-	-	239
Revaluations recognised in the surplus/deficit	-	-	-	-
Reclassification	-	-	-	-
Impairments recognised in the operating result	(83)	-	-	(83)
Depreciation/amortisation expense	(1,605)	(75)	-	(1,680)
Other movements ¹	2	-	-	2
Disposals:				
Assets transferred to Defence free of charge	(241)	(108)	-	(349)
Other	-	-	-	-
Net book value 30 June 2012	6,871	56	-	6,927
Net book value as of 30 June 2012 represented by:				
Gross book value	7,120	292	1,101	8,513
Accumulated depreciation/amortisation	(249)	(236)	(1,101)	(1,586)
Net book value 30 June 2012	6,871	56	-	6,927

¹ Other movements relate to rounding

Defence Materiel Organisation

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

TABLE B – Reconciliation of the Opening and Closing Balances of Property, Plant and Equipment and Intangibles (2010–2011)

Item	Property, plant & equipment \$'000	Computer software purchased ² \$'000	Computer software internally developed \$'000	Total \$'000
As at 1 July 2010				
Gross book value	10,475	398	1,101	11,974
Accumulated depreciation/amortisation and impairment	(2,887)	(80)	(1,101)	(4,068)
Net book value 1 July 2010	7,588	318	-	7,906
Additions:				
By purchase or internally developed	839	-	-	839
By donation/gift	-	-	-	-
From acquisition of entities or operations (including restructuring)	-	-	-	-
Revaluations and impairments recognised in other comprehensive income	-	-	-	-
Revaluations recognised in the surplus/deficit	-	-	-	-
Reclassification	-	-	-	-
Impairments recognised in the operating result	(66)	-	-	(66)
Depreciation/amortisation expense	(1,625)	(81)	-	(1,706)
Other movements ¹	5	2	-	7
Disposals:				
Assets transferred to Defence free of charge	(72)	-	-	(72)
Other	-	-	-	-
Net book value 30 June 2011	6,669	239	-	6,908
Net book value as of 30 June 2011 represented by:				
Gross book value	10,677	400	1,101	12,178
Accumulated depreciation/amortisation	(4,008)	(161)	(1,101)	(5,270)
Net book value 30 June 2011	6,669	239	-	6,908

¹ Other movements relate to the following: assets first recognised during the financial year of \$0.004m; and rounding of \$0.003m.

² The opening Gross Book Value and accumulated amortisation for Computer Software Purchased has been restated to align with the Fixed Assets Register. There has been no change to the Net Book Value.

Defence Materiel Organisation

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

	2012 \$'000	2011 \$'000
Note 6D Prepayments		
Prepayments ¹	<u>1,366,024</u>	<u>989,629</u>
Total prepayments	<u>1,366,024</u>	<u>989,629</u>
Total prepayments are expected to be recovered in:		
No more than 12 months	<u>1,132,164</u>	<u>817,409</u>
More than 12 months	<u>233,860</u>	<u>172,220</u>
Total prepayments	<u>1,366,024</u>	<u>989,629</u>

¹ Interest earned on project advances previously recognised as Administered in 2010-11 (\$4.48m) have been reclassified as Departmental in accordance with the revision to accounting policy outlined at Note 1.26(b).

Defence Materiel Organisation

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

	2012 \$'000	2011 \$'000
Note 7 Payables		
Note 7A Suppliers		
Trade creditors and accruals ¹	1,429,807	1,561,383
Total suppliers payables	1,429,807	1,561,383
Suppliers payables expected to be settled within 12 months:		
Related entities	96,806	262,360
External parties	1,333,001	1,299,023
Total	1,429,807	1,561,383
Suppliers payables expected to be settled in greater than 12 months:		
Related entities	-	-
External parties	-	-
Total	-	-
Total suppliers payables	1,429,807	1,561,383

¹ (a) Payment clearing accounts have been reclassified as Special Account cash under Note 5A (2010-11: \$113.52m).

(b) The suppliers payable balance for 2010-11 has been restated in line with the accounting policy specified at note 1.26(b). This has reduced the balance in question by \$4.48m.

Settlement is usually made within 30 days.

Note 7B Unearned Income¹

Unearned income from Defence for service fee	-	83,484
Total unearned income	-	83,484
Unearned income is expected to be settled in:		
No more than 12 months	-	83,484
More than 12 months	-	-
Total unearned income	-	83,484

¹ Defence provides funding in advance for acquisition and sustainment activities. Unearned income represents the extent of activities yet to be provided, Notes 1.5(b) and 6D refer.

Defence Materiel Organisation

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

	2012	2011
	\$'000	\$'000
Note 7C Grants		
Private sector:		
Defence Industry	5,161	4,809
Total grants payable	5,161	4,809

All grants are payable within 12 months.

Settlement is usually made according to the terms and conditions of each grant. This is usually within 30 days of performance or eligibility.

Note 7D Other Payables

Wages and salaries	13,315	10,050
Superannuation	2,105	1,687
Separations and redundancies	106	206
Payable to Defence	14,089	14,163
Deposits held on trust for Foreign Governments	41,593	39,776
Other ¹	5,715	26
Total other payables	76,923	65,908
Total other payables are expected to be settled in:		
No more than 12 months	60,330	65,908
More than 12 months	16,593	-
Total other payables	76,923	65,908

¹ PAYG payable previously classified as Other Employee Provisions in 2010-11 (\$0.026m) has been reclassified as Other Payables (Note 8A).

Defence Materiel Organisation

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

	2012	2011
	\$'000	\$'000

Note 8 Provisions

Note 8A Employee Provisions

Leave	194,287	176,315
Total employee provisions¹	194,287	176,315

Employee provisions are expected to be settled in:

No more than 12 months	43,153	40,955
More than 12 months	151,134	135,360
Total employee provisions	194,287	176,315

¹ PAYG payable previously classified in 2010-11 (\$0.026m) as other employee provisions has been reclassified as Other Payables (Note 7D)

Note 8B Other Provisions

Other ¹	5,698	3,189
Total other provisions	5,698	3,189

Other provisions are expected to be settled in:

No more than 12 months	111	800
More than 12 months	5,587	2,389
Total other provisions	5,698	3,189

¹ Other provisions comprise an allowance for excess flying hours over the life of a special purpose aircraft lease (2012: \$2.8m, 2011: \$2.4m), additional costs associated with the postponement of the F/A18 Hornet sustainment project (2012: \$1.9m, 2011: \$0) and royalties withholding tax to the Australian Taxation Office (2012: \$1.0m, 2011: \$0.8m)

	Other Provisions	Total
	\$'000	\$'000
Carrying amount 1 July 2011	3,189	3,189
Additional provisions made	2,509	2,509
Amounts used	-	-
Unwinding of discount or change in discount rate	-	-
Closing balance 1 July 2012	5,698	5,698

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

	2012 \$'000	2011 \$'000
Note 9 Cash Flow Reconciliation		
Reconciliation of cash and cash equivalents as per Balance Sheet to Cash Flow Statement		
Cash and cash equivalents as per:		
Cash flow statement	24,722	(70,492)
Balance sheet	24,722	(70,492)
<i>Difference</i>	-	-
Reconciliation of net cost of services to net cash from operating activities:		
Net cost of services	(883,994)	(789,515)
Add revenue from Government	931,270	847,282
Adjustments for non-cash items		
Depreciation/amortisation	1,680	1,706
Net write down of non-financial assets	83	131
Resources transferred to Defence free of charge	349	-
Reduction in prior year Appropriation receivable	(72,494)	-
Changes in assets/liabilities		
(Increase) / decrease in net receivables	679,819	(670,420)
(Increase) / decrease in prepayments	(376,397)	418,384
Increase / (decrease) in employee provisions	17,972	8,985
Increase / (decrease) in grants payable	352	261
Increase / (decrease) in supplier payables	(131,576)	296,074
Increase / (decrease) in unearned income	(83,484)	(9,275)
Increase / (decrease) in other payables	11,015	(41,570)
Increase / (decrease) in other provisions	2,509	(10,562)
<i>Net cash from / (used by) operating activities</i>	97,104	51,481

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note 10 Contingent Assets and Liabilities

	Warranties		Redundancies		Claims for damages or costs		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Contingent Assets								
Balance from previous period	-	4,776	-	-	55,380	27,854	55,380	32,630
New contingent assets recognised	-	-	-	-	-	43,880	-	43,880
Re-measurement	-	-	-	-	(604)	-	(604)	-
Assets recognised	-	(3,771)	-	-	(54,776)	-	(54,776)	(3,771)
Expired	-	(1,005)	-	-	-	(16,354)	-	(17,359)
Total contingent assets	-	-	-	-	-	55,380	-	55,380
Contingent Liabilities								
Balance from previous period	-	-	-	755	81,380	28,400	81,380	29,155
New ¹	-	-	-	-	-	81,380	-	81,380
Re-measurement	-	-	-	-	(1,104)	-	(1,104)	-
Liabilities recognised	-	-	-	-	(79,276)	-	(79,276)	-
Obligations expired	-	-	-	(755)	-	(28,400)	-	(29,155)
Total contingent liabilities	-	-	-	-	1,000	81,380	1,000	81,380
Net contingent assets (liabilities)							(25,500)	(26,000)

¹ The 2011 contingent liability has been restated by \$55.38m to recognise DMO's obligation to Defence to pass on Liquidated Damages associated with projects managed on their behalf

Defence Materiel Organisation

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Quantifiable Contingencies

The Schedule of Contingencies reports contingent liabilities in 2011-12 of \$25.5m (2010-11: \$81.0m). The schedule reports no contingent assets (2010-11: \$55.380m). There are a number of legal proceedings in various phases. The estimates are based on precedent in such cases. DMO is of the opinion that disclosing further information may seriously prejudice the outcomes of ongoing proceedings.

Unquantifiable Contingencies

DMO has 4 legal proceedings against it for damages/costs (2010-11: 11). The proceedings are in various phases. As at 30 June 2012, it was not possible to estimate the amount of any eventual payment that may be required in relation to the claims.

DMO has also initiated 2 legal proceedings in relation to warranties, damages and other contractual disputes (2010-11: 3). The proceedings are in various phases. As at 30 June 2012, it was not possible to estimate the amount of any eventual payment that may be made to DMO in relation to the claims.

DMO has also disputed its liability to pay in relation to a repair. While the cost of the repair can be quantified, the actual liability to DMO cannot be quantified.

Significant Remote Contingencies

DMO has a number of remote contingent liabilities in relation to bank guarantees, indemnities and warranties in contracts and agreements. The likelihood of all categories resulting in any future liability is considered remote therefore these liabilities are not reported.

Defence Materiel Organisation

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note 11 Senior Executive Remuneration**Note 11A Senior Executive Remuneration Expense for the Reporting Period**

The Senior Executive Remuneration Note includes remuneration details for DMO Australian Public Service (APS) Senior Executives. All Executives who act in SES positions are included in the Note where they received remuneration during the financial year of \$150,000 or greater.

Remuneration includes calculations based on salary and allowances, performance pay, accrued superannuation, redundancy payments, accrued leave, car parking, motor vehicle costs and fringe benefits tax.

During the financial year, 28 Military Star Ranked Officers posted to DMO (2010-11:26) are reported in the Defence Executive Remuneration Note, for which DMO paid \$7,923,745 including \$535,589 in separation/redundancy payments (2010-11 \$6,861,971 including \$171,335 in separation/redundancy payments) in accordance with the Military Workforce Agreement between DMO and Defence.

	2012	2011
	\$	\$
Short-term employee benefits:		
Salary	5,886,515	5,893,581
Annual leave accrued	122,692	94,610
Performance bonuses	358,300	394,293
Motor vehicle allowance	719,676	717,255
Other allowances ³	280,225	210,579
Total Short-term employee benefits	7,367,408	7,310,318
Post-employment benefits:		
Superannuation	811,047	871,794
Other	-	-
Total post-employment benefits	811,047	871,794
Other long-term benefits:		
Long-service leave	270,126	311,613
Other	-	-
Total other long-term benefits	270,126	311,613
Termination benefits	-	-
Total employment benefits	8,448,581	8,493,725

Notes:

1 Note 11A is prepared on an accrual basis (therefore the performance bonus expense disclosed above may differ from the cash 'Bonus Paid' in Note 11B)

2 Note 11A excludes acting arrangements and part-year service where total remuneration expensed for a senior executive was less than \$150,000

3 'Other allowances' includes car parking, FBT and other allowances.

Defence Materiel Organisation

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note 11B Average Annual Remuneration Packages and Bonus Paid for Substantive Senior Executives during the Reporting Period (2011-12)

Average annual reportable remuneration ¹	2012					Total
	Senior Executives No.	Reportable Salary ²	Contributed superannuation ³	Reportable allowances ⁴	Bonus paid ⁵	
				\$	\$	\$
Total remuneration (including part-time arrangements):						
Less than \$150,000	11	47,417	6,650	-	3,600	57,667
\$150,000 to \$179,999	1	161,275	18,670	-	-	179,945
\$180,000 to \$209,999	12	173,442	26,287	-	-	199,729
\$210,000 to \$239,999	7	168,874	49,424	-	4,716	223,014
\$240,000 to \$269,999	2	209,515	29,369	-	9,893	248,777
\$270,000 to \$299,999	2	239,433	32,829	-	10,695	282,957
\$300,000 to \$329,999	2	229,006	15,325	-	71,050	315,381
\$360,000 to \$389,999	1	289,620	37,702	-	33,915	361,237
\$540,000 to \$569,999	1	358,287	87,197	-	103,188	548,672
Total	39					

Notes:

¹ This table reports substantive senior executives who received remuneration during the reporting period. Each row is an averaged figure based on headcount for individuals in the band.

² 'Reportable salary' includes the following:

- a) gross payments (less any bonuses paid, which are separated out and disclosed in the 'bonus paid' column);
- b) reportable fringe benefits (at the net amount prior to 'grossing up' to account for tax benefits); and
- c) exempt foreign employment income

³ The 'contributed superannuation' amount is the average actual superannuation contributions paid to staff in that reportable remuneration band during the reporting period, including any salary sacrificed amounts, as per the individuals' payslips.

⁴ 'Reportable allowances' are the average actual allowances paid as per the 'total allowances' line on individuals' payment summaries

⁵ 'Bonus paid' represents average actual bonuses paid during the reporting period in that reportable remuneration band. The 'bonus paid' within a particular band may vary between financial years due to various factors such as individuals commencing with or leaving the entity during the financial year

⁶ Various salary sacrifice arrangements were available to senior executives including super, motor vehicle and expense payment fringe benefits. Salary sacrifice benefits are reported in the 'reportable salary' column, excluding salary sacrificed superannuation, which is reported in the 'contributed superannuation' column.

Defence Materiel Organisation

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note 11B (Cont'd) Average Annual Remuneration Packages and Bonus Paid for Substantive Senior Executives during the Reporting Period (2010-11)

Average annual reportable remuneration ¹	2011					Total
	Senior Executives No.	Reportable Salary ²	Contributed superannuation ³	Reportable allowances ⁴	Bonus paid ⁵	
				\$	\$	\$
Total remuneration (including part-time arrangements):						
Less than \$150,000	5	60,801	4,790	-	12,608	78,199
\$150,000 to \$179,999	4	142,927	25,772	-	-	168,699
\$180,000 to \$209,999	13	160,442	32,258	-	535	193,235
\$210,000 to \$239,999	7	173,411	47,382	-	6,107	226,900
\$240,000 to \$269,999	4	217,541	31,603	-	9,982	259,126
\$270,000 to \$299,999	1	222,030	31,566	-	23,013	276,609
\$360,000 to \$389,999	1	319,900	36,737	-	28,722	385,359
\$480,000 to \$509,999	1	357,306	87,559	-	35,810	480,675
\$750,000 to \$779,999	1	631,277	59,639	-	81,550	772,466
Total	37					

Notes:

¹ This table reports substantive senior executives who received remuneration during the reporting period. Each row is an averaged figure based on headcount for individuals in the band.

² 'Reportable salary' includes the following:

- a) gross payments (less any bonuses paid, which are separated out and disclosed in the 'bonus paid' column);
- b) reportable fringe benefits (at the net amount prior to 'grossing up' to account for tax benefits); and
- c) exempt foreign employment income

³ The 'contributed superannuation' amount is the average actual superannuation contributions paid to staff in that reportable remuneration band during the reporting period, including any salary sacrificed amounts, as per the individuals' payslips.

⁴ 'Reportable allowances' are the average actual allowances paid as per the 'total allowances' line on individuals' payment summaries

⁵ 'Bonus paid' represents average actual bonuses paid during the reporting period in that reportable remuneration band. The 'bonus paid' within a particular band may vary between financial years due to various factors such as individuals commencing with or leaving the entity during the financial year

⁶ Various salary sacrifice arrangements were available to senior executives including super, motor vehicle and expense payment fringe benefits. Salary sacrifice benefits are reported in the 'reportable salary' column, excluding salary sacrificed superannuation, which is reported in the 'contributed superannuation' column.

Defence Materiel Organisation

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note 11C Other Highly Paid Staff (2011-12)

Average annual reportable remuneration ¹	2012					Total
	Staff	Reportable	Contributed	Reportable	Bonus paid ⁵	
	No.	Salary ²	superannuation ³	allowances ⁴	\$	
		\$	\$	\$	\$	\$
Total remuneration (including part-time arrangements):						
\$150,000 to \$179,999	39	133,612	27,739	-	157	161,508
\$180,000 to \$209,999	6	159,292	30,330	54	-	189,676
\$210,000 to \$239,999	1	190,803	20,122	-	-	210,925
Total	46					

Notes:

¹ This table reports staff:

- a) who were employed by the entity during the reporting period;
- b) whose reportable remuneration was \$150,000 or more for the financial period; and
- c) were not required to be disclosed in Tables A or B.

Each row is an averaged figure based on headcount for individuals in the band.

² 'Reportable salary' includes the following:

- a) gross payments (less any bonuses paid, which are separated out and disclosed in the 'bonus paid' column);
- b) reportable fringe benefits (at the net amount prior to 'grossing up' to account for tax benefits); and
- c) exempt foreign employment income

³ The 'contributed superannuation' amount is the average actual superannuation contributions paid to staff in that reportable remuneration band during the reporting period, including any salary sacrificed amounts, as per the individuals' payslips.

⁴ 'Reportable allowances' are the average actual allowances paid as per the 'total allowances' line on individuals' payment summaries

⁵ 'Bonus paid' represents average actual bonuses paid during the reporting period in that reportable remuneration band. The 'bonus paid' within a particular band may vary between financial years due to various factors such as individuals commencing with or leaving the entity during the financial year

⁶ Various salary sacrifice arrangements were available to other highly paid staff including super, motor vehicle and expense payment fringe benefits. Salary sacrifice benefits are reported in the 'reportable salary' column, excluding salary sacrificed superannuation, which is reported in the 'contributed superannuation' column.

Defence Materiel Organisation

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note 11C (Cont'd) Other Highly Paid Staff (2010-11)

Average annual reportable remuneration ¹	2011					Total
	Staff No.	Reportable Salary ² \$	Contributed superannuation ³ \$	Reportable allowances ⁴ \$	Bonus paid ⁵ \$	
Total remuneration (including part-time arrangements):						
\$150,000 to \$179,999	37	132,713	27,098	-	-	159,811
\$180,000 to \$209,999	5	150,035	36,675	-	-	186,710
\$210,000 to \$239,999	1	173,785	29,955	-	25,343	229,083
Total	43					

Notes:

¹ This table reports staff:

- a) who were employed by the entity during the reporting period;
- b) whose reportable remuneration was \$150,000 or more for the financial period; and
- c) were not required to be disclosed in Tables A or B.

Each row is an averaged figure based on headcount for individuals in the band.

² 'Reportable salary' includes the following:

- a) gross payments (less any bonuses paid, which are separated out and disclosed in the 'bonus paid' column);
- b) reportable fringe benefits (at the net amount prior to 'grossing up' to account for tax benefits); and
- c) exempt foreign employment income

³ The 'contributed superannuation' amount is the average actual superannuation contributions paid to staff in that reportable remuneration band during the reporting period, including any salary sacrificed amounts, as per the individuals' payslips.

⁴ 'Reportable allowances' are the average actual allowances paid as per the 'total allowances' line on individuals' payment summaries

⁵ 'Bonus paid' represents average actual bonuses paid during the reporting period in that reportable remuneration band. The 'bonus paid' within a particular band may vary between financial years to various factors such as individuals commencing with or leaving the entity during the financial year

⁶ Various salary sacrifice arrangements were available to other highly paid staff including super, motor vehicle and expense payment fringe benefits. Salary sacrifice benefits are reported in the 'reportable salary' column, excluding salary sacrificed superannuation, which is reported in the 'contributed superannuation' column.

Defence Materiel Organisation
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

	2012	2011
	\$'000	\$'000
Note 12 Remuneration of Auditors		
Financial statement audit services were provided free of charge to DMO by the Australian National Audit Office (ANAO).		
The fair value of the services provided		
Financial statement audit services	1,400	1,950
	1,400	1,950
No other audit services were provided by the auditors of the financial statements.		

Defence Materiel Organisation

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

	2012 \$'000	2011 \$'000
Note 13 Financial Instruments		
Note 13A Categories of Financial Instruments		
Financial Assets		
Loans and receivables		
Cash and cash equivalents	24,722	(70,492)
Trade and other receivables	266,392	753,576
Carrying amount of financial assets	291,114	683,084

Financial Liabilities		
Other financial liabilities - at amortised cost		
Suppliers	1,429,807	1,561,383
Unearned income	-	83,484
Grants payable	5,161	4,809
Other payables	55,682	53,939
Carrying amount of financial liabilities	1,490,650	1,703,615

Note 13B Net Income and Expense from Financial Assets

Loans and receivables		
Exchange gains / (loss)	(49)	(1)
Impairment	(1,154)	(882)
Net gain / (loss) from financial assets	(1,203)	(883)

There was no interest income from financial assets not at fair value through the profit or loss for the year ending 30 June 2012. (2011: Nil)

Note 13C Net Income and Expense from Financial Liabilities

Financial liabilities - at amortised cost		
Exchange gains / (loss)	981	67,398
Interest expense	(4)	(24)
Net gain / (loss) from financial liabilities	977	67,374

The total interest expense from financial liabilities not at fair value through profit or loss was \$4,000. (2011: \$24,000)

Note 13D Fair Value of Financial Instruments

The net fair values of cash and non-interest-bearing monetary financial assets approximate their carrying amounts. The net fair values for trade creditors and accruals which are short-term in nature are approximated by their carrying amounts.

Defence Materiel Organisation

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note 13E Credit Risk

DMO's maximum exposure to credit risk at reporting date in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the balance sheet. This amount was equal to the total amount of goods and services receivables, materiel acquisition and sustainment receivables from Defence and other receivables (2012: \$266,392, 2011: \$753,576).

DMO manages its credit risk by undertaking background and credit checks prior to allowing a debtor relationship. In addition, DMO has policies and procedures that guide employee debt recovery techniques that are to be applied. DMO assessed the risk of default on payment and allocated \$104,000 in 2012 (2011: \$1,197,000) to an impairment account.

DMO holds no collateral to mitigate against credit risk.

DMO has no significant exposures to any concentrations of credit risk.

Credit quality of financial instruments not past due or individually determined as impaired:

Financial assets	Not Past Due Nor Impaired	Not Past Due Nor Impaired	Past Due or Impaired	Past Due or Impaired
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Cash and cash equivalents	24,722	(70,492)	-	-
Trade and other receivables	265,841	730,207	655	24,566
Total	290,563	659,715	655	24,566

Ageing of financial assets that were past due but not impaired for 2011 and 2012:

Loans and Receivables	0 to 30 days		31 to 60 days		61 to 90 days		> 90 days		Total	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Trade and other receivables	560	462	2	33	-	37	18	23,910	580	24,442
Total	560	462	2	33	-	37	18	23,910	580	24,442

Defence Materiel Organisation

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note 13F **Liquidity Risk**

DMO's financial liabilities are payables. The exposure to liquidity risk is based on the notion that DMO will encounter difficulty in meeting its obligations associated with financial liabilities. This is highly unlikely as DMO is appropriated funding from the Australian Government. DMO manages its budgeted funds to ensure it has adequate funds to meet payments as they fall due. In addition, DMO has policies in place to ensure timely payments are made when due and has no past experience of default.

Maturities for non-derivative financial liabilities

	On demand		Within 1 year		1 to 2 years		2 to 5 years		> 5 years		Total	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Suppliers	-	-	1,429,807	1,561,383	-	-	-	-	-	-	1,429,807	1,561,383
Unearned income	-	-	-	83,484	-	-	-	-	-	-	-	83,484
Grant payables	-	-	5,161	4,809	-	-	-	-	-	-	5,161	4,809
Other payables	-	-	39,089	53,939	16,593	-	-	-	-	-	55,682	53,939
Total	-	-	1,474,057	1,703,615	16,593	-	-	-	-	-	1,490,650	1,703,615

DMO has no derivative financial liabilities in either the current or prior year.

Defence Materiel Organisation**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS****Note 13G Market Risk***Currency risk*

Foreign currency transactions are recorded at the rate of exchange at the date of the transaction.

Foreign currency receivables and payables are translated at exchange rates current at the balance date. Exchange gains and losses are brought to account in determining the surplus/deficit for the year. These exchange gains and losses are not speculative and no hedging is undertaken.

DMO is exposed to foreign exchange rate risk through primary financial assets and liabilities yet a change in risk variable will not have a significant effect on the Balance Sheet or the Statement of Comprehensive Income.

The following table illustrates the effect on DMO's surplus/deficit and equity as at 30 June 2012 from a 15% increase or decrease (2011: 15%) against the Australian dollar in the currencies in which financial instruments were held, with all other variables held constant.

Sensitivity analysis of the risk that the entity is exposed to for 2012 and 2011

			Effect on		Effect on		
Financial instrument category	Risk variable	Change in risk variable	Surplus / Deficit	Equity	Change in risk variable	Surplus / Deficit	Equity
		%	\$'000	\$'000	%	\$'000	\$'000
		2012	2012	2012	2011	2011	2011
Financial assets							
Cash	Exposed currency	15%	(12,516)	(12,516)	15%	(2,105)	(2,105)
		-15%	16,933	16,933	-15%	2,848	2,848
Receivables	Exposed currency	15%	-	-	15%	(49)	(49)
		-15%	-	-	-15%	62	62
Financial liabilities							
Suppliers	Exposed currency	15%	63,444	63,444	15%	66,164	66,164
		-15%	(78,303)	(78,303)	-15%	(82,031)	(82,031)

The foreign currency financial assets comprise 13.4% of total financial assets. In line with Australian Governmental policy, DMO pays correctly rendered invoices within 30 days of receipt thus mitigating any exposure to currency risk from foreign currency trade creditors. Furthermore, departmental currency risk is minimised through budget supplementation for any adverse movements in exchange rates on financial assets and financial liabilities held in foreign currencies.

Interest rate risk and other price risk

DMO holds basic financial instruments that are not exposed to significant interest rate and other price risk.

Defence Materiel Organisation

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note 14 Financial Assets Reconciliation

		2012 \$'000	2011 \$'000
Financial assets	Notes		
Total financial assets as per balance sheet		708,950	1,293,555
Less non-financial instrument components			
Appropriation receivable	5B	301,925	507,424
GST receivable from the ATO	5B	115,911	103,047
Total non-financial instrument components		417,836	610,471
Total financial assets as per financial instruments note	13	291,114	683,084

Defence Materiel Organisation

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

	2012 \$'000	2011 \$'000
Note 15 Administered Expense		
<u>Note 15 Foreign exchange losses</u>		
Non-speculative losses associated with interest earned on project advances returned to the Commonwealth	705	-
Total foreign exchange losses	705	-
Note 16 Administered Income		
OWN-SOURCE REVENUE		
Non-taxation revenue		
<u>Note 16A Interest</u>		
Deposits ¹	10	44
Project advances	532	950
Total interest	542	994
¹ Revenue previously recognised as Administered in 2010-11 (\$1.29m) has been reclassified as Departmental in accordance with the revision to accounting policy outlined at Note 1.26(b).		
<u>Note 16B Other</u>		
Levies from sale of excess consortium assets ¹	42	97
Total other	42	97
¹ Levies from sale of excess consortium assets have been reclassified from Other Gains, as this revenue was generated in the ordinary course of the related project.		

Defence Materiel Organisation

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

	2012 \$'000	2011 \$'000
Note 17 Administered Financial Assets		
Note 17 Trade and Other Receivables		
Interest ¹	124	3,959
Levies receivable from consortium	4,218	4,177
Total trade and other receivables	4,342	8,136
Trade and other receivables are expected to be recovered in:		
No more than 12 months	4,342	8,136
More than 12 months	-	-
Total trade and other receivables	4,342	8,136
Trade and other receivables were aged as follows:		
Not overdue	103	137
Overdue by:		
0 to 30 days	-	-
31 to 60 days	-	-
61 to 90 days	-	-
More than 90 days	4,239	7,999
Total trade and other receivables	4,342	8,136

¹ The interest receivable balance for 2010-11 has been restated in line with the accounting policy specified at note 1.26(b). This has reduced the balance in question by \$4.48m.

Defence Materiel Organisation

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

	2012 \$'000	2011 \$'000
Note 18 Administered Cash Flow Reconciliation		
Reconciliation of cash and cash equivalents as per Administered Schedule of Assets and Liabilities to Administered Cash Flow Statement		
Cash and cash equivalents as per:		
Schedule of administered cash flows	-	-
Schedule of administered assets and liabilities	-	-
Difference	-	-
Reconciliation of net cost of services to net cash from operating activities		
Net cost of services	(121)	1,091
Changes in assets / liabilities		
(Increase) / decrease in net receivables	3,794	(33)
Net cash from (used by) operating activities	3,673	1,058
Note 19 Administered Contingent Assets and Liabilities		
There are no administered contingent liabilities or administered contingent assets to report for the current or prior year.		
Note 20 Administered Investments		
There are no administered investments to report for the current or prior year.		

Defence Materiel Organisation

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

	2012 \$'000	2011 \$'000
Note 21 Administered Financial Instruments		
<u>Note 21A Categories of Financial Instruments</u>		
Financial assets		
Loans and receivables:		
Interest	124	3,959
Levies receivable from consortium	4,218	4,177
<i>Carrying amount of financial assets</i>	4,342	8,136
<u>Note 21B Net income and expense from financial assets</u>		
Loans and receivables:		
Foreign exchange gain/(loss)	(705)	-
<i>Net gain/(loss) loans and receivables</i>	(705)	-
<i>Net gain/(loss) from financial assets</i>	(705)	-

Defence Materiel Organisation

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note 21C Credit Risk

DMO's maximum exposure to credit risk at reporting date in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the Balance Sheet. This amount was equal to the total amount of trade and other receivables.

Credit quality of financial instruments not past due or individually determined as impaired:

Financial assets	Not Past Due Nor Impaired	Not Past Due Nor Impaired	Past Due or Impaired	Past Due or Impaired
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Trade and other receivables	103	137	4,239	7,999
Total	103	137	4,239	7,999

Ageing of financial assets that were past due but not impaired for 2011 and 2012:

Loans and Receivables	0 to 30 days		31 to 60 days		61 to 90 days		> 90 days		Total	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Trade and other receivables	-	-	-	-	-	-	4,239	7,999	4,239	7,999
Total	-	-	-	-	-	-	4,239	7,999	4,239	7,999

Defence Materiel Organisation

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

		2012 \$'000	2011 \$'000
Note 21D Fair Value of Financial Instruments			
The fair values of DMO Administered financial instruments approximate their carrying amounts.			
Note 21E Market Risk			
Currency risk			
Foreign currency transactions are recorded at the rate of exchange at the date of the transaction.			
Foreign currency receivables are translated at exchange rates current at the balance date. Exchange gains and losses are brought to account in determining total income/expenses administered on behalf of Government. These exchange gains and losses are not speculative and no hedging is undertaken.			
DMO is exposed to foreign exchange rate risk through primary financial assets yet a change in risk variable will not have a significant effect on the administered income.			
Note 22 Administered Financial Assets Reconciliation			
Financial assets	Notes		
Total financial assets as per schedule of administered assets and liabilities		4,342	8,136
<i>Total non-financial instrument components</i>		-	-
<i>Total financial assets as per financial instruments note</i>	21	4,342	8,136

Defence Materiel Organisation

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note 23 Appropriations

Note 23A Annual Appropriations ('Recoverable GST exclusive')

	2012 Appropriations							Appropriation applied in 2012 (current and prior years) \$'000	Variance ⁴ \$'000
	Appropriation Act			FMA Act			Total appropriation \$'000		
	Annual Appropriation \$'000	Appropriations reduced ¹ \$'000	AFM ³ \$'000	Section 30 \$'000	Section 31 \$'000	Section 32 \$'000			
DEPARTMENTAL									
Ordinary annual services	931,270	-	-	-	-	-	931,270	870,000	61,270
Other services									
Equity									
Loans									
Total Departmental	931,270	-	-	-	-	-	931,270	870,000	61,270
ADMINISTERED									
Ordinary annual services									
Administered items									
Total Administered	-	-	-	-	-	-	-	-	

Notes:

¹ Appropriations reduced under Appropriation Acts (Nos 1, 3 & 5) 2011–12 section 10, 11, 12 and 15. Departmental appropriations do not lapse at financial year-end. However, the responsible Minister may decide that part or all of a departmental appropriation is no longer required and request the Finance Minister to reduce the appropriation. The reduction in the appropriation is effected by the Finance Minister's determination and is disallowable by Parliament. In 2012, there was no reduction in departmental appropriations.

² In 2011–12 there was no adjustment that met the recognition criteria of a formal addition or reduction in revenue (in accordance with FMO Div 101) but at law the appropriation had not been amended before the end of the reporting period.

³ Advance to the Finance Minister (AFM) – Appropriation Acts (Nos 1, 3 & 5) section 13.

⁴ The variance between total appropriations and appropriations applied in 2012 was due to a delay in expected revisions to the workforce funding model, underachievement by some of the industry engagement programs and funds appropriated directly from the DMO Special Account.

Defence Materiel Organisation

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

	2011 Appropriations							Appropriation applied in 2011 ⁴ (current and prior years) \$'000	Variance ³ \$'000
	Appropriation Act			FMA Act			Total appropriation \$'000		
	Annual Appropriation \$'000	Appropriations reduced ¹ \$'000	AFM ² \$'000	Section 30 \$'000	Section 31 \$'000	Section 32 \$'000			
DEPARTMENTAL									
Ordinary annual services	899,607	(64,515)	-	-	-	-	835,092	738,654	96,438
Other services									
Equity									
Loans									
Total Departmental	899,607	(64,515)	-	-	-	-	835,092	738,654	96,438
ADMINISTERED									
Ordinary annual services									
Administered items									
Total Administered	-	-	-	-	-	-	-	-	

Notes:

¹ Appropriation reduced under Appropriation Acts (No. 1) 2010-11: sections 10. Departmental appropriations do not lapse at financial year-end. However, the responsible Minister may decide that part or all of a departmental appropriation is not required and request the Finance Minister to reduce that appropriation. The reduction in the appropriation is effected by the Finance Minister's determination and is disallowable by Parliament. On 26 June 2012, the Finance Minister determined a reduction in departmental appropriations following a request by the Minister for Defence. The reductions under this determination were:

Appropriation Act (No. 1) 2010-11	\$12,190,000
Appropriation Act (No.1) 2009–10	\$ 8,255,000
Appropriation Act (No.1) 2008–09	\$13,571,000
Appropriation Act (No 1) 2007–08	\$38,478,000
Total reduction in Equity	\$72,494,000

On 30 June 2011 the Finance Minister issued a determination to reduce departmental appropriations following a request by the Minister for Defence. The amount of the reduction determined under Appropriation Act (No.1) 2010-11 was \$52,325,000

Defence Materiel Organisation**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

² Advance to the Finance Minister (AFM) – Appropriation Acts (Nos 1, 3 & 5) section 13

³ The variance between total appropriations and appropriations applied in 2011 was due to:

- overall staffing levels being below the workforce budget agreed with Defence;
- general operating expenses being less than budgeted; and
- a reduction in expected outcomes for some industry programs

⁴ The Appropriations applied in 2011 figure has been reduced by \$34.5m in order to accurately reflect the non-cash nature of Resources Received Free of Charge

Defence Materiel Organisation

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note 23B Unspent Departmental Annual Appropriations ('Recoverable GST exclusive')

	2012	2011
Authority	\$'000	\$'000
Appropriation Act (No. 1) 2007-08	2,778	41,256
Appropriation Act (No. 1) 2008-09	18,885	32,456
Appropriation Act (No. 1) 2009-10	42,953	51,208
Appropriation Act (No. 3) 2009-10	49,825	49,825
Appropriation Act (No. 1) 2010-11	56,800	68,990
Appropriation Act (No. 1) 2011-12	59,201	-
Appropriation Act (No. 3) 2011-12	2,069	-
Total	232,511	243,735

Defence Materiel Organisation
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note 24 Special Accounts ('Recoverable GST exclusive')

	Defence Materiel Organisation Special Account ^{1 8}		Services for Other Entities and Trust Moneys ^{2 8}	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Balance brought forward from previous period ⁴	436,932	288,091	-	-
Increases:			-	-
Appropriation credited to special account	858,776	847,282		-
Costs recovered ³	87,039	178,754		-
Interest ⁵	2	3		-
Goods and Services receipts from Defence ⁴	10,221,149	9,228,863		-
Receipts on behalf of Foreign Governments	27,677	27,285		-
Comcare receipts			33	
Total increase	11,194,643	10,282,187	33	-
Available for payments	11,631,575	10,570,278	33	-
Decreases:				
Departmental				-
Payments made to employees	(570,710)	(521,143)		-
Payments made to suppliers ³	(9,827,872)	(9,514,063)		-
Payments of grants	(20,448)	(8,865)		-
Interest transferred to Administered/paid to the OPA ⁵	(2)	(3)		-
Cash transferred to the OPA			(33)	
Payments made in regards to Foreign Government Activities	(27,677)	(27,285)		-
Funds returned to Defence ⁶	(858,219)	(61,987)		-
Total departmental decreases	(11,304,928)	(10,133,346)	(33)	-
Administered				
Payments made				-
Total administered decreases	-	-	-	-
Total decreases	(11,304,928)	(10,133,346)	(33)	-
Total balance carried to next period ^{7 4}	326,647	436,932	-	-

Defence Materiel Organisation

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

¹**Appropriation:** *Financial Management and Accountability Act 1997 s.20.*

Establishing Instrument: Financial Management and Accountability Determination 2005/09 – Defence Materiel Special Account Establishment 2005.

Purpose: The purposes of the *Financial Management and Accountability Determination 2005/09 - Defence Materiel Special Account Establishment 2005*, in relation to which amounts may be debited from the Special Account, are:

- a) supporting the Australian Defence Force's capability through development, acquisition, sustainment, disposal, and provision of goods and/or services;
- b) developing, acquiring, sustaining, and providing goods and/or services for foreign governments and other bodies;
- c) managing and marketing the Agency whose chief executive has been allocated responsibility for this Special Account;
- d) developing and implementing policies for, and providing advice to, the Australian Government, Defence, defence industry and other matters related to the provision of goods and/or services;
- e) to make a notional payment to Defence to return amounts received from, or on behalf of, Defence;
- f) activities that are incidental to a purpose mentioned in paragraphs (a), (b), (c), (d) and (e);
- g) to reduce the balance of the Special Account (and, therefore, the available appropriation for the Special Account) without making a real or notional payment;
- h) to repay amounts where an Act or other law requires or permits the repayment of an amount received.
To avoid doubt, incidental activities include:
 - i) the administration of the Special Account; and
 - j) dealing with direct and indirect costs.

²**Appropriation:** *Financial Management and Accountability Act 1997 s20.*

Establishing Instrument: Financial Management and Accountability Determination 2009/19 – Services for Other Entities and Trust Moneys – Defence Materiel Organisation Special Account Establishment 2009.

Purpose: The purposes of the *Financial Management and Accountability Determination 2009/19 – Services for Other Entities and Trust Moneys – Defence Materiel Organisation Special Account Establishment 2009*, for which amounts may be debited from the Special Account, are to:

- a) disburse amounts held on trust or otherwise for the benefit of a person other than the Commonwealth;
- b) disburse amounts in connection with services performed on behalf of other governments and bodies that are not FMA Act agencies;
- c) repay amounts where an Act or other law requires or permits the repayment of an amount received; and
- d) reduce the balance of the Special Account (and, therefore, the available appropriation for the Account) without making a real or notional payment.

This account is non-interest bearing.

³ The 2010-11 comparative includes an adjustment to correct the allocation of GST. GST on sales of \$0.5m previously reported under 'payment made to suppliers' has been removed from 'costs recovered'. Similarly, GST on suppliers of \$632m previously reported under 'costs recovered' has been removed from 'payments made to suppliers'. These adjustments have no net effect on the total balance.

⁴ The 2010-11 comparative includes an adjustment to remove GST that is recoverable from/ payable to the ATO. Net GST receivable of \$155.2m previously reported under 'total balance carried to next period' and net GST receivable of \$96.4m previously reported under 'total balance carried to next period' have been removed. The net difference of \$58.8m has been adjusted under 'goods and services receipts from Defence'.

⁵ These transactions reflect interest received from overseas bank accounts. Note that most interest from overseas bank accounts and prepayments did not flow through the Special Account but was deposited directly into Administered bank accounts. The 2010-11 comparative includes an adjustment to correct the signage for interest flows in costs recovered and payments made to suppliers by \$6,000. The adjustment has no net effect on the total balance.

⁶ The majority of funds represent return of foreign exchange gains under no-win no-loss arrangements with Defence.

⁷ The 2010-11 Defence Materiel Organisation Special Account balances have been restated to reflect the reclassification of payment clearing accounts from Suppliers Payable to Cash. These have reduced the closing balance of the Special Account Cash by \$113.52m due and payments made to suppliers by \$99.95m. Please refer to Note 5A and 7A for further details relating to these changes.

Defence Materiel Organisation
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

⁸ In 2010–11 DMO became aware that there is an increased risk of non-compliance with section 83 of the Constitution where payments are made from special accounts in circumstances where the payments do not accord with the conditions included in the relevant legislation. Refer to Note 25 for further details of DMO’s assessment of the potential for such circumstances to arise.

Defence Materiel Organisation**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS****Note 25 Compliance with Statutory Conditions for Payments from the Consolidated Revenue Fund**

Section 83 of the Constitution provides that no amount may be paid out of the Consolidated Revenue Fund except under an appropriation made by law. The Department of Finance and Deregulation provided information to all agencies in 2011 regarding the need for risk assessments in relation to compliance with statutory conditions on payments from special appropriations, including special accounts. The possibility of this being an issue for DMO was reported in the notes to the 2010-11 financial statements and DMO undertook to investigate the issue during 2011-12.

During 2011-12, DMO developed a plan to review exposure to risks of not complying with statutory conditions on payments from appropriations. The plan involved:

- identifying each Special Account and confirming the statutory conditions for each;
- assessing the categories of payments made from each Special Account against the statutory conditions;
- assessing the extent to which existing controls support the conditions being satisfied;
- obtaining legal advice, as appropriate, to resolve questions of potential non-compliance; and
- quantifying the extent of non-compliance, if any, in higher risk situations.

The agency identified two appropriations involving statutory conditions for payment (within the related determinations), comprising the Defence Materiel Organisation Special Account and the Services for Other Entities and Trust Moneys – Defence Materiel Organisation Special Account.

As at 30 June 2012 this work had been completed in respect of all appropriations with statutory conditions for payment (representing \$11.114m of total \$11.997m expenditure in 2011-12).

The work conducted to date has identified no issues of non-compliance with Section 83.

Defence Materiel Organisation

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note 26 Compensation and Debt Relief			
		2012	2011
		\$'000	\$'000
Departmental			
No 'Act of Grace payments' were expensed during the reporting period (2011: No payments)		Nil	Nil
No waivers of amounts owing to the Australian Government were made pursuant to Subsection 34(1) of the <i>Financial Management and Accountability Act 1997</i> . (2011: No waivers)		Nil	Nil
No payments were provided under the Compensation for Detriment caused by Defective Administration (CDDA) Scheme during the reporting period. (2011: No payments)		Nil	Nil
No ex-gratia payments were provided during the reporting period. (2011: No payments)		Nil	Nil
No payments were provided in special circumstances relating to APS employment pursuant to section 73 of the <i>Public Service Act 1999</i> during the reporting period. (2011: No payments)		Nil	Nil
Administered			
No 'Act of Grace payments' were expensed during the reporting period (2011: No payments)		Nil	Nil
No waivers of amounts owing to the Australian Government were made pursuant to Subsection 34(1) of the <i>Financial Management and Accountability Act 1997</i> . (2011: No waivers)		Nil	Nil
No payments were provided under the Compensation for Detriment caused by Defective administration (CDDA) Scheme during the reporting period. (2011: No payments)		Nil	Nil
No ex-gratia payments were provided during the reporting period. (2011: No payments)		Nil	Nil
No payments were provided in special circumstances relating to APS employment pursuant to section 73 of the <i>Public Service Act 1999</i> during the reporting period. (2011: No payments)		Nil	Nil

Defence Materiel Organisation

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note 27 Assets Held in Trust

Comcare Trust Account

This account holds moneys advanced to DMO by Comcare for the purpose of distributing compensation payments made in accordance with the Safety Rehabilitation and Compensation Act 1998 for injuries which occurred prior to 1 July 2006. Where DMO makes payments against accrued sick leave entitlements pending determination of an employee's claim, permission is obtained in writing from each individual to allow DMO to recover the payments from the moneys in the account. For certain instances in which an employee is no longer entitled to the funds in question (i.e. they have already received payment), DMO is required to return all relevant monies to the Official Public Account.

The transactions of the account have been disclosed in Note 24 Special Accounts *Services for Other Entities and Trust Moneys – Defence Materiel Organisation Special Account (Trust)*.

Defence Materiel Organisation
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note 28 Reporting of Outcomes

Net Cost of Outcome Delivery

	Outcome 1		Total	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Departmental				
Expenses	10,082,556	10,633,322	10,082,556	10,633,322
Own-source income	9,198,562	9,843,807	9,198,562	9,843,807
Administered				
Expenses	705	-	705	-
Own-source income	584	1,091	584	1,091
<i>Net cost/(contribution) of outcome delivery</i>	884,115	788,424	884,115	788,424

Outcome 1 is described in Note 1.1. Net costs shown include intra-government costs that are eliminated in calculating the actual Budget outcome.

PART FOUR

DEPARTMENT OF DEFENCE
ANNUAL REPORT

2011 – 2012

ERRORS AND OMISSIONS

Errors and Omissions

Defence Annual Report 2010-11

Volume 1 Defence

Page 1, Letter of Transmittal

Paragraph 4, line 2 should read 'Regulation 16A'.

Paragraph 4, line 6, the year should read '2011'.

Page 26, Figure 2.1 Departmental Net Cost of Service (Cash) six year trend

2009-10 figure should read '\$24,299'.

Page 34, Figure 2.1 Departmental Net Cost of Service (Cash) six year trend

2008-09 figure should read '\$758'.

Page 75, photo caption

A 'Source: The Courier-Mail' should be added.

Page 109, Table 4.24 Key Performance Indicators (KPI)

KPI (vi) should include a second paragraph as follows: 'Deliver an approved Public Private Partnership project (Project Single LEAP Phase 2), 3,015 Living In Accommodation units by the end of February 1014.'

Page 195, Cabinet

Paragraph 1, line 1: number of submissions should read '62'.

Paragraph 1, line 2: percentage number should read '230 per cent'.

Page 274, Table A5.11 ADF Permanent, Gap Year and Reserve Forces, and APS by gender and employment category

Row: Total Reserves, column: Men as at 30 June 2011, percentage should read '84.1'.

Row: Total Reserves, column: Women as at 30 June 2011, percentage should read '15.9'.

Page 345, Table A7.13 Total Advertising and Market Expenditure by Group

Row: Capability Development Group, column: 2010-11 (\$), should include a figure '19,699'.

PART FIVE

DEPARTMENT OF DEFENCE
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GLOSSARY AND INDEXES

Glossary and Indexes

Acronyms and Abbreviations

A

ADAS	Amphibious Deployment and Sustainment	ASPI	Australian Strategic Policy Institute
ADATS	Australian Defence Air Traffic System	ATM	Approach to Market
ADF	Australian Defence Force	AUSMIN	Australian-United States Ministerial Meeting
ADR	Alternative Dispute Resolution	AWD	Air Warfare Destroyer
AEW&C	Airborne Early Warning and Control	B	
AFS	Average Funded Strength	BSIP	Base Security Improvement Program
AGSVA	Australian Government Security Vetting Agency	BTBFA	Bullet Trap Blank Firing Attachment
AIC	Australian Industry Capability	C	
AMCIP	Approved Major Capital Investment Program	CA	Chief of Army
AMRAAM	Advanced Medium Range Air-to-Air Missiles	CAE	Chief Audit Executive
ANAO	Australian National Audit Office	CAF	Chief of Air Force
ANSF	Afghan National Security Forces	CDDA	Compensation for Detriment Caused by Defective Administration
ANZAC	Australian and New Zealand Army Corps	CDF	Chief of the Defence Force
ANZUS	Australian, New Zealand, United States	CDG	Capability Development Group
APAC	Army Personnel Administration Centre	CDIP	Capability Development Improvement Program
APS	Australian Public Service	CEO	Chief Executive Office
ASDEFCON	Australian Standard for Defence Contracting	CFO	Chief Financial Officer
ASEAN	Association of South East Asian Nations	CFTS	Continuous Full-Time Service
ASIO	Australian Security Intelligence Organisation	CHOGM	Commonwealth Heads of Government Meeting
ASLAV	Australian Light Armoured Vehicle	CIO	Chief Information Officer
		CJOPS	Chief of Joint Operations
		CN	Chief of Navy
		ComSuper	Commonwealth Superannuation Administration
		COO	Chief Operating Officer

CPPB	Commercial Policy and Practice Branch	DSTO	Defence Science and Technology Organisation
CPX	Command Post Exercise	DVA	Department of Veterans' Affairs
C-RAM	Counter Rocket Artillery and Mortar	E	
CRESD	Cadet, Reserve and Employer Support Division	ECC	Environmental Clearance Certificate
CSOC	Cyber Security Operations Centre	ELF	Enhanced Land Force
CTF	Combined Task Force	EROC	Eastern Regional Operations Centre
D		ESSM	Evolved Sea Sparrow Missile
DATMCS	Defence Air Traffic Management and Control System	F	
DCP	Defence Capability Plan	FFG	Guided Missile Frigate
DCP	Defence Cooperation Program	FMR	Final Materiel Release
DECA	Defence Enterprise Collective Agreement	FMS	Foreign Military Sales
DPG	Defence People Group	FPDA	Five Power Defence Agreement
DFRDB	Defence Force Retirement and Death Benefits Scheme	FTE-A	Full-Time Equivalent Average
DHA	Defence Housing Australia	FTX	Filed Training Exercise
DHOS	Defence Home Owner Scheme	FOI	Freedom of Information
DHOAS	Defence Home Ownership Assistance Scheme	G	
DEU	Defence Export Unit	GSC	Global Supply Chain
DIA	Defence Intelligence Agency	GST	Goods and Services Tax
DIO	Defence Intelligence Organisation	H	
DIGO	Defence Imagery and Geospatial Organisation	HMAS	Her Majesty's Australian Ship
DMO	Defence Materiel Organisation	Hon	Honourable
DMTC	Defence Materials Technology Centre	HQJOC	Headquarters Joint Operations Command
DSA	Defence Security Authority	I	
DSD	Defence Signals Directorate	ICT	Information and Communications Technology
DSG	Defence Support Group	IMMS	Interdependent Mission Management System
DSRAB	Defence Strategic Reform Advisory Board	IOC	Initial Operational Capability
		ISAF	International Security Assistance Force
		ISR	Intelligence, Surveillance and Reconnaissance

I&S	Intelligence and Security	O	
J		OCU	Operational Conversion Unit
JASSM	Joint Air-to-Surface Standoff Missile	OPA	Official Public Account
JDAM	Joint Direct Attack Munition	OSC	Office of Special Counsel
JOC	Joint Operations Command	OSCDF	Office of the Secretary and the Chief of the Defence Force
JP	Joint Project	P	
JSF	Joint Strike Fighter	PIC	Priority Industry Capabilities
JSOW	Joint Stand Off Weapons	PIT	Payroll Inspection Team
JTAC	Joint Terminal Attack Controller	PMV	Protected Mobility Vehicles
JTF	Joint Task Force	PWC	Committee on Public Works
K		R	
KPI	Key Performance Indicators	RAAF	Royal Australian Air Force
L		RAN	Royal Australian Navy
LHD	Landing Helicopter Dock	RAR	Royal Australian Regiment
M		S	
MAA	Materiel Acquisition Agreement	SADI	Skilling Australia's Defence Industry
MARC	Materiel Audit and Risk Committee	SAS	Special Air Service Regiment
MEWTES	Mobile Electronic Warfare Threat Emitter System	SCAC	Secretary and Chief of the Defence Force Advisory Committee
MNFSOP	Multinational Force Standard Operating Procedure	SES	Senior Executive Service
MoA	Memorandum of Arrangements	SME	Small to Medium Enterprises
MoU	Memorandum of Understanding	SOLAS	Safety of Life at Sea
MP	Member of Parliament	SRA	Strategic Risk Assessment
MPAT	Multinational Planning Augmentation Team	SRP	Strategic Reform Program
MRTT	Multi-Role Tanker Transport	S&T	Science and Technology
MSBS	Military Superannuation and Benefits Scheme	T	
N		TCR	Tactical Communication Router
NCAGS	Naval Cooperation and Guidance of Shipping	U	
NEP	Non-Equipment Procurement	UMCIP	Unapproved Major Capital Investment Program
NROC	Northern Regional Operations Centre	UN	United Nations
		UNMISS	United Nations Mission in South Sudan

URD	Unit Ready Days
USMC	United States Marine Corps

V

VCDF	Vice Chief of the Defence Force
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W

WGS	Wideband Global SATCOM System
WHS	Work Health and Safety
WoAG	Whole-of-Australian-Government
WRA	Workplace Remuneration Arrangement

Glossary

Accumulated Depreciation	The aggregate depreciation recorded for a particular depreciating asset.
Additional Estimates	Where amounts appropriated at Budget time are required to change, Parliament may make adjustments to portfolios through the Additional Estimates Acts.
Administered appropriation	Revenue, expenses, assets and liabilities administered by an agency for the Commonwealth (such as taxes, benefits payments and public debt) that are not concerned with running the agency or its commercial activities.
Administered items	Expenses, revenue, assets or liabilities managed by agencies on behalf of the Commonwealth. Agencies do not control administered items. Administered expenses include grants, subsidies and benefits. In many cases, administered expenses fund the delivery of third party outputs.
Agency	Assets, liabilities, revenue and expenses that are controlled by Defence or a subsidiary. Includes officials allocated to the organisation.
Amortisation	A term used interchangeably with depreciation, except that it applies to a non-current physical asset under finance lease, or a non-current intangible asset, over its limited useful life.
Appropriation	An authorisation by Parliament to spend money from the Consolidated Revenue Fund (the principal working fund of the Commonwealth) for a particular purpose.
Annual appropriation	Two appropriation Bills are introduced into Parliament in May and comprise the Budget for the financial year beginning 1 July. Further Bills are introduced later in the financial year as part of the additional estimates.
Assets	Future economic benefits controlled by Defence as a result of past transactions or other past events. Assets are initially recognised at the cost of acquisition. Non-financial assets are subject to ongoing revaluation assessment.
Assets under construction	Assets under construction by Defence for Defence, or for the use of another entity according to a construction contract where Defence controls the asset until completion, or assets under construction or otherwise being made ready by another entity for use by Defence.
Australian Accounting Standards	Specify techniques of accounting practice and the method of presenting financial information about a reporting entity.
Average funded strength	A budgetary measure used to count the average number of ADF members paid on a full-time equivalent basis during a financial year.
Capability	The combination of military equipment, personnel, logistics support, training, resources, etc. that provides Defence with the ability to achieve its operational aims.
Capability Manager	A Capability Manager is responsible for raising, training and sustaining in-service capabilities through the coordination of fundamental inputs to capability. Capability Managers include the Service Chiefs, the Chief of Joint Operations and the Chief Information Officer.

Capital budget	All proposed capital expenditure funded by appropriation for outcomes, by equity injections or loans and/or appropriations for administered capital, or by other sources.
Capital expenditure	Expenditure by an agency on capital projects, for example purchasing a building.
Chief Executive Instructions	Instructions issued by the Chief Executive of Defence (the Secretary) for the administration of the department. These instructions are issued under the authority of the <i>Financial Management and Accountability Act 1997</i> and carry the force of the law.
Coalition	Countries including Australia who provide troops, logistical support or assistance in Military Operations, peacekeeping or reconstruction efforts.
Combined exercise	An exercise or activity involving one or more Services of the ADF with the forces of other countries.
Consultants/consultancies	Individuals or organisations contracted to provide independent advice on an agreed subject.
Contractors	Individuals with specialist skills contracted to fill a line position.
Consolidated Revenue Fund	Section 81 of the Constitution stipulates that all revenue raised or money received by the Commonwealth forms the one consolidated revenue fund. The fund is not a bank account. The Official Public Account reflects most of the operations of the fund.
Corporate governance	The process by which agencies are directed and controlled. It is generally understood to encompass authority, accountability, stewardship, leadership, direction and control.
Customer-supplier agreement	An agreement between internal customers and suppliers for the supply of a service at an agreed quantity, standard and price.
Defence Capability Plan	The Defence Capability Plan is a costed, detailed development plan for Australia's military capabilities over a ten-year period. The plan is reviewed regularly to take account of changing strategic circumstances, new technologies and changed priorities, in the context of the overall Defence budget.
Defence Information Environment	Encompasses all of Defence's computing and communication capabilities at all classification levels. It supports all Defence warfighting functions, including overseas deployed elements and connection to Coalition networks, as well as the day-to-day management functions.
Defence Management Review	A review commissioned in August 2006 by the Minister for Defence in consultation with the Secretary and the Chief of the Defence Force to examine organisational efficiency and effectiveness across the Defence organisation.
Defence Procurement Review	An independent review initiated by the Government in December 2002 to examine the procurement process for major acquisitions in Defence. The review was led by Mr Malcolm Kinnaird and is also known as the Kinnaird Review.
Departmental items	Assets, liabilities, revenue and expenses that are controlled by the agency in providing its outputs. Departmental items would generally include computers, plant and equipment assets used by agencies in providing goods and services and most employee expenses, supplier costs and other administrative expenses incurred.

Depreciation	Apportionment of an asset's capital value as an expense over its estimated useful life to take account of normal usage, obsolescence, or the passage of time.
Employee	Any Australian Public Service officer of Defence or serving Defence Force member who receives a salary or wage, along with other benefits, for the provision of services whether on a full-time, part-time, permanent, casual or temporary basis.
Employee expenses	Include, but are not limited to, benefits provided to employees in the form of salaries and wages, performance pay, senior officers' allowances, leave, and superannuation, but does not include amounts paid or owed to employees as reimbursement of out-of-pocket expenses.
Equity injection	An additional contribution, over and above the cost of outputs. Equity injections form part of the Commonwealth's investment in Defence.
Expense	Total value of all of the resources consumed in producing goods and services or the loss of future economic benefits in the form of reductions in assets or increases in liabilities of an entity.
Fair value	The amount for which an asset could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's length transaction. The fair value can be affected by the conditions of the sale, market conditions and the intentions of the asset holder.
Final Operational Capability	The point in time at which the final subset of a Capability System that can be operationally employed is realised. Final Operational Capability is a capability state endorsed at project approval at Second Pass, and reported as having been reached by the Capability Manager.
<i>Financial Management and Accountability Act 1997</i>	The <i>Financial Management and Accountability Act 1997</i> establishes the regulatory framework for financial management within Defence and other public sector agencies.
Force element	A component of a unit, a unit or an association of units having common prime objectives and activities.
Force element group	A grouping of force elements with an appropriate command and control structure for a specified role or roles (e.g. the Navy Submarine Group).
Forward estimates	The level of proposed expenditure for future years, based on relevant demographic, economic and other future forecasting assumptions. The Government requires forward estimates for the following three financial years to be published in each annual Federal Budget paper.
Garrison support services	Includes a range of base support services such as ground maintenance, hospitality, training area management, base security, transport, air support and fire fighting and rescue services.
Group	A high-level organisational grouping of functions and activities used by the Defence Executive as its primary management grouping (eg the Capability Development Group).
Hardened and Networked Army	The Army's key initiative to modernise and meet future operations demands and requirements of the Government. It will increase the size and firepower of the land force, improve the protection provided to troops, and allow them to communicate better on the future battlefield.

Infrastructure	Items owned, leased or otherwise under the control of Defence in support of activities on land and within buildings. Infrastructure includes items such as runways, roads, car parks, parade grounds, ovals, lighting, water, sewerage and other general service related items. It does not include land upon which, or within which, it is constructed or those fixed items integral to, and under, buildings.
Initial Operational Capability	The point in time at which the first subset of Capability System that can be operationally employed is realised. Initial Operational Capability is a capability state endorsed at project approval at Second Pass, and reported as having been reached by the Capability Manager.
Initial Operational Release	The milestone at which the Capability Manager is satisfied that the initial operational and materiel state of the Capability System—including any deficiencies in the Fundamental Input to Capability—are such that it is sufficiently safe, fit for service and environmentally compliant to proceed into a period of Operational Test and Evaluation leading to an endorsed Capability State.
Interoperability	The ability of systems, units or forces to provide the services to, and accept services from, other systems, units or forces and to use the services so exchanged to enable them to operate effectively together.
Inventory	Inventory is comprised of consumable stores and supplies, fuel and explosive ordnance used in the delivery of Defence services. These are items which are consumed in normal use, lose their identity during periods of use by incorporation into, or attachment upon, another assembly, as a result of wear and tear, cannot be reconditioned because their design does not make it possible or their specific values do not justify it.
Joint exercise	An exercise involving two or more Services of the ADF.
Lean Methodology	A proven and disciplined change methodology incorporating a set of principles, concepts and techniques designed to reduce waste and create an absolute focus on customer's needs and demands.
Liabilities	Sacrifices of future economic benefits that Defence is presently obliged to make to other entities as a result of past transactions or other past events.
Materiel Acquisition Agreements	Materiel Acquisition Agreements cover the Defence Materiel Organisation's acquisition services to Defence for both major and minor capital equipment.
Materiel Sustainment Agreements	Materiel Sustainment Agreements are between the Capability Managers and the Chief Executive Officer of the Defence Materiel Organisation. These agreements cover the sustainment of current capability, including services such as repairs, maintenance, fuel and explosive ordnance.
Military response options	A set of generic tasks that describe the range of military options the Government could consider as a basis for a response to a particular situation or contingency.
Mortimer Review	A review of Defence procurement and sustainment conducted by Mr David Mortimer, AO. The review focused on the entire Defence 'life cycle' for the development, procurement and through-life support of defence capabilities.
Net assets	See equity.

Network Centric Warfare	The aim of Network Centric Warfare is to improve the ability of the ADF to collaborate internally with supporting agencies and with coalition partners across organisation and geographic boundaries. Network Centric Warfare would allow Defence to harness recent development in computing and communications technologies to enhance decision making and war fighting capability.
Operating result	Equals revenue less expense.
Operational tempo	The rate at which the ADF is able to deliver its operations effects, for example, the rate at which forces are dispatched and the time in which they are turned around for their next task. At the local level, this might translate to the crew of an aircraft spending a very small amount of time on the ground before it is re-tasked for its next mission. At the organisational level, this translates to available fighting forces spending very little time at home before they are deployed again for their next operation.
Outcomes	The results that the Government seeks from Defence, and are achieved by the successful delivery of its outputs, to the standards set in the <i>Portfolio Budget Statements 2011-12</i> .
Output	The product or service produced by Defence on behalf of government for external organisations or individuals.
Output groups	A logical aggregation of agency outputs, where useful, and based either on homogeneity, type of product, business line or beneficiary target group. Aggregation of outputs may also be needed for the provision of adequate information for performance monitoring, or based on a materiality test.
Permanent forces	The permanent Navy, the regular Army and the permanent Air Force.
Platforms	Refers to air, land, surface or sub-surface assets that are discrete and taskable elements within the ADF.
Portfolio Additional Estimates Statements	Similar to the Portfolio Budget Statements and prepared at Additional Estimates time to support and update on the Government's original annual budget for Defence.
Portfolio Budget Statements	The document presented by the Minister for Defence to Parliament to inform Senators and Members of the basis for the Defence budget appropriations in support of the provisions in Appropriations Bills 1 and 2. The statements summarise the Defence budget and provides detail of outcome performance forecasts and resources in order to justify expenditure for Defence.
Prescribed agency	An agency established by regulation under the <i>Financial Management and Accountability Act 1997</i> . The Act provides financial management authority to, and requires accountability by the Chief Executive of an agency.
Price	One of the three key efficiency indicators. The amount the government or the community pays for the delivery of agreed outputs.
Professional Service Providers	See contractors.
Purchaser-provider arrangements	Arrangements under which the outputs of one agency are purchased by another agency to contribute to outcomes. Purchaser-provider arrangements can occur between Commonwealth agencies and state/territory government or private sector bodies.

Quality	One of the three key efficiency indicators. Relates to the characteristics by which customers or stakeholders judge an organisation, product or service. Assessment of quality involves use of information gathered from interested parties to identify differences between user's expectations and experiences.
Quantity	One of the three key efficiency indicators. Examples include: the size of an output; count or volume measures; how many or how much.
Readiness	The readiness of forces to be committed to operations within a specified time, dependent on the availability and proficiency of personnel, equipment, facilities and consumables.
Reserves	The Naval Reserve, the Army Reserve and the Air Force Reserve.
Revenue	Inflows or other enhancements, or savings in outflows, of future economic benefits in the form of increases in assets or reductions in liabilities of Defence, other than those relating to contributions by the Commonwealth, that result in an increase in equity during the reporting period.
Risk management	At the highest level, involves the identification and mitigation of those risks that have the potential to adversely affect the achievement of agreed output performance at the agreed output price.
Special account	Balances existing within the Consolidated Revenue Fund, that are supported by standing appropriations (<i>Financial Management and Accountability Act 1997</i> , Sections 20 and 21). Special accounts allow money in the Consolidated Revenue Fund to be acknowledged as set-aside (hypothecated) for a particular purpose. Amounts credited to a Special Account may only be spent for the purposes of the Special Account. Special Accounts can only be established by a written determination of the Finance Minister (Section 20 of the <i>Financial Management and Accountability Act 1997</i>) or through an Act of Parliament (referred to in Section 21 of the <i>Financial Management and Accountability Act 1997</i>).
Special Appropriations (including Standing Appropriations)	An amount of money appropriated by a particular Act of Parliament for a specific purpose and number of years. For special appropriations the authority to withdraw funds from the Consolidated Revenue Fund does not generally cease at the end of the financial year. Standing appropriations are a sub category consisting of ongoing special appropriations—the amount appropriated will depend on circumstances specified in the legislation.
Specialist military equipment	Items of a specific military nature and that are not available though the normal external market in their current form to other than government military purchasers. It includes the prime military equipment plus the direct support items associated with the equipment.
Standard Defence Supply System	A key information system for the financial management of inventory, general stores, repairable items and other assets associated with Defence's logistic capability.
System Program Office	The office of the program manager and some of his or her key team members. It serves as the single point of contact with industry, government agencies, and other activities participating in the acquisition process of a given system.
Theatre	The area in which military operations and activities take place.
Two-pass approval process	The process by which major capital investment proposals are developed for consideration and approval by the Government.

Weighted average cost	An inventory valuation method which considers the fluctuating prices and quantities of acquired goods in computing of the cost of inventory. The weighted average method takes the prices of units at the beginning inventory and the varying prices of purchases made and are weighted by the number of units to determine the weighted average cost per unit. It may be computed as the weighted average cost of all available goods present in a given period, or as a weighted moving average cost adjusted when new goods are delivered.
Write-down	The reduction in the value of assets.

Compliance Index

This index is prepared from the checklist of annual report requirements contained in Attachment F of the *Requirements for Annual Reports approved by the Joint Committee of Public Accounts and Audit on 28 June 2012*.

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This report was developed by the Directorate of Ministerial and Parliamentary Reporting with input and assistance from staff throughout the Department of Defence and the Defence Materiel Organisation.

Internet

The Department of Defence website is a comprehensive resource on matters of military security, capability and people issues.

Defence	< www.defence.gov.au >
Defence Jobs	< www.defencejobs.gov.au >
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The online version of this report, which contains additional detailed information, can be accessed at <www.defence.gov.au/annualreports>.

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Previously Reported Top 30 Major Projects

This table provides an update on the status of the top 30 major projects reported in the previous five financial years that have fallen below the threshold.

Project name	Project Number/ Phase	Last Financial Year Reported in Top 30	Approved Project Expenditure \$m	Cumulative Expenditure to 30 June 2011 \$m	Actual 2011-12 \$m	Status Report
General Manager Systems						
Aerospace Systems						
Hornet Structural Refurbishment Program Stage 2	AIR 5376 Phase 3.2	2009-10	952	319	1 ^[1]	The project was formally closed in late 2011. The remaining structural refurbishment program elements and the remediation of a number of known ageing aircraft issues are being implemented under the Hornet Structural Assurance Consolidation Program, which will be completed in conjunction with on-going F/A-18 A/B Hornet in-service sustainment activities.
Maritime Patrol and Response Aircraft System	AIR 7000 Phase 2	2008-09	170	51	21	In March 2012, the DMO signed the Production, Sustainment and Follow-on Development Memorandum of Understanding with the United States Navy. The Increment Three Project Arrangement for future P-8A upgrades has been negotiated with signature expected in the second half of 2012. Second Pass approval will occur in 2014-15.
AP-3C Electronic Support Measure Upgrade	AIR 5276 Phase 8B	2009-10	130	62	18	AIR 5276 Phase 8B is being managed as a Project of Concern due to schedule delay. During 2011-12 the project maintained schedule, achieving a number of key milestones including induction of the prototype aircraft into modification; successful installation of the new capability; completion of factory acceptance testing; and commencement of the aircraft ground and flight testing phase.
AP-3C Capability Assurance Program	AIR 5276 CAP 1	2009-10	88	56	9	The project successfully completed prototype aircraft ground and flight testing in early 2012, culminating in delivery of the first aircraft to Air Force in mid 2012. Incorporation of this capability into the AP-3C Orion fleet commenced, and the upgraded Systems Engineering Laboratory was delivered.
Electronic Systems						
Tactical information Exchange Domain	JP 2089 Phase 2A	2010-11	103	45	15	JP 2089 Phase 2A Anzac Multi Link Upgrade First of Class (FOC) Hardware Installation completed. Efforts underway to harmonise FOC Software Installation and Follow On Ship delivery schedule with Anti Missile System Defence upgrade and ship availability. The project's Initial Common Support Infrastructure successfully demonstrated deployable systems. Effort underway to install fixed infrastructure to support system demonstration during 2012-13.

High Frequency Modernisation	JP 2043 Phase 3A	2010-11	580	431	7	<p>Since mid 2011 the HF upgrade of 19 (of 22) Blackhawk helicopters have been completed. Development of the Land HF Communications System prototype has also been completed. A Request for Tender for the Direction Finding and Signal Improvement (Nullarbor) capability was released and tenders have been received and evaluated.</p> <p>A decision made in the context of the 2012-13 Budget will truncate the scope of HFMOD Project JP 2043 Phase 3A Mobiles scope (not yet in contract).</p>
Electronic Warfare Self Protection for Selected Aircraft	AIR 5416 Phase 2	2009-10	292	274	2	<p>The project is in the stages of closure following Government approval to reductions in scope. All in-scope activities are complete.</p>
Improvements to the Logistics Information Systems	JP 2077 Phase 2B	2009-10	153	152	1	<p>Inventory assurance issues relating to the Military Integrated Logistics Information System (MILIS) were monitored, prioritised and resolved throughout 2011-12 under the MILIS Inventory Assurance Program. Software defects are now within expected Business As Usual levels and are being managed through a structured IT Service Management approach. Final Materiel Release was achieved in August 12 and Final Operational Capability was declared in late September 12.</p>
MILSATCOM Terrestrial Infrastructure	JP 2008 Phase 3E	2007-08	208	206	1	<p>Full capability has been delivered and through-life support of the capability has transitioned to the sustainment organisation. Capability Development Group confirmed that Maritime Advanced Satcom Terrestrial Infrastructure System interference remediation is within scope and work is underway to manufacture and install RF Barriers. DSTO is manufacturing the Barriers and once delivered the project will be closed.</p>
Explosive Ordnance						
Lightweight Torpedo Replacement	JP 2070 Phase 2	2010-11	335	228	22	<p>With all significant technical issues resolved, the Government approved release of the preserved funds needed to complete the project in late 2011. Initial Operational Test and Evaluation was successfully conducted in early 2012 and Initial Operational Release was achieved in May 2012.</p> <p>JP 2070 (all active phases) remains a Project of Concern.</p>
Explosive Ordnance Reserve Stocks	JP 2085 Phase 1B	2008-09	235	204	1	<p>The majority of Excalibur guided munitions were delivered in January 2012; the remainder are scheduled for delivery before December 2012. Management of the Advanced Field Artillery Tactical Data System (AFATDS) is currently being rationalised in conjunction with Land Systems Division. Final certification is planned to occur by June 2013.</p>
Mulwala Redevelopment Project	JP 2086 Phase 1	2010-11	369	277	37	<p>Commissioning of the modernised propellant plant at Mulwala has continued during 2011-12, with workplace safety in a hazardous environment remaining the primary consideration. Technical issues which have caused schedule delay are being rectified by the contractor. Development and qualification of propellants will be the focus of activity during 2012-13.</p>

Evolved Sea Sparrow Missiles	SEA 1428 Phase 4	2009-10	88	78	6	Phase 4 is the final phase of the SEA 1428 program to acquire Evolved Sea Sparrow Missiles and canisters for war stock inventory. Delivery of missiles and canisters continued during 2012. With the final order placed in 2011, delivery is due to be completed in 2016.
Land Systems						
Direct Fire Support Weapons	LAND 40 Phase 2	2010-11	145	34	3	Delivery of the Light Weight Automatic Grenade Launcher has been delayed due to rejection of the preferred supplier's offer following negotiations. The Acquisition Strategy is under review.
Tank Replacement Project	LAND 907 Phase 1	2007-08	558	441	6	All major capability platforms have been delivered. The project finalised a holistic supply chain review in June 2012 and is conducting the final elements of the Tank Urban Survivability Kits acquisition. Project closure, which was dependent on substantive completion of these activities, will now occur by December 2012.
Maritime Systems						
Anzac Ship Project	SEA 1348 Phase 2	2007-08	5,381	5,366	5	The Safe and Effective Machinery Space Communications system is now installed on six ships; the Audio Frequency Shift Key modem has been installed on four ships, and installation of Centralised Uninterruptible Power Supply completed in two ships. Completion of warranty work and safety upgrades is scheduled for completion by end 2012. Following completion of these installations, the project will be closed.
Guided Missile Frigate Upgrade Implementation	SEA 1390 Phase 2.1	2010-11	1,450	1,347	1	The FFG Upgrade project has been delivered and Operational Release for the capability has been granted by Navy excluding the Torpedo Defence System, the Le Scut decoy and the Mine/Obstacle Avoidance System has been granted by Navy.
Armidade Class Patrol Boat	SEA 1444 Phase 1	2007-08	537	485	3	All 14 boats are in operational service. The fleet completed an extended rectification program to address outstanding build related issues that enabled the progressive reactivation of the Austere Accommodation Compartment. Rectification of hull structural and design issues with the propulsion and fuel systems continue to be progressed. Emergent Class-wide defects have impeded materiel availability during the later months of 2011-12.
Anzac Ship Anti-Ship Missile Defence	SEA 1448 Phase 2A	2007-08	386	237	35	Navy has granted initial operational release of the Combat Management and Infra-red Search and Track systems. The second of the ships to receive the ASMD upgrade, HMAS <i>Arunta</i> , completed preparations for the commencement of production work in September 2012.

Ships Self Defence Capability	SEA 1779 Phase 1	2007-08	53	44	-	The project is technically complete and closure is being progressed.
General Manager Programs						
Amphibious Deployment and Sustainment						
Collins and Wedgetail						
Collins Replacement Combat System	SEA 1439 Phase 4A	2007-08	450	426	4	Combat System installation in HMAS <i>Sheean</i> is complete and installation in HMAS <i>Rankin</i> has commenced. Completion of the final installation on HMAS <i>Collins</i> by 2016 is dependent on the completion of the Full Cycle Docking.
Collins Class Submarine Reliability and Sustainability	SEA 1439 Phase 3	2008-09	411	313	14	Major modifications to fire fighting systems, sewage automation, diesel engines, and the submerged signal ejector system were completed in HMAS <i>Sheean</i> during the recent Full Cycle Docking. Planning and design work continues for the Special Forces Exit and Re-entry capability and for the Land Based Test Facility for the Collins Class Hedemora Diesel engines.
New Heavyweight Torpedo	SEA 1429 Phase 2	2009-10	425	285	8	Heavyweight torpedo modifications in HMAS <i>Sheean</i> are complete and installation in HMAS <i>Rankin</i> has commenced. The final delivery of weapons was made in January 2012. Completion of the final installation on HMAS <i>Collins</i> by 2016 is dependent on the completion of the Full Cycle Docking.
New Air Combat Capability						
Detailed Analysis and Acquisition Planning	AIR 6000 Phase 1B	2009-10	103	98	..	AIR 6000 Phase 1B was approved at first pass in November 2006 to fund JSF shared development costs and studies to inform second pass in 2009. Project closure is being progressed.

Notes

1. Project closed in 2011-12 refer to Table 11.5 Closed major projects in 2011-12, Part II of Defence Annual Report 2011-12

Status Report on the Australian Government Security Vetting Agency Review

On 16 May 2011, on the ABC Lateline program, three former contractors employed as data entry operators with the Defence Security Authority (DSA), made allegations of inappropriate vetting practices by using workarounds when entering information into the Defence electronic Personnel Security Assessment Management System (PSAMS). On 29 May 2011, the Prime Minister, The Hon Julia Gillard, requested that the Inspector-General of Intelligence and Security (IGIS) conduct an inquiry into the allegations. The IGIS made 13 recommendations, including a recommendation that the Defence Chief Audit Executive (CAE) conduct a series of annual reviews into the Australian Government Security Vetting Agency's (AGSVA) compliance with Government security vetting policy.

The CAE completed the first assessment in 2012, and concluded that, at this time, the AGSVA is not fully compliant with Government security vetting policy. None of these non compliance issues, either individually or collectively, compromise the vetting processes.

In regard to the 13 recommendations made by IGIS, the CAE assessed that four recommendations have been fully completed, four are currently being implemented, and five are in the development stage. All recommendations that are yet to be completed are being actively managed, and progress towards their implementation is reported on a regular basis to senior management within the AGSVA and the Defence Security Authority.

The CAE noted that the AGSVA is implementing a reform program based on sound business processes to ensure its future compliance. Intelligence and Security Group senior management have allocated additional resources, and is actively engaged in addressing the issues raised in the IGIS inquiry. When implemented, this reform and the new security assessment management system should improve the efficiency and effectiveness of the AGSVA, as well as its compliance with Government security vetting policy.

Dated: June 2012

Program 1.1

OFFICE OF THE SECRETARY AND CDF

Removal of Gender Restrictions on Australian Defence Force Combat Role Employment Categories

On 27 September 2011 the Minister for Defence announced that the Government had formally agreed to the removal of gender restrictions from Australian Defence Force combat roles. Subsequently, a well considered and phased five year implementation plan was developed by the Department and endorsed by the Government earlier this year.

Progress of implementation is reflected in the completion of key milestones for the 2011-12 period below.

Key milestone	Status	Further information
Corporate		
(i) Initial Service input	✓✓✓	
(ii) Defence workshop	✓✓✓	
(iii) Physical Employment Standards Review – combat role employment categories only	✓✓✓	Complete for the purposes of the combat role employment categories. The reviewed standards for these categories are currently with each Service to consider and implement in line with the implementation plan.
(iv) Pathway to change	✓	Defence's response to the cultural reviews ' <i>Pathway to Change: Evolving Defence Culture</i> ' was released.
Navy		
(i) Relevant documentation, programs and guidance reviewed or developed	✓✓	Work has commenced and is underway. The completion of this milestone is due by June 2013.
(ii) Media strategy developed	✓✓	Navy Communications engaged and are fully aware of the issue and broader ADF corporate strategy. Navy development underway.
(iii) Release of CN update signal	✓✓	Drafted in 2011-12 period.
(iv) Culture change program	✓	Ongoing activity. The completion of this milestone is due by December 2015.
Army		
(i) Identify policy/procedures for review	✓✓✓	
(ii) Implementation analysis	✓✓✓	(previously titled Fundamental inputs to capability)
(iii) Identify training requiring review	✓✓✓	
(iv) Develop schedule of facility changes	✓✓	Ongoing activity. The completion of this milestone is due by December 2012.
(v) Release of CA	✓✓	Drafted in 2011-12 period.

Directive		
(vi) Implementing cultural change programs	✓	The completion of this milestone is due by December 2015.
Air Force		
(i) Develop communication material	✓✓✓	
(ii) Review and amend all training and documentation and tools	✓✓✓	
(iii) Culture change program	✓	Ongoing activity. The completion of this milestone is due by December 2015.
(iv) Review and amend relevant policy	✓✓✓	
Key		
-	Not Achieved. None or minimal progress was made against targets in 2011-12. Explanations are provided in the 'Further Information' column	
✓	Partially Achieved. Some targets were met, and any issues are being managed.	
✓✓	Substantially Achieved. Targets were mostly met and any issues are being managed.	
✓✓✓	Achieved. All targets for 2011-12 were met or exceeded.	