



Australian Government
Department of Defence

DEFENCE ANNUAL REPORT 2013–14

Volume One

Performance, governance
and accountability



OUR VALUES

We respect diversity and are committed to cultural change through our values:

⊙ **PROFESSIONALISM**
⊙ **LOYALTY**
⊙ **INTEGRITY**
⊙ **COURAGE**
⊙ **INNOVATION**
⊙ **TEAMWORK**



COVER IMAGE: © Lisa Tomasetti 2014

Lance Corporal James Duncan, who plays Alex, in a scene from *The Long Way Home*. In 2010, James deployed to Afghanistan and, in February 2011, he was injured in an improvised explosive device strike on the Bushmaster armoured vehicle he was driving. Despite being dazed and sore from the explosion, James stayed on in Afghanistan for another five months and managed the pain with physiotherapy. On returning to Australia, his chronic back pain worsened and by the end of 2011 he was essentially incapable of doing his job. James saw *The Long Way Home* as an important public forum to help other soldiers dealing with injuries and trauma.

The background of the page features large, light gray numbers '13' and '14' stacked vertically. The '13' is positioned in the upper half, and the '14' is in the lower half, with the title text centered between them.

DEFENCE ANNUAL REPORT 2013–14 | VOLUME ONE

Performance, governance and accountability

User guide

Purpose of the annual report

This report covers the Department of Defence, the Australian Defence Force and the Defence Materiel Organisation—collectively known as Defence. The Department of Veterans' Affairs and Defence Housing Australia, which are parts of the Defence portfolio, have separate annual reports.

Portfolio Budget Statements, Additional Estimates Statements and annual reports are the principal formal accountability mechanisms between the Government, departments and the Parliament. Portfolio Budget Statements set out performance targets for departmental programs, Portfolio Additional Estimates Statements may contain revised targets, and annual reports describe achievement against the targets. Annual reports are designed to link performance during the year under review with performance and financial forecasts contained in the Portfolio Budget Statements for the following year. This report covers the period 1 July 2013 to 30 June 2014.

About this report

The report is structured according to annual report requirements approved by the Joint Committee of Public Accounts and Audit. This year the report is published in two volumes. Our intent has been to reduce the size of the hard-copy report by pointing readers to an expanded online version of the report. We will be printing only enough copies of Volume Two to meet tabling requirements. This measure, coupled with a streamlined performance report (Volume One), will enable us to save around 150 reams of print-quality paper in keeping with the Government's digitisation policy.

Part One of Volume One provides an overview of Defence, its structure and its strategic direction. Part Two discusses performance against each of Defence's outcomes and programs. Part Three provides details of organisational governance and accountability. Volume Two contains the audited financial statements.

For ease of reference in Part Two, please open the foldout at the back of the report. This will show you the outcome and program structure adjacent to the page being viewed.

The program deliverables and key performance indicators tables in chapters 3, 4 and 5 are assessed using the key system shown below.

Key	Description
Met	All targets for 2013–14 were met or exceeded.
Substantially met	Targets were mostly met and any issues were being managed.
Partially met	Some targets were met and any issues were being managed.
Not met	No or minimal progress was made against targets.

Online content

An electronic version of this report, and supplementary content that includes additional detailed information, can be accessed at www.defence.gov.au/annualreports. Supplementary content is shown in ***grey bold italics*** in the text of this report.



Australian Government

Department of Defence

Senator the Hon David Johnston
Minister for Defence
Parliament House
Canberra ACT 2600

Dear Minister

We present the *Defence Annual Report 2013–14* for the year ended 30 June 2014. The report has been prepared in accordance with section 63 of the *Public Service Act 1999*. Subsection 63(1) of the Act requires that our report to you be tabled in Parliament.

In accordance with section 45 of the *Financial Management and Accountability Act 1997* and pursuant to regulation 16A of the Financial Management and Accountability Regulations 1997, we certify that we are satisfied that 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 the department. Defence has taken all reasonable measures to minimise the incidence of fraud and to investigate and recover the proceeds of fraud.

Yours sincerely

Handwritten signature of Dennis Richardson in black ink.

Dennis Richardson
Secretary

24 October 2014

Handwritten signature of Mark Binskin, AC in black ink.

Mark Binskin, AC
Air Chief Marshal
Chief of the Defence Force
24 October 2014

Lest we forget

Sadly, one Australian died on operations in Afghanistan over the past year. We remember Lance Corporal Todd Chidgey, along with all Australia's fallen, and offer our deepest sympathy to Lance Corporal Chidgey's family, friends and colleagues.



■ Lance Corporal Todd Chidgey

2nd Commando Regiment.

Died in a non-combat-related incident on 1 July 2014.

Awarded posthumously for courageous actions

Corporal Cameron Baird was killed by small-arms fire during an engagement with insurgents in the Khod Valley in southern Afghanistan on 22 June 2013.



■ Corporal Cameron Baird, VC, MG

Corporal Baird was serving with a 2nd Commando Regiment element of the Australian Special Operations Task Group at the time of his death, and was the 40th Australian to be killed in action in Afghanistan.

Corporal Baird was awarded the Victoria Cross for Australia posthumously on 13 February 2014. The citation reads, 'For the most conspicuous acts of valour, extreme devotion to duty and ultimate self-sacrifice at Ghawchak village, Uruzgan Province, Afghanistan as a Commando

Team Commander in Special Operations Task Group on Operation Slipper'. He is the 100th Australian to receive a Victoria Cross since the award was first created by Queen Victoria in 1856.

A year after he was killed in action, Corporal Baird's family was presented with the posthumously awarded NATO Meritorious Service Medal. Awarded by the NATO Secretary General, this medal is presented to personnel who have been commended for providing exceptional or remarkable service to NATO.

Corporal Baird was awarded the NATO medal for the same courageous actions for which he received the Victoria Cross.



Corporal Cameron Baird's medals on display at the Australian War Memorial in Canberra. The Victoria Cross for Australia is on the far left.

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PART ONE DEFENCE OVERVIEW



CHAPTER 1

Reviews by the Secretary and the Chief of the Defence Force

Secretary's review



Secretary of the Department of Defence
Dennis Richardson

Any organisation the size of Defence has a whole smorgasbord of good and bad over the course of a year. That said, a lot was achieved in 2013–14 in which Defence civilians can take real pride:

- The professional provision of critical enablers (e.g. intelligence, facilities, logistics, financial services, communications and pay) which allow the Australian Defence Force to put into the field the highly trained men and women in whom all Australians are so proud.
- The very first exercise by a Commonwealth agency of a provision in the Commonwealth Procurement Rules for a construction contract to an Indigenous-owned enterprise—Pacific Services Group Holdings Pty Ltd for a project worth up to \$6 million at HMAS Waterhen in Sydney.
- A solid increase in the number of Indigenous Australians in the Defence APS.
- The very significant contribution by the Defence Science and Technology Organisation to the whole-of-government effort in the search for MH370 in the Indian Ocean.
- The very significant contribution by the Australian Geospatial-Intelligence Organisation to the whole-of-government effort in the MH17 recovery operation in Ukraine.
- The substantive contribution by the Australian Signals Directorate to Australia's counter-terrorism operations and other intelligence priorities.
- The Defence Materiel Organisation's management of the acquisition of the landing helicopter docks, the largest naval vessels in Australia's history.
- The conclusion of new Base Support Contracts, worth in excess of \$10 billion over 10 years.
- The conclusion of a treaty-level agreement with the United States about its annual Force Posture rotations through northern Australia.
- The provision of quality policy advice and assessments around ADF operations, regional engagement and for the 2015 Defence White Paper.
- Further implementation of shared services.
- Further refinement and implementation of the 2012–17 Corporate Plan.
- Effective management of the Defence budget.

The department continued to downsize, with full-time equivalent staff reducing from around 22,300 in mid-2012 to around 19,500 in October 2014. The downsizing has been achieved with minimum fanfare and with the cooperation of staff, despite the obvious difficulties involved.

The downsizing will continue, following decisions in the 2014–15 Budget, while the implications of the First Principles Review, which began in August 2014, are still unknown.

Most of the downsizing has come from natural attrition, which means that the impact has been uneven and largely uncoordinated. This will need to be addressed and tidied up following the First Principles Review.

The focus over the years on Defence APS staffing numbers has distorted rational management of the workforce which, on the civilian side, consists of APS, contractors and service providers. It also ignores past reforms which, as an efficiency and cost-saving measure, replaced higher-cost ADF personnel with lower-cost APS in jobs which did not require specific ADF skills.

The Defence cultural reform program—Pathway to Change—continues, with an emphasis on behaviour and personal accountability. Within the APS at least, we are making more progress on the former rather than the latter.

More broadly, we have made good headway in the recruitment of Indigenous Australians, but we still have a long way to go. Our performance in recruitment of people with disability has been disappointing.

We have taken a number of initiatives to increase the percentage of female graduates in our recruitment. Early results are positive, but we are still well behind where we want to be.

Our own internal audits and those conducted by the Australian National Audit Office have highlighted the need to front-end load all aspects of planning, capability considerations and project management—artificial deadlines and rushed decisions almost inevitably leading to poor outcomes.

Underinvestment in facilities and ICT is starting to catch up with us and, unless addressed, will have a negative impact on ADF capability. This will be a focus in the 2015 White Paper, but will need to be balanced against other capability needs.

We gained further efficiency through shared services, especially in the finance and procurement domains. In April 2014, we embarked on the next phase of shared services, and hope to take this further through the First Principles Review.

We made progress in developing our Defence Enterprise Management System, comprising the enterprise risk framework, enterprise planning process (the Defence Corporate and annual plans) and a Defence Enterprise Report. This is a core element of our strategy to drive high performance and the implementation of the *Public Governance, Performance and Accountability Act 2013*.

The year 2014–15 will be dominated by the negotiations for a new workplace agreement, the First Principles Review and the new White Paper.

Given the fiscal environment and the parameters within which we must work, a new workplace agreement will not be easy to achieve.

The First Principles Review got underway much later than we would have liked. Led by former Managing Director of Rio Tinto Australia, David Peever, it is critically examining processes, structures and all aspects of Defence work relating to efficiency and effectiveness. The findings of the Review Team will feed into White Paper considerations.

A firm implementation plan will be an important part of the Review. It will almost certainly mean that 2015 will see significant change in Defence structures and the way we do our business.

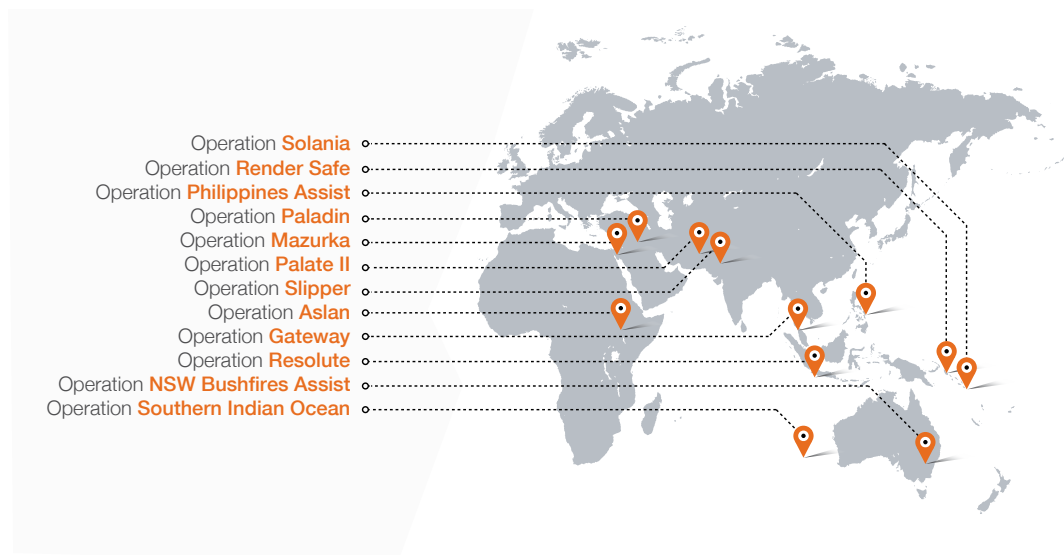
The 2015 White Paper is being underpinned by a Force Structure Review, the first since 2008–09. As stated publicly by the Government, the essential challenge in the White Paper will be to better align money and capability. This means that some necessarily tough decisions will need to be taken. The Government is also committed to a Defence Industry Statement in the context of the White Paper, which will underpin the essentiality of a productive and competitive Australian defence industry.

The year 2014–15 will see continued Australian Defence involvement in Afghanistan and Iraq, continued regional engagement, including through established forums such as the ASEAN Defence Ministers Meeting Plus, the trilateral strategic arrangements with the United States and Japan, and the essential engagement we have with China, Indonesia, Malaysia, Singapore, the Republic of Korea, India, Papua New Guinea, Timor-Leste and South Pacific countries. At the same time, our relations with NATO are being upgraded.

It will be especially important to continue to ensure that the men and women of the ADF operating in harm's way and in challenging environments have the very best enablers available.

Finally, I would like to record my gratitude to General David Hurley, who completed his term as Chief of the Defence Force on 30 June 2014. While I have previously worked with other CDFs in different jobs, General Hurley was my first partner in what is called the diarchy. His commitment and professionalism made it easy. I look forward to continuing the partnership with General Hurley's successor, Air Chief Marshal Mark Binskin, with whom I have already worked closely when he was VCDF. Unfortunately, Air Chief Marshal Binskin and General Hurley do share an area of continued poor judgement—support for the 2014 NRL Champions, the Rabbitohs!

Figure 1.1: ADF operations during 2013–14



**TOTAL ADF
PERSONNEL ON OPERATIONS
OVERSEAS DURING 2013–14**



1,765



See chapters 4 and 5 for further details on operations in 2013–14.

Chief of the Defence Force's review



Chief of the Defence Force
Air Chief Marshal Mark Binskin, AC

I am proud to take command of the Australian Defence Force (ADF) at a time when we can reflect on our impressive heritage, while looking towards the future. Thanks to General Hurley's outstanding leadership, I assume command of a Defence Force that is well poised to meet the challenges as we transition to a future force and to continue our well-established reform program. In parallel with these activities, the ADF continues to operate in Afghanistan and the Middle East region, as well as contributing to the whole-of-government effort to protect Australia's borders and maritime interests.

My priority over the next four years is to successfully transform the ADF into the next generation force in accordance with the strategic direction of the upcoming 2015 Defence White Paper. We must learn from the successes and failures of our past to ensure that we transition as a capable and professional force that is trusted and respected by all Australians, and the region. To do this, we must:

- continue to conduct successful global operations
 - continue with all aspects of our reform program
 - deliver programs and services to sustain the health and welfare of our people—both at home and on operations—and the wellbeing of their families
 - maintain our current capabilities and associated support equipment and facilities to the required levels of preparedness and safety
- safely, efficiently and effectively introduce our new weapons systems—most importantly, all the capabilities associated with delivering the joint amphibious capability
 - evolve the strategic-level ADF headquarters command and control architecture to ensure timely and accurate information, and consistent high-quality advice and decisions to support successful joint operations
 - continue to build and maintain strong and enduring regional relationships
 - understand and better manage our energy footprint at home and on operations.

Most importantly, during my tenure we must work together to fully understand, address and put behind us the legacy issues that have come to the surface over the past three years, detailing how some of our people have been poorly treated, abused or assaulted. Clearly, their treatment was, and remains, unacceptable. We must learn from this dark aspect of our past and work to regain the respect of the whole Australian community.

I am pleased to be able to continue my close relationship with the strong and experienced ADF leadership team: Vice Admiral Ray Griggs (Vice Chief of the Defence Force), Vice Admiral Tim Barrett (Chief of Navy), Lieutenant General David Morrison (Chief of Army), Air Marshal Geoff Brown (Chief of Air Force), Vice Admiral David Johnston (Chief of Joint Operations) and Lieutenant General John Caligari (Chief Capability Development). I look forward to working with Dennis Richardson, Secretary of Defence, and his dedicated senior leadership team. I am also looking forward to continuing to work with the entire Defence team—uniformed personnel (both full-time and reserves), civilians and supporting contractors—to deliver the best capability possible from the available resources.

This will be a period of continuing change and challenges, as highlighted by the short-notice deployment to the Middle East to counter the Islamic State of Iraq and the Levant in September 2014, but I know we are able to meet these challenges.

General Hurley says farewell

When I assumed command in July 2011, the Australian Defence Force (ADF) was on the cusp of significant change. More than 3,300 ADF personnel were deployed on operations in Timor-Leste, Solomon Islands and Afghanistan, new combat capability projects were commencing and Defence had just embarked on a cultural reform program. These factors informed the priorities I set for the ADF during my tenure as Chief of the Defence Force.

I am pleased that we have met the majority of these priorities and made significant progress on the remaining points. We have achieved our objectives and concluded operations in Timor-Leste and Solomon Islands; we have completed our mission to train the Afghan National Army in Uruzgan; and we continue to assist and support the Afghan Security Forces as their training, logistic and sustainment functions mature. The recent search for MH370 demonstrated the strength of our existing strategic and regional partnerships and created opportunities for further cooperation with other Indo-Pacific nations.

The ADF will soon take ownership of and commence training on two new capabilities—the Joint Strike Fighter and the Landing Helicopter Dock ships. Over the past three years under my Command Team's guidance our submarine availability has improved considerably, Navy's reformed engineering practices are evident and Plan Beersheba is on track to further modernise the Australian Army to meet the challenges of the future.

We have accepted that the ADF did not always provide an environment where all members were safe from sexual, physical and mental abuse. I have apologised on behalf of the ADF to those who have suffered sexual, physical or mental abuse while serving in the ADF. As an organisation, we are serious about addressing long-term cultural reform and

FEATURE |



Incoming Chief of the Defence Force Air Chief Marshal Mark Binskin (left) and outgoing Chief of the Defence Force General David Hurley

we have demonstrated our willingness to act swiftly and decisively when incidences of abusive or unacceptable behaviour occur. We are also fully committed to improving gender equality and diversity in our workforce. I want to reassure people that Air Chief Marshal Mark Binskin will continue the work which began during my tenure while he is in command.

On a personal note, I thank all our members for their service, and their families for their support. I have enjoyed meeting many of our people and spending time observing them work, in the field, on base or in our ships. I am always impressed by the passion and professionalism they apply to the work we do at home and abroad. Despite adversity or danger, when Australia calls on its Defence Force in times of need, our people respond with compassion and capability—this is why we choose to serve and I am immensely proud to have served as Chief of the Defence Force.

CHAPTER 2

Departmental overview

This chapter gives an overview of Defence, which consists of the Department of Defence, the Australian Defence Force (ADF), the Defence Materiel Organisation (DMO) and some smaller entities.

Role

The primary role of Defence is to defend Australia against armed attack and to be able to deploy more widely in pursuit of Australia's national security interests. Australia's defence policy is founded on the principle of self-reliance in the direct defence of Australia, but with a capacity to do more where there are shared interests with partners and allies.

Mission

The ADF is constituted under the *Defence Act 1903*, and its mission is to defend Australia and its national interests. In fulfilling that mission, the ADF serves the Australian Government of the day and is accountable to the Australian Parliament, which represents the Australian people, for efficiently and effectively carrying out the Government's defence policy.

Values

Defence civilian employees conduct their duties in accordance with the *Public Service Act 1999*, the Australian Public Service (APS) Code of Conduct and the APS Values. The ADF—the Army, the Navy and the Air Force—has service-specific codes of conduct and values.

In addition to the single-service and APS values, specific Defence values have been established to provide a common and unifying thread for all people working in Defence. These values are:

Professionalism	striving for excellence in everything we do
Loyalty	commitment to each other and Defence
Integrity	doing what is right
Courage	the strength of character to honour our convictions (moral courage) and bravery in the face of personal harm (physical courage)
Innovation	actively looking for better ways of doing our business
Teamwork	working together with respect, trust and a sense of collective purpose.

Strategic direction

In 2014–15, major whole-of-organisation activities will shape Defence's future.

In early 2014, the Government began the development of a new Defence White Paper, for release around mid-2015. The White Paper will provide the Government's long-term strategic direction for Australia's defence, aligning defence policy, strategy, force structure and organisation in an affordable and achievable way.

The Defence White Paper will include a comprehensive review of Australia's strategic environment and outline the tasks that the Government expects the ADF to undertake and how those tasks will be achieved within available resources. It will be informed by a Force Structure Review designed to rigorously assess defence capability goals to find the right balance between capability and cost.

The White Paper will be costed and aligned with the Government's commitment to increase defence spending to 2 per cent of Australia's gross domestic product by 2023–24. It will be accompanied by a new 10-year Defence Capability Plan and Defence Industry Policy Statement.

The development of the White Paper is supported by a government-appointed external expert panel and will include broad consultation within the Australian Government and with state and territory governments, key experts and think tanks, Australian industry, the Australian public and international allies and partners.

The First Principles Review will consider whether Defence is fit for purpose and is able to deliver its intended outputs with the minimum resources necessary.

Changes in ministerial responsibilities

On 18 September 2013, a new Australian Government was sworn in with the following ministers in the Defence portfolio:

- Minister for Defence: Senator the Hon David Johnston
- Assistant Minister for Defence: the Hon Stuart Robert MP
- Parliamentary Secretary to the Minister for Defence: the Hon Darren Chester MP.

The Minister for Veterans' Affairs, Senator the Hon Michael Ronaldson, is in the Defence portfolio but reports separately through the Department of Veterans' Affairs budget statements and annual report.

Details of the allocation of portfolio responsibilities for Defence are online at www.minister.defence.gov.au/allocation-of-portfolio-responsibilities.

Changes in senior leadership

Rear Admiral David Johnston was promoted to Vice Admiral and appointed Chief of Joint Operations on 20 May 2014, following the retirement of Lieutenant General Ash Power.

Ms Rebecca Skinner was appointed Deputy Secretary Defence People on 12 May 2014.

Mr Peter Baxter was appointed Deputy Secretary Strategy on 28 January 2014.

Mr Brendan Sargeant was appointed Associate Secretary and Chief Operating Officer on 12 September 2013.

Mr Colin Thorne was appointed General Manager Land and Maritime within the DMO on 9 September 2013.

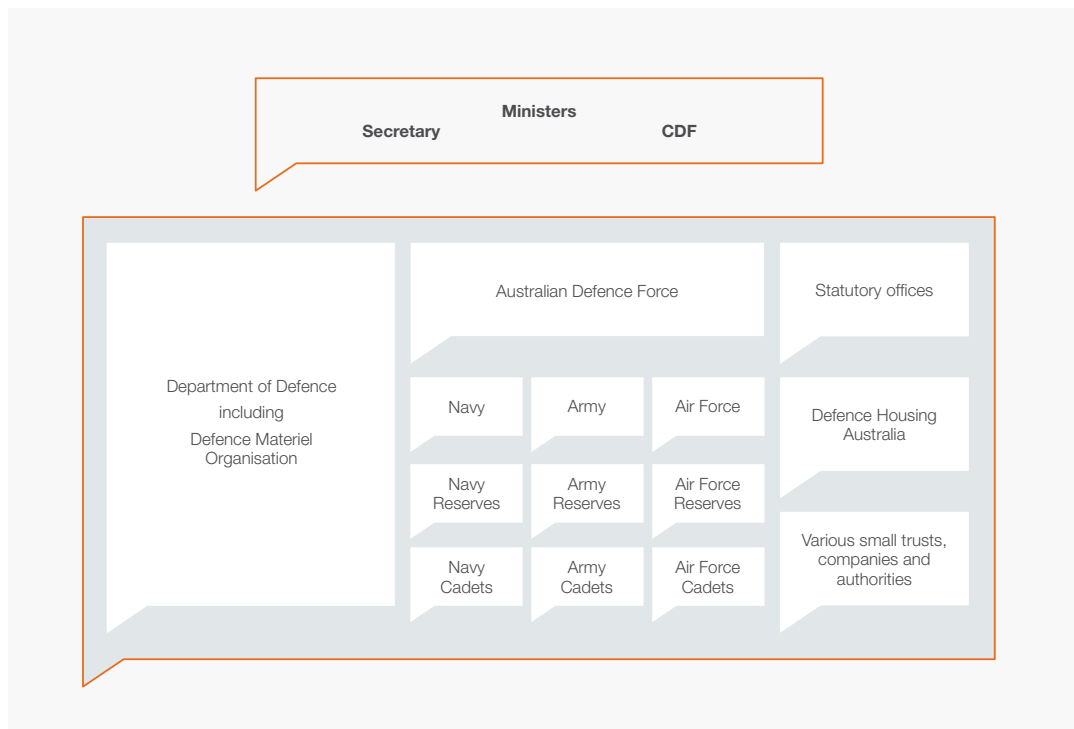
Portfolio structure

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 most significant bodies are:

- the Department of Defence: a department of state headed by the Secretary of the Department of Defence
- the ADF: commanded by the Chief of the Defence Force (CDF) and consisting of the three Services, which are commanded by Service chiefs
- the DMO: a prescribed agency within Defence, headed by a Chief Executive Officer.

The portfolio contains some smaller entities, including a number of statutory offices created by the *Defence Force Discipline Act 1982*, *Defence Act 1903*, *Naval Defence Act 2010* and *Air Force Act 1923* as well as the Australian Strategic Policy Institute.

Figure 2.1: **Defence portfolio structure**

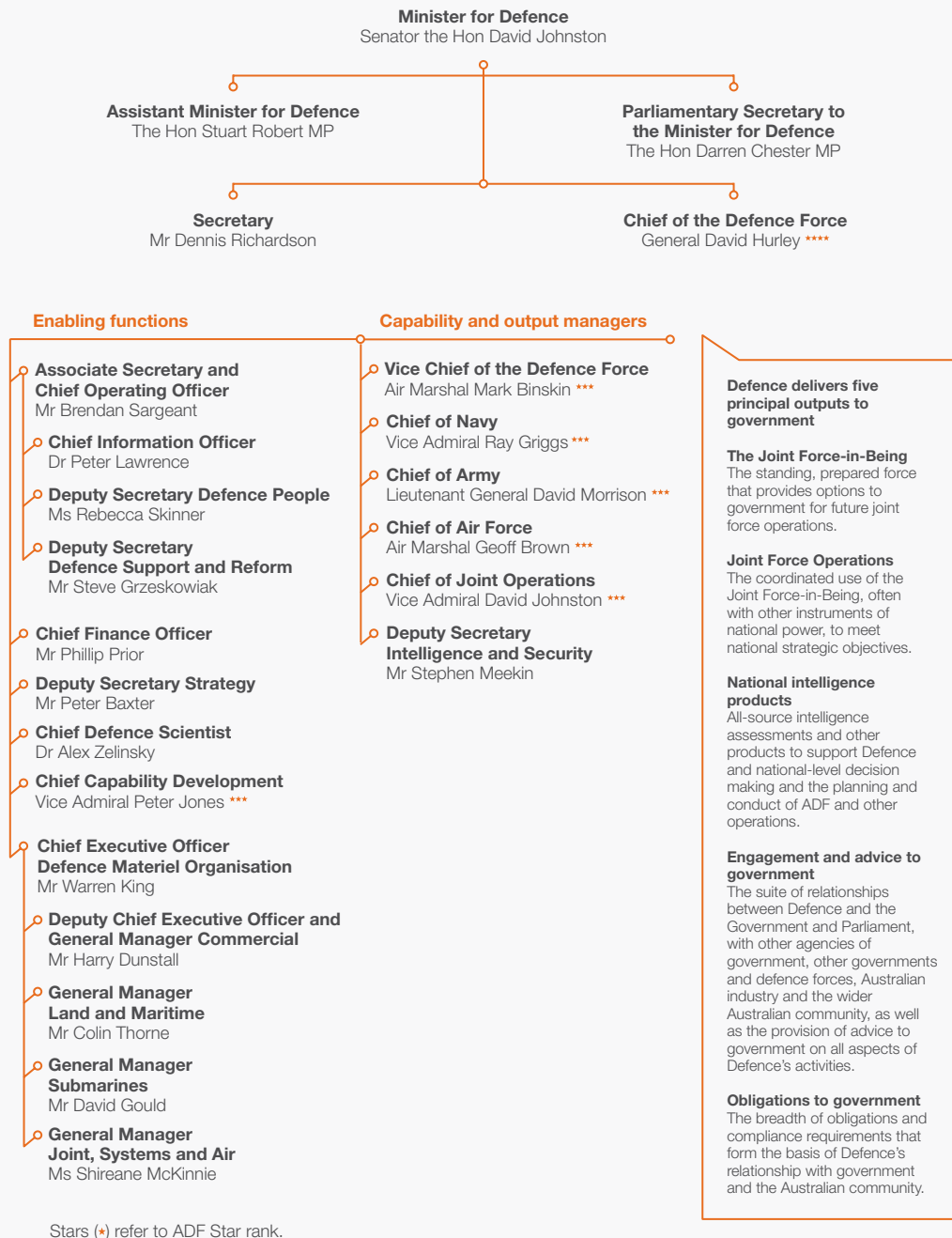


Organisational structure

Defence's workforce consists of ADF members of the Navy, Army and Air Force and members of the APS. The joint leadership of Defence by the Secretary and the CDF is known as the 'diarchy'. The diarchy reflects the individual and joint responsibilities and accountabilities of the Secretary and the CDF through directions given by the Minister for Defence. Figure 2.2 shows Defence's organisational structure at 30 June 2014.

Defence reports against its programs under four outcomes—three for Defence and one for the DMO. Please refer to the foldout at the back of the report for a detailed outcome and program structure.

Figure 2.2: Defence organisational structure at 30 June 2014



How the department evolved

Following Federation in 1901, the Commonwealth took over responsibility for matters concerning the whole nation, which, until then, had been dealt with individually by the six colonies. Defence was one of the first functions to be passed to the new Australian Government. The function of the newly established Department of Defence was to administer the Army and the Navy and supervise the allocation and disbursement of the small defence budget.

The outbreak of World War I led to the creation of an expeditionary force made up of nearly 330,000 men and women who were sent overseas to different theatres of war. This placed unprecedented demands on the small organisation. To administer and provide logistics to such a large military force, the department increased its military and civilian workforce—including a record number of female clerks—from 267 in 1914 to 1,483 by 1918.

Between 1919 and 1932, employment preference in the department was given to returned soldiers. Of the 972 men admitted to permanent positions in the clerical division in this period, 924 were returned soldiers. In the second half of the 1930s, as the effects of the Great Depression eased, the Government slowly increased its defence spending in response to the developing situation in the Far East and in Europe. Between 1934 and 1940, 186 new clerks were appointed to the department. There was also a need for higher educational standards, and the Department of Defence was the leading department in financing university scholarships.

Administrative changes in 1939 resulted in the formation of a group of departments that included three separate service departments (Navy, Army and Air), the civilian Department of Defence, and the Ministry of Supply and Development, which was responsible for military logistics and munitions production. Each body had a separate minister, secretary and budget. This structure would continue for another three decades.

During World War II, the divided structure worked because the three Services were much of the time fighting three 'different' wars in three different theatres of operation. The department continued to deal with defence policy and joint service matters and provided a secretariat for the higher committees. When the war ended, a voluntary exodus of many temporary staff members made the employment of returned servicemen easier.

During and after World War II, the location of the Department of Defence in Melbourne created administrative problems due to its distance from the federal government in Canberra. Sir Frederick Shedden, one of the most influential public servants of his time and the Secretary of the department from 1937 to 1956, was largely responsible for the delay in transferring the department to Canberra, as he lived and worked in Melbourne. The move finally happened under Sir Edwin Hicks, who was Secretary of the department from 1956 to 1968.

A 1957 report by Lieutenant General Sir Leslie Morshead, a decorated World War I and II veteran and successful businessman, recommended the amalgamation of the three service departments into a single Department of Defence and the amalgamation of the departments of Supply and Defence Production. The report was not accepted by the government of the day; the disjointed and complex structure continued and management and support of the Services were primarily matters for independent and separate decisions by the service boards. The Defence Administration Committee, established in early 1959, met only annually to review defence expenditure, and the Minister for Defence and his department provided input once a year into the overall service estimates.

In 1967, during Australia's involvement in the Vietnam War, Lieutenant General (later General) Sir John Wilton, Chairman of the Chiefs of Staff Committee, proposed the formation of a unified Department of Defence and the abolition of the three separate service departments and ministers. Wilton argued that a clear chain of operational control would be needed if Australia were to be involved in future joint military operations. His proposal was unsuccessful.

It was Sir Arthur Tange, the Secretary of the department from 1970 until his retirement in 1979, who was to implement the much-needed change to Defence's structure and management. In 1973, Tange produced *Australian Defence: Report on the Reorganisation of the Defence Group of Departments* (the Tange Report). The report contained many of Morshead's and Wilton's proposals. Although unpopular and criticised by many, the report's recommendations were accepted by the government of the day, paving the way for the *Defence Force Reorganisation Act 1975*. The three single-service departments were abolished and the Department of Defence was formed, headed by a Secretary. In 1976, General (later Sir) Francis Hassett was appointed the first Chief of Defence Force Staff. In October 1984, the title changed to Chief of the Defence Force.

The Secretary of the Department of Defence retained traditional statutory responsibilities as permanent head of the department and adviser to the minister on policy, resources, organisation and finance. The Chief of the Defence Force Staff exercised joint responsibility for the administration of the Defence organisation. This division of responsibilities—the diarchy—has continued through to the present day.

Drawdown from Afghanistan

The Australian contribution in Afghanistan in 2013–14 focused mainly on support roles after the majority of ADF personnel redeployed from Uruzgan in late December 2013.

This support included a continuing advisory mission to the Afghan National Army 4th Brigade of the 205th Corps in Uruzgan Province, adviser support to the 205 Corps, logistics training and advising to the Afghan Central Supply Depot, and embedded staff support to the International Security Assistance Force Headquarters elements including Regional Command (South). The ADF commenced and has continued to provide adviser contributions to the Afghan National Army Officer Academy and Headquarters of the General Command of Police Special Units and 205 Corps in preparation for the Train-Advise-Assist Mission of Resolute Support, which will begin on 1 January 2015.

The ADF began to reduce its presence in Uruzgan Province during 2013 in preparation for the transfer of security responsibility to the Government of the Islamic Republic of Afghanistan and the Afghan National Security Forces. As the lead nation in Combined Team Uruzgan, Australia, working with the United States and other key

coalition partners and the Afghan National Security Forces, conducted a drawdown of adviser elements and enablers, while continuing to advise key personnel in the Afghan National Security Forces. The ADF deployed a specialist team of logisticians, signallers and engineers to support the redeployment of Australian forces and complete the remediation and handover of a large part of the multinational base at Tarin Kot to the Afghan National Security Forces.

The 2013 drawdown and end of the ADF mission in Uruzgan resulted in a reduction of personnel numbers, which also marked a change from a provincially focused mission to one centred on adviser support to national institutions. The logistics training mission ceased in mid-2014.

Commensurate with the drawdown in Uruzgan, the ADF also reduced its headquarters and support functions in Kabul, in Kandahar and at the Al Minhad Airbase in the United Arab Emirates. Australia maintains a modest national headquarters element and air mobility, logistics and communication enablers at Al Minhad Airbase to support continuing operations in the region, including those deployed on Operation Slipper in Afghanistan.



A long line of Afghan and Australian vehicles convoyed across the Uruzgan and Kandahar deserts during Operation Tor Ghar IV.

Resource summary

The Defence departmental net cash spend as at 30 June 2014 was \$25,689 million. This was an underspend of \$438.3 million when compared to the revised estimate as at the Defence Portfolio Budget Statements 2014–15, primarily as a result of:

- an underspend of \$268.6 million in no-win/no-loss operations funding
- a hand back of \$52.3 million in no-win/no-loss foreign exchange funding due to an appreciation in the Australian dollar.

Table 2.1: **Departmental net cost of service (cash)**

	2013–14 budget estimate ^[1] \$'000	2013–14 revised estimate ^[2] \$'000	2013–14 actual result \$'000	Variation \$'000
Cost of service				
Employee payments	10,170,235	10,120,793	10,052,671	–68,122
Supplier payments	9,300,167	9,614,890	9,252,251	–362,639
Purchase of specialist military equipment	3,179,327	4,559,211	4,397,336	–161,875
Purchase of inventory	1,054,362	1,069,130	1,088,078	18,948
Purchase of property, plant and equipment ^[3]	1,489,833	1,563,983	1,662,996	99,013
Other ^[4]	891,869	912,765	925,004	12,239
Total cash used	26,085,793	27,840,772	27,378,336	–462,436
Own source revenue ^[5]	1,655,473	1,713,444	1,689,296	–24,148
Net cost of service (cash)	24,430,320	26,127,328	25,689,040	–438,288
Funded by				
Appropriation Bills 1, 3 & 5 (Price of Outcomes)	23,796,086	24,516,997	24,272,707	–244,290
Appropriation Bills 2, 4 & 6 (Equity injection)	683,005	1,521,488	1,418,385	–103,103
Other appropriation movements	–	–	–	–
Return of contributed equity	–48,771	–46,500	–32,441	14,059
Cash holdings from previous appropriations	–	67,349	–	–67,349
Decrease to cash at bank	–	67,994	30,389	–37,605
Total funding source	24,430,320	26,127,328	25,689,040	–438,288
Additional output funding				–
Revised total funding source	24,430,320	26,127,328	25,689,040	–438,288
Defence no-win/no-loss hand-back (net)				320,760
Departmental variance				–117,528

Notes

1. As published in the Portfolio Budget Statements 2013–14, Table 43.
2. As published in the Portfolio Budget Statements 2014–15, Table 45.
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, interest received, GST and proceeds from sale of assets.

The following financial information is available online:

- total cost of Defence programs on an accrual basis
- departmental and administered income and expenses
- departmental and administered net cost of service.

Table 2.2: Overall cost to government of Defence outcomes (departmental and administered)

	Outcome 1 \$'000	Outcome 2 \$'000	Outcome 3 \$'000	Total \$'000
Departmental				
Expenses				
Employees	10,010,058	156,103	6,226	10,172,387
Suppliers	10,106,307	437,292	22,653	10,566,252
Grants	5,988	42,808	–	48,796
Depreciation and amortisation	3,867,716	–	–	3,867,716
Finance cost	129,106	–	–	129,106
Writedown of assets and impairment of assets	852,653	–	–	852,653
Net losses from sale of assets	4,340	–	–	4,340
Other expenses	91,625	15	–	92,640
Total expenses	25,068,793	636,218	28,879	25,733,890
Income				
Revenue				
Goods and services	809,327	17,960	–	827,287
Other revenue	865,459	–	–	865,459
Total revenue	1,674,786	17,960	–	1,692,746
Gains				
Reversals of previous asset writedowns	293,384	–	–	293,384
Net gains from sale of assets	–	–	–	–
Other gains	37,863	–	–	37,863
Total gains	331,247	–	–	331,247
Total income	2,006,033	17,960	–	2,023,993
Net cost of departmental outcomes	23,062,760	618,258	28,879	23,709,897
Administered				
Expenses	13,010,915	–	–	13,010,915
Revenue	1,409,769	–	–	1,409,769
Net cost of administered outcomes	11,601,146	–	–	11,601,146
Total departmental and administered outcomes	34,663,906	618,258	28,879	35,311,043

Table 2.3: Defence resource statement, 2013–14

	Actual available appropriation for 2013–14 \$'000	Payments made 2013–14 \$'000	Balance remaining 2013–14 \$'000
Ordinary annual services			
Outcome 1	23,440,073	23,463,438	–23,365
Outcome 2	1,022,827	761,757	261,070
Outcome 3	54,097	47,512	6,585
Total departmental outputs	24,516,997	24,272,707	244,290
Total ordinary annual services	24,516,997	24,272,707	244,290
Departmental non-operating			
Equity injection	1,521,488	1,418,385	103,103
Total departmental non-operating	1,521,488	1,418,385	103,103
Total available annual appropriation	26,038,485	25,691,092	347,393
Other services			
Previous years' outputs (appropriation receivable)	67,349	–	67,349
Cash available	68,460	32,970	35,490
Funding from other sources	1,046,599	1,046,599	–
Returns to the Official Public Account (net)	–32,441	–32,441	–
Total other resourcing	1,149,967	1,047,128	102,839
Total available departmental resourcing	27,188,452	26,738,220	450,232
Special appropriations			
Special appropriations limited by criteria/entitlement			
<i>Defence Forces Retirement Benefits Act 1948</i> Part 1, s. 15D and VIC, s. 82ZJ	53,362	53,362	–
<i>Defence Force Retirement and Death Benefits Act 1973</i> Part XII, s. 125	1,451,263	1,451,263	–
<i>Military Superannuation and Benefits Act 1991</i> Part V, s. 17	500,457	500,457	–
<i>Defence Force (Home Loans Assistance) Act 1990</i> Part IV, s. 38	1,577	1,577	–
<i>Defence Home Ownership Assistance Scheme Act 2008</i> Part VI, s. 84	91,977	91,977	–
Other administered	–	–	–
Total special appropriations	2,098,636	2,098,636	–
Funding from other sources	1,467,573	1,467,573	–
Returns to the Official Public Account (net)	–1,467,573	–1,467,573	–
Total other resourcing	–	–	–
Total administered resourcing	2,098,636	2,098,636	–
Total resourcing	29,287,088	28,836,856	450,232
Special accounts			
Opening balance	75,125	–	75,125
Appropriation receipts	–	–	–
Appropriation receipts—other agencies	–	–	–
Non-appropriation movements to special accounts	33,801	40,544	–6,743
Total special accounts	108,926	40,544	68,382

People summary

Efforts to grow the ADF while concurrently achieving efficiencies in Defence's APS workforce have had a clear effect on the Defence workforce. The actual funded strength of the ADF and the actual staffing level (full-time equivalent, FTE) for the APS at 30 June 2014 were 56,922 and 19,988, respectively, compared to 56,117 and 21,006 at 30 June 2013. These actual staffing figures are the most reliable indicator of end-of-year staffing levels.

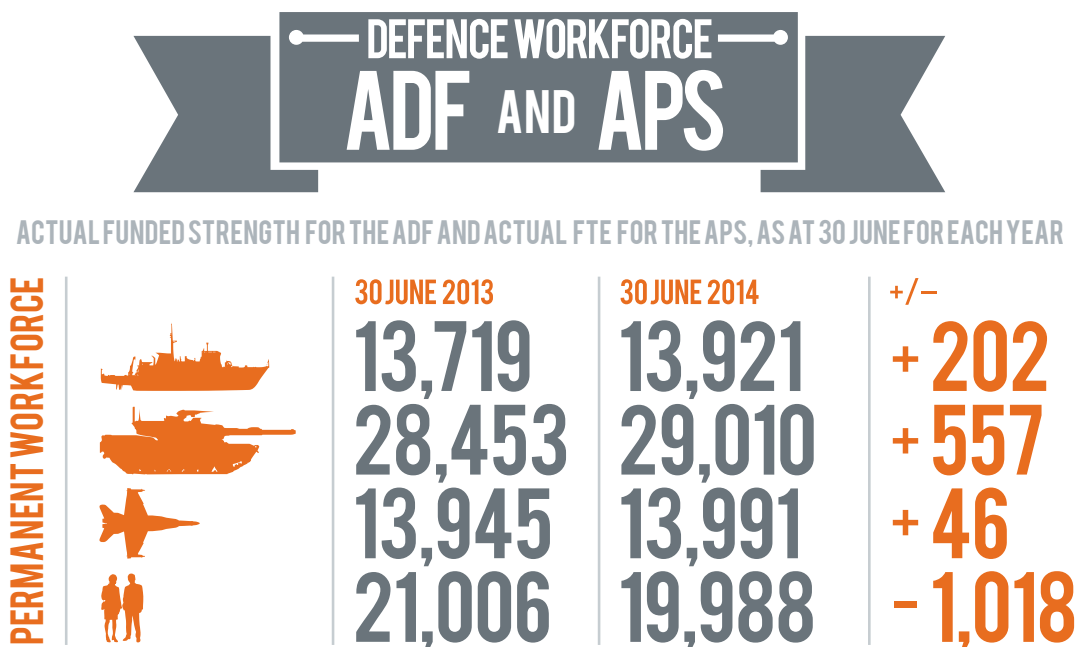
For the APS, this was a reduction of 1,018 actual FTE from 2012–13. This reflects the continuing downward trend following a reduction of 1,278 in 2012–13. The downward trend is also evident in other Defence workforce statistical data. The average FTE for 2013–14 of 20,496 reflected the average number of employees receiving salary or wages over the financial year, with adjustments for casual and part-time staff. This compared to the 2012–13 average FTE of 21,534. As the APS workforce trends down, the average figure for the year will always be above the end-of-year actual figure. The downward trend will continue in 2014–15 in line with government direction and budget forecasts.

Defence's APS headcount for the year also showed a downward trend, from 22,105 at 30 June 2013 to 21,194 at 30 June 2014, a reduction of 911. The headcount figure includes paid and unpaid employees, covering full-time, part-time, ongoing and non-ongoing employees. (The headcount figure should not be used to calculate overall numbers of paid staff (FTE) in Defence.)

The ADF is increasing to a permanent workforce strength of around 58,500. It grew by 805 (from a funded strength of 56,117 to 56,922) in 2013–14, and is forecast to continue its growth in future years.

Further details on the workforce are in Chapter 8.

Actual staffing levels



Workforce planning figures

Table 2.4: Defence and DMO consolidated workforce table

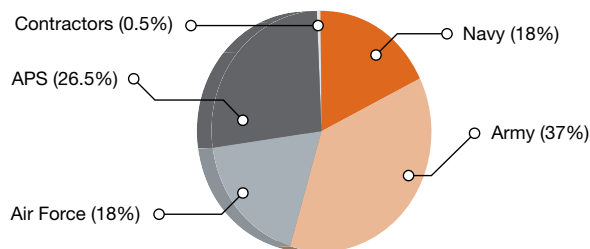
	2012–13 actual result	2013–14 budget estimate ^[1]	2013–14 revised estimate ^[2]	2013–14 actual result	Variation	%
ADF^[3]						
Total ADF permanent force	56,607	58,235	56,570	56,364	–206	–0.4
APS						
APS—Defence	15,786	15,547	15,268	15,280	12	0.1
APS—DMO	5,389	5,307	4,878	4,812	–66	–1.4
APS—DMO (APS backfill)	359	363	428	404	–24	–5.6
Total APS	21,534	21,217	20,574	20,496	–78	–0.4
Contractors^[4]						
Defence contractors	358	445	346	340	–6	–1.7
DMO contractors	33	48	28	18	–10	–35.7
Total contractors	391	493	374	358	–16	–4.3
Total workforce strength	78,532	79,945	77,518	77,218	–300	–0.4

Notes

All numbers represent average full-time equivalents. Employees on forms of leave without pay are not included.

- As published in the Portfolio Budget Statements 2013–14.
- As published in the Portfolio Additional Estimates Statements 2013–14.
- Numbers for ADF permanent force include ADF members in the DMO, and Reservists on continuous full-time service but excludes Active and High Ready Reserve Reservists (Navy 2,021, Army 14,662, Air Force 3,058) who rendered service during the financial year. These are excluded because, due to the nature of Reserve service, numbers for the Reserve force represent headcounts rather than average full-time equivalents.
- Contractors are individuals under contract performing agency roles. Contractors are not APS employees.

Figure 2.3: Defence workforce summary (including DMO) as at 30 June 2014



FEATURE |



Photo: Sergeant Rob Hack

The Long Way Home: rehabilitation through the arts

In an innovative performing arts initiative, Defence partnered with the Sydney Theatre Company to produce *The Long Way Home*, a play focusing on experiences of war.

Men and women from the ADF worked with the Sydney Theatre Company, sharing their personal stories with Australian playwright Daniel Keene. They participated in acting and movement workshops and were mentored by some of Australia's finest theatrical talent. *The Long Way Home* portrayed the reality of conflict and the fear and disillusionment that some ADF members face on their return home from operations, including the impact of post-traumatic stress disorder.

The project is one of the many ways Defence is addressing military mental health and highlighting the efforts that are being undertaken to reduce

the stigma that still exists around mental health in Australia.

One of the project's aims was to assist with the rehabilitation and recovery of ADF members who had been wounded or injured, or become ill in service. It also provided insight into the sacrifices made by ADF members and gave the Australian community an opportunity to understand the impact a decade of operations can have on the ADF.

Former Chief of the Defence Force General David Hurley said the play provided a unique opportunity to tell an important story.

'*The Long Way Home* offered an important insight into the war experiences of a group of servicemen and women who have had the courage to share their stories with us', he said.

'It's a very human story. It's the Australian Defence Force's story and it's an important one to tell.'

Brigadier Alison Creagh, Director General ADF Theatre Project, said that there was a long-held tradition of men and women of the Navy, Army and Air Force doing remarkable things on behalf of Australia.

'It has been my great privilege to lead a remarkable group of men and women from the ADF who have upheld this tradition and have shown great courage', she said.

'Their goal has been to help others, make a difference and share their experiences, and they have excelled.'

The production opened in Sydney in February 2014 and was presented in eight major cities across the nation as part of the official Centenary of Anzac program. It was performed for more than 30,000 people over 40 performances. There were standing ovations and close to sell-out performances throughout the tour.

A significant outcome of the project has been a marked improvement in the confidence and self-esteem of the ADF participants, placing them in a much stronger position to deal with their own transition. *The Long Way Home* has also helped further the important conversation on military mental health, and is one of the many ways the ADF is addressing the issue of veterans' mental and physical health. This is an important focus for Defence after a decade of high operational tempo.

Defence and the Sydney Theatre Company raised funds through corporate donations and sponsorship to help deliver *The Long Way Home*. The project was supported by many areas within the Department of Defence as well as the Department of Veterans' Affairs.



Corporal Tim Loch as Tom and Odile Le Clezio as Beth
Photo: Lisa Tomasetti



Brigadier Wayne Goodman as Dr. Cutter and
Lance Corporal Gary Wilson as Zac
Photo: Lisa Tomasetti



Corporal Tim Loch as Tom
Photo: Lisa Tomasetti





PART TWO PERFORMANCE

CHAPTER 3

Outcome 1

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

Summary

The primary focus of Outcome 1 is on maintaining the capacity to support current commitments and provide strategic response options to the Government to meet the range of potential future security contingencies. As well as the provision of military capabilities, this outcome encompasses all of the policy, command and support functions undertaken by the organisation.

Structure

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 services.

Figures 3.1 and 3.2 show the extent to which the deliverables and key performance indicators for Outcome 1 have been met.

Figure 3.1: Deliverables

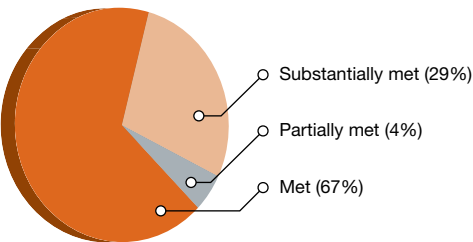
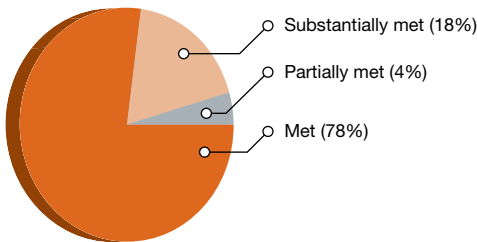


Figure 3.2: Key performance indicators



For ease of reference in Part Two, please open the foldout at the back of the report. This will show you the outcome and program structure adjacent to the page being viewed.

Table 3.1: Total cost of Defence Outcome 1

	2013–14 budget estimate ^[1] \$'000	2013–14 revised estimate ^[2] \$'000	2013–14 actual result ^[3] \$'000	Variation \$'000	%
Program 1.1: Office of the Secretary and CDF					
Revenues from other sources	539	539	1,592	1,053	195
Departmental outputs	164,183	164,146	162,417	-1,729	-1
Program 1.2: Navy Capabilities					
Revenues from other sources	248,407	164,756	131,850	-32,906	-20
Departmental outputs	4,332,858	4,585,977	4,401,693	-184,284	-4
Program 1.3: Army Capabilities					
Revenues from other sources	156,852	101,736	108,879	7,143	7
Departmental outputs	5,343,805	5,729,352	5,684,714	-44,638	-1
Program 1.4: Air Force Capabilities					
Revenues from other sources	323,449	218,148	138,341	-79,807	-37
Departmental outputs	4,165,276	4,564,679	4,384,276	-180,403	-4
Program 1.5: Intelligence Capabilities					
Revenues from other sources	13,550	12,276	7,610	-4,666	-38
Departmental outputs	524,824	518,654	550,113	31,459	6
Chief Operating Officer					
Revenues from other sources	348,905	333,096	421,708	88,612	27
Departmental outputs	5,173,208	5,279,776	5,020,614	-259,162	-5
<i>Program 1.6: Chief Operating Officer—Defence Support and Reform</i>					
Revenues from other sources	334,311	324,849	405,073	80,224	25
Departmental outputs	3,747,675	3,729,187	3,623,672	-105,515	-3
<i>Program 1.7: Chief Operating Officer—Chief Information Officer</i>					
Revenues from other sources	14,594	8,247	16,166	7,919	96
Departmental outputs	972,779	1,089,636	970,082	-119,554	-11
<i>Program 1.8: Chief Operating Officer—Defence People</i>					
Revenues from other sources	–	–	469	469	–
Departmental outputs	452,754	460,953	426,860	-34,093	-7
Program 1.9: Defence Science and Technology					
Revenues from other sources	35,317	32,112	32,290	178	1
Departmental outputs	427,200	421,217	425,664	4,447	1
Program 1.10: Vice Chief of the Defence Force					
Revenues from other sources	231,636	329,338	287,835	-41,503	-13
Departmental outputs	1,251,094	1,196,585	1,403,090	206,505	17

Table 3.1 (continued)

	2013–14 budget estimate ^[1] \$'000	2013–14 revised estimate ^[2] \$'000	2013–14 actual result ^[3] \$'000	Variation \$'000	%
Program 1.11: Joint Operations Command					
Revenues from other sources	373	334	1,290	956	286
Departmental outputs	50,680	48,259	45,208	-3,051	-6
Program 1.12: Capability Development					
Revenues from other sources	86,203	20,208	65,647	45,439	225
Departmental outputs	883,841	344,979	444,403	99,424	29
Program 1.13: Chief Finance Officer					
Revenues from other sources	822,302	794,797	808,991	14,194	2
Departmental outputs	560,563	586,449	540,568	-45,881	-8
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>	96,957	124,657	7,924,126	7,799,469	6,257
<i>Military Superannuation and Benefits Act 1991 Part V, s.17</i>	1,255,387	2,020,000	2,053,485	33,485	2
Total administered expenses	1,352,344	2,144,657	9,977,611	7,832,954	365
Administered revenue from other sources	1,279,134	1,279,902	1,242,134	-37,768	-3
Total Program 1.14	73,210	864,755	8,735,477	7,870,722	910
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>	26,918	21,954	22,100	146	1
<i>Defence Force Retirements and Death Benefits Act 1973 Part XII, s.125(3)</i>	1,481,592	1,345,795	1,344,000	-1,795	–
<i>Military Superannuation and Benefits Act 1991 Part V, s. 17</i>	1,419,134	1,584,493	1,573,000	-11,493	-1
Total administered expenses	2,927,644	2,952,242	2,939,100	-13,142	–
Administered revenue from other sources	–	–	–	–	–
Total Program 1.15	2,927,644	2,952,242	2,939,100	-13,142	–
Program 1.16: Housing Assistance					
<i>Defence Force (Home Loan Assistance) Act 1990 Part IV, s. 38</i>	1,963	1,817	1,577	-240	-13
<i>Defence Home Ownership Assistance Scheme Act 2008 Part VI, s. 84</i>	104,626	101,192	92,064	-9,128	-9
Total administered expenses	106,589	103,009	93,641	-9,368	-9
Administered revenue from other sources	12,192	12,727	13,448	721	6
Total Program 1.16	94,397	90,282	80,193	-10,089	-11

Table 3.1 (continued)

	2013–14 budget estimate ^[1] \$'000	2013–14 revised estimate ^[2] \$'000	2013–14 actual result ^[3] \$'000	Variation \$'000	%
Program 1.17: Other Administered					
Administered revenue from other sources	158,214	168,761	154,187	-14,574	-9
Expenses	–	–	563	563	–
Total Program 1.17	-158,214	-168,761	-153,624	15,137	-9
Total resourcing					
Total departmental outputs	22,877,532	23,440,073	23,062,760	-377,313	-2
Total administered	2,937,037	3,738,518	11,601,146	7,862,628	210
Total departmental revenue from other sources	2,267,533	2,007,340	2,006,033	-1,307	–
Total administered revenue from other sources	1,449,540	1,461,390	1,409,769	-51,621	-4
Equity injection	683,005	1,521,488	1,418,385	-103,103	-7
Total resources for Outcome 1	30,214,647	32,168,809	39,498,093	7,329,284	23

Notes

5. As published in the Portfolio Budget Statements 2013–14, Table 11.

6. As published in the Portfolio Budget Statements 2014–15, Table 12.

7. At the program level, departmental revenues from other sources include minor reclassifications from expenses.

Further information on Outcome 1 expenditure is available online.

Program 1.1

Office of the Secretary and CDF

The Secretary of the Department of Defence, Mr Dennis Richardson, AO, was appointed on 18 October 2012. The Secretary is the principal civilian adviser to the Minister and carries out the functions of an agency head within the APS. As an agency head, the Secretary has, on behalf of the Commonwealth, all the rights, duties and powers of an employer with respect to APS employees in Defence.

The Chief of the Defence Force, Air Chief Marshal Mark Binskin, AC, was appointed CDF on 1 July 2014, following the retirement of General David Hurley. The CDF has primary responsibility for the command of the ADF under the direction of the Minister for Defence. The CDF is also the principal military adviser to the Minister and provides advice on matters that relate to military activity, including military operations.

The Deputy Secretary Strategy, Mr Peter Baxter, was appointed on 28 January 2014. He is responsible for providing strategic guidance and policy advice to the Secretary and CDF, and through their offices to portfolio ministers and the Government, on central issues of Australia's defence policy, including the development and use of Defence capability, Defence international engagement, strategic policy development and the strategic dimension of ADF operations.

The Office of the Secretary and Chief of the Defence Force's primary objective in delivering Program 1.1 is to support the Secretary and the Chief of the Defence Force to deliver high-quality policy advice to the Government, drive organisational reform and exercise strategic leadership. The Office is administered, on behalf of the Secretary and the Chief of the Defence Force, by the Chief Operating Officer.

The Office comprises the small personal offices of the Secretary and the Chief of the Defence Force, the Strategy Executive (comprising Strategic Policy and International Policy Divisions), the Audit and Fraud Control Division and a number of military justice agencies.

The Office manages a considerable array of operational, policy, commercial, regulatory, risk and other matters associated with the Defence mission of defending Australia and its national interests.

During 2013–14, the Office continued to drive implementation of a number of strategic reforms across Defence. It implemented new measures to align Defence's corporate functions with strategic planning and is guiding the development of the 2015 Defence White Paper.

The Group continued to drive implementation of strategic reforms across Defence.

Table 3.2: **Program 1.1 deliverables**

Deliverable	Status
Provide direction for the contribution of Defence to operations as directed by Government	Met
Ensure delivery of the Defence Cooperation Program within available resources	Met
Oversee implementation of agreed recommendations of the <i>ADF Posture Review</i>	Met
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	Met
Guide the development of the 2015 Defence White Paper	Met
Ensure Defence strategic policy aligns with Government direction and priorities, including fiscal policy	Met
Provide policy advice on strategic issues including arms control, international collaborative programs, major capability acquisitions, industry and innovation policy	Met
Manage export control of defence and strategic goods	Met
Implementation of the recommendations of the review into the Woomera Prohibited Area	Substantially met The Woomera Prohibited Area Bill 2013 passed through the Parliament; the associate rule to enable coexistence is still being finalised.
On behalf of the Secretary and CDF, undertake independent audits of Defence activities, and coordinate Australian National Audit Office activity in Defence	Met
On behalf of the Secretary and CDF, take a leading role in the prevention and detection of fraud, undertake fraud investigations, and produce the Defence Fraud Control Plan	Met
Administer use of the Australia – United States Defence Trade Cooperation Treaty by Australian Government agencies and the defence industry	Met

Table 3.3: **Program 1.1 key performance indicators**

Key performance indicator	Status
Group-specific outcomes and programs are delivered within allocated resources and meet directed efficiency, economy measures, and economy and cultural measures	Met
Staff skills are developed and personnel management practices successfully balance competing priorities	Met
Policy guidance is forward-looking, timely, innovative and practical	Met

Further information on the Defence Cooperation Program and its expenditure is available online.

Defence offers Jacinta unique opportunities at home and abroad

Jacinta Hudson joined the International Policy Division in 2006 after completing the Defence Graduate Development Program. During her time in the division, Jacinta has worked across each of the four geographic branches, performing a variety of roles that have led to unique opportunities both in Australia and overseas.

From 2007 to 2010, Jacinta worked to build Australia's defence relationships with countries in Australia's immediate neighbourhood, including Papua New Guinea and the Pacific islands, as well as regional partners such as Thailand, Vietnam and Cambodia. In these roles Jacinta identified priorities for defence engagement in line with strategic objectives and worked with defence stakeholders to implement activities under the Defence Cooperation Program.

Jacinta said the highlight of her time working on the program was a month-long secondment to the Australian Embassy in Bangkok where she provided specialist policy support and expertise to support Australia's participation in regional forums, including the ASEAN Senior Officials' Meeting.

'Living and working in Bangkok was a fantastic opportunity to experience a different culture while working in a professional capacity, and to gain an appreciation for the work of our Defence representational staff', Jacinta said.

In 2010, Jacinta shifted her focus to providing policy support to Australian Defence Force operations overseas. In August 2011, she deployed to the Middle East for nine months as policy adviser to Commander Joint Task Force 633. As a policy adviser, Jacinta provided advice across a range of issues affecting Australia's military operations in Afghanistan and the Middle East.

PROFILE | Jacinta Hudson



Jacinta Hudson with Commander Joint Task Force 633, Major General Stuart Smith in Tarin Kot, Afghanistan

'My deployment to the Middle East was both challenging and immensely rewarding', she said.

'Working in an operational military headquarters allowed me to see how strategic-level policy decisions were implemented on the ground and the effects decisions made in Canberra had on ADF operations and individual personnel.

'I was consistently impressed by the dedication and professionalism of the people I worked with', Jacinta said.

The skills Jacinta has developed during her time with the International Policy Division have prepared her well for her future role as First Secretary Defence in New Delhi, which will commence in January 2015. Jacinta said she is looking forward to the next chapter of her career, which will involve liaising with officials in the Indian Ministry of Defence and the wider Indian security sector to strengthen Australia's defence relationship with India.

Program 1.2

Navy Capabilities

The Chief of Navy, Vice Admiral Tim Barrett, AO, CSC, RAN, was appointed on 1 July 2014, following the appointment of Vice Admiral Ray Griggs as VCDF. He is responsible and accountable to the CDF for the command, leadership and capability output of the Navy. He is also Defence's principal naval adviser on strategic matters.

The Navy supports the ADF in protecting and advancing Australia's strategic interests through the provision of maritime forces. This support ranges from maritime patrol and response, through to interdiction and strategic strike, and amphibious warfare capabilities. It includes protection of trade, shipping and offshore territories and resources. Support is provided through maritime intelligence collection and evaluation, hydrographic and oceanographic operations, and escort duties. Peacetime activities encompass not only training but also maritime surveillance and response within Australia's offshore maritime zones. The Navy undertakes hydrographic, oceanographic and meteorological support operations, humanitarian assistance, disaster relief, and maritime search and rescue.

The Navy sustained a high tempo of operations, activities and training during 2013–14, in a context of further extensive cultural change and significant reform in many areas, especially in engineering and ship sustainment.

Overall, the Navy performed well against deliverable targets and key performance indicators, and made good progress in stabilising the materiel state of the submarine force and amphibious and afloat support vessels. Notwithstanding this pleasing achievement, Armidale class patrol boats continued to face hull maintenance challenges that had an impact on their ability to participate fully in border protection duties. Additionally, the assignment of hydrographic ships to Operation Resolute, combined with a scheduled propulsion system upgrade for the ships, limited their contribution to Hydroscheme 2013–2016, which, although substantially met, was reduced in scope for 2013–14.

While the Navy was able to substantially achieve appropriate levels of preparedness during the year, its ability to fully meet its commitments in this regard was affected by continuing reliability issues with the Armidale class patrol boats and limitations in the number of available aviation assets, due primarily to delays in the introduction of the multi-role helicopter (MRH-90).

The Navy continued progress in the delivery of the first Canberra class landing helicopter dock, the introduction of the MRH-90, delivery of the first MH-60R combat helicopters and the upgrade of the Anzac frigate fleet to make them more effective against contemporary missile threats.

In October 2013, the International Fleet Review was conducted, celebrating, in a most emphatic and successful way, the centenary of the Royal Australian Navy fleet's first arrival in Sydney Harbour.

Defence made good progress in stabilising the materiel state of the submarine force and amphibious and afloat support vessels.

Table 3.4: Program 1.2 deliverables

Deliverable	Status
Prepare, sustain and lead assigned forces to deliver capability to meet government requirements	Met
Maintain preparedness of Navy capability as directed by the CDF	Substantially met Not fully met due to Armidale class patrol boat maintenance challenges, hydrographic ship propulsion system remediation work, and delay in MRH-90 helicopter initial operational capability.
Undertake joint collective training to ensure force elements are prepared for deployment and operations	Met
In consultation with the Capability Development Group and the DMO, continue to plan, develop and monitor the delivery of, and transition to, new capability	Met
Provide timely, accurate and considered advice on Navy capabilities to the Government, the CDF and the Secretary	Met
Deliver reform and savings without compromising agreed levels of Navy capability and safety	Met

Table 3.5: Program 1.2 deliverables—Unit Ready Days (URD)

Deliverable	Status
18 major combatants 3,522 URD	Met
20 minor combatants 4,477 URD	Substantially met 95 per cent met due to Armidale class patrol boat maintenance challenges.
9 amphibious and afloat support 2,047 URD	Met
7 maritime teams 2,555 URD	Met
9 hydrographic force 2,819 URD	Met

Note

URD are the aggregate number of days that constitute force elements that are available for tasking.

Table 3.6: Program 1.2 deliverables (products)

Deliverable	Status
85 nautical charts	Met
30 nautical publications	Substantially met 29 out of a planned 30 publications were published.
1,100 maritime safety update work orders	Met

Table 3.7: Program 1.2 deliverables (flying hours)

Deliverable	Status
16 S-70B-2 (Seahawks) 3,600 hrs	Met
13 AS350B (Squirrels) 4,000 hrs	Substantially met 90 per cent met. While not fully met, the achievement is an improvement on previous years, reflecting enhancements to maintenance scheduling and flying program management.
6 MH-60R 600 hrs	Met
1 Laser airborne depth sounder aircraft 980 hrs	Substantially met 92 per cent met due primarily to on-task weather conditions being incompatible with airborne survey operations.

Table 3.8: Program 1.2 key performance indicators

Key performance indicator	Status
Achieve levels of preparedness as directed by the CDF	Substantially met Not fully met due to Armidale class patrol boat maintenance challenges, hydrographic ship propulsion system remediation work and delay in MRH-90 helicopter initial operational capability.
Meet the Government's operational requirements	Met
Generate and sustain forces for each current operation	Met
Achieve a level of training that maintains core skills, professional standards and baseline preparedness	Substantially met The number and tempo of operational commitments affected Navy's ability to achieve the level of training required to maintain core skills in some areas.
Provide timely, accurate and considered advice on Navy capabilities to the Government, the CDF and the Secretary	Met
Achieve Hydroscheme 2013–2016 data and surveying tasking requirements to meet national hydrographic surveying and charting obligations	Substantially met Assignment of hydrographic ships to Operation Resolute, combined with a scheduled propulsion system upgrade for the ships, limited their contribution to Hydroscheme.

Navy celebrates centenary with international review

In October 2013, the Royal Australian Navy (RAN) celebrated 100 years since first arriving in Sydney Harbour with one of the largest events held on Sydney Harbour since the 2000 Olympics.

The entry of the RAN's first fleet on 4 October 1913, led by the Indefatigable Class Battlecruiser HMAS *Australia*, was an event of great significance for a young Australian nation.

Exactly 100 years later, the RAN conducted a fleet entry and ceremonial review presided over by Her Excellency the Honourable Quentin Bryce, AC, CVO, Governor-General of the Commonwealth of Australia, and accompanied by His Royal Highness Prince Henry of Wales (Prince Harry).

The week of celebrations included 37 foreign and Australian warships, 16 tall ships from five nations, more than 60 aircraft (including civilian and historic aircraft) flying over 100 individual aircraft sorties, 10 military bands and 8,000 sailors from 19 nations.

A 100-gun salute marked the official start of the ceremonial fleet review on 5 October with the Governor-General, accompanied by Prince Harry, embarked on HMAS *Leeuwin*. The review coincided with a Salute to Navy, featuring 29 RAN and visiting navy helicopters and a variety of fixed-wing aircraft flying as low as 500 feet (150 metres) over the ships.

That night, a fireworks and lightshow display told the 100-year story of the RAN since its arrival in Sydney Harbour. Called the International Fleet Review Spectacular, it included fireworks launched from seven RAN ships and a choreographed lightshow that was projected simultaneously onto the sails of the Sydney Opera House, the Sydney Harbour Bridge pylons and the roof of the National Maritime Museum in Darling Harbour.



Sailors of the Royal Australian Navy and other participating nations march through Sydney city as part of the International Fleet Review 2013.

The show drew an estimated one million spectators to Sydney's harbour and foreshore with a further 2.5 million watching the live national television broadcasts on channels ABC1 and ABC24 and creating a record for ABC TV ratings. In addition, over 2.85 million hits were recorded in 79 countries worldwide on a live YouTube stream of the event. The RAN's Indigenous Performance Group, Bungaree, performed for the first time on the steps of the Sydney Opera House during this event.

More than a dozen warships were opened to the public over a two-day period at both Garden Island and Barangaroo Wharf, with a total of 50,000 people visiting.

The Combined Navies Parade on 9 October drew an estimated 50,000 people to Sydney's CBD to watch a contingent of 4,000 officers and sailors from participating warships, military bands and RAN veterans from associations of the ships from 1913 march along Sydney's George Street. Additional Freedom of Entry parades were staged in Mosman and Parramatta and drew enthusiastic support.

Program 1.3

Army Capabilities

The Chief of Army, Lieutenant General David Morrison, AO, is responsible and accountable to the CDF for the command of the Army and the management of designated joint functions. He oversees corporate policy formation within the Army and is jointly responsible and accountable to the CDF and the Secretary for the effective and efficient management of his Service. He is also Defence's principal army adviser on strategic matters.

The Army contributes to the achievement of the Government's defence objectives through the provision of capabilities for land, amphibious and special operations. The Army also provides capability to enhance the national domestic security response to terrorist, chemical, biological, radiological or explosive incidents among other support for national security tasks during peacetime.

Highlights during 2013–14 included the following:

- The Australian Light Armoured Vehicle Multi Spectral Surveillance Suite reached initial operational capability, an important early milestone in the delivery of a complete capability.
- A number of projects achieved their final operational capability, including additional CH-47D helicopters, artillery replacement, water purification and desalination, and the Counter Rocket Artillery Mortar/Missile.
- Several projects achieved significant equipment deliveries, including the digitisation of protected mobility vehicles, G-wagons and dismounted soldiers through the delivery of enhanced radios and battle management systems, and the delivery of 1,161 light trucks and 766 trailers.
- In response to operationally urgent requests from deployed forces to support the Middle East Area of Operation, the Army, in conjunction with the Defence Materiel Organisation, deployed weapon clamps and additional external composite armour for protected mobility vehicles, up-armoured sports utility vehicles, protected mobility ambulances and Bushmaster vehicles.
- The Army trialled an Amphibious Pre-deployment Training Program similar to the proven United States Marine Corps program. The program was validated during Exercise Talisman Sabre 2013.
- The Army continued to develop and refine its support to wounded, injured and ill personnel, and worked closely with Joint Health Command and other stakeholders, particularly in the area of mental health, to ensure that a continuum of care and support was provided to its personnel. The Army is developing regional and national-level industry partnerships to create employment and career opportunities for wounded, injured and ill personnel who separate from the Army and to address their transition in a comprehensive whole-of-life context.
- The plan to increase capability through diversity continued to raise the representation of women in the Australian Regular Army, from 11 per cent to just under 12 per cent of the permanent force at June 2014. The Army Indigenous Strategy has expanded in scope and seeks to increase Aboriginal and Torres Strait Islander representation to 2.7 per cent, in line with Australian Government targets.
- The Army continued to implement Pathway to Change through a number of programs that are focused on diversity, inclusivity and respect. These programs directly enhance capability and ensure that the organisation excels in preparing for and conducting operations in support of Australia and our national interests, while reflecting modern community standards and attitudes.

Table 3.9: Program 1.3 deliverables

Deliverable	Status
Prepare, sustain and lead assigned forces to deliver capability to meet government requirements	Met
Conduct force generation and force preparation and maintain preparedness of capability as directed by the CDF	Met
Continue to contribute to domestic security operations	Met
In consultation with Capability Development Group and the DMO, continue to plan, develop and monitor the delivery of, and transition to, new capability	Met
Provide timely, accurate and considered advice on Army capabilities to the Government, the CDF and the Secretary	Met
Develop programs to increase diversity within Army's workforce	Met
Continue to improve programs that provide support for Army's seriously wounded and ill personnel	Substantially met Improvements were made in the rehabilitation of members remaining in the ADF through the development of Soldier Recovery Centres and the Intensive Recovery Team concept, which is to be expanded further. Issues involving the processes in the Medical Employment Categorisation system and the relationships between multiple Defence, other government and non-government agencies are being addressed through a project being run by the Army Improvement Team.
Undertake joint collective training to ensure force elements are prepared for deployment	Met
Deliver force generation; namely, a training continuum that unifies individual and collective training to ensure Defence elements are prepared for joint force-in-being contributions, including joint enabling activities supporting other Services/Groups	Met
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 (this includes the Plan Beersheba initiatives, including the forming of multi-role combat brigades, an amphibious capability and reform of the Army Reserve)	Substantially met These are multi-year programs and continue to be monitored.
Deliver Group-specific reform and savings without compromising agreed levels of Army capability, including the revamping of Army's governance, risk, and budgeting and performance achievement management	Met

Table 3.10: Program 1.3 deliverables (rate of effort—flying hours)

Deliverable	Status
6 CH-47D Chinook 1,850 hrs	Met
34 S-70A-9 Black Hawk 6,500 hrs	Substantially met 6,398.5 flying hours. Contingency of 300 hours, approved in November 2013, was not all used due to better than expected performance of MRH-90 Taipan.
41 B-206 Kiowa 6,400 hrs	Substantially met 5,722.3 flying hours. The underfly was due largely to lower than expected pilot recruitment and higher than normal failure rates earlier in the pilot training continuum.
22 Armed Reconnaissance Helicopter Tiger 3,360 hrs	Substantially met 3,019.3 flying hours. Tiger rate of effort improved in 2013–14, but significant further work is required by Airbus Helicopters to improve spare parts turn-around times and meet the increase in rate of effort necessary to support capability requirements.
46 multi-role helicopter (MRH-90) 4,000 hrs	Substantially met 3,641.3 flying hours. MRH-90 Taipan underfly was due to delayed service release of an aircraft configuration update and a reduced number of available aircraft. However, Taipan rate of effort continues to show steady improvement.

Table 3.11: Program 1.3 key performance indicators

Key performance indicator	Status
Achieve levels of preparedness as directed by the CDF	Met
Meet the Government's operational requirements	Met
Generate and sustain forces for each current operation	Met
Achieve a level of training that maintains core skills, professional standards and baseline preparedness	Met
Provide timely, accurate and considered advice on Army capabilities to the Government, CDF and the Secretary	Met

PROFILE | Corporal Elena Rowland



Chief of Army Scholarship recipient Corporal Elena Rowland walks along the rows of headstones at the Australian National Memorial, Villers-Bretonneux, France, on 24 April 2014

From tsunamis to ‘stone pillows’, Corporal Rowland lends a hand

Army life has provided plenty of opportunities for Corporal Elena Rowland, who enlisted into the Australian Regular Army in August 2004 as an environmental health technician in the Royal Australian Army Medical Corps. In that role, she deployed to Banda Aceh, Indonesia, in response to the Indonesian tsunami and to Fitzroy Crossing, Western Australia, as part of the Army Aboriginal Community Assistance Program.

In 2007, she represented the Australian Army in Exercise Long Look, where she was posted to many locations, including London, York, Aldershot and Edinburgh, and went on a two-week international peacekeeping exercise to Lithuania.

In 2009, Corporal Rowland transferred to the Royal Australian Army Dental Corps as a dental assistant and received the Student of Merit award on the completion of her Dental Assistants Course. At the end of 2009, she deployed to Indonesia on Operation Padang Assist in response to earthquakes. On that deployment, she received recognition for her hard work, selflessness and inspirational attitude in very hard and demanding conditions.

Following postings to Sydney and Darwin, Corporal Rowland is now posted to Brisbane. In April 2013, she set up a Facebook support page, ‘Women of the ADF’, to support women in Defence and promote her work for charities.

In 2013, Corporal Rowland pledged to stop homelessness among the veteran community and began devoting most of her spare time to organising fundraising and planning initiatives. With further research, she realised that the best way to raise awareness would be to walk in the veterans’ shoes, so she rallied others to join her sleeping on the street.

This is now known as 'Exercise Stone Pillow'. On 14 September 2013, Corporal Rowland, along with 25 other committed personnel, spent 24 hours on the street and managed to raise \$6,000 for Mates4Mates, an organisation dedicated to providing support for ADF personnel and their families. This year, Exercise Stone Pillow will be an integral part of Veterans Health Week, held in October. Funds raised will go to Remembrance House, a refuge for homeless veterans in Brisbane.

Corporal Rowland writes poetry about her experiences in the Army and the experiences of her mates. She plans to publish an Australian Army poetry book, with 100 per cent of proceeds going to veterans in crisis, especially the homeless.

In 2012, Corporal Rowland was awarded a Chief of Army Scholarship and conducted a tour of the battlefields of France.

She was commended by the Premier of Queensland for her work with Exercise Stone Pillow and was invited to meet the Duke and Duchess of Cambridge during a state conference luncheon.

Corporal Rowland is married, has a two-year-old son, and is currently studying for a degree in social science. In what little spare time she has, she enjoys playing volleyball and netball and going fishing, bushwalking and horse-riding.

The Anzac Spirit Lives On

Closing my eyes and breathing deep,
cold air running through my veins.
As dawn approaches, the sparrows call
my heart and soul untamed.
Looking forward, looking back
the Anzac Spirit lives on.
For it's built on the sacrifice of our men,
who fought but now are gone.
Emotions stirring deep within,
darkness fighting with the light.
For although it is a bloody past,
for our peace, these men did fight.
They fought for this, our country
and they fought for what they loved.
They kept pushing forward despite the fear,
through gas, and shells and mud.
Not only were our men at war,
but the war went home as well.
For their mums and dads and children too
were all walking this living hell.
Some men, they made it home alive
after the last post tune was played.
But some mums will wait forevermore,
their waiting all in vain ...
As the rising sun burns dawn away,
our past can rest, it's done.
Now all that's left to do is honour them,
the Anzac Spirit lives on.

Corporal Elena Rowland
Villers-Bretonneux, France
25 April 2014

Program 1.4

Air Force Capabilities

The Chief of Air Force, Air Marshal Geoff Brown, AO, is responsible and accountable to the CDF for the command of the Air Force and delivers Air Force capability for the defence of Australia and its interests. This encompasses the effective and efficient delivery of aerospace capability, enhancing the Air Force's reputation and positioning the Air Force for the future. He is also Defence's principal aerospace adviser on strategic matters.

The Air Force provides air and space power for Australia's security, and proved more than capable of responding to a wide spectrum of events in 2013–14.

The year provided a range of unique operational challenges for the Air Force, starting with the drawdown of Australian forces from Uruzgan Province in Afghanistan. C-130J and C-17A aircraft conducted up to 30 flights per week, lifting vehicles, personnel and equipment out of the country. Air Force security and base command personnel completed their final rotation providing security, infrastructure and utilities at Multinational Base Tarin Kot. In 2014, the Heron remotely piloted aircraft reached 20,000 operational flying hours since operations began in Afghanistan.

After a cyclone in the Philippines, the Air Force was called upon to transport emergency personnel from Australia to the devastated region, as well as cyclone-affected passengers within the Philippines. At the request of the United Nations, the Air Force helped deliver much-needed aid to South Sudan in the midst of a civil war. The disappearance of Malaysia Airlines flight MH370 resulted in Australia's largest maritime search off the west coast of Australia, where AP-3C Orions and an E-7A Wedgetail were at the forefront of the international search effort.

Despite constant operational demands, the Air Force continued its demanding exercise and training schedule at home and abroad. During exercises such as the East Coast Air Defence Exercise, Aces North and Red Flag, F/A-18A/B Hornets and F/A-18F Super Hornets flew more than 15,000 training hours in the skies above Australia and the United States.

Air Force people continued to perform with dedication and integrity, which earned them a host of Australia Day honours and international commendations for their efforts at home and abroad. The Air Force intelligence community celebrated its 50th anniversary at RAAF Base Edinburgh.

The 2013–14 financial year included a number of developments in future capability:

- The Government announced that a combination of P-8A Poseidon and MQ-4C Triton unmanned aerial systems will replace the AP-3C Orion.
- Australia's commitment to the Joint Strike Fighter Project continued. At least 72 F-35A Lightning II aircraft will eventually enter RAAF service.
- In Italy, the first RAAF C-27J Spartan launched on its maiden flight.
- The first RAAF pilot flew an EA-18G Growler in the United States.
- The first two RAAF pilots for the F-35A were announced at the Centenary of Military Aviation Air Show (see feature article following Table 3.14).

Table 3.12: Program 1.4 deliverables

Deliverable	Status
Prepare, sustain and lead assigned forces in operations to deliver capability to meet government requirements	Met
Provide air power options for the Government by meeting directed preparedness requirements while minimising resource expenditure	Substantially met Mitigation strategies are in place and resources are available to address the shortfalls.
In consultation with the Capability Development Group and the DMO, continue to plan, develop and monitor the delivery of, and transition to, new capability	Met
Provide timely, accurate and considered advice on Air Force capabilities to the Government, the CDF and the Secretary	Met
Engage with Government, the public, international partners, Defence Groups, industry, other stakeholders and Air Force members to maximise achievement of all outputs	Met
Deliver reform, including resource management and cultural change, without compromising capability, safety or airworthiness	Substantially met Significant progress has been made in implementing the New Horizon program, which has some long-term cultural reform goals that are in the early stages of being realised.

Table 3.13: Program 1.4 deliverables (flying hours)

Deliverable	Status
63 PC-9 17,852 hrs	Substantially met 84 per cent achieved (15,003.1 hrs). Underachievement was due to reduced student throughput at Number 2 Flying Training School, reduced qualified flying instructor numbers at Central Flying School, reduced public relations activities for the Roulettes, and sustainment funding pressures.
16 B300 King Air 350 11,400 hrs	Substantially met 87.9 per cent achieved (10,022.6 hrs). Underachievement was due to fleet-wide structural inspections and repairs, which affected operations for three weeks, and sustainment funding pressures.
12 C-130J Hercules 7,350 hrs	Met
6 C-17 Globemaster III 5,200 hrs	Met
5 KC-30A 3,100 hrs	Partially met 80.8 per cent achieved (2,505 hrs). Underachievement was due to reduced aircraft availability caused by the allocation of two aircraft to refuelling boom testing in Spain, hail damage, and continuing modification programs necessary to achieve final operational capability.
2 B737 BBJ 1,600 hrs	Substantially met 85.7 per cent achieved (1,370.6 hrs). Underachievement was due to BBJ heavy maintenance schedule, resulting in reduced aircraft availability.
3 CL-604 Challenger 2,403 hrs	Substantially met 86.1 per cent achieved (2,068.3 hrs). Underachievement was due to 2013 election tasking being less than planned.

Table 3.13 (continued)

Deliverable	Status
18 P-3 Orion 7,900 hrs	Met
6 E-7A Wedgetail 3,600 hrs	Substantially met 86.3 per cent achieved (3,107.7 hrs). Reduced flying hours were due to operational, test and evaluation activities to support progression to final operational capability. Current qualified crew numbers were fewer than final operational capability crew numbers, upon which the 3,600 hrs deliverable was based.
71 F/A-18A/B Hornet 13,000 hrs	Substantially met 91.9 per cent achieved (11,941.6 hrs). Full flying hours achievement was not accomplished due to a combination of training commitments, low student numbers and adjustments to remain within sustainment funding, and the need to manage aircraft fatigue through to the planned withdrawal of the Hornet.
24 F/A-18F Super Hornet 4,800 hrs	Substantially met 91 per cent achieved (4,369.1 hrs). Underachievement was due primarily to two significant periods of runway works at RAAF Base Amberley, and a temporary reduction of flying hours to support aircraft maintenance remediation.
33 Hawk 127 7,500 hrs	Substantially met 83.2 per cent achieved (6,241.9 hrs). Underachievement was due to a reduced student throughput, lower availability of qualified flying instructors, and late-notice cancellation of ADF support tasks.

Table 3.14: Program 1.4 key performance indicators

Key performance indicator	Status
Achieve levels of preparedness as directed by the CDF	Substantially met The Air Force did not meet all directed preparedness requirements. Mitigation strategies are in place and resources are available to address the shortfalls.
Meet the Government's operational requirements	Met
Generate and sustain forces for each current operation	Met
Achieve a level of training that maintains core skills, professional standards and baseline preparedness	Substantially met The Air Force did not achieve all the training targets to meet directed preparedness requirements. Mitigation strategies are in place and resources are available to address the shortfalls.
Provide timely, accurate and considered advice on Air Force capabilities to the Government, the CDF and the Secretary	Met

FEATURE |

First RAAF pilots to fly fifth generation aircraft

The first two Australian pilots selected to undergo F-35A training in the United States were announced this year by the Deputy Chief of Air Force, Air Vice Marshal Gavin (Leo) Davies.

The pilots will be trained to fly the F-35A Lightning II, commonly known as the Joint Strike Fighter.

Speaking in February at the home of Australian military aviation in Point Cook, Victoria, Air Vice Marshal Davies said the training represented an important milestone towards introducing the F-35A into Royal Australian Air Force (RAAF) service.

'It is fitting to announce the future of this capability here at Point Cook, where military aviation in Australia was born', he said.

'Our history is important, and these two pilots will make history as they become our first pilots to fly this fifth generation aircraft.

'Not only do they represent the future of the RAAF, they will have an important leadership and training role as future instructors for the F-35A', Air Vice Marshal Davies said.

Squadron leaders Andrew Jackson and David Bell, currently based at RAAF Base Williamtown in New South Wales, were selected for their operational flying skills, extensive experience and leadership. They will soon travel to the United States to commence their training.

'The F-35A will provide us with an incredible air combat capability. I'm excited to be given the opportunity to take a leading role in its introduction', said Squadron Leader Jackson, who is a qualified fighter combat instructor.

Squadron Leader Bell, a qualified test pilot, was equally impressed by the opportunity.

'This aircraft gives fighter pilots a level of situational awareness that far exceeds legacy platforms. It will be an honour to work alongside



The first RAAF pilots selected to fly the F-35A Lightning II, squadron leaders Andrew Jackson (left) and David Bell, in front of an F-35A Lightning II mock-up

the US Air Force and to be at the leading edge of delivering the F-35A to Australia', he said.

Australia has committed to 72 F-35A aircraft comprising three operational squadrons: two at RAAF Base Williamtown and one at RAAF Base Tindal. In addition, a training squadron will be based at RAAF Base Williamtown.

The RAAF's first F-35A was handed over in the United States in July 2014 and the first F-35A aircraft will arrive in Australia in 2018. The first squadron, Number 3 Squadron, will be operational in 2021 and all 72 aircraft are expected to be fully operational by 2023.

In the future, a fourth operational squadron will be considered for RAAF Base Amberley, making a total of about 100 F-35A aircraft.

Program 1.5

Intelligence Capabilities

The Deputy Secretary Intelligence and Security, Mr Stephen Meekin, oversees the activities of the three Defence intelligence agencies—the Australian Geospatial-Intelligence Organisation, the Defence Intelligence Organisation and the Australian Signals Directorate—and the Defence Security Authority including the Australian Government Security Vetting Agency.

During 2013–14, the Intelligence and Security Group met the majority of its deliverables and continued to deliver timely intelligence.

Of particular note was the key role the Australian Geospatial-Intelligence Organisation played in supporting the international search for Malaysia Airlines flight MH370 in the southern Indian Ocean.

The Defence Security Authority began developing a security risk management governance framework, which will embed a risk-based approach to security within Defence. The new framework will strengthen Defence's approach to security by formalising the reporting of security risks and guiding the application of security risk management across Defence management. The authority is streamlining the vetting process and implementing business efficiencies to reduce the gap between vetting capacity and demand.

The Cyber Security Operations Centre contributed to addressing the cyber security threat. Hosted at the Australian Signals Directorate, the centre continued to work closely within Defence and with other government agencies to ensure that Australia is both protected against emerging cyber threats and adequately positioned to meet the Government's requirement to implement the Top 4 Strategies to Mitigate Targeted Cyber Intrusions—a new mandatory requirement in 2013 under the *Financial Management and Accountability Act 1997*.

The Australian Signals Directorate established a dedicated team to engage actively with Commonwealth, state and territory governments to enhance their cyber security posture through threat assessments, security alerts, and guidance and defensive measures; revision of the *Australian Government Information Security Manual*; and vulnerability assessments.

The Group continued to play an active role in ADF operations and exercises.

The Group placed significant emphasis on ensuring that its activities were compliant with the *Intelligence Services Act 2001* and other relevant legislation. This was achieved through mandatory and comprehensive training and regular liaison with the Office of the Inspector-General of Intelligence and Security.

The Group maintained strong and effective international relationships, cooperating closely with its international intelligence and security partners. Defence intelligence collection and assessments are valued by the Group's international partners.

The Foreign Language Directive, released in April 2014, provides strategic policy direction for the management of Defence's foreign language capability, including foreign language training and testing of Defence personnel, management and administration of claimed and self-claimed language skilled Defence personnel, and governance and review of Defence's foreign language capability.

The Group continued its recruitment and retention strategies to ensure that skilled and experienced ADF and APS personnel were available. These strategies include targeted university recruitment drives, recruitment of graduates through the Intelligence and Security Development Program, incentives for staff with specific language and technical talents, and enhanced use of online recruitment tools.

Table 3.15: Program 1.5 deliverables

Deliverable	Status
Provide timely, accurate and high-quality intelligence and security support in accordance with government priorities to support the ADF, policy and wider security operations	Met
Deliver enhanced capabilities to better exploit next generation technologies, improve intelligence assessment, and enhance the security of the Government's information	Met
Provide advice and assistance to the Government on the security and integrity of electronic information, cryptography and communications technology	Met
Meet the Australian Government Security Vetting Agency's key performance results as specified in the agency's Service Level Charter	Partially met The agency met three of the four key performance indicators. The agency did not meet 45 per cent of KPI 1 — 'meet clearance benchmarks in 95 per cent of cases'—largely due to reform activities and problematic incorporation of a new ICT system.
Strengthen the management framework of the Australian Government Security Vetting Agency	Met
Provide management and strategic direction for Defence's foreign language capability	Met
Ensure the effectiveness of the intelligence and security governance and compliance framework	Met
Strengthen the workforce through targeted recruitment, retention and training initiatives	Met
Ensure effective and efficient transfer of expertise, capabilities and intelligence across key international partnerships, and strengthen collaboration with national agencies	Met
Contribute to reform outcomes	Met

Table 3.16: Program 1.5 key performance indicators

Key performance indicator	Status
Deliver intelligence and security services to meet Defence and government requirements	Met
Develop next generation intelligence, geospatial and security assessment capabilities including Geoint, Sigint and Cyber	Met
Strengthen the approach to security across Defence and government	Substantially met The Defence Security Authority is streamlining the vetting process and implementing business efficiencies in order to reduce the gap between vetting capacity and demand. This will allow a focus on the revalidation backlog, which will strengthen security across government by reducing personnel security risk.
Deliver strategic guidance and management support to meet Defence's foreign language requirements	Met
Achieve best practice in governance and compliance	Met
Ensure that the intelligence and security workforce is developed and skilled	Met
Deliver intelligence capability dividends through international and national partnerships	Met

Chief Operating Officer overview

The Associate Secretary and Chief Operating Officer (COO), Mr Brendan Sargeant, is responsible for strategic reform, support and policy advice to Defence. The role integrates the work of different parts of Defence to get more effective and efficient outcomes, particularly in the areas of service delivery.

The COO area consists of the Defence Support and Reform Group (Program 1.6), the Chief Information Officer Group (Program 1.7) and the Defence People Group (Program 1.8). The Reform and Corporate Services Division and the Defence Legal Division sit under Program 1.6 and report directly to the COO.

These Groups create and sustain the environment within which the people of Defence live and work. They do this separately and in combination by mobilising internal and external resources.

The core purpose of the COO is to orchestrate service delivery for the Defence organisation as a whole. This work is focused on ensuring that Defence can deliver its required outcomes and is exercised through:

- providing effective and efficient enabling services (including policy services)
- establishing standards and monitoring service delivery performance
- managing the Defence Corporate Plan, Defence Annual Plan, Strategic Risk Framework and organisational performance reporting system
- coordinating enterprise reform
- providing coordinated and substantive advice to the Defence ministers, the Secretary and the Chief of the Defence Force, offering practical, cost-effective approaches to fulfil the Government's defence responsibilities.

In 2013–14, a total of 7,029 submissions and items of correspondence were completed in support of Defence's ministerial team. Defence brought forward 38 cabinet submissions, memorandums and briefings to Cabinet and the National Security Committee of Cabinet for consideration. The minister was provided with 310 briefings on Defence's and other departments' submissions to Cabinet meetings.

Further information on reform is available in Chapter 6, Reform and cultural change.

Table 3.17: **Chief Operating Officer deliverables**

Deliverable	Status
Oversee, integrate and coordinate reforms	Met
Ensure that 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	Met
Promote and protect Defence's reputation by increasing public awareness of Defence activities and achievements and strengthening Defence capabilities in media-related activities	Met
Provide overarching strategic guidance, policy and supporting plans to implement the recommendations of the reviews into the culture of the ADF and Defence. Resourcing of individual initiatives in support of Pathway to Change comes from the individual Groups and Services, as appropriate	Met

Table 3.18: **Chief Operating Officer key performance indicators**

Key performance indicator	Status
The ministers are satisfied with the timeliness and quality of advice, including Cabinet documentation, provided by the department	Substantially met While overall timings were met, on occasion Question Time briefs were provided after the time nominated by the minister's office. Defence Cabinet submission processes have been revised to improve the timeliness of Cabinet submissions provided to the minister for agreement.

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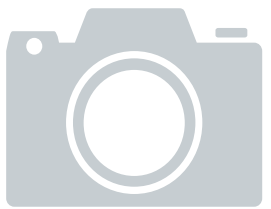
4,612 
**MEDIA
INQUIRIES**



**MORE
THAN 960**
VIDEO WEB CLIPS WERE
PRODUCED AND PUBLISHED

**A TOTAL OF
227** 
**PRODUCTIONS
WERE MANAGED
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**185,400 NEWSPAPERS
& MAGS READ ONLINE**

**MORE THAN
34,000** 
IMAGES WERE PROCESSED

**THE DEFENCE
IMAGE GALLERY
WAS VISITED
3.78** MILLION **TIMES**

 **THE
DEFENCE
INTERNET HOMEPAGE
WAS VISITED
2.31** MILLION TIMES

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Program 1.6

Chief Operating Officer—Defence Support and Reform

The Deputy Secretary Defence Support and Reform, Mr Steve Grzeskowiak, is responsible for delivering an agreed range of base infrastructure and corporate services that are fundamental to generating defence capability and preparedness.

In 2013–14, in consultation with stakeholders about priorities, the Group delivered a broad range of garrison and other base support services, achieving efficiencies and effectiveness in current contracts. Service provision included living and working accommodation for the annual rotation of 1,100 United States Marines and their equipment in northern Australia.

As part of the Australia-wide base services retender, the Group is progressively moving towards the standardisation of requirements across the Defence estate and the various products and services it delivers, while being responsive to Defence priorities. The retender project experienced delays due to the size, scope and complexity of base services contracts. The first five contracts were signed in July 2014 and the remaining contracts were signed in August 2014.

Reform activities initiated in 2012–13 achieved positive results. Travel reform resulted in increased use of the lowest fare of the day where possible, and a new relocations model delivered an annualised cost saving in Defence removals of approximately \$3.4 million.

The Group has managed, developed and sustained the Defence estate to support current and future defence capability. More information on the Capital Facilities Program performance is included in Chapter 11 and Appendix A.

Legal highlights in 2013–14 included the following:

- Defence legal officers provided legal advice, services and assistance in the Middle East and South Sudan, as well as to other domestic, regional and minor ADF operations and exercises. This included advice and support to commanders on a range of international and domestic legal issues that affected the conduct of operations and exercises. There was also liaison with the International Committee for the Red Cross about best practice for the conduct of certain types of military activities in conflict zones.
- The legal support included support to ministers, the Government and Defence senior leaders, advocacy services for members, and support to ensure lawful functioning of the ADF military discipline and administrative systems.
- Defence legal officers assisted with Defence's support to the Defence Abuse Response Taskforce and the Royal Commission into Institutional Responses to Child Sexual Abuse.

Service provision included living and working accommodation for the annual rotation of 1,100 United States Marines in northern Australia.

Table 3.19: Program 1.6 deliverables

Deliverable	Status
Ensuring that Defence Ministers, CDF, Secretary and Government are provided with quality and timely advice and support to enable them to carry out their duties efficiently	Substantially met Not all advice was as timely as it should have been.
Provision of high-level integration, coordination, reporting and oversight of the Strategic Reform Program	Substantially met In September 2013, the former Minister for Defence agreed to the new Strategic Reform Operating Model to replace the Strategic Reform Program. The Defence Strategic Reform Benefits Framework requires Defence to adopt a benefits realisation model for the design, implementation, monitoring and measurement of existing and future strategic reform activities.
Ensure that Defence input to Cabinet and the National Security Committee of Cabinet is timely, relevant and appropriately robust	Substantially met Defence Cabinet submission processes were revised to meet the requirements of the new Government and minister.
Promote and protect Defence's reputation by increasing public awareness of Defence activities and achievements and strengthen Defence capabilities in media-related activities	Met
Ensure that Defence complies fully with its obligations under the Archives and Freedom of Information Acts, including the pro-disclosure and accessibility requirements of the Information Publication Scheme	Substantially met Defence has complied with the requirements of the Archives and Freedom of Information Acts. Defence's Information Publication Scheme is currently being reviewed and updated.
Provision of specialist legal support to Defence and legal support for ADF operations	Met
Continue to implement reforms to the Military Justice System	Substantially met Defence is pursuing reforms to the military discipline and administrative systems as part of recent external and internal cultural and military justice reviews. Policy work continues on proposed amendments to the <i>Defence Act 1903</i> and the <i>Defence Force Discipline Act 1982</i> to modernise the military justice system. The amendments will enhance the independence and expand the functions of the Inspector General of the Australian Defence Force (IGADF), as well as making changes to disciplinary, complaints and administrative processes.
Formulation of concept, policy, legislation and procedure for the Defence legislative program, including a new Chapter III military court	Substantially met The Military Court of Australia Bill (and related Bills) lapsed on the prorogation of Parliament on 5 August 2013. The interim arrangements for courts-martial and Defence Force magistrate trials remain in place. Policy work continues to update the powers of Defence investigators who are investigating military offences. Legislative and regulatory change is being pursued to introduce a dedicated set of IGADF regulations, and to modernise and simplify the Defence Force Regulations 1952, the Defence (Inquiry) Regulations 1985, and the Defence (Personnel) Regulations 2002.

Table 3.19 (continued)

Deliverable	Status
Formulation of possible alternative approaches to internal fact-finding and inquiry processes across Defence	<p>Substantially met</p> <p>Defence concluded Rethinking Systems of Inquiry, Investigation, Review and Audit within Defence—a comprehensive review into existing internal fact-finding, inquiry, investigation and audit processes. Key changes include a restructure of the ADF's investigative and internal complaint management resources, as well as amendments to related policies and inquiry practices. The completion date for the implementation is 30 June 2015.</p> <p>Flexible and simple internal fact-finding and inquiry processes will support fair, timely and cost-effective decisions.</p>
Continue to drive reform and improve business outcomes in areas including non-materiel procurement, estate shared services and base support	<p>Partially met</p> <p>The focus has been on the base services retender, which aims to introduce long-term reforms within the current business lines of estate maintenance and garrison support. The rollout of the new contracts is scheduled for completion by the end of 2014.</p> <p>Improved business outcomes in base support delivery will be achieved through the implementation of service-level partnering agreements with each of the Services and Groups. The agreements are planned to be completed by the end of 2014.</p>
Provision of non-materiel procurement and contracting advice and support, and continuation of the improvement of procurement practices across Defence	Met
Provision of nationally delivered whole-of-Defence corporate services, including stationery, printing and publishing, library services and travel	Met
Provision of garrison and other base support services to support Defence bases and establishments throughout Australia, including annual rotations of United States Marine Corps to northern Australia	Met
Implementation of Defence Support and Reform Group elements of the Base Security Improvement Program	<p>Substantially met</p> <p>Of the 33 recommendations, 31 have been completed. The final two are well advanced and are linked to longer term projects involving security-related base infrastructure works and the identification, search and seizure regime at key facilities. Expected completion is on track for mid-2015.</p>
Maintain single service, joint, combined and coalition capability by providing range control and estate development services and coordinating support to major domestic operations and exercises	<p>Substantially met</p> <p>The Group maintains range control services at all training areas and ranges managed by the Group to support single service, joint and combined training activities. Forecast improvements to the program of works and maintenance will better support the ageing training estate.</p>
Support domestic response capabilities through Joint Operations Support Staff services, including internal and inter-departmental engagement for Defence Assistance to the Civil Community and Defence Force Aid to the Civil Authority	Met

Table 3.19 (continued)

Deliverable	Status
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 the <i>Work Health and Safety Act 2011</i> , <i>Environment Protection and Biodiversity Conservation Act 1999</i> and other statutory requirements	Substantially met The Group continues to deliver the major capital facilities program, the facilities lease program and the property disposal program. The program of activity remains responsive to budget and scope changes. In delivering the program, areas of non-compliance are being addressed as they are identified.
Deliver estate priorities identified in the <i>2013 Defence White Paper</i>	Met
Deliver the estate investment program, the 2013–14 Major Capital Facilities Program	Substantially met The 2013–14 Major Capital Facilities Program achieved its expenditure target, delivering \$1.286 billion of capital facilities projects. Some projects were affected by schedule delays; however, the overall impact to future and current operational capability is considered to be minimal.
Deliver an estate strategic planning document to improve estate planning outcomes and prioritise estate investment decisions to support current and future capability	Met
Promote and manage Defence's environmental stewardship obligations as outlined in the Defence Environmental Strategic Plan 2010–2014	Met
Enhance Defence's governance framework through clearer authority and accountability and more rigorous performance management, risk management, assurance and audit processes ⁽¹⁾	Substantially met More rigorous risk and performance reporting was instituted through the Defence Annual Plan and the Defence Enterprise Report, providing stronger alignment between the enterprise priorities, material risks and the internal audit work program.
Align Defence's corporate, enterprise risk and strategic planning functions, including through Defence's annual and corporate plans	Substantially met Enhancement of the Enterprise Management System focused on improving the quality of enterprise reporting against the annual plan and a refresh of the Defence Corporate Plan 2012–17 to align enterprise priorities with current financial guidance.
Ensure that Defence's corporate strategy aligns with government direction and priorities, including fiscal policy	Partially met More improvements are required to fully align strategy, planning and resource allocation. This work will continue as a priority in 2014–15 in line with the development of the Defence White Paper 2015, the First Principles Review and the implementation of the <i>Public Governance, Performance and Accountability Act 2013</i> .
Development of the Defence Information Management Strategy and a subordinate Information Management Plan to progress the development of an information management capability across Defence	Substantially met The Defence Information Management Strategy was approved by the Defence Committee in March 2014. The Information Management Plan is currently being developed.

Table 3.20: Program 1.6 key performance indicators

Key performance indicator	Status
Improve business outcomes as part of broader Defence reform, including ongoing implementation of an enhanced enterprise planning system and the revised responsibilities and accountabilities for base support	<p>Partially met</p> <p>The Group continues to reform its service delivery, standardising and providing consistent services, and improving contract management. Reform has occurred in business lines such as removals and hospitality and catering.</p> <p>The base services retender, although incurring some slippage, is scheduled to transition to all successful tenderers by the end of 2014, delivering supply-side efficiencies in service delivery, a rationalisation of the number of contracts and improved competitive tension between contractors.</p>
The Ministers are satisfied with the timeliness and quality of advice, including Cabinet documentation, provided by the Department	<p>Substantially met</p> <p>On occasion Question Time briefs were provided after the nominated time required by the minister's office.</p> <p>Defence Cabinet submission processes have been revised to improve timeliness.</p>
Deliver products and services on time and on budget to support the development and delivery of Defence capability	Met
Develop industry engagement and collaborative relationships to ensure the effective and efficient delivery of products and services	Met
Provide ADF members with high-quality service residences, relocation and travel services using cost-effective and robust contract arrangements	Met
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>Substantially met</p> <p>The program of activity remains responsive to budget and scope changes. In delivering the program, identified areas of non-compliance are being addressed as they are identified.</p>
Maintain a robust liaison network with inter-departmental and internal agencies to prepare for domestic response operations	Met
Support ADF operational capability, including through the deployment of ADF lawyers to provide access to relevant and timely legal support	Met
The Defence Information Management Strategy is developed and endorsed, the first iteration of the Defence Information Management Plan is developed and endorsed, and implementation is underway	<p>Substantially met</p> <p>The Defence Information Management Strategy was approved by the Defence Committee in March 2014. The Information Management Plan is currently being developed.</p>

Program 1.7

Chief Operating Officer—Chief Information Officer

The Chief Information Officer, Dr Peter Lawrence, is responsible for ensuring that Defence has dependable, secure and integrated information and communications technology (ICT) to support Defence business and military operations.

A major component of Defence's ICT capabilities is the Defence Single Information Environment, which encompasses:

- Defence's computing and communications infrastructure, along with the management systems and people that deliver this infrastructure (which includes the computing networks, business applications and the data that they generate and carry)
- Defence's communication standards and spectrum required for battlespace networks
- the ICT infrastructure that supports Defence intelligence, surveillance, reconnaissance, communications, information warfare, logistics, command and management.

The Group is undertaking a large-scale transformation program that will simplify, standardise and modernise Defence's ICT capability in order to support the integration of future technologies, and ensure the longevity of Defence ICT capability into the future.

The following major transformation programs and projects will deliver a more productive, secure and cost-effective ICT capability to support Defence business and military operations:

- Terrestrial Communications
- Centralised Processing
- Next Generation Desktop
- IT Service Management Transformation
- Standalone Network Remediation
- JP 2080 Phase 2B.1—Defence One (Defence's new human resource and payroll system).

Key achievements during 2013–14 were:

- The Terrestrial Communications project has begun transforming Defence's telecommunication networks, including better integrating fixed telecommunications with satellite and tactical networks. The project has completed facility audits of more than 240 sites across Defence.
- In May 2014, a preferred tenderer was selected to deliver the Centralised Processing Project to Defence. The project will consolidate Defence's applications and associated ICT infrastructure from 280 data centres to 11 domestic and three international centres.
- The Next Generation Desktop project began the upgrade of the Defence Secret Network. Forty-four per cent of Defence Secret Network users have been migrated to the Next Generation Desktop environment. The project is the largest upgrade to the Defence Secret and Restricted Networks in a decade.
- The consolidation of services in accordance with the ICT Shared Services Program continued. The IT service management, assurance compliance and improvement, technical services, commercial services and asset management reforms were endorsed by the Chief Information Officer Group Executive. The review, approval and consolidation of the remaining ICT streams are underway.
- JP 2080 Phase 2B.1—Defence One launched the PMKeyS Self-Service Home Portal in February. This capability allows Defence employees who do not have direct access to the Defence Restricted Network to access various aspects of PMKeyS. The project will deliver an enterprise-wide human resource management system that will combine ADF and APS payroll into one system for the first time.
- In conjunction with the Intelligence and Security Group, the Chief Information Officer Group has established a joint mentoring program. The program encourages employees from both Groups to establish longstanding mentoring relationships and encourages staff development
- The Group continued to evolve the sharing and collaboration framework with our Five Eyes partners.

Table 3.21: Program 1.7 deliverables

Deliverable	Status
Support to military operations: <ul style="list-style-type: none"> 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 	Met
The ICT reform projects, including security and the realisation of the Single Information Environment (SIE): <ul style="list-style-type: none"> the Defence ICT reform projects are the principal vehicle for the management and delivery of the Defence ICT Strategy. The ICT Reform Program is building an improved SIE and governance framework that can effectively support Defence war fighting and business reform objectives through to 2030. The reform projects including Centralised Processing, Terrestrial Communications, Next Generation Desktop and Defence's new HR and payroll system (JP 2080 Phase 2B.1—Defence One) will ensure Defence ICT support for military and civilian customers now, and into the future 	Partially met The Centralised Processing and JP 2080 Phase 2B.1—Defence One projects have both experienced schedule delays. ICT security remains short of where we need it.
Maintenance of essential business-as-usual (BAU) ICT operations and services: <ul style="list-style-type: none"> continue to support BAU ICT operations and services which include communication lines, data centres, software licences, provision of work stations, help desk services, printers, faxes and phones continue to plan and implement ICT shared services deliver ICT services in accordance with the Defence ICT Services Delivery Charter and maintain the integrity and security of the Defence SIE 	Met
Approved Defence Capability Plan, Major Capital Facilities, and other approved projects and system enhancements: <ul style="list-style-type: none"> to deliver the ICT elements of endorsed projects and system enhancements and ICT work plans developed through regular engagement with customer representatives 	Substantially met The Terrestrial Communications project experienced some schedule slippages.

Table 3.22: Program 1.7 key performance indicators

Key performance indicator	Status
ICT capabilities are developed and sustained in accordance with agreed stakeholder priorities	Substantially met Some capabilities were unable to be met due to resource constraints.
Strategic investment in consolidated networks, infrastructure, service-oriented architecture, applications and information management enables transition to a SIE	Partially met The Infrastructure Transformation Program was established to manage overlaps, dependencies and constraints of Defence's key ICT reform projects. To date, 44 per cent of Defence Secret Network users have been migrated to the Next Generation Desktop environment.
ICT security is maintained to an appropriate level	Partially met Partial implementation of the Australian Signals Directorate's top four mitigations was achieved in 2013–14.
ICT shared services reforms are effective in reducing costs and increasing productivity across Defence	Substantially met Reforms continue in accordance with the Defence shared services agenda.
ICT services and service support are delivered in accordance with the Defence ICT Services Delivery Charter and the Defence ICT Services Catalogue	Met

Driving Defence's information and communications technology

Aiyaswami Mohan (known as Mohan) commenced the role of Chief Technology Officer in June 2014 giving him responsibility for the Defence Information and Communications Technology strategy, technology roadmaps, architecture, and delivery of ICT systems and applications in line with Defence's goals and strategies. He also leads the Group Commercial function in the Chief Information Officer Group, and as the Chief Information Security Officer he also manages and governs the information security landscape.

As Chief Technology Officer, Mohan provides guidance and support to Defence on projects of strategic significance, promoting technology awareness and competence throughout the organisation. He ensures applications are built and integrated in line with the architecture for applications and infrastructure, which is aligned with the Single Information Environment objective.

He has a Bachelor of Engineering with training in the areas of technologies, leadership, and financial and project management.

Before joining the Australian Public Service, Mohan enjoyed a long career in the private sector ICT industry working for Toll Group, Optus, Satyam Computers, Coles Myer, Mercator Software, Haltek and Citicorp India.

In his first job as a software engineer, he led a technical team that implemented the automated passenger reservation system for Indian Railways, which was voted Project of the Century. He has held several roles since then, in all areas of information technology. Mohan conceived, developed and implemented groundbreaking technology products and solutions as part of his roles at Haltek, HiServ, Mercator and Satyam.

PROFILE | Aiyaswami Mohan



He led the enterprise integration function at Coles Myer during its transformation program and the enterprise architecture transition program for Optus. More recently, Mohan was responsible for all aspects of ICT strategy, enterprise architecture, technology innovation and planning for Toll Group (an Australia-based global logistics company) including leading the Toll Group's information security and risk management.

He said he was looking forward to using his previous experience to improve the ICT capability the Chief Information Officer Group provides for Defence.

Mohan is married with one daughter. A true sports enthusiast, he likes to watch the cricket and AFL and enjoys a game of tennis. He also loves to cook curries, and enjoys watching movies and reading books in his mother tongue (Tamil) and spending time with his family.

Program 1.8

Chief Operating Officer—Defence People

The Deputy Secretary Defence People, Ms Rebecca Skinner, is responsible for the delivery of sustainable people capability to support Defence's key outcomes, and leading workforce and shared services reform in the human resource function across the organisation.

People are fundamental to Defence capability. Defence seeks to ensure the delivery of the right mix of ADF, APS and contracted personnel with appropriate skills and commitment. In 2013–14, the Defence People Group's primary objective was to continue to deliver a sustainable and agile people capability to support the achievement of Defence's outcomes to deliver shared services in the human resources function for the APS workforce, and to coordinate and implement cultural reform across the organisation.

During 2013–14, the two key initiatives to manage and develop Defence APS employees—the APS Core Capability Framework and the Job Families Project—continued to be implemented.

The Defence employment offer has been reviewed regularly to ensure that it is dynamic and can attract and retain Defence's share of the best available people for the workforce. Defence has separately developed 'deliberately differentiated offer' methodology to improve its retention of critical occupations through individual and group incentives. Critical skills shortfalls will be addressed through a well-targeted package of cost-effective measures embracing both financial and non-financial elements of the employment offer. Efforts will continue to create, improve and sustain a fair, inclusive, respectful and diverse workforce and, in particular, to increase representation and employment opportunities for women and Indigenous Australians in Defence.

The People in Defence strategy continued to be the strategic blueprint for achieving key people outcomes. The strategy will be revised in line with the Defence White Paper and Force Structure Review in the coming year.

Cultural reform objectives remained a high priority in 2013–14, and 84 per cent of 175 key actions from six cultural reviews are being implemented. Key achievements have included:

- the establishment of the Sexual Misconduct Prevention and Response Office (SeMPRO)
- the release of the ADF alcohol management strategy
- a significantly enhanced focus on improving diversity and inclusion within both the APS and the ADF.

The Defence People Group will continue initiatives to implement, embed and maintain the changes needed to achieve the desired cultural effect. This will lead to a more capable organisation. During 2013–14, the ADF female participation rate increased from 14.4 per cent to 15 per cent—the highest rate that the ADF has ever recorded.

The Group continued to implement human resources shared services reforms during 2013–14 to deliver consistent, efficient and professional services, and also supported the strategic reform planned within Defence.

The ADF female participation rate increased from 14.4% to 15%—the highest rate that the ADF has ever recorded.

Table 3.23: Program 1.8 deliverables

Deliverable	Status
Provide timely, accurate and high-quality advice on key people issues to the Secretary, Chief of the Defence Force and the Government	Substantially met Not all advice was as timely as it should have been.
Complete the projects and initiatives described in the people chapter of the Defence Annual Plan in order to deliver a 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 our commitments to our people an effective and efficient people system, using shared services 	Substantially met Defence continues to reform its HR shared services to improve their effectiveness, noting that the first round of saving efficiencies has been achieved.
Deliver group-specific reforms and cost reductions	Met
Coordinate and facilitate the Defence-wide implementation of Pathway to Change and cultural reform	Met
Develop an evaluation framework to measure the achievement of desired cultural effects resulting from the implementation of Pathway to Change and cultural reform across Defence	Met
Facilitate access by the Defence Abuse Response Taskforce to information and records held by Defence	Met
Fulfil departmental accountability for Defence's payroll systems	Met
Continue development of enhanced support to Defence families through a national service delivery model	Met
Process applications for Defence medals that reward excellence, achievement and outstanding service	Partially met Some time frames were not met.
Provide comprehensive services and support to managers, APS staff and ADF members in relation to sensitive and complex personnel issues	Met
Conduct ADF recruiting	Substantially met Defence Force Recruiting permanent force entry: <ul style="list-style-type: none"> target: 5,824 total inquiries: 80,087 formal applications: 18,483 Reserve force entry: <ul style="list-style-type: none"> target: 1,997 total inquiries: 21,300 formal applications: 2,873
Coordinate and facilitate the implementation of the Defence Work Health and Safety Strategy 2012–17	Met
In conjunction with the Department of Veterans' Affairs, coordinate the measures designed to provide seamless support to wounded, ill and injured members of the ADF	Met
Develop a systematic approach to developing and professionalising APS leaders in Defence	Partially met The Defence APS Career and Talent Management System based on core capabilities and Job Family occupations is in place. Components of Job Family skilling strategies are at various stages of maturity.
Publish an endorsed, corporate-level Diversity and Inclusion Strategy	Met

Table 3.24: Program 1.8 key performance indicators

Key performance indicator	Status
Advice to the Secretary, Chief of the Defence Force and Government on people issues is timely and of a high quality	Substantially met Not all advice was as timely as it should have been.
Projects and initiatives described in the people chapter of the Defence Annual Plan, which are aimed at delivering a sustainable people capability in Defence, are completed in a timely manner and achieve the desired outcomes	Met
Implementation of Pathway to Change across Defence, consistent with the timeframes outlined in supporting implementation strategies	Met
Timely and responsive facilitation of access to Defence information and records by the Defence Abuse Response Taskforce	Met
Human resource workforce and shared services reforms are effective in reducing costs and improving efficiency	Substantially met Defence continues to reform its HR shared services to improve their effectiveness, noting that the first round of saving efficiencies has been achieved.
Provide professional support services to ADF members and families, including delivery of family support programs and bereavement support in the event of death and serious casualties	Met
Ensure timely recognition of ADF members, ex-serving members and APS employees in accordance with the Australian and Imperial Honours and Awards systems, and civilian long-service recognition and commendation schemes	Partially met The Directorate of Honours and Awards aims has met its three-month time frame for serving ADF and APS members. For discharged ADF members, time frames vary from four to nine months.
ADF recruiting achievement	Substantially met Defence Force Recruiting permanent force entry: <ul style="list-style-type: none"> target: 5,824 applicants enlisted: 5,477 enlistment achieved: 94 per cent Reserve force entry: <ul style="list-style-type: none"> applicants enlisted: 1,104 enlistment achieved: 55 per cent
Defence Work Health and Safety Strategy 2012–17 implementation milestones are achieved on schedule	Met
Measures to provide seamless support to wounded, ill and injured members of the ADF are implemented according to schedule	Met
A suite of leadership development programs targeted at key career transition points is operating, and skills are improved in occupational groups	Substantially met Leadership development programs are operating. Skills improvement in occupational groups continued.
Implementation of the Diversity and Inclusion Strategy, consistent with the timeframes outlined in supporting implementation plans	Substantially met Groups and Services have provided updates on the results of initiatives within their supporting implementation plans, and many initiatives are underway or complete. A gap analysis will be undertaken to determine where action needs to be focused.

PROFILE | Rebekah Stefenac

Rebekah finds an inclusive culture at Defence

Service: Australian Public Service

Group: Defence People Group

Age: 20

Birthplace: Westmead, NSW

'My mum was adopted out as a child and lost contact with her Aboriginality until she was much older. I was seven when I found out I was Aboriginal and had many relatives I didn't even know about. Since then I've established strong relationships with my Aboriginal family and I've cherished my time with them.

'Dad is a lovable man but has a very fiery spirit. I'll never forget my uncle's wedding, when I saw how determined he can be. Only four kids from the whole family were allowed to go because they were over 15, but my dad wasn't going to let that stop his younger kids from going.

'During high school, I coordinated lots of Indigenous student events across New South Wales. On some occasions, people tried to prevent that happening because they felt uncomfortable about it. Whenever this happened, I was always more determined, and I surprised myself with how hard I'd work to make sure the events went ahead. Looking back on it, I think I showed the same kind of determination displayed by my dad when I was growing up.

'Soon after I turned 19, my mother gave me the idea to work for the Government, so I applied to the Australian Public Sector Indigenous Traineeship Program. I chose Defence and was accepted. Since then, it's opened a lot of doors for me that I wouldn't have found anywhere else.

'During my traineeship, I moved across a few areas of Defence such as the National Integrated Panelling Authority and into the Enlistments Cell, all of which are a part of Soldier Career



Management. At the end of my traineeship, I transferred and I am currently working as an APS 3 administrative officer in the APS Talent Management Team.

'In this role, I assist in the delivery and evaluation of Executive Level 2 and Executive Level 1 development programs. I also assist with collating forms, résumés and with the administrative aspects in the delivery of information sessions for participants as well as liaising with the Canberra-based project managers.

'I wanted to work in Defence because of its culture: it's very positive and inclusive and that makes me strive to continue to be a part of it.'

Program 1.9

Defence Science and Technology

The Chief Defence Scientist, Dr Alex Zelinsky, is the primary adviser to the Secretary and the CDF and, through their offices, portfolio ministers and the Government on defence-related science and technology matters. He leads the Defence Science and Technology Organisation (DSTO) in providing science and technology support for Australia's defence and security needs.

In support of military operations, DSTO deployed to the Middle East Area of Operations nine operations analysts directly supporting commanders, as well as six fly-away teams that enhanced ADF capability and force protection. Soldier protection technology developed by DSTO has been transitioned to Australian industry and is now being procured by allied nations.

DSTO's science and technology program includes a specific focus on sustaining the current force. Highlights in 2013–14 included the Collins class submarines remedial program and hull structure remediation of Armadale class patrol boats, as well as reducing the cost of ownership of Army vehicle fleets through vehicle health and usage monitoring systems and condition-based maintenance regimes. A major upgrade to the Jindalee Operational Radar Network has taken significant DSTO research and development into operational capability, resulting in enhancements to coverage, processing capacity, electronic warfare, airfield surveillance and spectrum usage. Budget management and rebalancing within the department resulted in DSTO reprioritising its overall research program in consultation with Defence clients, which led to lower-priority deliverables being deferred or cancelled.

DSTO provided technical risk advice for 30 Defence Capability Plan projects proceeding to the Government for decision and technical risk certification for 24. This has increased awareness of technical risks for decision makers in Defence and the Government and enhanced the risk management of major projects.

DSTO's Strategic Research Investment program aims to provide game-changing capability for Defence by investing in the organisation's science and technology capabilities. The focus is on potential high-impact areas of bioterrorism preparedness; cyber warfare and security; future electronic warfare; future undersea warfare; hypersonics; intelligence, surveillance and reconnaissance; signatures, materials and energy; blast modelling and explosives; autonomous systems; and space systems. The program continues to leverage and foster interactions with industry, academia, and Australian and overseas research bodies.

DSTO led a whole-of-government effort that scoped the need for a national security science and technology policy framework and supporting program.

DSTO capabilities in cyber security, chemical–biological defence, intelligence analysis, blast modelling and explosives were provided, as part of Defence's contribution, to higher-priority national security tasks.

Highlights of DSTO's enhanced engagement with industry and academia and with partner nations included:

- introduction of Defence Science Partnerships, which provide a common framework for Defence to engage with Australian universities
- execution of new strategic industry alliances with eight major defence companies
- establishment of the Defence Innovation Realisation Fund, and government agreement to the initial tranche of projects
- approval of seven collaborative projects with Australian industry under the Capability and Technology Demonstrator Program
- agreement with Japan to cooperate on a project in the field of marine hydrodynamics.

Table 3.25: Program 1.9 deliverables

Deliverable	Status
Provide timely, accurate and expert science and technology advice on Defence and national security related matters to the Secretary, the Chief of the Defence Force and the Government	Met
Provide effective, relevant and timely: <ul style="list-style-type: none"> science and technology solutions and technical support to military operations, to the current force and to national security agencies' operations and capabilities science and technology support to capability development and acquisition decision making, including technical risk assessment and certification for Defence Capability Plan projects 	Substantially met Deliverables in support of operations were rated <i>met</i> , while current force and national security deliverables were <i>substantially met</i> , with Defence clients agreeing to defer or cancel some medium and lower priority tasks.
Deliver a program of strategic research aimed at enhancing future Defence and national security capabilities and maintaining the organisation's world-class research expertise and facilities	Met
Further develop strategic partnerships with external organisations, in particular international partners, local industry and academia; promote defence science and education in the broader Australian community	Met
Contribute to Defence reform outcomes by continuing to seek and implement improvements to DSTO leadership, business and culture, including fostering diversity and gender equality. Identify and evaluate technologies that facilitate efficiencies and savings in the development, operation, repair and maintenance of ADF platforms	Met

Table 3.26: Program 1.9 key performance indicators

Key performance indicator	Status
Advice to Defence and the Government on science and technology matters is valued and contributes to better Defence and national security outcomes	Met
The applied research program is strategically balanced in meeting the needs of Defence in support of operations, the current force, capability development and acquisition, and the needs of national security agencies	Met
Research program outputs are well suited to enhancing Defence and national security capability, treating risks and saving resources	Met
The strategic research is focused on supporting future Defence capability and on providing game-changing capability for Defence in the longer term, to both prevent and create strategic surprise	Met
Program outcomes are delivered on time, in scope and within agreed resources	Substantially met Budget management and rebalancing within the department led to Defence clients agreeing to some medium and lower priority tasks being cancelled or deferred.
DSTO's science and technology capability is contributed to by: <ul style="list-style-type: none"> a workforce with world-class expertise and facilities, measured through benchmarking and client feedback appropriately leveraged science and technology engagement and partnerships with international defence research organisations, industry and academia 	Met

Program 1.10

Vice Chief of the Defence Force

The Vice Chief of the Defence Force, Vice Admiral Ray Griggs, AO, CSC, RAN, was appointed on 1 July 2014, following the promotion of Air Chief Marshal Mark Binskin to CDF. He is the military deputy to the CDF and acts under standing arrangements as the CDF in his absence. The VCDF's responsibilities include providing strategic-level management and situational awareness of current and potential ADF commitments for Defence and other government agencies; joint military professional education and training; joint and combined ADF doctrine; joint capability management policy; joint logistics; joint health; input to joint capability development; policy, governance and the accountability structure for the ADF Cadet Scheme; and initiatives to develop the capacity of the ADF Reserves to support ADF capability.

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 is responsible for the Australian Civil–Military Centre, which supports Australia's peace, stability and humanitarian operations overseas. It is also responsible for the ADF Parliamentary Program, the Federation Guard, ADF ceremonial activities, Strategic Communications Branch and the Counter Improvised Explosive Device Task Force.

The Group is committed to driving cultural reform in line with Defence's Pathway to Change program.

The Group's key achievements in 2013–14 included:

- delivery of a whole-of-government lessons learned capability
- implementation of the National ADF Family Health Program on 1 January 2014, following a four-and-a-half-year trial
- establishment of a Fuel Services Branch to provide Defence with a whole-of-enterprise approach to fuel services and remediation
- training of more than 1,000 undergraduates and 1,100 postgraduates; in addition, more than 3,740 students completed ADF short courses through the Australian Defence College
- completion of Phase 1 of the workforce reforms under Project Suakin
- introduction of the ADF Alcohol Management Strategy and Plan 2014–17 on 4 June 2014.

The 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.

Table 3.27: Program 1.10 deliverables

Deliverable	Status
Lead the preparation of departmental military strategic advice to the Government via ministerial submissions, ministerial representations, Question Time briefs and Cabinet submissions	Met
Provide military strategic expertise to CDF in order to prepare direction from CDF to subordinate headquarters	Met
Deliver agreed savings and reforms within the VCDF Group, including in the areas of logistics, reserves, and preparedness and personnel and operating costs	Substantially met Preparedness and personnel and operating costs reform outcomes were achieved, with the exception of implementation of the defence preparedness management information system, which will continue through to final operational capability in 2018–19.
Deliver coordinated logistic advice and services to the ADF, and provide oversight and assurance of the Defence logistic capability	Met
Provide policy advice and deliver services to optimise the health of ADF personnel	Substantially met The following targets were delayed, but are being appropriately managed: <ul style="list-style-type: none"> • evaluation of initiatives from the ADF Mental Health and Wellbeing Strategy • converting the ADF health portal for use on the internet.
Provide Defence, inter-agency, combined and joint capability coordination and preparedness management	Substantially met An interim Joint Force Battle Laboratory capability has been substantially (but not fully) established; coordination to make this a permanent capability continues.
Build and sustain a learning environment that links education, training and skilling to Defence capability	Substantially met Defence education and training reform continues, with renewed emphasis on ICT enablement and policy development.
Enhance capacity of Reserves to support Defence capability	Met
Provide a coordinated, coherent and well-governed approach to youth development programs in the Australian Defence organisation in order to provide a positive youth development experience	Met
Promote best-practice civil–military engagement through the Australian Civil–Military Centre	Met

Table 3.28: Program 1.10 key performance indicators

Key performance indicator	Status
Timely, accurate and widely consulted advice provided to the Government	Met
High level of engagement with Joint Operations Command, International Policy Division, Strategic Policy Division, Australian Civil–Military Centre, and other government agencies, for operational matters	Met
Advice is readily sourced and made available to the offices of the CDF and VCDF to support strategic decision making	Met
ADF operational tempo is managed within concurrency constraints	Met
Group-specific reform and savings have been achieved	Met
ADF operations and exercises receive effective logistics and health support and services	Substantially met Joint Health Command has worked closely with the DMO to coordinate the remaining deliverable hardware initiatives for Joint Project 2060 2B (deployable healthcare), which has project closure currently programmed for December 2015.
ADF joint and combined operational capability is enhanced	Substantially met Joint Capability Coordination has contributed to various international capability forums, including Counter Improvised Explosive Device, battlespace awareness, and interoperability with Singaporean Armed Forces, US Strategic Command and UK Joint Forces Command for capability concepts and enhancement.
Delivery of learning outcomes that deliver the skills required for defence capability	Met
Planning and policy frameworks for the contribution of the Reserves to Defence and the wider community are enhanced	Met
Governance and accountability frameworks enhance the youth development experience within the ADF Cadets and the Defence Work Experience Program	Substantially met Work on governance and accountability frameworks continues.
Australian Civil–Military Centre delivers its goals effectively and efficiently in accordance with government instructions	Met
Timely, accurate and widely consulted advice on nature of service classifications	Met
Timely and accurate advice on strategic communications	Met
ADF investigations are supported by effective and efficient administration	Substantially met ADF investigators focused on serious and complex investigations in domestic and offshore settings. Support from information and records management staff enabled the ADF to meet a number of strategic outputs, including government objectives. There has been a significant increase in requests for information during this period while average staffing levels were at 80 per cent.
Group-specific outcomes and programs are delivered on time and within agreed resources	Met

Program 1.11

Joint Operations Command

The Chief of Joint Operations, Vice Admiral David Johnston, AM, RAN, is the principal adviser on operational matters and is responsible to the CDF for the conduct of military operational planning. Supported by the Joint Operations Command Group, he commands all operations and major joint, combined, coalition, interagency and multilateral exercises on behalf of the CDF.

The Chief of Joint Operations is also responsible for the ADF's provision of ADF resources to the Border Protection Command for support in countering maritime security threats. The Border Protection Command program is part of the Immigration and Border Protection portfolio.

Throughout 2013–14, Joint Operations Command assessed current campaigns to report progress, risk and additional planning requirements. The Group determined the resources necessary to identify joint operational lessons to inform future planning and doctrine development.

The Group developed options for the Government to use available ADF capabilities for the conduct of military operations in immediate or crisis situations. It developed a regional campaigning framework to identify areas of operational risk and provide a means to reduce those risks by enabling the synchronisation of single service, joint and combined military activities with whole-of-government activities.

Joint Operations Command conducted military operational planning, including the development and maintenance of contingency and operational plans. It routinely assessed the developing security environment to identify future planning priorities. As a result, it maintained relevant contingency plans for humanitarian assistance and disaster relief, the evacuation of non-combatants, and stability operations.

Further information on joint and combined operations in 2013–14 is available online.

The Group developed options for the Government to use available ADF capabilities for the conduct of military operations in immediate or crisis situations.

Table 3.29: Program 1.11 deliverables

Deliverable	Status
Provide input, in the form of reporting, analysis, plans and preparedness requirements, to the strategic level ADFHQ and Commonwealth national security decision-making committees on military options and operational matters associated with current operational commitments and future directed contingencies	Met
Plan, control, conduct and evaluate the ADF's, and where applicable the whole-of-government and/or coalition's, contributions to the Government directed operational commitments	Met
Plan, control, conduct and evaluate the ADF's contributions to Defence assistance to the civil community and Defence Force aid to the civil authority, and plan for and coordinate search and rescue for military purposes	Met
Plan, control, conduct and evaluate the ADF's participation in non-operational domestic and international joint, interagency and bilateral and multilateral exercises and engagement activities scheduled in the endorsed Program of Major Service Activities	Partially met Regional Campaign Plan Affinity (South West Pacific) was developed as the first of a series of plans to provide a framework for synchronising joint training, exercises, engagement and other activity to reduce operational risks. Plan Unison (South East Asia) is drafted and is awaiting approval by the Chief of Joint Operations.
Maintain ongoing partnerships, collaboration and effective information sharing related to operational matters at the national level and effective engagement at the international level	Met
Provide advice to service headquarters, other Defence groups and other government departments as necessary to support the development of policy and capability in relation to current, planned and anticipated operations	Partially met The Group continued to develop a regional campaign framework to identify and treat operational risks through a synchronised approach to inform joint and combined activities with stakeholders.
Contribute to Group-specific reforms and cost reductions	Met

Table 3.30: Program 1.11 key performance indicators

Key performance indicator	Status
Input to strategic-level decision-making committees on military options and operational matters and other advice on the development of capability is timely and accurate	Partially met The Group has limited capacity to support joint capability development.
Operations achieve the Government's direction and intent and/or, where applicable, the whole-of-government strategy	Met
Forces are deployed and sustained efficiently and effectively, and in accordance with agreed timeframes	Met
Operational options and plans are identified as innovative solutions that align with strategic guidance and contribute to meeting government direction, reduce risk, conserve resources and reduce adverse effects on directed ADF preparedness levels	Met
ADF operations and non-operational activities are planned, controlled and conducted in accordance with the promulgated rules of engagement and operational governance requirements in the areas of medical administration and clinical governance, and personnel, logistics, financial and contract management	Met

Defence involved in search for MH370

On 8 March 2014, a Malaysia Airlines Boeing 777 disappeared during a flight between Kuala Lumpur and Beijing. The flight was MH370 and there were 239 passengers and crew on board. No evidence of a crash had been reported and the last radio transmission from the crew came less than an hour into the flight.

A week later, additional information suggested that flight MH370 had diverted from its intended course, with analysts determining that the aircraft's route had probably tracked south to an area far off the Western Australian coast, in the southern Indian Ocean.

On 17 March, the Australian Government assumed responsibility for search operations in Australia's search and rescue region. Defence played a key role in supporting the Australian Maritime Safety Authority as the lead search and rescue agency. The following three profiles highlight specific areas of activity.

Defence establishments in Western Australia, notably Fleet Base West and RAAF Base Pearce, quickly ramped up to support additional ships and aircraft from a number of other nations, becoming an important focal point for the search and rescue effort.

Joint Task Force 658

With the support of RAAF AP-3C Orion long-range maritime patrol aircraft, a visual and radar search of an extensive area more than 2,000 kilometres south-west of Perth began on 18 March. Within 24 hours, the United States Navy and Royal New Zealand Air Force joined the task. On 19 March, HMAS *Success* was deployed from Fleet Base West to the search area; in the following weeks it was joined by HMAS *Perth* and HMAS *Toowoomba*. RAAF Base Pearce and Perth International Airport became the hubs for air search efforts involving more than 21 military aircraft and civilian jets from

Australia, Malaysia, New Zealand, the United States, China, Japan and South Korea. Three hundred and forty-five air sorties were conducted during 42 days of searching.

Joint Task Force 658 was established on 26 March to assist with coordination of the international and Australian search efforts as part of Operation Southern Indian Ocean.

On 30 March, Prime Minister Tony Abbott announced the appointment of the former Chief of the Defence Force, Air Chief Marshal Angus Houston, as the lead for coordinating the Australian Government's response.

A number of acoustic detections were made by HMS *Echo*, the Chinese ship *Haixun 01*, Australian Defence Vessel *Ocean Shield* and RAAF Orion aircraft that needed to be analysed. After detailed analysis by the Australian Joint Acoustic Analysis Centre and the Defence Science and Technology Organisation (DSTO), all detections were eventually discounted. On 14 April, *Ocean Shield*, with an onboard team of civilian contractors supported and funded by the US Navy, deployed the Automated Underwater Vessel *Bluefin 21* to conduct a side-scan sonar survey of the ocean floor. In conjunction with DSTO, the RAAF also trialled a modified Orion aircraft with an experimental acoustic processor and modified sonobuoys enabling the aircraft to detect flight data recorder signals underwater.

Geospatial intelligence and the search for MH370

Using International Maritime Satellite (Inmarsat) data collected via the hourly aircraft-to-satellite 'handshake' process, an international team of aircraft investigators discerned that MH370 had flown for at least six hours from its last contact. The team identified two broad swathes of the earth's surface, reaching far to the north and south, as potential flight paths.

FEATURE | MH370 (continued)



An RAAF AP-3C Orion flies past Australian Defence vessel *Ocean Shield* on a mission to drop sonar buoys to assist in the acoustic search in support of Operation Southern Indian Ocean.

Defence's Australian Geospatial-Intelligence Organisation (AGO) joined an international effort to search landing zones in the northern hemisphere; however, the possibility of MH370 having landed safely was soon ruled out.

Further analysis of the Inmarsat data enabled the international team to determine that MH370 had flown south, away from potential landing zones. At the same time, about 10 days after the aircraft's disappearance, satellite imagery of the far southern Indian Ocean revealed large debris floating on the water.

The AGO mobilised to take on the enormous task of searching the southern latitudes for signs of MH370. Cloud cover and the sea state made the search for floating debris challenging. The resources of partner satellite imagery organisations around the world were coordinated and approximately 850,000 square kilometres of ocean were scanned. The AGO was supported by private industry, which provided 386 images covering 1.56 million square kilometres at no cost.

The AGO's work directly supported the Australian Maritime Safety Authority (AMSA), the agency initially responsible for determining the location of the MH370 wreckage and the aircraft's black box.

Around-the-clock reporting from the AGO helped AMSA plan daily aircraft search operations.

AMSA also received a steady stream of unsolicited debris sightings based on publicly available imagery. The AGO and partner organisations analysed this crowd-sourced imagery and provided AMSA with a confidence rating for each sighting. Using imagery analysis, the AGO was able to narrow down the list of more than 300 crowd-sourced sightings to two low-confidence identifications.

When the aerial search ended on 28 April, the AGO had spent around 4,500 hours searching approximately 850,000 square kilometres of the southern Indian Ocean and had provided AMSA with 61 possible debris detections for further investigation.

The Australian Transport Safety Bureau assumed responsibility as the lead search agency on 28 April. Defence has continued to provide support and expertise to the search.

DSTO's technical advice assists in MH370 search

Staff from DSTO have been complimented by Australian Transport Safety Bureau Chief

Commissioner Martin Dolan for their work in tracing movements of missing MH370.

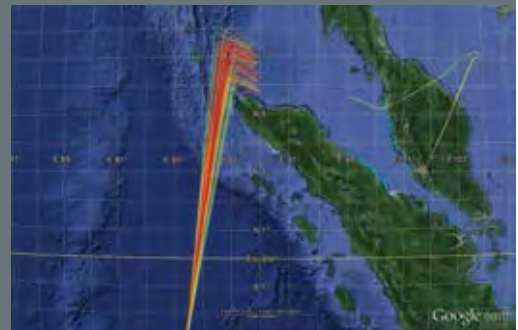
'We have been very impressed with the work of the DSTO team during what I know were very trying times for your organisation', he said.

'The speed with which you all fitted into an ongoing arrangement, the technical ability and responsiveness of the DSTO team and the collaborative spirit of the whole exercise are a fine example of cooperation towards a great result.'

Determining the aircraft's location was a mammoth task with few clues. The Australian Defence Vessel *Ocean Shield* deployed a towed pinger locator to detect the sonar ping from the underwater locator beacon attached to the aircraft's black box. The beacons emit a signal only until their batteries expire. As the likely end-of-battery life drew closer, faint pings were heard, although they were of uncertain origin.

The Australian Transport Safety Bureau asked DSTO to independently assess the acoustic signals recorded by the pinger locator. Within 24 hours of receiving the data, DSTO advised that the signals did not appear to have originated from an aircraft underwater locator beacon on the seafloor. Subsequently, DSTO was also asked to review acoustic recordings available from the worldwide network of Comprehensive Nuclear Test Ban Treaty Organization seafloor hydrophone arrays. This analysis confirmed an earlier Curtin University assessment that the hydrophone array signals did not originate from MH370, either from its impact with the ocean surface or from a subsequent implosion of equipment on board the aircraft as it sank.

DSTO was then asked to join an international working group to independently reprocess Inmarsat data and provide a better estimate of the search zone. While the team was accustomed to coping with noisy and uncertain data, the problem required some particularly innovative thinking. The team developed and



Trajectories generated from the likely distribution of the MH370 flight path

calibrated new statistical data-processing techniques to analyse the sparse satellite data and predict the flight path of the aircraft. Such was the sensitivity of the analysis that even the effect of the earth's shadow on the satellite had to be taken into account. Results from the newly developed mathematical models influenced the choice of the future search area and formed a key component of the Australian Transport Safety Bureau's public report released on 26 June.

Prime Minister Abbott called Operation Southern Indian Ocean an 'unprecedented' coalition of countries working cooperatively in the search for MH370. By 28 April, 4.5 million square kilometres had been searched. The operation involved 2,999 flying hours and a combined total of 480 search days by the 17 ships and one submarine that were involved in surface operations.

Despite a series of possible acoustic detections and many sightings of objects of interest, no physical evidence was found. The DSTO and the international search group coordinated by the Australian Transport Safety Bureau are continuing to research the trajectory prediction problem to refine the required search zone for MH370. A commercial deep-water search company has also been contracted to continue subsurface search operations.

Program 1.12

Capability Development

The Chief Capability Development—Vice Admiral Peter Jones, AO, DSC, RAN (to 2 October 2014) and Lieutenant General John Caligari, AO, DSC (from 3 October 2014)—is responsible, as the sponsor, for developing capability proposals consistent with strategic priorities, funding guidance, legislation and policy for consideration and approval by the Government.

The Capability Development Group develops and manages the Government's plans for future defence capability outlined in the Defence Capability Plan (DCP). The plan lists the projects for government consideration (first- and second-pass) that make up the Unapproved Major Capital Investment Program, which covers significant future capabilities.

The classified DCP is reviewed and updated regularly to take into account factors that emerge as capability proposals are developed. These include changing strategic priorities and economic circumstances, the maturity of projects, the evolution of technology in options under consideration, and operational experience.

The Group maintains close relationships with a range of stakeholders, including the Defence Materiel Organisation, capability managers and industry. In conjunction with industry, the Group is responsible for the operation of the Rapid Prototyping, Development and Evaluation Program, which encourages innovation in future defence capabilities. A new program (the Defence Innovation Realisation Fund) was established to facilitate the transition of innovation into capability, and the first funded activities were approved during 2013–14.

During 2013–14, the Capability Development Group achieved 26 approvals worth more than \$19 billion. The approvals comprised seven first-pass, 10 second-pass and nine other types of approvals. The approved projects include some of the most strategically significant in the Defence Capability Plan.

In the maritime environment:

- first-pass approval for SEA 1654 Phase 3—Maritime Operational Support Capability
- initial pass for SEA 5000 Phase 1—Future Frigate and SEA 3036 Phase 1—Pacific Patrol Boat Replacement.

In the aerospace environment:

- second-pass approval for a further 58 Joint Strike Fighter aircraft under AIR 6000 Phase 2A/B
- approval for a program of maritime surveillance projects consisting of:
 - second-pass approval to acquire eight P-8A Poseidon maritime patrol aircraft
 - first-pass approval for up to four more P-8A aircraft
 - intermediate pass for the Triton high-altitude maritime surveillance unmanned aerial vehicle under AIR 7000 Phase 1B.

In the land environment:

- first- and second-pass approval for the second tranche of the Army's digitisation program under LAND 200
- second-pass approval for the medium and medium-heavy component of the Army's truck replacement program under LAND 121.

In the joint enabling environment:

- second-pass approval for two space situation awareness capabilities (the Space Surveillance Radar and Space Surveillance Telescope under JP 3029 Phases 1 and 2 respectively).

Table 3.31: Program 1.12 deliverables

Deliverable	Status
The provision of timely, accurate and high-quality advice on all aspects of capability development to the Secretary, Chief of the Defence Force (CDF) and the Government	Substantially met The Government gave approval for a total of 26 project submissions in 2013–14. In addition, the Group provided a significant number of quality submissions to the ministers, the Secretary and the CDF. Accurate costings remain an issue.
The provision of independent analysis and contestability of capability proposals	Substantially met All Defence Capability Plan project proposals are contested through the capability committee process; however, risk remains, as the contestability is subject to the skills and experience of the project analyst. Capability Development Group has also begun contesting Chief Information Officer Group ICT projects; several early projects have tested and improved the process.
The development and management of an affordable and executable DCP	Substantially met The Government has agreed on a Forward Work Program of DCP projects to be considered before completion of the Defence White Paper.
The development of Defence capability investment proposals for consideration by the Government	Substantially met Defence secured 26 out of 31 proposals from the Government totalling \$19 billion.
The publication of a public version of the DCP and the associated Defence Capability Guide	Not applicable The Government announced that the next public DCP will be released in the context of the Defence White Paper process.
The management of the Key Defence Assets Register (KDAR)	Substantially met In April 2014, Defence completed a comprehensive review of the KDAR, updating the data in the register during that process. The next KDAR update is scheduled for February 2015. Defence also began work on transitioning the KDAR standard operating procedures into Capability Development Business Rules under the organisation's revised policy framework. Defence plans to complete this transition in 2014–15.
The Defence Capability Development Handbook was updated in December 2012. It will be progressed to a Defence Manual during the course of 2013–14	Partially met The handbook was updated in June 2014. Transition to a manual will continue in 2014–15.
Enhancing the effectiveness of the capability development process through the implementation of Capability Development Improvement Program initiatives	Met
Under the Rapid Prototyping Development and Evaluation Program, work collaboratively with Australia's defence industry to develop innovative solutions to complex issues affecting capability and operations	Met
Deliver independent test and evaluation support, trials and demonstrations to Defence throughout the capability systems lifecycle	Substantially met All requests for independent test and evaluation trials were met to a high standard. Most government submissions were underpinned with an early test plan. First-pass submissions now include risk-assessed preview test and evaluation. Governance oversight of test and evaluation plans in the acquisition phase (after second pass) has begun, and additional resources have been sought to provide this input to all project reviews. A centralised Defence-wide test and evaluation policy has been approved and readied for publication.

Table 3.32: Program 1.12 key performance indicators

Key performance indicator	Status
Conduct an independent maturity assessment of portfolio management within the Capability Development Group	Met
Ensure that capability investment proposals have realistic schedules and costs projections, and comprehensive risk assessments and mitigation	Met
Improve the corporate information management systems that support end-to-end visibility, planning, management and reporting of capability development	Met
Implement Capability Development Improvement Program initiatives to improve the timeliness and quality of capability submissions and reflect these improvements in current capability development guidance	Met
Provide objective advice to the Secretary and CDF	Met
Submit timely proposals that are coherent, compelling and consistent with strategic guidance and affordable within the DCP	Met

Program 1.13

Chief Finance Officer

The Chief Finance Officer, Mr Phillip Prior, is responsible for giving strategic financial advice and information to the portfolio ministers, the Secretary, the CDF and Defence senior leaders. The Chief Finance Officer provides a whole-of-Defence focus for planning, management, monitoring and reporting on key deliverables to the Government, including Defence outputs.

The Group is responsible for Defence financial governance and assurance and manages the Defence budget and financial policies, principles and practices in accordance with the *Financial Management and Accountability Act 1997*. The Group drives Defence financial management and improvement programs by providing a shared financial services capability.

In 2013–14, Defence financial statements, Portfolio Budget Statements and Portfolio Additional Estimates Statements were prepared and submitted within reporting deadlines. All whole-of-government reporting requirements were achieved. The Chief Executive Instructions were maintained and updated to reflect changes to financial regulation and policy.

Highlights of the Group's achievements during the year included:

- coordination of the annual budget-cycle process and production of the 2014–15 Portfolio Budget Statements and 2013–14 Portfolio Additional Estimates Statements
- business improvement and increased efficiencies through further development of the shared financial services capability across Defence
- evaluation and improvement of processes and systems
- continued improvement of Defence financial statements.

Miok balances numbers, work and life

In November 2014, Miok Choi-Payne will celebrate eight years in Defence, the last half of which has been in the Navy and then in the Chief Finance Officer Group.

Canberra is a long way from the Republic of Korea where Miok was born. She lived with her family in the countryside and moved to Seoul in Year 8. After leaving school, she secured an administrative job with Samsung.

When Miok moved to Australia in the early 1990s, she spoke little English and was keen to improve her language skills and take advantage of educational opportunities. Living in Nowra and married with small children, she studied part-time, successfully completing a Certificate IV in Accounting. She obtained an accounting job and went on to complete a Diploma in Accounting.

Miok moved to Canberra and joined the APS, working in the DMO and completing an accounting-related degree through the University of Wollongong with Studybank support. Determined, she commuted to the coast during the last year of her degree.

She said she loves 'number crunching', which is why she chose an accounting course, eventually becoming a CPA two and a half years ago. However, she said she was quite pleased to have survived her first end-of-financial-year in the Treasury and Banking Directorate Cash Team.

Because the Defence environment offers good work-life balance, Miok said she is able to exercise regularly. One of her recent achievements was jogging 10 kilometres in less than 60 minutes during the Australian Running Festival in April 2014, and in August 2014 she participated for the first time in the City2Surf race in Sydney.

PROFILE | Miok Choi-Payne



While Miok is now an Australian citizen, she still keeps ties with Korea. She participates in local community events, including assisting at the Korean food stall during Canberra's Multicultural Festival.

Of her many achievements, Miok said she was proudest of her family, including her husband and two sons.

Table 3.33: **Program 1.13 deliverables**

Deliverable	Status
Defence financial statements	Met
Defence Portfolio Budget Statements	Met
Defence Portfolio Additional Estimates Statements	Met
Defence Chief Executive Instructions	Met
Monthly/annual input to whole-of-government reporting	Met

Table 3.34: **Program 1.13 key performance indicators**

Key performance indicator	Status
Provide timely and high-quality financial advice to the Minister, the Secretary and CDF	Met
Produce Defence's budget, financial statements and the annual Defence Management and Finance Plan within agreed statutory timeframes	Met
Maintain unqualified financial statements	Met

Cutting red tape

The Defence Deregulation Unit was established within the Chief Finance Officer Group and has responsibility for implementing the Government's deregulation agenda. The Defence Deregulation Action Network was also created, and includes members from all Groups and Services.

A Defence Portfolio Deregulation Forward Work Program, which includes a range of deregulation opportunities that Defence intends to pursue over the short to medium term, was provided to the Prime Minister in April 2014.

A stocktake of regulation across Defence was completed during the year. The purpose of the stocktake was to identify which regulations and administrative processes impose the highest regulatory burden on business, the not-for-profit sector and individuals, in order to reform and reduce red tape. The stocktake identified 48 regulations or regulatory frameworks. Defence also identified an initial \$5 million in deregulation savings through the completion of the stocktake.

Defence provided significant input into the Government's 2014 Autumn Repeal Day, including the repeal of over 1,000 pieces of redundant legislation.

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 as well as for the Defence Force Retirement Benefits (DFRB). During 2013–14, Defence provided timely payment of member contributions to ComSuper, which is the manager of the three schemes.

This program also includes payment of the MSBS Retention Benefit. Since 1991, Defence has paid the retention benefit to eligible scheme members after 15 years of continuous eligible service. In 2013–14, Defence continued the prompt payment of member contributions to ComSuper and the payment of the retention benefit to those members who have taken up the offer.

Table 3.35: **Program 1.14 deliverables**

Deliverable	Status
Report on superannuation contributions and the movement in liabilities associated with the three military superannuation schemes	Met

Table 3.36: **Program 1.14 key performance indicators**

Key performance indicator	Status
Provision of timely payments to ComSuper and quality administration of DFRB, DFRDB and MSBS employer and member contributions	Met

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, Defence Force Retirement and Death Benefits Scheme, and Military Superannuation and Benefits Scheme.

Table 3.37: **Program 1.15 deliverables**

Deliverable	Status
Report on superannuation nominal interest associated with the three military superannuation schemes	Met

Table 3.38: **Program 1.15 key performance indicators**

Key performance indicator	Status
Provide quality administration services for DFRB, DFRDB and MSBS nominal interest transactions	Met

Program 1.16

Housing Assistance

The Defence Home Owner Scheme closed on 30 June 2010 and has been replaced by the Defence Home Owner Assistance Scheme, which started on 1 July 2008.

Defence Home Owner Scheme

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

There were 1,180 active loans at 30 June 2014 for a total of \$1.6 million in subsidy payments during 2013–14. This was a significant decline in the number of members receiving the Home Owner Scheme subsidy since the introduction of the Defence Home Owner Assistance Scheme on 1 July 2008. The National Australia Bank has met its obligations to the Commonwealth as the appointed home loan provider.

Defence Home Owner Assistance Scheme

The Defence Home Owner Assistance Scheme is an Australian 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 were in effective service in the ADF on or after 1 July 2008 and have completed a qualifying period and accrued a service credit.

The Department of Veterans' Affairs, as the scheme administrator, is responsible for assessing member applications, issuing subsidy certificates to eligible members and processing subsidy payments. The three appointed home loan providers are the Australian Defence Credit Union, the Defence Bank and the National Australia Bank.

During 2013–14, the scheme continued to attract a high level of interest from ADF members. A total of 6,022 applications were registered during the year, and 5,679 members received subsidy certificates. Fifty-four per cent of members who applied for a subsidy certificate indicated that the scheme influenced their decision to remain in the ADF, and 43 per cent indicated that it was a key factor in encouraging them to remain in the ADF.

At 30 June 2014, 19,007 members were receiving subsidy assistance under the scheme. In 2013–14, the value of subsidy assistance paid to eligible members totalled \$73.0 million. The total amount paid in subsidy assistance since the commencement of the scheme is \$356.8 million.

The Department of Veterans' Affairs continued to meet its obligations under the legislation and memorandum of understanding (MOU) and has provided effective administration to the scheme.

The Department of Veterans' Affairs referred 24 appeals for internal review of application outcomes to the delegate in Defence during the year. Four members applied to the Administrative Appeals Tribunal for an external review.

Operational costs

Under the MOU, the Department of Veterans' Affairs is paid an annual management and service delivery fee for the administration of both schemes. In 2013–14, the administration costs totalled \$5.2 million (excluding GST).

Defence received a total of \$13.2 million in remuneration from the three home loan providers during the year.

Table 3.39: **Program 1.16 deliverables**

Deliverable	Status
Provide ADF members with assistance to achieve home ownership that reflects the contemporary housing and home finance markets	Met
Provide progressively higher levels of assistance for eligible members serving beyond the critical career points of four, eight and 12 years of service	Met
Provision of quality services for the administration of the scheme, including the accurate and timely processing of member applications and issuing of subsidy certificates to eligible members	Met

Table 3.40: **Program 1.16 key performance indicators**

Key performance indicator	Status
Members respond to and take up the Defence Home Ownership Assistance Scheme	Met
Ensure that interest rates provided to ADF members by the home loan providers are competitive with other interest rates in the market	Met

Program 1.17

Other Administered

Program 1.17 comprises four elements:

- interest earned on overdue accounts and on official bank accounts held to facilitate operational requirements
- interest on government loans to fund the building of new accommodation, dividends and tax equivalent payments received from Defence Housing Australia
- revenue received from special public monies for unidentified Comcare receipts
- departmental returns to the Official Public Account arising from sale of assets with an original purchase price in excess of \$10 million.

Table 3.41: **Program 1.17 deliverables**

Deliverable	Status
Report on interest and other receipts transferred to the Official Public Account	Met

Table 3.42: **Program 1.17 key performance indicators**

Key performance indicator	Status
Accurate accounting and reporting on 'Other Administered'	Met

CHAPTER 4

Outcome 2

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

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 and by planning for, conducting, controlling and evaluating Defence and/or coalition contributions to Government-directed operations. These operations include those that contribute to the security of the immediate neighbourhood (Program 2.1) and those that support wider interests (Program 2.2). Their objectives in relation to this outcome and current status are detailed in this chapter. The ADF has contributed to maintaining a stable security environment where national programs focus on peace, reconciliation, economic recovery, law and order and good governance across all ADF operations.

All deliverables and key performance indicators for Outcome 2 were met.



An Afghan child happily chats with Warrant Officer Class One Marc Williamson from Mentoring Task Force One in the Mirabad Valley green zone.

Table 4.1: Total cost for Outcome 2

	2013–14 budget estimate ^[1] \$'000	2013–14 revised estimate ^[2] \$'000	2013–14 actual result \$'000	Variation \$'000	%
Program 2.1: Operations Contributing to the Security of the Immediate Neighbourhood					
Revenue from other sources	–	–	91	91	–
Departmental outputs	16,685	41,641	20,617	–21,024	–50
Program 2.2: Operations Supporting Wider Interests					
Revenue from other sources	10,739	10,785	17,869	7,084	66
Departmental outputs	884,936	981,186	597,642	–383,542	–39
Total resourcing					
Total departmental outputs	901,621	1,022,827	618,260	–404,567	–40
Total departmental revenue from other sources	10,739	10,785	17,960	7,175	67
Equity injection	–	–	–	–	–
Total resources for Outcome 2	912,360	1,033,612	636,220	–397,392	–38

Notes

This table excludes capital payments for outcomes.

8. As published in the Portfolio Budget Statements 2013–14, Table 35.

9. As published in the Portfolio Budget Statements 2014–15, Table 37.

Table 4.2: Net additional cost of operations

	2013–14 budget estimate ^[1] \$m	2013–14 estimated actual ^[2] \$m	2013–14 actual result \$m	Variation \$m
Operation Astute	5.4	5.4	3.8	–1.6
Operation Slipper ^[3]	874.9	970.9	735.3	–235.6
Operation Resolute ^[4]	9.9	41.4	25.0	–16.4
Operation Anode	11.3	11.3	8.8	–2.5
Support to 2014 G20 Summit	7.1	7.1	0.1	–6.9
Operation Southern Indian Ocean	–	25.0	10.8	–14.2
Enhanced Force Protection in Afghanistan ^[3,5]	10.0	10.0	10.0	–
Total net additional costs	918.5	1,071.0	793.8	–277.2

Notes

1. As published in the Portfolio Budget Statements 2013–14, Table 4.

2. As published in the Portfolio Budget Statements 2014–15, Table 4.

3. Government supplementation for Enhanced Force Protection in Afghanistan costs have been captured against Operation Slipper.

4. Includes funding for expanded activities under Operation Sovereign Borders.

5. Government supplementation for Enhanced Force Protection in Afghanistan costs is captured against Outcomes 1 and 2.

Table 4.3: Net additional cost of operations from 1999–2000 to 2017–18

	1999–00 to 2012–13 actual result \$m	2013–14 actual result \$m	2014–15 budget estimate \$m	2015–16 forward estimate \$m	2016–17 forward estimate \$m	2017–18 forward estimate \$m	Total \$m
Operation Astute	4,308.1	3.8	–	–	–	–	4,311.9
Operation Bel Isi	47.7	–	–	–	–	–	47.7
Operation Slipper	6,189.5	735.3	240.8	121.9	103.9	–	7,391.4
Operation Manitou	–	–	52.0	2.9	1.7	–	56.6
Operation Accordion	–	–	57.0	1.7	–	–	58.6
Operation Resolute ⁽¹⁾	150.0	25.0	59.7	0.6	–	–	235.3
Operation Catalyst	2,364.5	–	–	–	–	–	2,364.5
Operation Anode	346.4	8.8	0.1	–	–	–	355.3
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	14.6	–	–	–	–	–	14.6
Operation Kruger	45.3	–	–	–	–	–	45.3
Operation Southern Indian Ocean	–	10.8	3.0	–	–	–	13.7
Enhanced Force Protection in Afghanistan	530.0	10.0	16.2	–	–	–	556.2
Defence support to 2014 G20 Summit	–	0.1	8.0	–	–	–	8.2
Total net additional costs	14,067.7	793.8	436.8	127.0	105.6	–	15,530.9
Sources of funding for operations							
Government supplementation	12,459.7	771.0	412.4	127.0	105.6	–	13,875.8
Department of Foreign Affairs and Trade	9.1	–	–	–	–	–	9.1
Department of Defence (absorbed)	1,599.0	22.8	24.3	–	–	–	1,646.1
Total cost	14,067.7	793.8	436.8	127.0	105.6	–	15,530.9

Note

1. Includes funding for expanded activities under Operation Sovereign Borders.

Further information on Outcome 2 expenditure is available online.

Program 2.1

Operations Contributing to the Security of the Immediate Neighbourhood

Defence undertakes a variety of operations in order to preserve security and stability in our region.

Operation Gateway, which occurs up to six times a year, is a continuing maritime surveillance operation conducted in the north-eastern Indian Ocean and the South China Sea to contribute to the stability of important sea lanes.

Operation Solania is a surveillance operation to support Pacific island countries in fisheries law enforcement in the South West Pacific. There are up to four AP-3C deployments per year to the region, to coincide with operations led by the Forum Fisheries Agency, which is based in Honiara, Solomon Islands.

Operation Philippines Assist was a large ADF deployment supporting humanitarian assistance and disaster relief following Typhoon Haiyan. Numerous Defence assets were involved, including a ship, aircraft and personnel on the ground in disaster areas.

Table 4.4: **Program 2.1 deliverables**

Deliverable			Status
Operation	Commenced	Objective	
Gateway	1981	Conduct northern Indian Ocean and South China Sea maritime surveillance patrols	Met
Solania	1988	Conduct South West Pacific maritime surveillance patrols	Met
Anode	2003–13	Support the coalition police forces in maintaining the rule of law in Solomon Islands	Met Operation Anode concluded on 30 September 2013.
Philippines Assist	2013	Support the whole-of-government contribution to the international humanitarian and disaster relief operations as requested by the Philippines Government	Met

Table 4.5: **Program 2.1 key performance indicators**

Key performance indicator	Status
ADF operations meet their stated objective within the Government's guidance	Met
ADF forces are effectively deployed and sustained	Met
ADF forces are withdrawn for reconstitution when they are no longer required	Met

Operation Philippines Assist

In late 2013, the ADF again answered an urgent call for international assistance, this time in the Philippines.

On 8 November 2013, Typhoon Haiyan, known locally as Yolanda, made landfall in the Eastern Visayas region. The United Nations reported that Haiyan had affected around 14 million people and displaced an estimated 4 million. The typhoon was the strongest to hit the Philippines during 2013 and is considered one of the worst in recorded history.

The ADF response began in the immediate aftermath. The RAAF provided air logistic support to the Australian Medical Assistance Team, transporting essential medical personnel and equipment via C-17 and C-130 transport aircraft from Darwin to Ormoc in the Philippines. Logistic resupply was provided until the return of the team in December 2013.

A follow-up recovery support force focused on humanitarian assistance activities in the vicinity of Ormoc and the surrounding area. The Navy's HMAS *Tobruk* transported ADF personnel and equipment to the region and then distributed humanitarian supplies to remote islands.

The Army's response was comprehensive and wide-ranging. Deployed personnel repaired 16 schools and more than 180 classrooms, removed 1,302 cubic metres of debris, repaired 78 roofs, conducted hazard reduction and plumbing works, assisted the redeployment of non-government organisation personnel, supported the World Food Programme distribution centre, provided assessments in support of the United Nations and Philippines Government recovery effort, and fostered strong relationships with the local population, local government departments and the Armed Forces of the Philippines.

FEATURE |



Members of No 1 Airfield Operations Support Squadron load an RAAF C-17 Globemaster with Australian Medical Assistance Team equipment at Tacloban during Operation Philippines Assist

Meanwhile, the RAAF continued air logistic support by transporting over two tonnes of cargo, transferring about 5,000 people—including 3,300 internally displaced persons—and providing air traffic and ground support services at Mactan.

Most ADF elements returned to Australia by 21 December 2013. The contribution was considered a success on the basis of its impact and immediate support to an area devastated by the disaster. The Philippines Government has formally acknowledged the Australian support, including by presenting participating personnel with Military Civic Action medals.

Program 2.2

Operations Supporting Wider Interests

Under Operation Slipper, the ADF contributes to the International Security Assistance Force in Afghanistan, which is led by the North Atlantic Treaty Organization, and to the Combined Maritime Force in the Arabian Sea, Red Sea, Gulf of Aden and Arabian Gulf.

The key components of the ADF's involvement in Operation Slipper included Headquarters Joint Task Force 633, Combined Team—Uruzgan, Advisory Task Force, Special Operations Task Group, Rotary Wing Group, Force Support Unit, Force Communications Unit, 205 Corps Advisory Team, Logistics Training Advisory Team, Afghan National Army Officer Academy Training Team, Heron Unmanned Aerial Vehicle Surveillance, Joint Task Force 633 Air Component and various maritime force elements.

During 2013–14, the main focus of the ADF effort in Afghanistan was the development of the Afghan security forces with the capability to take lead responsibility for the security of their country. To that end, the ADF completed its advisory role with the Afghan National Army's 4/205 Brigade in December 2013 so that the Afghan force could take over lead responsibility for security in Uruzgan Province.

The Royal Australian Navy maintained the deployment of a frigate in support of maritime counter-terrorism and counter-piracy operations conducted by the Combined Maritime Force. Australia commanded Combined Task Force 150, responsible for the maritime counter-terrorism mission, between 1 December 2013 and 10 April 2014.

In support of a rules-based global security order, Defence continued to provide support to three United Nations (UN) missions—Operations Paladin, Palate II, and Aslan—and maintained its longstanding links to the Multinational Force and Observers mission in the Sinai, Egypt, under Operation Mazurka. In November 2013, Defence ceased Operation Riverbank in support of the UN mission in Iraq.

During 2013–14, Australian members performed key roles in UN efforts to maintain peace and security in highly volatile areas such as the Golan Heights, the Sinai and South Sudan. The ADF role included supporting free and fair elections in Afghanistan, contributing to the reform of legal systems in South Sudan, assisting in humanitarian efforts to provide basic services and subsistence to those in need, and supporting the return of internally displaced people and refugees. Defence will continue to support these UN missions in their critically important and globally significant work.

ADF members performed key roles in UN efforts to maintain peace and security in highly volatile areas.

Table 4.6: Program 2.2 deliverables

Deliverable			Status
Operation	Commenced	Objective	
Paladin	1956	Contribute to the United Nations Truce Supervision Organization in the Middle East	Met
Mazurka	1982	Contribute to the Multinational Force and Observers in the Sinai	Met
Slipper	2001	Contribute to the international coalition against international terrorism and assist with the reconstruction of Afghanistan	Met
Palate II	2005	Provide a senior military advisor and military liaison officers to the United Nations Assistance Mission in Afghanistan	Met
Riverbank	2008–2013	Contribute to the United Nations Assistance Mission for Iraq (ceased November 2013)	Met
Aslan	2011	Contribute to the United Nations mission to the Republic of South Sudan	Met

Table 4.7: Program 2.2 key performance indicators

Key performance indicator	Status
ADF operations meet their stated objective within the Government's guidance	Met
ADF forces are effectively deployed and sustained	Met
ADF forces are withdrawn for reconstitution when they are no longer required	Met

CHAPTER 5

Outcome 3

CH
05

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

Summary

Outcome 3 focuses on the ability of the ADF to contribute to national support tasks in Australia (Program 3.1) where directed by the Government, both in emergency and non-emergency situations.

Emergency assistance in Australia is provided and managed using the Government emergency management plans and arrangements maintained by Emergency Management Australia. The ADF has developed standing plans for short-notice Defence contribution to national support tasks, and continues to train and exercise to maintain selected force elements at preparedness levels should these plans be activated.

All deliverables and key performance indicators for Outcome 3 were met.

Table 5.1: Total cost for Outcome 3

	2013–14 budget estimate ^[1] \$'000	2013–14 revised estimate ^[2] \$'000	2013–14 actual result \$'000	Variation \$'000	%
Program 3.1: Defence Contribution to National Support Tasks in Australia					
Revenue from other sources	–	–	–	–	–
Departmental outputs	16,933	54,097	28,879	–25,218	–47
Total resourcing					
Total departmental outputs	16,933	54,097	28,879	–25,218	–47
Total departmental revenue from other sources	–	–	–	–	–
Total resources for Outcome 3	16,933	54,097	28,879	–25,218	–47

Notes

This table excludes capital payments for outcomes.

1. As published in the Portfolio Budget Statements 2013–14, Table 38.

2. As published in the Portfolio Budget Statements 2014–15, Table 40.

Program 3.1

Defence Contribution to National Support Tasks in Australia

National support tasks undertaken by the ADF can include the security of the Australian coastline against 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 Border Protection Command, providing maritime surveillance and response assets that are routinely tasked in accordance with the Government's direction.

Pressures that may arise from sustained deployments of major force elements are addressed by closely monitoring ADF concurrency to ensure that the ADF retains flexible response options in support of the Government's priorities.

Table 5.2: **Program 3.1 deliverables**

Deliverable			Status
Operation	Commenced	Objective	
Resolute	2006	Contribute to the whole-of-government maritime surveillance and response	Met
Southern Indian Ocean	2014	Contribute to the whole-of-government search for missing aircraft, MH370	Met
Landscape	2013	Contribute to Department of Immigration and Citizenship's establishment of additional temporary accommodation at offshore immigration processing centre at Manus Island	Met
Parapet	2013	Support to the whole-of-government effort as host of the G20 Summit in 2014	Met
NSW Bushfire Assist	2013	Defence assistance to recovery efforts in NSW following the October 2013 bushfires	Met

Table 5.3: **Program 3.1 key performance indicators**

Key performance indicator	Status
Defence's contribution to national support tasks in Australia meets government directives	Met
Defence's response to requests for Defence Force aid to the civil authority is effectively managed, sustained and reported	Met
Defence's response to requests for Defence Assistance to the Civil Community (DACC) is effectively managed, sustained and reported	Met

Further information on Outcome 3 expenditure is available online.

CHAPTER 6

Defence Materiel Organisation

Overview

CH
06

Review by the Chief Executive Officer

In 2013–14, the Defence Materiel Organisation (DMO) expended around \$9.5 billion to defence industry to acquire and sustain military equipment and support services. Most of this investment is tied up in long-term contracts of over five years duration. In addition, industry support programs managed by the DMO had an allocated budget of \$40 million. The DMO continues, on average, to deliver the approved project scope within budget, with only a very small number of projects experiencing cost overruns. On average, projects are delivered 5 per cent under the approved project budget.

The DMO has improved cost and capability delivery performance in an increasingly complex environment. We operate under a purchaser–provider model, underpinned by agency service agreements, to deliver commercial, engineering, sustainment and project management services to the Defence capability managers. These funded agency agreements—materiel acquisition agreements for acquisition and materiel sustainment agreements for sustainment—contain key performance indicators to measure the DMO's performance.

To better position the DMO to deliver customer requirements and meet government performance requirements, the DMO Strategic Framework for 2013–15 continued to be a central driver for the organisation. To best align the DMO's activities to the framework, we have also implemented four change priorities. These priorities are used to focus DMO improvement activities on the means to sustainably deliver the outcomes agreed with capability managers without compromising safety and within available resourcing. The four change priorities are:

1. Deliver acquisition and sustainment more efficiently

Use DMO resources more efficiently to deliver approved acquisition and sustainment services to the Australian Defence organisation.

2. Interact with reviews

Proactively engage with and support the National Commission of Audit, the Defence First Principles Review (which incorporates a review of the DMO), the Defence White Paper and the Force Structure Review. Implement the accepted recommendations of reviews applicable to the DMO.

3. Streamline internal processes

Streamline internal policies and processes to empower greater delegation of decisions. Apply the minimum essential guidance required to execute DMO business activities.

4. Reform the DMO

Identify opportunities for reform across the DMO, plan early phases of potential implementation, and identify possible pilot activities. In parallel, enhance the skills and diversity of the DMO workforce and collaborate with defence industry to support the sustained delivery of services required by the Government and Defence.

There has been continuing work within the DMO to incorporate legally binding responsibilities from the *Work Health and Safety Act 2011* into our policies and processes. The full suite of the DMOSAFE policy is now implemented. The continuous improvement of this framework means that we are updating our systems regularly in order to capture and share information on risks and hazards, together with lessons learned, and to support the implementation of benchmarked practices.

The DMO Work Health and Safety Assurance program has indicated that we have some exemplary performers across the organisation, and that general performance is trending up.

The DMO has also played a significant and leading role in the remediation of hazardous chemicals and joint special licence plant across all of Defence. This has facilitated the closure of the Comcare enforceable undertaking on hazardous chemical management, and the closure of the Comcare improvement notice on the management of joint special plant.

I am also pleased with the work within the DMO to enhance our diversity and inclusion. This is not just an argument about numbers, quotas or targets: it is about cultural reform and about building understanding and awareness of our workplace. Perhaps more importantly, it is also about creating a better, more productive DMO.

To that end, I have established the DMO Diversity Advisory Group. Diversity and inclusion contribute directly to 'hard' business outcomes and can provide a richer experience for managers and team leaders, as well as making the DMO a better place in which to work.

Given the current recruitment restrictions, the DMO is seeking to establish, where appropriate, an internal labour market, which will use staff with specific skill sets in flexible roles across several work areas. This approach aims to ensure that the key priority positions are filled, even on a more flexible, including part-time, basis—which is preferable to not filling a high-priority position. This approach should allow staff to construct more flexible working arrangements while enabling the DMO to achieve agreed outcomes.

Warren King

Chief Executive Officer
Defence Materiel Organisation

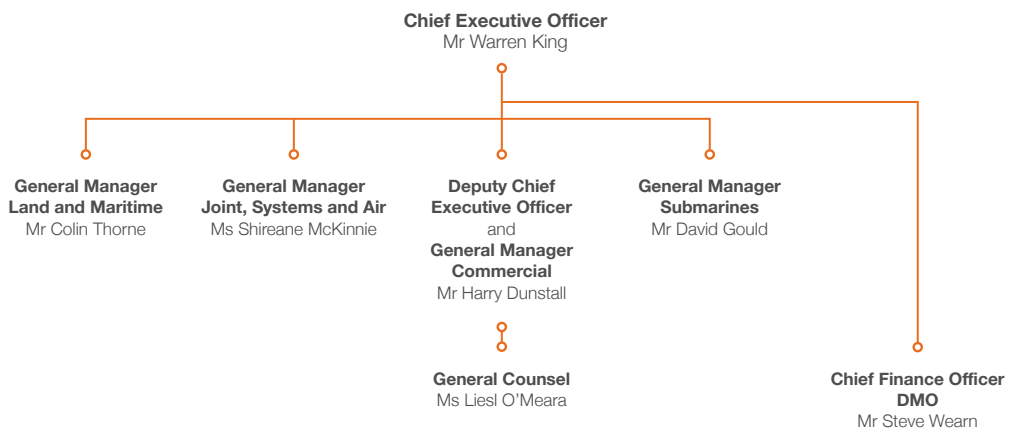
Diversity and inclusion contribute directly to 'hard' business outcomes and can provide a richer experience for managers and team leaders, as well as making the DMO a better place in which to work.

DMO role and functions

The DMO is responsible for the acquisition and sustainment of the materiel elements of operating capability for the ADF. The DMO has been a prescribed agency since 1 July 2005.

The Chief Executive Officer is directly accountable to the Minister for Defence under the *Financial Management and Accountability Act 1997* for the performance of the DMO, while remaining accountable to the Secretary under the *Public Service Act 1999*.

Figure 6.1: **Organisational structure as at 30 June 2014**



Performance against DMO strategic priorities

Australian Military Sales Office

During 2013–14, the Australian Military Sales Office enhanced its management of major asset disposals in Defence and further developed the government-to-government sales program. Engagement with Indonesia was a major focus and included the sale and transfer of C-130H aircraft, the facilitation of an associated commercial maintenance contract, and the sale of Bushmaster vehicles during the year. In addition, the office managed 43 disposals projects and 21 international sales projects.

Gate reviews

Since its inception in 2009, the program has conducted more than 500 formal reviews. All major projects are now in at least their third year of annual review. Metrics data for the past three years indicates improving project performance.

Sustainment gate reviews are currently being trialled for eight sustainment products. Full implementation in 2014–15 will involve around 30 reviews annually on a portfolio of about 66 significant products.

Negotiation Cell

The DMO has established a Negotiation Cell to improve its internal negotiation skills and general business acumen. The Negotiation Cell provides DMO project teams and line management with direct support in the preparation and conduct of negotiations. It is establishing and maintaining a standardised suite of negotiation training, and building internal DMO skills in negotiation and general business acumen.

Looking ahead

The DMO continues to drive reform across all elements of its business operations. Current priorities for reform are focused on:

- identifying the core, minimum set of DMO roles required to deliver assigned outcomes while minimising overheads and costs through:
 - optimising the efficiency of retained DMO functions
 - prioritising DMO activities and resources to meet the ADF's urgent operational demands, deliver government-approved projects, and sustain the force-in-being
 - revising contract and performance arrangements to better use industry capacity and capability
- reducing the cost of equipment sustainment by around 10 per cent in real terms (against 2007–08 baseline levels) through increasing the use of productivity- and performance-based contracts, renegotiating or recompeting support contracts, improving processes, reforming supply chains, reducing targeted inventories, achieving internal efficiencies to reduce the APS workforce, and working with Defence to deliver shared services reforms
- improving schedule performance through better schedule estimation and risk assessment methodologies
- contributing to continuous tailoring of the two-pass process for major project approvals, as recommended in the 2008 Mortimer Review, to ensure the right balance in the preparatory work for project approvals, commensurate with their scope and complexity
- providing specialist commercial and technical/engineering and through-life support advice earlier in the capability development process to ensure that technical and safety risks, costs and appropriate acquisition and sustainment strategies are considered in the development of capability options
- enhancing the DMO's advice to the Government on industry capacity to deliver required capabilities and on the accuracy of cost and schedule estimates for new equipment
- embedding stronger controls to heighten personal accountability and provide lead indicators for management intervention
- providing a range of assistance programs to improve the skills, productivity, innovation and competitiveness of Australian defence industry sectors, with a focus on those areas deemed critical to retaining Indigenous industry capacity to deliver approved Defence projects and through-life support for existing platforms.

DMO financial performance

The DMO receives around 90 per cent of its funding from Defence under agency agreements. The remaining 10 per cent of its funding is provided via a direct appropriation and own-source revenue. The DMO's audited 2013–14 financial statements are included in Volume Two of this report.

An assessment of DMO financial performance in 2013–14 against budget projections is provided online.

2013–14 financial summary

The total net resourcing available to the DMO in 2013–14, as published in the Portfolio Budget Statements 2014–15, was \$11,214 million. This comprised:

- payment from Defence: \$10,033.4 million
- special account opening balance: \$247.1 million
- appropriation receipts: \$872.4 million
- non-appropriation receipts: \$60.6 million.

During the course of a 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 6.1 reflects the financial resource position taking all of these factors into consideration as at 30 June 2014. The 2013–14 total actual resourcing was higher than the estimate above largely due to a planned appropriation reduction of \$35.4 million that was included in the 2014–15 PBS estimate that will not occur until Parliament repeals the relevant Appropriation Acts, which is expected to occur after 1 July 2016. Reported appropriation revenue in the financial statements remains at \$907.8 million as reported in the Portfolio Budget Statements 2013–14. The remainder of the variation is due to an increase in non-appropriation receipts of \$35.8 million offset by a decrease in appropriation receipts from other agencies (Defence) of –\$44.8 million, resulting in total resourcing of \$11,240 million.

The DMO made payments of \$10,910.8 million in 2013–14, resulting in a special account closing balance of \$329.1 million as at 30 June 2014. The special account balance remains within the Official Public Account, providing the flexibility to meet cash flow requirements across financial years to align with capability delivery across DMO programs.

The DMO's audited 2013–14 financial statements are included in Volume Two of this report.

Resource summary

Table 6.1: DMO resource statement 2013–14

		Actual available appropriations for 2013–14 \$'000	Payments made 2013–14 \$'000	Balance remaining 2013–14 \$'000
		(a)	(b)	(a-b)
Ordinary annual services^[1,2]				
Departmental appropriation				
Departmental appropriation		907,791	832,432	75,359
Total departmental appropriation	A	907,791	832,432	75,359
Special account (departmental and administered)				
Opening balance		247,136		
Appropriation receipts ^[1,2]		907,791		
Appropriation receipts				
– other agencies ^[3]		10,033,372		
– adjustment for other agencies ^[3,4]		–44,754		
Non-appropriation receipts to special accounts		60,569		
Adjustment for non-appropriation receipts to special accounts ^[5]		35,844		
Interest ^[6]		–		
Payments made ^[7]			10,910,842	
Closing balance				329,116
Total special account	B	11,239,958	10,910,842	329,116
Less appropriations drawn from annual or special appropriations above and credited to special accounts	C	907,791	832,432	75,359
Total resourcing and payments (A+B-C)		11,239,958	10,910,842	329,116

Notes

- Appropriation Bill (No. 1) 2013–14 and Appropriation Bill (No. 3) 2013–14.
- Reported as \$872,432,000 estimated actual in the Portfolio Budget Statements 2014–15. The variation is because the planned appropriation reduction will not occur until the relevant Appropriation Acts are repealed by Parliament.
- Appropriation receipts from Defence credited to DMO's special accounts.
- Adjustment is variance between estimated actuals as at Portfolio Budget Statements 2014–15 and actual available appropriations for 2013–14 as at 30 June 2014.
- Adjustment is variance between estimated actuals as at Portfolio Budget Statements 2014–15 and actual receipts for 2013–14 as at 30 June 2014.
- Administered interest received from overseas bank accounts, which is remitted to the Official Public Account.
- Excludes GST.

Appropriations and other resources

The DMO workforce and operating expenses (along with industry programs) are directly appropriated by government through Appropriation Bill (No.1). 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 changes to activity levels prescribed by Defence, budgeted cash flow adjustments for movements in foreign exchange rates or delivery of programs with fewer resources. Programs 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. Program 1.3 was funded largely through direct appropriation.

Table 6.2: **Budgeted expenses and resources for DMO outcome**

Outcome 1: Contributing to the preparedness of the Australian Defence organisation through acquisition and through-life support of military equipment and supplies	2013–14 revised budget \$'000	2013–14 actual result \$'000	Variation^[1] \$'000
Program 1.1: Management of Capability Acquisition			
Departmental expenses			
Ordinary annual services (Appropriation Bill Nos 1 & 3)	267,393	218,645	–48,748
Special accounts	3,513,632	4,146,203	632,571
Expenses not requiring appropriation	8,877	5,906	–2,971
Subtotal for Program 1.1	3,789,902	4,370,754	580,852
Program 1.2: Management of Capability Sustainment			
Departmental expenses			
Ordinary annual services (Appropriation Bill Nos 1 & 3)	507,363	525,056	17,693
Special accounts	5,052,741	5,318,482	265,741
Expenses not requiring appropriation	18,835	13,914	–4,921
Program for Output 1.2	5,578,939	5,857,452	278,513
Program 1.3: Provision of Policy Advice and Management Services			
Departmental expenses			
Ordinary annual services (Appropriation Bill Nos 1 & 3)	97,622	93,581	–4,041
Special accounts	2,449	0	–2,449
Expenses not requiring appropriation	5,204	11,653	6,449
Subtotal for Program 1.3	105,275	105,234	–41
Total departmental expenses for Outcome 1	9,474,116	10,333,440	859,324

Note

1. The variation is between the actual result as disclosed in the DMO's audited 2013–14 financial statements and the revised budget published in the Portfolio Additional Estimates Statements 2013–14.

Detailed information on income, assets, balance, cash flow and special accounts is available online.

Joint Strike Fighter aircraft deliver new air capability

On 23 April 2014, Prime Minister Tony Abbott and Senator David Johnston, Minister for Defence, announced the approval of an additional 58 F-35A Lightning II Joint Strike Fighter (JSF) aircraft. The approval encompassed the infrastructure, training and support systems necessary to sustain the full JSF capability.

Including the 14 previously approved aircraft, Australia's JSF program has a total approved budget of \$15.5 billion and is the nation's biggest approved defence project.

The announcement came as Australia's first two JSFs approached completion on the production line at the Lockheed Martin facility in Fort Worth, Texas. After final acceptance, the aircraft will be ferried to the F-35 international pilot training centre at Luke Air Force Base, Arizona, where Australian pilot training will begin in 2015.

The commencement of pilot training will be an important milestone in delivering a JSF initial operating capability in 2020. The operations and training in the United States will allow the RAAF and the DMO to gain an understanding of the activities required to introduce the JSF into service in Australia.

During 2013–14, the JSF program delivered the necessary ground-based information systems to Luke Air Force Base and negotiated agreements with the United States and other nations necessary for pooled training.

As aircraft deliveries commence and training begins to ramp up in the United States, the F-35 JSF Facilities Program is also moving ahead on the Australia-based elements of the program. During 2013–14, the program completed the business case for its \$1.5 billion worth of infrastructure. Works are planned to commence in 2015, when the program will



F-35A in flight

begin to deliver significant economic benefit through construction, particularly in the Katherine (Northern Territory) and Newcastle (New South Wales) areas.

The overall JSF program has also delivered significant benefits to the Australian aerospace industry. To date, Australian industry has won contracts worth US\$412 million in support of the JSF's development and production. There is an Australian-made part in every JSF in service. Through the production phase, Australian industry is expected to secure work to the value of at least US\$1.5 billion, and many more opportunities are expected in sustainment.

Setting up the Australian JSF sustainment solution will be one of the biggest challenges and one of the highest priorities for the program office over the next few years. Effectively operating and maintaining the JSF, with its unparalleled sensors, network and stealth technologies, will be a significant challenge that will demand new thinking from the Air Force, the DMO and Australian industry.

Summary

The DMO outcome: Contributing to the preparedness of the Australian Defence organisation through acquisition and through-life support of military equipment and supplies

The DMO has 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

Program 1.1 Management of Capability Acquisition

Through Program 1.1, the DMO acquires and delivers to Defence, in a transparent and accountable manner, specialist military equipment to enable the delivery of military capability to the Government. Equipment is purchased by DMO acquisition projects in accordance with materiel acquisition agreements between Defence and the DMO. The agreements define what is to be delivered, how much it is to cost and when it is to be delivered. The DMO currently has 222 active major and minor projects.

Program 1.1 accounted for around 42 per cent of the DMO's expenses in 2013–14. This generated around \$3.8 billion of military assets for Defence; non-capitalised project expenses were about \$0.4 billion.

Table 6.3: **Program 1.1 deliverables for top 30 major projects**

Deliverable	Performance summary
General Manager Joint, Systems and Air	
Aerospace Systems	
Battlefield Airlift—Caribou Replacement—AIR 8000 Phase 2	<p>This project will acquire a fleet of 10 United States military configuration C-27J aircraft as a military-off-the-shelf procurement through the US Foreign Military Sales program, with only minor changes to meet Australian airspace regulations.</p> <p>The project established the interim C-27J logistics system, procured aircraft spares and support equipment, undertook activities to establish an interim US-based training system and undertook airworthiness certification activities in preparation for first aircraft acceptance in the third quarter of 2014 and the commencement of flight and maintenance training in the fourth quarter of 2014.</p>
Growler Airborne Electronic Attack Capability—AIR 5349 Phase 3	<p>This project will deliver a United States Navy common airborne electronic attack capability based on the EA-18G Growler aircraft and ALQ-99 Tactical Jamming System.</p> <p>Foreign military sales cases for acquisition of aircraft and associated systems and support were established with the United States Navy, which also reached agreement with its primary supplier, Boeing, for the major aircraft production contracts. Growler aircraft production is on schedule; the software development effort is well underway and has achieved early development milestones.</p> <p>Seven Air Force aircrew commenced training on the EA-18G at the United States Naval Air Station, Whidbey Island, Washington.</p>
Airborne Early Warning and Control Aircraft—AIR 5077 Phase 3	<p>The project provided Defence with an airborne early warning and control capability based on six E-7A Wedgetail aircraft and associated supplies and support.</p> <p>The project made progress on software modifications to remove a small number of limitations agreed to under the final commercial settlement. In-Service Software Build 2 was released in April 2014, while the project also delivered the majority of residual spares to support the final operational capability. In-Service Software Build 3 will be released during 2014–15.</p>

Table 6.3 (continued)

Deliverable	Performance summary
Air to Air Refuelling Capability— AIR 5402	<p>This project will deliver five new-generation Airbus A330 multi-role tanker transport aircraft (known as the KC-30A in Air Force service) and associated through-life support infrastructure for the fleet.</p> <p>The project delivered the penultimate upgrade to the simulation training devices, began the avionics modification program (which is the first phase of the overall aircraft modification) and re-entered the Aerial Refuelling Boom System flight test program.</p> <p>This project continues to be managed as a project of concern (see Table 6.6).</p>
Electronic Systems	
Battlespace Communications System (LAND)— JP 2072 Phase 2A	<p>This project will deliver and introduce into service new digital radios, provide combat radios and ancillary equipment to replace the Raven, Wagtail and Pintail fleets for most of the land force, and establish the mature support system for combat and tactical data radios.</p> <p>Delivery and introduction into service of the new digital radios are 60 per cent complete. Initial materiel release and initial operating capability were achieved. Interim support arrangements are in place, while two major support contracts for the life-of-type of the new radios are being tendered or evaluated.</p>
Next Generation Satellite Communications System—JP 2008 Phase 4	<p>This project will deliver high-priority components of the next-generation satellite communication system to support the ADF. The capability is being delivered under a memorandum of understanding with the United States Government. Wideband Global Satellite Communications System Satellites 1 to 6 are now fully operational. The interim anchoring system has achieved materiel releases 3 and 4 milestones and is fully operational. Offshore anchoring has achieved materiel release and is fully operational.</p> <p>The project achieved final materiel release on 26 June 2014.</p>
Battle Management System—LAND 75 Phase 3.4	<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 System).</p> <p>The project delivered to the Army all installations of the battle management systems into Bushmaster protected mobility vehicles and selected logistic vehicles. Installations into G-Wagon vehicles were also progressed during the year. The completion of design acceptance activities and introduction into service processes will continue in 2014–15.</p>
Military Satellite Capability— Wideband Terrestrial Terminals —JP 2008 Phase 3H	<p>This project will deliver 51 medium-sized transportable satellite terminals for ADF units, along with onsite spares kits, spares, and support and test equipment. The terminals will allow early use of the Wideband Global Satellite Communications (WGS) system by introducing medium-sized WGS-certified terminals to the ADF land forces.</p> <p>The project completed acceptance testing of the transportable satellite terminals, and introduction into service training has concluded. The initial tranche of 24 terminals was delivered to the ADF as part of the initial materiel release requirement. Action is underway to improve the power supply system in the context of contemporary Australian Standards. The final tranche of terminals will be delivered in 2014–15.</p>
Anzac Electronic Support System Improvements— SEA 1448 Phase 4A	<p>This project will provide the Anzac class frigates with an improved tactical electronic support mission system for improved passive situational awareness and early threat warning. The project includes the provision of a mission system and emulators for training and a ground-based support segment for mission system programming.</p> <p>The project completed a preliminary design review in October 2013 and a critical design review in February 2014.</p>
Joint Command Support Environment— JP 2030 Phase 8	<p>This project 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 Operational Command (HQJOC).</p> <p>The project delivered the third release Evolution 2 capability to HQJOC and the combat net radio interface capability.</p>

Table 6.3 (continued)

Deliverable	Performance summary
Helicopter Systems	
Future Naval Aviation Combat System Helicopter—AIR 9000 Phase 8	<p>This project will deliver 24 MH-60R Seahawk Romeo helicopters to replace the capability of the current 16 S-70B-2 Seahawk Classic helicopters. The acquisition of the Romeos will enable the Navy to provide eight helicopters concurrently embarked in Anzac class frigates and the new Hobart class air warfare destroyers. The remainder will be based at HMAS Albatross in Nowra, New South Wales, conducting training and maintenance.</p> <p>The first four aircraft were accepted in the United States, initial introduction into service training for aircrew and maintainers commenced, Australian certification activities were completed, and construction of the dedicated Seahawk Romeo facilities at HMAS Albatross and HMAS Stirling, in Western Australia, began.</p>
Multi-Role Helicopter—AIR 9000 Phase 2/4/6	<p>This project will deliver 47 MRH-90 multi-role helicopters, associated support, and training systems for the Army and the Navy.</p> <p>New aircraft are now being accepted ahead of the revised production schedule that came into effect on 1 July 2013. Nine MRH-90s were accepted during 2013–14, raising the fleet total to 29 aircraft. A retrofit program to modify 12 early production aircraft to the final contracted production configuration standard is also in progress; five aircraft have been accepted out of this program to date. The first of two full flight and mission simulators was accepted into service at Oakey, Queensland, in August 2013; the second arrived in Townsville, Queensland, in May 2014 and will be accepted by the end of 2014.</p> <p>The project is being managed as a project of concern (see Table 6.6).</p>
New Air Combat Capability	
Joint Strike Fighter Aircraft—AIR 6000 Phase 2A/2B	<p>This project will deliver 72 conventional take-off and landing F-35 Joint Strike Fighter (JSF) aircraft and associated support and training systems. Three operational squadrons and one training squadron are planned to enter operational service between 2020 and 2023 to replace the ageing F/A-18A/B Hornet aircraft.</p> <p>In April 2014, in addition to the previously agreed 14 aircraft, the Government agreed to the acquisition of an additional 58 JSFs and associated support systems and infrastructure.</p> <p>Production of Australia's first two JSFs is significantly advanced and is on schedule for delivery and acceptance in 2014–15.</p> <p>The program delivered its first set of ground support information systems to the international pilot training centre at Luke Air Force Base, Arizona. These systems will be used to support Australia's first two JSFs and the commencement of US-based Australian pilot training in 2015.</p>
General Manager Land and Maritime	
Guided Weapons Branch⁽¹⁾	
Standard Missile-2 Conversion and Upgrade—SEA 4000 Phase 3.2	<p>This project is converting the existing inventory of surface-to-air standard missiles from rail to canister launch configuration for employment with the Hobart class air warfare destroyer, and upgrading a proportion of the missiles from a Block IIIA to a Block IIIB configuration. The project is also upgrading the Standard Missile Intermediate Level Maintenance Facility to enable the recertification and maintenance of Block IIIB missiles.</p> <p>The project delivered Block IIIB missile components and commenced the Standard Missile Intermediate Level Maintenance Facility upgrade.</p>
Lightweight Torpedo Replacement—JP 2070 Phase 2	<p>This project will deliver MU90 anti-submarine lightweight torpedoes integrated with the Anzac and Adelaide class frigates.</p> <p>The Navy successfully test-fired an MU90 torpedo against a realistic target. Final operational capability for the MU90 lightweight torpedo system was declared in September 2013, and in-service support arrangements were implemented for the system.</p>
Bridging Air Combat Capability—AIR 5349 Phase 2	<p>This project is delivering new weapons and countermeasures for the F/A-18F Super Hornet.</p> <p>The project delivered AIM-120 advanced medium-range air-to-air missile training assets and operational AGM-154 joint stand-off weapons, and continued to work with the United States Navy and Air Force to progress the delivery, integration and introduction into service of new weapons and countermeasures for the F/A-18F Super Hornet.</p>

Table 6.3 (continued)

Deliverable	Performance summary
Munitions Branch^[2]	
Mulwala Redevelopment Project—JP 2086 Phase 1	<p>This project will deliver a modernised propellant manufacturing facility at Mulwala, New South Wales, to replace the existing but now obsolete plant. The modernised facility will meet more stringent and up-to-date environmental and work health and safety standards.</p> <p>The project continued the commissioning of the modernised propellant manufacturing facility at Mulwala. Approximately 40 per cent of the contracted capability was delivered during the year, and formal testing of the remainder of the plant began in June 2014. A number of technical issues identified throughout the commissioning process will continue to be addressed through a collaborative approach involving all stakeholders to enable the delivery of the remaining elements of the plant at the earliest possible opportunity.</p> <p>This project continues to be managed as a project of concern (see Table 6.6).</p>
Air Warfare Destroyer	
Air Warfare Destroyer Build— SEA 4000 Phase 3	<p>The Air Warfare Destroyer (AWD) Build Project is being delivered under an alliance-based contracting arrangement between the Commonwealth (the DMO), ASC AWD Shipbuilder Pty Ltd and Raytheon Australia. The project will deliver three Hobart class destroyers and their support systems to the Navy.</p> <p>The project achieved a number of key milestones. For Ship 01, HMAS <i>Hobart</i>, block consolidation was completed, stern release was finalised and combat systems crew training commenced in the US. The keel for Ship 02, HMAS <i>Brisbane</i>, was laid in February 2014. HMAS <i>Hobart</i> system fit-out is well advanced, work is underway on all HMAS <i>Brisbane</i> blocks, and more than 80 per cent of Ship 03 blocks are under construction.</p> <p>While the ships are coming together, shipbuilding aspects of the program are well over the target cost because of poor productivity.</p> <p>The Government commissioned an independent review of the project in February 2014, which led to the announcement in June 2014 of a reform strategy to ensure that the program delivers this capability effectively and efficiently.</p> <p>This project is being managed as a project of concern (see Table 6.6).</p>
Land Systems	
Field Vehicles and Trailers—Overlander Program— LAND 121 Phase 3A/5A	<p>LAND 121 Phase 3A is delivering 2,146 unprotected lightweight and light Mercedes-Benz G-Wagon vehicles, together with specialist modules and 1,799 Haulmark trailers, to provide the Army and the Air Force with tactical mobility for training and the flexibility to undertake a wide range of tasks in difficult off-road conditions.</p> <p>The issue of production vehicles, modules and trailers to units, the refinement of through-life support, and vehicle operator and maintainer training continued. At 30 June 2014, 1,209 vehicles and 802 trailers had been delivered into service Australia-wide.</p>
Bushmaster Protected Mobility Vehicles—LAND 116 Phase 3	<p>This project will deliver 1,015 vehicles in seven variants (troop, command, mortar, assault pioneer, direct fire weapon, air defence and ambulance). They will provide protected land mobility to Army units and the Air Force Airfield Defence Guards. The vehicles comprise 737 vehicles that are to meet the current capability requirement, an additional 70 to meet future operational attrition and 208 to maintain critical skills at the Thales Bendigo site.</p> <p>The project delivered 84 vehicles to the Army, bringing the total number delivered to Defence to 922.</p>
Additional Lightweight Towed Howitzers— LAND 17 Phase 1C.1	<p>This project will deliver 19 M777A2 lightweight towed howitzers by 1 April 2015, in addition to the 35 lightweight towed howitzers that were delivered under LAND 17 Phase 1A. The delivery of the LAND 17 PH1C.1 Lightweight Towed Howitzers Capability Assurance Program (CAP) is currently subject to consideration by the Government.</p> <p>The project took delivery of the 19 M777A2 howitzers in Australia. The howitzers are being prepared for issue to the Army. The project also supported the Capability Development Group in the development of the capability proposal for LAND 17 PH1C.1 CAP.</p>
Overlander— Medium/Heavy Capability, Field Vehicles, Modules and Trailers— LAND 121 Phase 3B	<p>This project will deliver 2,707 medium and heavy vehicles in a number of variants, including recovery trucks, integrated load handling systems and flatbeds, in both protected and unprotected configurations. To complement the acquisition, approximately 3,800 modules and flatracks will be supplied and around 1,700 trailers will be acquired to increase payload carrying capacity.</p> <p>The project entered into contracts with Rheinmetall MAN Military Vehicles Australia for vehicles and modules and Haulmark Trailers Australia for the trailers. Contract start-up has commenced, and product design for both vehicles and trailers is underway.</p>

Table 6.3 (continued)

Deliverable	Performance summary
Digital Terminal Control System— LAND 17 Phase 1B	<p>This project is to deliver 152 digital terminal control systems. This capability allows artillery forward observers and joint terminal attack controllers to identify targets with greater accuracy through the use of precision targeting software. It also provides the means to digitally request fire support from land, sea or airborne weapon systems.</p> <p>The project achieved initial materiel release, which was defined to include the initial 56 systems bought under an operationally urgent procurement and an additional 76 systems with updated software, and the provision of the associated operator training for those systems.</p>
Artillery Replacement 155 mm Howitzer— LAND 17 Phase 1A	<p>This project is scoped to deliver 35 M777A2 lightweight towed howitzers, a command and control battle management system based on Advanced Field Artillery Tactical Data System software and course correcting fuzes. The project has introduced into service all 35 howitzers and the final version of the battle management system.</p> <p>The project achieved final materiel release for the towed howitzers and the battle management system and is being prepared for closure.</p>
Maritime Systems	
Amphibious Deployment and Sustainment— JP 2048 Phase 4A/B	<p>This project is scheduled to deliver two Canberra class Landing Helicopter Dock (LHD) vessels and associated LHD support system comprising engineering information training, spares, documentation and test equipment.</p> <p>The project undertook initial contractor sea trials of the first LHD but was unable to complete all trials required for delivery in accordance with the planned schedule. Continuing resource limitations within BAE Systems and the maritime sector have resulted in schedule slippage of the first LHD from early 2014 to late 2014. The second LHD currently remains on schedule for quarter three 2015, but is at risk of being affected by the same industry sector limitations that caused delay on the first LHD.</p>
Anzac Ship Anti-Ship Missile Defence—SEA 1448 Phase 2B	<p>This project will deliver a phased array radar system to the Anzac class frigates for target indication/tracking, mid-course guidance and target illumination for the Evolved Sea Sparrow Missile, and a new dual navigation radar system to replace the existing navigation radar suite.</p> <p>The project delivered the phased array radar system with the software upgrade to both the phased array radar and combat management systems in HMAS <i>Perth</i> and HMAS <i>Arunta</i>. The capability was successfully tested operationally in August 2013 in HMAS <i>Perth</i>. HMAS <i>Arunta</i> is currently undergoing sea trials after upgrade and HMAS <i>Anzac</i>, the third ship, is almost complete. The upgrade on HMAS <i>Warramunga</i> is progressing.</p>
Amphibious Watercraft Replacement— JP 2048 Phase 3	<p>This project will acquire 12 new watercraft to operate as landing craft with the two Canberra class LHD ships. The landing craft will provide an organic ship-to-shore connection in support of Defence's amphibious capability, enabling the transport of personnel and equipment between the LHD ships and the shore, including where there are no fixed port facilities or prepared landing facilities.</p> <p>The project received and accepted the first batch of four LHD landing craft from prime contractor Navantia and completed the installation of military communication and navigation systems.</p>
Standard Missile-1 Missile Replacement— SEA 1390 Phase 4B	<p>This project upgrades four Adelaide class frigates with the Standard Missile-2 surface-to-air mid-course guidance mode missile capability. It will also acquire the weapons and provide missile technician training.</p> <p>The project achieved Navy Operational Release for the ship weapon system capability and established principal support for three years for the system and its software through United States Foreign Military Sales. Direct commercial arrangements continue to be progressed. Project closure is planned for 2014–15.</p>
Anzac Ship Anti-Ship Missile Defence—SEA 1448 Phase 2A	<p>As part of the Anti-Ship Missile Defence Program, this project will provide the Anzac class frigates with an upgraded combat management system and introduce an infra-red search and track system to the platform.</p> <p>The project installed an upgraded combat management system and an infra-red search and track system in HMAS <i>Perth</i>. HMAS <i>Arunta</i> is currently on sea trials, and HMAS <i>Anzac</i>, the third ship, is almost complete. The upgrade on HMAS <i>Warramunga</i> is progressing.</p>

Table 6.3 (continued)

Deliverable	Performance summary
General Manager Submarines	
Future Submarines	
Future Submarine— Acquisition— SEA 1000 Phase 1A	<p>This project will deliver a replacement conventional submarine capability as the Collins class is progressively withdrawn from service on reaching the end of its life.</p> <p>The project continued to refine operational specifications for the Future Submarine based on informed cost and capability considerations. Formal agreement was reached on Collins intellectual property rights, after which studies on the feasibility of evolving the Collins submarine as an option for the Future Submarine began. This work proceeded in parallel with the completion of investigations into the suitability of European military-off-the-shelf submarines. At the same time, the Future Submarine Program made substantial progress in defining the key Australian requirements that would need to be satisfied by any design option, while also building the core technical competence that will be essential for the robust management of Australia's future submarine capability. Additionally, an independent cost analysis was initiated to improve the fidelity of program costings.</p>

Notes

1. In April 2014, Guided Weapons Branch commenced transition to Helicopter Systems Division. The move took effect on 1 July 2014.
2. In April 2014, Munitions Branch commenced transition to Land Systems Division. The move took effect on 1 July 2014.

The following information is available online:

- top 30 major projects by expenditure
- previously reported top 30 projects
- closed major materiel acquisition agreements
- closed minor materiel acquisition agreements
- new major projects
- new minor projects
- top 10 minor projects by deliverables and expenditure.

Program 1.1 key performance indicators

The key performance indicators for Program 1.1 are to deliver major and minor capital equipment within the agreed parameters for schedule, scope and budget. The detail varies with each project and is specified in the materiel acquisition agreements.

Australian Defence industry involvement in major capital equipment projects is reported online.

Program 1.2

Management of Capability Sustainment

The objective for DMO Program 1.2 is to sustain the ADF and its capabilities. Each financial year, the DMO enters into an agency-level bilateral materiel sustainment agreement with each Defence capability manager. The agreement details the level of performance and support required, within an agreed price, as well as key performance indicators by which service delivery will be measured.

In 2013–14, the program supported 118 products for Defence, which ranged from high-grade specialised military platforms (such as the C-17 Globemaster III heavy airlift aircraft, Super Hornet F/A-18 multi-role aircraft, Anzac class frigates and Seahawk helicopters) 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 effort is put into ensuring that our forces are effectively deployed and maintained. This task includes ensuring that the forces are supported from the outset, from training and exercise regimes to well-serviced and maintained platforms, and are equipped with the supplies and support needed to do the job. This outcome is only achieved through planning and implementing efficient procurement activities and maintenance programs.

Program 1.2 accounted for around 57 per cent of the DMO's expenses in 2013–14.

Table 6.4: **Program 1.2 deliverables for top 30 sustainment products**

Deliverable	Performance summary
General Manager Joint, Systems and Air	
Aerospace Systems products	
	<p>Aerospace Systems Division provides through-life support to 13 aircraft types, including the F/A-18A/B Classic Hornet, F/A-18F Super Hornet, E-7A (airborne early warning and control), AP-3C Orion, C-17A Globemaster, KC-30A (multi-role tanker/transport), C-130J and PC9. The Division also supports a number of advanced flight simulators and ground-support equipment fleets.</p> <p>Achievements in 2013–14 included:</p> <ul style="list-style-type: none"> • implementing efficiency initiatives, including incentive-based support contracts • managing the ageing Classic Hornet to maintain the capability until at least 2021 • supporting operationally deployed weapon systems, such as the C-17A, C-130J and AP-3C • continuing to finalise in-service support arrangements for the F/A-18F, KC-30A and E-7A • developing acquisition and sustainment strategies for future aerospace projects • providing support to emergent operational capabilities, such as the Heron unmanned aerial system • replacing the ageing aircraft cargo loader fleet.
Airborne Early Warning and Control System (CAF20)	<p>The Airborne Early Warning and Control system, comprising six E-7A Wedgetail aircraft, fixed and deployable mission support systems, flight deck and mission simulators and two software laboratories, is sustained principally through a performance-based commercial support and training service arrangement.</p> <p>Performance against sustainment levels agreed with the Air Force improved as support systems matured towards final operational capability in 2015. This work included the development and release of the second in-service software build, and maturing the logistics system to support the increasing flying rate of effort.</p> <p>The prime in-service support contract was novated from Boeing Defence, Space and Security in the United States to Boeing Defence Australia, providing both efficiencies and greater Australian industry involvement. A five-year contract extension was negotiated during the year and became operative in July 2014.</p>

Table 6.4 (continued)

Deliverable	Performance summary
F/A-18 Hornet Weapon System (CAF02)	<p>Seventy-one F/A-18 Classic Hornet 9 (CH) aircraft and associated training systems are supported by a range of commercial contracts and Air Force workshops. The major challenge in supporting the CH is the increased maintenance requirements of an ageing aircraft fleet.</p> <p>The CH Logistics Management Unit continued to work closely with the Air Force and industry partners to remediate ageing issues, ensuring that required aircraft serviceability levels were achieved. Effort centred on bedding in the CH deeper maintenance contract, which merged all deep maintenance events in one contractor venue incorporating a combined contractor and military workforce. The CH Structural Refurbishment Program also concluded after the last aircraft completed modifications in early 2014.</p>
F/A-18F Block II Super Hornet Weapons System (CAF21)	<p>The sustainment of 24 F/A-18F Super Hornets and their systems, weapons and support infrastructure has continued to mature. Current performance targets for aircraft availability have been consistently achieved. Flying program requirements have been met despite the lack of some long-lead spares that are yet to be delivered.</p> <p>As a result of adjustments to the Air Combat Capability Plan, there have been a number of initiatives to assess and develop enhanced support arrangements in recognition of the extended planned withdrawal date for the Super Hornet, as well as the introduction of the AIR 5349 Phase 3—Growler Airborne Electronic Attack Capability.</p>
P-3C/AP-3C Orion Weapons System (CAF04)	<p>The P-3 capability includes 17 aircraft and a range of ground-based systems. The capability is supported through the P-3 Accord and a range of commercial and foreign military support arrangements.</p> <p>The fleet continues to be maintained under the more resource-intensive 'safety-by-inspection' program, comprising additional targeted structural inspections, repairs and/or structural element replacements. Boeing Defence Australia completed the P-3 aircraft repaint program in June 2014.</p>
C-130J-30 Weapon System (CAF06)	<p>The C-130J fleet comprises 12 aircraft that provide air logistics support, aero-medical evacuation, airborne operations, and search and survivor assistance and training.</p> <p>During 2013–14:</p> <ul style="list-style-type: none"> revised product support arrangements were established for the C-130J spares previously managed under C-130H arrangements a new performance-based contract was entered into that reduced the cost of the propulsion system support aircraft maintenance efficiencies were implemented by the C-130J through-life support contractor and operational squadron to further reduce costs and increase aircraft availability upgrades to the self-protection capability through project AIR 5416 4B1 achieved final materiel release the Selective Availability Anti-Spoofing Module compatible embedded Global Positioning System trial installation was completed.
Lead-In Fighter Hawk 127 Weapon System (CAF03)	<p>The Hawk 127 Lead-in Fighter weapon system comprises 33 Hawk Mk 127 aircraft, a full-scale fatigue test article, mission planning systems, a computer-based training system and a tactical weapon system training system.</p> <p>The aircraft and training devices are sustained through a prime contract with BAE Systems Australia and a number of smaller contracts that focus on specific areas of Hawk sustainment, such as fatigue testing and repainting. The main performance-based contract provides all in-service support other than operational maintenance, which is currently performed by the Air Force. The in-service support contract, which commenced on 1 July 2013, transitioned during 2013–14 and all key performance metrics were met.</p> <p>The fleet corrosion control and repaint program continued throughout the year.</p>
KC-30A Weapon System (CAF22)	<p>Five KC-30A multi-role tanker/transport aircraft were accepted by the Commonwealth between June 2011 and November 2013. Transition of the KC-30A into service continues. The in-service support arrangements are maturing as the acquisition project office continues to deliver remaining capability requirements.</p> <p>An additional aircraft was committed to support the completion of remaining acquisition project flight test activities. One aircraft is assigned continuously to an acquisition-managed modification program. Sustainment performance in 2013–14 against the agreed Air Force requirements was limited by hail damage to two aircraft in December 2013.</p>

Table 6.4 (continued)

Deliverable	Performance summary
C-17 Heavy Air Lift Weapons System (CAF19)	<p>The Australian C-17 fleet comprises six aircraft, an aircrew training simulator and other training devices. Primary support for the C-17 is through foreign military sales arrangements with the US Air Force, which provides comprehensive engineering, maintenance and global supply support to the US and all international operators of the C-17.</p> <p>The new cargo compartment trainer was accepted in November 2013, increasing the scope of training for loadmasters in Australia.</p> <p>The C-17 fleet achieved final operational capability in February 2014.</p>
Special Purpose Aircraft (CAF09)	<p>The current special-purpose aircraft fleet consists of two Boeing business jets and three Bombardier Challenger CL604 aircraft. The aircraft are secured under a commercial lease arrangement with General Electric Capital Holdings and maintained by Northrop Grumman Integrated Defence Services.</p> <p>The aircraft leases and maintenance support arrangements were extended until mid-2017, ensuring the continued delivery of the capability while Defence manages the acquisition of, and transition to, a replacement capability.</p>
PC-9/A Weapon System (CAF10)	<p>The PC-9/A system comprises 63 aircraft. The fleet requires significant management attention to treat problems such as fatigue, parts obsolescence and corrosion, which are customary in an ageing fleet.</p> <p>To ensure that the fleet can operate to its planned withdrawal date, the DMO began a range of reliability assessment and correction measures in 2013–14.</p>
Electronic Systems products	
<p>Electronic systems are sustained through 17 system program and system support offices based on materiel sustainment agreements with five capability managers. The offices cover command and control systems, communications, satellites and tactical interoperability, airspace surveillance and control systems, and electronic warfare systems.</p> <p>Achievements in 2013–14 included:</p> <ul style="list-style-type: none"> the safe delivery of required sustainment despite growth in demand and increasing obsolescence analysis, planning and execution of a major radio fleet transition phase as the second tranche of JP 2072 (Future Combat Net Radio) equipment is delivered and rolled out the management of sustainment of all ADF large aircraft infra-red countermeasures systems, covering multiple current and future airborne programs the sustainment of the joint counter improvised explosive device capability remediation of air traffic control and air defence support arrangements in preparation for possible life-of-type extensions and to achieve reform the treatment of obsolescence issues at the Woomera Test Facility, South Australia the development of support concepts for narrowband satellite communications, the identification of further efficiencies and the remediation of obsolescence issues effecting tactical satellite terminal equipment the sustainment of maritime, land and air tactical electronic warfare capabilities, including continued support to address changes in targeted technologies and the remediation of systems returning from operations. 	
Wide Area Surveillance (CAF13)	<p>The wide area surveillance capability consists of three over-the-horizon-radars based in Longreach, Queensland; Laverton, Western Australia; and Alice Springs, Northern Territory, and is known as the Jindalee Operational Radar Network (JORN). The capability is remotely operated by the Air Force from an operations centre at RAAF Base Edinburgh, South Australia.</p> <p>The JORN Priority Industry Capability Support Program was implemented. The aim of the program is to retain specialised engineering skills through minor capability enhancements, urgent remediation of obsolescence issues, system improvements and risk reduction for future major acquisitions.</p>
Command and Intelligence Systems (CA40)	<p>The product schedule addresses the sustainment of a suite of hardware and software products used to support Defence's specialised command and control environment. It includes modular deployable local area networks (DLANs); geospatial stand-alone and deployable systems; special operational command support systems; and command, control and intelligence products, along with the associated deployable standard operating environment (DSOE) upon which many of the applications function.</p> <p>Systems deployed on operations were supported, including through transition and remediation action on systems as the ADF progressively withdraws from operations. The design of the next-generation DLAN and its supporting DSOE was completed. Subject matter advice was provided on DLANs, the DSOE design and build and geospatial architecture to emerging and current projects with deployable components. Sustainment was also begun on a range of deployable network equipment being acquired by the Chief Information Officer Group's Strategic Communications Modernisation Program—Land.</p>

Table 6.4 (continued)

Deliverable	Performance summary
Air Traffic Control Capability (CAF12)	<p>The air traffic management capability consists of fixed and deployable radars, navigation aids, display and data processing systems, communications systems and related training aids at Defence sites throughout Australia.</p> <p>The required sustainment outcomes and strategic reform targets were met, while system obsolescence was mitigated.</p>
Naval and Shore Communication Systems (CN22)	<p>This product provides sustainment services for the Defence high frequency (DHF) and very low frequency (VLF) communications systems, modernised maritime communication systems and ship-shore communications.</p> <p>The delivery of contracted support for the naval and shore communication operational systems, the change out of antenna guy wires for the VLF system and the remediation of workshop equipment and hazardous chemical products across the product suite continued. Multiple-platform baseline software upgrades for the maritime communications system were undertaken, the Navy's global maritime distress and safety-at-sea-system radios began to be replaced, and obsolete components in some of the Navy's communication switching equipment were replaced.</p> <p>The fleet-wide support and service delivery contract for the Satellite TV @Sea capability for naval platforms as part of an overall Quality of Life at Sea program for deployed personnel was established. Changes were made to extend the network operation support contract and support services contract to provide for the continued support of the DHF communications system, inclusive of the integrated Nullarbor capability, until May 2019.</p>
Battlespace Communications Systems (CA33)	<p>The capability consists of two primary fleets of communications equipment. The combat net radio fleet is a range of man-portable and vehicle-mounted radios for use by ground forces on the battlefield. The battlefield telecommunications network fleet is a satellite and trunking system that provides a voice and data capability to a deployed brigade. These fleets are maintained through sustainment contracts with Thales Australia, Saab Australia and BAE Systems Australia.</p> <p>Planning for the transition of the first phase of the JP 2072 generation of communications equipment from acquisition to sustainment occurred. Planning for the establishment of mature maintenance and support contracts with Harris Corporation and Raytheon Australia began. Concurrently, elements of the old-generation fleet were identified for retirement as the new-generation radios are introduced into service. This activity is critical to minimise longer term sustainment costs.</p>

Helicopter Systems products

Helicopter Systems Division provides through-life support to seven rotary-wing weapons systems through system program offices based at Nowra, New South Wales, for Navy Aviation; and Brisbane and Oakey, Queensland, for Army Aviation. The offices provide fleet-wide engineering, repair parts, and manage contracts for deeper level maintenance and replacement of ageing and obsolescent equipment for the helicopters. In addition, a combined project and sustainment team to manage the through-life support of the Army's tactical level unmanned aerial systems has been established within the Division in Brisbane.

The highest priority sustainment task in 2013–14 remained the support of operational deployments, including the embarked Seahawk Classics in ships serving in the Middle East. Chinooks and Shadows were supported on operations in the Middle East until late 2013.

Achievements in 2013–14 included:

- improved MRH-90 availability as a result of the implementation of significant contractual reforms negotiated in 2013
- recognition of the requirement for a 'step-change' in industry's Tiger sustainment performance
- the establishment of the new MH-60R Seahawk Romeo logistic support framework
- the commencement of Black Hawk and Seahawk Classic withdrawal from service
- the integration of Guided Weapons Branch into the division.

In April 2014, the Guided Weapons Branch of Explosives Ordnance Division was transitioned into Helicopter Systems Division.

Multi-Role Helicopter (CA48)	MRH-90 availability and flying rate of effort continued to improve steadily during 2013–14, but remained below contracted levels. Prime contractor performance has been sharply focused on improving outcomes following the introduction of significant reforms to the sustainment contract agreed in May 2013 and effective from 1 July 2013.
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Armed Reconnaissance Helicopter Weapons System (CA12)	As a result of continuing maintenance and supply-chain problems, the Tigers underflew the 2013–14 plan by 7 per cent. A strategic review of the Tiger sustainment contract, focusing on reducing the cost of ownership and improving support to the Army, has begun.
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Table 6.4 (continued)

Deliverable	Performance summary
S-70A-9 Black Hawk Weapons System (CA11)	<p>The fleet of 34 Black Hawks contributes to the Army's air mobile and special operations capabilities. The Black Hawk is being phased out of service in lock step with the introduction of the MRH-90. Black Hawk operations at the School of Army Aviation in Oakey, Queensland, ceased in December 2013, and the drawdown of Black Hawks from the 5th Aviation Regiment in Townsville, Queensland, commenced. Black Hawk operations with the 6th Aviation Regiment in Holsworthy, New South Wales, will continue until the mid-2018 planned withdrawal date.</p> <p>The Black Hawk was supported throughout 2013–14 by a combination of maintenance contracts, mainly held with BAE Systems Australia and Asia Pacific Aerospace, Army in-unit maintenance, and support from helicopter manufacturer Sikorsky.</p>
S-70B-2 Seahawk Weapons System (CN03)	<p>The fleet of 16 Seahawk Classic helicopters contributes to the Navy's anti-surface and antisubmarine warfare capabilities. The Seahawk was supported throughout 2013–14 by a combination of maintenance contracts, mainly with BAE Systems Australia and Asia Pacific Aerospace, Navy in-unit maintenance, and support from helicopter manufacturer Sikorsky.</p> <p>The phase-out of the Seahawk Classic fleet has begun, ahead of the introduction of the new Seahawk Romeo capability.</p>

General Manager Land and Maritime

Guided Weapons Branch products^[1]

Guided Weapons Branch acquires and sustains ADF guided weapons. Two guided weapons system program offices provide sustainment logistics, engineering and maintenance support at RAAF Base Amberley, at Defence Establishment Orchard Hills and at the Torpedo Maintenance Facility in Western Australia.

ADF guided weapons include maritime and land strike missiles, air combat missiles, land and air defence missiles, aerial smart bombs and underwater weapons, including light- and heavy-weight torpedoes. The majority of these weapons are supported by a combination of US Government Foreign Military Sales arrangements, commercial contracts and Commonwealth in-house maintenance activity. Varying degrees of industry support are provided by Thales, MBDA, Boeing, Raytheon and Euro Torp.

Achievements in 2013–14 included:

- the satisfaction of all Navy, Army and Air Force demands for guided weapons
- the continuing remediation of the Harpoon missile inventory
- the completion of facilities upgrades at the Surface Warfare Complex, Defence Establishment Orchard Hills, New South Wales, for maintenance of the Block IIIB Standard missile, and at the Torpedo Maintenance Facility, Fleet Base West, for maintenance of the Mark 54 lightweight torpedo.

Guided Weapons Navy, Army and Air Force (CN38, CA60, CAF33)

Navy guided weapons products include the Harpoon missile, Standard missile, Evolved Sea Sparrow missile, Mark 48 heavyweight torpedo, Mark 46 lightweight torpedo, MU90 lightweight torpedo, Encapsulated Harpoon Certification test vehicle, Danish mine disposal charge and Stonefish exercise mine.

All operational and raise, train and sustain demands for Navy guided weapons were met.

Army guided weapons products include the FGM-148 Javelin missile, RBS70/Bolide missile and AGM-114 Hellfire missile.

All operational and raise, train and sustain demands for Army guided weapons were met.

Air Force guided weapons products include AIM-132 advanced short range air-to-air missile, AIM 120 advanced medium-range air-to-air missile, AIM-9M and X Sidewinder missiles, AGM-154 C/C1 joint stand-off weapon, AGM-158 joint air-to-surface stand-off missile, joint direct attack munitions, high-explosive and inert bombs and laser-guided bomb kits.

All operational and raise, train and sustain demands for Air Force guided weapons were met.

Munitions Branch products^[2]

The Munitions Branch, which transitioned to Land Systems in April 2014, is responsible for the acquisition and sustainment of non-guided explosive ordnance systems for the ADF, including the management of strategic contracts for munitions supply with Thales and Chemring. In addition, it is responsible for JP 2086 Mulwala Redevelopment Project and the Domestic Munitions Manufacturing Arrangements Project.

Achievements in 2013–14 included:

- the development and implementation of a detailed plan to transition out of the current arrangements for domestic manufacture of munitions, propellant and high explosives
- the repatriation of a significant quantity of munitions from Afghanistan in preparation for a reduction in Australian forces
- a revision of munitions target stockholdings to reflect greater confidence by the Services in effective inventory management
- ministerial consideration of options for future domestic munitions manufacture.

Table 6.4 (continued)

Deliverable	Performance summary
Explosive Ordnance—Navy, Army & Air Force (CN37, CA59, CAF32)	All munitions demands in support of operations were met within the required timeframes. Navy, Army and Air Force requirements for munitions in support of training were mostly met. The exceptions were invariably due to unforeseen supply-chain disruptions resulting from a dramatic reduction in global munitions production. The exceptions were managed in conjunction with the Navy, the Army and the Air Force to minimise their impact on training. Improvements in inventory management and reporting facilitated reductions in target stockholdings, which enabled planned strategic reform savings targets to be met.
Land Systems products	
Land Systems Division is responsible for the sustainment of the following materiel, managed in conjunction with the Army, the Navy, the Air Force and Joint Health Command as the lead capability managers:	
<ul style="list-style-type: none"> armoured fighting, combat support and field vehicles commercial and general service vehicles engineer, surveillance and simulation systems weapon systems, from small arms to missiles medical and dental equipment, health systems and combat rations ADF clothing and personal combat equipment the national inventory of munitions. 	
Achievements in 2013–14 included:	
<ul style="list-style-type: none"> meeting the support requirements of forces on operations and conducting post-operational equipment remediation in accordance with agreed plans delivering the agreed level of support to the ADF, within budget completing a comprehensive review of key performance indicators and health indicators in consultation with Defence capability managers progressing the development and training of the division's sustainment workforce commencing trials to optimise vehicle fleet sustainment by using vehicle health usage monitoring systems absorbing Munitions Branch from Explosive Ordnance Division. 	
ADF Clothing (CA39)	<p>ADF clothing comprises about 21,300 line items of personal clothing, footwear and other items manufactured by the textile, clothing and footwear industry.</p> <p>During 2013–14, new clothing lines introduced included new parade footwear for the three Services, including RM Williams boots for the Army; a new general-purpose jacket for the Army; a new general-purpose uniform for the Air Force; cadet footwear; and wet and foul-weather garments. Continuing procurement to meet the ADF's clothing and footwear requirements was undertaken to support operations as well as for raise, train and sustain activities.</p>
General Service B Vehicle Fleet (CA45)	<p>The general service vehicle fleet consists of approximately 8,700 light, medium and heavy wheeled vehicles, including protected (up-armoured) and unprotected variants, used in Australia and on operations overseas. Defence is progressively replacing most vehicles in the fleet under Project LAND 121.</p> <p>During 2013–14, full support continued to be provided for operations, including the procurement of deployable all-terrain vehicles and the acquisition of additional up-armoured sports utility vehicles. In addition, work continued to upgrade 135 stores and ammunition modules to improve operator safety and functionality.</p> <p>A key focus for the fleet has been to ensure that the required capability levels are maintained, and the fleet reduced in size as new capability is delivered under Project LAND 121. As part of the fleet reduction program, about 1,350 vehicles were removed from service.</p>
Australian Defence Organisation Commercial Vehicles Fleet (CA19)	<p>The Defence Commercial Vehicle Program uses commercially available motor vehicles for administrative purposes. Currently, the fleet has around 5,600 vehicles and trailers under management. The fleet ranges from passenger sedans through to heavy rigid trucks and touring coaches. The whole-of-government fleet services provider, sgfleet, supports the fleet.</p> <p>During 2013–14, the fleet replaced around 1,200 vehicles as part of its normal replacement cycle. This included 880 passenger and light commercial vehicles, 39 medium cargo trucks, 250 light trailers and 25 medium buses. Under the program, around 880 vehicles were released for disposal during the year.</p>

Table 6.4 (continued)

Deliverable	Performance summary
Health Systems (JHC01)	<p>The health systems fleet is made up of pharmaceutical, medical and dental consumables and medical and dental equipment. These are generally commercial off-the-shelf items.</p> <p>During 2013–14, a prime vendor contract for the provision of medical and dental consumables was established to achieve efficiencies in their management, the replacement of defibrillators was completed, and ADF health requirements for operations and raise, train and sustain activities were satisfied.</p>
Maritime Systems products	
	<p>The DMO supports maritime capability through cost-effective materiel design, maintenance engineering and logistic support to platforms, equipment and systems. These sustainment services are provided under a structure of system program offices that are collocated regionally with the Navy forces and groups by ship class. The offices manage the delivery of services through a variety of outsourced commercial contracts.</p> <p>Under the Rizzo Review, the Maritime Capability Business Model Health Check program has been used to assist the Navy and the DMO business units to embed policy, procedural and cultural changes and assess the maturity and effectiveness of their processes to deliver end-to-end sustainment.</p> <p>Implementation of the Navy Inventory Procurement Office strategic sourcing initiative continued. In 2013–14, there was progress in the formalisation of through-life support for Navy life-rafts and the development of support contracts for LM2500 gas turbines and MTU diesel engines and components.</p> <p>Improvement of configuration management and the maintenance baseline of major surface ships and other platforms continued. Other achievements in 2013–14 included:</p> <ul style="list-style-type: none"> • the awarding of the guided missile frigate FFG class group maintenance contract • the awarding of the Garden Island dock operating and reticulated services contract • the transfer of the <i>Ocean Shield</i> to the Australian Customs and Border Protection Service on 1 July 2014 • the awarding of the Canberra class landing craft heavy capability support coordinator contract.
Fuels and Lubricants—Navy, Army & Air Force (CN26, CA43, CAF18)	<p>Petrol, oil and lubricant products are procured under long-term contracts and provided to Defence operational and support elements and visiting foreign forces. The Fuels Technical Regulatory and Quality Control Framework is maintained for the conduct of Services' operations and technical data integrity.</p> <p>Provision of these products was completed to meet requirements. Under the implementation of the Wraith Review of the petroleum supply chain, Joint Logistics Command has assumed control of the fuel supply chain for the ADF. The DMO's Joint Fuels and Lubricants Agency will now formally transfer to Joint Logistics Command.</p>
Anzac Class Frigate (CN02)	<p>Planned outcomes were the provision of continuing sustainment of materiel capability to meet the Navy's operational requirements, the continued implementation of the Anzac class group maintenance contract, continued inventory management reforms and the continuation of anti-ship missile defence refit work on the designated ships under Project SEA 1448 Phases 2A and 2B.</p> <p>Planned maintenance was completed, including additional pre-anti-ship missile defence work in HMAS <i>Warramunga</i>. Materiel support to capability was provided to the Anzac class frigates undertaking activities associated with operations Slipper, Sovereign Borders and Southern Indian Ocean. HMAS <i>Arunta</i> is undergoing sea trials following the completion of an anti-ship missile defence upgrade and refit program.</p>
Adelaide Class Frigate (CN01)	<p>The support objective is to maintain the materiel capability of the Adelaide class frigates through the provision of materiel support and continuing maintenance of the ships and associated equipment, systems and operator training facilities.</p> <p>Planned maintenance was completed in the four guided missile frigates. A contract for combat system support, the signing and commencement of the group maintenance contract and the extension of the integrated materiel support contract were achieved; together, they will provide the long-term contracted support required to sustain the class.</p>
Mine Hunter Coastal (CN14)	<p>The support objective is to maintain the materiel capability of the Huon class coastal mine-hunter vessels and associated training equipment through the provision of materiel support and continuing maintenance of the in-service ships.</p> <p>Scheduled ship maintenance was completed during 2013–14, along with additional maintenance. Detailed designs for the upgrade of the firefighting system and the upgrade of the combat systems are progressing as planned.</p>

Table 6.4 (continued)

Deliverable	Performance summary
Armidale Class Patrol Boat (CN09)	<p>The objective is to provide the agreed support services required for the sustainment of 14 Armidale class patrol boats.</p> <p>While operational requirements were largely achieved during 2013–14, boat availability was affected by a class-wide structural design defect that required extensive rectification work. Along with significant growth in corrosion, this caused maintenance overruns.</p> <p>There has been increased effort to address the root cause of system failures and to instigate the upgrade program for the boats to reduce the level of operational damage. A sustainment reform program is being conducted to improve the delivery of materiel support to the ships and to provide options to optimise supply. Implementation of an improved asset management regime commenced with the development of a rolling hull-survey program.</p>
General Manager Submarines	
Collins Submarines program	
<p>Performance:</p> <ul style="list-style-type: none"> • Availability: 105 per cent of an increased availability target was achieved on the path towards benchmark performance, despite three unscheduled dockings and the significant impact associated with a fire in HMAS <i>Waller</i>. • HMAS <i>Rankin</i> full-cycle docking was completed early against the integrated master schedule. • HMAS <i>Collins</i> main generator room and motor room hull cuts were completed (proving new maintenance techniques as part of continuing sustainment reforms). • HMAS <i>Farncomb</i> full-cycle docking commenced (the first of the new two-year full-cycle dockings). <p>Reforms:</p> <ul style="list-style-type: none"> • The two-year transition phase of the in-service support contract with ASC Pty Ltd was completed on schedule on 30 June 2014; the DMO and ASC entered the first performance period of this contract on 1 July 2014. • Substantial improvements were made to the combat system support contract with Raytheon Australia, paving the way to evolve this contract into a performance-based contract. • Substantial improvements were made to the sonar support contract with Thales Underwater Systems, paving the way to evolve this contract into a performance-based contract. • Industry management responsibility for Collins class inventory increased to 98 per cent (by line item). • Increased engineering authority was awarded to industry members operating within the Collins authorised engineering organisation, including an expansion of platform engineering authority and the introduction of combat system and sonar engineering authority. 	
Collins Class Submarine (CN10)	<p>Reforms to improve Collins class sustainment were catalysed by the Coles Report of November 2012. The report's recommendations will take a number of years to implement fully; however, after returning to Australia for a progress review in early 2014, Coles assessed the turnaround in Collins sustainment as 'remarkable'.</p> <p>Sustainment experienced several setbacks in 2013–14, including a merchant vessel colliding with HMAS <i>Sheean</i> while the boat was berthed in July 2013 and a fire in HMAS <i>Waller</i> in February 2014. The repair of HMAS <i>Waller</i> is still being scoped, but is expected to continue well beyond 2013–14. The achievement of the agreed aggregate 2013–14 submarine availability target despite these setbacks reflects the emerging resilience of Collins sustainment. While the impact of the HMAS <i>Waller</i> fire is expected to be felt beyond the end of 2013–14, it is not expected to delay the restoration of Collins class sustainment to Coles's benchmark by 2016–17.</p>

Notes

1. In April 2014, Guided Weapons Branch commenced transition to Helicopter Systems Division. The move took effect on 1 July 2014.
2. In April 2014, Munitions Branch commenced transition to Land Systems Division. The move took effect on 1 July 2014.

Program 1.2 key performance indicators

Program 1.2 key performance indicators vary with each sustainment product and are specified in the relevant materiel sustainment agreements.

Further information on the top 30 sustainment products by expenditure is available online.

Program 1.3

Provision of Policy Advice and Management Services

The objective for Program 1.3 is to meet government, ministerial, Defence and DMO expectations and time frames for the provision of policy advice and support, including the delivery of programs to support the Australian defence industry. The key performance indicator involves meeting these expectations and time frames. The deliverables include specialist legal, procurement and contracting policy and services, industry programs and engagement, and acquisition and sustainment advice.

Program 1.3 accounted for about 1 per cent of the DMO's expenditure in 2013–14. Expenses under this program included:

- 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 the Government and Defence
- corporate governance and reporting to meet the Government's requirements.

Table 6.5: Program 1.3 deliverables

Deliverable	Performance information
Specialist legal, procurement and contracting policy and services	<p>High-quality and timely commercial law and contracting support was provided to DMO projects, system program offices and other business areas. Significant work was done to maintain the currency of and continue to improve Defence procurement and contracting policy and practice outcomes.</p> <p>The DMO continued to provide direct legal and contracting support to DMO project and system project offices. Significant work was also done to simplify and streamline procurement policy and practice, with an emphasis on improving the commerciality of procurement outcomes and reducing the costs of doing business with Defence.</p>
Acquisition and sustainment advice	<p>High-quality and timely advice was provided through regular reports, ministerial correspondence and briefings on acquisition and sustainment issues.</p>
Defence industry, programs, engagement and advice to both the Defence portfolio and the Government	<p>The DMO provided advice to Defence and the Government on industry capacity and capability. Defence's industry programs continued to be delivered, providing practical and targeted assistance in a range of areas, including skilling, export support and innovation.</p>

Ministerial support

A key function of the DMO is to provide policy advice and support to the Minister for Defence, the Assistant Minister for Defence and the Parliamentary Secretary for Defence. The DMO continues to provide accurate responses to ministerial representations, other parliamentary questions and ministerial submissions. In 2013–14, the DMO met ministerial, government, Defence and DMO expectations and time frames for the provision of policy advice and support.

DMO governance and accountability

The current Ministerial Directive was issued on 28 July 2008 to the then CEO of the DMO. The DMO continues to operate within the principles established by the directive. The directive establishes the accountability of the CEO to the minister to achieve the following outcomes:

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

DMO senior committees

Three senior committees provide advice and direction and oversee performance within the DMO (Figure 6.2). These are:

- the Executive Committee
- the Council Chairs' Forum
- the Materiel Audit and Risk Committee.

Executive Committee

The Executive Committee advises the CEO on directing the DMO. The committee is chaired by the CEO and meets monthly to review strategic direction and performance. As required, the committee meets as the Strategic Budget Committee to focus on strategic investment and budget management.

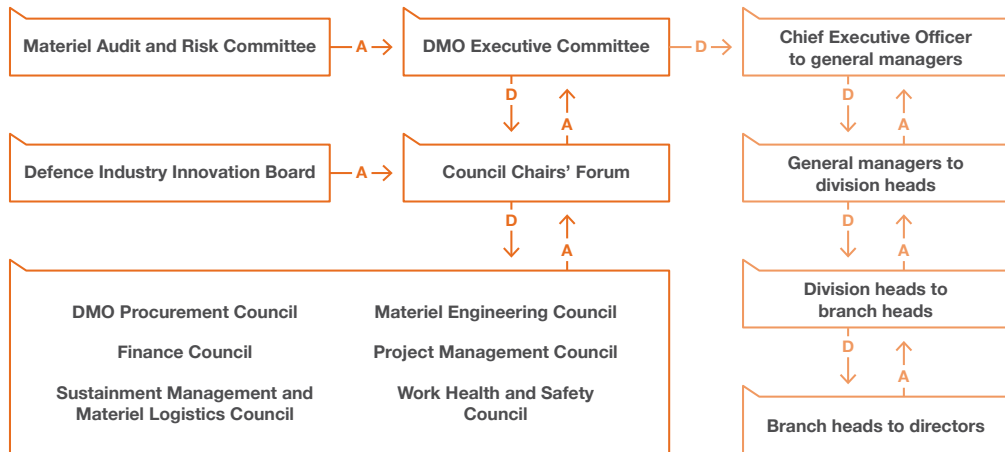
Council Chairs' Forum

The Council Chairs' Forum addresses DMO enterprise business performance risks and issues against the DMO's functions of procurement, finance management, project management, materiel engineering, sustainment management and materiel logistics, work health and safety, human resources, industry engagement and administration. The Deputy CEO chairs the forum, which meets quarterly.

Materiel Audit and Risk Committee

The independent Materiel Audit and Risk Committee allows the CEO to meet his obligations under the *Financial Management and Accountability Act 1997*. The committee monitors and recommends improvements to the DMO's governance, risk management, internal controls and financial reporting.

Key: A=Advise D=Direct



The projects of concern regime is a proven process for the senior management of seriously underperforming projects. Once troubled projects have been identified through triggering one or more of the early indicators and warnings 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 projects of concern. Once listed, the primary objective of the regime is to remediate these projects through implementing an agreed plan to resolve any significant commercial, technical, cost and/or schedule difficulties. Projects of concern receive targeted senior management attention and are required to report more regularly to the Government.

Significant movements in 2013–14 included:

- the successful remediation of electronic support measures upgrade for AP-3C Orion aircraft (AIR 5276 Phase 8B) and the subsequent removal of the project from the list of projects of concern
- the addition of the Air Warfare Destroyer (SEA 4000 Phase 3) project to the list following a critical report from the Australian National Audit Office and a comprehensive independent review confirming a significant cost overrun.

Project name	Project number/phase	Date added
Collins class submarines sustainable and projects	CN 10	November 2008
Multi-role tanker transport aircraft air-to-air refuelling capability	AIR 5402	October 2010
Multi-role helicopter (MHR-90)	AIR 9000 Phase 2,4,6	November 2011
Direct fire support weapons	LAND 40 Phase 2	December 2012
Mulwala redevelopment project	JP 2086 Phase 1	December 2012
Air Warfare Destroyer Build	SEA 4000 Phase 3	June 2014

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PART THREE GOVERNANCE AND ACCOUNTABILITY

CHAPTER 7

Reform and cultural change

Management of reform—key achievements

In September 2013, the then Minister for Defence agreed to the new Strategic Reform Operating Model to replace the 2009 Strategic Reform Program. Oversight of strategic reform in Defence rests with the Chief Operating Officer, on behalf of the Secretary and the Chief of the Defence Force.

Existing reform activities have transitioned to business as usual, and are being managed by the relevant Group or Service. Groups and Services are now responsible for the design, implementation, monitoring and measurement of new reform activities within the Strategic Reform Benefits Framework, which provides a benefits and reporting framework to track future reform progress.

While benefits are realised over the life of a reform activity, progress milestones and long-term benefits will be monitored through inclusion in Defence Annual Plans and measured through periodic enterprise reports to the Defence Committee. This focus on benefits realisation will allow Defence to better understand changes that occur because of reforms. It will also facilitate the more effective allocation of resources to reform activities that are shown to be adding value to Defence, reducing or reshaping effort where reforms are not achieving the desired outcomes as they are being implemented.

March 2014 marked the second anniversary of Pathway to Change: Evolving Defence Culture, Defence's cultural reform program that is both a statement of cultural intent and a strategy for addressing the recommendations from a range of culture reviews into aspects of Defence and ADF culture.

Activities under Pathway to Change will continue through 2014–15 and 2015–16. However, its success will only be evident over time and in concert with other cultural change reform activities being undertaken by the Groups and Services. Continuing reform remains a strategic imperative for Defence.

Cultural change

In the two years since Pathway to Change was launched, substantial progress has been made. As at 30 June 2014, 148, or 84 per cent, of the 175 key actions and recommendations from the six culture reviews were implemented.

Key achievements included:

- establishing the Sexual Misconduct Prevention and Response Office (SeMPRO)
- an increased focus on improving diversity and inclusion within Defence
- the release of the ADF alcohol management strategy.

Defence has developed measures and metrics for evaluating Pathway to Change progress against six key levers for cultural change and reinforcement. In the past two years, some positive trending results against each lever show:

- perceptions of Defence commitment to creating a diverse workforce is at a very high level and has remained stable from February 2013 to February 2014

- perceptions of the extent to which Defence colleagues, supervisors, commanders/managers and Defence senior leaders behave with integrity is at a very high level and has remained stable from February 2013 to February 2014. Of the workplace behaviours included in Defence's YourSay survey, 'behave with integrity' is one of the behaviours reported as observed most frequently in the workplace
- the proportion of women in initial training establishments is increasing
- the proportion of women attending courses that facilitate promotion is increasing
- perceptions that it is worthwhile to report unacceptable behaviour are high, although there is room for improvement in actual rates of reporting
- the percentage of unacceptable behaviour cases finalised in less than six months is improving. Progress in this area is expected to improve now that better reporting of complaints is in place
- perceptions about the accessibility of flexible working arrangements are increasing, particularly for the ADF.

In order to embed and further develop cultural reform, Defence has begun a four-year collaboration with the Australian Human Rights Commission (AHRC). The AHRC has substantial knowledge of Defence and our objectives, as a result of Sex Discrimination Commissioner Elizabeth Broderick's two reviews into the treatment of women at Australian Defence Force Academy (ADFA) and in the ADF more broadly. This collaboration will see joint ADF/AHRC teams visiting 10 establishments annually, with the potential for additional site visits to deal with particular issues, as well as assisting and advising Defence with thematic work to support Pathway to Change.

To support the work of the AHRC, Defence has implemented a research program to provide an annual 'health check' of the perceptions of cultural reform and the organisational climate across Defence. This program is in addition to Defence standard attitudinal research, the YourSay program, which measures workforce attitudes and behaviours across a range of topics. Both of these programs contribute directly to the measurement of cultural change in Defence.

We have demonstrated our commitment to the cultural reform program by substantially completing the implementation of the culture reviews within a two-year time frame. Defence is also committed to making a concentrated effort over a further three-year period towards embedding the changes needed to achieve the enduring cultural change.

Improved reporting of sexual misconduct

SeMPRO was launched in July 2013 as one of Defence's key responses to the *Review into the treatment of women in the Australian Defence Force Academy (ADF)—Phase 2 report*. The office supports victims of sexual misconduct in Defence and provides advice and guidance to commanders and managers on the management and reporting of sexual misconduct.

SeMPRO is the single point of data collection, analysis and mapping of sexual misconduct within Defence. The office collects demographic data of alleged reports of sexual misconduct, including de-identified data on the victims of these reports.

Over time, the collection of sexual misconduct data will enable the identification of behavioural trends or areas of prevalence of sexual misconduct to enable Defence to enhance strategies for prevention and response. A particular focus will be Defence's sexual misconduct education and prevention programs by allowing for the development of customised and targeted packages.

The report on sexual misconduct in Defence is available online. It provides a baseline for future reporting of sexual misconduct in Defence. We will use this data to inform the understanding of sexual misconduct trends within Defence to facilitate a quantitative assessment of the progress of Defence's cultural reform efforts in relation to sexual misconduct.

Table 7.1: **Completed or closed recommendation on employment pathways for APS women in Defence, by theme, as at 30 June 2014**

Theme	Status of recommendations
Theme 1 — Committed leadership support	<p>Recommendation 1.1 — Developed a Defence Diversity and Inclusion Strategy and Implementation Plan.</p> <p>Recommendation 1.2 — Amended SES performance agreements to record leadership commitment to diversity and inclusion.</p> <p>Recommendation 1.3 — Established internal and inter-agency rotation programs for SES bands 2 and 3.</p> <p>Recommendation 1.4 — Delivered pilot unconscious bias awareness training and coaching across ranks and levels.</p> <p>Recommendation 1.5 — Increased number of women on senior leadership committees.</p>
Theme 2 — Talent management and succession planning	<p>Recommendation 2.1 — Developed an EL1 talent management program which includes a facilitated shadowing and coaching component.</p> <p>Recommendation 2.2 — Developed an EL1 talent management program designed to provide a 50:50 gender ratio, ensuring over-representation of women.</p> <p>Recommendation 2.3 — Consolidated various graduate programs.</p>
Theme 3 — Workplace flexibilities	<p>Recommendation 3.1 — Amended policy to enhance and support workplace flexibility.</p> <p>Recommendation 3.1 — Conducted review of customer access channels for workplace flexibilities information.</p>
Theme 4 — Attraction, recruitment and selection	<p>Recommendation 4.1 — Developed branding and attraction strategy for APS recruitment.</p> <p>Recommendation 4.2 — Developed EL 2 refresher programs.</p> <p>Recommendation 4.3 — Developed online recruitment guide and fact sheets and mandated gender balance on recruitment panels.</p> <p>Recommendation 4.4 — Developed a common induction process to raise awareness of staff and manager responsibilities and obligations under APS employment.</p> <p>Recommendation 4.5 — Arranged for the Directorate of Senior Officer Management to provide a centralised approach to recruitment and selection activities for the SES.</p>
Theme 5 — Support and development	<p>Recommendation 5.1 — Developed formal and organic networking programs with SES women in sponsorship roles.</p> <p>Recommendation 5.2 — Incorporated mentoring components into EL1 and EL2 talent management programs.</p>
Theme 6 — Governance and infrastructure	<p>Recommendation 6.1 — Developed a diversity awareness training program in collaboration with the Australian Public Service Commission.</p> <p>Recommendation 6.2 — Communicated revised APS Values to all staff.</p> <p>Recommendation 6.3 — Funded backfilling requirements to meet obligations associated with parenting leave—any resource risk associated with parenting leave will be met by the portfolio.</p> <p>Recommendation 6.4 — The APS Women's Review Oversight Group was established to oversee the implementation of the review's recommendations and evaluation strategy. This has since been replaced by the Defence Civilian Committee.</p>

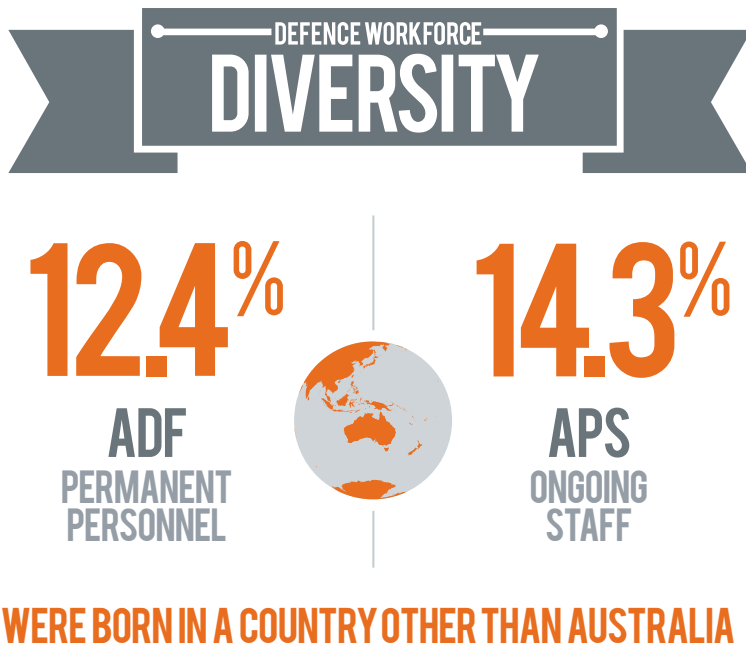
Diversity in Defence

Defence values an inclusive and diverse workplace and the unique knowledge, skills and attributes that our people bring to their work. Defence's capability is maximised by drawing on the diversity of its people, which reflects the variety of personal experiences that arises from differences of culture and circumstance.

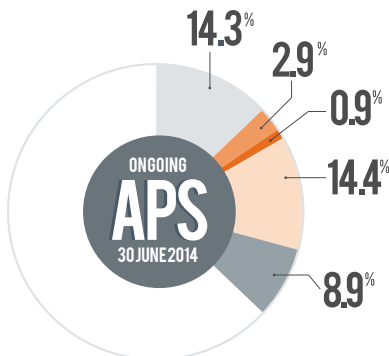
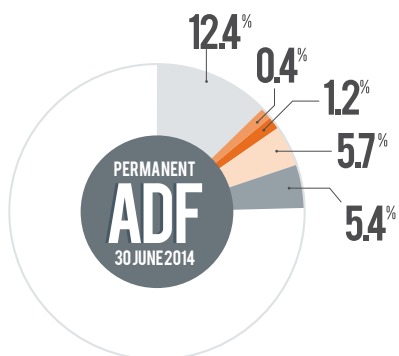
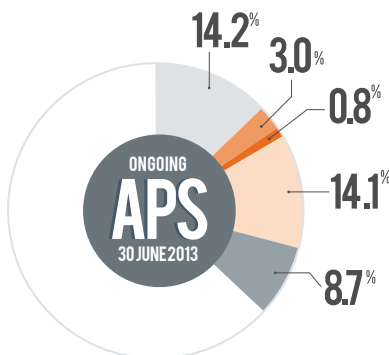
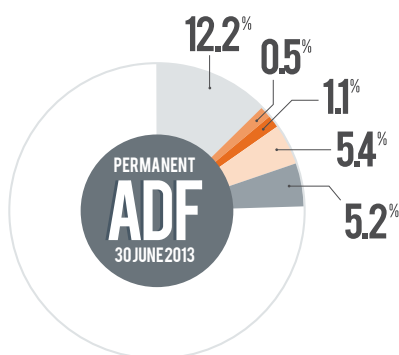
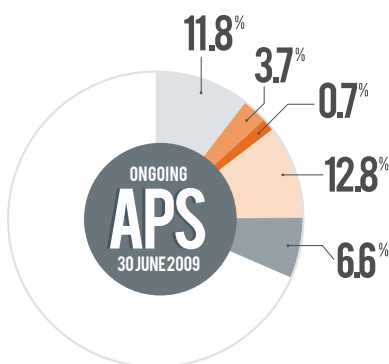
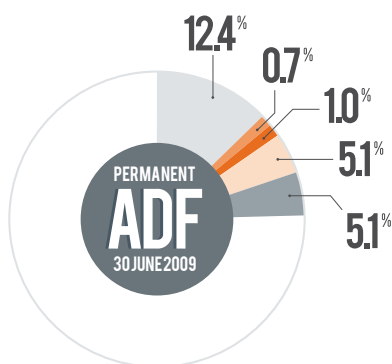
Defence has continued its strong commitment to improving the diversity of its workforce through its Centre of Diversity Expertise and the development of the Defence Diversity and Inclusion Strategy, which was endorsed by the Defence Gender Equality and Diversity Council. The strategy draws together, for the first time, the corporate intent for diversity and inclusion. It also articulates the strategic goals that will underpin successful diversity and inclusion in Defence and identifies the immediate diversity priorities for the organisation. Those priorities align with each stage of the employment lifecycle of Defence people—attract, recruit, develop, retain and transition. They also reflect those groups in Defence requiring priority attention—women, Indigenous Australians, people from culturally and linguistically diverse backgrounds, people with disability, and lesbian, gay, bisexual, transgender and intersex (LGBTI) people.

The Diversity and Inclusion Strategy Implementation Plan released in 2013–14 is drawing together all current activities across the organisation. This will allow Defence to expand programs currently delivered to parts of Defence and will clearly identify opportunities to develop further programs and initiatives. The implementation plan will be used to address gaps in the attraction, recruitment and retention of a diverse workforce and will profile Defence as an employer of choice.

Tables providing a more detailed breakdown of diversity statistics are available online.



DEFENCE WORKFORCE DIVERSITY



● Country of birth (not Australia)
 ● Have a disability
 ● Non-English-speaking background
 ● Indigenous
 ● Country of birth (not Australia, Canada, NZ, UK or US)

Note These diversity segments are not mutually exclusive—a person may belong to more than one. The underlying data relies on self-identification on the Defence HR system.

Building Defence capability through cultural understanding

Head of the Guided Missile Frigate System Program Office, Captain Mona Shindy, is also the Chief of Navy's appointed Strategic Adviser on Islamic Cultural Affairs.

As part of her role as Strategic Adviser on Islamic Cultural Affairs, Captain Shindy works to help create a better understanding among Defence members of the Islamic faith, traditions and cultural sensitivities.

Captain Shindy explained how this work helps to improve Defence capability.

'It gives our people, particularly when working with our close Muslim-allied navies, a better understanding and appreciation of serving Muslims, their needs and how they view the world', she said.

Another key function of the role is to increase the appeal of the Navy as an employer of choice among the Australian Muslim community.

A member of a large, culturally diverse extended family, and involved in many community and school mentoring programs, Captain Shindy is determined to motivate and inspire others, and is passionate about encouraging more Muslims to think about the ADF and the Navy as a career.

In 2013, Captain Shindy participated in the Community Relations Commission's outreach to the International Fleet Review. She was also instrumental in the establishment of an Australian Navy Cadet Unit, comprising many culturally diverse groups, in western Sydney.

'The new cadet unit highlights the wonderful way in which the RAN gives back to the community, enriching and enhancing the lives of young Australians', she said.

PROFILE | Captain Mona Shindy, RAN



'Through the Australian Navy Cadets Youth Development Program, teenagers are given great skills for life. I feel privileged to be involved with this and I am excited for the current and future youth of western Sydney.'

Egyptian-born Captain Shindy joined the RAN in 1989 as an undergraduate engineer. She holds a Bachelor of Electrical Engineering (Hons) and a Masters of Commerce (Advanced Major in Organisation and Management Studies) from the University of New South Wales.

She said her career has exposed her to a broad range of technologies and experiences in and around the Defence Materiel Organisation. She has seen everything from active service at the start of the 2003 Iraq War to shore positions involving overseeing myriad complex programs.

'As a mother, I would like to think I am helping to create a future for my children where they feel understood, included, and respected', she said.

Captain Shindy said that, although there have been challenges, the ADF and the Navy are well positioned to improve cultural sensitivity. She said she is honoured to be working with the Chief of Navy and Defence on this critical issue.

Indigenous participation and engagement

Defence continues to make progress against the objectives outlined in the Defence Indigenous Employment Strategy 2012–2017. The organisation provides a range of programs for Indigenous Australians with the aim of improving individuals' access to employment opportunities and working with remote communities on infrastructure and environmental conditions.

For the first time in several years, Indigenous participation in the ADF increased from 1.1 per cent to 1.2 per cent in 2013–14, while the APS participation rate increased from 0.8 per cent to 0.9 per cent.

Several initiatives from the Defence Indigenous Employment Strategy have advanced, including a greater use of 'affirmative measures' positions across the Defence APS workforce; the establishment of an Indigenous alumni network; the integration of an Indigenous 'shadowing' program; and the launch of the Defence Indigenous University Support Program. This program provides support for up to 10 undergraduate students and up to 10 students undertaking undergraduate enabling programs in a discipline that contributes to Defence capability. It includes enhancing the students' academic performance and their understanding of Defence through mentoring, work experience and other support.

Through the Australian Public Service Commission's Indigenous Pathways program, Defence increased its 2013–14 intake for the Defence APS traineeship and cadetship programs. This involved complementary work to develop the programs, enabling better support for participants and their supervisors.

Defence continued to conduct a range of programs to support the recruitment of Indigenous Australians to the ADF. The most notable are the four Indigenous pre-recruitment courses conducted each year and the three Defence Indigenous Development programs. These courses aim to develop participants' knowledge, confidence and individual skills to prepare them for employment opportunities in the ADF and Defence APS. Key components include culture and values; fitness; military training; preparation for the recruiting process; and language, literacy and numeracy skills.

Defence also continues to support its community engagement role, which includes a number of events across the country during NAIDOC Week and National Reconciliation Week to celebrate Aboriginal and Torres Strait Islander culture.



From left: Mary Dodd, Phillippe Kauri, Belinda Sketchley and Heather Perdjert squish in for a photo during a radio lesson given at the Wadeye cadet unit.

Indigenous Affairs adviser helps grow a diverse Navy

Chief Petty Officer Ray Rosendale is one of the Royal Australian Navy's proudest change makers. He is helping the Navy grow a professionally diverse workforce, mentoring young Indigenous and Torres Strait Islander members through his role as Navy Strategic Adviser on Indigenous Cultural Affairs.

Chief Petty Officer Rosendale was born in Nambour with family in Hopevale, just north of Cooktown in Queensland. He joined the Navy in 1991 at 26, as what was known then as a Quartermaster Gunner, the category preceding Boatswain's Mate.

He was inspired to join the Navy by his uncle, and his career so far has included service in HMAS *Canberra*, patrol boats, selection for Naval Police Coxswain, and now his role as Indigenous Affairs Adviser.

'When I joined the Navy in the 90s I knew only two senior sailors and two junior sailors who were Indigenous Australians.

'They spoke to me very honestly about the challenges I might face—it was a different Navy back then. "Life in a blue suit" meant everyone needed to be the same, so if you were different, you actually worked hard at not being different.

'In the Navy today it makes no difference who you are, where you come from, what you look like, as long as you're a professional, work hard and follow the Navy's Values—that's what's important. It now makes no difference to the Navy if you're different.'

Chief Petty Officer Rosendale said a high point for change in his eyes was the New Generation Navy cultural change program, introduced just over five years ago.

PROFILE | Chief Petty Officer Ray Rosendale



'The new, positive and inclusive culture is so ingrained in how we do business and who we are as an organisation. I know it sounds like the party line but I really truly do see the difference. Now, if something's not right we fix it', he said.

A major part of Chief Petty Officer Rosendale's job is engaging with Indigenous communities throughout Australia to help enhance understanding, and improve Indigenous recruitment.

'It's about dispelling the stereotypes either organisation may see of each other. We need to bring them together and educate each other, ultimately making the Navy an employer of choice.'

He said the community leaders he speaks to are very positive about a future friendship with Navy.

'They understand that when we say we'll look after their young people we mean it.

'The young sailors and officers are coming back to their communities as positive role models for other young people, showing them they can be a successful Australian and Indigenous at the same time. They don't have to give up their cultural heritage to be successful.'

People with disability

Defence has developed an inclusive workplace through a range of initiatives to support people with disability. This work was given sharper focus in 2014 through the Defence Civilian Committee.

Key Defence APS disability initiatives in 2013–14 included:

- the Defence Intellectual Disability Employment Initiative, which employed 18 people with intellectual disability
- the Paralympian Workplace Diversity Program, which provided 12-month non-ongoing positions for paralympians
- the piloting of a Notification of Reasonable Adjustment Passport, which will document reasonable adjustments in the workplace for people with disability to reduce their need to continually explain their disability or adjustment requirements and facilitate cross-agency transfers of equipment provided for them
- two Australian Disability Enterprises, which provided administrative support to Defence in Canberra and Brisbane
- the application of the Australian Public Service Commission's pilot RecruitAbility scheme principles to all APS jobs advertised, including graduate positions.

Disability reporting mechanisms

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 Australian Public Service Commission's State of the Service Report and the APS Statistical Bulletin. These reports are available on the Australian Public Service Commission's website (www.apsc.gov.au). Since 2010–11, departments and agencies have no longer been required to report on these functions.

The Commonwealth Disability Strategy has been overtaken by the National Disability Strategy 2010–2020, which sets out a 10-year national policy framework to improve the lives of people with disability, promote participation and create a more inclusive society. A high-level two-yearly report will track progress against each of the six outcome areas of the strategy and present a picture of how people with disability are faring. The first of these reports will be available in late 2014 on the Department of Social Services website (www.dss.gov.au).

Lesbian, gay, bisexual, transgender and intersex people

Defence has a number of initiatives in place that enhance inclusiveness and provide additional support and networks for LGBTI members and employees.

Each year, Pride in Diversity Australia issues the Australian Workplace Equality Index, a benchmarking initiative that assesses an organisation's commitment to LGBTI workplace practices. Participation in this index provides Defence with comprehensive feedback on the organisation's LGBTI inclusiveness.

Defence was identified as a Bronze status employer for an LGBTI inclusive workplace at the 2013 Australian Workplace Equality Index Awards. To be awarded Bronze status, employers must achieve a minimum score set by current practice for Bronze status and show a considerable amount of activity in this area through providing sufficient evidence of work in LGBTI workplace inclusion.

PROFILES |

Building a career through delivering great customer service



Natalie Booth

When Natalie Booth began working at Defence almost 30 years ago, she never thought she would be there for so long.

'I still remember coming in to work on my first day all those years ago', she said.

'I just take each day as it comes, but I certainly didn't think that I would be here to receive an award for 30 years of service.'

During her long career at Defence, Natalie has worked in a variety of areas, including the typing pool, the Word Processing Cell and the Defence Publishing Service. She is currently a member of the team in one of the customer service centres in Canberra, where she said she enjoys a variety of tasks and being part of a supportive team.

'We have a great working environment—it's inviting, supportive and fun, which is what keeps us going on the really busy days', Natalie said.



Dean Wright

Dean Wright commenced with the Department of Defence in 1990 and currently works as a processing centre officer in the Customer Service Centre. His primary responsibilities include

mail deliveries, conference facility support and recycling bin management.

Dean started at Defence through a program for people with disability, an initiative that Defence continues to support today.

He said that mornings are the busiest time of the day for the team at the Customer Service Centre, as they sort and deliver the day's mail.

'We work as a team and everyone helps out when it gets really busy', he said.

Dean said that what he enjoys most about his job is interacting with people.

'I enjoy getting out of the office and talking to people as I walk around the building delivering mail', he said.

'I say "Hi" to everyone and I am always polite because that is how we treat our clients.'



Sam Fogarty

Sam Fogarty joined Defence as a permanent employee in the Customer Service Centre in September 2013. After six months of work experience with the department, Sam was

employed through the department's Centre of Diversity Expertise, which carries out Defence's commitment to a fair and equitable workplace by providing a work environment that values and respects diversity.

'I really enjoyed work experience and wanted to continue working at Defence', he said.

Sam, whose Dad is a former ADF member, has a passion for collecting old military uniforms. He said he enjoys being in an environment that is so closely related to his hobby and his family connection to the military.

Sam sees a long career at Defence ahead of him, saying he would like to work at Defence for the next 35 years.

Women in Defence

Defence continues to focus its efforts on implementing changes in the workplace to ensure greater representation of women generally, within the organisation and specifically, in leadership positions. Actions are underway to remove direct and indirect structural and cultural barriers preventing women from achieving their full potential and full participation. A key milestone was reached in 2013–14 when the participation rate of women in the ADF reached 15 per cent, an increase from 14.3 per cent at the beginning of the financial year. The Defence APS female participation rate remained steady at 40.6 per cent.

Two reviews, the *Review into the treatment of women in the Australian Defence Force—Phase 2 report* and the *Review of employment pathways for APS women in the Department of Defence*, established a strong capability imperative to improve the treatment of, and enhance career opportunities for, women in Defence. A separate report on women in the ADF was included for the first time in the *Defence Annual Report 2012–13* and is provided again this year as a supplement. Progress against Phase 1 of the implementation of the review of employment pathways for APS women in Defence is provided as a supplement (all 20 recommendations are now completed or closed). A forward work plan has been developed, and agreed by the Defence Civilian Committee, to deliver a second phase of activity against the review's themes, including an evaluation and further development of the various pilot programs.

Other key Defence initiatives for women in 2013–14 included the following:

- The removal of gender restrictions on ADF combat role employment categories continued. The Defence Science and Technology Organisation is continuing to work with all three Services to implement the Physical Employment Standards in line with agreed timings for the removal of gender restrictions to allow direct recruitment into all combat roles by 2016.
- The ADF Recruitment of Women Strategy included the introduction of specialist recruitment teams for women to improve the inquiry-to-enlistment conversion rate of female candidates.
- The Secretary and Chief of Defence Force Gender Equality Advisory Board, which is composed of public and private sector members, continued its work. The advisory board drives and shapes the strategic direction of the Secretary's and the CDF's gender equality priorities within the broader Defence cultural reform agenda. The Secretary and the CDF also use the board to incorporate community perspectives on how to make Defence a more inclusive organisation—one that proactively aligns its values and accepted behaviour with evolving community standards.
- Ms Julie McKay was appointed as the CDF's gender adviser to provide alternative perspectives on gender issues, informed by an expert understanding of wider community and United Nations gender issues.
- Defence implemented a strategy to attract female graduates to the organisation, including through closer engagement with universities that have relatively high numbers of students studying science and engineering.
- A pilot Building Confidence program was initiated to address confidence gaps that have been highlighted as the main barrier to progressing senior women in the APS. A further pilot program addresses unconscious bias.
- A talent management program, designed to ensure that high-performing women are given maximum opportunity to progress their careers, was implemented.
- Senior women's mentoring and network opportunities were developed.

FEATURE |

Chief of Army addresses the Global Summit to End Sexual Violence in Conflict

According to the Chief of Army, Lieutenant General David Morrison, AO, 'Sexual violence in conflict is in absolute contradiction to the principles of human decency and respect. It goes against everything we, as professional soldiers, are trained to think, value and achieve'.

Lieutenant General Morrison was a key speaker at the Global Summit to End Sexual Violence in Conflict, held in London from 10 to 13 June 2014.

Natasha Stott Despoja, AM, Australia's Ambassador for Women and Girls, led the Australian delegation to the summit. The event is a key element of the United Kingdom's Preventing Sexual Violence in Conflict initiative, of which Foreign Minister Julie Bishop is an official champion.

At the summit, Lieutenant General Morrison joined the Right Honourable Mr William Hague MP, then British Foreign Secretary; Mr John Kerry, United States Secretary of State; and Ms Angelina Jolie, Special Envoy for the United Nations High Commissioner for Refugees. The summit was the largest international event that has yet been held on the issue of sexual violence in conflict, and aimed to create both an irreversible momentum and practical action that has an impact on those in combat.

Lieutenant General Morrison said he was honoured to be invited to attend and to present at the final plenary session on 13 June 2014.

'As the Chief of Army, I am proud to represent both the Australian Army and the Australian Defence Force at this very significant event', Lieutenant General Morrison said.



Chief of Army Lieutenant General David Morrison, AO addresses the Global Summit to End Sexual Violence in Conflict, held in London 10 to 13 June 2014

'Sexual violence in conflict is not just a by-product or a weapon of war. It is an act that devalues people and destroys communities.

'Stopping sexual violence in conflict begins at home, by promoting diversity and inclusion in our workplaces and in our communities, as well as in our armed forces.

'We must not accept any act that degrades or dehumanises others', he said.

Lieutenant General Morrison's address to the summit is available at <http://army.gov.au/Our-work/Speeches-and-transcripts/United-Nations-International-Womens-Day-Conference>.

Women in the ADF

The *Review into the treatment of women in the Australian Defence Force—Phase 2 report*, undertaken by Sex Discrimination Commissioner Elizabeth Broderick, established a strong capability imperative to improve the treatment of women and enhance their career opportunities in the ADF. Defence is committed to a range of strategies and targets required to achieve the recommendations of this review.

Recommendation 3 of the review was the publication of a report on women in the ADF as a supplement to the Defence annual report, to include information in the broad areas of:

- women's participation
- women's experience
- access to flexible work
- sexual harassment and abuse.

The inaugural 'Women in the ADF' report was published as an online supplement to the *Defence Annual Report 2012–13*, and provided a strong baseline for future reporting of women's participation and experience in the ADF.

A second 'Women in the ADF' report has been developed and is provided online. It incorporates feedback from the AHRC's 2014 audit report to include changes such as the addition of more discussion and analysis of data and making the report more suited to a general audience. The report's fourth element—sexual harassment and abuse—is now a dedicated report in an online supplement separate to the 'Women in the ADF' report, reflecting its relevance to both women and men in the ADF.

The 2013–14 'Women in the ADF' report uses the baseline established for the previous year's report to compare past and current data. This allows for a more rigorous measurement of what Defence's cultural reforms have achieved. While cultural reform takes time, the comparison shows that considerable gains have been made in the previous year. For example, the proportion of women in the ADF has increased, women are more likely to access flexible work and women have become much more positive about Pathway to Change.

These improvements indicate the success of the implementation of Commissioner Broderick's recommendations, and of the broader Pathway to Change strategy. They reinforce the imperative for Defence to remain committed to cultural reform and to continue to make progress.

Removal of gender restrictions from ADF combat role employment categories

On 27 September 2011, the then 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 Defence and endorsed by the Government in June 2012.

Implementation progress is reflected in Table 7.2. Key milestones fully achieved in 2011–12 and 2012–13 are reported in the Defence annual reports for those years. Key milestones that were not fully achieved in those years and have been achieved this period are included in Table 7.2, in addition to key milestones reported for 2013–14. Additionally, key milestones that extend across the five-year implementation period will continue to be reflected until completed or until 2016–17.

Table 7.2: Key milestones for removal of gender restrictions from ADF combat role employment categories

Key milestone	Status
Corporate	
(i) Pathway to Change	Substantially met Pathway to Change has made considerable progress.
(ii) In-service transfers in all Services	Met All combat roles opened to current serving female members.
Navy	
(i) Relevant documentation, programs and guidance reviewed or developed	Met
(ii) Culture change program developed	Substantially met This milestone is due for completion by December 2015.
(iii) Support mechanisms developed	Substantially met This milestone is due for completion by December 2015.
Army	
(i) Cultural change programs implemented	Substantially met The milestone is due for completion by December 2015.
(ii) Policy/procedures and training documents amended	Substantially met This milestone is due for completion by December 2015.
(iii) In-service transfers arranged	Met All Army combat roles have been opened to current serving female members.
(iv) Physical employment standards trade transfers implemented	Met All mechanisms are in place to allow successful trade transfer within the Army.
Air Force	
(i) Culture reform initiatives implemented	Substantially met As part of the broader Air Force cultural reform program, activities related to inclusion and the removal of gender restrictions are expected to be completed by December 2015.
(ii) Support mechanisms implemented	Met The Air Force is developing support mechanisms for women undertaking combat roles, in addition to support already available to all Air Force members. The development of these support systems will be informed by independent review and supported by the Air Force Directorate of Organisational Development and Culture.

ADF alcohol management strategy

The release in June 2014 of the ADF Alcohol Management Strategy and Plan 2014–17 provided new guidelines for the use of alcohol in the ADF and contained a very clear message for all Defence members: the ADF expects all members to be responsible, safe and respectful when drinking anywhere at any time.

The message for the Australian community is that the ADF has adopted a whole-of organisation approach through:

- educating and informing staff about responsible alcohol use
- managing the availability and supply of alcohol
- providing support and treatment to those who require it
- monitoring and responding to alcohol-related incidents.

The ADF alcohol management strategy was developed because Defence, as an organisation, needed to change the culture of alcohol use within the ADF and minimise alcohol-related harm.

In April 2011, an independent advisory panel on alcohol, chaired by Professor Margaret Hamilton, was commissioned and its report, *The use of alcohol in the Australian Defence Force* (the Hamilton review), was published in March 2012.

The review highlighted that much of the risk, cost and harm associated with alcohol use in the ADF did not arise from the small number of personnel who were alcohol dependent, but from those who participated in occasional episodes of short-term risky drinking and associated risk behaviours.

The ADF worked closely with the Australian Drug Foundation to develop a strategy, plan and a range of supporting tools and resources that incorporates the recommendations of the Hamilton review and draws on evidence from the National Drug Strategy 2010–15 and recommendations from the World Health Organization by incorporating an integrated suite of supply reduction, demand reduction and harm reduction interventions.

The supporting tools and materials include an ADF Behaviour Expectations Statement endorsed by the Chief of the Defence Force, a Leader's Guide to Alcohol Management and the ADF Event Management Guide.

The ADF Alcohol Management Strategy and Plan 2014–17 is a landmark document that sets out a four-year framework for improving alcohol management and reducing the negative impact of alcohol on the health, safety and capability of the ADF.

The ADF expects all members to be responsible, safe and respectful when drinking anywhere at any time.

CHAPTER 8

People

Workforce summary

Defence budgets for its ADF workforce on a funded strength basis and the APS workforce on a full-time equivalent (FTE)—that is, paid—basis. Defence uses actual FTE—that is, paid strength at a particular date—as the most accurate indicator of current staffing levels. Workforce planning is based on average funded strength and average FTE respectively for the financial year. These averages, while suitable for planning and budgeting purposes, are lag indicators against the actual end-of-year figures.

Defence records some statistical data by headcount; that is, all personnel are counted equally regardless of the number of hours worked, and the figures include all personnel recorded as on duty or on leave, full-time or part-time, with or without pay. This statistical basis is used for gender information, employment categories and location. Defence does not base its workforce planning on headcount staffing figures.

By way of comparison, ADF and APS staffing figures for 2013–14, and for 2012–13, are shown against the three measures in tables 8.1 and 8.2.

Table 8.1: Australian Defence Force—staffing figures 2013–14

ADF staffing measure	2012–13	2013–14	Variation
For workforce planning purposes			
Actual funded strength (paid strength as at 30 June)	56,117	56,922	+805
Average funded strength (over the financial year)	56,607	56,364	–243
For other statistical data			
Permanent strength (headcount) (on duty/leave and paid/unpaid)	56,159	57,036	+877

Note

Figures do not include the Reserve workforce. Due to the nature of Reserve service, Reservists are counted by headcount rather than average strength and the numbers are not comparable.

Table 8.2: Australian Public Service—staffing figures 2013–14

ADF staffing measure	2012–13	2013–14	Variation
For workforce planning purposes			
Actual FTE (paid strength as at 30 June)	21,006	19,988	–1,018
Average FTE (over the financial year)	21,534	20,496	–1,038
For other statistical data			
Headcount figure (on duty/leave, full-time or part-time, paid or unpaid)	22,105	21,194	–911

Workforce planning

This section provides information on the average workforce strength during 2013–14.

ADF permanent force

Table 8.3 shows details of the ADF permanent force average funded strength for 2013–14. The ADF average strength achievement was 56,364 in 2013–14, a decrease of 243 from 2012–13. These figures include ADF Reservists on continuous full-time service. Average funded strength achievement for continuous full-time service in 2013–14 was 727 (comprising Navy 400, Army 252 and Air Force 75)—an increase of 221 from 2012–13.

The ADF permanent force grew significantly between 2007 and 2011 in response to requirements such as the Hardened and Networked Army, the Enhanced Land Force, the Defence Capability Plan and initiatives from the 2009 Defence White Paper. This growth included a recruitment surge over the period 2007 to 2010.

After reaching a peak in 2010–11, permanent force strength trended downwards until January 2014. It has been increasing since then, and further growth towards the approved allocation is expected in future years.

Table 8.3: **ADF permanent force average funded strength (including DMO), 2013–14**

	2012–13 actual	2013–14 budget estimate ⁽¹⁾	2013–14 revised estimate ⁽²⁾	2013–14 actual	Variation	%
Navy	13,760	14,224	13,794	13,862	68	0.5
Army	28,928	29,847	28,833	28,568	–265	–0.9
Air Force	13,919	14,164	13,943	13,934	–9	–0.1
Total average funded strength	56,607	58,235	56,570	56,364	–206	–0.4

Notes

Figures in this table are average strengths; they are not a 'headcount'. Reservists undertaking full-time service are included. Employees on forms of leave without pay are not included.

1. As published in the Portfolio Budget Statements 2013–14.

2. As published in the Portfolio Additional Estimates Statements 2013–14.

ADF enlistments and separations

The permanent ADF strength (headcount) increased by 877 in 2013–14; this reflects the net difference between enlistments and separations.

The ADF enlisted 6,355 permanent members, made up of 5,157 men and 1,198 women, for the 12 months up to 30 June 2014. This was 1,297 more than in 2012–13.

ADF enlistments can be categorised as *ab initio* (those with no prior military service) or prior service enlistments. Of the 6,355 permanent members enlisted, 968 entrants had prior military service in either the Reserves, the Gap Year program, another Service or another country, or had previous permanent force service. There were 5,387 *ab initio* entrants. Some prior service candidates are enlisted against Defence Force Recruiting permanent force entry targets.

Tables 8.4 and 8.5 provide information about separations during the financial year. **More information on ADF separation rates is available online.**

Table 8.4: **ADF permanent force, 12-month rolling separation rates, 30 June 2013 and 30 June 2014**

	Twelve-month rolling separation rate (%)	
	30 June 2013	30 June 2014
Navy	8.9	8.4
Army	12.3	12.4
Air Force	6.3	5.5
ADF	10.0	9.7

Table 8.5: **ADF permanent force separations, 2012–13 and 2013–14**

		Voluntary separations ^[1]	Involuntary separations ^[2]	Age retirement	Trainee separations	Total
2012–13^[3]						
Navy	Officers	87	18	2	67	174
	Other ranks	633	237	0	164	1,034
Army	Officers	226	61	9	130	426
	Other ranks	1,857	757	9	475	3,098
Air Force	Officers	157	34	6	35	232
	Other ranks	485	85	9	76	655
Total permanent force	Officers	470	113	17	232	832
	Other ranks	2,975	1,079	18	715	4,787
	Total	3,445	1,192	35	947	5,619
2013–14						
Navy	Officers	104	23	1	40	168
	Other ranks	564	184	1	228	977
Army	Officers	212	84	11	139	446
	Other ranks	1,667	871	5	564	3,107
Air Force	Officers	123	32	13	17	185
	Other ranks	399	93	15	88	595
Total permanent force	Officers	439	139	25	196	799
	Other ranks	2,630	1,148	21	880	4,679
	Total	3,069	1,287	46	1,076	5,478

Notes

Figures in this table show permanent force employee numbers (substantive headcount). Reserves undertaking continuous full-time service are not included. Classifications are not mutually exclusive, and an individual is placed in only one group. The order of classifications is as follows: cadets and trainees, then age retirement; the remainder are classified as voluntary or involuntary. Employees commencing leave or leave without pay are not included.

1. 'Voluntary' includes voluntary redundancies and resignations.
2. 'Involuntary' primarily comprises members who are medically unfit, are unsuitable for further duty, died while serving or fell into the 'Management initiated early retirement' category.
3. Some 2012–13 figures have been adjusted from what was reported in the *Defence Annual Report 2012–13* to account for retrospective transactions.

A number of internal and external factors have contributed to ADF separation rates. One factor that has clearly affected the Army and hence the ADF is the earlier recruiting surge: many of the soldiers recruited at that time are now separating because they have reached the end of their initial minimum period of service, at which time there is a higher propensity to leave.

To address the increase in separations, Defence has developed the Defence Employment Offer framework to ensure that there is a compelling offer to join and stay with the organisation. Differentiated offers can be made to promote retention in those parts of the workforce that are under pressure.

The Navy has addressed training pipeline issues that previously hindered workforce growth. Recruiting targets are being increased for the Navy and the Army, which will aid growth towards a permanent workforce strength of around 58,500.

ADF Reserves

Table 8.6 shows the number of Reservists who rendered paid service during 2013–14. The number of days each Reservist works in a year can vary substantially depending on personal circumstances and organisational need.

In 2013–14, 19,741 Reservists undertook paid service, which was 967 less than the 2012–13 figure of 20,708. While this appears to suggest lower participation in Reserve service, it is significant that the number of Reserve members who served 20 or more days in the year increased by almost 3,000 from the previous financial year, and the total days served increased by over 25 per cent.

Project Suakin

The ability to attract and retain the right people, in the right numbers, is fundamental to the sustainment of ADF capability. Project Suakin is a whole-of-Defence workforce model designed to contribute to ADF capability by providing the flexibility to manage the workforce using full-time, part-time and casual service arrangements.

The flexibility afforded by the new model will contribute to a reduction in the barriers limiting members' ability to achieve a long-term military career, and support increased diversity across the military workforce. Simpler transfer arrangements between categories of service—for example, from full-time to part-time and vice versa—and at various stages of a member's life will result in greater retention of skills and knowledge and a reduction in turnover in critical trades.

During 2013–14, milestones set to track the development of the foundation elements of the new model were largely achieved. The project has supported the alignment of certain allowances and conditions of service for Reservists, and the detailed design of the new workforce model is nearing completion.

Phase 2 of the project commenced on 1 July 2014. Its primary focus is to put in place the mechanisms needed to deploy the model. The outputs of Project Suakin will enhance Defence's ability to deliver military capability while at the same time enabling staff to achieve a number of strategic personnel objectives.

FEATURE |

Pre-recruitment course offers new opportunities to Indigenous Australians

In April 2014, the Australian Defence Force held its Indigenous Pre-Recruitment Course (IPRC) in South Australia for the first time, offering unique personal and professional development opportunities to young Indigenous Australians.

The six-week course focuses on the delivery of five core training modules: cultural appreciation; language, literacy and numeracy; military skills; physical fitness; and vocational training.

Warrant Officer Class One Colin Watego, a Bundjalung and Torres Strait Island man who has served in the Australian military for 39 years, is the Regimental Sergeant Major of the IPRC. He says it offers high quality training to young Indigenous Australians from a range of cultural backgrounds.

'The Indigenous Pre-Recruitment Course offers unique opportunities for personal and professional development that participants take back to their local communities', Warrant Officer Class One Watego said.

'The Australian Defence Force values and supports young Indigenous people and recognises that Indigenous Australians have a unique contribution to make. I am proud to be part of the leadership team running the course.'

For the first time the IPRC is being held in South Australia, supported by 9th Brigade, Australian Army.

The 9th Brigade has a proud history and continues to contribute to the Australian Army and the wider community as a highly responsive reserve brigade. It has responded to domestic emergencies including the Black Saturday bushfires in Victoria and 40 per cent of 9th Brigade soldiers have deployed on operations overseas.



The Indigenous Pre-Recruitment Course members

The Commander of 9th Brigade, Brigadier Peter Connor, said some IPRC participants come from areas where 9th Brigade has many regional depots.

'We value cultural diversity in our workforce at 9th Brigade and we recognise the unique contribution that Indigenous Australians make to the Australian Defence Force', he said.

'We encourage Indigenous people to apply to join 9th Brigade or the wider Australian Defence Force when they graduate from the course.'

The IPRC is conducted four times each year, and offers places for up to 100 participants from across Australia who are looking for careers in the Australian Defence Force, or the Defence Australian Public Service.



Able Seaman Isaac Ingui watching members of the Indigenous Pre-Recruitment Course

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Table 8.6: **ADF reserve paid strength (including DMO), 2013–14**

	2012–13 actual	2013–14 budget estimate ^[1]	2013–14 revised estimate ^[2]	2013–14 actual	Variation	%
Navy	2,229	2,150	2,150	2,021	–129	–6.0
Army	15,464	15,200	15,200	14,662	–538	–3.5
Air Force	3,015	3,100	3,100	3,058	–42	–1.4
Total paid Reserves	20,708	20,450	20,450	19,741	–709	–3.5

Notes

Because the number of days or hours worked by Reserve members can vary greatly, figures in this table are headcount rather than average strength. Reservists on full-time service in the permanent force are not included in this table; they are included in Table 8.3. Figures include the High Readiness Reserve Force, Active Reserve Force and Specialist Reserve Force.

1. As published in the Portfolio Budget Statements 2013–14.

2. As published in the Portfolio Additional Estimates Statements 2013–14.

APS workforce

Table 8.7 shows details of the APS average strength, expressed as average full-time equivalent (FTE), in 2013–14. APS average strength was 20,496 in 2013–14. This was a decrease of 1,038 from the 2012–13 figure of 21,534. The decrease in 2013–14 was 1,018 FTE, from 21,006 to 19,988 (Table 8.8). The decrease was due to continuing reforms to Defence's business practices, including through the further progress of shared services reform.

Table 8.7: **Civilian (APS and contractor) average FTE, 2013–14**

	2012–13 actual	2013–14 budget estimate ^[1]	2013–14 revised estimate ^[2]	2013–14 actual	Variation	%
APS—Defence	15,786	15,547	15,268	15,280	12	0.1
APS—DMO	5,389	5,307	4,878	4,812	–66	–1.4
APS—DMO – ADF backfill ^[3]	359	363	428	404	–24	–5.6
Total APS	21,534	21,217	20,574	20,496	–78	–0.4
Defence contractors	358	445	346	340	–6	–1.7
DMO contractors	33	48	28	18	–10	–35.7
Total contractors	391	493	374	358	–16	–4.3
Total civilian workforce	21,925	21,710	20,948	20,854	–94	–0.4

Notes

These figures are average FTE; they are not a headcount.

1. As published in the Portfolio Budget Statements 2013–14.

2. As published in the Portfolio Additional Estimates Statements 2013–14.

3. The DMO manages its workforce under a combined ADF, APS and contractor model. Under that arrangement, it can use funding from unfilled ADF positions to fill and resource positions with APS staff.

Table 8.8: APS end-of-year FTE, 2013–14

	2012–13 actual	2013–14 budget estimate ^[1]	2013–14 revised estimate ^[2]	2013–14 actual	Variation	%
APS	21,006	–	20,300	19,988	–312	–1.5

Notes

Figures in this table are actual FTE for the last payday of 2013–14. Employees on forms of leave without pay are not included. The figures differ from those in Table 8.7, as that table shows the average FTE over the whole year.

1. The Portfolio Budget Statements 2013–14 did not include an estimate for end-of-year FTE.

2. As published in the Portfolio Additional Estimates Statements 2013–14.

APS recruitment and separations

Defence recruited 473 APS employees during 2013–14, including 173 as part of the graduate program.

The APS (headcount) decreased by 911; this reflects the net difference between recruitment and separations. The separations are shown in Table 8.9 and the majority of separations were due to resignation/retirement from Defence.

Table 8.9: APS separations 2012–13 and 2013–14

	Voluntary redundancy ^[1]	Involuntary separations ^[2]	Resignation/ retirement ^[3]	Transfers ^[4]	Total
2012–13					
Senior Executive Service	2	2	8	5	17
Senior officers	255	10	260	72	597
Other staff	453	74	987	131	1,645
Total APS (2012–13)	710	86	1,255	208	2,259
2013–14					
Senior Executive Service	3		7	6	16
Senior officers	66	17	251	47	381
Other staff	89	77	725	96	987
Total APS (2013–14)	158	94	983	149	1,384

Notes

Figures in this table show ongoing and non-ongoing employee numbers (substantive headcount).

1. Voluntary redundancies are managed at a Group level.

2. Involuntary figures include breach of conduct, invalidity retirement, involuntary redundancy, lack of qualifications, non-performance, term probation and death.

3. Resignation/retirement figures include resignation, retirement (minimum age and Senior Executive Service) and completion of non-ongoing.

4. Transfers are those who have transferred to other government departments. Movements between Defence and the DMO are not included.

Remunerating people

Defence remuneration is a key component of the Defence employment offer, which realises the *People in Defence* vision. It provides a key incentive for people to join Defence, develop personally and professionally, and choose to remain in Defence. The employment offer provides for fair and competitive remuneration, consistent with the parameters laid down by Government.

Just as there are diverse ADF and APS remuneration requirements, there are separate ADF and APS remuneration structures, which are explained in this section.

ADF remuneration

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.

The ADF Workplace Remuneration Arrangement 2011–2014 is a key component of the ADF remuneration framework and is consistent with the Government's broader workplace relations policies. The arrangement is part of the ADF remuneration initiative aimed at attracting and retaining military personnel and forms a significant part of the Defence employment offer.

The Workplace Remuneration Arrangement increases salary and salary-related allowances in return for improvements in organisational efficiency and productivity. Other conditions of service are determined by the Minister for Defence under section 58B of the Defence Act. The current arrangement expires on 3 November 2014.

Table 8.10: Permanent ADF salary ranges as at 30 June 2014

Rank	Salary range	
	Minimum	Maximum
Officer of the permanent force (equivalent)		
General (E) ^[1]	\$535,000	\$764,420
Lieutenant General (E) ^[1]	\$350,000	\$537,600
Major General (E) ^[2]	\$217,636	\$265,408
Brigadier (E) ^[2,3]	\$148,183	\$242,705
Colonel (E) ^[2,3,4]	\$135,000	\$231,707
Lieutenant Colonel (E) ^[2,3,4]	\$123,771	\$220,486
Major (E) ^[2,4]	\$81,329	\$198,620
Captain (E) ^[2,4]	\$63,699	\$188,521
Lieutenant (E) ^[5]	\$52,952	\$110,996
2nd Lieutenant (E) ^[5]	\$49,473	\$103,619

Table 8.10 (continued)

Rank	Salary range	
	Minimum	Maximum
Other rank of the permanent force (equivalent)		
Warrant Officer Class 1 (E)	\$72,131	\$111,018
Warrant Officer Class 2 (E)	\$66,436	\$102,868
Staff Sergeant (E)	\$64,208	\$99,237
Sergeant (E)	\$57,409	\$94,906
Corporal (E)	\$49,609	\$86,784
Lance Corporal (E)	\$45,633	\$80,663
Private Proficient (E)	\$44,690	\$79,720
Private (E)	\$43,766	\$78,799

Notes

1. General (E) and some Lieutenant General (E) rates are set by the Remuneration Tribunal.
2. Includes rates for Medical Officers.
3. Includes rates for Chaplains.
4. Excludes Medical Procedural Specialist.
5. Includes transitional rates for other rank appointed as officer.

Table 8.11: ADF workplace arrangements

Australian Defence Force ^[1]	Star rank	Non-star rank
Members covered by the Workplace Remuneration Arrangement	0	56,918
Members covered by the Senior Officer Remuneration Arrangement	168	0
Statutory office holders ^[2]	6	1
Non-statutory office holders	3	0

Notes

1. Numbers in this table reflect permanent force members only. However, members of the Reserve force are also covered by the relevant arrangement.
2. Statutory office holders in Defence are remunerated under determinations made by the Remuneration Tribunal, which is administered by the Department of the Prime Minister and Cabinet.

APS remuneration

The Defence Enterprise Collective Agreement sets out most of the terms and conditions of employment—including remuneration, performance management and working arrangements—for Defence's non-SES APS employees. The legal framework that underpins the agreement includes the *Fair Work Act 2009* and the *Public Service Act 1999*. The agreement is developed through extensive consultation with Defence employees and their representatives and is negotiated and governed consistent with that legislation and broader government policy.

The agreement underpins Defence's capacity to attract and retain employees with the right skills and experience to meet capability needs. It is a principles-based agreement that supports the deregulation of Defence's employment policies and broader Defence reform agendas. It 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 agreement, Defence can provide its APS employees with an attractive employment offer and, in return, employees and supervisors have a range of responsibilities (including mutual responsibilities) that must be fulfilled as part of their employment. Salary rates for SES employees are set by a determination under section 24(1) of the Public Service Act.

Table 8.12 reflects Defence APS salary arrangements as at 30 June 2014. The majority of Defence employees receive salaries within the standard salary range; however, some employees with specialist skills receive higher salaries that reflect individual arrangements or recognised technical skill sets. These are covered under the Defence Enterprise Collective Agreement.

Remuneration arrangements need to be flexible enough to allow Defence to develop, attract and retain employees with the necessary skills and knowledge. The Secretary and any employee covered by the Defence Enterprise Collective Agreement may agree to make an individual flexibility arrangement to vary the effect of some specified terms of the agreement.

Defence remuneration provides a key incentive for people to join Defence, develop personally and professionally, and choose to remain in Defence.

Table 8.12: APS salary ranges at 30 June 2014

Classification	Broadband salary range (\$)		Individual arrangements ^[1]
	Minimum	Maximum	
SES pay arrangements			
SES Band 3	\$228,846	\$272,659	\$466,458 ^[2]
SES Band 2	\$184,037	\$222,173	\$258,496 ^[3]
SES Band 1	\$151,665	\$177,964	\$195,760
Collective agreement ^[4]			
Executive Level 2	\$111,559	\$133,905	\$179,276 ^[5]
Executive Level 1	\$96,084	\$108,382	\$133,905 ^[6]
APS Level 6	\$76,023	\$86,844	\$89,463 ^[7]
APS Level 5	\$69,395	\$74,331	\$74,904 ^[8]
APS Level 4	\$63,236	\$69,038	\$69,038
APS Level 3	\$55,825	\$61,512	\$61,512
APS Level 2	\$49,009	\$55,096	\$55,663 ^[9]
APS Level 1	\$43,306	\$48,613	\$48,613

Notes

1. Maximum salary paid under an individual remuneration arrangement shown.
2. Includes rates for Chief of Division 3.
3. Includes rates for Chief of Division 2 and Medical Officer Class 6.
4. Salary ranges provided under the Defence Enterprise Collective Agreement.
5. Includes rates for EL2.1, EL2.2, Legal and Science specialist structures and Medical Officer Class 3 and 4.
6. Includes rates for Public Affairs and Legal specialist structures and Medical Officer Class 1–2.
7. Includes rates for Public Affairs Grade 2 retained pay point.
8. Includes rates for Senior Technical Officer Grade 1 retained pay point.
9. Includes rates for Technical Assistant Grade 2 retained pay point.

Senior Leadership Group remuneration

In accordance with government policy, SES employees in Defence have their conditions of employment—including levels of remuneration, set by a 'collective' determination made under section 24(1) of the Public Service Act—overlaid by individual common law agreements. Because Defence operates in a values-based employment framework, mutual responsibilities for SES employees in areas such as accountability, performance and productivity are also outlined in these instruments.

The Secretary may decide to increase the salary rates for each SES classification level, taking into account any of the following matters:

- a review of the salary rates relevant to the employee's classification, conducted in July each year
- movements in APS SES salary levels generally
- other relevant factors, including Australian Government employment policy and non-SES and ADF remuneration outcomes following a review at any time.

The ADF Senior Officer Remuneration Arrangement 2011–2014 is the military counterpart of the SES employment arrangement. It applies to all generalist ADF senior officers holding the rank of Brigadier (equivalent) and Major General (equivalent). All other senior officers (excluding statutory office holders) may be remunerated by way of a determination from the Defence Force Remuneration Tribunal under section 58H of the Defence Act. Other non-salary-related conditions of service are determined by the Minister of Defence under section 58B of the Defence Act.

Statutory office holders, including the Chief of the Defence Force and the Secretary, are remunerated by way of a determination from the Remuneration Tribunal under the *Remuneration Tribunal Act 1973*.

Performance pay

Performance-related pay is available to non-SES employees under the current Defence Enterprise Collective Agreement. Subject to performance, employees may be eligible to progress to a higher pay point within the salary band for their classification or, for those at the top of the range, be paid a 1 per cent lump-sum payment. The salary advancement is not considered performance pay; however, the lump-sum payment to employees at the top of the pay band is considered to be a form of performance pay.

An SES employee may be paid non-superannuable bonuses. A performance bonus may be paid as an incentive and reward for exceptional performance during the performance cycle. Payment of a performance bonus is dependent on the Secretary's assessment of the SES employee's performance. A retention bonus may be paid as an incentive to remain in an identified role.

Performance-based pay is not a feature of any existing ADF remuneration framework. Career development opportunities, including promotion, are the key recognitions of performance.

Productivity gains

The Australian Government requires improved remuneration and conditions for APS employees to be underpinned by improved productivity and performance. In accordance with the Australian Government Public Sector Workplace Bargaining Policy, Commonwealth agencies are required to ensure that they are able to demonstrate that proposed improvements to the terms and conditions of employment for agency employees are underpinned by quantifiable productivity initiatives.

Managing and developing APS staff

During 2013–14, the two key initiatives used to manage and develop Defence APS employees continued to be the APS Core Capability Framework and the Job Families Project.

The APS Core Capability Framework for Defence includes the core skills, knowledge and behaviours that are expected of all Defence APS employees to ensure the delivery of government priorities and high-quality services, now and in the future. As it is integrated into all human resources functions, the framework guides recruitment and selection, learning and development, performance management, and career development. The APS Core Capability Framework is designed to:

- aid greater APS workforce productivity through a system that provides a more structured, coherent and consistent development of leadership, management and administrative skills for the Defence APS workforce
- help employees to realise their own potential through a better understanding of what is required of them
- help develop employees as leaders
- assist supervisors in having a conversation with their employees about the capabilities required for the job.

In 2013–14, refinements were made to the content and structure of the core leadership and management programs at key career transition points and, where necessary, the programs were integrated with products developed by the Australian Public Service Commission as part of the APS Leadership and Core Skills Strategy.

The Job Families Project

In 2011, the Defence Committee tasked a project office to develop content for the Defence APS Standard Classification of Occupation (DAPSSCO) codes. The office was established in May 2012. During 2013–14, it achieved the project requirements by developing a DAPSSCO profile for each of the 2,100 codes. Each DAPSSCO profile contains an approved APS classification, an occupation description, a duty statement, selection criteria based on the Australian Public Service Commission's Integrated Leadership System, and *Essential*, *Highly Desirable* and *Desirable* learning and career development requirements based on the 70/20/10 learning principle.

In developing the content of each DAPSSCO profile, the Job Families Project conducted several hundred workshops, engaging more than 1,000 EL1 and EL2 APS subject matter experts across Defence. After further consultation, the profiles were approved by the relevant Job Family Sponsor and Deputy Secretary of the Defence People Group.

The DAPSSCO profiles are available for display, wider consultation and use via the Job Families intranet page and through Employee Self-Service in PMKeyS. The Job Families intranet page contains additional information on the project, using the profiles and the Job Family Business Rules.

The work of the Job Families Project has now become business as usual and has been embedded into the Workforce Supply team.

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*.

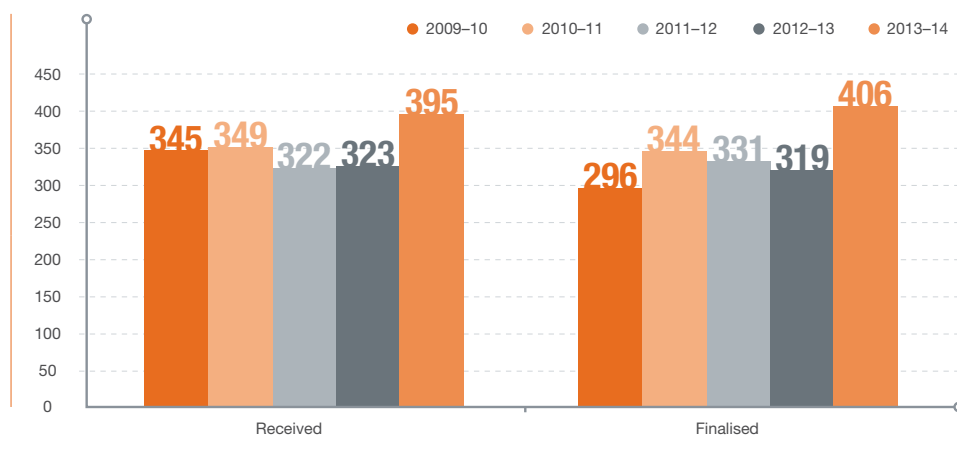
On average, between 300 and 350 formal requests for redress are lodged by ADF members annually, or about three complaints per thousand members. Similarly, APS employees lodge an average of 80 formal requests for review of an action affecting them, or about five complaints per thousand employees.

Military redress of grievance

Three hundred and ninety-five new applications for redress of grievance were received in 2013–14, an increase on the previous year (Figure 8.1). Four hundred and six applications received during the current and previous reporting periods were finalised at unit level. Of those, 304 (75 per cent) were not granted, withdrawn or not reviewable; the remainder were granted or partly granted. The primary focus of complaints remains as 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 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 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 (31 per cent) of referred complaints. These cases are given the highest priority—often at the expense of other complaints.

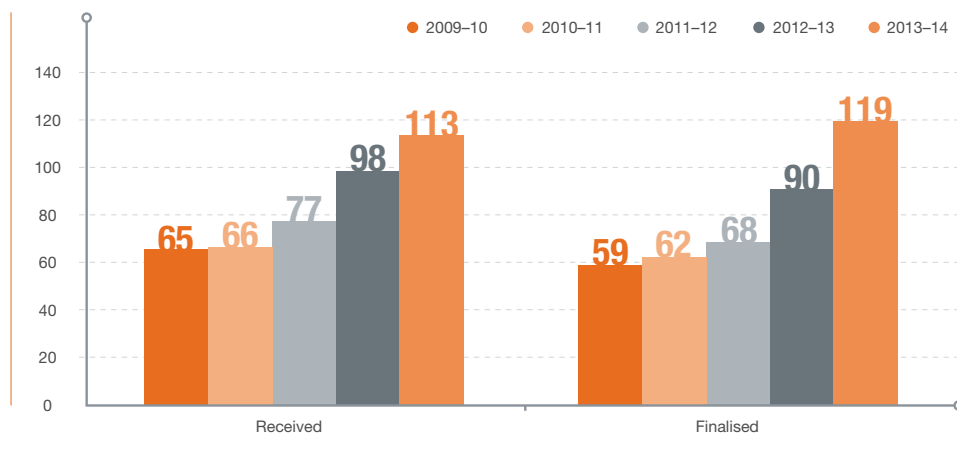
Figure 8.1: **Military redresses of grievance received and finalised, 2009–10 to 2013–14**

APS review of actions

In 2013–13, the number of applications for reviews of actions received across Defence increased by 15 per cent from the previous year (Figure 8.2). This increase is attributed to an increased awareness by employees that they are able to have their disputed performance assessments reviewed under review of actions provisions.

The most common subjects of applications for reviews were:

- performance feedback or assessment and salary or performance progression
- the handling and outcomes of unacceptable behaviour complaints by line management
- access to leave or other conditions of employment.

Figure 8.2: **APS review of actions applications received and finalised, 2009–10 to 2013–14**

Unacceptable behaviour

Defence personnel can make a complaint about any incident of unacceptable behaviour they have experienced or witnessed in the workplace. Defence policy requires that any such complaint be reported and recorded on the Defence Complaints Management, Tracking and Reporting System (ComTrack). Guidance and support are available to ensure that complaints are managed and resolved appropriately.

All Defence personnel are required to undertake annual workplace behaviour training, which includes information about expectations of behaviour and guidance on dealing with complaints of unacceptable behaviour. Given the nature of service in the ADF, for most ADF members this policy applies to their behaviour 24 hours a day, seven days a week.

In 2013–14, 827 complaints of unacceptable behaviour were recorded in ComTrack (Figure 8.3). This was an increase in reporting from previous years and was due in part to continued improvements to ComTrack and the continuing encouragement of personnel to report any incident of unacceptable behaviour.

During the year, Defence maintained a focus on encouraging commanders and managers to finalise old cases where the incident had already been dealt with but the case had not been formally finalised in ComTrack.

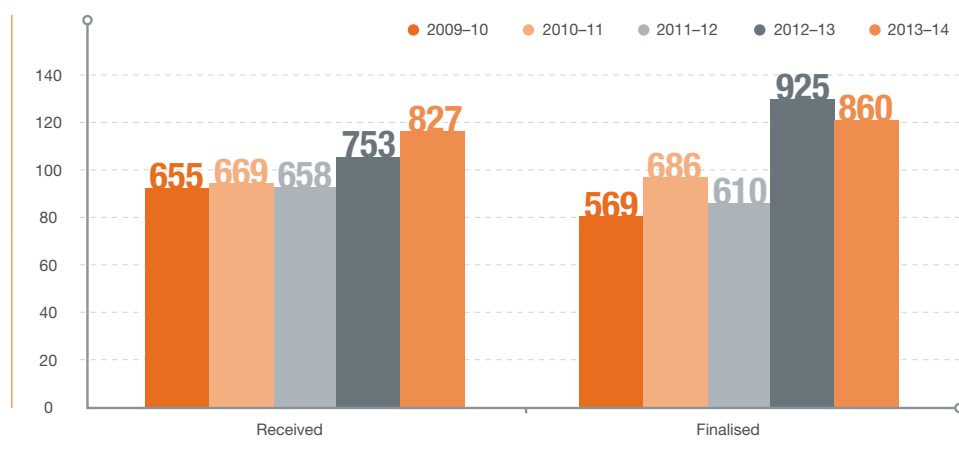
Complaints of this type fall into six main categories:

- abuse of power
- discrimination
- harassment
- sexual harassment
- workplace bullying
- inappropriate workplace relationships and conflict of interest.

Complaints alleging sexual misconduct (including sexual harassment) are also discussed in the section of this report that deals with the Sexual Misconduct Prevention and Response Office (SeMPRO).

On average, between 10 per cent and 15 per cent of unacceptable behaviour incidents are serious enough to result in a formal disciplinary or administrative outcome. Most complaints continue to be resolved informally. Fewer than 1 per cent of the Defence workforce makes complaints of this type.

Figure 8.3: Unacceptable behaviour complaints reported as received and finalised, 2009–10 to 2013–14



Work health and safety performance

Defence is committed to providing a safe, healthy and positive working experience for all workers to enable them to contribute to delivering the organisation's capability requirements.

The Defence Work Health and Safety (WHS) Strategy 2012–2017 was developed to drive continuous improvement of WHS systems across the whole of Defence. It was released on 1 January 2012 to coincide with the implementation of the *Work Health and Safety Act 2011*.

Defence continues to implement a comprehensive program of work in accordance with the requirements of the Work Health and Safety Act and Regulations, the Defence WHS Strategy, the corporate Safety Management System and the principles of continuous improvement.

The Defence WHS Management System is based on the premise that the business owner of any platform, fleet, process, system, place or workforce is responsible for identifying hazards and controlling risks associated with it. Responsibilities overlap, and business owners are required to communicate, consult and coordinate to ensure that all hazards are identified and risks controlled. Business owners are located in all Groups and Services.

This section of the annual report is focused on initiatives that support the communication, consultation and coordination requirements. Key activities during 2013–14 included work on the organisation's WHS information system, hazardous substances and policy development.

SENTINEL

Defence worked towards implementing SENTINEL, a whole-of-Defence WHS management information system, to improve the availability, timeliness and quality of WHS information. SENTINEL is scheduled for implementation in the second half of 2014. It supports a key objective from the Defence WHS Strategic Plan.

SENTINEL will provide decision makers at all levels with access to quality WHS information to empower them to eliminate or manage hazards across the Defence lifecycle and upon the disposal of assets.

To support the successful implementation of the system, four training packages were developed and will be released for completion before the system is implemented.

Hazardous chemicals enforceable undertaking

The enforceable undertaking placed on Defence by Comcare for the management of hazardous chemicals was lifted in November 2013. This was the culmination of three years of work by Defence to implement a consistent, comprehensive and inclusive system for the management of hazardous chemicals.

Defence is committed to continued improvement in hazardous chemicals management through an enduring hazard reduction program.

Policy development

A key activity for Defence is the continuing review and updating of policies to be compliant with the Work Health and Safety Act and Regulations. In 2013–14, a significant number of policies were reviewed for release in 2014–15.

FEATURE |

Improving the quality of mental health care in the ADF: the Australian Defence Force Centre for Mental Health

The work of the ADF Centre for Mental Health and its staff continue to go from strength to strength, ensuring that ADF personnel with mental health issues are provided with the very best care and support on their road to recovery.

Over the past year, the centre has entered into a partnership with the Australian Centre for Posttraumatic Mental Health at the University of Melbourne to develop and provide training on mental health assessment and case formulation to around 75 ADF mental health professionals. A further 30 received training in cognitive processing therapy to enhance the treatment of post-traumatic stress disorder. Other programs include Recognising the Early Signs of Emerging Trauma, Acute Mental Health on Operations and, in partnership with the Australian Centre for Posttraumatic Mental Health, a clinical trial in anger and aggression management for post-traumatic stress disorder.

Staff conduct a formal second-opinion clinic to assist Defence medical officers and consultant psychiatrists in the management of ADF members who are experiencing difficult, complex or treatment-resistant mental disorders. This clinic has provided clinical consultancies on 48 cases to date and has proven to be enormously effective. Additionally, the ADF Centre for Mental Health provides clinical supervision to mental health professionals across Defence and regularly provides advice to both the Command and Joint Health Command on the review and management of complex mental health presentations.

In 2014, the centre hosted a joint meeting of the Department of Veterans' Affairs Mental Health Clinical Reference Group and the ADF Mental Health Advisory Group, and a workshop of mental



Three members of the team: psychologist SO3 Captain Alison Beeley; psychologist and Officer-in-Charge SO1 Mental Health, Education and Training Lieutenant Colonel Jacquie Costello; and consultant psychiatrist Dr Duncan Wallace

health and research representatives from the United States, the United Kingdom, Canada and New Zealand militaries.

Collaborations such as these are invaluable. They present opportunities to explore and expand the knowledge and understanding of mental health issues shared by centre staff and their colleagues here and abroad.

In November 2013, the centre moved into newly refurbished and purpose-built facilities on board HMAS *Penguin* in Sydney. The facilities are equipped with state-of-the-art consulting, counselling, observation, video conferencing, training, meeting and conference rooms.

Established in 2010, as part of the Defence mental health reform program arising from the Dunt Review, the centre was designed to improve the quality of mental health care in the ADF. It provides mental health consultancy services, trains and upskills the ADF mental health workforce, and provides expert advice to ADF commanders and members.

The team at the centre consists of a range of mental health professionals—including two Army psychologists, a consultant psychiatrist, a clinical psychologist and a program development manager—reporting directly to the Director General of the Mental Health, Psychology and Rehabilitation Branch within Joint Health Command.

CH
08

Comcare interventions and investigations

The Work Health and Safety Act's requirement for a proactive approach to safety has changed the methodology used by Comcare. Comcare now undertakes interventions or inspections based on known high risk. The new legislation has not negated the use of improvement and prohibition notices. To assist Comcare to develop a workable arrangement for its new approach, Defence and Comcare have agreed on a protocol for the management of interventions. The number of proactive interventions is determined by the regulator's strategic focus and available resources.

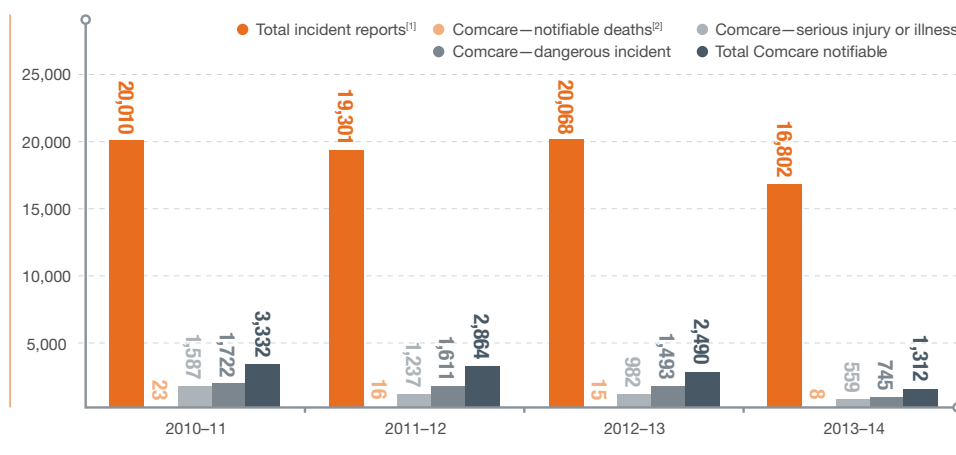
During 2013–14, the number of Comcare interventions (230) increased only slightly from the 2012–13 figure (228), (311 in 2011–12).

Other work health and safety achievements

The commitment by Defence and its leaders to improving the organisation's safety culture is achieving results. This effort is overseen by Defence's WHS Committee. Continued focus on safety in the design and planning phases of all Defence activities will maintain the positive cultural trend.

The number of Comcare notifiable incidents continued to decline in 2013–14 (Figure 8.4), while the number of Comcare notices remained steady (Figure 8.5).

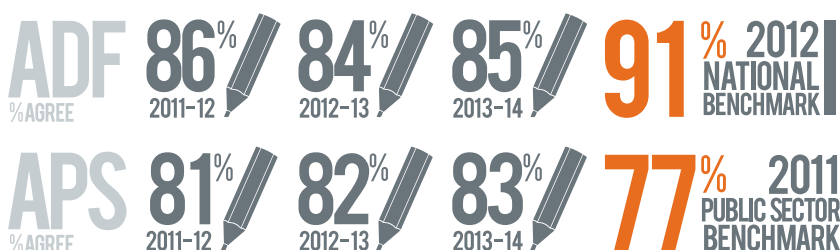
Figure 8.4: **Work health and safety—statistics and notifiable incidents, 2010–11 to 2013–14**



Notes

Defence completes a data quality process each year. For example, the process removes duplicated reports and ensures that reports are recorded in the correct financial year.

- Incidents are recorded based on the date of the incident. Delays in the reporting of incidents affect these statistics.
- Comcare notifiable deaths are all deaths, excluding those that were known to be combat related.



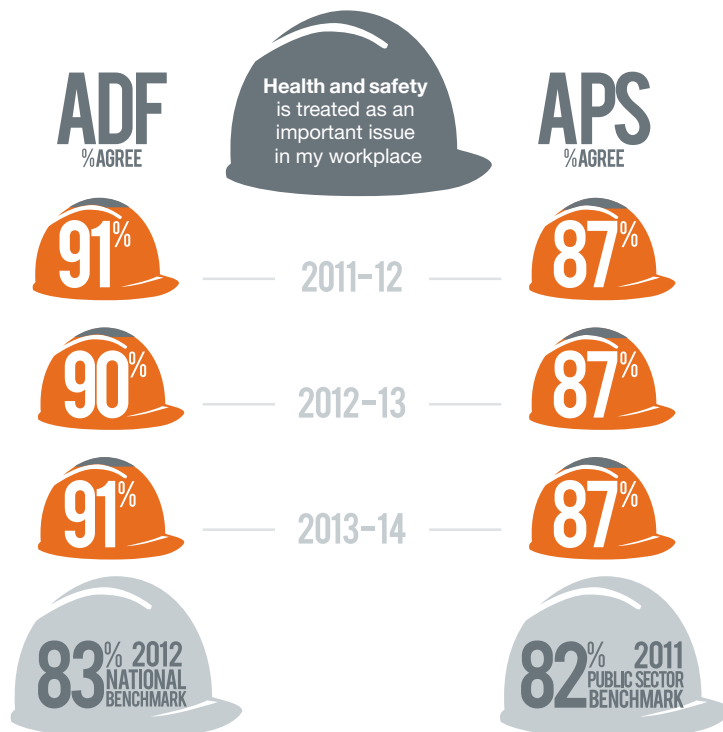
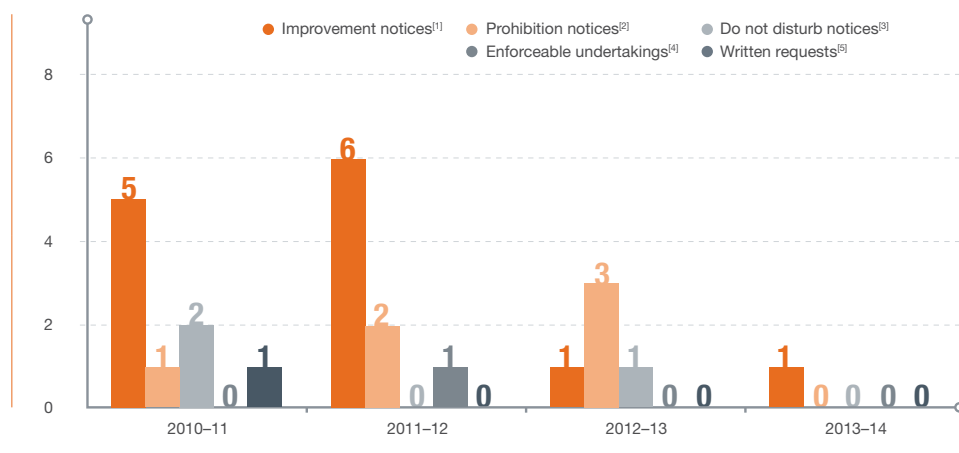


Figure 8.5: Work health and safety—Comcare notices, 2010-11 to 2013-14

**Notes**

The only notice issued in 2013-14 was a variation to an improvement notice to operate special plant that was originally issued in 2012.

1. Improvement notices—based on incidents and occurrences that contravene the WHS legislation.
2. Prohibition notices—issued to remove an immediate threat to the health or safety of workers.
3. Do not disturb notices—issued for a specific period of time to remove a threat to the health or safety of personnel.
4. Enforceable undertaking—Comcare may accept a written undertaking to fulfil an obligation under the WHS Act.
5. Written request—issued where the employer is to provide particulars of action proposed to be taken as a result of a Comcare report and/or any improvement or prohibition notice.

Headcount staffing figures

This section provides workforce information as at 30 June 2014 and outlines changes in the workforce that occurred during 2013–14. It includes numbers of people, employment categories, locations and gender information; the information is based on headcount.

At 30 June 2014, Defence had 78,137 permanent employees, comprising 57,036 permanent ADF members and 21,101 ongoing APS employees. An additional 93 APS employees were employed on a non-ongoing basis.

During 2013–14, the permanent ADF strength increased by 877 to 57,036. The growth in the permanent workforce is expected to continue over the next few years until the ADF reaches its Average Funded Strength guidance. The Reserve strength decreased by 1,367 to 24,028 (including those members on continuous full-time service and Active Reserve). The total ADF workforce was 81,064, and included 18,870 Navy permanent and Reserve members, 43,591 Army permanent and Reserve members and 18,603 Air Force permanent and Reserve members. At 30 June 2014, 1,474 Reservists were also Defence APS employees.

At 30 June 2014, there were 5,305 APS employees in DMO and 15,889 in the remainder of Defence. This number includes all APS employees recorded as paid, unpaid, full-time, part-time, ongoing and non-ongoing.

In addition to tables 8.13–18, further information and statistics on the Defence workforce are available online.

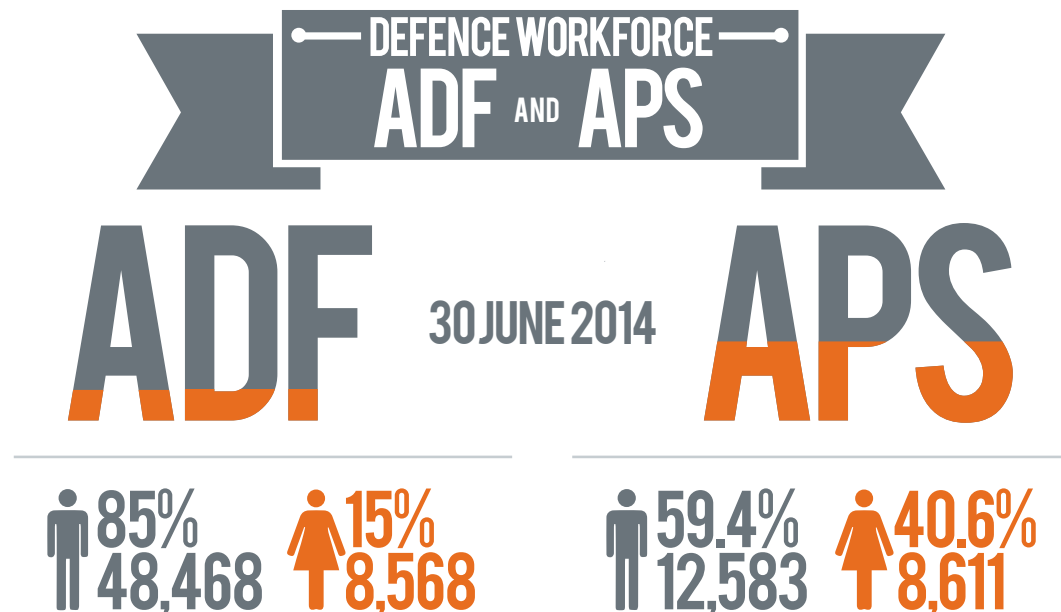


Table 8.13: Defence workforce headcount, 30 June 2013 and 30 June 2014

	Navy	Army	Air Force	ADF	APS ^[1]
30 June 2013^[2]					
Permanent ADF ^[3]	13,513	28,579	14,067	56,159	–
Department of Defence	–	–	–	–	16,540
DMO	–	–	–	–	5,565
Total at 30 June 2013	13,513	28,579	14,067	56,159	22,105
30 June 2014					
Separations ^[3]					
Permanent ADF	1,145	3,553	780	5,478	–
Department of Defence	–	–	–	–	1,065
DMO	–	–	–	–	319
Subtotal	1,145	3,553	780	5,478	1,384
Net transfers ^[4]					
Defence	–	–	–	–	37
DMO	–	–	–	–	–37
Subtotal	–	–	–	–	–
Additions					
Permanent ADF ^[3]	1,393	4,019	943	6,355	–
Department of Defence	–	–	–	–	377
DMO	–	–	–	–	96
Subtotal	1,393	4,019	943	6,355	473
Employee numbers					
Permanent ADF ^[3]	13,761	29,045	14,230	57,036	–
Department of Defence	–	–	–	–	15,889
DMO	–	–	–	–	5,305
Total at 30 June 2014	13,761	29,045	14,230	57,036	21,194
Change	248	466	163	877	–911

Notes

Figures in this table show employee numbers (substantive headcount).

1. Includes paid and unpaid employees, which covers full-time, part-time, ongoing and non-ongoing employees.
2. Some 30 June 2013 strength figures have been adjusted from those reported in the *Defence Annual Report 2012–13* to account for retrospective transactions.
3. Does not include Reservists or those undertaking continuous full-time service.
4. Net transfers represent the net effect of transfer of APS employees between Department of Defence and the DMO. Some of these transfers are the result of movements under the shared services program.

Table 8.14: **ADF permanent and Reserve forces and APS, by gender and employment category, 30 June 2013 and 30 June 2014**

	30 June 2013 ^[1]				30 June 2014			
	Men	%	Women	%	Men	%	Women	%
Navy permanent								
<i>Trained force</i>								
Officers	1,997	14.8	473	3.5	2,027	14.7	495	3.6
Other ranks	6,817	50.4	1,521	11.3	6,963	50.6	1,548	11.2
<i>Training force</i>								
Officers	590	4.4	168	1.2	614	4.5	155	1.1
Other ranks	1,622	12.0	325	2.4	1,596	11.6	363	2.6
Total Navy	11,026	81.6	2,487	18.4	11,200	81.4	2,561	18.6
Army permanent								
<i>Trained force</i>								
Officers	4,533	15.9	761	2.7	4,536	15.6	799	2.8
Other ranks	17,952	62.8	1,934	6.8	17,399	59.9	2,008	6.9
<i>Training force</i>								
Officers	771	2.7	187	0.7	815	2.8	200	0.7
Other ranks	2,189	7.7	252	0.9	2,873	9.9	415	1.4
Total Army	25,445	89.0	3,134	11.0	25,623	88.2	3,422	11.8
Air Force permanent								
<i>Trained force</i>								
Officers	3,273	23.3	780	5.5	3,353	23.6	845	5.9
Other ranks	7,410	52.7	1,422	10.1	7,295	51.3	1,439	10.1
<i>Training force</i>								
Officers	510	3.6	152	1.1	529	3.7	158	1.1
Other ranks	412	2.9	108	0.8	468	3.3	143	1.0
Total Air Force	11,605	82.5	2,462	17.5	11,645	81.8	2,585	18.2
ADF permanent								
<i>Trained force</i>								
Officers	9,803	17.5	2,014	3.6	9,916	17.4	2,139	3.8
Other ranks	32,179	57.3	4,877	8.7	31,657	55.5	4,995	8.8
<i>Training force</i>								
Officers	1,871	3.3	507	0.9	1,958	3.4	513	0.9
Other ranks	4,223	7.5	685	1.2	4,937	8.7	921	1.6
Total ADF permanent	48,076	85.6	8,083	14.4	48,468	85.0	8,568	15.0

Table 8.14 (continued)

	30 June 2013 ^[1]				30 June 2014			
	Men	%	Women	%	Men	%	Women	%
Reserves^[2]								
Navy	4,054	16.0	1,051	4.1	4,058	16.9	1,051	4.4
Army	14,005	55.1	2,154	8.5	12,617	52.5	1,929	8.0
Air Force	3,263	12.8	868	3.4	3,483	14.5	890	3.7
Total Reserves	21,322	84.0	4,073	16.0	20,158	83.9	3,870	16.1
APS^[3]								
APS (Dept. of Defence)	9,343	42.3	7,197	32.6	9,010	42.5	6,879	32.5
APS (DMO)	3,766	17.0	1,799	8.1	3,573	16.9	1,732	8.2
Total APS	13,109	59.3	8,996	40.7	12,583	59.4	8,611	40.6

Notes

Figures in this table show employee numbers (substantive headcount). Percentage figures are calculated against the respective totals. Percentages may not sum due to rounding.

1. Some 30 June 2013 figures have been adjusted from those reported in the *Defence Annual Report 2012–13* to account for retrospective transactions.
2. Reserves include all active members (training, deployed and performing other part-time military work commitments) and those on continuous full-time service.
3. Figures include paid, unpaid, full-time, part-time, ongoing and non-ongoing employees. The 30 June 2014 figures for APS include 1,474 APS employees who are also counted as Reserve members.

Table 8.15: APS personnel, by gender and category, 30 June 2013 and 30 June 2014

	30 June 2013 ^[1]			30 June 2014		
	Full-time	Part-time ^[2]	Total	Full-time	Part-time ^[2]	Total
Ongoing employees						
Men	12,846	180	13,026	12,309	217	12,526
Women	7,876	1,035	8,911	7,452	1,123	8,575
Total ongoing	20,722	1,215	21,937	19,761	1,340	21,101
Non-ongoing employees						
Men	81	2	83	48	9	57
Women	73	12	85	34	2	36
Total non-ongoing	154	14	168	82	11	93
Men	12,927	182	13,109	12,357	226	12,583
Women	7,949	1,047	8,996	7,486	1,125	8,611
Total	20,876	1,229	22,105	19,843	1,351	21,194

Notes

Figures in this table show employee numbers (substantive headcount). Figures include paid and unpaid employees.

1. Some 30 June 2013 figures have been adjusted from those reported in the *Defence Annual Report 2012–13* to account for retrospective transactions.
2. Part-time employees are those with weekly hours less than the standard hours, not those in part-time positions.

Table 8.16: Defence workforce, by employment location, 30 June 2014

	NSW	Vic. ^[1]	Qld	SA	WA	Tas.	NT	ACT ^[2]	O/S ^[3]	Total
Permanent forces^[4]										
Navy	6,495	1,544	927	84	2,209	19	668	1,533	282	13,761
Army	5,919	3,342	11,236	1,434	849	68	3,280	2,639	278	29,045
Air Force	4,753	986	3,013	1,941	367	7	979	1,927	257	14,230
Subtotal	17,167	5,872	15,176	3,459	3,425	94	4,927	6,099	817	57,036
Reserve forces^[5]										
Navy	1,376	531	782	196	869	165	147	1,039	4	5,109
Army	3,842	2,604	3,285	1,219	1,537	442	595	1,020	2	14,546
Air Force	1,078	383	1,182	416	279	51	119	865	0	4,373
Subtotal	6,296	3,518	5,249	1,831	2,685	658	861	2,924	6	24,028
Total ADF	23,463	9,390	20,425	5,290	6,110	752	5,788	9,023	823	81,064
APS^[6]										
APS (Dept. of Defence)	2,045	2,642	1,122	1,986	367	87	308	7,254	78	15,889
APS (DMO)	1,212	1,503	330	294	205	0	27	1,724	10	5,305
Total APS	3,257	4,145	1,452	2,280	572	87	335	8,978	88	21,194

Notes

Figures in this table show employee numbers (substantive headcount).

- Victorian figures include employees located in Albury (NSW).
- ACT figures include employees located in Jervis Bay (Cwth), Queanbeyan (NSW) and Bungendore (NSW).
- Employees posted for reasons including long-term duty, training, exchange and liaison.
- Includes paid and unpaid employees.
- Includes Reserves on continuous full-time service.
- Includes paid and unpaid employees, which covers full-time, part-time, ongoing and non-ongoing employees. The 30 June 2014 figures for APS include 1,474 APS employees who are also counted as Reserve members.

DEFENCE
APS
STATE by STATE

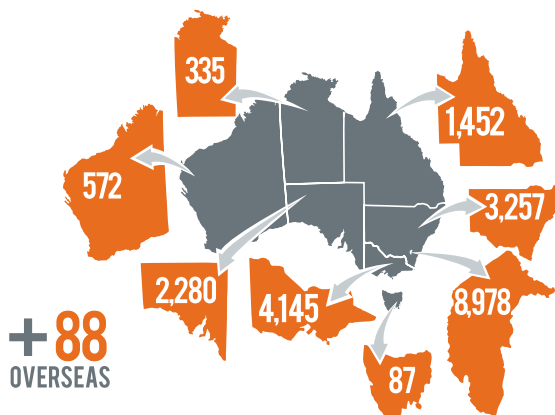


Table 8.17: Star-ranked officers, 30 June 2014

	Total star rank			2013–14 promotions			2013–14 separations		
	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	0	0	0	0	0	0
Air Force	0	0	0	0	0	0	0	0	0
Three star									
Navy	4	0	4	2	0	2	0	0	0
Army	3	0	3	1	0	1	0	0	0
Air Force	2	0	2	0	0	0	0	0	0
Two star									
Navy	15	1	16	3	0	3	0	0	0
Army	16	1	17	3	1	4	3	0	3
Air Force	10	0	10	4	0	4	2	0	2
One star									
Navy	38	1	39	6	0	6	3	0	3
Army	52	6	58	9	2	11	4	1	5
Air Force	36	4	40	5	1	6	6	0	6
Total	177	13	190	33	4	37	18	1	19

Table 8.18: APS Senior Executive Service employees, 30 June 2014

	Total SES			2013–14 engagements ^[1]			2013–14 separations ^[2]		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Senior Executive									
Secretary	1	0	1	0	0	0	0	0	0
Band 3	12	3	15	2	0	2	0	0	0
Band 2	24	6	30	1	0	1	5	1	6
Band 1	62	28	90	0	0	0	3	4	7
Chief of Division									
Grade 3	2	0	2	0	0	0	0	0	0
Grade 2	8	3	11	0	0	0	3	0	3
Senior Executive									
Relief staff	14	11	25	0	0	0	0	0	0
Total	123	51	174	3	0	3	11	5	16

Notes

1. Includes resignations, retirements, redundancies and transfers to other agencies.

2. Non-SES officers who are temporarily acting in SES/Chief of Division positions due to temporary or longer term vacancies.

Community grants assist Defence families across Australia

Each year Defence Community Organisation (DCO) awards funding to non-profit groups that help Defence families build support networks and become involved in their local community.

DCO's Director General Ray Bromwich said that funding for 2013–14 totalled \$1.4 million and was shared among 61 groups across the country.

'The grants support organisations that help Defence families manage military life and connect with their community through hobby and interest groups and development activities for kids and teens', he explained.

'Defence families posted to far-flung places like Papua New Guinea and Karratha in the Pilbara region of Western Australia can access organisations supported by our grants scheme.'

Duntroon Community Centre in Canberra has been supporting military families for more than 30 years, and uses its grant to deliver programs including playschool, playgroup, and a craft group.

Centre coordinator Jenny Lean said that the funding allows the centre to improve and grow each year, helping family members from both the military and civilian community to network and offer valuable support to each other.

'It supports Defence families regardless of rank, particularly when partners are away', she said.

Network Tindal in the Northern Territory also received funding in the 2013–14 round. Coordinator Renee Fox said the funding would be used for a range of community programs and social events including playgroups, craft and computer gaming groups, social cooking classes and a monthly newsletter.

'We also run swimming lessons for six weeks, twice a year for between 70 and 100 children', she said.



Late last year the group organised the inaugural Twilight Community Fair in Katherine, bringing together more than 550 people from the local community.

'The fair was a great success and is one event that helps build relationships between the RAAF community and the Katherine community', Ms Fox said.

DCO delivers other services to military families including support from a social worker, assistance for partners' education and employment, help with childcare, assistance for dependants with special needs, help for families during crisis and emergency, education support for children, and assistance for members leaving the military.

Families can access support services by calling the all-hours Defence Family Helpline—1800 624 608—which is staffed by qualified human services professionals including social workers and psychologists.

For more information visit www.defence.gov.au/dco or www.facebook.com/DefenceCommunityOrganisation.

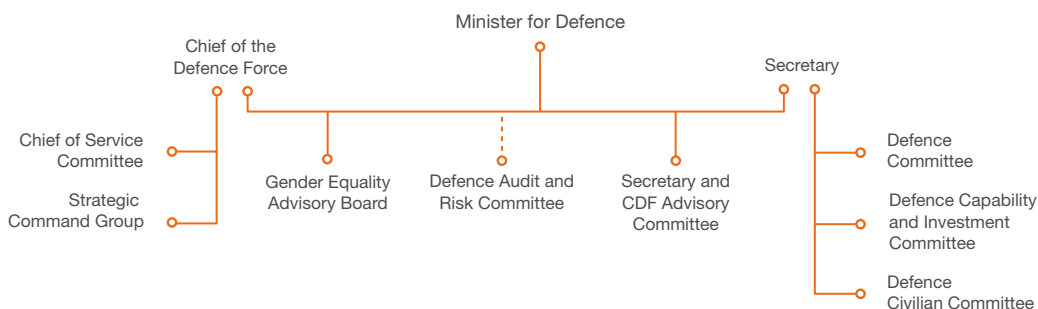
CHAPTER 9

Corporate governance

Senior management committees and their roles

Defence operates seven senior committees and one board, each playing an important role in the governance and management of the organisation. Each body has an advisory role, with the chair (or chairs) exercising executive authority.

Figure 9.1: Senior management committees and their roles



Further details of specific roles of committees are available online.

Fraud and ethics

Defence has implemented an intelligence-led fraud control program focusing on responding to emerging high risks within Defence. Defence is using the information to target allowances and contract management to disrupt potential fraudulent activity. Staff have also been embedded in the Commonwealth Fraud and Anti-Corruption Centre to coordinate efforts to combat fraud and corruption.

The Ethics and Fraud Awareness program underpins Defence's approach to fraud control. The program consists of a face-to-face or e-learning course as well as newsletters and an intranet site for information and advice. It is mandatory for staff to participate in the program at least every two years. In 2013–14, more than 69,000 Defence personnel completed the program.

In 2013–14, 288 fraud investigations were registered within Defence and 322 investigations were completed (some of those completed were registered in previous years). Approximately 25 per cent of completed investigations resulted in criminal, disciplinary or administrative action. Of these, around 44 per cent related to disciplinary action under the *Defence Force Discipline Act 1982*.

The determined fraud loss for completed investigations was \$1.77 million in 2013–14, while monies recovered were just under \$0.13 million. Table 9.1 shows detected fraud over the past five financial years, averaging approximately \$1.13 million per year within a range of \$0.8 million to \$1.8 million.

Table 9.1: **Determined fraud loss and recoveries, 2009–10 to 2013–14**

	2009–10 (\$)	2010–11 (\$)	2011–12 (\$)	2012–13 (\$)	2013–14 (\$)
Loss	1,039,721	916,419	1,102,979	835,685	1,770,422
Recovery	359,393	422,691	493,210	393,902	133,457

Note

The determined loss and recoveries information is based on investigations closed in the relevant year.

Audit

Audit Branch provides assurance to the Secretary and the CDF that 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 in improving the business performance of their organisations.

During the year, Audit Branch provided internal audit services in accordance with the Audit Work Program that is endorsed by the Defence Audit and Risk Committee and approved by the Secretary and the CDF. The program is developed in consultation with all Group heads and Service chiefs. It is designed to address areas of high-level risk or activities where there are potential control deficiencies that could lead to significant financial loss or expose Defence to serious reputational damage.

Audit Branch also monitors and reports to the Defence Audit and Risk Committee, the Defence Committee and the minister on the status of the implementation of recommendations from Audit Branch and the Australian National Audit Office.

In 2013–14, Audit Branch issued a total of 22 audit reports. In addition, six Australian National Audit Office performance audits on Defence were completed, along with three cross-portfolio audits involving Defence, to which Audit Branch provided direct support. Audit Branch also facilitated Defence input into an Australian National Audit Office audit of another agency that contained a reference to Defence.

Defence Whistleblower Scheme/Public Interest Disclosure Scheme

On 15 January 2014, Defence implemented the Defence Public Interest Disclosure (PID) Scheme following the commencement of the *Public Interest Disclosure Act 2013*. The PID Scheme replaced the Defence Whistleblower Scheme, which had been successfully operating since July 2002. Any whistleblower complaints made before 15 January 2014 will continue to be investigated under the previous scheme until finalised.

The PID Scheme facilitates and encourages public officials to report suspected wrongdoing, supports and protects disclosers, and ensures that suspected wrongdoing is investigated appropriately. Defence continues to work closely with the Commonwealth Ombudsman for PID reporting purposes and to improve the implementation of the Public Interest Disclosure Act within Defence and more broadly within the Commonwealth public sector.

Table 9.2 shows the number of allegations made to the Defence Whistleblower Scheme over the past five financial years and the number of public interest disclosures allocated to Defence and other agencies since 15 January 2014.

Table 9.2: **Reports made to the Defence Whistleblower Scheme and the Defence Public Interest Disclosure Scheme, 2009–10 to 2013–14**

	2009–10	2010–11	2011–12	2012–13	2013–14
Defence Whistleblower Scheme	255	242	270	253	181
PID Scheme ^[1]	–	–	–	–	181

Note

3. The Defence PID Scheme began operating on 15 January 2014.

Status report on the Australian Government Security Vetting Agency review

The Defence Chief Audit Executive's annual assessment in 2014 concluded that progress continues to be made since the first assessment in 2011 and that, at this time, the Australian Government Security Vetting Agency is compliant with government security vetting policy.

The annual assessment is one of 13 recommendations made by the Inspector-General of Intelligence and Security. The recommendations were the result of an inquiry requested by the then Prime Minister, following allegations of inappropriate vetting practices made by three former data entry contractors on the ABC *Lateline* program in 2011.

In 2013–14, the Chief Audit Executive assessed that 11 of the 13 recommendations had been fully completed, one is currently being implemented and one is in the development stage. Both 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 Australian Government Security Vetting Agency and the Defence Security Authority.

The Chief Audit Executive noted that the Australian Government Security Vetting Agency is continuing to implement a reform program to ensure compliance. Intelligence and Security Group senior management have allocated additional resources and are fully committed to the reform program.

Report of the Inspector-General of the Australian Defence Force

The position of Inspector-General of the Australian Defence Force (IGADF) is established under section 110B of the *Defence Act 1903*. The IGADF provides the Chief of the Defence Force with a mechanism for internal audit and review of the military justice system independent of the chain of command and an avenue by which failures in the system may be examined and remedied.

The operating tempo in the Office of IGADF remained relatively high in 2013–14 and was characterised by increases in the number of submissions received for investigation or inquiry and the number of military justice performance audits completed into the military justice arrangements of ADF units. Regulation 125 of the Defence (Inquiry) Regulations 1985 provides that the CDF must report on the operation of the regulations during the financial year. There were no reports of any systemic issues or serious deficiencies in the quality of an inquiry report or a legal review during the reporting period. **Further details are available online.**

During 2013–14, the IGADF received 60 inquiry submissions, an increase of approximately 10 per cent on the previous year. In recent years, the trend has been that submissions disclose issues of greater complexity than in previous years, and this continued in 2013–14. During the year, the IGADF resolved 42 submissions by way of inquiry, investigation and review.

The submissions received included 18 concerning service police professional standards matters. Of those, 10 became the subject of IGADF investigations and eight were referred back to service police for further action. Of the 10 matters investigated, three complaints were substantiated and seven matters were still being investigated at the end of June 2014.

The IGADF conducted 49 ADF military justice unit audits, or audits of about 10 per cent of all auditable ADF units. In three of those units, potential material deficiencies were identified. In all, a total of 714 recommendations and suggestions to improve military justice arrangements, practices and procedures were made during 2013–14. The overwhelming majority of the recommendations and suggestions related to minor compliance or procedural issues.

During the conduct of military justice unit audits, 2,552 ADF personnel participated in focus group discussions, raising to 24,641 the total number of focus group participants since the pilot program commenced in 2004. Focus group survey outcomes in 2013–14 indicate a stronger endorsement of, and confidence in, the military justice system and the chain of command to take action to resolve military justice problems. There is also strong evidence to indicate that incremental cultural change under Pathway to Change: Evolving Defence Culture occurred within the ADF during the year.

During 2013–14, the Office of IGADF conducted 50 face-to-face courses and seminars at locations around Australia, attended by 1,599 ADF members. Of those, the vast majority attended inquiry officer familiarisation training. A further 1,058 undertook the IGADF online inquiry officer familiarisation course on campus. Other practical training opportunities offered by the IGADF included seminars on administrative sanctions, complaint handling and conducting quick assessments.

The principal themes affecting the ADF military justice narrative in 2013–14 included the attention given to cultural issues addressed in Defence's Pathway to Change policies, the work of the Human Rights Commission's examination of gender issues throughout the ADF, and the continuing speculation as to the future arrangements for ADF investigation, inquiry, review and redress of grievance processes arising from the finalisation of the Defence Re-thinking Review. More broadly, in the public domain, credit for dealing with the reportedly large numbers of cases of abuse within Defence over time exposed by the DLA Piper Report and the activities of the Defence Abuse Response Taskforce tended to be counterbalanced by continuing adverse media coverage of such cases, resulting in further reputational impact for Defence.

Pursuant to section 110R of the Defence Act, in 2013–14 the IGADF provided a detailed report to the CDF on the operations of the Office of IGADF.

CDF commissions of inquiry

The CDF appoints commissions of inquiry (COIs) primarily to inquire into the deaths of ADF members that appear to have arisen out of, or in the course of, their service. The CDF may also appoint a COI into any other matter concerning the ADF, although this would only occur for the most serious or complex matters. COIs are intended to provide the CDF with accurate information as a basis for internal decision-making. COI reports may include recommendations intended to prevent a recurrence of incidents. Lessons learned from COIs are considered in the design and review of policy, practices, procedures and orders, and may affect decisions concerning equipment, systems and personnel.

COIs are appointed by the CDF and are presided over by a civilian with judicial experience. They may be constituted by a president alone or by a president with additional members, who may be civilians or ADF members. The appointment of a civilian president is intended to give these inquiries a degree of independence beyond that possessed by other forms of military inquiry, while the qualification of judicial experience is intended to ensure that they are conducted professionally and efficiently. The independence and judicial experience of COI presidents promotes confidence in the integrity of COIs.

During 2013–14, four COIs were appointed, completed or remained in progress. The deaths of other members which appeared to arise out of, or in the course of, their service occurred in circumstances specified by a minister in the Defence portfolio as circumstances in which a COI was not required.

Able Seaman Ewan McDonald

A COI into the death of Able Seaman Ewan McDonald was appointed on 21 September 2012. The family and next of kin were in attendance at the public hearing, which concluded on 5 March 2013. The COI submitted its report on 16 August 2013. The outcomes of the COI will shortly be briefed to the next of kin. A decision on whether or not the report will be publicly released is yet to be made.

Sapper Jordan Ronald Penpraze

Sapper Jordan Ronald Penpraze died on 11 October 2012 as a result of a single vehicle roll-over accident three days earlier. A COI into the death was appointed on 24 October 2012, and hearings commenced on 8 April 2013. Hearings have been adjourned while criminal proceedings against the driver of the vehicle take place.

Midshipman Peter Bach

A COI into the death of Midshipman Peter Bach was appointed on 24 November 2012. The family of Midshipman Bach attended the hearings, which commenced on 8 March 2013. The COI submitted its report on 15 October 2013. The outcomes of the COI have been briefed to the next of kin. A decision on whether or not the report will be publicly released is yet to be made.

Fire at Marrangaroo Training Area

A COI into the circumstances surrounding a fire at the Marrangaroo Training Area on 16 October 2013 was appointed on 26 October 2013. Hearings commenced on 9 December 2013, and the COI submitted its report on 31 January 2014. A redacted copy of the report was publicly released on 17 June 2014.

CDF inquiry officer inquiries

Inquiry officer inquiries (IOIs) are generally appointed by the CDF as a fact-finding tool following combat or combat-related deaths of ADF members. IOI reports are used to inform the CDF before appointing a COI, or to inform the Minister for Defence before specifying that a member's death has occurred in circumstances in which a COI is not required.

In a paper on Afghanistan tabled in conjunction with a ministerial statement on 9 February 2012, the then Minister for Defence, the Hon Stephen Smith MP, stated that the past focus of the IOI process had been on the public release of IOI reports, which had been released as a matter of course. The minister indicated that the focus needed to be on the timely provision of the report to the family of the deceased. Any decision on publicly releasing a report would come after weighing the wishes of family members and public interest in the release of the report.

During 2013–14, one IOI into a combat death was appointed and completed. This death occurred in circumstances specified by the minister as circumstances in which a COI was not required.

Corporal Cameron Stuart Baird, VC, MG

Corporal Cameron Baird, 2nd Commando Regiment, was killed in action as a result of enemy fire in Afghanistan on 22 June 2013. An IOI was appointed on 5 July 2013, and the inquiry officer submitted their report on 12 September 2013. The outcomes of the IOI have been briefed to the family. A redacted copy of the report was publicly released on 7 March 2014.

A number of other IOIs into combat and combat-related deaths that were completed during the previous financial year were announced by Defence as having been concluded. The reports were released to the public in some instances.

CHAPTER 10

External accountability

Parliamentary business

In 2013–14, Defence provided 10 written submissions to various Senate, House of Representatives and joint committee inquiries. Defence witnesses appeared at nine hearings providing evidence on a range of issues, took 35 questions on notice (16 had not yet been tabled at 30 June 2014) and either tabled or contributed to eight government responses to parliamentary committee reports throughout the year. These are available at aph.gov.au.

To assist parliamentary committee members to gain a better understanding of Defence issues, Defence also provided private briefings on a variety of subjects, including matters of regional security and capability.

Table 10.1: Defence's parliamentary contribution, 2011–12 to 2013–14

Parliamentary contribution	2011–12	2012–13	2013–14
Written submissions	15	24	10
Whole-of-government submissions	1	Nil	1
Government responses	5	2	8
Public hearings	14	16	13
Private briefings	12	14	25
Total	47	46	57

Parliamentary committees

Tables 10.2 to 10.4 provide information on Defence's activities in relation to parliamentary committee inquiries.

Table 10.2: Defence's involvement with joint committees, 2013–14

Joint committee
Joint Standing Committee on Foreign Affairs, Defence and Trade
SEA 4000 Air Warfare Destroyer
Inquiry into Australia's Relationship with Timor-Leste
Inquiry into the Review of the Defence Annual Report 2011–2012
Inquiry into the Care of ADF Personnel Wounded and Injured on Operations
Inquiry into the Human Rights Issues Confronting Women and Girls in the Indian Ocean – Asia-Pacific Region
Inquiry into the Review of the Defence Annual Report 2012–13
Inquiry into Government Support for Australian Defence Industry Exports
Joint Parliamentary Committee on Intelligence and Security
Inquiry into Reforms of Australia's National Security Legislation
Review of Administration and Expenditure 2012–13

Table 10.2 (continued)

Joint committee
Joint Committee of Public Accounts and Audit
Report 422—Review of the 2012–13 DMO Major Project Report
Report 443—Review of Auditor-General's Report Numbers 23 and 25 (2012–13) and 32 (2012–13) to 9 (2013–14)
Joint Standing Committee on Public Works
Joint Project 2047 Phase 3 Defence Terrestrial Communications Network Facilities and Infrastructure Project (JP 2047)
Air 9000 Phase 5C replacement Chinook facilities project, Townsville, Queensland
Development and Construction of Housing for Defence at RAAF Base Tindal, Northern Territory
Joint Standing Committee on Treaties
Treaty between the Governments of Australia and the United Kingdom and Northern Ireland for Defence Security Cooperation

Table 10.3: Defence's involvement with Senate committees, 2013–14

Senate committee
Senate Standing Committee on Foreign Affairs, Defence and Trade
Government Response to the Defence Abuse Response Taskforce
Inquiry into the Breach of Indonesian Territorial Waters
Report of the Review of Allegations of Sexual and Other Abuse in Defence, DLA Piper
Inquiry into the Importance of the Indian Ocean Rim for Australia's Foreign, Trade and Defence Policy, tabled 6 March 2014
Inquiry into Australia's Overseas Development Programs in Afghanistan
Implementation of the Defence Trade Controls Legislation
Defence Legislation Amendment (Woomera Prohibited Area) Bill 2013
Defence Legislation Amendment (Woomera Prohibited Area) Bill 2014
Senate Standing Committee on Finance and Public Administration
Inquiry into Commonwealth Procurement Procedures

Further information on Defence's involvement with parliamentary committees is available online.

Senate Estimates and questions on notice

Defence attended three estimates hearings before the Senate Standing Committee on Foreign Affairs, Defence and Trade (Table 10.4) and responded to a total of 450 questions on notice from the three hearings (Table 10.5). Of the questions taken on notice from the Senate and House of Representatives notice papers during 2013–14, Defence was asked a total of 18 (two had not yet been tabled at 30 June 2014).

Table 10.4: Defence's involvement with Senate Estimates, 2014–14

Senate Standing Committee on Foreign Affairs, Defence and Trade	
Supplementary Budget Estimates 2013–14	Defence witnesses appeared at a hearing on 20 November 2013. Thirty-four questions were taken on notice during the hearing. An additional 103 written questions were received following the hearing.
Additional Estimates 2013–14	Defence witnesses appeared at a hearing on 26 February 2014. Twenty-eight questions were taken on notice during the hearing. An additional 108 written questions were received following the hearing.
Budget Estimates 2014–15	Defence witnesses appeared at hearings on 2 and 3 June 2014. Fifty-three questions were taken on notice during the hearing. An additional 124 written questions were received following the hearing.

Table 10.5: Defence's questions on notice, 2011–12 to 2013–14

Source of questions on notice	2011–12	2012–13	2013–14
House of Representatives/Senate notice paper	358	167	18
Senate Estimates (October, February, June)	650	440	450
Parliamentary inquiries	118	97	35
Total	1126	704	503

Judicial decisions and decisions of administrative tribunals

In *Danthanarayana and Another v Commonwealth of Australia & Ors* [2014] FCA 552, the applicants sought damages for adverse consequences alleged to have been caused by the actions of the Commonwealth, six Defence employees and a contractor. On 28 May 2014, the Federal Court summarily dismissed the applicant's Further Amended Statement of Claim as it failed to disclose a reasonable cause of action for the tort of civil conspiracy, for misfeasance in public office or for damages under the Trade Practices Act against the respondents. The court found that the applicants had no reasonable prospects of successfully prosecuting any of those causes of action and that the first applicant's pleaded allegations of negligence were deficient and should be struck out. The court allowed the first applicant one last opportunity to plead a claim in negligence as against the Commonwealth subject to the condition that any further pleadings be submitted both to the court and to the respondents for consideration prior to leave being granted to file a further amended application. The matter is continuing and is expected to resume before the Federal Court later in 2014.

An ADF member had been convicted of a service offence of creating a disturbance on service land following a court martial under the *Defence Force Discipline Act 1982*. The conviction was upheld, on subsequent appeals, by the Defence Force Discipline Appeal Tribunal and the Full Court of the Federal Court. In *Li v Chief of Army* [2013] HCA 49, the High Court unanimously allowed an appeal against a decision of the Full Court of the Federal Court and quashed the conviction. The High Court held that 'creating a disturbance' involves the intentional doing of an act which results in a non-trivial interruption of order, the person charged being reckless as to the occurrence of that result. The High Court found that the court martial had been misdirected as to the proper law at first instance. The court remitted the matter to the Defence Force Discipline Appeal Tribunal for further consideration.

On 2 June 2014, the ACT Supreme Court dismissed the plaintiff's application, in *Barry Thomas Blunden v Commonwealth of Australia* [2014] ACTSC 123, to reinstate proceedings under rule 76 of the ACT Court Procedures Rules 2006. The plaintiff's application for an extension of time to commence proceedings seeking common law damages for injuries alleged to have been suffered as a consequence of the HMAS *Voyager*/HMAS *Melbourne* collision in 1964 had been previously dismissed by the ACT Supreme Court in 1999 and an appeal from that decision had not been successful. The court noted the prior applications and appeals between 2000 and 2007 and found that the plaintiff had taken no substantive steps in the proceedings since October 2007. The court found no justification in the interest of justice for the proceedings to be reinstated.

Auditor-General's reports

In 2013–14, the Auditor-General tabled six performance audit reports relating directly to Defence and the Defence Materiel Organisation. The reports are listed in Table 10.6. Table 10.7 lists cross-portfolio audits involving Defence that were tabled during the year. Table 10.8 gives details of an audit in which Defence participated as the largest holder of radiation sources monitored by the Australian Radiation Protection and Nuclear Safety Agency (ARPANSA). The Auditor-General's findings and recommendations can be found at www.anao.gov.au.

Table 10.6: Auditor-General's reports on Defence, 2013–14

Report	Objective
Audit Report No. 3, AIR 8000 Phase 2—C-27J Spartan Battlefield Airlift Aircraft, tabled 15 August 2013	The objective of the audit was to assess the adequacy of Defence's processes, including compliance with the <i>Financial Management and Accountability Act 1997</i> , the Financial Management and Accountability Regulations 1997, and relevant Commonwealth and Defence procurement requirements, to select the capability solution recommended to the Government to satisfy the requirements of AIR 8000 Phase 2.
Audit Report No. 6, Capability Development Reform, tabled 30 October 2013	The objective of the audit was to examine the effectiveness of Defence's implementation of reforms to capability development since the introduction of the two-pass process for government approval of capability projects and the Government's acceptance of the reforms recommended by the Mortimer Review. The scope of this audit included the requirements phase and, to a limited extent, the acquisition phase of major capability development projects, focusing on changes flowing from the major reforms.
Audit Report No. 14, Explosive Ordnance and Weapons Security Incident Reporting, tabled 18 December 2013	The audit objective was to assess the effectiveness of Defence's arrangements for monitoring and reporting explosive ordnance and weapons security incidents.
Audit Report No. 22, Air Warfare Destroyer Program, tabled 6 March 2014	The objective of the audit was to report on the progress of the current phase of the Air Warfare Destroyer Program, which is known as SEA 4000 Phase 3—Build. This phase commenced in June 2007, and covers the finalisation of the detailed design, the signing of the Alliance and Platform System Design contracts, and the construction and delivery of the ships by the industry participants to the Defence Materiel Organisation.
Audit Report No. 24, Emergency Defence Assistance to the Civil Community, tabled 16 April 2014	The audit objective was to assess the administrative effectiveness of Defence's procedures to provide emergency assistance to the civil community.
Audit Report No. 52, Multi-Role Helicopter Program, tabled 25 June 2014	The audit objective was to assess Defence's progress in delivering multi-role helicopters (MRH-90 aircraft) to the ADF through AIR 9000 Phases 2, 4 and 6, within approved cost, schedule and performance parameters.

Table 10.7: Auditor-General's cross-portfolio reports involving Defence, 2013–14

Report	Objective
Audit Report No. 21, Pilot Project to Audit Key Performance Indicators, tabled 27 February 2014	In 2013–14, the ANAO pilot project to audit key performance indicators was continued with the objective of conducting a review of framework developments, in terms of both the clarity of the policy and guidance issued by Finance and the performance of agencies in applying this policy and guidance, as a basis for implementing a future program of audits; and to further develop and test an audit methodology to address the practical challenges of assessing the appropriateness of key performance indicators, and their complete and accurate reporting.
Audit Report No. 47, Managing Conflicts of Interest in FMA Agencies, tabled 23 June 2014	The audit objective was to determine whether Australian Government agencies were implementing appropriate policies and processes to identify and manage conflicts of interest.
Audit Report No. 54, Establishment and Use of Multi-Use Lists, tabled 26 June 2014	The objective of the audit was to assess the extent to which agencies have arrangements to establish and use multi-use lists to support value for money, efficiency and effectiveness in procurement.

Table 10.8: Auditor-General's report on ARPANSA, 2013–14

Report	Objective
Audit Report No. 29, Regulation of Commonwealth Radiation and Nuclear Activities, tabled 7 May 2014	The objective of the audit was to assess the effectiveness of ARPANSA's management of the regulation of Commonwealth nuclear and radiation facilities and sources, including ARPANSA's compliance with its legislative requirements.

Ombudsman's reports

There were no formal reports to the Chief of the Defence Force pursuant to section 15 of the *Ombudsman Act 1976* during 2013–14; nor were any reports raised under section 16, 17 or 19 of the Act relating to the operations of the ADF during the period.

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. Each agency must display on its website a plan showing what information it publishes in accordance with the scheme's requirements.

Further information is available online at <http://www.defence.gov.au/ips>.

Freedom of information

Table 10.9 shows the number of freedom of information requests received and completed or otherwise dealt with in 2013–14. The figures refer to requests for access to documents under section 15 of the FOI Act. Defence was 100 per cent compliant in 2013–14.

Defence also handles requests under Part V of the FOI Act for amendment or annotation of records of personal information. In 2013–14, 10 applications for amendment were received and 10 were completed. Defence also received 32 applications for internal review and completed 34 (which includes applications carried over from 2012–13).

In addition to formal FOI requests, the FOI Directorate processed 538 requests for access to personnel records that were redirected for administration, in accordance with section 15A of the FOI Act. Section 15A provides for access to be given in such cases, outside the provisions of the FOI Act, through established administrative channels.

The Directorate also assisted with the resolution of 441 other inquiries that did not require consideration under the FOI Act, which were also addressed through established administrative channels.

Table 10.10 shows Defence's performance in meeting the applicable statutory time limit for responding to requests for access to documents under section 15 of the FOI Act.

Table 10.9: **Requests for access to documents received and completed or otherwise dealt with under section 15 of the FOI Act, 2011–12 to 2013–14**

	2011–12	2012–13	2013–14
Number of requests received	334	414	433
Number of requests finalised (including withdrawn or transferred to another agency)	349	422	420
Number of requests withdrawn	94	121	125
Number of requests transferred to another agency	4	1	13
Total requests finalised under section 15	251	300	282
Number of requests outstanding	40	32	45

Table 10.10: **Time taken to answer requests for access to documents under section 15 of the FOI Act, 2011–12 to 2013–14**

	2011–12	2012–13	2013–14
Applicable statutory period (with % of total)	251 (100)	300 (100)	282 (100)
Up to 30 days over ¹⁾ (with % of total)	–	–	–
Up to 31 to 60 days over ¹⁾ (with % of total)	–	–	–
Up to 61 to 90 days over ¹⁾ (with % of total)	–	–	–
More than 90 days over ¹⁾ (with % of total)	–	–	–

Note

4. Over the applicable statutory period.

CHAPTER 11

Asset management, procurement and capital investment

Defence asset management

Defence manages \$74.9 billion of total assets. This includes:

- approximately \$41.3 billion of specialist military equipment
- \$24.1 billion of land, buildings and infrastructure
- \$6.4 billion of inventory
- \$1.0 billion of heritage and cultural assets
- \$2.1 billion of other items, including cash, receivables and prepayments.

Defence Groups and Services, including the Defence Materiel Organisation (DMO), are accountable for the underlying business transactions and records that substantiate the reported financial balances of assets under their control.

Defence Asset Accounting within the Chief Finance Officer Group undertakes accounting processes to enable the accurate and timely reporting of asset balances and to ensure that they are consistent with requirements for financial statements reporting defined in the Australian Accounting Standards.

During 2013–14, Defence worked to secure and advance the improvements in financial and asset management achieved in previous years. This was achieved by:

- evolving the shared services delivery model for asset accounting to further enhance the financial reporting of assets and deliver standardised policies and processes to support the management of assets
- a maturing data assurance framework and controls environment to identify and resolve asset management issues swiftly as they occurred.

Defence procurement

Defence undertakes procurement in accordance with the Commonwealth Resource Management Framework and Defence policies. For the Commonwealth Procurement Rules (CPRs) Division 1, Defence must comply with the rules for all procurements regardless of the procurement value. The rules include:

- value for money
- encouraging competition
- efficient, effective, economical and ethical procurement
- accountability and transparency in procurement
- procurement risk
- procurement method.

Procurements at or above the relevant procurement threshold are subject to Division 2 of the CPRs. Exemptions are included in the CPRs Appendix A: Exemptions from Division 2.

Under non-materiel procurement shared services, the Defence Support and Reform Group provides high-level procurement advice and support to officials who exercise delegations under the *Financial Management and Accountability Act 1997*.

The value, volume and complexity of Defence's non-materiel procurement requirements allow Defence to leverage its purchasing power. The organisation's strategic view of its non-materiel procurements enables it to establish long-term relationships with suppliers where appropriate.

The Defence Annual Procurement Plan is published on the AusTender website (www.tenders.gov.au) to give industry notice of potential business opportunities and to help it prepare for the competitive tendering phase. Defence publishes open tenders on AusTender.

Defence conducts industry consultations for significant procurements before approaching the market and holds industry briefings during the tender open period. These processes inform suppliers of the scope of the organisation's business requirements and proposed procurement and contracting strategies, and provide feedback on compliance obligations, risks, cost issues and innovation opportunities. Defence engages with potential suppliers ethically throughout the procurement cycle and uses equitable and non-discriminatory complaint-handling procedures.

The organisation also engages with suppliers at corporate and contract management levels through consultations, briefings, industry engagement meetings, strategic contract management review meetings and conferences. Defence is implementing procurement strategies to improve the application of supplier diversity requirements.

Defence monitors contractor performance, provides feedback to its suppliers and sustains industry relationships throughout the procurement contracting cycle.

Defence Materiel Organisation asset management

The DMO manages its assets in accordance with Chief Executive Instructions, relevant accounting standards and internal DMO guidelines.

The DMO's property, plant and equipment, which were valued at \$5 million, are subject to an annual stocktake to ensure that records are accurate. Impairment reviews were also undertaken at 30 June 2014, and valuations were conducted as outlined in Note 1.21 of the DMO financial statements in Volume Two of this report.

Defence Materiel Organisation specialist legal, procurement and contracting policy and practice

The Contracting and Legal Division in the DMO Commercial Group makes a critical contribution to the acquisition and support of ADF capability. As part of its work, it provides strategic commercial law advice and contracting support directly to DMO project and system project offices, maintains and improves Defence procurement policy, guidance and contracting templates, and takes responsibility for whole-of-Defence procurement training and professionalisation.

Major procurement policy and practice achievements during 2013–14 included a significant update to the *Defence Procurement Policy Manual* in preparation for the commencement of the *Public Governance, Performance and Accountability Act 2013*, the release of two new templates designed to aid industry engagement during the early stages of capability development, and the inclusion of new work health and safety provisions in contracting templates in response to industry feedback. In addition, the division made significant progress on two major commercial reform initiatives focused on intellectual property and technical data and on the allocation of commercial risk under the contracting templates.

Another achievement of the Contracting and Legal Division during 2013–14 was the establishment of the Performance Based Contracting Centre of Excellence. In its first year of operation, the centre supported 55 projects and system program offices in drafting, negotiating and implementing performance-based contracts. The centre has also taken an active role in enhancing knowledge and expertise in performance-based contracting across the DMO by developing practical guidance and specialised training and by evolving the DMO approach to performance indicator setting and measurement.

AusTender business improvement initiatives remained a key focus area for the division during 2013–14. As a result of these efforts, the DMO has expanded its electronic tendering. Policy introduced during 2013–14 now mandates e-tendering for procurements valued at over \$200,000.

FEATURE |

Pacific Services Group Holdings—Indigenous-owned enterprise

An Indigenous-owned enterprise, Pacific Services Group Holdings, has been engaged by Defence to deliver a project worth up to \$6 million in support of the Navy's Canberra-class amphibious assault ships. This is a first for an Australian Government construction contract.

Defence used an exemption under the Commonwealth Procurement Rules to engage Pacific Services as the head contractor for

the works, which will refurbish existing marine infrastructure and buildings at HMAS Waterhen in Sydney in preparation for the landing helicopter dock (LHD) landing craft. Under the exemption, a small to medium enterprise with at least 50 per cent Indigenous ownership can be directly engaged without the need to conduct a full tender process, on the condition that the procurement represents value for money.

The landing craft will serve as critical ship-to-shore connectors for the multi-billion-dollar LHD ships, which will be central to the ADF's amphibious capability.



Pacific Services Group Holdings and Defence contract signing
Back row (L to R): Ms Holly Lowe (Defence), Lieutenant Commander Steele Morgan (Defence), Mr Pat Gagel (Defence), Mr Chris Bulmer (Pacific Services) and Mr Nathan Austin (Pacific Services)
Front row (L to R): Mr Shane Jacobs (Pacific Services) and Colonel Ian Cumming (Defence)

Approved Major Capital Investment Program

The Approved Major Capital Investment Program generally comprises those projects that cost more than \$20 million and which, following approval, have been transferred from the Defence Capability Plan to acquisition agencies within Defence to manage the acquisition phase.

Funding for approved major capital equipment projects, including project management and overhead costs, is usually provided by Defence to the DMO under separate materiel acquisition agreements for each project. Funding is also provided to other groups, such as the Chief Information Officer Group and the Defence Support and Reform Group, to deliver the ICT and infrastructure components of the projects. A small number of projects are led by Groups other than the DMO, such as the Chief Information Officer Group and the Intelligence and Security Group.

Projects costing between \$20 million and \$100 million are approved jointly by the Minister for Defence and the Minister for Finance. Projects costing more than \$100 million are approved by the National Security Committee of Cabinet.

2013–14 achievements

In 2013–14, a total of 26 approvals with a combined value of more than \$19 billion were achieved. Significant approvals were for:

- AIR 6000 Phase 2A/2B—New air combat capability (58 aircraft)
- AIR 7000 Phase 2B—Maritime patrol aircraft replacement
- LAND 75 Phase 4—Battle management system command and control (LAND 200 Tranche 2)
- LAND 121 Phase 3B/5B—Field vehicles, modules and trailers
- SEA 1352 Phase 1—Evolved Sea Sparrow missile upgrade and inventory replenishment
- SEA 1442 Phase 4—Maritime communications modernisation.

Capital Facilities Program

The Capital Facilities Program comprises approved and unapproved major and medium projects.

Major capital facilities projects are defined as having expenditure over \$15 million (including GST) and are subject to government approval and review by the Parliamentary Standing Committee on Public Works.

Medium facilities projects have expenditure between \$500,000 and \$15 million (including GST). Projects between \$2 million and \$15 million are subject to departmental or government approval and are notified to the Standing Committee on Public Works.

The Capital Facilities Program develops facilities and infrastructure to support the Approved Major Capital Investment Program, sustain current and future 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, in support of new projects and upgrades to existing facilities.

The following information is available online:

- major capital investment projects
- approved major and medium capital facilities projects
- proposed major and medium capital facilities projects
- Single Living Environment and Accommodation Precinct (LEAP) projects
- major Defence bases and establishments.

APPENDIX A

Environmental performance

Defence

Ecologically sustainable development

Section 516A of the *Environment Protection and Biodiversity Conservation Act 1999* (EPBC Act) requires Australian Government organisations to report annually on their environmental performance and contribution to ecologically sustainable development.

Defence environmental policies and processes, particularly Defence environmental impact assessments, provide for both the sustainable development of the Defence estate and the environmentally sound conduct of Defence activities on land, at sea and in the air in support of Australia's defence capability in accordance with the EPBC Act.

Environmental support to redeployment in Afghanistan was a high priority in 2013–14. Specialist support ensured that Joint Task Force 633 met environmental due diligence requirements at the multi-national base at Tarin Kot. A combined environmental management group also augmented Exercise Talisman Sabre 13 to provide on-ground environmental advice and assistance.

Effect of activities on the environment

Defence continued to conduct its program of environmental impact assessment to ensure that the environmental risks of Defence activities were properly considered and managed. This ensured that those activities did not have significant adverse impacts on the environment.

Referrals

Under the EPBC Act, agencies are required to refer any action that is likely to have a significant impact on the environment. In 2013–14, Defence referred one action for formal consideration under the Act (Table A.1).

Two Defence actions were subject to continuing assessment under the Act during 2013–14 (Table A.2).

Table A.1: **Defence actions referred under the Environment Protection and Biodiversity Conservation Act, 2013–14**

Defence action	EPBC referral number	Date referred	Status
Removal of heritage buildings at RAAF Base Amberley, Ipswich, Queensland	2014/7123	28 February 2014	Assessment will be by preliminary documentation. Defence is preparing a preliminary documentation report.

Table A.2: **Defence actions subject to continuing assessment under the Environment Protection and Biodiversity Conservation Act, 2013–14**

Defence action	EPBC referral number	Status
Removal of Bellman hangars at RAAF Williams (Point Cook) due to structural deterioration	2008/4251	The action is being assessed through a preliminary documentation process. Defence is preparing a preliminary documentation report.
Flying operations of the F-35 Joint Strike Fighter at RAAF Bases Williamtown and Tindal and the Salt Ash Air Weapons Range	2010/5747	The action is being assessed through an environmental impact statement process. Defence submitted the environmental impact statement in April 2014.

Measures taken to minimise the effect of activities on the environment

Defence continued to apply a risk-based approach to the application of measures aimed at minimising the impacts of activities on the environment.

Defence activities that are considered to pose a low risk to the environment are managed through existing protocols, such as standard operating procedures, standing orders and environmental and heritage management plans. Types of activities that are considered low risk include routine and small-scale military training activities, minor construction works, building refurbishments and the use of some new or upgraded military equipment.

Defence activities that are considered to have medium environmental risks are assessed and managed through the Defence Environmental Clearance Certificate process. A clearance certificate is also required for activities where no policies or procedures already exist to ensure that appropriate environmental mitigation strategies or management plans are in place.

Higher-level assessments are conducted for actions or activities that are likely to have a significant impact on the environment. Comprehensive assessments, such as the preparation of an environmental impact statement or preliminary documentation report, are conducted in accordance with the provisions of the EPBC Act and involve community consultation. Higher environmental risk activities can include large-scale training exercises, major infrastructure works, and the introduction of major equipment or activities in environmentally sensitive locations. These activities receive comprehensive environmental impact assessments that include advice from professional environmental consultants.

Internal management tools

The Defence Environmental Management System is a key component of the Defence Estate Quality Management System and is to be fully integrated into the Garrison and Estate Management System, which is under development. The quality management system meets the AS/NZS ISO 9001:2008 international quality management standard and provides a platform for continuous improvement, compliance and the achievement of best practice in developing and managing the Defence estate and related services.

The 2010–14 Defence Environmental Strategic Plan outlines a range of programs and initiatives that continued to be implemented in 2013–14. Defence also began the development of its *Environmental Manual* as a central repository for environmental policy and guidance.

A list of Defence's environmental improvement initiatives and reviews in 2013–14 is available online.

During 2013–14, the organisation continued to implement specific initiatives in the following areas:

- energy management
- water and waste management
- land management and biodiversity conservation
- interaction with marine and aquatic environments
- heritage
- climate change
- pollution prevention and contaminated sites management
- ozone-depleting substances and synthetic greenhouse gases.

Defence continued to establish and maintain strategic partnerships with universities, local community groups, key stakeholders, local governments and non-government organisations, and employed various management processes and practices, technologies and infrastructure to minimise the effect of activities on the environment.

Defence Materiel Organisation

The DMO manages equipment and systems to ensure that the principles of ecological sustainability are adhered to during the acquisition, sustainment and disposal of materiel. By systematically applying Defence's environmental management concepts and procedures, the DMO aims to reduce its environmental footprint through a workforce culture of sustainable environmental management principles and practices. Its Environmental Management System reduces potential environmental impacts through continuous improvement in management and performance.

Achievements in environmental management during 2013–14 included the following:

- The DMO reviewed its Environmental Management System with the aim of refining the system further. Key components of the review were:
 - an examination of the DMO's and Defence's procedures and policies related to environmental management
 - a review of processes related to environmental risk management and their application across the capability and project lifecycles.

Outcomes of this review will influence future work on the integration of environmental management within the DMO and between organisations, and throughout the capability lifecycle. Implementation has begun.

- The DMO continued to update other environmental management policies, procedures and guidance.
- Through continued commitment to the Defence Environmental Management Forum, the DMO supported the development of a new Defence Environmental Strategic Plan to succeed the 2010–14 plan.
- The organisation assisted Joint Logistics Command with preparations for Australia's ratification of the Minamata Convention on Mercury, which aims to protect human health and the environment from anthropogenic emissions and releases of mercury and mercury compounds. This work included the production of an impact assessment report to advise on the impact that Australia's obligations under the convention is expected to have on acquisition and sustainment. This will enable Defence to inform the Government and ensure that Defence's interests are properly considered during treaty ratification and implementation, which is being led by the Department of the Environment.

APPENDIX B

Consultancies and contracts

Overview

Defence engages consultants where it lacks specialist expertise or when independent research and assessment are required. The process for selecting consultants is consistent with Defence procurement policies and the Commonwealth Procurement Rules.

Consulting contracts

In 2013–14, Defence (including the Defence Materiel Organisation) entered into 487 new consultancy contracts (359 with a value greater than \$10,000) involving total actual expenditure of \$33.3 million (including GST). In addition, 271 consultancy contracts remained active, involving total actual expenditure of \$10.6 million (including GST).

This annual report contains information about actual expenditure on contracts for consultancies. Information on the value of individual contracts and consultancies is available on the AusTender website. Table B.1 records total expenditure in-year for consulting contracts rather than the full value of the contract.

Table B.1: Total expenditure on consulting contracts, 2011–12 to 2013–14

	2011–12 \$m	2012–13 \$m	2013–14 \$m
Defence	61.5	37.8	38.3
DMO	5.1	2.9	5.6

Table B.2 shows a summary sorted by Defence Group of 2013–14 consultancies let with a contract value greater than \$10,000 (including GST).

Table B.2: Consultancies let greater than \$10,000, by Group, 2013–14

Group	Number of contracts let	Total contract value (\$)
Office of the Secretary and CDF	0	0
Vice Chief of the Defence Force Group	1	34,640
Joint Operations Command	2	94,244
Navy	1	142,808
Army	5	1,186,798
Air Force	1	528,730
Capability Development Group	0	0

Table B.2 (continued)

Group	Number of contracts let	Total contract value (\$)
Chief Finance Officer Group	3	595,500
Chief Information Officer Group	15	2,161,215
Defence Science and Technology Organisation	2	126,170
Defence Support and Reform Group	270	33,412,798
Intelligence and Security Group	15	2,592,375
People Strategies and Policy Group	17	1,770,974
Defence Materiel Organisation	27	9,226,424
Total	359	51,872,676

Contracts exempt from the AusTender

In 2013–14, Defence (including the DMO) reported a total of 173 contracts, standing offers or variations, with a total value of \$273.7 million, which were subject to an exemption under the *Freedom of Information Act 1982*. These exemptions were generally applied under the national security provisions of the Act.

Australian National Audit Office access clauses

The Defence contracting templates include standard clauses providing for Auditor-General access to contractors' and major subcontractors' premises, records and accounts. Defence has identified the following contracts that were exempt from the requirement to provide Auditor-General access, totalling just over \$1.9 billion.

Defence utilises the United States Department of Defense's Foreign Military Sales program, which facilitates sales of US arms, defence equipment, defence services and military training to foreign governments. The standard terms and conditions for Foreign Military Sales do not contain ANAO access provisions.

Table B.3: **Contracts that do not include the ANAO access clause**

Group and company	2013–14 (\$)	Purpose
Navy		
Egeria Pty Ltd	201,200	Program and project management services in support of Navy information management ^[1]
Egeria Pty Ltd	111,273	Information management objective and Navy management diary training ^[1]
Egeria Pty Ltd	116,800	Information Management Services Group drive management ^[1]
Institution of Engineers Australia	200,088	Memberships ^[1]
United Kingdom Hydrographic Office	295,694	Navigation charts ^[2]
Randstad Pty Limited	108,180	Business process analyst ^[1]
Aquila Marine	164,455	Inflatable sailing boats ^[1]
Mr Paul Rizzo	156,141	Chair, Rizzo Reform Implementation Committee ^[1]
Total for the Navy	1,353,831	

Table B.3 (continued)

Group and company	2013–14 (\$)	Purpose
Army		
Abco Water Systems	182,985	Hire—wastewater treatment plant ^[3,4]
United States Department of Defense	13,386,840	Provision of training by the US Army ^[5]
Myriad Technologies Pty Ltd	603,493	Specialist engineering support ^[3,4]
BAE Systems Australia Limited	169,403	Provision of services to deliver gateway ^[3,4]
Cistech Solutions	824,800	Core networking ^[3,4]
G.H. Varley Pty Ltd	3,224,685	Mounted SATCOM terminal ^[3,4]
M5 Networks Australia Pty Ltd	3,248,896	Research and development ^[3,4]
MRB Communications Pty Ltd	281,728	Radios and equipment ^[3,4]
Myriad Technologies Pty Ltd	406,588	Specialist engineering support ^[3,4]
Myriad Technologies Pty Ltd	840,864	Specialist engineering ^[3,4]
Saab Systems Pty Ltd	471,167	Software support services ^[3,4]
Elbit Systems of Australia Pty Ltd	9,250,000	Training ^[3,4]
Calytrix Technologies Pty Ltd	990,000	Radio desk-top training system ^[3,4]
Georgiou Group Pty Ltd	452,985	Construction services ^[3,4]
Adelaide Metal Fabrication Pty Ltd	122,452	Construction of metal cubes ^[3,4]
Rentokil Pest Control (Qld) Pty Ltd	200,741	Bird-proofing ^[3,4]
Weymouth Sporting Solutions	125,300	Anti-gravity running machine warranty ^[3,4]
Madang Resort and Kalibobo Village	318,690	Accommodation ^[3,4]
Boeing Information Space and Defence	395,975	Specialist maintenance training ^[3,4]
GATR Technologies Inc.	299,746	Equipment ^[3,4]
Total for the Army	35,797,338	
Vice Chief of the Defence Force Group		
Georgiou Group Pty Ltd	1,483,250	Construction of health facilities ^[1]
Georgiou Group Pty Ltd	347,336	Construction of health facilities ^[1]
Australian Centre for Posttraumatic Mental Health	262,735	Mental health screening ^[6]
Oakton Services Pty Ltd	714,428	Project support and reporting ^[7]
Total for the Vice Chief of the Defence Force Group	2,807,749	
Defence Materiel Organisation		
Foreign Military Sale	112,803	Technical support services
Foreign Military Sale	154,939	Component improvement program
Foreign Military Sale	205,600	Supply and support of climate prediction software
Foreign Military Sale	219,356	Cryptographic computers
Foreign Military Sale	264,158	Foreign Liaison Office USAF office administration
Foreign Military Sale	441,669	Foreign Liaison Officer support

Table B.3 (continued)

Group and company	2013–14 (\$)	Purpose
Foreign Military Sale	518,617	Explosive ordnance
Foreign Military Sale	607,054	Torpedo repairs
Foreign Military Sale	685,635	Explosive ordnance
Foreign Military Sale	802,292	MOVER software
Foreign Military Sale	910,885	Testing radar warning receiver
Foreign Military Sale	949,490	Procurement of various munitions for MH-60R Seahawk
Foreign Military Sale	993,778	Explosive ordnance
Foreign Military Sale	1,071,175	Specialist system training
Foreign Military Sale	1,400,094	Training missiles
Foreign Military Sale	1,899,413	Procurement of high-grade crypto equipment
Foreign Military Sale	2,019,515	Explosive ordnance
Foreign Military Sale	2,190,951	Follow-on support for AIM-9M Sidewinder
Foreign Military Sale	2,233,640	Aircraft support equipment
Foreign Military Sale	2,688,095	Electronic equipment
Foreign Military Sale	3,479,626	Repairable items and ground support equipment
Foreign Military Sale	3,993,022	Aircraft components, parts and accessories
Foreign Military Sale	4,331,018	Procurement of cryptographic equipment
Foreign Military Sale	10,162,257	Follow-on support case
Foreign Military Sale	10,442,267	In-service support services
Foreign Military Sale	14,671,796	Equipment and support for Standard Missile-2 for Guided Missile Test Set modifications
Foreign Military Sale	15,635,480	Aircraft spares and components
Foreign Military Sale	16,752,300	Missile support
Foreign Military Sale	16,778,784	Spares and support equipment
Foreign Military Sale	20,149,920	RAN fleet sustainment
Foreign Military Sale	22,358,800	Technical support services
Foreign Military Sale	26,120,125	Aircraft software system configuration set
Foreign Military Sale	27,342,290	Inventory
Foreign Military Sale	29,349,438	Explosive ordnance
Foreign Military Sale	53,221,133	Large aircraft infrared countermeasure system
Foreign Military Sale	64,130,598	Torpedoes
Foreign Military Sale	1,519,162,839	Aircraft and support
Total for Defence Materiel Organisation	1,878,450,852	
Total for Defence	1,918,409,770	

Notes

1. Contract template did not provide for access specific to audit purposes and was not manually adjusted.
2. Purchase of goods under MOU with an overseas agency that does not contain an ANAO access clause.
3. The statement, relating to templates, at the top of this disclosure only applies to the long-form contracts.
4. Purpose extracted from AusTender description.
5. Vendor controlled contract.
6. DVA Standing Offer panel deed did not include access provision and was not manually adjusted.
7. ASDEFCON contract template did not provide for access specific to audit purposes and was not manually adjusted.

Advertising and market research

During 2013–14, Universal McCann Australia conducted the following advertising campaigns: Planning and placement of campaign advertising for Defence Force recruiting including dissemination and other fees; International Fleet Review; and Naval Heritage Collection. Further information on the advertising campaigns is available at www.defence.gov.au/Publications and in the reports on Australian Government advertising prepared by the Department of Finance. Those reports are available at www.finance.gov.au/advertising/index.html.

Table B.4: Total advertising and market research expenditure, by type of agency

Type	2011–12 (\$)	2012–13 (\$)	2013–14 (\$)
Advertising	15,471,366	11,229,656	12,436,522
Market research	1,196,990	1,260,844	2,189,402
Polling	–	–	–
Direct mail	–	11,754	22,633
Media advertising	26,491,700	21,907,228	46,929,604
Total	43,160,056	34,409,482	61,578,161

Table B.5: Total advertising and market research expenditure, by Group

Group	2011–12 (\$)	2012–13 (\$)	2013–14 (\$)
Office of the Secretary and CDF	39,011	40,334	33,443
Navy	78,372	81,836	738,163 ^[1]
Army	65,411	40,969	70,044
Air Force	174,617	147,617	265,158
Intelligence and Security Group	778,748	92,640	39,185
Chief Operating Officer	80,626	–	108,806
Defence Support and Reform Group	1,222,359	458,333	128,467
Chief Information Officer Group	373,904	315,766	323,995
Defence People Group	38,827,678	32,933,303	59,606,036 ^[2]
Defence Science and Technology Organisation	62,618	25,985	23,068
Vice Chief of the Defence Force Group	917,068	228,675	204,036
Joint Operations Command	–	–	–
Capability Development Group	22,251	–	–
Chief Finance Officer Group	40,444	728 ^[3]	–
Defence Materiel Organisation	476,949	44,024	37,759
Total	43,160,056	34,409,482	61,578,161

Notes

- Expenditure increased significantly in 2013–14 due to the International Fleet Review.
- The change in expenditure in 2013–14 compared to 2011–12 and 2012–13 is primarily due to increased media advertising to enable Defence Force Recruiting to better compete in the Australian recruiting marketplace. The increased expenditure was funded by Defence internally.
- The amount relates to recruitment advertising and was erroneously omitted in the *Defence Annual Report 2012–13*.

Details of the organisations paid are provided only for payments of more than \$12,400 (including GST).

Table B.6: **Total advertising and market research expenditure by Group**

Group, type and company	2013–14 (\$)	Purpose
Navy		
Advertising		
Spatchurst Design Associates	13,710	Advertising on banners and panels—Naval Heritage Collection
Media advertising		
Universal McCann Australia	663,901	Media advertising for International Fleet Review campaign and Naval Heritage Collection
George Patterson Y&R	33,869	Media advertising for International Fleet Review campaign
Air Force		
Advertising		
Adcorp Australia Pty Ltd	103,841	Centenary of Military Aviation advertising
Adcorp Australia Pty Ltd	45,968	Recruitment advertising
Media advertising		
Last Minute Multimedia Pty Ltd	17,394	Royal Australian Air Force Museum advertising
Intelligence and Security		
Advertising		
Adcorp Australia Pty Ltd	18,861	Recruitment advertising
Chief Operating Officer		
Advertising		
Adcorp Australia Pty Ltd	108,806	Support to the operation of the Honours and Awards Tribunal through advertisement of matters to be considered and recruitment of the Chair and Tribunal members
Defence Support and Reform Group		
Media advertising		
Adcorp Australia Pty Ltd	12,737	Range safety warning public notices
Chief Information Officer		
Advertising		
Sensis Pty Ltd	322,081	Defence directory listing in White Pages
Defence People		
Advertising		
George Patterson Y&R	4,576,916	ADF recruitment advertising
Young & Rubicom Brands	2,999,709	ADF recruitment advertising
Havas Worldwide Australia Pty Ltd	1,765,519	ADF recruitment advertising
Australian Public Service Commission	89,063	APS recruitment

Table B.6 (continued)

Group, type and company	2013–14 (\$)	Purpose
Market research		
GfK Australia Pty Ltd	665,353	Qualitative and quantitative research to maximise ADF recruitment targets
Open Mind/Hall & Partners	773,305	Qualitative and quantitative research to maximise ADF recruitment targets
Horizon Research	582,569	Qualitative and quantitative research to maximise ADF recruitment targets
Media advertising		
Universal McCann Australia	38,444,900	Planning and placement of campaign advertising including dissemination and other fees
Adcorp Australia Pty Ltd	7,522,105	Planning and placement of non-campaign advertising
Defence Science and Technology Organisation		
Advertising		
Adcorp Australia Pty Ltd	14,141	Capability and Technology Demonstrator Program
Vice Chief of the Defence Force Group		
Advertising		
Adcorp Australia Pty Ltd	20,518	Non-campaign ad placement (Live Firing Range Notices)
Adcorp Australia Pty Ltd	15,344	Recruitment advertising (civilian)
Market research		
Newspoll	54,225	Employer research to measure the level of awareness among employers of Reserves and Reserve Service
Newspoll	99,100	Reserve research on attitude of Reservists and their employers
University of Melbourne	14,850	Market research for the development of the Australian Defence Force Cadets Youth Development Framework
Defence Materiel Organisation		
Advertising		
Adcorp Australia Pty Ltd	16,132	Promote conferences
Adcorp Australia Pty Ltd	14,224	Recruitment advertising

Legal expenses — Defence

Expenditure on internal and external legal services in 2013–14 is shown in tables B.7 to B.9. 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 B.7: **Estimated expenditure on internal and external legal services, 2012–13 and 2013–14**

Type of legal expenditure	2012–13 \$m	2013–14 \$m
Internal	41.3	41.8
External	22.2	21.3
Total	63.5	63.1

Table B.8: **Estimated cost breakdown of internal legal expenses, 2012–13 and 2013–14**

Items	2012–13 \$m	2013–14 \$m
Salaries for military lawyers	16.3	18.5
Salaries for APS staff	13.8	13.3
ADF Reserve legal officers	7.6	6.8
Operating costs of the division	3.3	2.9
Military justice disbursements	0.3	0.3
Total	41.3	41.8

Table B.9: **Estimated cost breakdown of external legal expenses, 2012–13 and 2013–14**

Items	2012–13 \$m	2013–14 \$m
Professional fees—Defence legal panel	20.3	19.7
Disbursements	1.6	1.6
Legal assistance at Commonwealth expense	0.3	0.0
Total	22.2	21.3

Legal expenses—Defence Materiel Organisation

DMO expenditure on internal and external legal services is shown in tables B.10 to B.12. 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.

Table B.10: **Estimated expenditure on internal and external legal services, 2012–13 and 2013–14**

Type of legal expenditure	2012–13 \$m	2013–14 \$m
Internal	3.5	3.1
External	11.7	11.0
Total	15.2	14.1

Table B.11: **Estimated cost breakdown of internal legal expenses, 2012–13 and 2013–14**

Items	2012–13 \$m	2013–14 \$m
Salaried legal staff costs	3.2	3.0
Operating costs attributable to legal services	0.3	0.2
Total	3.5	3.2

Table B.12: **Expenditure external legal services, 2012–13 and 2013–14**

Items	2012–13 \$m	2013–14 \$m
Professional fees—Defence legal panel	12.9	11.0
Professional fees—Attorney-General's Department	—	—
Legal expenditure—other	1.0	—
Payments pursuant to licence arrangements with collecting societies	—	—
Total	13.9	11.0

APPENDIX C

Grants and payments

List and description of grants

Defence

Information on grants awarded by the Department of Defence during the period 1 July 2013 to 30 June 2014 is available at www.defence.gov.au/Publications.

Table C.1: **Grants paid, 2012–13 and 2013–14**

	2012–13 Actual ^[1] \$'000	2013–14 Actual ^[1] \$'000
Grants program		
Army Military History Research Grants Scheme	82	52
Family Support Funding Program	1,278	1,304
Other grants		
Afghan National Army Trust Fund Contribution	38,700	42,808
Australia – Canada Security Cooperation Project	–	18
Australian Member Committee of the Council for Security Cooperation in the Asia-Pacific (multi-year grant)	52	55
Australian National University—Shedden Professor of Strategic Policy Studies position (multi-year grant)	–	238
Australian National University Centre for Nuclear Non-proliferation and Disarmament	400	–
Australian National University National Centre for Indigenous Studies	300	–
Australian Strategic Policy Institute (multi-year grant)	3,118	3,196
Australian Strategic Policy Institute Australia – Africa Dialogue, July 2013	–	18
Fisher House Foundation (multi-year grant)	25	25
International Institute for Strategic Studies	84	89
Kokoda Foundation	100	160
Multinational Force and Observers (multi-year grant)	494	558
NSW National Parks and Wildlife Service, Office of Environment and Heritage	525	–
Professor Jeffrey Grey—University College, ADFA (multi-year grant)	200	–
Professor Peter Stanley of the University of New South Wales—Indians and Anzacs on Gallipoli Project	–	18
Royal United Services Institute of Australia (multi-year grant)	95	97
Sir Arthur Tagne Defence PhD Scholarships (multi-year grant)	58	–
Strategic and Defence Centre Post Doctoral Fellowship (multi-year grant)	174	64

Table C.1 (continued)

	2012–13 Actual ^[1] \$'000	2013–14 Actual ^[1] \$'000
The Sir Richard Williams Foundation	50	50
United Nations—Peace Operations Training Institute e-Learning for African Peace Keepers	–	43
United Nations Trust Fund in Support of the African-led International Support Mission in Mali	5,000	–
Yakanarra Community School	–	3
Total grants paid	50,736^[2]	48,796^[2]

Notes

8. All figures are exclusive of GST.

9. Total may not add due to rounding.

Defence Materiel Organisation

Information on recipients of discretionary grants provided by the DMO during the period 1 July 2013 to 30 June 2014 is available online for the Skilling Australia's Defence Industry Program, the Industry Skilling Enhancement package, the Priority Industry Capability Innovation Program and the New Air Combat Capability – Industry Support Program. In 2013–14, more than 140 grants were awarded with a total value of around \$14.3 million (GST inclusive).

Payment of accounts

In 2013–14, Defence paid 1,736,673 or 99.4 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 80 per cent (2012–13, 79 per cent) of all payments, which continues to have a positive effect on the paid-by-due-date result.

Table C.2: **Accounts paid by due date, 2011–12 to 2013–14**

	2011–12	2012–13	2013–14
Number of accounts paid	2,269,781	1,694,617	1,748,114
Accounts paid by due date	2,160,900	1,675,847	1,736,673
Percentage of accounts paid by due date	95.2	98.9	99.4

Tactical payment scheme

The tactical payment scheme was legislated on 1 July 2009 under sections 123H and J of the *Defence Act 1903*.

The scheme was introduced in 2009–10 to provide a means for making expeditious non-liability payments resulting from military actions by deployed forces. This scheme continues to provide mechanisms for maintaining local community support and thereby contributing to the safety of deployed forces.

In 2013–14, 67 individual payments totalling \$16,034.64 were made under the scheme. Further information is outlined in Note 36 of the Defence financial statements in Volume Two of this report.

APPENDIX D

List of requirements

Part of report	Description	Requirement	Page
	Letter of transmittal	Mandatory	iii
	Table of contents	Mandatory	v
	Index	Mandatory	186
	Glossary [acronyms and abbreviations]	Mandatory	185
	Contact officer(s)	Mandatory	194
	Internet home page address and Internet address for report	Mandatory	194
Defence overview			
Review by Secretary			
	Review by departmental secretary	Mandatory	2–3
	Summary of significant issues and developments	Suggested	2–3, 4–5
	Overview of department's performance and financial results	Suggested	13
	Outlook for following year	Suggested	7–8
	Significant issues and developments—portfolio	Portfolio departments—suggested	2–3, 4–5, 7–8
Departmental overview			
	Role and functions	Mandatory	7
	Organisational structure	Mandatory	9–10
	Outcome and program structure	Mandatory	Foldout, inside back cover
	Where outcome and program structure differs from PB Statements/PAES or other portfolio statements accompanying any other additional appropriation bills (other portfolio statements), details of variation and reasons for change	Mandatory	N/A
	Portfolio structure	Portfolio departments—mandatory	9
Performance			
	Review of performance during the year in relation to programs and contribution to outcomes	Mandatory	22–109
	Actual performance in relation to deliverables and KPIs set out in PB Statements/PAES or other portfolio statements	Mandatory	22–109
	Where performance targets differ from the PBS/PAES, details of both former and new targets, and reasons for the change	Mandatory	N/A
	Narrative discussion and analysis of performance	Mandatory	22–109
	Trend information	Mandatory	22–109

Part of report	Description	Requirement	Page
	Significant changes in nature of principal functions/services	Suggested	N/A
	Performance of purchaser/provider arrangements	If applicable, suggested	164–6
	Factors, events or trends influencing departmental performance	Suggested	22–109
	Contribution of risk management in achieving objectives	Suggested	22–109
	Performance against service charter customer service standards, complaints data, and the department's response to complaints	If applicable, mandatory	113, 139–40, 144–5
	Discussion and analysis of the department's financial performance	Mandatory	13, 22–109
	Discussion of any significant changes in financial results from the prior year, from budget or anticipated to have a significant impact on future operations	Mandatory	13, 22–109
	Agency resource statement and summary resource tables by outcomes	Mandatory	13–15, 23–5, 77, 83, 90–1
Management and accountability			
Corporate governance			
	Agency heads are required to certify that their agency complies with the Commonwealth Fraud Control Guidelines	Mandatory	iii
	Statement of the main corporate governance practices in place	Mandatory	108, 153
	Names of the senior executive and their responsibilities	Suggested	22–109
	Senior management committees and their roles	Suggested	199, 153
	Corporate and operational plans and associated performance reporting and review	Suggested	3, 7–8
	Internal audit arrangements including approach adopted to identifying areas of significant financial or operational risk and arrangements to manage those risks	Suggested	154
	Policy and practices on the establishment and maintenance of appropriate ethical standards	Suggested	153
	How nature and amount of remuneration for SES officers is determined	Suggested	134–8
External scrutiny			
	Significant developments in external scrutiny	Mandatory	158–63
	Judicial decisions and decisions of administrative tribunals and by the Australian Information Commissioner	Mandatory	160
	Reports by the Auditor-General, a parliamentary committee, the Commonwealth Ombudsman or an agency capability review	Mandatory	161–2
Management of human resources			
	Assessment of effectiveness in managing and developing human resources to achieve departmental objectives	Mandatory	115, 118, 120, 122, 124–5, 127
	Workforce planning, staff retention and turnover	Suggested	128–33
	Impact and features of enterprise or collective agreements, individual flexibility arrangements (IFAs), determinations, common law contracts and Australian Workplace Agreements (AWAs)	Suggested	134–8

Part of report	Description	Requirement	Page
	Training and development undertaken and its impact	Suggested	138
	Work health and safety performance	Suggested	142–5
	Productivity gains	Suggested	138
	Statistics on staffing	Mandatory	16–17, 146–52
	Enterprise or collective agreements, IFAs, determinations, common law contracts and AWAs	Mandatory	134–8
	Performance pay	Mandatory	138
Assets management	Assessment of effectiveness of assets management	If applicable, mandatory	164–6
Purchasing	Assessment of purchasing against core policies and principles	Mandatory	164–6
Consultants	The annual report must include a summary statement detailing the number of new consultancy services contracts let during the year; the total actual expenditure on all new consultancy contracts let during the year (inclusive of GST); the number of ongoing consultancy contracts that were active in the reporting year; and the total actual expenditure in the reporting year on the ongoing consultancy contracts (inclusive of GST). The annual report must include a statement noting that information on contracts and consultancies is available through the AusTender website	Mandatory	171–2, 178–9
Australian National Audit Office Access Clauses	Absence of provisions in contracts allowing access by the Auditor-General	Mandatory	172–4
Exempt contracts	Contracts exempted from publication in AusTender	Mandatory	172
Financial statements		Mandatory	Volume Two
Other mandatory information			
	Work health and safety (Schedule 2, Part 4 of the <i>Work Health and Safety Act 2011</i>)	Mandatory	142–5
	Advertising and market research (section 311A of the <i>Commonwealth Electoral Act 1918</i>) and statement on advertising campaigns	Mandatory	175–7
	Ecologically sustainable development and environmental performance (section 516A of the <i>Environment Protection and Biodiversity Conservation Act 1999</i>)	Mandatory	168–70
	Compliance with the agency's obligations under the <i>Carer Recognition Act 2010</i>	If applicable, mandatory	N/A
	Grant programs	Mandatory	180–1
	Disability reporting—explicit and transparent reference to agency-level information available through other reporting mechanisms	Mandatory	120
	Information Publication Scheme statement	Mandatory	162
	Correction of material errors in previous annual report	If applicable, mandatory	N/A
	Agency resource statements and resources for outcomes	Mandatory	13–15, 23–5, 77, 83, 90–1
	List of requirements	Mandatory	182–4

Acronyms and abbreviations

Section 5(1)(c) of Attachment A of the *Requirements for annual reports for departments, agencies and FMA Act bodies* (May 2014) states that an annual report must contain 'a glossary to make clear the meanings of any abbreviations and acronyms used'. This list of abbreviations and acronyms fulfils that requirement.

ADF	Australian Defence Force
ADFA	Australian Defence Force Academy
AGO	Australian Geospatial-Intelligence Organisation
ANAO	Australian National Audit Office
APS	Australian Public Service
ASD	Australian Signals Directorate
CDF	Chief of the Defence Force
CEO	Chief Executive Officer
COI	commission of inquiry
COO	Chief Operating Officer
DCP	Defence Capability Plan
DMO	Defence Materiel Organisation
DSA	Defence Security Authority
DSTO	Defence Science and Technology Organisation
DVA	Department of Veterans' Affairs
FOI	freedom of information
HMAS	Her Majesty's Australian Ship
ICT	information and communications technology
IGADF	Inspector-General of the Australian Defence Force
LAN	local area network
LGBTI	lesbian, gay, bisexual, transgender and intersex
LHD	landing helicopter dock
MG	Medal for Gallantry (honorific)
MRH	multi-role helicopter
NAIDOC	National Aborigines and Islanders Day Observance Committee
NATO	North Atlantic Treaty Organization
OPA	Official Public Account
OSCDF	Office of the Secretary and the Chief of the Defence Force
RAAF	Royal Australian Air Force
RAN	Royal Australian Navy
SeMPRO	Sexual Misconduct Prevention and Response Office
SES	Senior Executive Service
URD	Unit Ready Days
VCDF	Vice Chief of the Defence Force
WHS	work health and safety

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An electronic version of this report and supplementary content to this report that includes additional detailed information can be accessed at www.defence.gov.au/annualreports.

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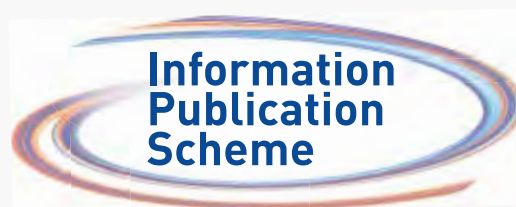
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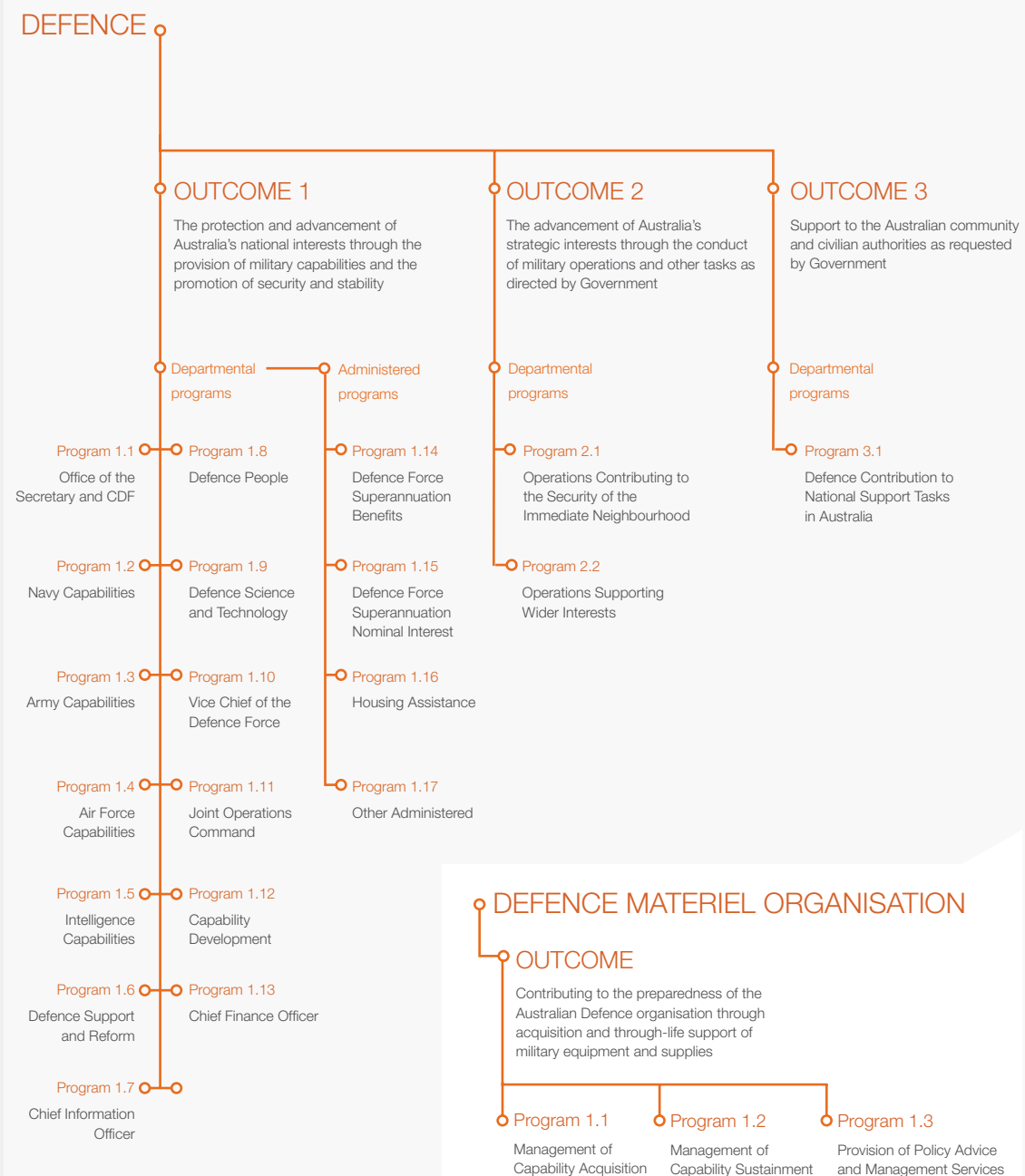
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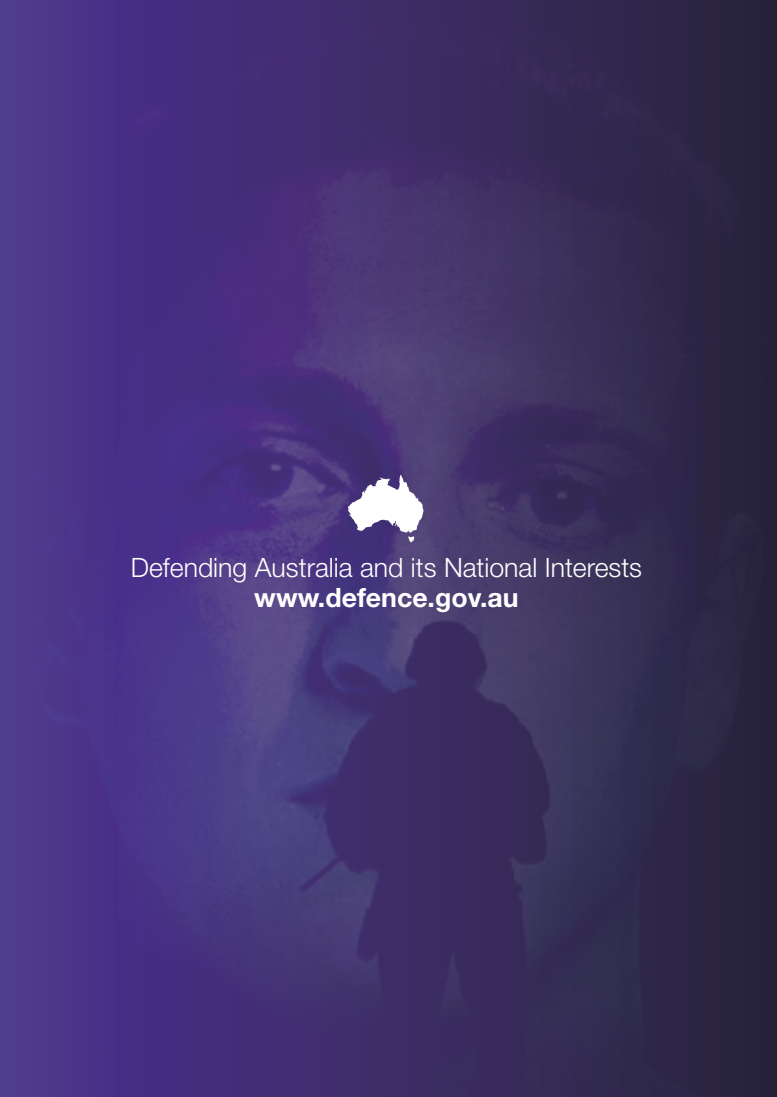
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Australian Government
Department of Defence

DEFENCE ANNUAL REPORT 2013–14

Volume Two

Audited financial statements





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Lance Corporal James Duncan, who plays Alex, in a scene from *The Long Way Home*. In 2010, James deployed to Afghanistan and, in February 2011, he was injured in an improvised explosive device strike on the Bushmaster armoured vehicle he was driving. Despite being dazed and sore from the explosion, James stayed on in Afghanistan for another five months and managed the pain with physiotherapy. On returning to Australia, his chronic back pain worsened and by the end of 2011 he was essentially incapable of doing his job. James saw *The Long Way Home* as an important public forum to help other soldiers dealing with injuries and trauma.

The background of the page features large, light gray numbers '13' and '14' stacked vertically. The '13' is positioned on the left side, and the '14' is on the right side, with the '1' of '14' partially overlapping the '3' of '13'.

DEFENCE ANNUAL REPORT 2013–14 | VOLUME TWO

Audited financial statements

User guide

Purpose of the annual report

This report covers the Department of Defence, the Australian Defence Force and the Defence Materiel Organisation—collectively known as Defence.

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

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 2013 to 30 June 2014.

Report structure

The report is structured according to annual report requirements approved by the Joint Committee of Public Accounts and Audit. This year the report is published in two volumes to make it easier to access:

Volume One: Performance, governance and accountability

Part One provides an overview of Defence, its structure and its strategic direction.

Part Two discusses performance against each of Defence's programs.

Part Three provides details of organisational governance and accountability.

Volume Two: Audited financial statements

This volume contains the audited financial statements.

Online content

An electronic version of this report, and supplementary content that includes additional detailed information, can be accessed at www.defence.gov.au/annualreports.

Inside the Defence Annual Report 2013–14

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Consolidated financial statements

Table CFS1: Consolidated departmental statement of comprehensive income

	2013–14 budget estimate ^[1] \$'000	2013–14 revised estimate ^[2] \$'000	2013–14 actual result \$'000	Variation \$'000
Expenses				
Employee benefits	10,779,324	10,744,854	10,731,306	-13,548
Supplier expenses	10,179,189	10,538,992	9,944,775	-594,217
Grants	67,572	63,520	61,796	-1,724
Depreciation and amortisation	3,444,177	4,005,260	3,868,705	-136,555
Finance costs	132,739	126,581	129,106	2,525
Write-down and impairment of assets	1,133,488	800,007	856,114	56,107
Foreign exchange losses	–	–	21,559	21,559
Losses from asset sales	–	–	4,340	4,340
Other expenses	68,886	89,915	85,618	-4,297
Total expenses	25,805,375	26,369,129	25,703,319	-665,810
Less:				
Own-source income				
Own-source revenue				
Sale of goods and rendering of services (including cost recovery)	457,206	561,383	498,368	-63,015
Rental income	–	–	214,289	214,289
Other revenue	109,154	76,940	114,157	37,217
Total own-source revenue	566,360	638,323	826,814	188,491
Gains				
Sale of assets	15,907	12,936	–	-12,936
Foreign exchange gains	–	–	–	–
Reversals of previous asset write-downs	551,602	322,215	293,388	-28,827
Other gains	-32,371	6,226	37,863	31,637
Total gains	535,138	341,377	331,251	-10,126
Total own-source income	1,101,498	979,700	1,158,065	178,365
Net cost of services	24,703,877	25,389,429	24,545,254	-844,175
Revenue from the Government	24,703,877	25,389,429	25,104,952	-284,477
Surplus (deficit) attributable to the Government	–	–	559,698	559,698
Total comprehensive income (loss) attributable to the Government	–	–	559,698	559,698
Changes in asset revaluation reserves	–	–	162,667	162,667
Total comprehensive income (loss) attributable to the agency	–	–	722,365	722,365

Notes

1. As published in the Portfolio Budget Statements 2013–14, Table 64.
2. As published in the Portfolio Budget Statements 2014–15, Table 66.

Table CFS2: Consolidated departmental balance sheet

	2013-14 budget estimate ^[1] \$'000	2013-14 revised estimate ^[2] \$'000	2013-14 actual result \$'000	Variation \$'000
Assets				
Financial assets				
Cash and cash equivalents	68,091	130,466	158,118	27,652
Trade and other receivables	814,497	855,905	1,304,915	449,010
Total financial assets	882,588	986,371	1,463,033	476,662
Non-financial assets				
Land and buildings	16,205,821	15,986,117	16,976,931	990,814
Specialist military equipment	41,354,969	41,358,182	41,270,763	-87,419
Infrastructure, plant and equipment	7,434,393	7,447,831	7,123,973	-323,858
Heritage and cultural	984,939	1,023,969	1,002,312	-21,657
Intangibles	458,323	562,663	819,590	256,927
Inventories	5,487,528	6,052,786	6,385,571	332,785
Prepayments	1,520,173	1,582,770	1,601,632	18,862
Total non-financial assets	73,446,146	74,014,318	75,180,772	1,166,454
Assets held for sale	25,698	52,399	28,692	-23,707
Total assets	74,354,432	75,053,088	76,672,497	1,619,409
Liabilities				
Payables				
Suppliers	2,188,314	2,182,702	2,781,457	598,755
Other	392,149	415,898	405,239	-10,659
Total payables	2,580,463	2,598,600	3,186,696	588,096
Interest bearing liabilities				
Leases	1,501,518	1,398,102	1,492,541	94,439
Total interest bearing liabilities	1,501,518	1,398,102	1,492,541	94,439
Provisions				
Employee provisions	2,497,380	2,476,855	2,467,706	-9,149
Restoration, decontamination and decommissioning	914,695	898,319	917,635	19,316
Other	9,520	8,895	5,318	-3,577
Total provisions	3,421,595	3,384,069	3,390,659	6,590
Total liabilities	7,503,576	7,380,771	8,069,896	689,125
Net assets	66,850,856	67,672,317	68,602,601	930,284
Equity				
Contributed equity	18,538,133	19,395,609	19,396,898	1,289
Reserves	14,715,815	14,729,974	14,892,641	162,667
Retained surplus (accumulated deficit)	33,596,908	33,546,734	34,313,062	766,328
Total equity	66,850,856	67,672,317	68,602,601	930,284

Notes

1. As published in the Portfolio Budget Statements 2013-14, Table 65.

2. As published in the Portfolio Budget Statements 2014-15, Table 67.

Table CFS3: Consolidated departmental net cost of service (cash)

	2013-14 budget estimate ^[1] \$'000	2013-14 revised estimate ^[2] \$'000	2013-14 actual result \$'000	Variation \$'000
Operating activities				
Cash received				
Goods and services (including cost recovery)	454,757	561,383	512,278	-49,105
Net GST received	1,253,549	1,359,509	1,270,453	-89,056
Other cash received	130,826	185,303	98,675	-86,628
Total cash received	1,839,132	2,106,195	1,881,406	-224,789
Cash used				
Employees	-10,727,745	-10,669,824	-10,604,533	65,291
Suppliers	-9,305,856	-9,716,335	-9,834,989	-118,654
Net GST paid	-1,253,549	-1,359,509	-682,230	677,279
Grants	-67,572	-63,520	-61,374	2,146
Other cash used	-21,073	-44,373	-35,529	8,844
Total cash used	-21,375,795	-21,853,561	-21,218,655	634,906
Net cash flows from (used by) operating activities	-19,536,663	-19,747,366	-19,337,249	410,117
Investing activities				
Cash received				
Proceeds from sales of land and buildings	65,506	63,235	30,223	-33,012
Proceeds from sales of specialist military equipment	-	11,241	28,853	17,612
Proceeds from sales of infrastructure, plant and equipment	36,160	24,219	19,010	-5,209
Other cash received	-	-	694	694
Total cash received	101,666	98,695	78,780	-19,915
Cash used				
Purchase of land and buildings	-952,343	-737,193	-1,111,175	-373,982
Purchase of specialist military equipment	-3,179,327	-4,559,211	-4,397,336	161,875
Purchase of infrastructure, plant and equipment	-534,058	-789,017	-509,554	279,463
Purchase of heritage and cultural assets	-	-	-	-
Purchase of intangibles	-6,443	-39,054	-43,391	-4,337
Purchase of inventory	-1,054,362	-1,069,130	-1,088,078	-18,948
Selling costs on sale of assets	-5,693	-5,693	-6,709	-1,016
Finance costs	-113,921	-100,629	-95,270	5,359
Total cash used	-5,846,147	-7,299,927	-7,251,513	48,414
Net cash flows from (used by) investing activities	-5,744,481	-7,201,232	-7,172,733	28,499
Financing activities				
Cash used				
Repayment of debt (including finance lease principal)	-53,900	-53,900	-56,271	-2,371
Return of contributed equity	-	-	-	-
Total cash used	-53,900	-53,900	-56,271	-2,371
Net cash from (used by) financing activities	-53,900	-53,900	-56,271	-2,371
Total net cost of service	-25,335,044	-27,002,498	-26,566,253	436,245

Table CFS3 (continued)

	2013-14 budget estimate ^[1] \$'000	2013-14 revised estimate ^[2] \$'000	2013-14 actual result \$'000	Variation \$'000
Funded by				
Appropriations				
Appropriations (current year)	24,700,810	25,453,711	25,178,206	-275,505
Appropriations (prior year)	—	—	—	—
Receipts from OPA	—	—	1,364,882	1,364,882
Receipts transferred to the OPA	-48,771	-46,500	-1,397,323	-1,350,823
Appropriations—contributed equity (current year)	683,005	1,521,488	1,418,385	-103,103
Total appropriations	25,335,044	26,928,699	26,564,150	-364,549
Change in cash at bank	—	73,799	-2,103	-75,902
Total funding source	25,335,044	27,002,498	26,562,047	-440,451

Notes:

1. As published in the Portfolio Budget Statements 2013-14, Table 66.
2. As published in the Portfolio Budget Statements 2014-15, Table 68.

Table CFS4: Consolidated administered net cost of service (cash)

	2013-14 budget estimate ^[1] \$'000	2013-14 revised estimate ^[2] \$'000	2013-14 actual result \$'000	Variation \$'000
Cost of service				
Employees	2,006,026	1,947,625	2,005,083	57,458
Subsidies	106,589	103,009	93,553	-9,456
Grants	—	—	—	—
Loans to CAC Act bodies	—	—	—	—
CAC Act body investments	—	—	—	—
Other	—	—	—	—
Total cash used	2,112,615	2,050,634	2,098,636	48,002
Cash received				
Military superannuation contributions	1,279,078	1,279,902	1,303,030	23,128
Fees	12,192	12,727	15,707	2,980
Interest	31,855	30,057	30,073	16
Dividends	45,813	51,073	51,264	191
Other	76,648	91,061	71,776	-19,285
Total cash received	1,445,586	1,464,820	1,471,850	7,030
Net cost of service (cash)	667,029	585,814	626,786	40,972
Funded by				
Appropriations				
Cash from the Official Public Account for appropriations	2,112,615	2,050,634	2,098,636	48,002
Cash transfer to the Official Public Account	-1,445,586	-1,464,820	-1,471,850	-7,030
Cash holdings at the beginning of the reporting period	—	—	—	—
Total funding source	667,029	585,814	626,786	40,972

Notes

1. As published in the Portfolio Budget Statements 2013-14, Table 69.
2. As published in the Portfolio Budget Statements 2014-15, Table 71.

Table CFS5: Consolidated administered income and expenses

	2013-14 budget estimate ^[1] \$'000	2013-14 revised estimate ^[2] \$'000	2013-14 actual result \$'000	Variation \$'000
Expenses administered on behalf of government				
Military superannuation benefits	4,202,885	5,019,796	12,851,141	7,831,345
Military retention benefits	77,103	77,103	65,570	-11,533
Subsidies	106,589	103,009	93,641	-9,368
Grants	-	-	-	-
Foreign exchange losses	-	-	-	-
Other	-	-	563	563
Total expenses	4,386,577	5,199,908	13,010,915	7,811,007
Income administered on behalf of government				
Interest	31,855	30,057	30,067	10
Foreign exchange gains	-	-	415	415
Military superannuation contributions	1,279,134	1,279,902	1,242,121	-37,781
Dividends	49,717	50,525	53,991	3,466
Fees	12,192	12,727	13,448	721
Other	76,648	88,429	71,717	-16,712
Total income	1,449,546	1,461,640	1,411,759	-49,881

Notes

1. As published in the Portfolio Budget Statements 2013-14, Table 67.
2. As published in the Portfolio Budget Statements 2014-15, Table 69.

Table CFS6: Consolidated assets and liabilities administered on behalf of government

	2013–14 budget estimate ^[1] \$'000	2013–14 revised estimate ^[2] \$'000	2013–14 actual result \$'000	Variation \$'000
Assets administered on behalf of Government				
Financial assets				
Cash and cash equivalents	–	–	–	–
Receivables	64,293	69,996	76,780	6,784
Investments accounted for using the equity method	2,188,131	2,219,189	2,337,796	118,607
Loans	509,580	509,580	509,580	–
Total financial assets	2,762,004	2,798,765	2,924,156	125,391
Non-financial assets				
Prepayments	152,069	155,873	163,019	7,146
Total non-financial assets	152,069	155,873	163,019	7,146
Total assets administered on behalf of Government	2,914,073	2,954,638	3,087,175	132,537
Liabilities administered on behalf of government				
Payables				
Other	5,159	5,543	7,169	1,626
Total payables	5,159	5,543	7,169	1,626
Provisions				
Superannuation — DFRB ^[3]	448,096	501,521	587,100	85,579
Superannuation — DFRDB ^[4]	25,450,787	30,434,102	40,692,000	10,257,898
Superannuation — MSBS ^[5]	25,484,781	25,579,757	41,598,000	16,018,243
Total provisions	51,383,664	56,515,380	82,877,100	26,361,720
Total liabilities administered on behalf of Government	51,388,823	56,520,923	82,884,269	26,363,346

Notes

1. As published in the Portfolio Budget Statements 2013–14, Table 68.

2. As published in the Portfolio Budget Statements 2014–15, Table 70.

3. Defence Force Retirement Benefits.

4. Defence Force Retirement and Death Benefits.

5. Military Superannuation and Benefits Scheme.

Department of Defence

Financial statements

for the period ended 30 June 2014



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 2014, which comprise: a Statement by the Chief Executive and Chief Finance Officer; Statement of Comprehensive Income; Statement of Financial Position; 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.

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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Email ian.mcphree@anao.gov.au

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:

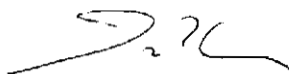
- (a) have been prepared in accordance with the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*, including the Australian Accounting Standards; and
- (b) give a true and fair view of the matters required by the Finance Minister's Orders, including the Department of Defence's financial position as at 30 June 2014 and its financial performance and cash flows for the year then ended.

Report on Other Legal and Regulatory Requirements

Note 34 *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 payments. 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 34, payments were identified in 2013–14 which were potentially in breach of section 83 of the Constitution, totalling some \$9,000 under the *Defence Force (Home Loans Assistance) Act 1990* and \$616,000 under the *Defence Home Ownership Assistance Scheme Act 2008*.

Australian National Audit Office



Ian McPhee PSM
Auditor-General

Canberra

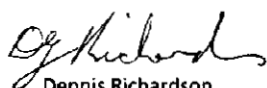
22 September 2014

STATEMENT BY THE CHIEF EXECUTIVE AND CHIEF FINANCE OFFICER

In our opinion, the attached financial statements for the year ended 30 June 2014 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.

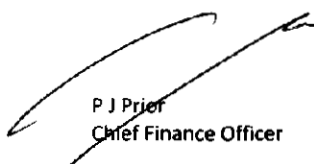
Signed

Signed



Dennis Richardson
Secretary

22 September 2014



P J Prior
Chief Finance Officer

22 September 2014

Department of Defence
STATEMENT OF COMPREHENSIVE INCOME

For the period ended 30 June 2014

		2014 \$'000	2013 \$'000
NET COST OF SERVICES			
EXPENSES	Notes		
Employee benefits	3A	10,172,387	9,986,136
Suppliers expenses	3B	10,566,252	9,812,433
Grants	3C	48,796	50,736
Depreciation and amortisation	3D	3,867,716	3,999,977
Finance costs	3E	129,106	85,049
Write-down and impairment of assets	3F	852,653	800,598
Foreign exchange losses	3G	3,502	1,046
Losses from asset sales	3H	4,340	11,642
Other expenses	3I	89,137	88,664
Total Expenses		25,733,889	24,836,281
LESS:			
OWN SOURCE INCOME			
Own-Source Revenue			
Provision of goods and rendering of services (including cost recovery)	4A	278,084	248,936
Sustainment expenditure recovered from DMO	4B	169,455	145,860
Recovery of military salaries from DMO		172,919	173,169
Group rental scheme		206,829	197,904
Resources received free of charge - DMO		743,365	777,400
Rental income	4C	7,460	10,387
Other revenue	4D	114,634	471,468
Total Own-Source Revenue		1,692,746	2,025,124
Gains			
Foreign exchange gains	3G	-	-
Gains from asset sales	3H	-	-
Reversals of previous asset write-downs and impairment	4E	293,384	317,915
Other gains	4F	37,863	65,872
Total Gains		331,247	383,787
Total own-source income		2,023,993	2,408,911
Net cost of/(contribution by) services		23,709,896	22,427,370
Revenue from Government	4G	24,197,161	22,707,890
Surplus/(Deficit) attributable to the Australian Government		487,265	280,520
OTHER COMPREHENSIVE INCOME			
Items not subject to subsequent reclassification to net cost of services			
Changes in asset revaluation reserves		162,629	14,146
Total other comprehensive income/(loss)		162,629	14,146
Total comprehensive income/(loss) attributable to the Australian Government		649,894	294,666

Department of Defence **STATEMENT OF FINANCIAL POSITION**

as at 30 June 2014

		2014 \$'000	2013 \$'000
	Notes		
ASSETS			
Financial Assets			
Cash and cash equivalents	6A	35,490	68,460
Trade and other receivables	6B	1,055,717	874,839
Total financial assets		1,091,207	943,299
Non-financial assets			
Land and buildings	7A,7G	16,976,931	15,925,406
Specialist military equipment	7B,7G	41,270,763	40,244,821
Infrastructure	7C,7G	5,534,132	5,382,895
Plant and equipment	7D,7G	1,584,780	1,381,223
Heritage and cultural assets	7E,7G	1,002,312	1,023,969
Intangibles	7F,7G	819,577	606,336
Inventories	7H	6,385,571	6,160,288
Prepayments	7I	218,282	148,140
Total non-financial assets		73,792,348	70,873,078
Assets held for sale	7J	28,692	52,399
Total Assets		74,912,247	71,868,776
LIABILITIES			
Payables			
Suppliers	8A	1,700,866	1,579,468
Other payables	8B	384,162	459,040
Total Payables		2,085,028	2,038,508
Interest bearing liabilities			
Finance leases	9A	1,492,541	969,818
Total interest bearing liabilities		1,492,541	969,818
Provisions			
Employee provisions	10A	2,287,291	2,235,956
Restoration, decontamination and decommissioning	10B	917,635	872,367
Other provisions	10C	2,294	3,014
Total provisions		3,207,220	3,111,337
Total Liabilities		6,784,789	6,119,663
NET ASSETS		68,127,458	65,749,113
EQUITY			
Contributed equity		19,241,530	17,719,711
Reserves		14,892,351	14,729,722
Retained surpluses (accumulated deficit)		33,993,577	33,299,680
TOTAL EQUITY		68,127,458	65,749,113

Department of Defence

For the period ended 30 June 2014

	Retained Earnings		Asset Revaluation Reserves		Contributed Equity		Total Equity	
	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
Opening balance								
Balance carried forward from previous period								
Adjustment for errors	33,299,680	33,196,919	14,729,722	14,715,576	17,719,711	17,245,351	65,749,113	65,157,846
Prior year adjustments	206,632	(177,759)	-	-	-	-	206,632	(177,759)
Adjusted opening balance								
	33,506,312	33,019,160	14,729,722	14,715,576	17,719,711	17,249,551	65,955,745	64,984,287
Comprehensive Income								
Other comprehensive income	-	-	162,629	14,146	-	-	162,629	14,146
Surplus/(deficit) for the period	487,265	280,520	-	-	-	-	487,265	280,520
Total comprehensive income attributable to the Australian Government								
	487,265	280,520	162,629	14,146	-	-	649,894	294,666
Transactions with owners:								
<i>Distributions to owners</i>								
Returns of equity:								
Returns to OPA	-	-	-	-	-	-	-	-
Contributions by Owners								
Equity injection - Appropriation	-	-	-	-	-	-	-	-
Restructuring (Note 11)	-	-	-	-	1,521,488	456,289	1,521,488	456,289
Transfers to/from other entities	-	-	-	-	-	-	-	-
Total transactions with owners								
	-	-	-	-	331	13,871	331	13,871
Total transactions with owners								
	-	-	-	-	1,521,819	470,160	1,521,819	470,160
Closing balance as at 30 June attributable to the Australian Government								
	33,993,577	33,299,680	14,892,351	14,729,722	19,241,530	17,719,711	68,127,458	65,749,113

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

Department of Defence

CASH FLOW STATEMENT

For the period ended 30 June 2014

	2014 \$'000	2013 \$'000
	Notes	
OPERATING ACTIVITIES		
Cash received		
Appropriations (current year)	24,272,707	22,827,992
Appropriations (prior year)	-	76,857
Section 31 receipts from OPA	1,364,882	753,784
Goods and services (including cost recovery)	874,490	756,369
Interest received	2	111
Net GST received	642,697	592,721
Other	93,855	129,155
Total cash received	27,248,633	25,136,989
Cash used		
Employees	(10,052,671)	(9,921,248)
Suppliers	(9,252,251)	(8,582,206)
Net GST paid	(682,230)	(575,268)
Grants	(48,996)	(50,911)
Section 31 receipts transferred to the OPA	(1,360,697)	(750,516)
Cash returned to OPA	(36,626)	(15,067)
Other	(35,528)	(81,838)
Total cash used	(21,468,999)	(19,977,054)
Net cash flows from/(used by) operating activities	12 5,779,634	5,159,935
INVESTING ACTIVITIES		
Cash received		
Proceeds from sales of land and buildings	30,223	41,001
Proceeds from sales of specialist military equipment	28,853	10,420
Proceeds from sales of plant and equipment	18,482	19,613
Proceeds from sales of heritage and cultural assets	-	-
Other	694	6,224
Total cash received	78,252	77,258
Cash used		
Purchase of land and buildings	(1,111,175)	(887,404)
Purchase of specialist military equipment	(4,397,336)	(3,364,046)
Purchase of infrastructure	(192,559)	(131,203)
Purchase of plant and equipment	(315,871)	(209,616)
Purchase of heritage and cultural assets	-	(30)
Purchase of intangibles	(43,391)	(39,962)
Purchase of inventory	(1,088,078)	(900,963)
Selling costs on sale of assets	(6,709)	(8,577)
Finance costs	(95,270)	(58,235)
Total cash used	(7,250,389)	(5,600,036)
Net cash flows from/(used by) investing activities	(7,172,137)	(5,522,778)

Department of Defence
CASH FLOW STATEMENT (Continued)

For the period ended 30 June 2014

	2014 \$'000	2013 \$'000
	Notes	
FINANCING ACTIVITIES		
Cash received		
Contributed equity (current year)	<u>1,418,385</u>	456,289
Total cash received	<u>1,418,385</u>	<u>456,289</u>
Cash used		
Repayments of debt (including finance lease principal)	<u>(56,271)</u>	(43,481)
Total cash used	<u>(56,271)</u>	(43,481)
Net cash from/(used by) financing activities	<u>1,362,114</u>	<u>412,808</u>
Net increase/(decrease) in cash held	<u>(30,389)</u>	49,965
Cash and cash equivalents at beginning of the reporting period	68,460	18,091
Effect of exchange rate movements on cash and cash equivalents at the beginning of the reporting period	<u>(2,581)</u>	404
Cash and cash equivalents at the end of the reporting period	6A <u>35,490</u>	<u>68,460</u>

Department of Defence **SCHEDULE OF COMMITMENTS**

as at 30 June 2014

	2014 \$'000	2013 \$'000
BY TYPE		
Commitments receivable		
Lease rental income ¹	(33,451)	(33,125)
GST recoverable on commitments ²	(2,807,270)	(2,537,008)
Total commitments receivable	(2,840,721)	(2,570,133)
Commitments payable		
Capital commitments		
Land and buildings ³	627,495	639,010
Specialist military equipment ⁴	12,582,951	10,809,270
Infrastructure, plant and equipment ⁵	523,238	458,267
Other capital commitments ⁶	138,321	606,487
Total capital commitments	13,872,005	12,513,034
Other commitments		
Operating leases ⁷	10,403,459	9,856,667
Research and development ⁸	142,138	167,805
Other non-capital commitments ⁹	18,128,432	17,903,116
Total other commitments	28,674,029	27,927,588
Net commitments by type	39,705,313	37,870,489
BY MATURITY		
Commitments receivable		
Operating lease income		
One year or less	(19,941)	(19,099)
From one to five years	(4,992)	(5,636)
Over five years	(8,518)	(8,390)
Total lease rental income	(33,451)	(33,125)
GST recoverable on commitments		
One year or less	(909,727)	(824,818)
From one to five years	(1,599,956)	(1,452,899)
Over five years	(297,587)	(259,291)
Total GST recoverable on commitments	(2,807,270)	(2,537,008)
Commitments Payable		
Capital commitments		
One year or less	5,043,493	3,898,131
From one to five years	7,609,869	7,318,359
Over five years	1,218,643	1,296,544
Total capital commitments	13,872,005	12,513,034
Operating lease commitments		
One year or less	948,835	829,344
From one to five years	3,872,461	3,322,297
Over five years	5,582,163	5,705,026
Total operating lease commitments	10,403,459	9,856,667
Other Commitments		
One year or less	5,316,182	5,897,965
From one to five years	10,252,677	9,202,537
Over five years	2,701,711	2,970,419
Total other commitments	18,270,570	18,070,921
Net commitments by maturity	39,705,313	37,870,489

Department of Defence SCHEDULE OF COMMITMENTS (Continued)

as at 30 June 2014

Notes

Commitments are GST inclusive where relevant.

Commitments managed by the Defence Materiel Organisation (DMO) on behalf of Defence total \$20,292m, comprising:

- commitments receivable of \$2,010m;
- capital commitments of \$12,770m; and
- other commitments payable of \$9,532m.

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 are 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 currently 9 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.

Department of Defence

SCHEDULE OF CONTINGENCIES

as at 30 June 2014

	2014 \$'000	2013 \$'000
Contingent assets		
Claims for damages or costs	<u>3,837</u>	<u>28,857</u>
Total contingent assets	<u>3,837</u>	<u>28,857</u>
Contingent liabilities		
Claims for damages or costs	<u>39,022</u>	<u>63,100</u>
Total contingent liabilities	<u>39,022</u>	<u>63,100</u>
Net contingent assets/(liabilities)	<u>(35,185)</u>	<u>(34,243)</u>

Details of each class of contingent liabilities and assets listed above are disclosed in Note 13: Contingent Liabilities and Contingent Assets, along with information on significant remote contingencies and contingencies that cannot be quantified.

Department of Defence

ADMINISTERED SCHEDULE OF COMPREHENSIVE INCOME

For the period ended 30 June 2014

		2014 \$'000	2013 \$'000
NET COST OF SERVICES			
	Notes		
EXPENSES			
Employee benefits	21A	12,916,711	5,811,630
Subsidies	21B	93,641	95,944
Write-down and impairment of assets	21C	157	84
Foreign exchange losses	21D	-	-
Other expenses		406	-
Total expenses		13,010,915	5,907,658
LESS:			
OWN SOURCE INCOME			
Own-source revenue			
Non taxation revenue			
Fees and fines	19A	13,448	14,239
Interest	19B	30,000	30,854
Dividends	19C	53,991	51,073
Military superannuation contributions	19D	1,242,121	1,213,777
Other revenue	19E	69,756	48,169
Foreign exchange gains	21D	453	321
Total non-taxation revenue		1,409,769	1,358,433
Total Own-Source income		1,409,769	1,358,433
Net cost of services			
Revenue from Government	19F	-	-
Surplus/(Deficit) attributable to the Australian Government		(11,601,146)	(4,549,225)
OTHER COMPREHENSIVE INCOME			
Items not subject to subsequent reclassification to net cost of services			
Changes in asset revaluation reserves		(5,675)	68,235
Actuarial gains/(losses) on defined benefits plans		(3,676,200)	21,556,100
Total other comprehensive income		(3,681,875)	21,624,335
Total comprehensive income/(loss)		(15,283,021)	17,075,110

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.

Department of Defence

ADMINISTERED SCHEDULE OF ASSETS AND LIABILITIES

as at 30 June 2014

		2014 \$'000	2013 \$'000
	Notes		
ASSETS			
Financial assets			
Cash and cash equivalents	22A	-	-
Trade and other receivables	22B	584,858	580,697
Investment accounted for using the equity method	22C	2,337,796	2,343,471
Total financial assets		2,922,654	2,924,168
Non-financial assets			
Prepayments	22D	163,019	168,576
Total non-financial assets		163,019	168,576
TOTAL ASSETS ADMINISTERED ON BEHALF OF GOVERNMENT		3,085,673	3,092,744
LIABILITIES			
Payables			
Other payables	23A	5,630	5,543
Total Payables		5,630	5,543
Provisions			
Employee provisions	23B	82,877,100	68,176,300
Total provisions		82,877,100	68,176,300
TOTAL LIABILITIES ADMINISTERED ON BEHALF OF GOVERNMENT		82,882,730	68,181,843
NET LIABILITIES		(79,797,057)	(65,089,099)

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 outstanding reimbursements from the United Nations in relation to previous missions, including East Timor and Cambodia. There are no current missions where Defence administers UN reimbursements.

Department of Defence

ADMINISTERED RECONCILIATION SCHEDULE

For the period ended 30 June 2014

	2014 \$'000	2013 \$'000
Opening administered assets less administered liabilities as at 1 July	(65,089,099)	(82,776,230)
Adjustment for change in accounting policies	-	-
Adjustment for errors	(56,000)	-
Adjusted opening administered assets less administered liabilities	<u>(65,145,099)</u>	<u>(82,776,230)</u>
Net (cost of)/contribution by services		
Income	1,409,769	1,358,433
Expenses		
Payments to Non-CAC Act bodies	(13,010,915)	(5,907,658)
Payments to CAC Act bodies	-	-
Other comprehensive income:		
Administered revaluations taken to/from reserves – DHA	(7,492)	65,285
Administered revaluations taken to/from reserves – Small portfolio entities	1,817	2,950
Actuarial gains/(losses)	(3,676,200)	21,556,100
Administered transfers to/from Australian Government:		
Appropriation transfers from Official Public Account:		
Annual appropriations for payment to CAC Act bodies	-	-
Special appropriations (unlimited) (non CAC Act)	2,098,636	2,016,218
Transfers to Official Public Account	(1,467,573)	(1,404,197)
Closing administered assets less administered liabilities as at 30 June	<u>(79,797,057)</u>	<u>(65,089,099)</u>

Department of Defence ADMINISTERED CASH FLOW STATEMENT

For the period ended 30 June 2014

		2014 \$'000	2013 \$'000
	Notes		
OPERATING ACTIVITIES			
Cash received			
Fees		13,233	11,231
Interest		30,000	30,854
Superannuation contributions		1,303,030	1,265,959
Other		70,237	46,499
Total cash received		1,416,500	1,354,543
Cash used			
Subsidies paid		(93,553)	(95,547)
Employees		(2,005,083)	(1,920,671)
Total cash used		(2,098,636)	(2,016,218)
Net cash flows from/(used by) operating activities	25	(682,136)	(661,675)
INVESTING ACTIVITIES			
Cash received			
Dividends		51,073	49,654
Total cash received		51,073	49,654
Cash used			
Loans to CAC Act bodies		-	-
CAC Act body investments		-	-
Total cash used		-	-
Net cash flows from/(used by) investing activities		51,073	49,654
Net increase/(decrease) in cash held		(631,063)	(612,021)
Cash and cash equivalents at the beginning of the reporting period		-	-
Cash from the Official Public Account for:			
Appropriations		2,098,636	2,016,218
Cash to the Official Public Account for:			
Appropriation		(1,467,573)	(1,404,197)
Cash and cash equivalents at the end of the reporting period	22A	-	-

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.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2014

Notes:

- Note 1: Summary of Significant Accounting Policies
- Note 2: Events after the Reporting Period
- Note 3: Expenses
- Note 4: Income
- Note 5: Fair Value Measurement
- Note 6: Financial Assets
- Note 7: Non-Financial Assets
- Note 8: Payables
- Note 9: Interest Bearing Liabilities
- Note 10: Provisions
- Note 11: Departmental Restructuring
- Note 12: Cash Flow Reconciliation
- Note 13: Contingent Liabilities and Assets
- Note 14: Senior Executive Remuneration
- Note 15: Remuneration of Auditors
- Note 16: Financial Instruments
- Note 17: Financial Assets Reconciliation
- Note 18: Accounting for Errors
- Note 19: Income Administered on Behalf of Government
- Note 20: Administered Fair Value Measurements
- Note 21: Expenses Administered on Behalf of Government
- Note 22: Assets Administered on Behalf of Government
- Note 23: Liabilities Administered on Behalf of Government
- Note 24: Defined Benefit Superannuation Plans Administered on Behalf of Government
- Note 25: Administered Cash Flow Reconciliation
- Note 26: Administered Commitments
- Note 27: Administered Contingent Liabilities and Contingent Assets
- Note 28: Administered Asset Additions
- Note 29: Administered Investments
- Note 30: Administered Financial Instruments
- Note 31: Financial Assets Reconciliation
- Note 32: Administered Accounting for Errors
- Note 33: Appropriations
- Note 34: Compliance with Statutory Conditions for Payments from the Consolidated Revenue Fund
- Note 35: Special Accounts
- Note 36: Compensation and Debt Relief
- Note 37: Assets Held in Trust
- Note 38: Reporting of Outcomes
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Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2014

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 (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.

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 2013; 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 statement of financial position 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 13).

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 1.29.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2014

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 37 Assets Held in Trust.

The Australian Government continues to have regard to developments in case law, including the High Court's most recent decision on Commonwealth expenditure in *Williams v Commonwealth* (2014) HCA 23, as they contribute to the larger body of law relevant to the development of Commonwealth programs. In accordance with its general practice, the Government will continue to monitor and assess risk and decide on any appropriate actions to respond to risks of expenditure not being consistent with constitutional or other legal requirements.

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 New Australian Accounting Standards

(a) Adoption of new Australian Accounting Standard requirements

In the current year, Defence has applied a number of new and revised accounting standards issued by the Australian Accounting Standards Board (AASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2013.

Change in accounting policy due to the application of AASB 119 (as revised in 2011) *Employee Benefits*

In the current year, Defence has applied AASB 119 (as revised June 2011) *Employee Benefits* and the related consequential amendments. Defence has applied AASB 119 (as revised in 2011) retrospectively and in accordance with the transitional provisions as set out in AASB 119 (as revised in 2011). These transitional provisions do not have an impact on future periods.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2014

The amendments to AASB 119 *Employee Benefits* change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of AASB 119 and accelerate the recognition of past service costs. All actuarial gains and losses are recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in the previous version of AASB 119 are replaced with a 'net-interest' amount under AASB 119 (as revised in 2011), which is calculated by applying the discount rate to the net defined benefit liability or asset. AASB 119 (as revised in 2011) introduces certain changes in the presentation of the defined benefit cost including more extensive disclosures.

These financial statements are the first financial statements in which Defence has adopted AASB 119 (as revised in 2011). AASB 119 (as revised in 2011) has been adopted retrospectively in accordance with AASB 108. The adoption has not impacted either opening equity or the retirement benefit obligation.

The effect on the statement of comprehensive income was as follows:

	2013 \$'000
(Increase)/decrease of employee benefit expenses	(37,000)
	<u>(37,000)</u>
The effect on the consolidated statement of comprehensive income was as follows:	
Increase in re-measurement of defined benefit obligation	37,000
Increase (decrease) of total comprehensive income for the year	<u>37,000</u>

Adoption of new accounting standard AASB 13 'Fair Value Measurement'

Defence has applied AASB 13 for the first time in the current year. AASB 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The scope of AASB 13 is broad; the fair value measurement requirements of AASB 13 apply to both financial instrument items and non-financial instrument items for which other AASBs require or permit fair value measurements and disclosures about fair value measurements. AASB13 requires prospective application from 1 July 2013. The adoption of this standard has no financial impact on the financial statements.

Defence has early adopted AASB 2013-3 Amendments to AASB 136 - 'Recoverable Amount Disclosures for Non- Financial Assets.' The amendments include the requirements to disclose additional information about fair value measurements where the recoverable amount of impaired assets is based on fair value less cost of disposal. The adoption of this standard has no financial impact on the financial statements.

Other standards, amendments or interpretations which have become effective in the current reporting period and prior to signing of the statements have had no financial and minimal disclosure impact or do not apply to the operations of Defence.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2014

(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 the future reporting periods. Except as detailed below, these standards and amendments will be applicable in future reporting periods and 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.

The following new or revised standards will be effective in future reporting periods. Whilst they are not expected to have a material impact on the financial statements, their implementation requires enhanced disclosure.

Standard	Effective for annual reporting periods beginning on or after 30 June 2014	Expected to be initially applied in the financial year ending
AASB 1055 'Budgetary Reporting'	1 July 2014	30 June 2015
AASB 9 'Financial Instruments'	1 January 2017	30 June 2018

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 2014 are reflected as a receivable and are available to be drawn down to meet future obligations. Appropriations receivable are recognised at their nominal amounts.

(b) Revenue from Provision of Goods and Rendering of Services

Revenue from the provision 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. Resources received free of charge are recorded as either revenue or gains depending on their nature.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2014

1.6 Gains

(a) Resources Received Free of Charge – ANAO

Resources received free of charge includes \$3.800m (2012-13: \$3.800m) 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 1.21(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.

(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 2013-14 appropriation of \$387m (2012-13: \$117m) was returned to the Official Public Account. In recognising the repayments and reductions of appropriations funding, during the year the Minister for Finance issued determinations to reduce Departmental appropriations as follows:

Date	Year	Departmental Items \$'000	Equity Injections \$'000
5 August 2013	2013-14	374,515	12,485
	Total	374,515	12,485

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.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2014

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 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 wholly 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.

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.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2014

(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 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 1.29 (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 Fair Value Measurements

Defence deems transfers between levels of fair value hierarchy to have occurred when there has been a change to the inputs to the fair value measurement (for instance from observable to unobservable and vice versa) and the significance that the changed input has in determining the fair value measurement. For more information on Fair Value Measurement refer to Note 5. (Administered Note 20).

1.16 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).

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2014

1.17 Contingent Liabilities and Contingent Assets

Contingent liabilities and contingent assets are not recognised in the statement of financial position 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.

1.18 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.

1.19 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.

1.20 Derecognition of Assets

Assets are derecognised upon disposal or when no further economic benefits or capability are expected from its use or disposal.

1.21 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 nil 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.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2014

(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 stock takes. They may include identification of heritage and cultural assets not previously recognised as assets.

(e) Assets under construction

Assets under construction (AUC) are carried at cost and are separately identified as 'work in progress' in Note 7. 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.

(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 for land, buildings and infrastructure are conducted every three years; other plant and equipment are revalued annually on a sample basis and heritage and cultural valuations are conducted every five years.

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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 1.22 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.

	2013-14	2012-13
Buildings	1 to 100 years	1 to 99 years
Infrastructure	2 to 99 years	2 to 99 years
Specialist military equipment	1 to 54 years	1 to 54 years
Other plant and equipment	2 to 100 years	2 to 100 years
Assets under finance lease	5 to 60 years	4 to 60 years
Heritage and cultural	Indefinite	Indefinite

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.

Heritage and cultural assets within Defence have been assessed to have indefinite lives. 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.

Department of Defence

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For the period ended 30 June 2014

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>

1.22 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 their anticipated useful lives. The useful lives of Defence software are 2-24 years (2012-13: 1-24 years) and the useful lives of Defence's other intangibles are 4-35 years (2012-13: 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 statement of financial position.

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.

1.23 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.

1.24 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.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2014

1.25 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.

1.26 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.

1.27 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.

1.28 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.

1.29 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.

(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. 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, loan interest and State Tax Equivalent payments received from 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.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2014

(d) Administered Investments

Defence reports the Australian Government's capital investment in Defence Housing Australia (DHA) which is outlined at Notes 22C and 29. 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 (MSB 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.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each reporting period. Re-measurement comprising of actuarial gains and losses, the effect of the asset ceiling (if applicable) and the return on plan assets (excluding interest) are recognised immediately in the statement of financial position with a charge or credit to other comprehensive income in the period in which they occur. Re-measurement recorded in other comprehensive income is not recycled. However, Defence may transfer those amounts recognised in other comprehensive income within equity. Past service cost is recognised in net cost of services in the period of plan amendment. Net-interest is calculated by applying the discount rate to the net defined benefit liability or asset. Defined benefit costs are split into three categories:

- i) service cost, past-service cost, gains and losses on curtailments and settlements;
- ii) net-interest expense or income; and
- iii) re-measurement.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2014

Defence presents the first two components of defined benefit costs in the line item 'employee benefits expense' in its income statement. Curtailments gains and losses are accounted for as past-service cost.

Re-measurement are recorded in other comprehensive income.

The retirement benefit obligation recognised in the statement of financial position represents the actual deficit or surplus in Defence's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

(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 27.

(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 27.

(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.

Note 2: Events after the Reporting Period

Departmental

On 1 July 2014, an offshore support vessel, the Ocean Shield with a carrying value of \$75.682m was formally transferred from Defence to another Commonwealth Agency. The transfer will be recorded as a loss in Defence's 2014-15 Income Statement with an equivalent gain recorded in the Commonwealth Agency's 2014-15 Income Statement, ensuring a zero net whole of government effect.

Subsequent to year-end, HMAS Bundaberg was considerably damaged by fire whilst in dry dock as part of routine maintenance. The extent of damage to HMAS Bundaberg has not yet been fully ascertained. However, it is expected that the cost of remediation or loss of capability to Defence will be covered by the insurance policies maintained by the third party undertaking the routine maintenance. The written down value of HMAS Bundaberg is \$16.079 million at 30 June 2014. No adjustment has been reflected in the financial statement at 30 June 2014.

Administered

There are no post balance date 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 2014

Note 3: Expenses

	2014 \$'000	2013 \$'000
Note 3A: Employee benefits		
Australian Public Service (APS) employee benefits		
Wages and salaries	1,229,221	1,227,049
Superannuation:		
Defined contribution plan	90,994	86,954
Defined benefit plans	131,600	138,802
Leave and other entitlements	158,326	143,274
Fringe benefits tax	9,967	8,828
Separation and redundancies	9,871	34,525
Other allowances	44,718	32,134
Health expenses	4,692	5,038
Other employee expenses	680	1,070
Total APS employee benefits	1,680,069	1,677,674
Australian Defence Force (ADF) employee benefits		
Wages and salaries	4,389,938	4,273,658
Superannuation:		
Defined benefit plans	1,404,751	1,384,082
Housing ¹	821,208	776,447
Leave and other entitlements	472,737	446,487
Fringe benefits tax	383,589	351,306
Overseas allowances	185,537	264,680
Separation and redundancies	10,759	10,779
Other allowances	316,527	339,614
Health expenses	389,059	356,104
Other employee expenses	118,213	105,305
Total ADF employee benefits	8,492,318	8,308,462
Total employee benefits	10,172,387	9,986,136

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 \$505.82m (2012-2013: \$485.25m).

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2014

	2014 \$'000	2013 \$'000
Note 3B: Supplier expenses		
Goods and Services		
Inventory consumption	1,009,281	831,804
Sustainment of specialist military equipment	4,550,466	4,166,546
Garrison support and mess operations	648,257	641,764
Travel	174,597	166,491
Freight, storage and removal	480,667	439,906
Training	338,282	298,022
Repair and overhaul	183,524	170,517
Communications and information technology	732,901	586,407
Professional services/technical advice	232,266	498,478
Estate upkeep	561,616	473,862
Research and development	111,452	106,096
Utilities	205,829	202,020
Purchase of minor assets	118,259	31,126
Other	901,660	841,333
Total goods and services	10,249,057	9,454,372
Goods and services are made up of:		
Provision of goods - related entities	3,747	19,276
Provision of goods - external entities	1,435,923	1,243,618
Rendering of services - related entities	4,805,769	4,361,416
Rendering of services - external entities	4,003,618	3,830,062
Total goods and services	10,249,057	9,454,372
Other supplier expenses		
Operating lease rentals - related entities:		
Minimum lease repayments	3,412	4,102
Operating lease rentals - external parties:		
Minimum lease repayments	256,105	308,618
Contingent Rentals	12,740	11,244
Sublease	2,621	3,595
Finance lease contingent rent	-	-
Workers compensation premiums	42,317	30,502
Total other supplier expenses	317,195	358,061
Total supplier expenses	10,566,252	9,812,433
Note 3C: Grants		
Public sector:		
State and Territory Governments	-	700
Private sector:		
Non-profit organisations	5,369	5,758
Overseas	43,427	44,278
Total grants	48,796	50,736

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2014

	2014 \$'000	2013 \$'000
Note 3D: Depreciation and amortisation		
Depreciation		
Buildings	552,966	557,492
Buildings - leasehold improvements	27,325	17,586
Specialist military equipment	2,540,458	2,688,394
Infrastructure	316,705	326,145
Plant and equipment	232,937	234,491
Total depreciation	3,670,391	3,824,108
Amortisation		
Buildings under finance lease	50,786	35,186
Infrastructure under finance lease	3,007	1,371
Plant and equipment under finance lease	14,290	41,262
Software under finance lease	-	-
Software	86,146	83,676
Other intangibles	43,096	14,374
Total amortisation	197,325	175,869
Total depreciation and amortisation	3,867,716	3,999,977
<i>The aggregate amounts of depreciation or amortisation expensed during the reporting period for each class of depreciable assets are as follows:</i>		
Buildings	631,077	610,264
Specialist military equipment	2,540,458	2,688,394
Infrastructure	319,712	327,516
Plant and equipment	247,227	275,753
Software and intangibles	129,242	98,050
Total depreciation and amortisation	3,867,716	3,999,977
Note 3E: Finance costs		
Finance leases	99,466	63,846
Unwinding of discount for restoration, decontamination and decommissioning	26,097	21,197
Unwinding of discount - other	3,539	-
Bank interest	4	6
Total finance costs	129,106	85,049

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2014

	2014 \$'000	2013 \$'000
Note 3F: Write-down and impairment of assets		
Financial assets		
Receivables	2,446	837
Total financial assets	2,446	837
This is represented by:		
Debts considered unrecoverable	170	440
Impairment allowance	2,276	397
	2,446	837
Non-financial assets		
Land and buildings		
Assets in use	9,737	86,037
Work in progress	5,937	9,864
Total land and buildings	15,674	95,901
Specialist military equipment		
Assets in use	405,310	295,400
Work in progress	60,913	13,282
Total specialist military equipment	466,223	308,682
Infrastructure		
Assets in use	2,069	5,207
Work in progress	562	524
Total infrastructure	2,631	5,731
Plant and equipment		
Assets in use	10,057	13,526
Work in progress	1,150	4,594
Total plant and equipment	11,207	18,120
Heritage and cultural assets		
Assets in use	43	45
Total heritage and cultural assets	43	45
Intangibles		
Assets in use	1,196	246
Work in progress	1,537	1,627
Total intangibles	2,733	1,873
Inventory		
Write down of general stores inventory	269,365	238,411
Write down on Explosive ordnance	82,331	126,638
Write down of fuel	-	4,360
Total inventory	351,696	369,409
Total write-down and impairment of assets	852,653	800,598
Note 3G: Foreign exchange		
Foreign exchange gains		
Non-speculative	3,257	4,654
Foreign exchange losses		
Non-speculative	(6,759)	(5,700)
Total net gain/(loss) foreign exchange	(3,502)	(1,046)

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2014

	2014 \$'000	2013 \$'000
Note 3H: Sale of assets		
Land and buildings		
Proceeds from sale	28,012	10,774
Carrying value of assets sold	(31,312)	(8,011)
Selling expense	(4,536)	(6,861)
Net gain/(loss) from sale of land and buildings	(7,836)	(4,098)
Specialist military equipment		
Proceeds from sale	49,425	12,489
Carrying value of assets sold	(35,026)	(18,508)
Selling expense	(9,949)	(2,280)
Net gain/(loss) from sale of specialist military equipment	4,450	(8,299)
Infrastructure		
Proceeds from sale	-	-
Carrying value of assets sold	(20)	-
Selling expense	(1)	(8)
Net gain/(loss) from sale of infrastructure	(21)	(8)
Plant and equipment		
Proceeds from sale	18,058	19,606
Carrying value of assets sold	(17,819)	(19,453)
Selling expense	(1,049)	(1,717)
Net gain/(loss) from sale of plant and equipment	(810)	(1,564)
Heritage and cultural assets		
Proceeds from sale	-	457
Carrying value of assets sold	-	(457)
Selling expense	(116)	(73)
Net gain/(loss) from sale of heritage and cultural assets	(116)	(73)
Other assets		
Proceeds from sale	12	2,400
Carrying value of assets sold	-	-
Selling expense	(19)	-
Net gain/(loss) from sale of other assets	(7)	2,400
Total net gain/(loss) from sale of assets	(4,340)	(11,642)
Note 3I: Other expenses		
Act of Grace payments (section 36)	427	409
Ex-gratia payments	-	-
Tactical Payment Scheme payments	16	67
Defective Administration Scheme payments	745	296
Restoration, decontamination and decommissioning costs	55,508	76,093
Other	32,441	11,799
Total other expenses	89,137	88,664

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2014

Note 4: Income

Revenue

	2014 \$'000	2013 \$'000
Note 4A: Provision of goods and rendering of services (including cost recovery)		
Provision of goods		
Rations and quarters - cost recovery	59,791	52,540
Provision of fuel - cost recovery	94,996	57,666
Other (including sale of obsolete and surplus inventory)	21,351	27,514
Total provision of goods	176,138	137,720
Provision of goods to		
Related entities	12,640	12,273
External entities	163,498	125,447
Total provision of goods	176,138	137,720
Rendering of services		
Logistics support recovery	26,640	36,698
s31 recoveries	27,646	34,998
Other governments/agencies	12,195	10,042
Other	35,465	29,478
Total rendering of services	101,946	111,216
Rendering of services to:		
Related entities	16,067	17,191
External entities	85,879	94,025
Total rendering of services	101,946	111,216
Total provision of goods and rendering of services (including cost recovery)	278,084	248,936

Note 4B: Sustainment expenditure recovered from DMO

Logistics	115,619	111,066
Research and Development	27,219	27,567
Redevelopment	22,352	-
Other	4,265	7,227
Total sustainment expenditure recovered from DMO	169,455	145,860

Note 4C: Rental income

Operating leases:

Other	7,460	10,387
Total rental income	7,460	10,387

Note 4D: Other revenue

Excise refunds	23,110	7,268
Settlement of damages	42,193	430,392
Foreign military sales refunds	974	23,755
Other minor revenues	7,837	9,311
Assets received free of charge	40,094	104
Other resources received free of charge	426	638
Total other revenue	114,634	471,468

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2014

Gains

	2014 \$'000	2013 \$'000
Note 4E: Reversals of previous asset write-downs and impairments		
Land and buildings	13,009	4,964
Specialist military equipment	47,177	103,916
Infrastructure	7,333	7,105
Plant and equipment	4,539	8,108
Heritage and cultural assets	-	-
Software and intangibles	13,680	-
Total property, plant and equipment and intangibles	85,738	124,093
Receivables	96	1,939
Inventory	207,550	191,883
Total reversal of previous asset write-downs and impairments	293,384	317,915

Note 4F: Other gains

Resources received free of charge - ANAO	3,800	3,800
Other gains	34,063	62,072
Total other gains	37,863	65,872

Revenue from Government

Note 4G: Revenues from government

Appropriation:		
Departmental appropriation	23,158,481	21,353,590
Supplementation	1,038,680	1,354,300
Total revenues from Government	24,197,161	22,707,890

Defence is appropriated on a net cash basis which includes the appropriation revenue of \$24,197m (2012-13: \$22,708m) included in the Statement of Comprehensive Income, and the equity injection of \$1,521m (2012-13: \$456m) included in the Statement of Financial Position.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2014

Note 5: Fair Value Measurement

Fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2 - Inputs other than quoted prices included in Level 1 that are observable for assets or liabilities, either directly or indirectly.

Level 3 - Unobservable inputs for the asset or liability.

Note 5A: Fair value measurement

Fair value measurements at the end of the reporting period by hierarchy for assets and liabilities in 2014

		Fair value measurement at the end of the reporting period using:		
		Level 1 inputs	Level 2 inputs	Level 3 inputs
	\$'000	\$'000	\$'000	\$'000
Non-financial assets - Recurring fair value:				
Land	4,947,960	-	4,947,960	-
Buildings	12,028,971	-	-	12,028,971
Infrastructure	5,534,132	-	-	5,534,132
Plant & Equipment	1,584,780	-	456,553	1,128,227
Heritage and Cultural	1,002,312	-	1,002,312	-
Total	25,098,155	-	6,406,825	18,691,330
Assets not measured at fair value in statement of financial position:¹				
Cash and cash equivalents	35,490	-	-	-
Trade and other receivables	1,055,717	-	-	-
Total	1,091,207	-	-	-
Non financial liabilities - Recurring fair value:				
Restoration, decontamination and decommissioning	917,635	-	-	917,635
Total	917,635	-	-	917,635
Liabilities not measured at fair value in statement of financial position:¹				
Other provisions	2,294	-	-	-
Suppliers	1,700,866	-	-	-
Other payables	384,162	-	-	-
Finance lease payables	1,492,541	-	-	-
Total	3,579,863	-	-	-

¹ The fair value of these assets and liabilities approximates to their carry values.

Department of Defence
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the period ended 30 June 2014

Note 5B: Valuation technique and inputs for Level 2 and Level 3 fair value measurements

Level 2 and 3 fair value measurements - valuation technique and the inputs used for assets and liabilities in 2014

	Category	\$'000	Valuation Techniques	Inputs used and Range (weighted average) ¹
Non-financial assets - Recurring fair value:	Land			
	Level 2	4,947,960	Replacement cost	Market comparable sales
	Level 3	12,028,971	Depreciated replacement cost or net present value of lease payments for leased assets.	Replacement costs Remaining life 32.36 years
	Level 3	5,534,132	Depreciated replacement cost or net present value of lease payments for leased assets.	Replacement costs Remaining life 34.66 years
Plant & Equipment	Level 2 and 3	1,584,780	Depreciated replacement cost or net present value of lease payments for leased assets.	Replacement costs Remaining life 16.31 years
Heritage and Cultural	Level 3	1,002,312	Depreciated reproduction cost.	Reproduction cost
Non financial liabilities:				
	Restoration, decontamination and decommissioning	917,635	Defence estimates of future obligation relating to the underlying assets.	Inflation rate \$848-\$996m ² Discount rate \$849-\$996m ²

² Range is based on a 100 basis point change up and down from that used in the fair value calculation.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2014

Note 5B: Valuation technique and inputs for Level 2 and Level 3 fair value measurements (continued)

	\$'000	Valuation Techniques
Assets not measured at fair value in the statement of financial position		
Cash and cash equivalents	35,490	Carrying value equates to known amounts of cash
Trade and other receivables	1,055,717	Nominal amount less any allowances for impairment
Liabilities not measured at fair value in the statement of financial position		
Other provisions	2,294	Estimate of future liabilities
Suppliers	1,700,866	Amount of cash or cash equivalent required to settle the liability
Other payables	384,162	Amount of cash or cash equivalent required to settle the liability
Finance lease payables	1,492,541	Present value of minimum lease payments

¹ Significant unobservable inputs only. Not applicable for assets or liabilities in the Level 2 category.

There has been no change in valuation techniques during the year.

There has been no transfers between levels during the reporting period. Defence's policy for determining when transfers between levels are deemed to have occurred can be found in Note 1.

Recurring and Level 3 fair value measurements - valuation process

In estimating the fair value of an asset or a liability, Defence uses market-observable data to the extent it is available. Where Level 1 inputs are not available, Defence engages third party qualified valuers to perform the valuation. The Asset Accounting team works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the models to ensure the valuations are in line with AASB 13. The Executive Director of Asset Accounting reviews all reports received from third party valuers to ensure unobservable inputs used aligns with Defence's own assumptions and understanding of the market. This review includes investigation of significant fluctuations in the fair value of the assets and liabilities and that the report includes sufficient information to ensure compliance with AASB 13.

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2014

Recurring Level 3 fair value measurements - sensitivity of inputs

Non-financial assets	Significant unobservable inputs	Sensitivity of inputs
Buildings	(i) Useful life of assets	- A year increase/(decrease) in the remaining life of the asset would increase/(decrease) the value of buildings.
Infrastructure	(i) Useful life of assets.	- A year increase/(decrease) in the remaining life of the asset would increase/(decrease) the value of infrastructure.
Plant and equipment	(i) Useful life of assets.	- A year increase/(decrease) in the remaining life of the asset would increase/(decrease) the value of plant and equipment.
Non-financial liabilities	Significant unobservable inputs	Sensitivity of inputs
Restoration, decontamination and decommissioning	(i) Inflation rates (ii) Discount rates (iii) Outflow of cash required to satisfy the obligation which is driven by each specific asset.	- An increase/(decrease) to the inflation rate used will increase/(decrease) the value of the provision. - An increase/(decrease) to the discount rate used will have a (decrease)/increase to the value of the provision. - An increase/(decrease) in the estimated future cash outflow to settle the future obligation relating to the underlying assets would increase/(decrease) the value of the provision.

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2014

Note 5C: Reconciliation for recurring Level 3 fair value measurement

<i>Non-financial Assets</i>	Buildings \$'000	Infrastructure \$'000	Plant and Equipment \$'000	Total \$'000
Opening Balance 1 July 2013	11,296,383	5,382,895	803,468	17,482,746
Total gains/(losses) recognised in net cost of services ¹	(646,751)	(322,343)	(141,844)	(1,110,938)
Total gains/(losses) recognised in other comprehensive income ²	(187,135)	(27,306)	38,003	(176,438)
Purchases	1,604,643	329,751	378,485	2,312,879
First found assets recognised ³	32,398	52,018	29,109	113,525
Disposals	(5,796)	(20)	(2,592)	(8,408)
Reversal of previous write-downs	13,009	7,333	-	20,342
Reclassification / Transfers ⁴	(77,780)	111,804	23,597	57,621
Closing Balance 30 June 2014	12,028,971	5,534,132	1,128,226	18,691,329

¹ These gains/(losses) are presented in the Statement of Comprehensive Income under depreciation and amortisation and write-down and impairment of assets.

² These gains/(losses) are presented in the Statement of Comprehensive Income under changes in asset revaluation reserves.

³ These gains/(losses) are presented in the Statement of Comprehensive Income under reversals of previous asset write downs and impairment.

⁴ To other classes or non-financial asset categories. These transfers are undertaken to reflect either reclassification within property, plant and equipment classes or between inventory and property, plant and equipment.

Restoration, decontamination and decommissioning

<i>Non-financial Liabilities</i>	\$'000
Opening Balance 1 July 2013	872,367
Additional provision made ⁵	80,604
Amounts used	(26,103)
Amounts reversed ⁶	(35,330)
Unwinding of discount or change in discount rate ⁷	26,097
Closing Balance 30 June 2014	917,635

⁵ These gains/(losses) are presented in the Statement of Comprehensive Income under Other Expenses.

⁶ These gains/(losses) are presented in the Statement of Comprehensive Income under Other Gains.

⁷ Unwinding of discount or change in discount rate are presented in the Statement of Comprehensive Income under Other Finance Costs

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2014

Note 6: Financial Assets

	2014 \$'000	2013 \$'000
Note 6A: Cash and cash equivalents		
Cash on hand	2,794	3,611
Cash at bank - at call	32,696	64,849
Total cash and cash equivalents	35,490	68,460

Note 6B: Trade and other receivables

Goods and services

Related entities	7,451	7,402
External parties	64,455	57,623
Total receivables for goods and services	71,906	65,025

Appropriations receivable

For existing programs	414,742	67,349
For departmental supplementation	-	-
Total appropriations receivable	414,742	67,349

Other receivables

GST receivable from the Australian Taxation Office	89,757	58,275
Accrued revenue	17,596	50,125
Other	468,671	638,840
Total other receivables	576,024	747,240
Total trade and other receivables (gross)	1,062,672	879,614

Less impairment allowance account

Goods and services	(6,955)	(4,775)
Total impairment allowance account	(6,955)	(4,775)
Total trade and other receivables (net)	1,055,717	874,839

Trade and receivables are expected to be recovered in:

Less than 12 months	870,389	460,486
More than 12 months	185,328	414,353
Total trade and other receivables (net)	1,055,717	874,839

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2014

	2014 \$'000	2013 \$'000
Note 6B: Trade and other receivables (continued)		
Trade and other receivables (gross) are aged as follows:		
Not overdue	1,027,324	849,584
Overdue by:		
Less than 30 days	6,323	12,671
31 to 60 days	1,251	1,062
61 to 90 days	308	674
More than 90 days	27,466	15,623
Total trade and other receivables (gross)	1,062,672	879,614
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	(6,955)	(4,775)
Total impairment allowance account	(6,955)	(4,775)
Reconciliation of the impairment allowance account:		
Opening balance	(4,775)	(6,315)
Amounts written off	-	(2)
Amounts recovered and reversed	96	1,939
Increase/decrease recognised in net surplus/deficit	(2,276)	(397)
Closing balance	(6,955)	(4,775)

Credit terms for goods and services were within 1-30 days (2013: 1-30 days)

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2014

Note 7: Non-Financial Assets

	2014 \$'000	2013 \$'000
Note 7A: Land and buildings		
Land		
At fair value ¹	4,860,017	4,539,888
Land held under finance lease	87,943	89,135
Total land	4,947,960	4,629,023
Buildings		
Buildings on freehold land		
At fair value ¹	9,822,789	9,473,247
Accumulated depreciation	(210,131)	(323,687)
Accumulated impairment losses	(44,292)	(7,595)
Total buildings on freehold land	9,568,366	9,141,965
Work in progress - at cost	1,166,215	1,267,631
Buildings held under finance lease	1,318,439	900,767
Accumulated amortisation	(24,049)	(13,980)
	1,294,390	886,787
Total buildings	12,028,971	11,296,383
Total land and buildings	16,976,931	15,925,406

¹ All independent valuations were conducted by the Australian Valuation Office in accordance with the revaluation policy stated at note 1.21(f).

Non financial assets have been assessed for impairment indicators. Where indicators have been identified due to physical damage, obsolescence or performance short falls, an impairment assessment has been performed.

2 land holdings and no buildings are expected to be sold or disposed of within the next 12 months.

Any Land and Buildings held for sale are included at Note 7J.

Note 7B: Specialist military equipment

Specialist military equipment in use other than military support items

At cost	49,569,426	49,451,571
Accumulated depreciation	(27,060,376)	(26,005,825)
Accumulated impairment losses	(154,197)	(82,557)
Net carrying value of specialist military equipment	22,354,853	23,363,189

Military support items

At cost	15,941,119	14,688,584
Accumulated depreciation	(8,669,372)	(8,431,038)
Accumulated impairment losses	(261,344)	(133,687)
Net carrying value of military support items	7,010,403	6,123,859

Work in progress - at cost

	11,905,507	10,757,773
Total specialist military equipment	41,270,763	40,244,821

Non financial assets have been assessed for impairment indicators. Where indicators have been identified due to physical damage, obsolescence or performance short falls, an impairment assessment has been performed.

71 specialist military equipment are expected to be sold or disposed of within the next 12 months.

Specialist military equipment held for sale is included at Note 7J.

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2014

	2014 \$'000	2013 \$'000
Note 7C: Infrastructure		
At fair value ¹	5,393,325	5,302,091
Accumulated depreciation	(117,964)	(177,555)
Accumulated impairment losses	(26,112)	(57)
	<u>5,249,249</u>	<u>5,124,479</u>
Work in progress - at cost	163,793	188,408
Infrastructure held under finance lease	124,633	71,112
Accumulated amortisation	(3,543)	(1,104)
	<u>121,090</u>	<u>70,008</u>
Total infrastructure	<u>5,534,132</u>	<u>5,382,895</u>

¹ All independent valuations were conducted by the Australian Valuation Office in accordance with the revaluation policy stated at note 1.21(f).

Non financial assets have been assessed for impairment indicators. Where indicators have been identified due to physical damage, obsolescence or performance short falls, an impairment assessment has been performed.

1 infrastructure asset is expected to be sold or disposed of within the next 12 months.

Any Infrastructure held for sale is included at Note 7J.

Note 7D: Plant and equipment

At fair value ¹	1,202,423	1,274,604
Accumulated depreciation	(226,924)	(265,296)
Accumulated impairment losses	(13,149)	(14,183)
	<u>962,350</u>	<u>995,125</u>
Work in progress - at cost	527,900	288,310
Plant and equipment under finance lease	98,443	116,298
Accumulated amortisation	(3,913)	(18,510)
	<u>94,530</u>	<u>97,788</u>
Total plant and equipment	<u>1,584,780</u>	<u>1,381,223</u>

¹ All independent valuations were conducted by the Australian Valuation Office in accordance with the revaluation policy stated at note 1.21(f).

Non financial assets have been assessed for impairment indicators. Where indicators have been identified due to physical damage, obsolescence or performance short falls, an impairment assessment has been performed.

45 plant and equipment assets are expected to be sold or disposed of within the next 12 months.

Any Plant and equipment held for sale is included at Note 7J.

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2014

	2014 \$'000	2013 \$'000
Note 7E: Heritage and cultural assets		
At fair value ¹	1,002,312	1,023,969
Total heritage and cultural assets	1,002,312	1,023,969

¹ All independent valuations were conducted by the Australian Valuation Office in accordance with the revaluation policy stated at note 1.21(f).

Non financial assets have been assessed for impairment indicators. Where indicators have been identified due to physical damage, obsolescence or performance short falls, an impairment assessment has been performed.

No heritage and cultural assets are expected to be sold or disposed of within the next 12 months.

Any Heritage and Cultural Assets held for sale are included at Note 7J.

Revaluations of non-financial assets

All revaluations were conducted in accordance with the revaluation policy stated at Note 1.21(f). The independent valuations were undertaken from 1 February to 30 June 2014 with an effective date of 30 June 2014.

Note 7F: Intangibles

Computer software

Purchased

At cost	832,830	767,533
Accumulated amortisation	(477,234)	(418,120)
Accumulated impairment losses	(2,890)	(2,933)
	352,706	346,480
Work in progress - at cost	70,290	75,628
Computer software under finance lease	-	-
Accumulated amortisation	-	-
	-	-

Total purchased computer software

422,996	422,108
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Internally generated

At cost	284,030	209,621
Accumulated amortisation	(103,589)	(72,467)
Accumulated impairment losses	(341)	(46)

Total internally generated computer software

180,100	137,108
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Total computer software

603,096	559,216
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Other intangibles

Purchased

At cost	297,212	85,437
Accumulated amortisation	(87,839)	(49,105)
Accumulated impairment losses	(2,785)	(2,785)
	206,588	33,547

Work in progress - at cost	-	-
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Total other intangibles purchased

206,588	33,547
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Internally generated

At cost	67,418	69,448
Accumulated amortisation	(54,611)	(52,961)
Accumulated impairment losses	(2,914)	(2,914)

Total other intangibles internally generated

9,893	13,573
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Total other intangibles

216,481	47,120
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Total intangibles

819,577	606,336
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Non financial assets have been assessed for impairment indicators. Where indicators have been identified due to physical damage, obsolescence or performance short falls, an impairment assessment has been performed.

No intangibles are expected to be sold or disposed of within the next 12 months.

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2014

Note 7G: Reconciliation of the opening and closing balances of property, infrastructure, plant and equipment, and intangibles (2013-2014)

Item	Land	Buildings	Specialist Military Equipment	Infra-structure	Plant and Equipment (owned and leased)	Heritage and Cultural Assets ¹	Computer Software - Purchased	Computer Software - Internally Generated	Other Intangibles Purchased	Other Intangibles Generated	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
As at 1 July 2013											
Gross book value	4,629,023	11,641,645	74,897,928	5,561,612	1,679,212	1,023,969	843,161	209,621	85,437	69,448	100,641,056
Accumulated depreciation/amortisation & impairment	-	(345,262)	(34,653,107)	(178,717)	(297,989)	-	(421,053)	(72,513)	(51,890)	(55,875)	(36,076,406)
Net book value 1 July 2013	4,629,023	11,296,383	40,244,821	5,382,895	1,381,223	1,023,969	422,108	137,108	33,547	13,573	64,564,650
Additions:											
By purchase	12,703	1,094,990	3,897,517	278,375	373,683	188	35,023	31,035	-	-	5,723,514
By finance lease	1,894	509,653	-	51,376	8,453	-	-	-	-	-	571,376
By donation/gift	-	-	-	-	-	-	-	-	-	-	-
First found assets recognised	-	32,398	233,500	52,018	30,251	3,360	-	-	-	-	351,527
Revaluations/impairments recognised in other comprehensive income	351,289	(187,135)	-	(27,306)	56,023	(30,242)	-	-	-	-	162,629
Reclassification	5,244	(85,515)	(95,628)	108,880	8,838	5,429	29,199	23,625	(583)	511	-
Depreciation/amortisation expense	-	(631,077)	(2,540,458)	(319,712)	(247,227)	-	(61,418)	(24,728)	(39,102)	(3,994)	(3,867,716)
Revaluations/write-downs and impairments recognised in operating result	-	(15,674)	(466,223)	(2,631)	(11,207)	(43)	(1,916)	(620)	-	(197)	(498,511)
Other movements	-	13,009	47,177	7,333	4,539	-	-	13,680	-	-	85,738
Reversal of previous asset write-downs	-	7,735	(38,858)	3,024	(2,014)	(349)	-	-	212,726	-	155,570
Transfers in (out)	(26,694)	-	23,941	(100)	37	-	-	-	-	-	23,895
Transfers to/from Assets Held for Sale	17	-	-	-	-	-	-	-	-	-	-
Disposals:											
Other disposals	(25,516)	(5,796)	(35,026)	(20)	(17,819)	-	-	-	-	-	(84,177)
Net book value 30 June 2014	4,947,960	12,028,971	41,270,763	5,534,132	1,584,780	1,002,312	422,996	180,100	206,588	9,893	67,188,495
Net book value as at 30 June 2014 represented by:											
Gross book value	4,947,960	12,307,443	77,416,052	5,681,750	1,828,766	1,002,312	903,120	284,030	297,212	67,418	104,736,063
Accumulated depreciation/amortisation and impairment	-	(278,472)	(36,145,289)	(147,618)	(243,986)	-	(480,124)	(103,930)	(90,624)	(57,525)	(37,547,568)
Closing net book value at 30 June 2014	4,947,960	12,028,971	41,270,763	5,534,132	1,584,780	1,002,312	422,996	180,100	206,588	9,893	67,188,495

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 assets class.

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For the period ended 30 June 2014

Note 7G: Reconciliation of the opening and closing balances of property, infrastructure, plant and equipment, and intangibles (2012-2013)

Item	Land	Buildings	Specialist Military Equipment	Infra-structure	Plant and Equipment (owned and leased)	Heritage and Cultural Assets ¹	Computer Software - Purchased	Computer Software - Internally Generated	Other Intangibles Purchased	Other Intangibles Internally Generated	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
As at 1 July 2012											
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 & impairment	-	(238,484)	(34,587,136)	(117,904)	(272,936)	-	(361,899)	(53,039)	(46,803)	(47,569)	(35,725,770)
Net book value 1 July 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
Additions:											
By purchase	27,312	737,994	2,781,880	171,857	252,156	441	51,036	5,927	22	-	4,028,625
By finance lease	-	283,362	-	62,615	18,118	-	-	-	-	-	364,095
By donation/gift	-	-	-	-	-	-	-	-	-	-	-
First found assets recognised	3,448	47,935	122,195	27,504	598	-	-	-	-	-	201,680
Revaluations/impairments recognised in other comprehensive income	18,817	(46,109)	-	(38,092)	71,652	7,878	-	-	-	-	14,146
Reclassification	1,500	(108,832)	(69,017)	98,613	549	563	(44,046)	119,385	214	1,071	-
Depreciation/amortisation expense	-	(610,264)	(2,688,394)	(327,516)	(275,753)	-	(64,000)	(19,676)	(5,059)	(9,315)	(3,999,977)
Revaluations/write-downs and impairments recognised in operating result	-	(95,901)	(308,682)	(5,731)	(18,120)	(45)	(1,873)	-	-	-	(430,352)
Other movements	-	-	-	-	-	-	-	-	-	-	-
Reversal of previous asset write-downs	-	4,964	103,916	7,105	8,108	-	-	-	-	-	124,093
Transfers in (out)	(702)	(31,690)	11,359	(130)	(470)	30,650	(2,683)	968	1,676	(2,317)	6,661
Transfers to/from Assets Held for Sale	3,205	3,163	(17,720)	-	105	-	-	-	-	-	(11,247)
Disposals:											
Other disposals	(4,032)	(3,979)	(18,508)	-	(19,453)	(457)	-	-	-	-	(46,429)
Net book value 30 June 2013	4,629,023	11,296,383	40,244,821	5,382,895	1,381,223	1,023,969	422,108	137,108	33,547	13,573	64,564,650
Net book value as at 30 June 2013 represented by:											
Gross book value	4,629,023	11,641,645	74,897,928	5,561,612	1,679,212	1,023,969	843,161	209,621	85,437	69,448	100,641,056
Accumulated depreciation/amortisation and impairment	-	(345,262)	(34,653,107)	(178,717)	(297,989)	-	(421,053)	(72,513)	(51,890)	(55,875)	(36,076,406)
Closing net book value at 30 June 2013	4,629,023	11,296,383	40,244,821	5,382,895	1,381,223	1,023,969	422,108	137,108	33,547	13,573	64,564,650

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 assets class.

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For the period ended 30 June 2014

	2014 \$'000	2013 \$'000
Note 7H: Inventories		
Inventories - General	2,333,932	2,332,109
Inventories - Explosive ordnance	3,924,129	3,716,807
Inventories - Fuel	127,510	111,372
Total inventories	6,385,571	6,160,288
Inventories are expected to be consumed in:		
No more than 12 months	716,085	644,720
More than 12 months	5,669,486	5,515,568
Total inventories	6,385,571	6,160,288
Inventory valuation dissection		
Balance at cost as at 1 July	6,160,288	5,686,425
Inventory acquired during period	1,397,330	1,499,675
Reversal of previous inventory write downs during period	207,550	191,883
Inventory consumed during period	(1,009,281)	(831,804)
Inventory write downs during period	(351,696)	(369,409)
Transfer to inventory during period	9,819	18,369
Transfer from inventory during period	(28,439)	(34,851)
Closing balance as at 30 June	6,385,571	6,160,288
No items of inventory were recognised at fair value less cost to sell.		
Note 7I: Prepayments		
Capital prepayments	10,730	10,700
Non capital prepayments	207,552	137,440
Total prepayments	218,282	148,140
Prepayments are expected to be recovered in:		
No more than 12 months	177,405	122,426
More than 12 months	40,877	25,714
Total prepayments	218,282	148,140
Note 7J: Assets held for sale		
Land	699	716
Specialist military equipment	12,238	36,178
Heritage and cultural	-	-
Other infrastructure, plant and equipment	113	51
Inventories	15,642	15,454
Total assets held for sale	28,692	52,399

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2014

Note 8: Payables

	2014 \$'000	2013 \$'000
Note 8A: Suppliers		
Trade creditors and accruals - non capital	1,410,507	1,350,634
Trade creditors and accruals - capital	220,581	174,660
Operating lease rentals	69,778	54,174
Total suppliers payable	1,700,866	1,579,468

Supplier payables expected to be settled within 12 months:

Related entities	686,746	724,860
External parties	918,103	762,158
Total	1,604,849	1,487,018

Supplier payables expected to be settled in greater than 12 months:

Related entities	95,989	92,450
External parties	28	-
Total	96,017	92,450
Total supplier payables	1,700,866	1,579,468

Settlement is usually made within 30 days.

Note 8B: Other payables

Australian Public Service (APS) employee payables

Salaries and wages	40,999	36,321
Superannuation	7,260	6,101
Separations and redundancies	141	335

Australian Defence Force (ADF) employee payables

Salaries and wages	173,277	161,982
Superannuation	-	39,897
Separations and redundancies	1,111	-
Statutory payable	103,351	150,751
Other	58,023	63,653
Total other payables	384,162	459,040

Total other payables are expected to be settled in:

No more than 12 months	345,780	420,521
More than 12 months	38,382	38,519
Total other payables	384,162	459,040

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

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Note 9: Interest Bearing Liabilities

	2014 \$'000	2013 \$'000
Note 9A: Finance leases		
Payable:		
Within one year		
Minimum lease payments	158,996	142,520
Deduct: future finance charges	(101,200)	(69,710)
In one to five years		
Minimum lease payments	638,518	446,195
Deduct: future finance charges	(462,876)	(299,135)
In more than five years		
Minimum lease payments	2,344,114	1,415,301
Deduct: future finance charges	(1,085,011)	(665,353)
Finance leases recognised on the statement of financial position	1,492,541	969,818

*40 (2012-13: 25) finance leases exist in relation to properties and technology. The leases are non-cancellable and for fixed terms with an average remaining term of 19.67 years (2012-13: 12.05 years). The maximum number of years remaining is 29.67 years (2012-13: 30.67 years) relating to the Single LEAP 2 leases (2012-13: Single LEAP finance leases). The lease assets secure the lease liabilities. Interest rates applied averaged 6.98% (2013: 6.90%).

Contingent rent (representing the portion of the lease payments made that were not fixed and subject to CPI finance lease contract clauses) was expensed in the periods in which they were incurred on 3 finance leases (2012-13: 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 2014

Note 10: Provisions

	2014 \$'000	2013 \$'000
Note 10A: Employee provisions		
Australian Public Service (APS) employee provisions		
Leave	538,661	526,894
Total APS employee provisions	538,661	526,894
Australian Defence Force (ADF) employee provisions		
Leave	1,731,670	1,698,473
Other provisions	16,960	10,589
Total ADF employee provisions	1,748,630	1,709,062
Total employee provisions	2,287,291	2,235,956
Employee provisions are expected to be settled in:		
No more than 12 months	718,843	723,757
More than 12 months	1,568,448	1,512,199
Total employee provisions	2,287,291	2,235,956

Note 10B: Restoration, decontamination and decommissioning

Provisions for restoration and decommissioning	487,711	434,395
Provision for decontamination ¹	429,924	437,972
Total restoration, decontamination and decommissioning provisions	917,635	872,367

Restoration, decontamination and decommissioning provisions are expected to be settled in:

No more than 12 months	85,128	60,227
More than 12 months	832,507	812,140
Total restoration, decontamination and decommissioning provisions	917,635	872,367

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 1.21c for the accounting policy on this matter).

Refer to Note 10D for a reconciliation of this balance.

Note 10C: Other provisions

Other provisions	2,294	3,014
Total other provisions	2,294	3,014

Other provisions are expected to be settled in:

No more than 12 months	2,294	3,014
More than 12 months	-	-
Total other provisions	2,294	3,014

Refer to Note 10D for a reconciliation of this balance.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2014

Note 10D: Reconciliation of provision balances

Movement in relation to 2014

	Restoration and decommissioning provisions \$'000	Decontamination provisions \$'000	Other provisions \$'000
Carrying amount 1 July 2013	434,395	437,972	3,014
Additional provisions made	48,909	31,695	-
Amounts used	(194)	(25,909)	(310)
Amounts reversed	(10,031)	(25,299)	(410)
Unwinding of discount or change in discount rate	14,632	11,465	-
Closing balance 30 June 2014	487,711	429,924	2,294

Note 11: Departmental Restructuring

2013-14: No restructures took place during the current year.

2012-13: No restructures took place during the prior year.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2014

Note 12: Cash Flow Reconciliation

	2014 \$'000	2013 \$'000
Reconciliation of cash and cash equivalents as per Statement of Financial Position to Cash Flow Statement		
Cash and cash equivalents as per:		
Cash Flow Statement	35,490	68,460
Statement of Financial Position	<u>35,490</u>	<u>68,460</u>
Difference	<u>-</u>	<u>-</u>
Reconciliation of net cost of services to net cash from/(used by) operating activities:		
Net cost of services	(23,709,896)	(22,427,370)
Add revenue from Government	24,197,161	22,707,890
Adjustments for non-cash items		
Depreciation / amortisation	3,867,716	3,999,977
Foreign exchange (gains) losses	3,502	1,046
Reversal of previous asset write-downs	(293,384)	(317,915)
(Gains) losses from assets sales	4,340	11,642
Net write-down and impairment of assets	852,653	800,598
Finance costs	95,270	58,235
Inventory consumption or expensed	1,009,281	831,804
Changes in assets/liabilities		
Decrease/(increase) in inventory related to operations	(136,212)	(187,403)
Decrease/(increase) in trade and other receivables	(183,058)	(398,450)
Decrease/(increase) in prepayments	(70,142)	6,901
Increase/(decrease) in supplier payables	121,398	44,726
Increase/(decrease) in other payables	(74,878)	24,536
Increase/(decrease) in employee provisions	51,335	8,299
Increase/(decrease) in restoration, decontamination and decommissioning	45,268	(3,773)
Increase/(decrease) in other provisions	(720)	(808)
Net cash from / (used by) operating activities	<u>5,779,634</u>	<u>5,159,935</u>

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2014

Note 13: Contingent Liabilities and Assets

	Claims for damages / costs		Total	
	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
Contingent Assets				
Balance from previous period	28,857	1,374	28,857	1,374
New	4	27,612	4	27,612
Re-measurement	(17,328)	29	(17,328)	29
Assets recognised	(7,624)	(100)	(7,624)	(100)
Expired	(72)	(58)	(72)	(58)
Total contingent assets	3,837	28,857	3,837	28,857
Contingent Liabilities				
Balance from previous period	63,100	48,514	63,100	48,514
New	20,556	20,344	20,556	20,344
Re-measurement	(4,454)	3,110	(4,454)	3,110
Liabilities recognised	(17,278)	(5,664)	(17,278)	(5,664)
Obligations expired	(22,902)	(3,204)	(22,902)	(3,204)
Total Contingent liabilities	39,022	63,100	39,022	63,100
Net contingent assets (liabilities)	(35,185)	(34,243)	(35,185)	(34,243)

Quantifiable Contingencies

Contingent Assets: At 30 June 2014, the Schedule of Contingencies contains 12 (2012-13: 24) instances of non-remote, quantifiable contingent assets in respect of claims by the Department valued at \$3.8m (2012-13: \$28.9m). 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 2014, the Schedule of Contingencies contains 16 (2012-13: 28) instances of non-remote, quantifiable contingent liabilities in respect of claims on the Department valued at \$39.0m (2012-13: \$63.1m). 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 2014 Defence had 11 (2012-13: 4) instances of unquantifiable non-remote contingent assets.

Contingent Liabilities: At 30 June 2014 Defence had 8 (2012-13: 15) 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.

Quantifiable Remote Contingencies

Remote Contingent Assets: At 30 June 2014 Defence had 3 (2012-13: 10) instances of quantifiable remote contingent assets valued at \$0.60m (2012-13: \$6.0m).

Remote Contingent Liabilities: At 30 June 2014 Defence had 1,597 (2012-13: 1,691) instances of quantifiable remote contingent liabilities valued at \$3,714.34m (2012-13: \$2,915.53m).

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 2014

Note 13: Contingent Liabilities and Assets (continued)

Unquantifiable Remote Contingencies

Contingent Assets: At 30 June 2014 Defence had 2 instance of an unquantifiable remote contingent assets (2012-13: 1).

Contingent Liabilities: At 30 June 2014 Defence had 23 instances of unquantifiable remote contingent liabilities (2012-13: 14).

These are not included in the Schedule of Contingencies.

Significant Remote Contingencies

At 30 June 2014 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 decontaminating and decommissioning Defence 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 personal injury and property damage. 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. As reported in the 2014-15 Budget Paper No. 2, amounts will be provided over 3 years for reparation payments and related expenses as part of Defence's response to the Report on the Review of allegations of sexual and other abuse in Defence. Finally, there is potential for claims to arise from the disposal of assets to third parties where such assets contain hazardous materials or components that have the potential to cause injury.

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 2014

Note 14: Senior Executive Remuneration

	2014 \$	2013 \$
Note 14A: Senior executive remuneration expense for the reporting period		
Short-term employee benefits		
Salary	63,791,599	61,097,530
Performance bonus	23,347	33,958
Other ¹	18,047,688	16,374,993
Total short-term employee benefits	81,862,634	77,506,481
Post-employment benefits		
Superannuation	12,786,868	12,329,240
Total post-employment benefits	12,786,868	12,329,240
Other long-term benefits		
Annual leave accrued	4,053,095	3,926,303
Long-service leave	1,772,608	1,763,182
Total other long-term benefits	5,825,703	5,689,485
Termination benefits	4,195,927	3,674,459
Total	104,671,132	99,199,665

Notes

1. "Other" includes leased motor vehicles, car parking, housing, medical benefits and other allowances.
2. Note 14A is prepared on an accrual basis (therefore the performance bonus expense disclosed above may differ from the 'Bonus paid' amount in Note 14B).
3. Note 14A excludes acting arrangements and part-year services where total remuneration expensed was less than \$195,000 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 \$195,000 per FMO17.14.
5. Includes SES officers seconded to Defence. In 2013-14 there were 3 such Officers (2012-13: 2 Officers).
6. Includes all Military Star Ranked Officers who have been posted to the Defence Materiel Organisation (DMO) per FMO 23.53P. In 2013-14 there were 25 such Officers (2012-13: 28 officers). The total remuneration for these Officers was \$7,021,123 (2012-13: \$7,479,509 including \$776,520 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.
7. The amounts disclosed for SES officers seconded to Defence are included as receipt of goods or services from another entity.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2014

Note 148: Average annual reportable remuneration paid to substantive senior executives in 2014

Average annual reportable remuneration ¹	Senior Executives No.	Reportable Salary ^{2,6} \$	Contributed Superannuation ^{3,6} \$	Reportable Allowances ⁴ \$	Bonus Paid ⁵ \$	Total Reportable Remuneration \$
Total Remuneration (including part-time arrangements)						
Less than \$195,000	69	92,388	15,938	8,139	196	116,661
\$195,000 to \$224,999	49	191,829	22,320	214	-	214,363
\$225,000 to \$254,999	66	211,449	25,976	301	196	237,922
\$255,000 to \$284,999	98	222,175	47,621	524	-	270,320
\$285,000 to \$314,999	36	249,739	49,304	459	-	299,502
\$315,000 to \$344,999	12	275,274	52,647	484	-	328,405
\$345,000 to \$374,999	5	298,327	59,773	272	-	358,372
\$375,000 to \$404,999	4	324,710	60,161	259	2,500	387,630
\$405,000 to \$434,999	3	378,483	40,821	-	-	419,304
\$435,000 to \$464,999	2	415,446	29,745	-	-	445,191
\$525,000 to \$554,999	2	447,644	92,859	-	-	540,503
\$555,000 to \$584,999	2	462,039	102,215	-	-	564,254
\$735,000 to \$764,999	1	666,208	78,166	-	-	744,374
\$1,425,000 to \$1,454,999	1	1,425,839	-	-	-	1,425,839
Total	350					

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2014

Note 148: Average annual reportable remuneration paid to substantive senior executives in 2013^a

Average annual reportable remuneration ¹	Senior Executives No.	Reportable Salary ^{2,6} \$	Contributed Superannuation ^{3,6} \$	Reportable Allowances ⁴ \$	Bonus Paid ⁵ \$	Total Reportable Remuneration \$
Total Remuneration (including part-time arrangements)						
Less than \$195,000	79	96,346	21,445	264	-	118,055
\$195,000 to \$224,999	71	189,407	23,496	179	-	213,082
\$225,000 to \$254,999	65	204,707	36,702	531	125	242,065
\$255,000 to \$284,999	86	223,043	45,568	493	157	269,261
\$285,000 to \$314,999	23	248,580	50,447	444	-	299,471
\$315,000 to \$344,999	11	279,984	45,412	443	-	325,839
\$345,000 to \$374,999	5	309,041	50,150	452	1,500	361,143
\$375,000 to \$404,999	6	346,873	39,419	192	-	386,484
\$405,000 to \$434,999	3	369,210	50,484	190	-	419,884
\$435,000 to \$464,999	4	375,782	71,595	-	-	447,377
\$495,000 to \$524,999	2	449,786	57,217	-	3,750	510,753
\$705,000 to \$734,999	1	714,777	-	-	-	714,777
Total	356					

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);
 - exempt foreign employment income;
 - reportable employer superannuation contributions

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2014

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.
4. 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 29.7 per cent (2013: 29.7 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 30.4 per cent (2013: 30.4 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 9.25 per cent (2013: 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 17.2 per cent (2013: 18.4 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 17.2 per cent (2013: 18 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 (2013: 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 (2013: 15.4 per cent).
5. 'Reportable allowances' are the average actual allowances paid as per the 'total allowances' line on individuals' payment summaries.
6. '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.
7. Three individuals seconded to Defence are disclosed in 2013-14 (2012-13: Two). The resources received free of charge have been included in other goods and services line.
8. The 2013-14 FMOs included an update to the definition of reportable salary. The 2013 table has been updated to be in accordance with the FMOs requirements for consistency.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2014

Note 14C: Other highly paid staff in 2014

Average annual reportable remuneration ¹	Other Highly Paid Staff No.	Reportable Salary ^{2,6,7}	Contributed Superannuation ^{3,6}	Reportable Allowances ⁴	Bonus Paid ⁵	Total Reportable Remuneration
		\$	\$	\$	\$	\$
Total Remuneration (including part-time arrangements)						
\$195,000 to \$224,999	1,122	166,526	40,377	597	-	207,500
\$225,000 to \$254,999	336	193,550	42,181	600	-	236,331
\$255,000 to \$284,999	155	230,178	40,114	591	-	270,883
\$285,000 to \$314,999	67	255,478	39,925	547	-	295,950
\$315,000 to \$344,999	24	286,647	40,370	580	-	327,597
\$345,000 to \$374,999	14	313,948	42,941	532	-	357,421
\$375,000 to \$404,999	2	337,032	44,473	584	-	382,089
\$615,000 to \$644,999	1	544,305	91,088	528	-	635,921
Total	1,721					

Note 14C: Other highly paid staff in 2013⁸

Average annual reportable remuneration ¹	Other Highly Paid Staff No.	Reportable Salary ^{2,6,7}	Contributed Superannuation ^{3,6}	Reportable Allowances ⁴	Bonus Paid ⁵	Total Reportable Remuneration
		\$	\$	\$	\$	\$
Total Remuneration (including part-time arrangements)						
\$195,000 to \$224,999	952	166,906	40,121	607	-	207,634
\$225,000 to \$254,999	270	198,329	38,943	578	-	237,850
\$255,000 to \$284,999	122	230,244	38,923	590	-	269,757
\$285,000 to \$314,999	56	258,238	39,801	603	-	298,642
\$315,000 to \$344,999	23	280,461	43,006	621	-	324,088
\$345,000 to \$374,999	15	315,298	44,926	487	-	360,711
\$375,000 to \$404,999	1	341,787	52,258	680	-	394,725
\$615,000 to \$644,999	-	-	-	-	-	-
Total	1,439					

Note 14C: Other highly paid staff (continued)

Notes

1. This table reports staff:

- who were employed by the entity during the reporting period;
- whose reportable remuneration was \$195,000 or more for the financial period; and
- were not required to be disclosed in the tables in notes 14A or 14B.

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);
- exempt foreign income;
- reportable employer superannuation contributions; and

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. In 2013-14 there were 517 Military members who received a retention payment (2012-13: 726) 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.

8. The 2013-14 FMOs included an update to the definition of reportable salary. The 2013 table has been updated to be in accordance with the FMOs requirements for consistency.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2014

Note 15: Remuneration of Auditors

	2014 \$'000	2013 \$'000
Financial statement audit services are provided free of charge to the department. The fair value of services provided by the Auditor-General was:	<u>3,800</u>	<u>3,800</u>
	<u>3,800</u>	<u>3,800</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 2014

Note 16: 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.

	2014 \$'000	2013 \$'000
Note 16A: Categories of financial instruments		
Financial Assets		
Cash and cash equivalents	35,490	68,460
Loans and receivables:		
Trade and other receivables	525,639	686,004
Total Loans and Receivables	561,129	754,464
Carrying amount of financial assets	561,129	754,464
Financial Liabilities		
At amortised cost:		
Suppliers	1,354,519	1,339,476
Other payables	280,384	307,516
Finance lease	1,492,541	969,818
Total Financial Liabilities at Amortised Cost	3,127,444	2,616,810
Carrying amount of financial liabilities	3,127,444	2,616,810

Note 16B: Net income and expense from financial assets

Loans and receivables

Exchange gains/(loss)	1,935	1,462
Impairment	(2,446)	1,102
Net gain/(loss) on loans and receivables	(511)	2,564
Net gain/(loss) on financial assets	(511)	2,564

There is no interest income from financial assets not at fair value through the net cost of services.

Note 16C: Net income and expense from financial liabilities

At amortised cost

Exchange gains/(loss)	(5,437)	(2,508)
Interest expense	(103,009)	(63,852)
Net gain/(loss) financial liabilities - at amortised cost	(108,446)	(66,360)
Net gain/(loss) on financial liabilities	(108,446)	(66,360)

There is no interest expense from financial liabilities not at fair value through the net cost of services.

Note 16D: 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. 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.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2014

Note 16E: 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 Statement of Financial Position. 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 Statement of Financial Position 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:

	Notes	Not past due nor impaired		Past due or impaired	
		2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
Financial Assets:					
Cash and cash equivalents	6A	35,490	68,460	-	-
Trade and other receivables	6B	497,246	724,030	35,348	30,030
Total		532,736	792,490	35,348	30,030

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2014

Note 16E: 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	
		2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
Financial assets:											
Trade and other receivables	6B	6,323	12,671	1,251	1,062	308	674	20,511	10,848	28,393	25,255
Total		6,323	12,671	1,251	1,062	308	674	20,511	10,848	28,393	25,255

Note 16F: 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	
		2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
Financial Liabilities:													
Suppliers	8A	-	-	1,275,492	1,247,026	-	-	105,555	105,555	-	-	1,381,047	1,352,581
Other payables	8B	-	-	225,040	268,996	4,972	1,229	13,075	13,975	20,335	23,316	263,422	307,516
Financial lease	9A	-	-	158,996	142,516	258,250	198,477	380,268	247,718	2,344,114	1,415,301	3,141,628	2,004,012
Total		-	-	1,659,528	1,658,538	263,222	199,706	498,898	367,248	2,364,449	1,438,617	4,786,097	3,664,109

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 2014

Note 166: 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 Statement of Financial Position 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 A\$'000	Malaysian Ringgit A\$'000	United Arab Emirates Dirham A\$'000	Canadian Dollar A\$'000	Euro A\$'000	British Pound Sterling A\$'000	Solomon Islands Dollar A\$'000	Afghan Afghani A\$'000	Other A\$'000	Total A\$'000
Financial Assets										
Cash	2,009	236	508	-	50	-	-	-	15	2,818
Receivables	22,804	-	-	-	11	-	-	-	2,775	25,590
	24,813	236	508	-	61	-	-	-	2,790	28,408

Financial Liabilities

Suppliers	6,283	185	139	-	1,630	476	-	-	185	8,898
	6,283	185	139	-	1,630	476	-	-	185	8,898

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 2014

Note 17: Financial Assets Reconciliation

	2014 \$'000	2013 \$'000
Total financial assets per statement of financial position	1,091,207	943,299
Less: non-financial instrument components		
GST receivable from the Australian Taxation Office	(89,757)	(58,275)
Appropriation receivables	(414,742)	(67,349)
Other receivables	(25,586)	(63,211)
Total non-financial instrument components	(530,085)	(188,835)
Total financial assets per financial instruments	561,122	754,464

Note 18: Accounting for Errors

There are no adjustments to the prior period comparatives resulting from accounting errors.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2014

Note 19: Income Administered on Behalf of Government

	2014 \$'000	2013 \$'000
Note 19A: Fees and fines		
License fees	13,448	14,239
Levies	-	-
Total fees and fines	13,448	14,239
Note 19B: Interest		
Deposits	-	-
Loans to Defence Housing Australia	29,998	30,854
Other (NATO Seasparrow)	2	-
Total Interest	30,000	30,854
Note 19C: Dividends		
Australian Government Entities - Defence Housing Australia	53,991	51,073
Total Dividends	53,991	51,073
Note 19D: Military superannuation contributions		
Military Superannuation contributions	1,242,121	1,213,777
Total military superannuation contributions	1,242,121	1,213,777
Note 19E: Other revenue		
Competitive Neutrality Revenue - Defence Housing Australia	37,556	35,559
Other	32,200	12,610
Total other revenue	69,756	48,169
Note 19F: Revenue from Government		
Appropriations:		
Administered appropriations	-	-
Administered special appropriations	-	-
Total revenue from government	-	-

Department of Defence**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS***For the period ended 30 June 2014***Note 20: Administered Fair Value Measurements****Note 20A: Administered Fair value measurements**

Fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2 - Inputs other than quoted prices included in Level 1 that are observable for assets or liabilities, either directly or indirectly.

Level 3 - Unobservable inputs for the asset or liability.

There are no Administered assets or liabilities measured at fair value. The policy for determining when transfers between levels are deemed to have occurred can be found in Note 1.

There has been no transfers between levels during the reporting period.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2014

Note 21: Expenses Administered on Behalf of Government

	2014 \$'000	2013 \$'000
Note 21A: Employee benefits		
Superannuation:		
Defined benefit plans		
Net service cost	9,912,041	3,069,947
Net interest cost	2,939,100	2,679,800
Other	-	-
Retention benefits	65,570	61,883
Total employee benefits	12,916,711	5,811,630
Note 21B: Subsidies		
Defence Home Owner Scheme	1,577	2,264
Defence Home Ownership Assistance Scheme	92,064	93,680
Total subsidies	93,641	95,944
Note 21C: Write-down and impairment of assets		
Impairment of financial instruments	157	84
Total write-down and impairment of assets	157	84
Note 21D: Foreign exchange		
Foreign exchange gains:		
Non-speculative	508	321
Foreign exchange losses:		
Non-speculative	(55)	-
Total net gain/(loss) foreign exchange	453	321

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2014

Note 22: Assets Administered on Behalf of Government

	2014 \$'000	2013 \$'000
Note 22A: Cash and cash equivalents		
Cash on hand or on deposit	-	-
Total cash and cash equivalents	-	-
Note 22B: Trade and other receivables		
Goods and services:		
Goods and services receivable - external parties	13,174	11,904
Total receivables for goods and services	13,174	11,904
Other receivables:		
Accrued superannuation	537	528
Interest Receivable	-	-
Dividends	53,991	51,073
Loans receivable - Defence Housing Australia	509,580	509,580
Competitive neutrality - Defence Housing Australia	7,807	7,696
Total other receivables	571,915	568,877
Total receivables (gross)	585,089	580,781
Less impairment allowance account:		
Goods and services	(231)	(84)
Total impairment allowance account	(231)	(84)
Total receivables (net)	584,858	580,697
Receivables are expected to be received in:		
No more than 12 months	189,378	146,115
More than 12 months	395,480	434,582
Total receivables (net)	584,858	580,697
Receivables are aged as follows:		
Not overdue	581,335	571,942
Overdue by:		
Less than 30 days	44	45
31 to 60 days	-	11
61 to 90 days	-	-
More than 90 days	3,710	8,783
Total receivables (gross)	585,089	580,781
The impairment allowance account is aged as follows:		
Not overdue	(27)	-
Overdue by:		
Less than 30 days	(19)	-
31 to 60 days	-	-
61 to 90 days	-	-
More than 90 days	(185)	(84)
Total impairment allowance account	(231)	(84)
Reconciliation of the impairment allowance account		
Opening Balance	(84)	-
Amount written off	-	-
Amounts recovered and reversed	12	-
Increase/decrease recognised in net surplus	(159)	(84)
Closing Balance	(231)	(84)

Credit terms for goods and services were within 1-30 days (2013: 1-30 days)

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2014

	2014 \$'000	2013 \$'000
Note 22C: Investments accounted for using the equity method		
Other investments shares (or equity in) - Defence Housing Australia	2,255,201	2,262,693
Other investments - Small portfolio entities ¹	82,595	80,778
Total investments	2,337,796	2,343,471
Investment are expected to be recovered in:		
No more than 12 months	-	-
More than 12 months	2,337,796	2,343,471
Total investments	2,337,796	2,343,471
¹ A list of all small portfolio bodies can be found in note 1.29(d).		
Note 22D: Other non-financial assets		
Prepayments - retention benefits	163,019	168,576
Total other non-financial assets	163,019	168,576
Total other non-financial assets are expected to be recovered in:		
No more than 12 months	60,627	60,652
More than 12 months	102,392	107,924
Total other non-financial assets	163,019	168,576

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2014

Note 23: Liabilities Administered on Behalf of Government

	2014 \$'000	2013 \$'000
Note 23A: Other payables		
Other payables	5,630	5,543
Total other payables	5,630	5,543
Total other payables are expected to be settled in:		
No more than 12 months	5,630	5,543
More than 12 months	-	-
Total other payables	5,630	5,543
Other payables in connection with:		
Related parties	5,630	5,543
External parties	-	-
Total other payables	5,630	5,543
Note 23B: Employee provisions		
Superannuation - DFRDB	41,279,100	32,399,300
Superannuation - MSBS	41,598,000	35,777,000
Total other non-financial assets	82,877,100	68,176,300
Employee provisions are expected to be settled in:		
No more than 12 months	2,039,000	1,932,000
More than 12 months	80,838,100	66,244,300
Total employee provisions	82,877,100	68,176,300

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2014

Note 24: 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 1.29(f) of these statements.

The defined benefit plans are administered by separate Funds that are legally separated from Defence. The board of the pension fund is composed of an equal number of representatives from both employers and (former) employees. The board of the pension fund is required by law or by articles of association to act in the interest of the fund and of all relevant stakeholders in the scheme, i.e. active employees, inactive employees, retirees, employers. The board of the pension fund is responsible for the investment policy with regard to the assets of the fund.

Under MSBS, the employees are entitled to post-retirement yearly instalments amounting to 28% of final salary of each year of service until their retirement. The plans are typically exposed to actuarial risks such as: investment risk, interest rate risk, longevity risk and salary risk.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2014 by the Australian Government Actuary. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

	2014 \$'000	2013 \$'000
Amounts recognised in comprehensive income in respect of these defined benefit plans are as follows.		
Service cost:		
Current service cost	2,303,000	3,323,000
Past service cost and (gain)/loss from settlements	7,796,900	-
Net interest expense	2,939,100	2,679,800
Expected return on plan assets	-	-
Components of defined benefit costs recorded in net cost of service	13,039,000	6,002,800
Re-measurement on the net defined benefit liability:		
The return on plan assets (excluding amounts included in net interest expense)	(353,000)	(423,000)
Actuarial gains and losses arising from changes in liability assumptions	890,800	106,300
Actuarial gains and losses arising from changes in financial assumptions	3,138,400	(21,239,400)
Adjustments for restrictions on the defined benefit asset	-	-
Other	-	-
Components of defined benefit costs recorded in OCI	3,676,200	(21,556,100)
Total of components of defined benefit cost	16,715,200	(15,553,300)

The past service cost, the service cost and the net-interest expense for the year is included in the employee benefits expense in the statement of comprehensive income. The re-measurement on the net defined benefit liability is included in the statement of comprehensive income as part of other comprehensive income.

The amount included in the statement of financial position arising from the entity's obligation in respect of its defined benefit plans is as follows.

Present value of defined benefit obligation	88,641,100	73,064,300
Fair value of plan assets	5,764,000	4,888,000
Net liability arising from defined benefit obligation	82,877,100	68,176,300

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Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2014

Note 24: Defined Benefit Superannuation Plans Administered on Behalf of Government (continued)

	2014 \$'000	2013 \$'000
Movements in the present value of the defined benefit obligation in the current year were as follows:		
Opening defined benefit obligation	73,064,300	89,802,100
Current service cost	2,303,000	3,323,000
Interest cost (restated)	3,156,100	2,808,800
Contributions from plan participants	257,000	252,000
Re-measurement (gains)/losses (restated):	-	-
Actuarial gains and losses arising from changes in liability assumptions	890,800	106,300
Actuarial gains and losses arising from changes in financial assumptions	3,138,400	(21,239,400)
Past service cost	7,796,900	-
Losses/(gains) on curtailments	-	-
Liabilities extinguished on settlements	-	-
Liabilities assumed in a business combination	-	-
Benefits paid	(2,021,400)	(1,988,500)
Other ¹	56,000	-
Closing defined benefit obligation	88,641,100	73,064,300
Movements in the present value of the plan assets in the current year were as follows:		
Opening fair value of plan assets	4,888,000	4,012,000
Interest income (restated)	217,000	129,000
Re-measurement gain (loss) (restated):	-	-
Actuarial gains and losses	-	-
The return on plan assets (excluding amounts included in net interest expense)	353,000	423,000
Contributions from the employer	545,000	497,000
Contributions from plan participants	257,000	252,000
Benefits paid	(496,000)	(425,000)
Assets distributed on settlements	-	-
Other	-	-
Closing fair value of plan assets	5,764,000	4,888,000
The major categories of plan assets at the end of the reporting period for each category, as follows:		
Cash and cash equivalents	30,947	26,346
Pooled Superannuation Trust	5,759,942	4,883,431
Sundry debtors	3,996	3,348
Other liabilities	(30,885)	(25,125)
Subtotal	5,764,000	4,888,000

¹ Correction of prior year error

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2014

Note 24: Defined Benefit Superannuation Plans Administered on Behalf of Government (continued)

The actual return on plan assets was \$570m.

Significant actuarial assumptions for the determination of the defined obligation are discount rate, expected salary growth, age pension methodology and CPI. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period.

- If the discount rate would be 60 basis points (0.6 percent) higher (lower), the defined benefit obligation would decrease by \$9,817m (increase by \$10,998m) if all other assumptions were held constant.
- If the expected salary growth and age pension methodology would increase (decrease) by 1%, the defined benefit obligation would increase by \$9,006m (decrease \$7,734m) if all other assumptions were held constant.
- If the CPI would increase(decrease) by 0.5%, the defined benefit obligation would increase by \$4,506m (decrease by \$4,685m) if all assumptions were held constant.

In reality one might expect interrelationships between the assumptions, especially between discount rate and expected salary increases that both depend to a certain extent on expected inflation rates. The analysis above abstracts from these interdependence between the assumptions.

Defence should fund the cost of the entitlements expected to be earned on a yearly basis. The residual contribution (including back service payments) is paid by Defence. The funding requirements are based on a local actuarial measurement framework. In this framework the discount rate is set on a risk free rate. Furthermore, premiums are determined on a current salary base. Additional liabilities stemming from past service due to salary increases (back-service liabilities) should be paid immediately to the Fund. Apart from paying the costs of the entitlements Defence is not liable to pay additional contributions in case the Fund does not hold sufficient assets. In that case the Fund should take other measures to restore its solvency such as a reduction of the entitlements of the plan members.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2014

Note 24: Defined Benefit Superannuation Plans Administered on Behalf of Government (continued)

APS Employees are members of the Commonwealth Superannuation Scheme (CSC), the Public Sector Superannuation Scheme (PSS) and/or the PSS accumulation Plan (PSSap). The CSC and PSS are defined benefit plans for the Australian Government. The employer contribution rate varies with the member contribution rate, subject to a maximum Accrued Benefit Multiple of 10. Any unfunded obligations of the CSC or PSS will be met by the Australian Government.

	2014 \$'000	2013 \$'000
Defence Force Retirement and Death Benefits Scheme (DFRDB)		
The amounts recognised in the statement of financial position are as follows:		
Present value of funded obligations	-	-
Fair Value of plan assets	-	-
Present value of unfunded obligations	41,279,100	32,399,300
Unrecognised past service cost	-	-
Net liability in statement of financial position	41,279,100	32,399,300
Amounts in statement of financial position:		
Liabilities	41,279,100	32,399,300
Assets	-	-
Net liability in statement of financial position	41,279,100	32,399,300
The amount recognised in income or expense are as follows:		
Current service cost	148,000	195,000
Net interest	1,366,100	1,197,800
Past service cost	7,796,900	-
Expense	9,311,000	1,392,800
Net actuarial losses (gains) recognised in equity	1,038,200	(6,741,100)
Changes in the value of defined benefit obligations are as follows:		
Net liability at 1 July	32,399,300	39,311,100
Current Service cost	148,000	195,000
Interest cost	1,366,100	1,197,800
Actuarial losses (gains)	1,038,200	(6,741,100)
Benefits paid	(1,525,400)	(1,563,500)
Past service cost	7,796,900	-
Other	56,000	-
Net liability as at 30 June	41,279,100	32,399,300
Changes in the fair value of plan assets are as follows:		
Opening fair value of plan assets	-	-
Contributions by employer	1,525,400	1,563,500
Interest on plan assets	-	-
Benefits paid	(1,525,400)	(1,563,500)
Closing value of plan assets	-	-
Principal actuarial assumptions at the reporting date (expressed as weighted averages)		
	2014	2013
Discount rate at 30 June	4.1%	4.3%
Expected return on plan assets	0.0%	0.0%
Future salary increases*	4.0%	4.0%
Future pension increases (aged 55 or more)	4.0%	2.5%
Future pension increases (under age 55)	2.5%	0.0%

The demographic assumptions for 30 June 2014 and 30 June 2013 are those used for the preparation of the Long Term Cost Report for the MSBS, DFRDB and DFRB as at 30 June 2011.

* Separate promotional salary scales are used to allow for promotional salary increase.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2014

Note 24: Defined Benefit Superannuation Plans Administered on Behalf of Government (continued)

	2014 \$'000	2013 \$'000
Military Superannuation Benefits Scheme (MSBS)		
The amounts recognised in the statement of financial position are as follows:		
Present value of funded obligations	5,764,000	4,888,000
Fair Value of plan assets	5,764,000	4,888,000
Present value of unfunded obligations	41,598,000	35,777,000
Unrecognised past service cost	-	-
Net liability in statement of financial position	41,598,000	35,777,000
Amounts in statement of financial position:		
Liabilities	47,362,000	40,665,000
Assets	5,764,000	4,888,000
Net liability in statement of financial position	41,598,000	35,777,000
The amount recognised in income or expense are as follows:		
Current service cost	2,155,000	3,128,000
Interest on obligation	1,573,000	1,482,000
Expense	3,728,000	4,610,000
Liability actuarial losses (gains) recognised in equity	2,991,000	(14,392,000)
Actuarial losses (gains) on plan assets recognised in equity	(353,000)	(423,000)
Components recorded in equity	2,638,000	(14,815,000)
Changes in the value of defined benefit obligations are as follows:		
Net liability at 1 July	40,665,000	50,491,000
Current Service cost	2,155,000	3,128,000
Non-employer contributions	257,000	252,000
Interest cost	1,790,000	1,611,000
Actuarial losses (gains)	2,991,000	(14,392,000)
Benefits paid	(496,000)	(425,000)
Past service cost	-	-
Closing value of plan liabilities	47,362,000	40,665,000
Changes in the fair value of plan assets are as follows:		
Opening fair value of plan assets	4,888,000	4,012,000
Expected return on plan assets	-	-
Interest on plan assets	217,000	129,000
Actuarial gains and losses	353,000	423,000
Contributions by employer	545,000	497,000
Funded non-employer contributions	257,000	252,000
Benefits paid	(496,000)	(425,000)
Closing value of plan assets	5,764,000	4,888,000

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2014

Note 24: Defined Benefit Superannuation Plans Administered on Behalf of Government (continued)

Principal actuarial assumptions at the reporting date (expressed as weighted averages):

Discount rate at 30 June (unfunded amount)	4.1%	4.3%
Discount rate at 30 June (funded amount)	4.1%	4.3%
Expected return on plan assets	4.1%	4.3%
Future salary increases*	4.0%	4.0%
Future pension increases	2.5%	2.5%

The demographic assumptions for 30 June 2014 and 30 June 2013 are those used for the preparation of the Long Term Cost Report for the MSBS, DFRDB and DFRB as at 30 June 2011.

* Separate promotional salary scales are used to allow for promotional salary increase.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2014

Note 25: Administered Cash Flow Reconciliation

	2014 \$'000	2013 \$'000
Cash and cash equivalents as per:		
Administered Cash Flow Statement	-	-
Administered Schedule of Assets and Liabilities	-	-
Difference	-	-
Reconciliation of net cost of services to net cash from operating activities:		
Net cost of services	(11,601,146)	(4,549,225)
Adjustments for non-cash items		
Foreign exchange (gains) losses	(453)	(321)
Dividends declared	(53,991)	(51,073)
Net write-down and impairment of assets	157	84
Changes in assets/liabilities		
Decrease/(increase) in trade and other receivables	(948)	(5,342)
Decrease/(increase) in prepayments	5,558	1,518
Increase/(decrease) in other payables	87	384
Increase/(decrease) in employee provisions	10,968,600	3,942,300
Net cash from / (used by) operating activities	(682,136)	(661,675)

Department of Defence**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS***For the period ended 30 June 2014***Note 26: Administered Commitments**

There are no material Administered commitments to report for the current period or the prior period.

Note 27: Administered Contingent Liabilities and Contingent Assets**Quantifiable Contingencies**

There are no quantifiable contingencies to report in the current or prior year.

Unquantifiable Contingencies

There are no unquantifiable contingencies to report in the current or prior year.

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 28: Administered Asset Additions

Defence has no Administered asset additions in either the current or the immediately preceding reporting periods.

Note 29: 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 1.29(d).

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2014

Note 30: 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.

	2014 \$'000	2013 \$'000
Note 30A: Categories of financial instruments		
Financial Assets		
Cash and cash equivalents	-	-
Loans and receivables:		
Receivables	584,858	580,697
Total	584,858	580,697
Available for sale:		
Investment - Defence Housing Australia	2,255,201	2,262,693
Investment - Small Portfolio bodies	82,595	80,778
Total	2,337,796	2,343,471
Carrying amount of financial assets	2,922,654	2,924,168
Financial Liabilities		
At amortised cost:		
Other payables	5,630	5,543
Total	5,630	5,543
Carrying amount of financial liabilities	5,630	5,543
Note 30B: Net income and expense from financial assets		
Loans and receivables		
Interest revenue	30,000	30,854
Impairment	(157)	(84)
Exchange gains/(loss)	453	321
Net gain/(loss) on loans and receivables	30,296	31,091
Available for sale		
Dividend revenue	53,991	51,073
Net gain/(loss) available for sale	53,991	51,073
Net gain/(loss) on financial assets	84,287	82,164
Note 30C: Net income and expense from financial liabilities		
There were no net gain / (loss) from financial liabilities.		
Note 30D: Fair value of financial instruments		
Financial assets at fair value - Reconciliation of level 3 fair value hierarchy		
Investment - Defence Housing Australia		
Opening balance	2,262,693	2,197,408
Total gains or losses recognised in other comprehensive income	(7,492)	65,285
Closing balance	2,255,201	2,262,693
Investment - Small portfolio entities		
Opening balance	80,778	77,828
Total gains or losses recognised in other comprehensive income	1,817	2,950
Closing balance	82,595	80,778

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2014

Note 30E: 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		Past due or impaired	
		2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
	Notes				
Financial Assets:					
Cash and cash equivalents	22A	-	-	-	-
Receivables	22B	581,335	571,942	3,754	8,839
Investments	22C	2,337,796	2,343,471	-	-
Total		2,919,131	2,915,413	3,754	8,839

Department of Defence
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the period ended 30 June 2014

Note 30E: 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	
		2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
Financial assets:											
Receivables	22B	25	45	-	11	-	-	3,525	8,699	3,550	8,755
Total		25	45	-	11	-	-	3,525	8,699	3,550	8,755

Note 30F: 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.

	Notes	On demand		Within 1 year		1 to 2 years		2 to 5 years		> 5 years		Total	
		2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
Financial Liabilities:													
Other payables	23A	-	-	5,630	5,543	-	-	-	-	-	-	5,630	5,543
Total		-	-	5,630	5,543	-	-	-	-	-	-	5,630	5,543

There are no derivative financial liabilities in both the current and prior year.

Note 30G: 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 2014

Note 31: Financial Assets Reconciliation

	2014 \$'000	2013 \$'000
Total financial assets per schedule of administered assets and liabilities	2,922,654	2,924,168
Less: non-financial instrument components	-	-
Total financial assets as per financial instruments note	<u>2,922,654</u>	<u>2,924,168</u>

Note 32: 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 2014

Note 33: 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.

Note 33A: Annual appropriations ('recoverable gst exclusive')

2013-2014 Appropriations										Appropriation applied in 2014 (Current and prior years) \$'000	Variance ² \$'000
Appropriation Act			FMA Act			Total Appropriations \$'000					
Annual Appropriation \$'000	Reduced Appropriations \$'000	AFM ¹ \$'000	Section 30 \$'000	Section 31 \$'000	Section 32 \$'000						
DEPARTMENTAL											
Ordinary annual services	24,516,997	-	-	-	1,360,696	-	25,877,693	(24,509,239)	1,368,454		
Other services	1,521,488	-	-	-	-	-	1,521,488	(1,405,900)	115,588		
Equity	-	-	-	-	-	-	-	-	-		
Loans	-	-	-	-	-	-	-	-	-		
Total departmental	26,038,485	-	-	-	1,360,696	-	27,399,181	(25,915,139)	1,484,042		
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 2014

Note 33: Appropriations (continued)**Notes:**

1. No advance to the Finance Minister (AFM) – Appropriation Acts (No. 1, 3, 5) 2013-14: section 13 and Appropriation Acts (No. 2, 4, 6) 2013-14: section 15.

2. Reasons for material variance:

	Ordinary Annual Service \$'000	Equity \$'000
Prior year appropriations reduced (excludes current year return)	374,515	12,485
Prior year appropriation drawn down	-	-
Undrawn departmental annual appropriations 2011-12 and 2013-14 (refer Table B)	311,710	103,103
Amounts drawn down for GST payments to suppliers and ATO	682,229	-
Total	1,368,454	115,588

Department of Defence
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the period ended 30 June 2014

Note 33: Appropriations (continued)

Note 33A: Annual appropriations ('recoverable gst exclusive') (continued)

2012-2013 Appropriations										Appropriation applied in 2013 (Current and prior years) \$'000	Variance ³ \$'000
Appropriation Act			FMA Act			Total Appropriations \$'000					
Annual Appropriation \$'000	Appropriations Reduced ¹ \$'000	AFM ² \$'000	Section 30 \$'000	Section 31 \$'000	Section 32 \$'000						
DEPARTMENTAL											
Ordinary annual services	23,269,856	(374,515)	-	-	750,516	-	23,645,857	(22,963,095)	682,762		
Other services	468,774	(12,485)	-	-	-	-	456,289	(456,289)	-		
Equity	-	-	-	-	-	-	-	-	-		
Loans	-	-	-	-	-	-	-	-	-		
Total departmental	23,738,630	(387,000)	-	-	750,516	-	24,102,146	(23,419,384)	682,762		
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 2014

Note 33: Appropriations (continued)

Notes:

1. Appropriations reduced under Appropriation Acts (No. 1, 3, 5) 2013-14: sections 10, 11, 12 and 15 and under Appropriation Acts (No. 2, 4, 6) 2013-14: 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:

	Operating \$'000	Equity \$'000
5 August 2013 Appropriation Act (No 1) 2012-13	374,515	-
5 August 2013 Appropriation Act (No 4) 2012-13	-	12,845
Total	374,515	12,845

2. No advance to the Finance Minister (AFM) – Appropriation Acts (No. 1, 3, 5) 2012-13: section 13 and Appropriation Acts (No. 2, 4, 6) 2012-13: section 15.

3. Reasons for material variance:

	Ordinary Annual Service \$'000	Equity \$'000
Prior year appropriations reduced (excludes current year return)	117,002	-
Prior year appropriation drawn down	(76,857)	-
Undrawn departmental annual appropriations 2012-13	67,349	-
Amounts drawn down for GST payments to suppliers and ATO	575,268	-
Total	682,762	-

4. The following adjustments meet the recognition criteria of a formal addition or reduction in revenue, 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	
Return of departmental appropriation	(366,502)
Return of departmental appropriation	(8,013)
Return of departmental appropriation (equity)	(12,485)
Total	(387,000)

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2014

Note 33B: Unspent annual appropriations ('recoverable gst exclusive')

Authority	2014 \$'000	2013 \$'000
DEPARTMENTAL		
Operating		
Act 1 2013-14	97,994	-
Act 1 2012-13	67,349	441,864
Act 1 2011-12	71	71
Act 3 2013-14	87,801	-
Act 5 2013-14	58,495	-
Total Operating	311,710	441,935
Equity		
Act 2 2013-14	-	-
Act 4 2012-13	-	12,485
Act 6 2013-14	103,103	-
Total Equity	103,103	12,485
Total¹	414,813	454,420

Notes

1. The available unspent appropriation is \$414.813m (2013: \$67.41m). In 2014 the difference of \$0.071m (operating) reductions had not been amended. In 2013 the difference of \$374.52m (operating) and \$12.49m (equity) reductions had not been amended.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2014

Note 33C: Special appropriations ('recoverable gst exclusive')

Authority	Nature	Type	Purpose	Appropriation Applied	
				2014 \$'000	2013 \$'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.	53,362	55,495
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.	1,451,263	1,428,630
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.	438,834	375,524
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.	1,577	2,264
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.	91,977	93,283
Military Superannuation and Benefits Act 1991, Administered	Administered	Unlimited Amount	To make provision for and in relation to retention benefits for ADF personnel.	61,623	61,023
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.	-	71
Total				2,098,636	2,016,290

(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 2014

Note 33D: Disclosure by agent in relation to annual and special appropriations ('recoverable gst exclusive')

2014	Department of Finance ^{1,2} \$'000
Total receipts	-
Total payments	188,318

2013	Department of Finance ¹ \$'000
Total receipts	-
Total payments	63,372

1. The payments are related to Moorebank Units Relocation (MUR) Projects in order for Defence to facilitate the drawdown of monies from the Departmental Appropriation Act (No.2). (*This act is administered by Department of Finance*).
2. The payments are related to lease aircraft for politicians under the Parliamentary Entitlement Act 1990. (*This act is administered by Department of Finance*).

Note 33E: Reduction in Administered Items ('Recoverable GST exclusive')

2014	Amount Required by Appropriation Act	Total Amount Required	Total Amount Appropriated	Total Reduction
Ordinary annual services				
nil	-	-	-	-
Other services				
nil	-	-	-	-
2013				
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 2014

Note 34: 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 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.

As a result of that investigation, legislation was amended by the *Financial Framework Legislation Amendment Act (No. 2) 2012* (FFLA Act No. 2) with effect from 1 July 2012. The amendments ensured that all benefits paid under certain Acts with a special appropriation would not be subject to Section 83 breaches in the future. That is, the FFLA Act No. 2 amended the *Defence Forces Retirement Benefits Act 1948*, *Defence Forces Retirement and Death Benefits Act 1973*, *Military Superannuation and Benefits Act 1991* and *Military Superannuation and Benefits Act 1991 - Retention Benefits* to ensure that overpayments that may be made would be covered by the appropriation provided by those Acts.

Legislation is yet to be put in place for the *Defence Force (Home Loans Assistance) Act 1990* and the *Defence Home Ownership Assistance Scheme Act 2008*. However, drafting instructions and Australian Government Solicitor advice on what provisions in those Acts should be amended has been provided to the Department of Finance for the next available FFLA Bill. Until legislation is in place, Defence will continue to report on potential Section 83 breaches for those schemes.

The following table shows the legislation, risk assessment, remedial action and number of potential breaches for the two remaining statutory schemes that still require legislation to address potential Section 83 breaches.

Legislation / Authority to pay ¹	Risk assessment progress as at 30 June 2014 ²	Remedial action taken or proposed ³	Potential Breaches ⁴		
			No.	Value \$'000	Recovered \$'000
<i>Defence Force (Home Loans Assistance) Act 1990</i>	Completed	LP	27	9	4
<i>Defence Home Ownership Assistance Scheme Act 2008</i>	Completed	LP,SM	476	616	634

1 Legislation

Amounts paid under each legislation are disclosed in Note 33D Special Appropriations and Note 35 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)

4 Potential breaches

The work conducted in 2013-14 has identified that a potential issue still exists for the two Defence home loans schemes which will be addressed by legislation at the first available Parliamentary sitting. Amounts reported have been derived by analysing data on recovery of overpayments and other identified risk areas for 2013-14. Business processes are in place to ensure that identified overpayments are recovered. The numbers and amounts represent the overpayments made during 2013-14.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2014

Note 35: Special Accounts

	Service for Other Entities And Trust Monies		Young Endeavour Youth Program		Defence Endowments		Fedorzenko Legacy	
	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
Balance brought forward from previous period	73,363	110,744	1,274	1,217	322	328	166	162
Increases:								
Appropriation for reporting period	-	-	-	-	-	-	-	-
Costs recovered	33,597	29,580	162	58	-	-	-	-
Realised investments	-	-	-	-	-	-	-	-
Other receipts	-	-	-	-	37	27	5	8
Total increases	33,597	29,580	162	58	37	27	5	8
Available for payments	106,960	140,324	1,436	1,275	359	355	171	170
Decreases:								
Special Public Money								
Payments to suppliers	(40,407)	(66,961)	(98)	(1)	(35)	(33)	(4)	(4)
Total Special public money decreases	(40,407)	(66,961)	(98)	(1)	(35)	(33)	(4)	(4)
Total decreases	(40,407)	(66,961)	(98)	(1)	(35)	(33)	(4)	(4)
Total balance to be carried forward to next period	66,553	73,363	1,338	1,274	324	322	167	166

Notes

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.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2014

Note 35: Special Accounts (continued)

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.

Department of Defence
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the period ended 30 June 2014

Note 35: Special Accounts (continued)

5. Monies held within special accounts:

Service for Other Entities and Trust Monies Defence Special Account	Young Endeavour Youth Program Special Account	Defence Endowments Special Account	Fedorcenko Legacy Special Account
Woomera Security Lodgements Peter Mitchell Trust Fund RAAF Air Power Conference Project Q Comcare Metal Storm R&D CTTSO US Collaboration Global Positioning System Republic of Singapore Air force UT 1 Republic of Singapore Air force UT 2 Explosive Safety Trials SAF Exercise Infrastructure Damage Cost Recovery Shared Vision CSNE Emerging Technologies Accommodation Purchases P303 Paris Ex Ausling Pitchpipe 2009 US Explosive Trial Classified/Not published	Young Endeavour Youth Program Special Young Endeavour Youth Program Special Public Fund	Admiral Bernard Prize Otto Albert Prize Ian McDonald Prize J Burnett Prize Elton Mayo Prize Lieutenant Peter Wyatt Prize WH Harrington Prize Lieutenant RJ Kilsby Prize Herbert Lott Royal Australian Navy Captain Newcomb Memorial Prize Australian Marine Technologies Prize William Frederick Bray Memorial Prize HMAS Australia Memorial Prize Coast Watchers Award Dr Straede Award Parker Trophy Emil Christensen Award Ordinary Seaman Award Sheean Award HMAS Leeuwin Trust Fund NJ Thomson Award	Royal Australia Navy College Jubilee Memorial Sword Gowland Medal Edward Rodwell Memorial Prize Joseph Schultz Memorial Prize CJ Toohey Memorial Prize Defence Academy Prize and Awards Lipshut Bursary Office Training Unit Sheywillie Prize Fund JS Whitelaw Memorial Artillery Prize Ronald Syme Trust Prize Walter Oswald Watt Memorial General Bridges Memorial Prize Fund PNG DF Prize Trust Fund TJ Stevens Memorial Fund RAN Training Prizes Peter Hastings Memorial Fellowship Christopher Passlow Perpetual Shield

Note 35B: Investments made under section 39 of the FMA Act (Recoverable GST exclusive)

There were nil (2012-13: 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 2014

Note 36: Compensation and Debt Relief

	2014 \$	2013 \$
Departmental		
28 'Act of Grace' expenses were incurred during the reporting period (2012: 26 expenses).		
All of the above expenses were paid on a periodic basis. 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 2014 was \$5.422m (\$4.780m at 30 June 2013). This estimate was determined by the Australian Government Actuary.	427,178	408,525
During 2014, 67 (2013: 802) individual payments were made under the Tactical Payments Scheme. Payments were in relation to the following Operations:		
- Operation Astute	-	-
- Operation Kruger	-	-
- Operation Slipper	16,035	67,235
7 waivers of amounts owing to the Australian Government were made pursuant to subsection 34(1) of the Financial Management and Accountability Act 1997 (2013: 2 waivers).	37,274	130,206
10 payments were provided under the Compensation for Detriment caused by Defective Administration (CDDA) Scheme during the reporting period (2013: 9 payments made).	732,569	296,383
6 ex-gratia payments were made during the reporting period (2013: 1 payments).		
The present value of future payments at the end of the reporting period is \$0.783m for 1 claim (2013: \$1.265m for 31 claims).	310,000	10,000
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 (2013: No payments).	-	-

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2014

Note 37: Assets Held in Trust

	2014 \$'000	2013 \$'000
Young Endeavour Youth Program Public Fund (Trust)		
Monetary assets held in trust were also disclosed in Note 35 Special Accounts in the table titled "Young Endeavour Youth Program Special Account" (Special Public Money).		
<i>Purpose of trust arrangement:</i>		
<i>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	1,107	1,059
Other receipts	126	48
Total credits	1,233	1,107
Payment made to suppliers	-	-
Total debits	-	-
Total amount held at the end of the reporting period	1,233	1,107
Peter Mitchell Trust Fund (Trust)		
Monetary assets held in trust were also disclosed in Note 35 Special Accounts in the table titled "Services for Other Entities and Trust Moneys" (Special Public Money).		
<i>Purpose of trust arrangement:</i>		
<i>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	1	1
Other receipts	1	2
Total credits	2	3
Payment made to suppliers	-	(2)
Total debits	-	(2)
Total amount held at the end of the reporting period	2	1
Fedorczenko Legacy Fund Special Account (Trust)		
Monetary assets held in trust were also disclosed in Note 35 Special Accounts in the table titled "Fedorczenko Legacy Special Account" (Special Public Money).		
<i>Purpose of trust arrangement:</i>		
<i>For expenditure in relation to the defence of Australia of the residue of the estate of the late Petro Fedorczenko.</i>		

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2014

Note 38: 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
- 1.6 Chief Operating Officer – Defence Support and Reform
- 1.8 Chief Operating Officer – Chief Information Officer
- 1.13 Chief Operating Officer – Defence People
- 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 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

Department of Defence
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the period ended 30 June 2014

Note 38: Reporting of Outcomes (continued)

Note 38A: Net cost of outcome delivery

	Outcome 1		Outcome 2		Outcome 3		Payments to/from CAC Act bodies ¹		Total	
	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
Departmental										
Expenses	(25,068,792)	(23,859,307)	(636,218)	(961,792)	(28,879)	(15,182)			(25,733,888)	(24,836,281)
Own source income	2,006,032	2,378,682	17,960	30,229	-	-	-	-	2,023,992	2,408,911
Administered²										
Expenses	(13,010,915)	(5,907,658)	-	-	-	-			(13,010,915)	(5,907,658)
Own source income	1,379,771	1,327,579	-	-	-	-	29,998	30,854	1,409,769	1,358,433
Net cost/(contribution) of outcome delivery	(34,693,904)	(26,060,704)	(618,258)	(931,563)	(28,879)	(15,182)	29,998	30,854	(35,311,043)	(26,976,595)

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 2014

Note 38: Reporting of Outcomes (continued)

Note 38B: Major classes of departmental expense, income, assets and liabilities by outcome

	Outcome 1		Outcome 2		Outcome 3		Total	
	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
Departmental Expenses								
Employee benefits	10,010,058	9,691,951	156,103	293,608	6,226	577	10,172,387	9,986,136
Supplier expenses	10,106,307	9,168,409	437,292	629,419	22,653	14,605	10,566,252	9,812,433
Grants	5,988	12,036	42,808	38,700	-	-	48,796	50,736
Depreciation and amortisation	3,867,716	3,999,977	-	-	-	-	3,867,716	3,999,977
Finance costs	129,106	85,049	-	-	-	-	129,106	85,049
Write-down and impairment of assets	852,653	800,598	-	-	-	-	852,653	800,598
Foreign exchange losses	3,503	1,048	(1)	(2)	-	-	3,502	1,046
Losses from asset sales	4,340	11,642	-	-	-	-	4,340	11,642
Other expenses	89,120	88,597	16	67	-	-	89,137	88,664
Total	25,068,791	23,859,307	636,218	961,792	28,879	15,182	25,733,888	24,836,281
Departmental Income:								
Revenue								
Revenue from Government	23,120,237	21,482,401	1,022,827	1,215,989	54,097	9,500	24,197,161	22,707,890
Provision of goods and rendering of services	260,255	218,926	17,829	30,010	-	-	278,084	248,936
Sustainment expenditure recovered from DMO	169,324	145,641	131	219	-	-	169,455	145,860
Recovery of military salaries from DMO	172,919	173,169	-	-	-	-	172,919	173,169
Group rental scheme	206,829	197,904	-	-	-	-	206,829	197,904
Resources received free of charge - DMO	743,365	777,400	-	-	-	-	743,365	777,400
Rental income	7,460	10,387	-	-	-	-	7,460	10,387
Other revenue	114,634	471,468	-	-	-	-	114,634	471,468
Total Revenue	24,795,023	23,477,296	1,040,787	1,246,218	54,097	9,500	25,889,907	24,733,014
Gains								
Foreign exchange gains	-	-	-	-	-	-	-	-
Gains from asset sales	-	-	-	-	-	-	-	-
Reversal of previous asset write-downs	293,384	317,915	-	-	-	-	293,384	317,915
Other gains	37,863	65,872	-	-	-	-	37,863	65,872
Total gains	331,247	383,787	-	-	-	-	331,247	383,787
Total	25,126,270	23,861,083	1,040,787	1,246,218	54,097	9,500	26,221,154	25,116,801

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2014

Note 38: Reporting of Outcomes (continued)

Note 38B: Major classes of departmental expense, income, assets and liabilities by outcome (continued)

	Outcome 1		Outcome 2		Outcome 3		Total	
	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
Departmental Assets:								
Cash and cash equivalents	33,454	60,915	2,036	7,545	-	-	35,490	68,460
Trade and other receivables	1,009,710	811,883	45,273	62,949	734	7	1,055,717	874,839
Land and buildings	16,976,931	15,925,406	-	-	-	-	16,976,931	15,925,406
Specialist military equipment	41,270,763	40,244,821	-	-	-	-	41,270,763	40,244,821
Infrastructure	5,534,132	5,382,895	-	-	-	-	5,534,132	5,382,895
Plant and equipment	1,584,780	1,381,223	-	-	-	-	1,584,780	1,381,223
Heritage and cultural assets	1,002,312	1,023,969	-	-	-	-	1,002,312	1,023,969
Intangibles	819,577	606,336	-	-	-	-	819,577	606,336
Inventories	6,385,571	6,160,288	-	-	-	-	6,385,571	6,160,288
Prepayments	213,760	145,026	4,522	3,114	-	-	218,282	148,140
Assets held for sale	28,692	52,399	-	-	-	-	28,692	52,399
Total	74,859,682	71,795,161	51,831	73,608	734	7	74,912,247	71,868,776
Departmental Liabilities:								
Suppliers	1,682,018	1,555,573	17,427	23,895	1,421	-	1,700,866	1,579,468
Other payables	384,162	459,040	-	-	-	-	384,162	459,040
Leases	1,492,541	969,818	-	-	-	-	1,492,541	969,818
Employee provisions	2,287,291	2,235,956	-	-	-	-	2,287,291	2,235,956
Restoration, decontamination and decommissioning	917,635	872,367	-	-	-	-	917,635	872,367
Other provisions	2,294	3,014	-	-	-	-	2,294	3,014
Total	6,765,941	6,095,768	17,427	23,895	1,421	-	6,784,789	6,119,663

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 2014

Note 38: Reporting of Outcomes (continued)

Note 38C: Major classes of administered expenses, income, assets and liabilities by outcome

	Outcome 1		Payments to/from CAC Act bodies		Total	
	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
Administered Expenses						
Employee benefits	12,916,711	5,811,630			12,916,711	5,811,630
Subsidies	93,641	95,944			93,641	95,944
Write-down and impairment of assets	157	84			157	84
Foreign exchange losses	-	-			-	-
Other expense	406	-			406	-
Total	13,010,915	5,907,658			13,010,915	5,907,658
Administered Income:						
Fees and fines	13,448	14,239			13,448	14,239
Interest	2	-	29,998	30,854	30,000	30,854
Dividends	53,991	51,073			53,991	51,073
Military superannuation contributions	1,242,121	1,213,777			1,242,121	1,213,777
Other revenue	69,756	48,169			69,756	48,169
Foreign exchange gains	453	321			453	321
Total	1,379,771	1,327,579	29,998	30,854	1,409,769	1,358,433
Administered Assets:						
Cash and cash equivalents	-	-			-	-
Trade and other receivables	75,278	71,117	509,580	509,580	584,858	580,697
Investments accounted for using the equity method	2,337,796	2,343,471	-	-	2,337,796	2,343,471
Prepayments	163,019	168,576			163,019	168,576
Total	2,576,093	2,583,164	509,580	509,580	3,085,673	3,092,744
Administered Liabilities:						
Other payables	5,630	5,543			5,630	5,543
Employee provisions	82,877,100	68,176,300			82,877,100	68,176,300
Total	82,882,730	68,181,843			82,882,730	68,181,843

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 2014

Note 39: Competitive Neutrality and Cost Recovery

Note 39A: Competitive Neutrality - Expenses

There were nil (2012-13: nil) competitive neutrality amounts related to Departmental Expenses.

Note 39B: Competitive Neutrality - Administered Expenses

There were nil (2012-13: nil) competitive neutrality amounts related to Administered Expenses.

Note 39C: Cost Recovery Summary

Defence did not undertake any activities to which the cost recovery framework applies in either 2013-14 or 2012-13.

Administered did not undertake any activities to which the cost recovery framework applies in either 2013-14 or 2012-13.

Defence Materiel Organisation

Financial statements

for the period ended 30 June 2014



INDEPENDENT AUDITOR'S REPORT

To the Minister for Defence

I have audited the accompanying financial statements of the Defence Materiel Organisation for the year ended 30 June 2014, which comprise: a Statement by the Chief Executive and Chief Finance Officer; Statement of Comprehensive Income; Statement of Financial Position; 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's Responsibility for the Financial Statements

The Chief Executive 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 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 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.

GPO Box 707 CANBERRA ACT 2601
19 National Circuit BARTON ACT 2600
Phone (02) 6203 7300 Fax (02) 6203 7777

Independence

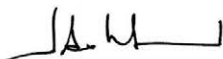
In conducting my audit, I have followed the independence requirements of the Australian National Audit Office, which incorporate the requirements of the Australian accounting profession.

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 2014 and its financial performance and cash flows for the year then ended.

Australian National Audit Office



Jocelyn Ashford

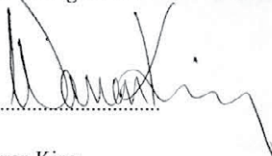
Delegate of the Auditor-General

Canberra

9 September 2014


Defence Materiel Organisation**STATEMENT BY THE CHIEF EXECUTIVE AND CHIEF FINANCE OFFICER**

In our opinion, the attached financial statements for the year ended 30 June 2014 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

9 September 2014

Signed.....

Mr. Steve Wearn
Chief Finance Officer

9 September 2014

Defence Materiel Organisation
STATEMENT OF COMPREHENSIVE INCOME
for the period ended 30 June 2014

	Notes	2014 \$'000	2013 \$'000
NET COST OF SERVICES			
Expenses			
Employee benefits	3A	558,919	591,070
Supplier expenses	3B		
Goods and services:			
Cost of goods sold to Defence		5,415,385	4,812,592
Other goods and services procured on behalf of Defence		3,932,744	3,302,174
DMO goods and services		296,710	300,526
Other suppliers		94,155	78,871
Total supplier expenses		9,738,994	8,494,163
Grants	3C	13,000	19,262
Depreciation and amortisation	3D	989	1,707
Write-down and impairment of assets	3E	3,461	13,239
Foreign exchange losses	3F	18,057	15,299
Other	3G	20	54
Total expenses		10,333,440	9,134,794
Own-Source Income			
Own-source revenue			
Sale of goods and rendering of services	4A	9,464,685	8,217,929
Interest	4B	1,251	5,452
Other	4C	32,142	32,948
Total own-source revenue		9,498,078	8,256,329
Gains			
Gains from sales of assets	4D	-	-
Reversals of previous asset write-downs and impairments	4E	4	-
Total gains		4	-
Total own-source income		9,498,082	8,256,329
Net (cost of)/contribution by services		(835,358)	(878,465)
Revenue from Government	4F	907,791	911,104
Surplus/(Deficit) attributable to the Australian Government		72,433	32,639
OTHER COMPREHENSIVE INCOME			
Items not subject to subsequent reclassification to net cost of services			
Changes in asset revaluation surplus		38	13
Total other comprehensive income		38	13
Total comprehensive income/(loss) attributable to the Australian Government		72,471	32,652

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

Defence Materiel Organisation
STATEMENT OF FINANCIAL POSITION
as at 30 June 2014

	Notes	2014 \$'000	2013 \$'000
ASSETS			
Financial assets			
Cash and cash equivalents	6A	122,628	94,342
Trade and other receivables	6B	733,299	1,165,560
Total financial assets		855,927	1,259,902
Non-financial assets			
Property, plant and equipment	7A	5,061	5,560
Intangibles	7B	13	28
Prepayments	7D	1,383,350	1,204,647
Total non-financial assets		1,388,424	1,210,235
Total assets		2,244,351	2,470,137
LIABILITIES			
Payables			
Suppliers	8A	1,341,482	1,405,557
Grants	8B	5,733	5,111
Other	8C	238,554	475,933
Total payables		1,585,769	1,886,601
Provisions			
Employee provisions	9A	180,415	174,981
Other	9B	3,024	5,881
Total provisions		183,439	180,862
Total liabilities		1,769,208	2,067,463
Net assets		475,143	402,674
EQUITY			
Contributed equity		155,368	155,368
Reserves		290	252
Retained surplus		319,485	247,054
Total equity		475,143	402,674

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 2014

	Retained earnings		Asset revaluation surplus		Contributed equity		Total equity	
	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
Opening balance								
Balance carried forward from previous period	247,054	214,418	252	239	155,368	155,368	402,674	370,025
Adjustment of errors	-	-	-	-	-	-	-	-
Adjusted opening balance	247,054	214,418	252	239	155,368	155,368	402,674	370,025
Comprehensive income								
Surplus/(Deficit) for the period	72,433	32,639					72,433	32,639
Other comprehensive income	-	-	38	13	-	-	38	13
Total comprehensive income	72,433	32,639	38	13	-	-	72,471	32,652
Other movements ¹	(2)	(3)	-	-	-	-	(2)	(3)
Closing balance as at 30 June	319,485	247,054	290	252	155,368	155,368	475,143	402,674
Closing balance attributable to Australian Government	319,485	247,054	290	252	155,368	155,368	475,143	402,674

¹ Other movements relates to rounding.

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

Defence Materiel Organisation
CASH FLOW STATEMENT
for the period ended 30 June 2014

	Notes	2014 \$'000	2013 \$'000
OPERATING ACTIVITIES			
Cash received			
Sale of goods and rendering of services		9,997,310	8,350,682
Appropriations		905,499	1,014,441
Net GST received		627,756	618,088
Other		4,818	5,395
Total cash received		11,535,383	9,988,606
Cash used			
Employees		551,862	616,037
Suppliers ¹		10,450,598	8,957,253
Funds returned to Defence		491,662	283,901
Grants		12,378	19,312
Transfers to Special Public Money ¹		-	41,998
Other		1	25
Total cash used		11,506,501	9,918,526
Net cash from/(used by) operating activities	10	28,882	70,080
INVESTING ACTIVITIES			
Cash received			
Proceeds from sales of property, plant and equipment		528	-
Total cash received		528	-
Cash used			
Purchase of property, plant and equipment		1,124	460
Total cash used		1,124	460
Net cash from/(used by) investing activities		(596)	(460)
Net increase/(decrease) in cash held¹		28,286	69,620
Cash and cash equivalents at the beginning of the reporting period		94,342	24,722
Cash and cash equivalents at the end of the reporting period	6A	122,628	94,342

¹ As outlined in Note 1.26, a prior period adjustment has been made to this balance.

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

Defence Materiel Organisation
SCHEDULE OF COMMITMENTS
as at 30 June 2014

	2014	2013
	\$'000	\$'000
BY TYPE		
Commitments receivable¹		
Commitments receivable	(20,401,748)	(17,795,073)
Net GST recoverable on commitments ²	(2,015,816)	(1,698,312)
Total commitments receivable	(22,417,564)	(19,493,385)
Commitments payable		
Capital commitments		
Land and buildings ³	13,597	13,293
Property, plant and equipment ⁴	2,993	12,850
Specialist military equipment ⁵	12,176,415	10,500,685
Other capital commitments ⁶	530,654	546,454
Total capital commitments	12,723,659	11,073,282
Other commitments		
Operating leases ⁷	20,330	24,373
Research and development ⁸	28,034	26,329
Materiel Sustainment Agreement commitments ⁹	9,630,477	8,504,975
Other non-capital commitments ¹⁰	39,358	17,380
Total other commitments	9,718,199	8,573,057
Total commitments payable	22,441,858	19,646,339
Net commitments by type	24,294	152,954
BY MATURITY		
Commitments receivable		
Within 1 year	(6,880,582)	(6,027,452)
Between 1 to 5 years	(13,424,163)	(11,455,363)
More than 5 years	(2,112,819)	(2,010,570)
Total commitments receivable	(22,417,564)	(19,493,385)
Commitments payable		
Capital commitments		
Within 1 year	4,358,404	3,429,737
Between 1 to 5 years	7,084,658	6,807,611
More than 5 years	1,280,597	835,934
Total capital commitments	12,723,659	11,073,282

Defence Materiel Organisation SCHEDULE OF COMMITMENTS

as at 30 June 2014

	2014 \$'000	2013 \$'000
Operating lease commitments		
Within 1 year	7,604	7,596
Between 1 to 5 years	11,386	14,038
More than 5 years	1,340	2,739
Total operating lease commitments	20,330	24,373
Other commitments		
Within 1 year	2,535,054	2,644,545
Between 1 to 5 years	6,331,906	4,717,007
More than 5 years	830,909	1,187,132
Total other commitments	9,697,869	8,548,684
Total commitments payable	22,441,858	19,646,339
Net commitments by maturity	24,294	152,954

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 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.
- ³ Outstanding contractual payments for buildings under construction on behalf of Defence under Materiel Acquisition Agreements.
- ⁴ Outstanding contractual payments for Property, Plant and Equipment purchases on behalf of Defence under Materiel Acquisition Agreements (assets under construction) and Materiel Sustainment Agreements.
- ⁵ Outstanding contractual payments for Specialist Military Equipment (SME) purchases on behalf of Defence under Materiel Acquisition Agreements and Materiel Sustainment Agreements.
- ⁶ Includes outstanding contractual payments for project maintenance on behalf of Defence under Materiel Acquisition Agreements and Materiel Sustainment Agreements.
- ⁷ Leases for motor vehicles to senior executive officers, pool vehicles, data lines and overseas property. Operating leases included are effectively non-cancellable. DMO has not entered into any contingent rental arrangements.
- ⁸ Outstanding commitments on research and development projects undertaken on behalf of Defence.
- ⁹ Outstanding commitments on Materiel Sustainment Agreement activity expenditure incurred on behalf of Defence.
- ¹⁰ Includes outstanding commitments on activities covered by DMO's direct appropriation.

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

Defence Materiel Organisation

SCHEDULE OF CONTINGENCES

as at 30 June 2014

	2014 \$'000	2013 \$'000
Contingent assets		
Claims for damages or costs ¹	<u>9,100</u>	<u>37,500</u>
Total contingent assets	<u>9,100</u>	<u>37,500</u>
Contingent liabilities		
Claims for damages or costs ¹	<u>9,100</u>	<u>37,550</u>
Total contingent liabilities	<u>9,100</u>	<u>37,550</u>
Net contingent assets/(liabilities)	<u>-</u>	<u>(50)</u>

Details of each class of contingent assets and contingent liabilities not included above because they cannot be quantified or are considered remote are disclosed in Note 11: Contingent Assets and Liabilities.

¹ The contingent assets and contingent liabilities disclosed by DMO include those arising from matters managed on behalf of Defence.

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 2014*

	Notes	2014 \$'000	2013 \$'000
NET COST OF SERVICES			
Expenses			
Foreign exchange losses	16A	<u>38</u>	<u>-</u>
Total expenses		<u>38</u>	<u>-</u>
Income			
Revenue			
Non-taxation revenue			
Interest	17A	<u>67</u>	<u>85</u>
Other	17B	<u>1,961</u>	<u>-</u>
Total non-taxation revenue		<u>2,028</u>	<u>85</u>
Total revenue		<u>2,028</u>	<u>85</u>
Gains			
Foreign exchange gains	16A	<u>-</u>	<u>189</u>
Total gains		<u>-</u>	<u>189</u>
Total income		<u>2,028</u>	<u>274</u>
Net (cost of)/contribution by services		<u>1,990</u>	<u>274</u>
Surplus (Deficit)		<u>1,990</u>	<u>274</u>
Total comprehensive income/(loss)		<u>1,990</u>	<u>274</u>

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 2014

	Notes	2014 \$'000	2013 \$'000
ASSETS			
Financial assets			
Trade and other receivables	19A	<u>1,502</u>	<u>2,059</u>
Total financial assets		<u>1,502</u>	<u>2,059</u>
Total assets administered on behalf of Government		<u>1,502</u>	<u>2,059</u>
LIABILITIES			
Payables			
Other payables	20A	<u>1,539</u>	<u>-</u>
Total payables		<u>1,539</u>	<u>-</u>
Total liabilities administered on behalf of Government		<u>1,539</u>	<u>-</u>
Net assets/(liabilities)		<u>(37)</u>	<u>2,059</u>

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

Defence Materiel Organisation

ADMINISTERED RECONCILIATION SCHEDULE

	2014 \$'000	2013 \$'000
Opening assets less liabilities as at 1 July	2,059	3,584
Net (cost of)/contribution by services		
Income	2,028	274
Expenses	(38)	-
Transfers (to)/from the Australian Government		
Appropriation transfers to Official Public Account		
Transfers to OPA	(4,086)	(1,799)
Closing assets less liabilities as at 30 June	(37)	2,059

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 2014

	Notes	2014 \$'000	2013 \$'000
OPERATING ACTIVITIES			
Cash received			
Interest		73	199
Levies ¹		2,474	1,600
Other operating cash received		1,539	-
Total cash received		4,086	1,799
Net cash from/(used by) operating activities	21A	4,086	1,799
Net increase (decrease) in cash held		4,086	1,799
Cash and cash equivalents at the beginning of the reporting period		-	-
Cash from Official Public Account			
Return of administered receipts		191	-
Total cash from official public account		191	-
Cash to Official Public Account			
Transfer to other entities (Finance - Whole of Government)		(4,277)	(1,799)
Total cash to official public account		(4,277)	(1,799)
Cash and cash equivalents at the end of the reporting period		-	-

¹ In 2012-13, levies and interest cash received were reported as an aggregate figure under 'interest'. The comparative figures have been disaggregated to correctly reflect the nature of cash inflows.

The above schedule should be read in conjunction with the accompanying notes

Defence Materiel Organisation**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

Note 1: Significant Accounting Policies

Note 2: Events After the Reporting Period

Note 3: Expenses

Note 4: Own-Source Income

Note 5: Fair Value Measurements

Note 6: Financial Assets

Note 7: Non-Financial Assets

Note 8: Payables

Note 9: Provisions

Note 10: Cash Flow Reconciliation

Note 11: Contingent Assets and Liabilities

Note 12: Senior Executive Remuneration

Note 13: Remuneration of Auditors

Note 14: Financial Instruments

Note 15: Financial Assets Reconciliation

Note 16: Administered Expenses

Note 17: Administered Income

Note 18: Administered Fair Value Measurements

Note 19: Administered Financial Assets

Note 20: Administered Payables

Note 21: Administered Cash Flow Reconciliation

Note 22: Administered Contingent Assets and Liabilities

Note 23: Administered Financial Instruments

Note 24: Administered Financial Assets Reconciliation

Note 25: Appropriations

Note 26: Special Accounts

Note 27: Compliance with Statutory Conditions for Payments from the Consolidated Revenue Fund

Note 28: Compensation and Debt Relief

Note 29: Assets Held in Trust

Note 30: Reporting of Outcomes

Defence Materiel Organisation

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note 1: 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 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 statement of financial position 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.

1.3 Payments made under Legislation

The Australian Government continues to have regard to developments in case law, including the High Court's most recent decision on Commonwealth expenditure in *Williams v Commonwealth* [2014] HCA 23, as they contribute to the larger body of law relevant to the development of Commonwealth programs. In accordance with its general practice, the Government will continue to monitor and assess risk and decide on any appropriate actions to respond to risks of expenditure not being consistent with constitutional or other legal requirements.

Defence Materiel Organisation

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1.4 Significant Accounting Judgements and Estimates

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.

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.

1.5 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.

The following new standards, revised standards, interpretations and amending standards that were issued prior to the signing of the statement by the chief executive and chief finance officer and were applicable to the current reporting period and had a material effect on DMO's financial statements:

Standard/Interpretation	Nature of change in accounting policy, transitional provisions and adjustments to financial statements
AASB 13 <i>Fair Value Measurement</i> December 2012 (Compilation)	<p>AASB 13 introduced a common principle on how to measure fair value together with a number of new disclosure requirements for all assets and liabilities carried at fair value.</p> <p>Adoption of this standard has not materially impacted on values reported in DMO's financial statements as only DMO's property, plant and equipment, is carried at fair value. The independent valuer has reviewed the prior year valuation methodology, procedures and outcomes and concluded that they are consistent with the requirements of AASB 13. However, to comply with AASB's disclosure requirements additional fair value disclosures have been included in a new note to the financial statements (Note 5).</p> <p>Comparative restatement is not required to be provided for this, the first year of application.</p>
AASB 119 <i>Employee Benefits</i> December 2012 (Compilation)	<p>AASB 119 (reissued) introduces a range of amendments, including revising the basis of calculation for finance costs, amending the definitions of short term and other long term employee benefits and revisions to termination benefits.</p> <p>Adoption of this standard has required accrued annual leave to be reclassified from 'short-term employee benefits' to 'other long-term employee benefits' in the Senior Executive Remuneration disclosures (Note 12) in both the current and comparative periods.</p>

All other new or revised standards, amending standards or interpretations that were issued prior to the sign-off date and are applicable to the current reporting period did not have a material effect, and are not expected to have a future material effect on DMO's financial statements.

Defence Materiel Organisation

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Future Australian Accounting Standard Requirements

The following new and/or revised standards, amending standards or interpretations were issued by the Australian Accounting Standards Board prior to the signing of the statements by the CEO and CFO, which are expected to have a material impact on DMO's financial statements for future reporting period(s).

Standard/ Interpretation	Application date	Nature of impending change in accounting policy and likely impact on initial application
AASB 9 <i>Financial Instruments</i> December 2013 (Compilation)	1 Jul 2017	<p>AASB incorporates the classification and measurement requirements for financial liabilities and the recognition and derecognition requirements for financial instruments, in addition to the classification and measurement requirements for financial assets (representing the first of three phases of a project to replace AASB 139 Financial Instruments: Recognition and Measurement).</p> <p>Adoption of this standard may have a significant impact on the recognition and measurement of financial instruments. The final impact will need to be considered once the AASB has completed the project.</p>
AASB 1055 <i>Budgetary Reporting</i> March 2013 (Principal)	1 July 2014	<p>Requires reporting of budgetary information by not-for-profit entities within the General Government Sector. In particular:</p> <ul style="list-style-type: none"> - original budget presented to Parliament; - variance of actuals from budget; and - explanation of significant variances. <p>Comparatives will not be required to be produced in the initial year of application.</p> <p>Adoption of this standard is not expected to have a material impact on the reported values in DMO's financial statements, however, to comply with AASB's disclosure requirements an additional note (or notes) will be included in the to the financial statements in future years.</p>

Other new or revised standards, amending standards or Interpretations that were issued prior to the sign-off date and are applicable for future periods are not expected to have a future financial impact on DMO.

1.6 Revenue

Revenue from Government

Amounts appropriated for departmental appropriations for a year (adjusted for any formal additions and reductions) are recognised as Revenue from Government 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.

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.

Defence Materiel Organisation

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Goods and services sold to, and procured on behalf of, Defence are separately disclosed in the face of the statement of comprehensive income due to the materiality of amounts under this category. There are also components of employee benefits, other supplier expenses and other expenses that are incurred on behalf of Defence. Details for these categories of expense are disclosed in the relevant notes to the financial statements.

The amount of contract revenue from Defence recognised during the period is disclosed under sale of goods and rendering of services in Note 4A.

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 appropriations. 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 7D. Defence provides funding in advance for acquisition and sustainment activities. If the prepayment from Defence increases during the financial year, this is reflected as unearned income from Defence in Note 8 as it 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 8 as it represents acquisition or sustainment activities that have been provided during the financial year. If DMO provides acquisition and/or sustainment activities in excess of the Defence prepayment this is reflected as other receivables in Note 6B.

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.

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.

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 the end of the reporting period. Allowances are made when collectability of the receivable is no longer probable (Note 6B). The appropriations receivable in 6B consists of annual revenue from Government for existing programs and the balance of the Defence Materiel Special Account held in the Official Public Account, which is deemed to be appropriated to the Defence Materiel Special Account.

Appropriations receivable are recognised at their nominal amounts.

Defence Materiel Organisation

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1.7 Gains

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 1.8).

Sale of Assets

Gains from the disposal of assets are recognised when control of the asset has passed to the buyer.

1.8 Transactions with the Government as Owner

Equity Injections

Amounts appropriated which are designated as 'equity injections' for a year (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.

1.9 Employee Benefits

Liabilities for 'short-term employee benefits' (as defined in AASB 119 *Employee Benefits*) and termination benefits expected to be wholly settled within 12 months of the end of the reporting period 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.

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 be applied 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 2014. 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

Separation and Redundancy

Provision is made for separation and redundancy benefit payments. 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.

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 in the Department of Finance'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. DMO accounts for the contributions as if they were contributions to defined contribution plans.

The liability for superannuation recognised as at 30 June 2014 represents outstanding contributions for the final fortnight of the year.

1.10 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 rewards 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 either the fair value of the leased asset or, if lower, the present value of minimum lease payments at the inception of the contract and a liability is recognised at the same time and for the same amount.

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.

As at 30 June 2014, DMO did not have any finance leases (2013: none).

Operating lease payments are expensed on a straight-line basis which is representative of the pattern of the benefits derived from the leased assets.

1.11 Borrowing Costs

All borrowing costs are expensed as incurred.

1.12 Grants

DMO administers a number of grants providing assistance to Australian defence industry to address shortfalls in the quantity and quality of professional and technical workforce skills.

Grant liabilities are recognised to the extent that the services required to be performed by the grantee have been performed or 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.

Defence Materiel Organisation

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1.13 Cash

Cash is recognised at its nominal amount. 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, and cash in special accounts.

1.14 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 the 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 credited to the Special Account.

The administrative arrangements between the US and Australia result in DMO transactions pertaining to the FRB account being reported as prepayments in DMO's financial statements.

1.15 Fair Value Measurements

DMO deems transfers between levels of the fair value hierarchy to have occurred at the end of the reporting period.

1.16 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 'loans and receivables'. Loans and receivables are measured at amortised cost less impairment, using the effective interest rate method.

Interest is recognised by applying the effective interest rate.

Liquidated Damages

Liquidated damages arise where the Commonwealth has an entitlement to compensation as a result of a contractor not meeting contractual requirements.

Where an event occurs that triggers the Commonwealth's entitlement to compensation, and a settlement agreement has been reached with the contractor, DMO recognises an Other Receivable for the amount of goods-or services- in-kind and/or cash to be received. In addition, DMO recognises a corresponding Other Payable to Defence to reflect that the goods and services to be delivered under these arrangements relate to activities which DMO undertakes on behalf of Defence (refer notes 6B and 8C).

Where a triggering event has occurred and an agreement has not been reached with the contractor, DMO recognises a contingent asset and corresponding contingent liability for the estimated amount receivable from the contractor and payable to Defence. The contingent asset and liability are valued or reported as unquantifiable based on the status of negotiations and precedent cases (refer Note 11).

Defence Materiel Organisation

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Impairment of financial assets

Financial assets are assessed for impairment at the end of each reporting period.

Financial assets held at amortised cost. If there is objective evidence that an impairment loss has been incurred for loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount is reduced by way of an allowance account. The loss is recognised in the statement of comprehensive income.

1.17 Financial Liabilities

Financial liabilities are classified as other financial liabilities. Financial liabilities are recognised upon 'trade date'.

Other Financial Liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. These 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.

1.18 Contingent Assets and Contingent Liabilities

Contingent assets and contingent liabilities are not recognised in the statement of financial position 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.

1.19 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*.

1.20 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.

Defence Materiel Organisation

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1.21 Property, Plant and Equipment

Asset Recognition Threshold

Purchases of property, plant and equipment are recognised initially at cost in the statement of financial position, 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

Fair values for each class of asset are determined as shown below:

Asset Class:	Fair value measured at:
Property, Plant and Equipment	Depreciated replacement cost and market selling price

Following initial recognition at cost, property, plant and equipment are carried at fair value less subsequent accumulated depreciation and accumulated impairment losses. Valuations are conducted with sufficient frequency to ensure that the carrying amount of assets do not materially differ from the assets' fair values as at the reporting date. The regularity of independent valuations depends upon the volatility of movements in market values for the relevant assets. Australian Valuation Solutions provided independent advice on the valuation of DMO assets as at 30 June 2014.

Revaluation adjustments are made on a class basis. Any revaluation increment is 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 are recognised directly in the surplus/deficit except to the extent that they reverse a previous revaluation increment for that class.

Where assets are valued using depreciated replacement cost, any accumulated depreciation as at the revaluation date is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

Where assets are valued using market selling price, 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:

	2014	2013
Property, Plant and Equipment	2 to 30 years	2 to 30 years

Defence Materiel Organisation

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Impairment

All assets are assessed for impairment as at 30 June 2014. 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 of disposal 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.

1.22 Intangibles

DMO's intangible assets primarily comprise purchased computer software for internal use. All intangibles with gross values greater than \$100,000 are capitalised. Intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses.

Software is amortised on a straight-line basis over the following anticipated useful life:

	2014	2013
Intangibles	3 to 10 years	3 to 10 years

All software assets were assessed for indications of impairment as at 30 June 2014.

1.23 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 and 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.

1.24 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 reporting 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.

Defence Materiel Organisation

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1.25 Reporting of Administered Activities

Administered expenses, revenues, assets and cash flows are disclosed in the administered schedules and related 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.

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. 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.

Revenue

Administered revenues relate to ordinary 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.

Receivables

Receivables reported in the administered schedule of assets and liabilities comprise levies required to be returned to the OPA and the balance of interest payable on overseas bank accounts. Administered receivables are measured at amortised cost less impairment.

Payables

Payables reported in the administered schedule of assets and liabilities represent resources required to be transferred to other Commonwealth entities. Administered payables are recognised at amortised cost.

1.26 Prior Period Adjustments

Monies held on behalf of foreign governments

DMO has entered into a number of agreements to perform activities on behalf of foreign governments under which funding is provided in advance of expenditure being incurred. The monies in question are specifically tied to the agreed purposes.

During 2013-14, DMO reviewed the accounting classification of the balance of these activities and identified an inconsistency between DMO's accounting policy and the classification in prior years as a departmental receivable. Consistent with the Finance Minister's Orders and DMO's accounting policy, these monies should have been disclosed as trust not departmental monies.

AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* requires retrospective restatement of prior period errors except to the extent that it is impractical to determine either the period-specific effects or the cumulative effect of the error. To comply with AASB 108 the reclassification has been applied with effect from 1 July 2012 and these monies are now separately disclosed as Assets Held in Trust in Note 29.

Defence Materiel Organisation NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

The effects of this changes is outlined in the table below.

		Note Reference	2012-13 Published Financial Statements \$'000	Adjustment \$'000	2012-13 Restated Comparative \$'000
Assets	Decrease Cash and Cash Equivalents Cash on hand or on deposit	6A	135,805	(41,463)	94,342
Liabilities	Decrease Suppliers Payable Trade Creditors and Accruals	8A	1,405,576	(19)	1,405,557
Liabilities	Decrease Other Payables Deposits held on trust for Foreign Governments	8C	517,377	(41,444)	475,933
Cash Flow	Decrease Operating Cash Received Activities performed on behalf of foreign governments	Cash Flow Statement	47,829	(47,829)	0
Cash Flow	Decrease Operating Cash Used Suppliers	Cash Flow Statement	9,005,617	(48,364)	8,957,253
Cash Flow	Increase Operating Cash Used Transfers to Special Public Money	Cash Flow Statement	0	41,998	41,998
Cash Flow Reconciliation	Increase / (Decrease) in supplier payables	10	(24,231)	385	(23,864)
Cash Flow Reconciliation	Increase / (Decrease) in other payables	10	440,454	(41,848)	398,606

Defence Materiel Organisation

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note 2: Events After the Reporting Period

There were no subsequent events that had the potential to significantly affect DMO's ongoing structure or activities.

Defence Materiel Organisation

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note 3: Expenses

	2014 \$'000	2013 \$'000
Note 3A: Employee Benefits		
Wages and salaries	411,319	439,143
Superannuation		
Defined contribution plans	32,692	32,988
Defined benefit plans	42,185	47,386
Leave and other entitlements	52,832	43,107
Separation and redundancies	1,440	15,831
Other	18,451	12,615
Total employee benefits	558,919	591,070

Employee benefits expense reported in this note includes \$3.7m incurred on behalf of Defence (2013: \$6.3m).

Employee benefits do not include payments made in relation to the military workforce. Military personnel are posted to DMO in accordance with the Military Workforce Agreement with Defence. The cost of the military workforce is disclosed at Note 3B.

Defence Materiel Organisation

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

	2014 \$'000	2013 \$'000
Note 3B: Suppliers		
Goods and services		
Cost of goods sold to Defence		
General Stores Inventory	521,194	499,623
Explosive Ordnance	210,452	209,091
Fuel	560,931	416,884
Assets Under Construction	3,776,831	3,390,533
Supply Chain Assets	305,392	283,576
Commercial Vehicles	40,585	12,885
Total cost of goods sold to Defence	5,415,385	4,812,592
Other goods and services procured on behalf of Defence		
Repair and overhaul	3,321,267	2,744,698
General goods and services	475,761	410,532
DMO military workforce	2,521	2,036
Communications and information technology	88,598	88,106
Domestic travel	4,409	4,786
Training	8,911	7,463
Overseas travel	997	2,876
Advertising	-	2
Freight and storage	22,826	27,139
Operating lease rentals ¹	7,454	14,536
Total other goods and services procured on behalf of Defence	3,932,744	3,302,174
DMO goods and services supplied or rendered		
Repair and overhaul	49	-
General goods and services	81,992	90,260
DMO military workforce	168,383	166,553
Communications and information technology	6,902	5,310
Domestic travel	11,647	11,681
Training	24,756	23,886
Overseas travel	2,374	2,417
Advertising	485	136
Freight and storage	65	63
Operating lease rentals ¹	57	220
Total DMO goods and services	296,710	300,526
Other suppliers		
Research and development ²	94,155	78,871
Total other suppliers	94,155	78,871
Total suppliers	9,738,994	8,494,163

¹ These comprise minimum lease payments only.

² Includes \$94.2m incurred on behalf of Defence (2013: \$78.9m).

Defence Materiel Organisation

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

	2014 \$'000	2013 \$'000
Goods supplied in connection with		
Related parties	527,652	617,987
External parties	5,209,130	4,484,866
Total goods supplied	5,736,782	5,102,853
Services rendered in connection with		
Related parties	520,821	554,485
External parties	3,473,880	2,822,069
Total services rendered	3,994,701	3,376,554
Operating lease rentals³ in connection with		
Related parties	1,231	6,012
External parties	6,280	8,744
Total operating lease rentals	7,511	14,756
Total suppliers	9,738,994	8,494,163
³ These comprise minimum lease payments only.		
Note 3C: Grants		
Private sector		
Defence Industry	13,000	19,262
Total grants	13,000	19,262
Note 3D: Depreciation and Amortisation		
Depreciation		
Property, plant and equipment	975	1,679
Total depreciation	975	1,679
Amortisation		
Intangibles - Computer software purchased	14	28
Total amortisation	14	28
Total depreciation and amortisation	989	1,707
Note 3E: Write-Down and Impairment of Assets		
Impairment on financial instruments	130	66
Discounting of non-current receivables	-	13,097
Impairment of property, plant & equipment	139	76
Other ¹	3,192	-
Total write-down and impairment of assets	3,461	13,239

¹ Reduction of FMS-related prepayment balance following remediation and assurance activity.

Defence Materiel Organisation

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

	2014 \$'000	2013 \$'000
<u>Note 3F: Foreign Exchange</u>		
Foreign exchange gains		
Non-speculative	(24,596)	(25,266)
Foreign exchange losses		
Non-speculative	42,653	40,565
Total foreign exchange losses / (gains)	18,057	15,299
<u>Note 3G: Other Expenses</u>		
Resources transferred to Defence free of charge	19	29
Other	1	25
Total other expenses	20	54

Defence Materiel Organisation

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note 4: Own-Source Income

	2014	2013
	\$'000	\$'000

Note 4A: Sale of Goods and Rendering of Services

Sale of goods in connection with

Related parties	5,732,435	5,096,620
Total sale of goods	5,732,435	5,096,620

Rendering of services in connection with

Related parties	3,732,250	3,121,309
Total rendering of services	3,732,250	3,121,309
Total sale of goods and rendering of services	9,464,685	8,217,929

Goods and services are represented by

Defence Materiel Acquisition Agreement activity	4,146,203	3,733,522
Defence Materiel Sustainment Agreement activity	5,318,482	4,484,407
Total sale of goods and rendering of services	9,464,685	8,217,929

Note 4B: Interest

Other	1,251	5,452
Total interest	1,251	5,452

Note 4C: Other Revenue

Resources received free of charge from Defence	30,423	31,040
Resources received free of charge from the Australian National Audit Office	1,050	1,100
Other	669	808
Total other revenue	32,142	32,948

Defence Materiel Organisation

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

	2014 \$'000	2013 \$'000
Gains		
<u>Note 4D: Gains from Sale of Assets</u>		
Property, plant and equipment		
Proceeds from sale	528	-
Carrying value of assets sold	(528)	-
Total gains from sale of assets	-	-
<u>Note 4E: Reversals of Previous Asset Write-Downs and Impairment</u>		
Reversal of impairment losses	4	-
Total reversals of previous asset write-downs and impairments	4	-
<u>Note 4F: Revenue from Government</u>		
Appropriations		
Departmental appropriation ¹	907,791	911,104
Total revenue from Government	907,791	911,104

¹ An amount of \$35.4m of DMO's direct appropriations has been quarantined and as such is unable to be utilised for DMO purposes. It is expected to be formally reduced in July 2016. As there has been no formal reduction of the appropriation to comply with the FMOs, DMO is required to recognise the full amount of available appropriation as Revenue from Government in 2013-14.

Defence Materiel Organisation NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note 5: Fair Value Measurements

The following tables provide an analysis of assets and liabilities that are measured at fair value. The different levels of the fair value hierarchy are defined below.

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.

Note 5A: Fair Value Measurement

Fair value measurements at the end of the reporting period by hierarchy for non-financial assets in 2014

	Fair value \$'000	Fair value measurements at the end of the reporting period using		
		Level 1 inputs \$'000	Level 2 inputs \$'000	Level 3 inputs \$'000
Non-financial assets				
Property, plant and equipment	5,061	-	937	4,124
Total non-financial assets	5,061	-	937	4,124
Total fair value measurement of assets in the statement of financial position	5,061	-	937	4,124

Fair value measurements - highest and best use differs from current use for non-financial assets (NFAs)

DMO's assets are held for operational purposes and not held for the purposes of deriving a profit. The current use of these assets is considered the highest and best use.

Note 5B: Level 1 and Level 2 Transfers for Recurring Fair Value Measurements

There have been no transfers between levels of the hierarchy during the year.

DMO's policy for determining when transfers between levels are deemed to have occurred can be found in Note 1.

Defence Materiel Organisation NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note 5C: Valuation Technique and Inputs for Level 2 and Level 3 Fair Value Measurements

Level 2 and 3 fair value measurements - valuation technique and the inputs used for assets in 2014

	Category (Level 2 or Level 3)	Fair value	Valuation technique(s) ¹	Inputs used	Range (weighted average) ²
Non-financial assets					
Property, plant and equipment	2	937	Market Approach Depreciated Replacement Cost (DRC)	Adjusted market transactions Replacement Cost New	
Property, plant and equipment	3	4,124		Consumed economic benefit/Obsolescence of asset	33.3%-3.3% (7.6%) per annum

1. No change in valuation technique occurred during the period.
2. Significant unobservable inputs only. Not applicable for assets or liabilities in the Level 2 category.

There were no significant inter-relationships between unobservable inputs that materially affect fair value.

Recurring and non-recurring Level 3 fair value measurements – valuation processes

DMO procured the service of Australian Valuation Solutions (AVS) to undertake a comprehensive valuation of all non-financial assets at 30 June 2014. DMO tests the procedures of the valuation model as an internal management review at least once every 12 months (with a formal revaluation undertaken once every three years). If a particular asset class experiences significant and volatile changes in fair value (i.e. where indicators suggest that the value of the class has changed by materially since the previous reporting period), that class is subject to specific valuation in the reporting period, where practicable, regardless of the timing of the last specific valuation.

AVS confirmed that there is no change in the valuation technique since the prior year.

Significant Level 3 inputs utilised by the entity are derived and evaluated as follows:

Property, Plant and Equipment - Consumed economic benefit/Obsolescence of asset

Assets that do not transact with enough frequency or transparency to develop objective opinions of value from observable market evidence have been measured utilising the cost (Depreciated Replacement Cost or DRC) approach. Under the DRC approach the estimated cost to replace the asset is calculated and then adjusted to take into account its consumed economic benefit / asset obsolescence (accumulated Depreciation). Consumed economic benefit / asset obsolescence has been determined based on professional judgment regarding physical, economic and external obsolescence factors relevant to the asset under consideration.

DMO control a variety of specialised assets (totalling 47% of their non-financial assets). These assets are used to deliver operational activities that support the Department of Defence and are not actively traded.

The weighted average is determined by assessing the fair value measurement as a proportion of the total fair value for the class against the total useful life of each asset.

Recurring Level 3 fair value measurements – sensitivity of inputs

Property, Plant and Equipment - Consumed economic benefit/Obsolescence of asset

The significant unobservable inputs used in the fair value measurement of DMO's property, plant and equipment asset classes relate to the consumed economic benefit / asset obsolescence (accumulated depreciation). A significant increase (decrease) in this input would result in a significantly lower (higher) fair value measurement.

Defence Materiel Organisation
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note 5D: Reconciliation for Recurring Level 3 Fair Value Measurements

Recurring Level 3 fair value measurements - reconciliation for assets

	Non-financial assets	
	Property, plant and equipment	Total
	2014	2014
	\$'000	\$'000
Opening balance	4,001	4,001
Total gains/(losses) recognised in net cost of services ¹	(341)	(341)
Purchases	926	926
Sales	(462)	(462)
Closing balance	4,124	4,124

¹ These gains/(losses) are presented in the statement of comprehensive income under depreciation and amortisation and gains from sales of assets.

DMO's policy for determining when transfers between levels are deemed to have occurred can be found in Note 1.

Defence Materiel Organisation

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note 6: Financial Assets

	2014 \$'000	2013 \$'000
Note 6A: Cash and Cash Equivalents		
Cash on hand or on deposit ¹	122,628	94,342
Total cash and cash equivalents	122,628	94,342
 Note 6B: Trade and Other Receivables		
Good and services receivables in connection with		
Related parties	7,274	1,750
External parties	1,519	1,010
Total goods and services receivables	8,793	2,760
 Appropriations receivables		
Special Account cash held in the Official Public Account	60,870	-
Annual Appropriations for existing programs ¹	113,623	111,331
Total appropriations receivables	174,493	111,331
 Other receivables		
Statutory receivables	106,880	92,836
Settlement of damages ²	182,277	422,249
Other receivables from Defence	259,685	535,908
Other	1,279	588
Total other receivables	550,121	1,051,581
Total trade and other receivables (gross)	733,407	1,165,672
 Less impairment allowance		
Goods and services	(95)	(97)
Other	(13)	(15)
Total impairment allowance	(108)	(112)
Total trade and other receivables (net)	733,299	1,165,560
 Trade and other receivables (net) expected to be recovered		
No more than 12 months	564,478	750,493
More than 12 months	168,821	415,067
Total trade and other receivables (net)	733,299	1,165,560

¹ An amount of \$35.4m of DMO's direct appropriations has been quarantined and as such is unable to be utilised for DMO purposes. It is expected to be formally reduced in July 2016.

² Liquidated damages and agreed commercial settlements receivable from contractors for matters managed by DMO on behalf of Defence (refer Note 1.16).

Defence Materiel Organisation

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

	2014 \$'000	2013 \$'000
Trade and other receivables (gross) aged as follows		
Not overdue	731,547	1,165,408
Overdue by		
0 to 30 days	1,725	198
31 to 60 days	104	9
61 to 90 days	-	6
More than 90 days	31	51
Total trade and other receivables (gross)	733,407	1,165,672
Impairment allowance aged as follows		
Not overdue	95	98
Overdue by		
0 to 30 days	-	2
31 to 60 days	-	-
61 to 90 days	-	-
More than 90 days	13	12
Total impairment allowance	108	112

Credit terms for goods and services were within 30 days (2013: 30 days).

Reconciliation of the Impairment Allowance

Movements in relation to 2014

	Goods and services \$'000	Other receivables \$'000	Total \$'000
Opening balance	97	15	112
Amounts written off	-	(6)	(6)
Amounts recovered and reversed	(2)	(2)	(4)
Increase/(Decrease) recognised in net cost of services	-	6	6
Closing balance	95	13	108

Movements in relation to 2013

	Goods and services \$'000	Other receivables \$'000	Total \$'000
Opening balance	75	29	104
Amounts written off	-	(22)	(22)
Amounts recovered and reversed	-	-	-
Increase/(Decrease) recognised in net cost of services	22	8	30
Closing balance	97	15	112

Defence Materiel Organisation

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note 7: Non-Financial Assets

	2014	2013
	\$'000	\$'000

Note 7A: Property, Plant and Equipment

Property, plant and equipment

Fair value	7,218	7,325
Accumulated depreciation	(2,157)	(1,765)
Total property, plant and equipment	5,061	5,560

DMO does not hold any property, plant or equipment under finance leases.

An impairment charge of \$139,100 (2013: \$75,671) was applied to the property, plant and equipment balance for the year ended 30 June 2014. The assets in question were written off in the process.

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 5. All property, plant and equipment assets were revalued by an independent valuer as at 30 June 2014.

A revaluation increment of \$37,733 (2013: \$13,021) for property, plant and equipment was credited to the asset revaluation surplus by asset class and included in the equity section of the statement of financial position. \$0 decrements were expensed (2013: \$0).

Note 7B: Intangibles

Computer software

Internally developed – in use	-	-
Purchased	292	292
Accumulated amortisation	(279)	(264)
Total computer software	13	28
Total intangibles	13	28

No indicators of impairment were found for intangibles.

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 7C: Reconciliation of the Opening and Closing Balances of Property, Plant and Equipment and Intangibles

Reconciliation of the opening and closing balances of property, plant and equipment and intangibles for 2014				
	Property, plant and equipment \$'000	Computer software purchased \$'000	Computer software internally developed \$'000	Total \$'000
As at 1 July 2013				
Gross book value	7,325	292	-	7,617
Accumulated depreciation/amortisation and impairment	(1,765)	(264)	-	(2,029)
Total as at 1 July 2013	5,560	28	-	5,588
Additions				
Purchase or internally developed	1,124	-	-	1,124
Revaluations and impairments recognised in other comprehensive income	38	-	-	38
Impairments recognised in net cost of services	(139)	-	-	(139)
Depreciation/amortisation	(975)	(14)	-	(989)
Other movements ¹	-	(1)	-	(1)
Disposals				
Assets transferred to Defence free of charge	(19)	-	-	(19)
Other	(528)	-	-	(528)
Total as at 30 June 2014	5,061	13	-	5,074
Total as at 30 June 2014 represented by				
Gross book value	7,218	292	-	7,510
Accumulated depreciation/amortisation and impairment	(2,157)	(279)	-	(2,436)
Total as at 30 June 2014	5,061	13	-	5,074

¹ Other movements relates to rounding.

Defence Materiel Organisation NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Reconciliation of the opening and closing balances of property, plant and equipment and intangibles for 2013

	Property, plant and equipment \$'000	Computer software purchased \$'000	Computer software internally developed ¹ \$'000	Total \$'000
As at 1 July 2012				
Gross book value	7,120	292	1,101	8,513
Accumulated depreciation/amortisation and impairment	(249)	(236)	(1,101)	(1,586)
Total as at 1 July 2012	6,871	56	-	6,927
Additions				
Purchase or internally developed	460	-	-	460
Revaluations and impairments recognised in other comprehensive income	13	-	-	13
Impairments recognised in net cost of services	(76)	-	-	(76)
Depreciation/amortisation	(1,679)	(28)	-	(1,707)
Disposals				
Assets transferred to Defence free of charge	(29)	-	-	(29)
Total as at 30 June 2013	5,560	28	-	5,588
Total as at 30 June 2013 represented by				
Gross book value	7,325	292	-	7,617
Accumulated depreciation/amortisation and impairment	(1,765)	(264)	-	(2,029)
Total as at 30 June 2013	5,560	28	-	5,588

¹ Fully amortised internally developed software with a gross value of \$1.1m was retired in 2012-13.

Defence Materiel Organisation

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

	2014 \$'000	2013 \$'000
<u>Note 7D: Prepayments</u>		
Prepayments	<u>1,383,350</u>	<u>1,204,647</u>
Total prepayments	<u>1,383,350</u>	<u>1,204,647</u>
Prepayments are expected to be recovered		
No more than 12 months	<u>1,221,131</u>	<u>956,674</u>
More than 12 months	<u>162,219</u>	<u>247,973</u>
Total prepayments	<u>1,383,350</u>	<u>1,204,647</u>

As a result of assurance activities conducted in 2013-14, the FMS-related component of the prepayment balance was reduced by \$3.2m. No other indicators of impairment were found for prepayments.

Defence Materiel Organisation

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note 8: Payables

	2014 \$'000	2013 \$'000
Note 8A: Suppliers		
Trade creditors and accruals ¹	<u>1,341,482</u>	<u>1,405,557</u>
Total suppliers	<u>1,341,482</u>	<u>1,405,557</u>
Suppliers expected to be settled		
No more than 12 months	1,341,482	1,405,557
More than 12 months	-	-
Total suppliers	<u>1,341,482</u>	<u>1,405,557</u>
Suppliers in connection with		
Related parties	11,188	82,575
External parties	<u>1,330,294</u>	<u>1,322,982</u>
Total suppliers	<u>1,341,482</u>	<u>1,405,557</u>

¹ As outlined in Note 1.26, a prior period adjustment has been made to this balance.

Settlement is usually made within 30 days.

Note 8B: Grants

Private sector		
Defence Industry	<u>5,733</u>	<u>5,111</u>
Total grants	<u>5,733</u>	<u>5,111</u>
Grants expected to be settled		
No more than 12 months	5,733	5,111
More than 12 months	-	-
Total grants	<u>5,733</u>	<u>5,111</u>

Settlement is usually made according to the terms and conditions of each grant. This is generally within 30 days of performance or eligibility.

Defence Materiel Organisation

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

	2014 \$'000	2013 \$'000
Note 8C: Other Payables		
Wages and salaries	14,160	12,528
Superannuation	2,550	2,090
Separations and redundancies	52	521
Settlement of damages payable to Defence ¹	182,277	428,875
Other payables to Defence	39,515	31,919
Total other payables²	238,554	475,933
Other payables expected to be settled		
No more than 12 months	165,062	168,872
More than 12 months	73,492	307,061
Total other payables	238,554	475,933

¹ Liquidated damages and agreed commercial settlements payable to Defence for matters managed by DMO on behalf of Defence (refer Note 1.16).

² As outlined in Note 1.26, a prior period adjustment has been made to this balance.

Defence Materiel Organisation

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note 9: Provisions

	2014 \$'000	2013 \$'000
Note 9A: Employee Provisions		
Leave	180,415	174,981
Total employee provisions	180,415	174,981
Employee provisions expected to be settled		
No more than 12 months	47,320	43,510
More than 12 months	133,095	131,471
Total employee provisions	180,415	174,981
Note 9B: Other Provisions		
Other ¹	3,024	5,881
Total other provisions	3,024	5,881
Other provisions expected to be settled		
No more than 12 months	2,338	420
More than 12 months	686	5,461
Total other provisions	3,024	5,881

¹ Other provisions comprise an allowance for excess flying hours over the life of a special purpose aircraft lease (2014: \$2.2m, 2013: \$3.1m) and royalties withholding tax to the Australian Taxation Office (2014: \$0.8m, 2013: \$1.1m). In 2013, the balance also included allowance for additional costs associated with the postponement of the F/A18 Hornet sustainment project (\$1.8m), which was realised (used) in the current reporting period.

	Other Provisions \$'000	Total \$'000
As at 1 July 2013	5,881	5,881
Additional provisions made	848	848
Amounts used	(3,509)	(3,509)
Amounts reversed	(196)	(196)
Unwinding of discount or change in discount rate	-	-
Total as at 30 June 2014	3,024	3,024

Defence Materiel Organisation

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note 10: Cash Flow Reconciliation

	2014 \$'000	2013 \$'000
Reconciliation of cash and cash equivalents as per statement of financial position to cash flow statement		
Cash and cash equivalents as per		
Cash flow statement	122,628	94,342
Statement of financial position	<u>122,628</u>	<u>94,342</u>
Discrepancy	<u>-</u>	<u>-</u>
Reconciliation of net cost of services to net cash from/(used by) operating activities		
Net (cost of)/contribution by services ¹	(835,358)	(878,465)
Revenue from Government	907,791	911,104
Adjustments for non-cash items		
Depreciation/amortisation	989	1,707
Net write down of non-financial assets	139	76
Resources transferred to Defence free of charge	19	29
Rounding adjustment	(1)	(3)
Movements in assets and liabilities		
Assets		
(Increase) / Decrease in net receivables	432,261	(481,332)
(Increase) / Decrease in prepayments	(178,703)	161,377
Liabilities		
Increase / (Decrease) in employee provisions	5,434	(19,306)
Increase / (Decrease) in grants payable	622	(50)
Increase / (Decrease) in supplier payables ¹	(64,075)	(23,846)
Increase / (Decrease) in other payables ¹	(237,379)	398,606
Increase / (Decrease) in other provisions	(2,857)	183
Net cash from/(used by) operating activities	<u>28,882</u>	<u>70,080</u>

¹ As outlined in Note 1.26, a prior period adjustment has been made to this balance.

Defence Materiel Organisation

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note 11: Contingent Assets and Liabilities

	Claims for damages or costs		Total	
	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
Contingent assets				
Balance from previous period	37,500	-	37,500	-
New contingent assets recognised ¹	-	37,500	-	37,500
Re-measurement	(18,100)	-	(18,100)	-
Assets realised	(8,778)	-	(8,778)	-
Rights expired	(1,522)	-	(1,522)	-
Total contingent assets	9,100	37,500	9,100	37,500
Contingent liabilities				
Balance from previous period	37,550	1,000	37,550	1,000
New contingent liabilities recognised ¹	-	37,550	-	37,550
Re-measurement	(18,100)	-	(18,100)	-
Liabilities realised	(8,828)	(1,000)	(8,828)	(1,000)
Obligations expired	(1,522)	-	(1,522)	-
Total contingent liabilities	9,100	37,550	9,100	37,550
Net contingent assets/(liabilities)			-	(50)

¹The contingent assets and contingent liabilities disclosed by DMO include those arising from matters managed on behalf of Defence.

Quantifiable Contingencies

The schedule of contingencies reports contingent liabilities in 2014 of \$9.1m (2013: \$37.6m). The schedule reports \$9.1m contingent assets (2013: \$37.5m). There are a number of legal proceedings in various phases for matters that DMO manages on behalf of Defence. 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

As at 30 June 2014, DMO had 8 unquantifiable contingent assets relating to damages and contractual disputes for matters managed on behalf of Defence (2013: 2).

As at 30 June 2014, DMO had 8 unquantifiable contingent liabilities relating to damages and contractual disputes for matters managed on behalf of Defence (2013: 2).

It was not possible to estimate the amounts of any eventual payments or receipts that may eventuate in relation to these claims. These claims are not included in the schedule of contingencies.

Significant Remote Contingencies

DMO has a number of remote contingent assets and contingent liabilities in relation to bank guarantees, indemnities and warranties in contracts and agreements. The likelihood of all categories resulting in any future asset or liability is considered remote therefore these are not reported in the schedule of contingencies.

Defence Materiel Organisation

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note 12: Senior Executive Remuneration

Note 12A: 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 \$195,000 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.

As per FMO 23.53P, the remuneration and reportable remuneration of star ranked military officers posted to the DMO are reported by the Department of Defence. In 2013-14, there were 25 such officers (2012-13: 28 officers). The total remuneration for these officers was \$7,021,123 (2012-13: \$7,479,509 including \$776,520 in separation/redundancy payments).

	2014 \$	2013 \$
Short-term employee benefits		
Salary	6,694,855	6,163,112
Performance bonuses	196,772	219,398
Motor vehicle allowance and other allowances	1,018,489	886,032
Total short-term employee benefits	7,910,116	7,268,542
Post-employment benefits		
Superannuation	1,123,287	1,014,038
Total post-employment benefits	1,123,287	1,014,038
Other long-term employee benefits		
Annual leave accrued	519,393	470,301
Long-service leave	233,727	211,636
Total other long-term employee benefits	753,120	681,937
Termination benefits		
Voluntary redundancy payments	-	82,833
Total termination benefits	-	82,833
Total senior executive remuneration expenses	9,786,523	9,047,350

1. Note 12A is prepared on an accrual basis (therefore the performance bonus expenses disclosed above may differ from the cash 'Bonus paid' in Note 12B).

2. Note 12A excludes acting arrangements and part-year service where total remuneration expensed as a senior executive was less than \$195,000.

Defence Materiel Organisation NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note 12B: Average Annual Reportable Remuneration Paid to Substantive Senior Executives during the Reporting Period

Average annual reportable remuneration paid to substantive senior executives in 2014

Average annual reportable remuneration ¹	Substantive senior executives	Reportable salary ²	Contributed superannuation ³	Reportable allowances ⁴	Bonus paid ⁵	Total reportable remuneration
	No.	\$	\$	\$	\$	\$
Total remuneration (including part-time arrangements)						
Less than \$195,000	1	94,218	5,264	-	32,583	132,065
\$195,000 to \$224,999	12	184,399	27,622	-	920	212,941
\$225,000 to \$254,999	5	203,631	29,472	122	2,765	235,990
\$255,000 to \$284,999	4	223,175	32,942	-	5,507	261,624
\$285,000 to \$314,999	3	217,852	53,924	-	17,593	289,369
\$345,000 to \$374,999	2	285,856	38,420	-	28,088	352,364
\$405,000 to \$434,999	1	335,306	49,023	-	40,920	425,249
\$465,000 to \$494,999	1	420,568	58,361	-	-	478,929
\$525,000 to \$554,999	1	464,209	65,877	-	-	530,086
Total number of substantive senior executives	30					

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' for tax purposes);
- c) reportable employer superannuation contributions; and
- d) exempt foreign employment income.

³ The 'contributed superannuation' amount is the average cost to DMO for the provision of superannuation benefits to substantive senior executives in that reportable remuneration band during the reporting period.

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 DMO during the financial year.

Defence Materiel Organisation

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Average annual reportable remuneration paid to substantive senior executives in 2013

Average annual reportable remuneration ¹	Substantive senior executives	No.	Reportable salary ²	Contributed superannuation ³	Reportable allowances ⁴	Bonus paid ⁵	Total reportable remuneration
			\$	\$	\$	\$	\$
Total remuneration (including part-time arrangements)							
Less than \$195,000		6	149,230	28,672	-	379	178,281
\$195,000 to \$224,999		10	179,914	25,965	-	-	205,879
\$225,000 to \$254,999		9	201,868	30,663	-	7,899	240,430
\$255,000 to \$284,999		2	209,091	30,695	-	32,761	272,547
\$285,000 to \$314,999		1	236,099	32,383	-	23,098	291,580
\$315,000 to \$344,999		1	231,094	40,284	-	53,901	325,279
\$405,000 to \$434,999		1	319,765	47,920	-	38,280	405,965
\$435,000 to \$464,999		1	376,937	70,949	-	-	447,886
\$495,000 to \$524,999		1	440,445	68,544	690	-	509,679
Total number of substantive senior executives		32					

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' for tax purposes);
- c) reportable employer superannuation contributions; and
- d) exempt foreign employment income.

³ The 'contributed superannuation' amount is the average cost to DMO for the provision of superannuation benefits to substantive senior executives in that reportable remuneration band during the reporting period.

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 DMO during the financial year.

Defence Materiel Organisation NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note 12C: Average Annual Reportable Remuneration Paid to Other Highly Paid Staff during the Reporting Period

Average annual reportable remuneration paid to other highly paid staff in 2014

Average annual reportable remuneration ¹	Other highly paid staff No.	Reportable salary ² \$	Contributed superannuation ³ \$	Reportable allowances ⁴ \$	Bonus paid ⁵ \$	Total reportable remuneration \$
Total reportable remuneration (including part time arrangements)						
\$195,000 to \$224,999	8	166,102	39,091	-	-	205,193
\$225,000 to \$254,999	4	187,002	48,147	286	-	235,435
\$345,000 to \$374,999	1	326,435	20,119	-	-	346,554
Total number of other highly paid staff	13					

¹ This table reports staff:

- a) who were employed by DMO during the reporting period;
- b) whose reportable remuneration was \$195,000 or more for the financial period; and
- c) were not required to be disclosed in Table 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' for tax purposes);
- c) reportable employer superannuation contributions; and
- d) exempt foreign employment income.

³ The 'contributed superannuation' amount is the average cost to DMO for the provision of superannuation benefits to other highly paid staff in that reportable remuneration band during the reporting period.

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 DMO during the financial year.

Defence Materiel Organisation NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Average annual reportable remuneration paid to other highly paid staff in 2013

Average annual reportable remuneration ¹	Other highly paid staff No.	Reportable salary ² \$	Contributed superannuation ³ \$	Reportable allowances ⁴ \$	Bonus paid ⁵ \$	Total reportable remuneration \$
Total reportable remuneration (including part time arrangements) \$195,000 to \$224,999	6	182,904	24,933	-	-	207,837
Total	6					

¹ This table reports staff:

- a) who were employed by DMO during the reporting period;
- b) whose reportable remuneration was \$195,000 or more for the financial period; and
- c) were not required to be disclosed in Table 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' for tax purposes);
- c) reportable employer superannuation contributions; and
- d) exempt foreign employment income.

³ The 'contributed superannuation' amount is the average cost to DMO for the provision of superannuation benefits to other highly paid staff in that reportable remuneration band during the reporting period.

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 DMO during the financial year.

Defence Materiel Organisation

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note 13: Remuneration of Auditors

	2014 \$'000	2013 \$'000
Financial statement audit services were provided free of charge to DMO by the Australian National Audit Office (ANAO)		
Fair value of the services received		
Financial statement audit services	<u>1,050</u>	<u>1,100</u>
Total fair value of services received	<u>1,050</u>	<u>1,100</u>

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

Note 14: Financial Instruments

	2014 \$'000	2013 \$'000
Note 14A: Categories of Financial Instruments		
Financial Assets		
Loans and receivables		
Cash and cash equivalents	122,628	94,342
Trade and other receivables	451,926	961,393
Total loans and receivables	574,554	1,055,735
Total financial assets	574,554	1,055,735
Financial Liabilities		
Financial liabilities measured at amortised cost		
Suppliers	1,341,482	1,405,557
Grants payable	5,733	5,111
Other payables	221,792	460,794
Total financial liabilities measured at amortised cost	1,569,007	1,871,462
Total financial liabilities	1,569,007	1,871,462
Note 14B: Net Gains or Losses on Financial Assets		
Loans and receivables		
Exchange gains/(losses)	5	5
Impairment	(130)	(66)
Discounting of non-current receivables	-	(13,097)
Net gains/(losses) on loans and receivables	(125)	(13,158)
Net gains/(losses) on financial assets	(125)	(13,158)

There was no interest income from financial assets not at fair value through profit or loss for the year ending 30 June 2014 (2013: nil)

Note 14C: Net Gains or Losses on Financial Liabilities

Financial liabilities measured at amortised cost		
Exchange gains/(losses)	(18,062)	(15,304)
Interest expense	(1)	(25)
Net gains/(losses) on financial liabilities measured at amortised cost	(18,063)	(15,329)
Net gains/(loss) on financial liabilities	(18,063)	(15,329)

The total interest expense from financial liabilities not at fair value through profit or loss was \$1,000 (2013: \$25,000)

Note 14D: 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 14E: 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 (2014: \$451.9m, 2013: \$961.4m).

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 \$0.1m in 2014 (2013: \$0.1m) 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 assets not past due or individually determined as impaired

	Not past due nor impaired 2014 \$'000	Not past due nor impaired 2013 \$'000	Past due or impaired 2014 \$'000	Past due or impaired 2013 \$'000
Cash and cash equivalents	122,628	94,342	-	-
Trade and other receivables	449,971	961,031	1,955	362
Total	572,599	1,055,373	1,955	362

Ageing of financial assets that were past due but not impaired in 2014

	0 to 30 days 2014 \$'000	31 to 60 days 2014 \$'000	61 to 90 days 2014 \$'000	90 + days 2014 \$'000	Total 2014 \$'000
Trade and other receivables	1,725	104	-	18	1,847
Total	1,725	104	-	18	1,847

Ageing of financial assets that were past due but not impaired in 2013

	0 to 30 days 2013 \$'000	31 to 60 days 2013 \$'000	61 to 90 days 2013 \$'000	90 + days 2013 \$'000	Total 2013 \$'000
Trade and other receivables	196	9	6	39	250
Total	196	9	6	39	250

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note 14F: 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 in 2014

	On demand 2014 \$'000	within 1 year 2014 \$'000	between 1 to 2 years 2014 \$'000	between 2 to 5 years 2014 \$'000	more than 5 years 2014 \$'000	Total 2014 \$'000
Suppliers	-	1,341,482	-	-	-	1,341,482
Grant payables	-	5,733	-	-	-	5,733
Other payables	-	178,506	30,207	13,079	-	221,792
Total	-	1,525,721	30,207	13,079	-	1,569,007

Maturities for non-derivative financial liabilities in 2013

	On demand 2013 \$'000	within 1 year 2013 \$'000	between 1 to 2 years 2013 \$'000	between 2 to 5 years 2013 \$'000	more than 5 years 2013 \$'000	Total 2013 \$'000
Suppliers	-	1,405,557	-	-	-	1,405,557
Grant payables	-	5,111	-	-	-	5,111
Other payables	-	138,214	93,489	174,394	54,697	460,794
Total	-	1,548,882	93,489	174,394	54,697	1,871,462

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 14G: Market Risk

Currency risk

Currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. DMO is exposed to foreign exchange currency risk primarily through undertaking certain transactions denominated in foreign currency

DMO is exposed to foreign currency denominated in a wide range of foreign currencies.

The method used to arrive at the possible risk of 11.5% (2013: 15.7%) was based on both statistical and non-statistical analysis. The statistical analysis has been based on main currencies movements across the Commonwealth for the last five years. The five main currencies the Commonwealth has exposure to are the United States dollar, European euro, United Kingdom pound sterling, Japanese Yen and New Zealand dollar. This information is then revised and adjusted for reasonableness under the current economic circumstances.

Interest rate risk and other price risk

DMO holds basic financial instruments that are not exposed to significant interest rate and other price risk.

Sensitivity analysis of the risk that the entity is exposed to for 2014

Sensitivity analysis of the risk that the entity is exposed to for 2014				
	Risk variable	2014		
			Effect on	
		Change in risk variable %	Net cost of services \$'000	Equity \$'000
Financial assets				
Cash	Exposed currency	11.5%	(9,363)	(9,363)
		-11.5%	11,796	11,796
Receivables	Exposed currency	11.5%	(54)	(54)
		-11.5%	66	66
Financial liabilities				
Suppliers	Exposed currency	11.5%	40,375	40,375
		-11.5%	(50,879)	(50,879)

Sensitivity analysis of the risk that the entity is exposed to for 2013

Sensitivity analysis of the risk that the entity is exposed to for 2013				
	Risk variable	2013		
			Effect on	
		Change in risk variable %	Net cost of services \$'000	Equity \$'000
Financial assets				
Cash	Exposed currency	15.7%	(15,678)	(15,678)
		-15.7%	21,518	21,518
Receivables	Exposed currency	15.7%	-	-
		-15.7%	-	-
Financial liabilities				
Suppliers	Exposed currency	15.7%	52,642	52,642
		-15.7%	(81,583)	(81,583)

Defence Materiel Organisation

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note 15: Financial Assets Reconciliation

		2014 \$'000	2013 \$'000
	Notes		
Total financial assets as per statement of financial position		855,927	1,259,902
Less: non-financial instrument components			
Appropriation receivables	6B	174,493	111,331
Statutory receivables	6B	106,880	92,836
Total non-financial instrument components		281,373	204,167
Total financial assets as per financial instruments note	14A	574,554	1,055,735

Defence Materiel Organisation

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note 16: Administered Expenses

	2014 \$'000	2013 \$'000
<u>Note 16A: Foreign Exchange</u>		
Foreign exchange gains		
Non-speculative	(124)	(189)
Foreign exchange losses		
Non-speculative	162	-
Total foreign exchange losses / (gains)	<u>38</u>	<u>(189)</u>

Note 17: Administered Income

	2014 \$'000	2013 \$'000
Revenue		
Non-taxation revenue		
<u>Note 17A: Interest</u>		
Deposits	67	85
Total interest	<u>67</u>	<u>85</u>
<u>Note 17B: Other Revenue</u>		
Levies from sale of excess consortium assets	1,961	-
Total other revenue	<u>1,961</u>	<u>-</u>

Defence Materiel Organisation

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note 18: Administered Fair Value Measurements

No items were held at fair value in the administered schedule of assets and liabilities as at 30 June 2014.

Note 19: Administered Financial Assets

	2014 \$'000	2013 \$'000
Note 19A: Trade and Other Receivables		
Interest	3	9
Levies receivable from consortium	1,499	2,050
Total trade and other receivables	1,502	2,059
Trade and other receivables are expected to be recovered		
No more than 12 months	1,502	2,059
More than 12 months	-	-
Total trade and other receivables	1,502	2,059
Trade and other receivables aged as follows		
Not overdue	1,502	9
Overdue by		
0 to 30 days	-	-
31 to 60 days	-	-
61 to 90 days	-	-
More than 90 days	-	2,050
Total trade and other receivables	1,502	2,059

Note 20: Administered Payables

	2014 \$'000	2013 \$'000
Note 20A: Other Payables		
Other payables to Defence	1,539	-
Total other payables	1,539	-
Other payables expected to be settled in		
No more than 12 months	1,539	-
More than 12 months	-	-
Total other payables	1,539	-

Defence Materiel Organisation

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note 21: Administered Cash Flow Reconciliation

	2014 \$'000	2013 \$'000
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 flow	-	-
Schedule of administered assets and liabilities	-	-
Discrepancy	<u>-</u>	<u>-</u>
Reconciliation of net cost of services to net cash from/(used by) operating activities		
Net (cost of)/contribution by services	1,990	274
Movements in assets and liabilities		
Assets		
(Increase) / decrease in net receivables	557	1,525
Increase / (decrease) in other payables	<u>1,539</u>	<u>-</u>
Net cash from/(used by) operating activities	<u>4,086</u>	<u>1,799</u>

Note 22: Administered Contingent Assets and Liabilities

There are no administered contingent liabilities or administered contingent assets to report for the current or prior year.

Defence Materiel Organisation

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note 23: Administered Financial Instruments

	2014 \$'000	2013 \$'000
Note 23A: Categories of Financial Instruments		
Financial Assets		
Loans and receivables		
Interest	3	9
Levies receivable from consortium	1,499	2,050
Total loans and receivables	1,502	2,059
Total financial assets	1,502	2,059
Note 23B: Net Gains or Losses on Financial Assets		
Loans and receivables		
Foreign exchange gains/(losses)	(38)	189
Net gains/(losses) on loans and receivables	(38)	189
Net gains/(losses) on financial assets	(38)	189

Note 23C: Fair Value of Financial Instruments

The fair values of DMO administered financial instruments approximate their carrying amounts.

Defence Materiel Organisation

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note 23D: 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 administered schedule of assets and liabilities. This amount was equal to the total amount of trade and other receivables. DMO assessed the risk of default on payments and allocated \$0 (2013: \$0) to an impairment account.

Credit quality of financial assets not past due or individually determined as impaired

	Not past due nor impaired 2014 \$'000	Not past due nor impaired 2013 \$'000	Past due or impaired 2014 \$'000	Past due or impaired 2013 \$'000
Trade and other receivables	1,502	9	-	2,050
Total	1,502	9	-	2,050

Ageing of financial assets that were past due but not impaired in 2014

	0 to 30 days 2014 \$'000	31 to 60 days 2014 \$'000	61 to 90 days 2014 \$'000	90+ days 2014 \$'000	Total 2014 \$'000
Trade and other receivables	-	-	-	-	-
Total	-	-	-	-	-

Ageing of financial assets that were past due but not impaired in 2013

	0 to 30 days 2013 \$'000	31 to 60 days 2013 \$'000	61 to 90 days 2013 \$'000	90+ days 2013 \$'000	Total 2013 \$'000
Trade and other receivables	-	-	-	2,050	2,050
Total	-	-	-	2,050	2,050

Defence Materiel Organisation

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note 23E: Market Risk

Currency risk

Currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. DMO is exposed to foreign exchange currency risk primarily through undertaking certain transactions denominated in foreign currency.

DMO is exposed to foreign currency denominated in a wide range of foreign currencies.

The method used to arrive at the possible risk of 11.5% (2013: 15.7%) was based on both statistical and non-statistical analyses. The statistical analysis has been based on main currencies movements across the Commonwealth for the last five years. The five main currencies the Commonwealth has exposure to are the United States dollar, European euro, United Kingdom pound sterling, Japanese Yen and New Zealand dollar. This information is then revised and adjusted for reasonableness under the current economic circumstances.

Interest rate risk and other price risk

DMO holds basic financial instruments that are not exposed to significant interest rate and other price risk.

Sensitivity analysis of the risk that the entity is exposed to for 2014

	Risk variable	2014		
		Effect on		
		Change in risk variable %	Net cost of services \$'000	Equity \$'000
Financial assets				
Receivables	Exposed currency	11.5%	(155)	(155)
		-11.5%	195	195

Sensitivity analysis of the risk that the entity is exposed to for 2013

	Risk variable	2013		
		Effect on		
		Change in risk variable %	Net cost of services \$'000	Equity \$'000
Financial assets				
Receivables	Exposed currency	15.7%	(279)	(279)
		-15.7%	383	383

Defence Materiel Organisation

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note 24: Administered Financial Assets Reconciliation

	Notes	2014 \$'000	2013 \$'000
Total financial assets as per administered schedule of assets and liabilities		1,502	2,059
Total non-financial instrument components		-	-
Total financial assets as per administered financial instruments note	23	1,502	2,059

Defence Materiel Organisation NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note 25: Appropriations

Note 25A: Annual Appropriations ('Recoverable GST exclusive')

Annual Appropriations for 2014

	Appropriation Act		FMA Act			Total appropriation \$'000	Appropriation applied in 2014 (current and prior years) \$'000	Variance \$'000
	Annual Appropriation ¹ \$'000	Appropriations reduced ² \$'000	AFM ³ \$'000	Section 30 \$'000	Section 31 \$'000	Section 32 \$'000		
Departmental								
Ordinary annual services ¹	907,791	-	-	-	-	-	905,499	2,292
Total departmental	907,791	-	-	-	-	-	905,499	2,292
Administered								
Ordinary annual services Administered items	-	-	-	-	-	-	-	-
Total administered	-	-	-	-	-	-	-	-

Notes:

¹ Includes an amount of \$35,359,000 which, whilst appropriated by law, has been quarantined and is expected to be formally reduced on 1 July 2016.

² Appropriations reduced under Appropriation Acts (Nos. 1, 3 and 5) 2013–14; section 10, 11 and 12. Department 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 the appropriation. The reduction in the appropriation is effected by the Finance Minister's determination and is disallowable by Parliament. In 2014, there was no reduction in departmental appropriation.

³ Advance to the Finance Minister (AFM) – Appropriation Acts (Nos. 1 and 3 and 5) 2013–14; section 13.

Defence Materiel Organisation NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Annual Appropriations for 2013

	<i>Appropriation Act</i>		<i>FM4 Act</i>			Total appropriation \$'000	Appropriation applied in 2013 (current and prior years) \$'000	Variance ³ \$'000
	Annual Appropriation \$'000	Appropriations reduced ¹ \$'000	AFM ² \$'000	Section 30 \$'000	Section 31 \$'000	Section 32 \$'000		
Departmental								
Ordinary annual services	928,466	(17,362)	-	-	-	-	1,014,441	(103,337)
Total departmental	928,466	(17,362)	-	-	-	-	1,014,441	(103,337)
Administered								
Ordinary annual services	-	-	-	-	-	-	-	-
Administered items	-	-	-	-	-	-	-	-
Total administered	-	-	-	-	-	-	-	-

Notes:

¹ Appropriations reduced under Appropriation Acts (Nos. 1 and 3) 2012-13: sections 10, 11 and 12. Department 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 the appropriation. The reduction in the appropriation is effected by the Finance Minister's determination and is disallowable by Parliament. On 5 August 2013, 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 the *Instrument to Reduce Appropriations* (No. 1 of 2013-14) was \$17,362,000.

² Advance to the Finance Minister (AFM) – Appropriation Acts (Nos 1 and 3) 2012-13: section 13.

³ The variance between the total appropriations and appropriations applied in 2012-13 was due to higher than estimated payments to suppliers as a result of the strong capital performance in the Acquisition Program.

Defence Materiel Organisation

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note 25B: Unspent Annual Appropriations ('Recoverable GST exclusive')

	2014 \$'000	2013 \$'000
Departmental		
Appropriation Act (No. 1) 2010-11	-	16,800
Appropriation Act (No. 1) 2011-12	-	41,358
Appropriation Act (No. 3) 2011-12	-	2,069
Appropriation Act (No. 1) 2012-13	38,264	51,104
Appropriation Act (No. 1) 2013-14 ¹	75,359	-
Total departmental	113,623	111,331

¹ Includes \$35.4m that has been quarantined and as such is unable to be utilised for Departmental purposes.

Defence Materiel Organisation

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note 26: Special Accounts

Note 26A: Special Accounts ('Recoverable GST exclusive')

	Defence Materiel Special Account ^{1,3}	
	2014	2013
	\$'000	\$'000
Balance brought forward from previous period	247,136	326,647
Increases		
Appropriation credited to special account	907,791	911,104
Costs recovered	61,835	50,074
Interest	-	157
Goods and services receipts from Defence	9,988,618	8,252,816
Receipts on behalf of Foreign Governments	34,387	47,829
Other receipts	191	-
Total increases	10,992,822	9,261,980
Available for payments	11,239,958	9,588,627
Decreases		
Departmental		
Payments made to employees	(551,862)	(616,037)
Payments made to suppliers	(9,811,085)	(8,373,877)
Payments of grants	(12,378)	(19,312)
Funds returned to Defence ²	(491,662)	(283,901)
Total departmental	(10,866,987)	(9,293,127)
Administered		
Payments made	-	-
Total administered	-	-
Special Public Money		
Payments made in regards to Foreign Government Activities	(43,855)	(48,364)
Total special public money	(43,855)	(48,364)
Total decreases	(10,910,842)	(9,341,491)
Total balance carried to the next period	329,116	247,136

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 The majority of funds represent return of foreign exchange gains under no-win no-loss arrangements with Defence.

³ 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 27 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 27: Compliance with Statutory Conditions for Payments from the Consolidated Revenue Fund

Section 83 of the Constitution stipulates that no money shall be drawn from the Consolidated Revenue Fund (CRF) except under an appropriation made by law. Drawing money from the CRF beyond the scope of a valid appropriation would constitute a breach of section 83.

Where there is greater specificity in the purposes of an appropriation or there are specific conditions that are to be met for a payment to be made, there is greater risk of expenditure being in breach of the Constitution. These circumstances are likely to exist for special appropriations, including special accounts, and payments made in accordance with enabling legislation.

In 2013-14, all expenditure by DMO was appropriated through the Defence Materiel Special Account. This Special Account underpins the Defence-DMO business model by providing the mechanism for Defence to make notional payments to DMO for materiel acquisition and materiel sustainment activities. The purposes of the Special Account are sufficiently broad to capture the full range of DMO activities.

In 2013-14, DMO assessed the risk of payments being made in contravention of section 83 of the Constitution. As a result of this assessment, DMO concluded that there was a low risk of payments being made in contravention of section 83 of the Constitution.

Defence Materiel Organisation

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note 28: Compensation and Debt Relief

	2014 \$	2013 \$
Compensation and Debt Relief - Departmental		
No 'Act of Grace payments' were expensed during the reporting period (2013: No payments)	<u>Nil</u>	<u>Nil</u>
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> . (2013: No waivers)	<u>Nil</u>	<u>Nil</u>
No payments were provided under the Compensation for Detriment caused by Defective Administration (CDDA) Scheme during the reporting period. (2013: No payments)	<u>Nil</u>	<u>Nil</u>
No ex-gratia payments were provided during the reporting period. (2013: No payments)	<u>Nil</u>	<u>Nil</u>
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. (2013: No payments)	<u>Nil</u>	<u>Nil</u>
Compensation and Debt Relief - Administered		
No 'Act of Grace payments' were expensed during the reporting period (2013: No payments)	<u>Nil</u>	<u>Nil</u>
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> . (2013: No waivers)	<u>Nil</u>	<u>Nil</u>
No payments were provided under the Compensation for Detriment caused by Defective administration (CDDA) Scheme during the reporting period. (2013: No payments)	<u>Nil</u>	<u>Nil</u>
No ex-gratia payments were provided during the reporting period. (2013: No payments)	<u>Nil</u>	<u>Nil</u>
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. (2013: No payments)	<u>Nil</u>	<u>Nil</u>

Defence Materiel Organisation

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note 29: Assets Held in Trust

Monetary assets

DMO has entered into a number of agreements to perform activities on behalf of foreign governments under which funding is provided in advance of expenditure being incurred. These monies are held in trust for the joint benefit of the Australian and foreign governments, rather than for the benefit of either DMO or the Australian Government and are reported as assets held in relation to activities performed on behalf of foreign governments, and as such are not able to be utilised for other purposes. Monetary assets held in trust were also disclosed as part of the Defence Materiel Special Account in Note 26.

Non-monetary assets

DMO had no non-monetary assets held in trust in both the current and prior reporting period.

	2014 \$'000	2013 \$'000
Assets held in relation to activities performed on behalf of foreign governments - Monetary Assets		
As at 1 July	41,463	-
Transfers from departmental accounts ¹	-	41,998
Receipts	34,387	47,829
Payments	(43,855)	(48,364)
Total as at 30 June	31,995	41,463
Total assets held in trust	31,995	41,463

¹ In the 2012-13 published statements, foreign government related obligations were recognised as a receivable with an offsetting liability in the departmental statements. This classification was reviewed during 2013-14 and the prior year classification was identified as being inconsistent with DMO's accounting policy and the nature of these obligations. As outlined in Note 1.26, the comparative balance has been adjusted accordingly.

Defence Materiel Organisation
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note 30: Reporting of Outcomes

Note 30A: Net Cost of Outcome Delivery

	Outcome 1		Total	
	2014	2013	2014	2013
	\$'000	\$'000	\$'000	\$'000
Departmental				
Expenses	10,333,440	9,134,794	10,333,440	9,134,794
Own-source income	9,498,082	8,256,329	9,498,082	8,256,329
Administered				
Expenses	38	-	38	-
Own-source income	2,028	274	2,028	274
Net cost/(contribution) of outcome delivery	833,368	878,191	833,368	878,191

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An electronic version of this report and supplementary content to this report that includes additional detailed information can be accessed at www.defence.gov.au/annualreports.

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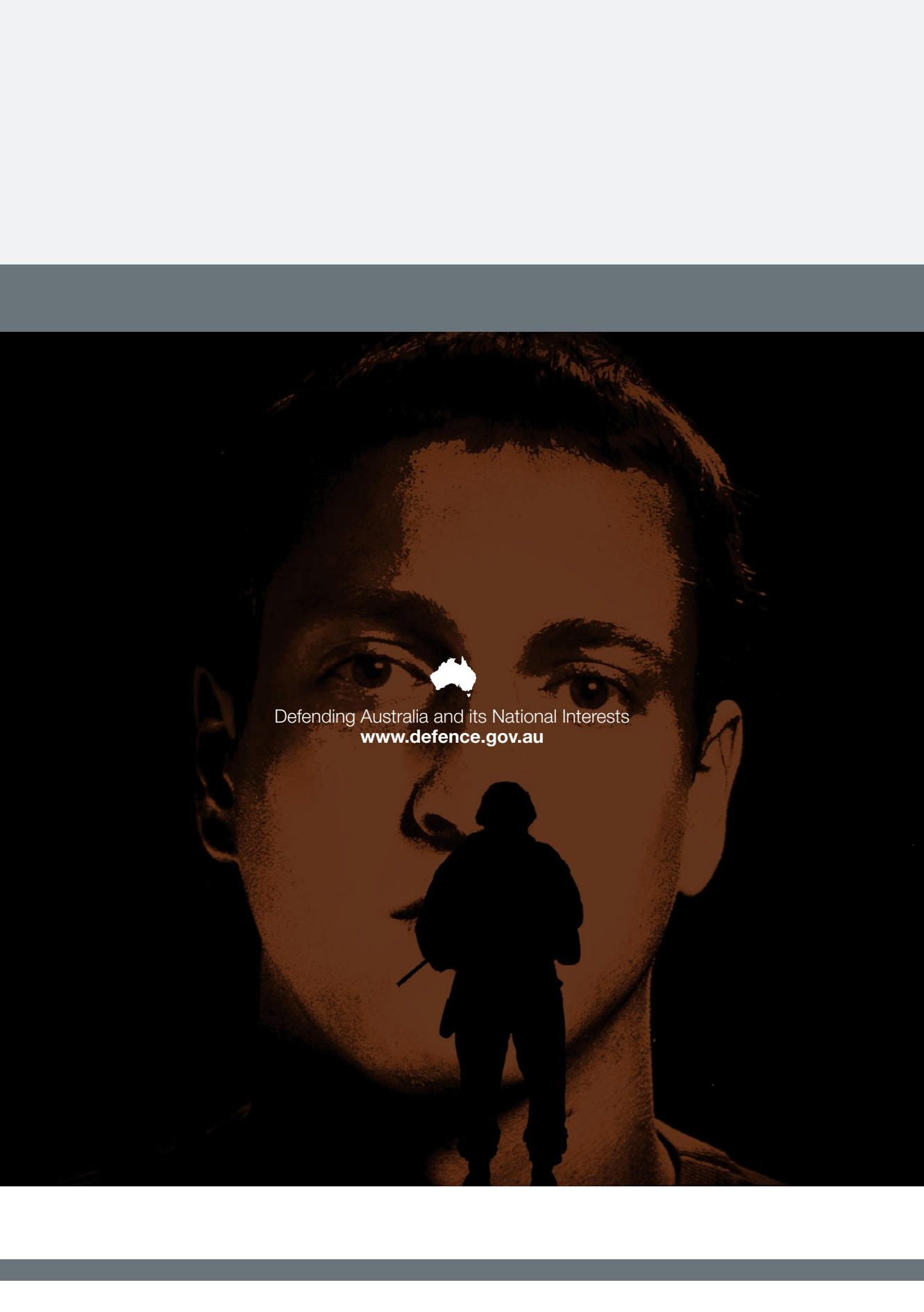
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Women in the ADF Report

2013–14

Supplement to the *Defence Annual Report 2013–14*



Defence People Group, Department of Defence, Australia 2014

Cover photo by ABIS Jo Dilozenzo, 1st Joint Public Affairs Unit
*Two women deployed to Afghanistan as part of Operation Slipper look out
over the heavy weapons range in Tarin Kowt, Afghanistan.*

Source: Australian Defence Image Library

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Women in the ADF

The *review into the treatment of women in the Australian Defence Force—phase 2 report*, by Sex Discrimination Commissioner Elizabeth Broderick, identified a strong capability imperative to improve the treatment of women in the ADF and to enhance their career opportunities. Defence is committed to a range of strategies and targets required to achieve the recommendations of the Broderick review.

Recommendation 3 of the review was the publication of a *Women in the ADF report*, as a supplement to the Defence annual report, to include information in the broad areas of:

- women's participation
- women's experience
- access to flexible work
- sexual harassment and abuse.

In addition to addressing the requirements of recommendation 3, the *Women in the ADF report* is also the vehicle for service reporting against recommendation 6 (promotional gateways), recommendation 9 (recruitment targets for women) and recommendation 13 (flexible work targets).

The inaugural *Women in the ADF report* was published as an online supplement to the *Defence Annual Report 2012–13* and provided a baseline for future reporting on women's participation and experience in the ADF. This second report incorporates feedback from the Australian Human Rights Commission's 2014 Audit Report to include changes such as the addition of more discussion and analysis of data, and making the report more suited to a general public audience. The report's fourth element—sexual harassment and abuse—now has its own dedicated report as an online supplement separate from the *Women in the ADF report*, reflecting its relevance to both women and men in the ADF.

The 2013–14 *Women in the ADF report* capitalises on the baseline collected for the previous year's report, comparing past and current data. This facilitates a quantitative assessment of the progress that Defence's cultural reform efforts have achieved. While cultural reform takes time, this comparison shows that considerable gains were made in 2013–14. The proportion of women in the ADF has increased, women are more likely to access flexible work, and ADF members—particularly women—have become much more positive about Pathway to Change, indicating that they can see cultural change occurring, and can see how Defence will benefit from it.

These improvements indicate the success of the implementation of Broderick's recommendations, and of the broader Pathway to Change strategy. They also reinforce the need for Defence to remain committed to cultural reform and to continue to make further progress. Defence will produce a *Women in the ADF report* each year to enable an accurate measurement of progress in women's employment and experience, identify areas of concern and highlight successful initiatives across the three services.

Women's participation

Gender diversity brings tangible benefits to organisations as they access a wider talent pool and reflect the community.¹ Furthermore, a greater representation of women in senior management improves organisational performance and brings a diversity of thought to decision making.² The Review into the Treatment of Women in the Australian Defence

¹ Catalyst, 2004, *The bottom line: Connecting corporate performance and gender diversity*.

² Catalyst, 2011, *The bottom line: Connecting corporate performance and women's representation on boards*.

Force³ further outlines that increased participation of women is imperative at all levels for Defence to attract the best talent, increase capability, be a first class and high-performing employer, and take a leadership position as one of Australia's largest employers.

This section analyses various aspects of women's participation, including current workforce participation at different ranks and gender differences in pay at those ranks; recruitment, separations and promotions; and enabling factors such as mentoring, sponsorship, and continuing employment after maternity leave.

The tables begin by showing the number and proportion of women and men in the ADF workforce by rank, employment location and occupational group.

³ Australian Human Rights Commission 2012, *Review into the Treatment of Women in the Australian Defence Force—Phase 2 Report*, Sydney.

Table 1: ADF permanent force, by gender and rank, 30 June 2014^{[1][8][9][10][11]}

2013-14	Navy					Army					Air Force					ADF				
	Women	%	Δ	Men	%	Women	%	Δ	Men	%	Women	%	Δ	Men	%	Women	%	Δ	Men	%
Officers^[2]																				
General (E) (O10)	0	0	0.0%	0	0	0	0.0%	0.0%	1	100.0%	0	0	0.0%	0	0	0	0.0%	0.0%	1	100.0%
Lieutenant General (E) (O09)	0	0.0%	0.0%	4	100.0%	0	0.0%	0.0%	3	100.0%	0	0.0%	0.0%	2	100.0%	0	0.0%	0.0%	9	100.0%
Major General (E) (O08)	1	6.3%	-0.4%	15	93.8%	1	5.9%	5.9%	16	94.1%	0	0.0%	0.0%	10	100.0%	2	4.7%	2.2%	41	95.3%
Brigadier (E) (O07)	1	2.6%	0.0%	38	97.4%	6	10.3%	-0.6%	52	89.7%	4	10.0%	3.2%	36	90.0%	11	8.0%	0.8%	126	92.0%
Colonel (E) (O06)	18	16.2%	2.5%	93	83.8%	18	10.5%	1.4%	153	89.5%	17	11.6%	1.3%	130	88.4%	53	12.4%	1.6%	376	87.6%
Sub-total ADF Senior Leaders^[3]	20	11.8%	1.4%	150	88.2%	25	10.0%	1.2%	225	90.0%	21	10.6%	1.6%	178	89.4%	66	10.7%	1.4%	553	89.3%
Lieutenant Colonel (E) (O05)	47	11.9%	0.1%	347	88.1%	78	12.5%	1.5%	547	87.5%	69	14.1%	0.5%	420	85.9%	194	12.9%	0.8%	1,314	87.1%
Sub-total Pipeline for ADF Senior Leaders^[4]	47	11.9%	0.1%	347	88.1%	78	12.5%	1.5%	547	87.5%	69	14.1%	0.5%	420	85.9%	194	12.9%	0.8%	1,314	87.1%
Major (E) (O04)	146	19.4%	0.8%	605	80.6%	267	15.0%	0.5%	1,514	85.0%	218	19.4%	1.2%	906	80.6%	631	17.3%	0.7%	3,025	82.7%
Captain (E) (O03)	278	22.1%	-0.4%	982	77.9%	281	15.0%	0.0%	1,593	85.0%	374	21.3%	0.5%	1,380	78.7%	933	19.1%	0.1%	3,955	80.9%
Lieutenant (E) (O02)	71	22.5%	-0.7%	244	77.5%	219	21.4%	2.0%	803	78.6%	177	27.7%	0.8%	463	72.3%	467	23.6%	1.2%	1,510	76.4%
Second Lieutenant (E) (O01)	8	17.0%	-6.2%	39	83.0%	1	50.0%	50.0%	1	50.0%	47	18.7%	-1.3%	205	81.3%	56	18.6%	-2.0%	245	81.4%
Officer Cadet (E) (O00)	80	22.6%	-0.7%	274	77.4%	128	16.1%	-0.5%	668	83.9%	97	22.7%	1.7%	330	77.3%	305	19.3%	0.1%	1,272	80.7%
Total Officers	650	19.8%	-0.1%	2,641	80.2%	999	15.7%	0.6%	5,351	84.3%	1,003	20.5%	0.8%	3,882	79.5%	2,652	18.3%	0.5%	11,874	81.7%
Other Ranks^[2]																				
Warrant Officer Class 1 (E) (E10 and E09) ^[5]	14	6.6%	0.2%	198	93.4%	66	9.9%	0.4%	600	90.1%	43	7.9%	0.4%	500	92.1%	123	8.7%	0.3%	1,298	91.3%
Warrant Officer Class 2 (E) (E08)/Staff Sergeant (E07)	88	9.2%	-0.2%	873	90.8%	193	9.6%	0.3%	1,816	90.4%	117	15.3%	0.5%	649	84.7%	398	10.7%	0.2%	3,338	89.3%
Sergeant (E) (E06)	178	12.7%	0.2%	1,227	87.3%	296	11.3%	0.0%	2,332	88.7%	252	15.4%	-0.4%	1,384	84.6%	726	12.8%	-0.1%	4,943	87.2%
Corporal (E) (E05)/Lance Corporal (E04) ^[6]	477	20.3%	0.2%	1,868	79.7%	640	12.0%	0.1%	4,693	88.0%	413	17.1%	1.2%	2,006	82.9%	1,530	15.2%	0.5%	8,567	84.8%
Private Proficient (E) (E03)	790	20.3%	-0.2%	3,104	79.7%	577	7.9%	0.5%	6,702	92.1%	514	17.6%	0.2%	2,405	82.4%	1,881	13.3%	0.3%	12,211	86.7%
Private (E) (E02)	160	21.6%	2.4%	582	78.4%	245	13.2%	3.7%	1,617	86.8%	100	22.2%	1.0%	351	77.8%	505	16.5%	3.0%	2,550	83.5%
Private Trainee(E) (E01 and E51) ^[7]	123	18.6%	-0.6%	539	81.4%	237	11.9%	2.1%	1,754	88.1%	100	23.1%	1.7%	332	76.9%	460	14.9%	1.4%	2,625	85.1%
Private Recruit (E) (E00)	81	32.5%	10.4%	168	67.5%	169	18.2%	0.4%	758	81.8%	43	24.0%	2.3%	136	76.0%	293	21.6%	2.3%	1,062	78.4%
Total Other Ranks	1,911	18.3%	0.3%	8,559	81.7%	2,423	10.7%	0.9%	20,272	89.3%	1,582	16.9%	0.6%	7,763	83.1%	5,916	13.9%	0.7%	36,594	86.1%
Total ADF Permanent	2,561	18.6%	0.2%	11,200	81.4%	3,422	11.8%	0.8%	25,623	88.2%	2,585	18.2%	0.7%	11,645	81.8%	8,568	15.0%	0.6%	48,468	85.0%

Source: Defence HR system

Notes

- Figures in this table are based on the ADF permanent force (substantive headcount) at 30 June 2014.
- The Army rank descriptions with an (E) following them also refer to the equivalent rank in the Navy and Air Force.
- For the purposes of this report, ADF senior leaders refer to those with ranks of Colonel (E) and above.
- In this report, the pipeline for senior leadership roles includes those members at Lieutenant Colonel (E) level.
- Warrant Officer Class 1 figures include Warrant Officer—Navy, Regimental Sergeant Major—Army (E10) and Warrant Officer—Air Force.
- E04 is an Army-only rank.
- The Air Force rank of Non-Commissioned Officer Cadet (E51) is included with Private Trainee (E) figures, and includes 2 women and 21 men.
- Delta (Δ) figures show the difference in percentages of women from 30 June 2014 and 30 June 2013.
- Cells highlighted in green indicate that the 2013–14 percentage of women was at least 5 per cent greater than the 2012–13 percentage of women.
- Cells highlighted in red indicate that the 2013–14 percentage of women was at least 5 per cent less than the 2012–13 percentage of women.
- Percentages may not sum due to rounding.

Figure 1: Percentage of women at each officer rank, by service, 30 June 2014

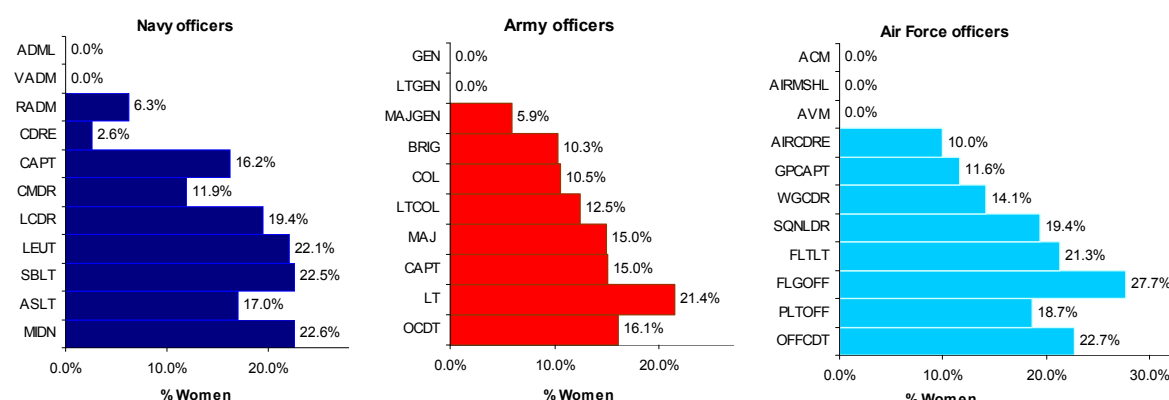


Figure 1 shows the proportion of women throughout the ADF officer workforce. The Navy has a comparatively strong proportion of women in the junior officer ranks; however, that proportion declines at the Commander level and again at the Commodore level. The proportion of 6.3 per cent at Rear Admiral represents one woman in a total of 16 permanent two-star positions. The most notable change over the past year was the increase in the proportion of female Captains from 13.7 per cent to 16.2 per cent. The proportion of female Acting Sub Lieutenants decreased; however, this reflected a difference of only eight women in the small group at this rank.

While the junior officer ranks of the Army have a smaller proportion of women than the Navy and the Air Force, Figure 1 shows that the Army is relatively successful in retaining women's representation with increasing rank. In 2013–14, the Army promoted a woman to Major General, raising the proportion of female two-stars to 5.9 per cent. There were also small increases in the proportion of women at Lieutenant, Major, Lieutenant Colonel and Colonel ranks. The rank of Second Lieutenant has not been included in this chart, as that rank is not commonly used; there are only two Army members at that rank.

The rank of Air Force Flying Officer has the highest proportion of women throughout the Services, at 27.7 per cent. This proportion steadily declines with each increase in rank; however, in 2013–14 there was an increase in the number of women in higher ranks. The proportion of female Air Commodores increased from 6.8 per cent to 10.0 per cent, and there were incremental increases in the proportion of women at the ranks of Officer Cadet, Flying Officer, Flight Lieutenant, Squadron Leader, Wing Commander and Group Captain.

After a concerted effort to improve the participation and advancement of women throughout the ADF, the proportion of female officers increased from 17.8 per cent in 2012–13 to 18.3 per cent in 2013–14. The proportion of female officers in the senior leadership group rose from 9.3 per cent to 10.7 per cent.

Figure 2: Percentage of women at each other rank, by service, 30 June 2014

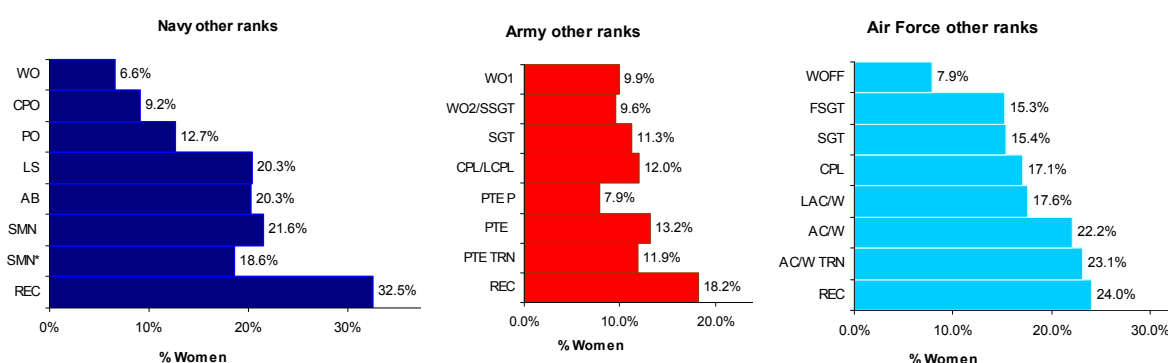


Figure 2 shows the proportions of women at each of the other ranks throughout the ADF. The Navy has a comparatively strong representation of female Able Seamen and Leading Seamen; then, mirroring the pattern for Navy officers, there is a decline moving into the Senior Non-Commissioned Officer (NCO) ranks. By far the biggest change in 2013–14 from the previous year for female Navy other ranks was the proportion of female recruits. The Navy Recruitment of Women Scheme has had clear success: the proportion of women at the rank of Recruit rose from 22.1 per cent to 32.5 per cent over the past year.

While the Army's other ranks hold the lowest proportion of women throughout the ADF (10.7 per cent), the Army has less variation in the proportion of women throughout its other ranks, resulting in a relatively flat rank profile. There have been increases in the proportions of women at the Private Trainee, Private, and Private Proficient ranks, indicating that more female recruits are successfully moving through initial training and through their initial employment. This is likely to be due to targeted programs to assist female recruits, such as the Army Preconditioning Course, which prepares women for the physical challenges of initial training that often impede their progress.

The Air Force does not show a similar reduction in the proportion of women moving from recruit to Aircraftman/Aircraftwoman Trainee, but has only a small decrease in the proportion, from 24.0 per cent to 22.2 per cent. The proportion of women decreases at Leading Aircraftman/Aircraftwoman and at Warrant Officer. The Air Force has had improvements throughout its other ranks in women's participation, most notably increasing at the recruit (21.7 per cent to 24.0 per cent) and Corporal (15.8 per cent to 17.1 per cent) levels. The Air Force has been targeting women's participation through several schemes addressing recruitment, retention and advancement.

Throughout the ADF for all rank groups, the proportion of women at each rank has increased, which has contributed to the overall rise in the proportion of women from 14.4 per cent at 30 June 2013 to 15.0 per cent at 30 June 2014. This reflects a net increase of 482 women.

Table 2: ADF permanent force, by gender and employment location, 30 June 2014^{[1][2][6][7][8][9]}

	Navy					Army					Air Force					ADF				
	Women	%	Δ	Men	%	Women	%	Δ	Men	%	Women	%	Δ	Men	%	Women	%	Δ	Men	%
2013-14																				
NSW																				
Greater Sydney	974	18.5%	-0.4%	4,298	81.5%	407	11.6%	0.5%	3,087	88.4%	248	15.3%	0.4%	1,371	84.7%	1,629	15.7%	0.1%	8,756	84.3%
Hunter and Northern NSW	1	3.7%	-3.2%	26	96.3%	22	2.5%	0.3%	866	97.5%	375	15.5%	0.1%	2,040	84.5%	398	12.0%	-0.9%	2,932	88.0%
Southern and Central NSW	135	11.3%	0.0%	1,061	88.7%	238	15.5%	1.2%	1,299	84.5%	160	22.3%	3.4%	559	77.7%	533	15.4%	1.4%	2,919	84.6%
Total NSW	1,110	17.1%	-0.3%	5,385	82.9%	667	11.3%	0.3%	5,252	88.7%	783	16.5%	0.7%	3,970	83.5%	2,560	14.9%	0.1%	14,607	85.1%
QLD																				
Brisbane and Southern QLD	29	24.6%	-3.6%	89	75.4%	643	12.6%	0.7%	4,445	87.4%	15	20.0%	-7.7%	60	80.0%	687	13.0%	0.5%	4,594	87.0%
Darling Downs and Central QLD	7	21.9%	-2.2%	25	78.1%	143	11.9%	1.1%	1,058	88.1%	479	19.6%	1.9%	1,965	80.4%	629	17.1%	1.6%	3,048	82.9%
Northern QLD	147	18.9%	1.3%	630	81.1%	503	10.2%	0.5%	4,444	89.8%	101	20.4%	-2.1%	393	79.6%	751	12.1%	0.4%	5,467	87.9%
Total QLD	183	19.7%	0.6%	744	80.3%	1,289	11.5%	0.7%	9,947	88.5%	595	19.7%	0.9%	2,418	80.3%	2,067	13.6%	0.7%	13,109	86.4%
VIC and TAS^[3]																				
Greater Melbourne	19	23.2%	9.0%	63	76.8%	150	13.4%	1.6%	970	86.6%	70	17.4%	-2.3%	333	82.6%	239	14.9%	1.0%	1,366	85.1%
Regional Victoria and Tasmania	328	22.1%	0.2%	1,153	77.9%	329	14.4%	2.1%	1,961	85.6%	101	17.1%	-0.9%	489	82.9%	758	17.4%	1.2%	3,603	82.6%
Total VIC and TAS	347	22.2%	0.9%	1,216	77.8%	479	14.0%	2.0%	2,931	86.0%	171	17.2%	-1.6%	822	82.8%	997	16.7%	1.2%	4,969	83.3%
SA	15	17.9%	-2.4%	69	82.1%	95	6.6%	0.7%	1,339	93.4%	269	13.9%	1.5%	1,672	86.1%	379	11.0%	1.4%	3,080	89.0%
Total SA	15	17.9%	-2.4%	69	82.1%	95	6.6%	0.7%	1,339	93.4%	269	13.9%	1.5%	1,672	86.1%	379	11.0%	1.4%	3,080	89.0%
WA	403	18.2%	0.1%	1,806	81.8%	83	9.8%	0.7%	766	90.2%	58	15.8%	1.4%	309	84.2%	544	15.9%	0.4%	2,881	84.1%
Total WA	403	18.2%	0.1%	1,806	81.8%	83	9.8%	0.7%	766	90.2%	58	15.8%	1.4%	309	84.2%	544	15.9%	0.4%	2,881	84.1%
ACT^[4]	376	24.5%	2.2%	1,157	75.5%	461	17.5%	0.7%	2,178	82.5%	479	24.9%	0.5%	1,448	75.1%	1,316	21.6%	1.0%	4,783	78.4%
Total ACT	376	24.5%	2.2%	1,157	75.5%	461	17.5%	0.7%	2,178	82.5%	479	24.9%	0.5%	1,448	75.1%	1,316	21.6%	1.0%	4,783	78.4%
NT	106	15.9%	-1.7%	562	84.1%	326	9.9%	0.5%	2,954	90.1%	187	19.1%	0.3%	792	80.9%	619	12.6%	0.1%	4,308	87.4%
Total NT	106	15.9%	-1.7%	562	84.1%	326	9.9%	0.5%	2,954	90.1%	187	19.1%	0.3%	792	80.9%	619	12.6%	0.1%	4,308	87.4%
Total Australia	2,540	18.8%	0.3%	10,939	81.2%	3,400	11.8%	0.8%	25,367	88.2%	2,542	18.2%	0.7%	11,431	81.8%	8,482	15.1%	0.6%	47,737	84.9%
Total Overseas^[5]	21	7.4%	-0.6%	261	92.6%	22	7.9%	1.0%	256	92.1%	43	16.7%	2.2%	214	83.3%	86	10.5%	0.9%	731	89.5%

Source: Defence HR system

Notes

- Figures in this table are based on the ADF permanent force (substantive headcount) at 30 June 2014.
- Members serving in ships are included against the state or territory in which the ship is home-ported.
- Victorian and Tasmanian figures include members located in Albury, NSW.
- ACT figures include members located in Jervis Bay Territory, Queanbeyan and Bungendore.
- Overseas figures represent members posted for long-term duty.
- Delta (Δ) figures show the difference in the percentages of women from 30 June 2014 and 30 June 2013.
- Cells highlighted in green indicate that the 2013–14 percentage of women was at least 5 per cent greater than the 2012–13 percentage of women.
- Cells highlighted in red indicate that the 2013–14 percentage of women was at least 5 per cent less than the 2012–13 percentage of women.
- Percentages may not sum due to rounding.

Figure 3: Percentage of ADF women in each state and territory, 30 June 2014

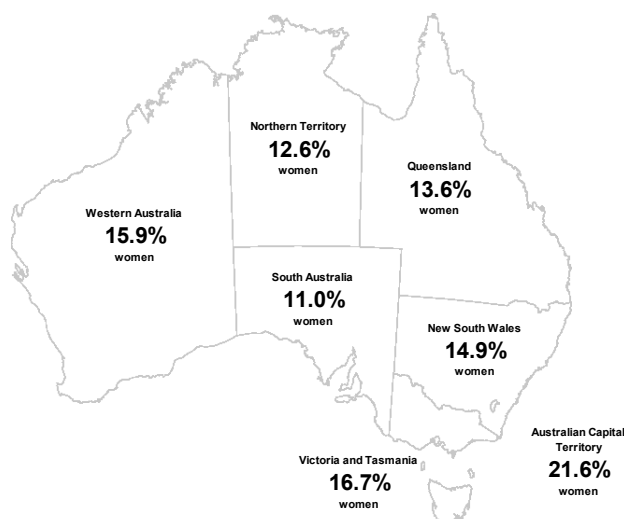


Figure 3 shows the proportion of women in the permanent ADF in each state or territory at the end of 2013–14. While there was some variation, the ACT had by far the highest proportion of women. This was most likely influenced by the higher proportion of office-based work in the ADF headquarters offices and the lower proportion of combat-related roles in the ACT compared with the rest of the country. There was also a higher proportion of officers in the ACT compared with the other states and territories, and there was a higher proportion of women in the officer ranks compared with the other ranks. While there was little change in these figures over 2013–14, there were small increases in female participation rates in the ACT. This reflects the increases in female participation in the wider ADF. The proportions of women in each state and territory are perhaps most influenced by the main bases in the particular jurisdiction. There are several bases and establishments in each state, as well as offices in capital cities' central business districts. Table 3 summarises the main bases and the service of the main base population.

Table 3: Key bases in each Australian state and territory, by service

	Navy	Army	Air Force	Tri-Service
New South Wales	Garden Island Precinct HMAS <i>Albatross</i>	Holsworthy Barracks Blamey Barracks Kapooka	RAAF Williamtown RAAF Richmond	
Queensland	HMAS <i>Cairns</i>	Lavarack Barracks Enoggera Barracks	RAAF Amberley RAAF Townsville	
Victoria and Tasmania	HMAS <i>Cerberus</i>	Simpson Barracks Puckapunyal Military Area Gaza Ridge Barracks	RAAF Williams RAAF East Sale	Angelsea Barracks
South Australia		RAAF Edinburgh Keswick Barracks	RAAF Edinburgh	
Western Australia	HMAS <i>Stirling</i>	Irwin Barracks, Karrakatta	RAAF Pearce	
Australian Capital Territory	HMAS <i>Harman</i> —Navy	Royal Military College of Australia Duntroon		Russell Offices
Northern Territory	Darwin Fleet Base North	Robertson Barracks Larrakeyah Barracks	RAAF Darwin RAAF Tindal	

Table 4: ADF permanent force, by gender, occupational group and rank group, 30 June 2014^{[1][2][3][4][5][6][7]}

	Navy					Army					Air Force					ADF				
2013-14	Women	%	Δ	Men	%	Women	%	Δ	Men	%	Women	%	Δ	Men	%	Women	%	Δ	Men	%
Aviation																				
Officers	17	5.3%	0.2%	302	94.7%	21	5.1%	1.0%	390	94.9%	186	9.4%	0.4%	1,783	90.6%	224	8.3%	0.5%	2,475	91.7%
Other Ranks	5	4.5%	-1.7%	107	95.5%	37	10.9%	1.0%	302	89.1%	58	33.3%	-0.8%	116	66.7%	100	16.0%	-0.7%	525	84.0%
Total Aviation	22	5.1%	-0.2%	409	94.9%	58	7.7%	1.1%	692	92.3%	244	11.4%	0.2%	1,899	88.6%	324	9.7%	0.3%	3,000	90.3%
Combat and Security																				
Officers	263	18.9%	-0.2%	1,128	81.1%	30	2.0%	0.5%	1,476	98.0%	6	5.8%	1.0%	97	94.2%	299	10.0%	0.3%	2,701	90.0%
Other Ranks	390	15.6%	0.8%	2,116	84.4%	91	1.2%	0.1%	7,612	98.8%	99	9.9%	1.9%	906	90.1%	580	5.2%	0.4%	10,634	94.8%
Total Combat and Security	653	16.8%	0.5%	3,244	83.2%	121	1.3%	0.2%	9,088	98.7%	105	9.5%	1.8%	1,003	90.5%	879	6.2%	0.4%	13,335	93.8%
Communications, Intelligence and Surveillance																				
Officers	19	25.7%	0.7%	55	74.3%	134	19.1%	0.1%	568	80.9%	65	32.3%	-0.1%	136	67.7%	218	22.3%	0.4%	759	77.7%
Other Ranks	476	30.9%	-1.2%	1,064	69.1%	252	12.3%	0.5%	1,796	87.7%	282	22.3%	-1.4%	983	77.7%	1,010	20.8%	-0.6%	3,843	79.2%
Total Communications, Intelligence and Surveillance	495	30.7%	-1.0%	1,119	69.3%	386	14.0%	0.3%	2,364	86.0%	347	23.7%	-1.0%	1,119	76.3%	1,228	21.1%	-0.4%	4,602	78.9%
Engineering, Technical and Construction																				
Officers	78	10.3%	0.2%	676	89.7%	88	8.5%	0.2%	950	91.5%	117	9.7%	0.2%	1,088	90.3%	283	9.4%	0.2%	2,714	90.6%
Other Ranks	255	5.8%	0.0%	4,149	94.2%	95	1.8%	0.2%	5,281	98.2%	144	3.1%	0.4%	4,526	96.9%	494	3.4%	0.2%	13,956	96.6%
Total Engineering, Technical and Construction	333	6.5%	0.1%	4,825	93.5%	183	2.9%	0.2%	6,231	97.1%	261	4.4%	0.3%	5,614	95.6%	777	4.5%	0.3%	16,670	95.5%
Health																				
Officers	70	43.2%	-1.5%	92	56.8%	294	45.4%	-0.2%	354	54.6%	214	60.6%	-0.8%	139	39.4%	578	49.7%	-0.4%	585	50.3%
Other Ranks	175	50.1%	2.6%	174	49.9%	354	40.0%	3.0%	530	60.0%	123	52.6%	-0.4%	111	47.4%	652	44.4%	2.4%	815	55.6%
Total Health	245	47.9%	1.3%	266	52.1%	648	42.3%	1.6%	884	57.7%	337	57.4%	-0.6%	250	42.6%	1,230	46.8%	1.2%	1,400	53.2%
Logistics, Administration and Support																				
Officers	203	37.9%	0.9%	332	62.1%	298	25.2%	1.6%	884	74.8%	412	41.0%	0.9%	593	59.0%	913	33.5%	1.2%	1,809	66.5%
Other Ranks	610	39.2%	1.2%	948	60.8%	1,594	25.1%	2.1%	4,748	74.9%	876	43.9%	0.7%	1,120	56.1%	3,080	31.1%	1.7%	6,816	68.9%
Total Logistics, Administration and Support	813	38.8%	1.0%	1,280	61.2%	1,892	25.1%	2.0%	5,632	74.9%	1,288	42.9%	0.7%	1,713	57.1%	3,993	31.6%	1.6%	8,625	68.4%
Not Allocated to Occupational Group																				
Senior Officers	0	0.0%	-	56	100.0%	8	0.0%	-	72	90.0%	3	0.0%	-	46	93.9%	11	5.9%	-	174	94.1%
Warrant Officer of the Service	0	0.0%	-	1	100.0%	0	0.0%	-	1	100.0%	0	0.0%	-	1	100.0%	0	0.0%	-	3	100.0%
Unallocated Trainees	0	0.0%	-	0	-	126	0.0%	-	659	83.9%	0	0.0%	-	0	-	126	16.1%	-	659	83.9%
Total Not Allocated to Occupational Group	0	0.0%	-	57	100.0%	134	15.5%	-	732	84.5%	3	6.0%	-	47	94.0%	137	14.1%	-	836	85.9%
Total ADF Permanent	2,561	18.6%	0.2%	11,200	81.4%	3,422	11.8%	0.8%	25,623	88.2%	2,585	18.2%	0.7%	11,645	81.8%	8,568	15.0%	0.6%	48,468	85.0%

Source: Defence HR system

Notes

- Figures are based on the ADF permanent force substantive headcount at 30 June 2014.
- Delta (Δ) figures show the difference in the percentages of women from 30 June 2014 and 30 June 2013.
- Cells highlighted in green indicate that the 2013–14 percentage of women was at least 5 per cent greater than the 2012–13 percentage of women.
- Cells highlighted in red indicate that the 2013–14 percentage of women was at least 5 per cent less than the 2012–13 percentage of women.
- Deltas have not been calculated for category of 'Not allocated to occupational group', as they were categorised differently in 2012–13.
- Percentages may not sum due to rounding.
- Occupations in each occupational group are:
 - Aviation:** Air Combat Officer, Aircrew, Aviation Officer, Aviation Operations Manager, Crew Attendant, Groundcrewman, Joint Battlefield Airspace Control, Loadmaster, Maritime Aviation Warfare Officer, Pilot, Aviation Instructors.
 - Combat and security:** Investigators, Air Base Protection, Airfield Defence Guards, Armoured Officer, Artillery, Combat Instructors, Cavalryman, Combat Controller, Commando, Driver Armoured Fighting Vehicle, Emergency Responder, Firefighter, Ground Based Air Defence, Infantry Officer, Light Cavalry, Offensive Support, Surveillance and Target Acquisition, Military Police, Operator Radar, Patrolman, Rifleman, SAS Trooper, Security Police, Tank Crewman, Boatswain's Mate, Clearance Diver, Combat Systems Operator, Maritime Geospatial Officer, Maritime Warfare Officer, Naval Police Coxswain, Principal Warfare Officer.
 - Communications, intelligence and surveillance:** Acoustic Warfare Analyst, Air Intelligence Analyst, Air Surveillance Operator, Airborne Electronics Analyst, Analyst Intelligence Operations, Intelligence Instructor, Communications and Information Systems Controller, Communications Systems, Cryptologic Linguist, Electronic Warfare, Geospatial Imagery Intelligence Analyst, Geospatial Technician, Hydrographic Systems Operator, Imagery Specialist, Information Systems, Intelligence, Operator Unmanned Aerial System, Operator, Supervisor Communications.

Engineering, technical and construction: Aeronautical Engineer, Air Technician, Aircraft Fitter, Aircraft Finisher, Airfield Engineer, Armament, Armament Engineer, Artificer, Engineering Instructor, Avionics, Bricklayer, Carpenter, Combat Engineer, Communication Electronic, Draftsman Architectural, Electrical and Mechanical Engineering Officer, Electrical Engineer, Electrician, Electronics Submariner, Engineer, Explosive Ordnance Disposal, Fitter Armament, Flight Engineer, General Hand, Ground Mechanical Engineering, Ground Support Engineering Manager, Ground Support Equipment, Manager Works, Marine Engineer, Marine Technician, Mechanic Recovery, Mechanic Vehicle, Metalsmith, Non-Destructive Inspection Technician, Plant Operator, Painter, Plumber, Technician Aircraft, Technician Avionics, Technician Electrical, Technician Electronic Systems, Telecommunications Systems, Weapons Electrical Aircraft Engineer, Weapons Electrical Engineer, Works Supervisor.

Health: Allied Health Professional, Health Instructor, Combat Medical Attendant, Combat Paramedic, Dental Assistant, Dentist, Dental Technician, Environmental Health Officer, Examiner Psychological, Laboratory Technician, Medical Administration, Medical Assistant, Medical Officer, Medical Operator, Nurse, Operating Theatre Technician, Pharmacist, Physical Training Instructor, Physiotherapist, Preventive Medicine, Psychologist, Radiographer, Radiologist, Scientist.

Logistics, administration and support: Air Dispatcher, Ammunition Supplier, Administration Assistant, Baker, Band Officer, Batman, Cargo Specialist, Catering Officer, Chaplain, Clerk, Storeman, Cook, Driver, Education Officer, Executive Warrant Officer, Handler Petroleum, Infantry Operations Clerk, Infantry Resource Storeman, Legal Officer, Logistics Officer, Management Executive, Marine Specialist, Maritime Logistics Personnel Operations, Maritime Logistics Chef, Maritime Logistics Officer, Maritime Logistics Steward, Maritime Logistics Supply Chain, Mess Operator, Motor Transport Driver, Movements, Multimedia Technician, Musician, Operator Admin, Operator Catering, Operator Movements, Operator Petroleum, Operator Supply, Operator Unit Supply, Ordnance Officer, Pay Officer, Personnel Capability Officer, Photographer Public Relations, Piper Drummer Bugler, Postal Clerk, Public Relations Officer, Reporter, Rigger Parachute, Supplier, Training Systems Officer, Transport Officer.

Figure 4: Percentage of women in each occupational group, by service, 30 June 2014

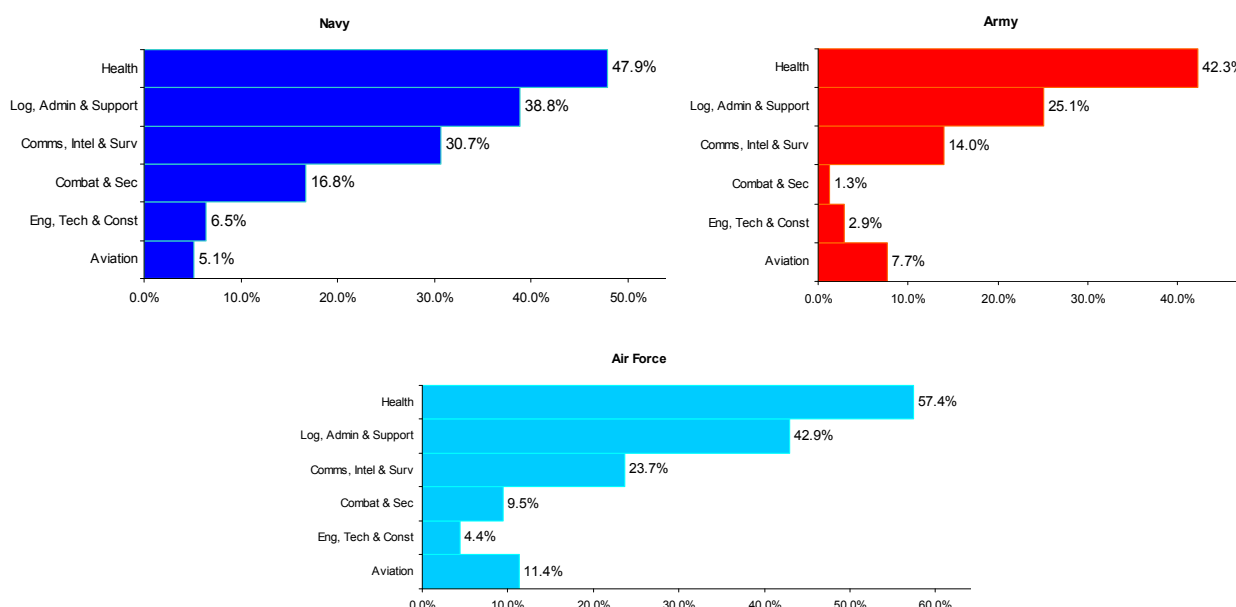


Figure 4 shows how gender representation differs in occupation groups, and how those differences are broadly consistent between the services. In each service, health and logistics, administration and support have the highest proportion of women, while the groups with the lowest proportion of women are combat and security; engineering, technical and construction; and aviation. These concentrations of women and men are closely aligned with traditional female and male work roles.

There have been small improvements in the proportion of women in traditionally male occupations. Defence leadership is committed to addressing occupational segregation in the ADF and has agreed to apply targets to employment groups with less than 15 per cent representation of women. The Navy is developing a model to achieve this aim, and has already set a 25 per cent female recruiting goal in occupational groups with less than 15 per cent of women. The Navy is also analysing workforce design to identify opportunities for greater flexibility in the timing of sea service employment obligations throughout Navy career profiles. Army's strategy will begin by addressing the perception that any career in the Army is seen as a traditionally male occupation. As a first step, the Army will build up its female participation overall, and will then target specific occupations that have low female representation. The Army has several programs to address this, including the Women's Networking Forum, the Enhanced Career Management Model and the removal of gender restrictions. The Air Force has had several programs aimed at improving women's participation in non-traditional roles, such as recruiting targets and programs for pilots, and bolstering support for those women with tailored mentoring and networking programs.

ADF enlistments

Tables 5 and 6 show the numbers and proportions of women enlisted into the ADF permanent force in 2013–14 by service, rank group and mode of entry. Enlistments in this section also include appointments, which relate to officers, as well as other ranks enlistments.

Table 5: ADF permanent force enlistments (all modes of entry), by gender and rank group, 2013–14^{[1][2][3][4][5]}

2013-14	Navy					Army					Air Force					ADF				
	Women	%	Δ	Men	%	Women	%	Δ	Men	%	Women	%	Δ	Men	%	Women	%	Δ	Men	%
Officers Entry	35	17.1%	-3.2%	170	82.9%	111	21.8%	-2.2%	398	78.2%	79	28.1%	0.0%	202	71.9%	225	22.6%	-1.8%	770	77.4%
Total Officers Entry	35	17.1%	-3.1%	170	82.9%	111	21.8%	-2.2%	398	78.2%	79	28.1%	0.0%	202	71.9%	225	22.6%	-1.8%	770	77.4%
Other Ranks (General Entry)																				
General Entry - Technical	29	5.6%	-1.3%	486	94.4%	10	2.5%	1.7%	387	97.5%	14	6.5%	1.3%	202	93.5%	53	4.7%	0.7%	1,075	95.3%
General Entry - Non-Technical	242	36.0%	4.9%	431	64.0%	519	16.7%	0.2%	2,594	83.3%	159	35.7%	-2.6%	287	64.3%	920	21.7%	0.6%	3,312	78.3%
Total Other Ranks (General Entry)	271	22.8%	1.7%	917	77.2%	529	15.1%	0.7%	2,981	84.9%	173	26.1%	-1.9%	489	73.9%	973	18.2%	0.7%	4,387	81.8%
Total ADF Permanent	306	22.0%	1.0%	1,087	78.0%	640	15.9%	0.2%	3,379	84.1%	252	26.7%	-1.3%	691	73.3%	1,198	18.9%	0.2%	5,157	81.1%

Source: Defence HR system.

Notes

- Figures in this table show permanent force members (headcount) enlisted from all sources. This includes *ab initio* enlistments and prior service enlistments (which include overseas transfers, reserve transfers, service transfers, re-enlistments and ADF Gap Year transfers). Table 45 and Table 46 show the split between *ab initio* enlistments and prior service enlistments.
- Delta (Δ) figures show the differences in percentages of women from 30 June 2014 to 30 June 2013.
- Cells highlighted in green indicate that the 2013–14 percentage of women was at least 5 per cent greater than the 2012–13 percentage of women.
- Cells highlighted in red indicate that the 2013–14 percentage of women was at least 5 per cent less than the 2012–13 percentage of women.
- Percentages may not sum due to rounding.

Table 6: ADF permanent force *ab initio* enlistments, by gender and rank group, 2013–14^{[1][2][3][4][5]}

2013-14	Navy					Army					Air Force					ADF				
	Women	%	Δ	Men	%	Women	%	Δ	Men	%	Women	%	Δ	Men	%	Women	%	Δ	Men	%
Officers Entry	32	19.8%	-5.2%	130	80.2%	76	19.6%	-1.4%	312	80.4%	63	29.7%	2.2%	149	70.3%	171	22.4%	-1.3%	591	77.6%
Total Officers Entry	32	19.8%	-5.2%	130	80.2%	76	19.6%	-1.4%	312	80.4%	63	29.7%	2.2%	149	70.3%	171	22.4%	-1.3%	591	77.6%
Other Ranks (General Entry)																				
General Entry - Technical	24	5.3%	-2.1%	427	94.7%	9	2.6%	2.4%	332	97.4%	13	6.6%	1.5%	183	93.4%	46	4.7%	0.7%	942	95.3%
General Entry - Non-Technical	220	38.3%	6.9%	354	61.7%	471	17.5%	1.0%	2,228	82.5%	140	38.5%	-1.3%	224	61.5%	831	22.8%	1.7%	2,806	77.2%
Total Other Ranks (General Entry)	244	23.8%	2.5%	781	76.2%	480	15.8%	1.8%	2,560	84.2%	153	27.3%	-0.8%	407	72.7%	877	19.0%	1.7%	3,748	81.0%
Total	276	23.3%	1.4%	911	76.7%	556	16.2%	1.4%	2,872	83.8%	216	28.0%	0.0%	556	72.0%	1,048	19.5%	1.2%	4,339	80.5%

Source: Defence HR system.

Notes

- Figures in this table show permanent force *ab initio* enlistments (headcount).
- Delta (Δ) figures show the differences in percentages of women from 30 June 2014 to 30 June 2013.
- Cells highlighted in green indicate that the 2013–14 percentage of women was at least 5 per cent greater than the 2012–13 percentage of women.
- Cells highlighted in red indicate that the 2013–14 percentage of women was at least 5 per cent less than the 2012–13 percentage of women.
- Percentages may not sum due to rounding.

Figure 5: Percentage of female ADF permanent force enlistments, by type and service, 2013–14

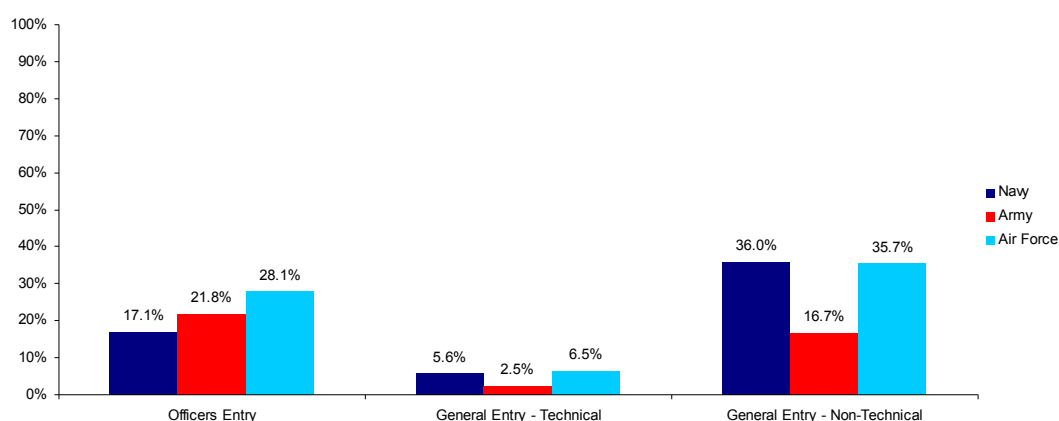


Figure 5 shows the proportion of female permanent force enlistments who have entered as officers or who have enlisted through general entry for either technical or non-technical roles. Technical roles for general entry enlistees are the most challenging in recruiting women for all services. For the Navy and the Air Force, general entry for non-technical enlistments have a higher proportion of women than officer appointments; however, the opposite is true for the Army, where the proportion of women appointed as officers is higher than for non-technical general entry enlistments.

The proportion of women appointed as officers has decreased slightly for the Navy and the Army; however, the proportion of women enlisted to general entry non-technical roles has increased, particularly in the Navy and the Air Force. The proportion of women enlisted to technical general entry positions has decreased slightly for the Navy and increased slightly for the Army and the Air Force.

Figure 6: Percentage of female ADF permanent force *ab initio* enlistments, by type and service, 2013–14

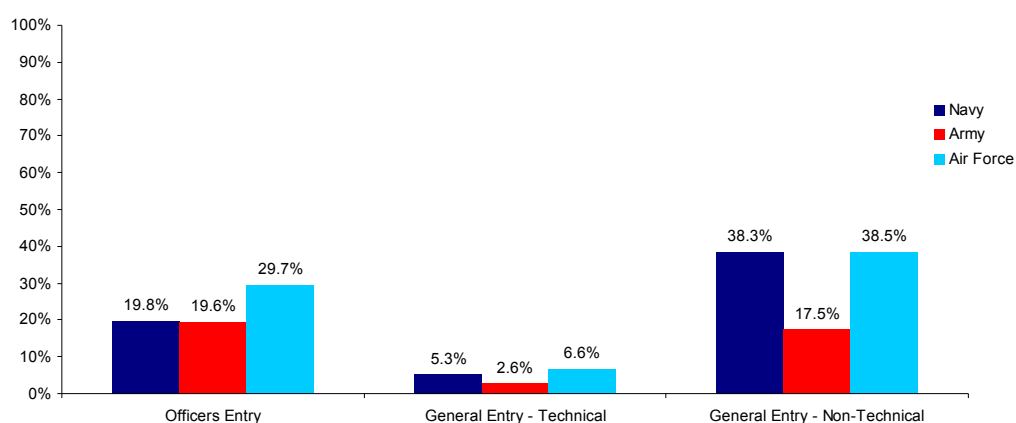


Figure 6 shows the proportion of female *ab initio* enlistments by type of enlistment for each service. This involves recruits who have not had prior military service. *Ab initio* enlistments make up most of the total enlistments (5,387 out of 6,355), so the proportions of female *ab initio* enlistments are very similar to the proportions in the total enlistments. Compared with 2012–13, Navy *ab initio* figures changed: the proportion of female officer appointments decreased slightly, and the proportion of female non-technical general entry enlistments increased. There were no significant changes in the Army or the Air Force from 2012–13 to 2013–14.

Table 7: ADF permanent force prior service enlistments, by gender, mode of entry, and rank group, 2013–14^{[1][2][3][4][5]}

	Navy					Army					Air Force					ADF				
2013-14	Women	%	Δ	Men	%	Women	%	Δ	Men	%	Women	%	Δ	Men	%	Women	%	Δ	Men	%
OVERSEAS ENTRANTS																				
Officers	3	14.3%	14.3%	18	85.7%	3	9.7%	-17.6%	28	90.3%	1	9.1%	9.1%	10	90.9%	7	11.1%	-6.0%	56	88.9%
Sub-total Officer Entry	3	14.3%	14.3%	18	85.7%	3	9.7%	-17.6%	28	90.3%	1	9.1%	9.1%	10	90.9%	7	11.1%	-6.0%	56	88.9%
Other Ranks																				
General Entry - Technical	1	3.7%	-1.6%	26	96.3%	0	0.0%	0.0%	16	100.0%	0	0.0%	0.0%	0	0	1	2.3%	-1.9%	42	97.7%
General Entry - Non-Technical	0	0.0%	0.0%	17	100.0%	0	0.0%	0.0%	21	100.0%	0	0.0%	0.0%	0	0	0	0.0%	0.0%	38	100.0%
Sub-total Other Ranks (General Entry)	1	2.3%	-1.5%	43	97.7%	0	0.0%	0.0%	37	100.0%	0	0.0%	0.0%	0	0	1	1.2%	-1.6%	80	98.8%
Total Overseas Entrants	4	6.2%	3.5%	61	93.8%	3	4.4%	-14.4%	65	95.6%	1	9.1%	9.1%	10	90.9%	8	5.6%	-4.3%	136	94.4%
RESERVE TRANSFERS																				
Officers	0	0.0%	-11.1%	13	100.0%	31	43.1%	6.3%	41	56.9%	9	22.0%	-7.2%	32	78.0%	40	31.7%	-0.4%	86	68.3%
Sub-total Officer Entry	0	0.0%	-11.1%	13	100.0%	31	43.1%	6.3%	41	56.9%	9	22.0%	-7.2%	32	78.0%	40	31.7%	-0.4%	86	68.3%
Other Ranks																				
General Entry - Technical	0	0.0%	0.0%	14	100.0%	1	3.6%	3.6%	27	96.4%	0	0.0%	0.0%	5	100.0%	1	2.1%	2.1%	46	97.9%
General Entry - Non-Technical	10	25.0%	-16.7%	30	75.0%	44	14.0%	-4.0%	271	86.0%	9	29.0%	-27.0%	22	71.0%	63	16.3%	-6.7%	323	83.7%
Sub-total Other Ranks (General Entry)	10	18.5%	-8.5%	44	81.5%	45	13.1%	-3.5%	298	86.9%	9	25.0%	-21.7%	27	75.0%	64	14.8%	-5.5%	369	85.2%
Total Reserve transfers	10	14.9%	-6.9%	57	85.1%	76	18.3%	-3.5%	339	81.7%	18	23.4%	-15.5%	59	76.6%	104	18.6%	-5.1%	455	81.4%
SERVICE TRANSFERS																				
Officers	0	0.0%	-7.7%	7	100.0%	1	12.5%	3.4%	7	87.5%	3	30.0%	0.0%	7	70.0%	4	16.0%	1.3%	21	84.0%
Sub-total Officer Entry	0	0.0%	-7.7%	7	100.0%	1	12.5%	3.4%	7	87.5%	3	30.0%	0.0%	7	70.0%	4	16.0%	1.3%	21	84.0%
Other Ranks																				
General Entry - Technical	2	16.7%	16.7%	10	83.3%	0	0.0%	-100.0%	3	100.0%	0	0.0%	0.0%	9	100.0%	2	8.3%	1.2%	22	91.7%
General Entry - Non-Technical	5	21.7%	4.3%	18	78.3%	2	10.5%	-2.5%	17	89.5%	5	25.0%	1.5%	15	75.0%	12	19.4%	1.9%	50	80.6%
Sub-total Other Ranks (General Entry)	7	20.0%	6.2%	28	80.0%	2	9.1%	-7.6%	20	90.9%	5	17.2%	0.5%	24	82.8%	14	16.3%	0.7%	72	83.7%
Total Service Transfers	7	16.7%	4.8%	35	83.3%	3	10.0%	-4.3%	27	90.0%	8	20.5%	-0.1%	31	79.5%	18	16.2%	0.9%	93	83.8%
RE-ENLISTMENTS																				
Officers	0	0.0%	0.0%	2	100.0%	0	0.0%	-12.5%	10	100.0%	3	42.9%	-7.1%	4	57.1%	3	15.8%	-4.2%	16	84.2%
Sub-total Officer Entry	0	0.0%	0.0%	2	100.0%	0	0.0%	-12.5%	10	100.0%	3	42.9%	-7.1%	4	57.1%	3	15.8%	-4.2%	16	84.2%
Other Ranks																				
General Entry - Technical	2	18.2%	18.2%	9	81.8%	0	0.0%	-25.0%	9	100.0%	1	16.7%	2.4%	5	83.3%	3	11.5%	-2.8%	23	88.5%
General Entry - Non-Technical	7	36.8%	-2.1%	12	63.2%	2	3.4%	-1.3%	57	96.6%	5	16.1%	-5.5%	26	83.9%	14	12.8%	-0.8%	95	87.2%
Sub-total Other Ranks (General Entry)	9	30.0%	-3.3%	21	70.0%	2	2.9%	-2.7%	66	97.1%	6	16.2%	-4.3%	31	83.8%	17	12.6%	-1.0%	118	87.4%
Total Re-enlistments	9	28.1%	-1.1%	23	71.9%	2	2.6%	-4.1%	76	97.4%	9	20.5%	-3.5%	35	79.5%	20	13.0%	-1.5%	134	87.0%
ADF GAP YEAR TRANSFERS																				
Officers	0	0	0.0%	0	0	0	0	-50.0%	0	0	0	0	0.0%	0	0	0	0	-50.0%	0	0
Sub-total Officer Entry	0	0.0%	0.0%	0	0.0%	0	0	-50.0%	0	0.0%	0	0	0.0%	0	0	0	0	-50.0%	0	0
Other Ranks																				
General Entry - Technical	0	0	0.0%	0	0	0	0	0.0%	0	0	0	0	0.0%	0	0	0	0	0.0%	0	0
General Entry - Non-Technical	0	0	0.0%	0	0	0	0	-35.3%	0	0	0	0	0.0%	0	0	0	0	-35.3%	0	0
Sub-total Other Ranks (General Entry)	0	0	0.0%	0	0	0	0	-35.3%	0	0	0	0	0.0%	0	0	0	0	-35.3%	0	0
Total ADF Gap Year Transfers	0	0	0.0%	0	0	0	0	-35.8%	0	0	0	0	0.0%	0	0	0	0	-35.8%	0	0
Total Prior Service Entry	30	14.6%	-1.2%	176	85.4%	84	14.2%	-5.6%	507	85.8%	36	21.1%	-7.5%	135	78.9%	150	15.5%	-4.9%	818	84.5%

Source: Defence HR system

Notes

- Figures in this table show permanent force prior service enlistments (headcount).
- Delta (Δ) figures show the differences in percentages of women from 30 June 2014 to 30 June 2013.
- Cells highlighted in green indicate that the 2013–14 percentage of women was at least 5 per cent greater than the 2012–13 percentage of women.
- Cells highlighted in red indicate that the 2013–14 percentage of women was at least 5 per cent less than the 2012–13 percentage of women.
- Percentages may not sum due to rounding.

Figure 7: Percentage of women ADF permanent force prior service enlistments, by type and service, 2013–14

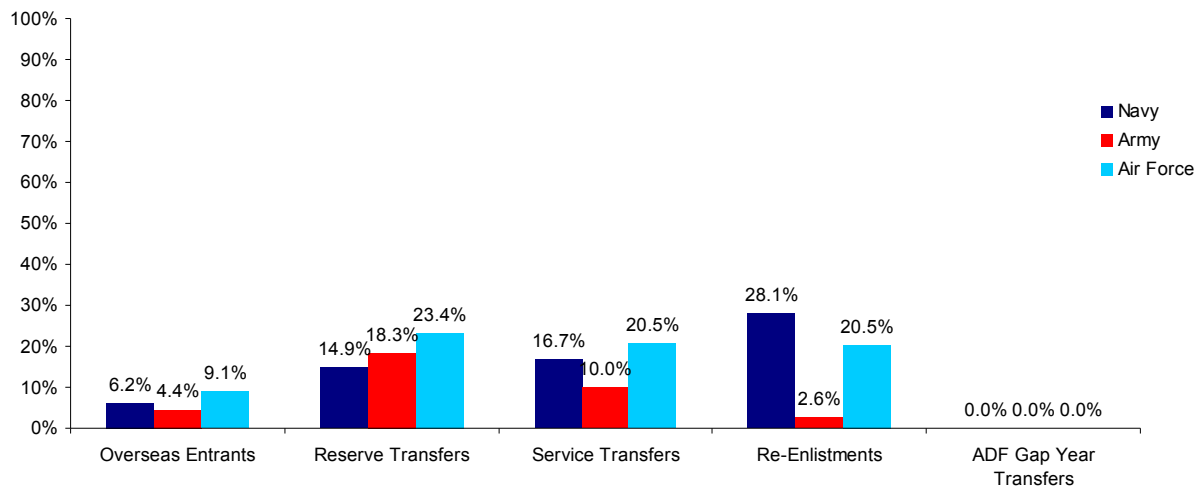


Figure 7 shows the proportion of women enlisted to the ADF who had prior service. Prior service enlistees make up 15.2 per cent of total enlistees, and women with prior service make up 12.5 per cent of total female enlistees. The most common type of prior service is Reserve service (57.8 per cent of all prior service enlistments). This is especially true for women: 69.3 per cent of all female prior service enlistments transferred from the Reserves. Reserve transfers had the highest proportions of women for the Army and the Air Force, while the Navy had even higher female proportions in their transfers from other services and their re-enlistments.

The proportion of ADF Gap Year Programme transfers fell to zero, as the Gap Year Programme was not active in the previous year. A new Gap Year Programme was launched in 2014, with recruitment to start in January 2015, so this figure is expected to rise in future years. Other changes in proportions are influenced by the small numbers in each category, particularly by service. There was a small increase in the number of male overseas entrants and in male non-technical general entry Reserve transfers, which reduced women's participation rates in those categories to a small extent at the ADF level.

Recruitment of women initiatives

Navy

The Navy has committed to increasing the number of women in employment categories in which women are currently under-represented. It is aiming to achieve this through a number of targeted recruiting initiatives, including:

- the launch of the Women in Navy web pages (on the Defence jobs website)
- the establishment of a specialist recruiting team (Women for Navy), specifically aimed at improving the recruitment of women and comprising one Lieutenant Commander and four women (Petty Officer/Leading Seaman) to be embedded in Brisbane, Parramatta, Melbourne and Perth recruiting offices
- the establishment of recruiting goals within Defence Force Recruiting targets
- a reduced initial minimum period of service for selected categories (to be implemented for other ranks enlistment to specified categories from January 2015)

- a new officer entry scheme that gives ADFA entry officers an opportunity to defer degree studies to expedite their achievement of professional qualifications (under development for ADFA officers).

Significantly increasing female recruiting is a key strategy for achieving the Navy's goal of 25 per cent female participation by 2023. This target will be met by recruiting greater numbers of women into the areas where women are currently under-represented, including trades, engineering and aviation. The Navy Recruitment of Women Strategy employs a marketing campaign to highlight the lifestyle and opportunities open to women, and is aimed at improving women's propensity to join the service. The female achievement rate in 2013–14 was 22.9 per cent overall (up 1.2 per cent from 2012–13), including officers at 20.1 per cent (down 1.1 per cent) and sailors at 23.4 per cent (up 1.5 per cent). Two hundred and twenty-one female sailors were recruited 2013–14 (an increase of 50 from 2012–13). Forty-one female officers were recruited in 2013–14 (an increase of 10 from 2012–13).

Army

Table 8: Recruitment of women initiatives, Army, 2013–14

Recruiting Initiative	Women Recruited
Recruit to Area	8
Reduced Initial Minimum Period of Service	373
Recruit When Ready	80
Army Pre-Conditioning Course	18

Source: Director General Personnel—Army.

The Army has refined the use of 'Recruit when ready' to ensure that female recruits do not experience excessively long waiting periods before the commencement of their initial employment training. The Army received 208 inquiries from female candidates to undertake the ADF Gap Year (from a total of 809 inquiries). The Army pre-conditioning course has been reviewed and has been replaced at the Army Recruit Training Centre with a pre-conditioning platoon. The program of the pre-conditioning course will be implemented in the pre-conditioning platoon in addition to the first week of the Army recruit course (induction). The Army continues to maintain its specialist recruiting team of 10 uniformed female members.

Air Force

Table 9: Recruitment of women initiatives, Air Force, 2013–14

Recruiting Initiative	Women Recruited
Recruit to Area	1
Reduced Initial Minimum Period of Service	128
Recruit When Ready	Not yet implemented
Graduate Pilot Scheme	1
Women in non-traditional employment roles (WINTER) campaign	54 (achieved female only targets)
Experiential Camp for Girls	53 participants
Specialist Recruitment Team Women	4 x female serving members embedded into Defence Force Recruiting Brisbane, Parramatta, Melbourne and Adelaide, to focus specifically on female recruitment)

Source: Director General Personnel—Air Force.

During 2013–14, the Air Force implemented the following recruiting initiatives to attract and retain women:

- **Female targets:** Specific female recruiting targets were included as part of the overall Air Force recruiting program for 2013–14. The targets were set against employment categories in which women are under-represented (mainly in the engineering, technical and aircrew fields). A total of 132 targets were set, of which 54 were

achieved. Targets have also been set for 2014–15. The targets are aspirational; where they cannot be met, roles will generally be opened up to male candidates to avoid under-recruiting. Targeted recruiting processes will continue to mature in 2014–15.

- **Recruit-to-area:** This initiative is linked to the female recruiting targets. To support the achievement of the targets and the retention of women employed against them, the Air Force will offer recruit-to-area as an incentive for women seeking employment against the specified targets. The development of this initiative is being finalised, and full implementation is expected in 2014–15.
- **Reduced initial minimum period of service:** From July 2013, the Air Force implemented a two-year trial of initial minimum period of service (IMPS) reductions for many employment categories. The trial is likely to be extended to enable an assessment of the success of this initiative. During 2013–14, 115 female airmen and 13 female officers were recruited to workforces with a reduced IMPS.
- **Recruit-when-ready:** Under this initiative, women found suitable for the Air Force will be fast-tracked through the recruitment process. The initiative is still under development.
- **Changes to female pilot obligations:** The Air Force has set aside the IMPS for direct-entry female pilots and is trialling, as a replacement, a two-year return of service obligation commencing on graduation from the initial operational conversion course. In effect, women appointed in the direct-entry pilot will not be obligated to serve until such time as they graduate from the operational conversion course following on from Basic Flying Training School and No. 2 Flying Training School. This initiative removed an otherwise lengthy on-appointment commitment that might dissuade women from joining the Air Force as pilots. In 2013–14, six female direct-entry pilots were recruited; this compares favourably to the preceding two financial years, when only two were recruited.
- **Graduate Pilot Scheme:** The Graduate Pilot Scheme is a targeted pilot recruitment model that aims to encourage women pursuing careers as civilian pilots and studying a Bachelor of Aviation degree at a civilian university to consider joining the Air Force. One female pilot was recruited under this scheme in 2013–14; a larger number is expected in 2014–15.
- **Experiential camp for girls:** In an effort to raise the Air Force's profile as an employer of choice for women aged between 16 and 24, the service established two experiential camps for girls. The main objective of Flight Camp and Tech Camp is to provide a hands-on, risk-free experiential opportunity for young girls to experience aviation and technical roles in the Air Force. This includes the opportunity to engage with currently serving women from those employment groups. A secondary aim is to provide exposure to Air Force life, fitness standards, leadership and adventure training. To date, 53 girls have participated in the camps, and 80 per cent have engaged with Defence Force Recruiting to pursue Air Force careers. During 2014–15, it is expected that up to another five camps will be conducted.

ADF promotions

Table 10 shows the number of ADF women and men promoted to each rank in 2013–14.

Table 10: ADF permanent force promotions (number and proportion of women and men substantively promoted to each rank), 2013–14^{[1][2][5]}

2013-14	Navy					Army					Air Force					ADF				
	Women	%	Δ	Men	%	Women	%	Δ	Men	%	Women	%	Δ	Men	%	Women	%	Δ	Men	%
Officers																				
General (E) (O10)	0	-	0.0%	0	-	0	-	0.0%	0	-	0	-	0.0%	0	-	0	-	0.0%	0	-
Lieutenant General (E) (O09)	0	0.0%	0.0%	2	100.0%	0	0.0%	0.0%	1	100.0%	0	-	0.0%	0	-	0	0.0%	0.0%	3	100.0%
Major General (E) (O08)	0	0.0%	0.0%	3	100.0%	1	25.0%	25.0%	3	75.0%	0	0.0%	0.0%	4	100.0%	1	9.1%	9.1%	10	90.9%
Brigadier (E) (O07)	0	0.0%	0.0%	6	100.0%	2	18.2%	8.2%	9	81.8%	1	16.7%	-8.3%	5	83.3%	3	13.0%	0.5%	20	87.0%
Colonel (E) (O06)	2	18.2%	10.5%	9	81.8%	4	14.3%	0.8%	24	85.7%	6	26.1%	7.3%	17	73.9%	12	19.4%	4.7%	50	80.6%
Lieutenant Colonel (E) (O05)	7	18.9%	4.9%	30	81.1%	15	21.7%	2.9%	54	78.3%	10	14.5%	-4.6%	59	85.5%	32	18.3%	0.7%	143	81.7%
Major (E) (O04)	19	22.4%	7.7%	66	77.6%	43	16.5%	-0.3%	218	83.5%	33	25.4%	6.4%	97	74.6%	95	20.0%	2.9%	381	80.0%
Total Officers	28	19.4%	6.5%	116	80.6%	65	17.4%	0.9%	309	82.6%	50	21.6%	2.4%	182	78.4%	143	19.1%	2.4%	607	80.9%
Other Ranks																				
Warrant Officer Class 1 (E) (E10 and E09) ^[3]	1	5.3%	-1.0%	18	94.7%	6	10.5%	0.0%	51	89.5%	6	12.2%	5.2%	43	87.8%	13	10.4%	1.9%	112	89.6%
Warrant Officer Class 2 (E) (E08)	10	9.7%	-3.4%	93	90.3%	26	11.0%	1.0%	210	89.0%	20	15.3%	-0.2%	111	84.7%	56	11.9%	-0.1%	414	88.1%
Sergeant (E) (E06)	27	13.0%	-5.7%	180	87.0%	39	10.0%	-4.6%	351	90.0%	29	13.9%	-8.3%	179	86.1%	95	11.8%	-5.4%	710	88.2%
Corporal (E) (E05)/Lance Corporal (E04) ^[4]	92	18.9%	-3.9%	395	81.1%	162	9.6%	-2.8%	1,529	90.4%	70	23.3%	-1.2%	231	76.7%	324	13.1%	-2.7%	2,155	86.9%
Total Other Ranks	130	15.9%	-4.1%	686	84.1%	233	9.8%	-2.7%	2,141	90.2%	125	18.1%	-2.5%	564	81.9%	488	12.6%	-2.8%	3,391	87.4%
Total ADF Permanent	158	16.5%	-2.4%	802	83.5%	298	10.8%	-2.1%	2,450	89.2%	175	19.0%	-1.1%	746	81.0%	631	13.6%	-1.9%	3,998	86.4%

Source: Defence HR system

Notes

- Figures in this table show ADF permanent force members (trained force only) promoted to each rank in 2013–14.
- Only promotions to those ranks for which merit selection applies are shown (i.e. promotions to the officer ranks of O04 and above and the other ranks of E04 and above).
- Warrant Officer Class 1 (E) figures include Warrant Officer—Navy, Regimental Sergeant Major—Army, and Warrant Officer—Air Force.
- E04 is an Army-only rank.
- Percentages may not sum due to rounding.

Figure 8: Proportion of officer promotions filled by women and percentage of women in ranks below, 2013–14

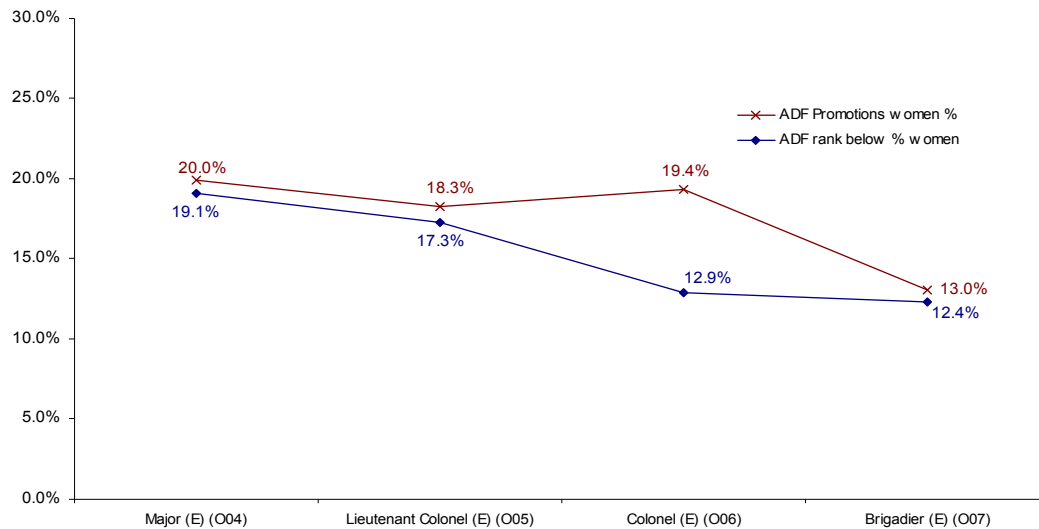


Figure 8 shows the proportion of women who were promoted to the ranks of Major to Brigadier (or equivalent). While just under one-fifth (19.1 per cent) of ADF officer promotions were women, that proportion was higher than in 2012–13, when women comprised 16.6 per cent of ADF officer promotions. The proportion of women promoted is also relatively high when viewed in the context of the proportion of women in the rank below. While not all members in the rank below are eligible for promotion, this provides a point of reference, giving some indication of whether women are over- or under-represented in promotions to the next level. For each of the ranks shown, women are over-represented in promotions to the next rank, particularly for promotions to Colonel.

Figure 9: Proportion of other ranks promotions filled by women and percentage of women in ranks below, 2013–14

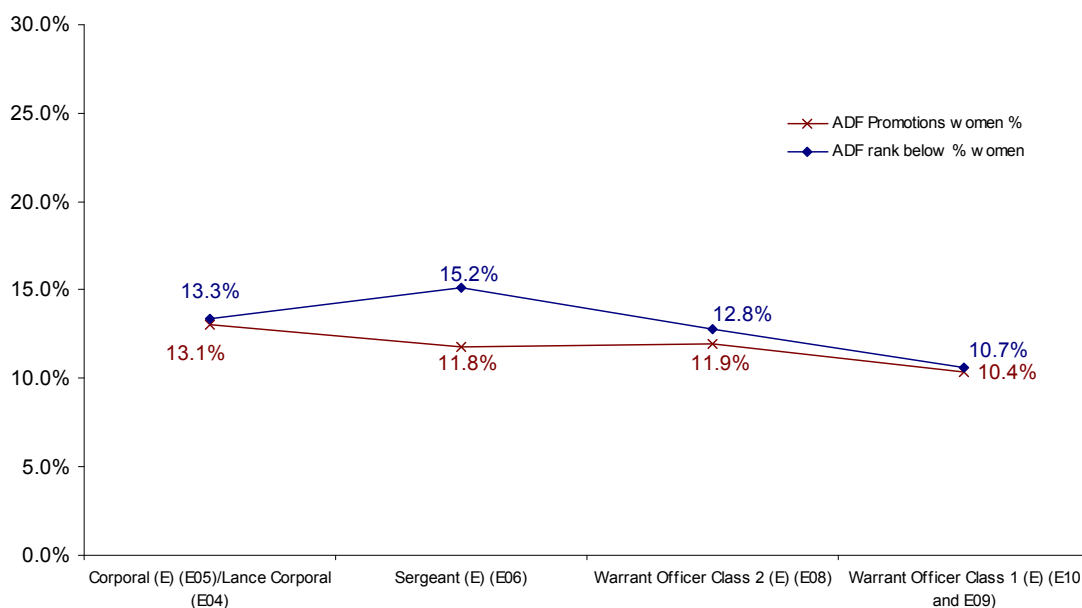


Figure 9 shows the proportion of other ranks promotions that were women. The proportion of women promoted to ranks of Corporal to Warrant Officer (or equivalent) in the ADF was 12.6 per cent in 2013–13, which was not as high as in the previous year, when 15.3 per cent of those promoted were women. The proportion of women in the ranks below provides a point of comparison for promotion rates. While not all members in

the ranks below are eligible for promotion, this provides an indication of whether women are over- or under-represented in promotions to the next level. For Corporal and Warrant Officer (1 and 2) ranks, the representation of women is very close to the proportion of women in the rank below, indicating that women are proportionately represented in these promotions. However, promotions to the rank of Sergeant have a slightly lower proportion of women than in the rank below.

Representation of women on Defence senior decision-making committees

Table 11 shows the gender balance on key Defence decision-making bodies at 30 June 2014.

Table 11: Gender balance in key Defence decision-making bodies, 30 June 2014^{[1][2]}

Committee	ADF		APS		Non-Defence		Vacant Positions	Headcount	Total	
	Women	Men	Women	Men	Women	Men			% Women	% Men
Secretary and Chief of the Defence Force Advisory Committee (SCAC)	0	6	2	9	0	0	0	17	11.8%	88.2%
Defence Committee (DC)	0	6	2	9	0	0	0	17	11.8%	88.2%
Chiefs of Service Committee (COSC)	1	7	2	2	0	0	0	12	25.0%	75.0%
Defence Capability Committee	0	9	3	7	0	0	0	19	15.8%	84.2%
Defence Civilian Committee	0	1	4	10	0	0	0	15	26.7%	73.3%
Defence Audit and Risk Committee (DARC)	0	1	0	2	1	2	0	6	16.7%	83.3%
Defence Capability and Investment Committee (DCIC)	0	6	1	10	0	0	0	17	5.9%	94.1%
Chief of Navy Senior Advisory Committee (CNSAC)	1	8	1	0	0	0	0	10	20.0%	80.0%
Chief of Army Senior Advisory Committee (CASAC)	1	9	1	0	0	0	0	11	18.2%	81.8%
Chief of Air Force Advisory Committee (CAFAC)	1	16	0	2	0	0	0	19	5.3%	94.7%
Human Resources Development Board (HRDB)	0	5	1	9	0	0	0	15	6.7%	93.3%

Source: Senior committee secretariats

Notes

1. Appointment on these boards and committees is determined by position.
2. Figures include permanent members only; invited guests and observers are not included.

Figure 10: Percentage of women and men in key Defence decision-making bodies, 30 June 2014

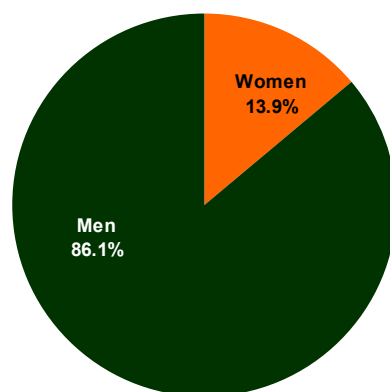


Figure 10 shows the proportions of women and men in key Defence decision-making bodies. There was a modest increase in the proportion of women in these committees, from 12.2 per cent in June 2013 to 13.9 per cent at 30 June 2014. This increase was largely driven by the addition of women to the Chief of Army Senior Advisory Committee, the Defence Audit and Risk Committee, the Secretary and Chief of the Defence Force Advisory Committee, the Defence Committee and the Defence Capability Committee.

Women and men retained after parental leave

Tables 12 to 14 show the numbers and percentages of ADF members (by service) retained after taking maternity or parental leave in the 18 months to 30 June 2014, sorted by gender and rank. The tables include the numbers of women and men at each rank who took any variant of parental leave (including maternity and adoption leave), and how many were still serving in the ADF at 30 June 2014. Women and men not considered to be retained include those who left the permanent service and those who transferred from the permanent forces to serve in a Reserve capacity.

Table 12: Numbers and proportions of Navy members retained after taking paid maternity or parental leave in the 18 months to 30 June 2014^[1]

Women				Men			
Rank	Taken Leave	Retained	% Retained	Rank	Taken Leave	Retained	% Retained
Admiral (O10)	-	-	-	Admiral (O10)	-	-	-
Vice Admiral (O09)	-	-	-	Vice Admiral (O09)	-	-	-
Rear Admiral (O08)	-	-	-	Rear Admiral (O08)	-	-	-
Commodore (O07)	-	-	-	Commodore (O07)	-	-	-
Captain (O06)	-	-	-	Captain (O06)	3	3	100.0%
Commander (O05)	1	1	100.0%	Commander (O05)	8	7	87.5%
Lieutenant Commander (O04)	13	13	100.0%	Lieutenant Commander (O04)	18	16	88.9%
Lieutenant (O03)	15	13	86.7%	Lieutenant (O03)	47	43	91.5%
Sub Lieutenant (O02)	1	0	0.0%	Sub Lieutenant (O02)	7	5	71.4%
Acting Sub Lieutenant (O01)	2	2	100.0%	Acting Sub Lieutenant (O01)	-	-	-
Midshipman (O00)	-	-	-	Midshipman (O00)	2	2	100.0%
Warrant Officer (E09)	-	-	-	Warrant Officer (E09)	1	1	100.0%
Chief Petty Officer (E08)	4	4	100.0%	Chief Petty Officer (E08)	14	10	71.4%
Petty Officer (E06)	23	18	78.3%	Petty Officer (E06)	73	65	89.0%
Leading Seaman (E05)	44	34	77.3%	Leading Seaman (E05)	108	89	82.4%
Able Seaman (E03)	71	43	60.6%	Able Seaman (E03)	103	86	83.5%
Seaman (E02)	1	1	100.0%	Seaman (E02)	16	13	81.3%
Seaman* (E01)	1	1	100.0%	Seaman* (E01)	3	3	100.0%
Total	176	130	73.9%	Total	403	343	85.1%

Source: Defence HR system.

Note

1. Leave types include adoption leave—paid, forces maternity leave—ADF, paid parental leave—ADF, maternity leave—paid and parental leave.

Table 13: Numbers and proportions of Army members retained after taking paid maternity or parental leave in the 18 months to 30 June 2014^[1]

Women				Men			
Rank	Taken Leave	Retained	% Retained	Rank	Taken Leave	Retained	% Retained
General (O10)	-	-	-	General (O10)	-	-	-
Lieutenant General (O09)	-	-	-	Lieutenant General (O09)	-	-	-
Major General (O08)	-	-	-	Major General (O08)	-	-	-
Brigadier (O07)	-	-	-	Brigadier (O07)	-	-	-
Colonel (O06)	0	0	-	Colonel (O06)	1	1	100.0%
Lieutenant Colonel (O05)	3	3	100.0%	Lieutenant Colonel (O05)	22	21	95.5%
Major (O04)	17	17	100.0%	Major (O04)	61	57	93.4%
Captain (O03)	28	27	96.4%	Captain (O03)	110	101	91.8%
Lieutenant (O02)	7	7	100.0%	Lieutenant (O02)	38	37	97.4%
Second Lieutenant (O01)	-	-	-	Second Lieutenant (O01)	-	-	-
Officer Cadet (O00)	-	-	-	Officer Cadet (O00)	2	2	100.0%
Warrant Officer Class 1 (E09)	-	-	-	Warrant Officer Class 1 (E09)	5	5	100.0%
Warrant Officer Class 2 (E08)	5	5	100.0%	Warrant Officer Class 2 (E08)	44	42	95.5%
Sergeant (E06)	21	19	90.5%	Sergeant (E06)	160	140	87.5%
Corporal (E05)	46	40	87.0%	Corporal (E05)	294	252	85.7%
Lance Corporal (E04)	3	3	100.0%	Lance Corporal (E04)	85	65	76.5%
Private Proficient (E03)	44	33	75.0%	Private Proficient (E03)	386	294	76.2%
Private (E02)	5	5	100.0%	Private (E02)	69	67	97.1%
Private Trainee (E01)	-	-	-	Private Trainee (E01)	25	21	84.0%
Total	179	159	88.8%	Total	1,302	1,105	84.9%

Source: Defence HR system.

Note

1. Leave types include adoption leave—paid, forces maternity leave—ADF, paid parental leave—ADF, maternity leave—paid and parental leave.

Table 14: Numbers and proportions of Air Force members retained after taking paid maternity or parental leave in the 18 months to 30 June 2014^[1]

Women				Men			
Rank	Taken Leave	Retained	% Retained	Rank	Taken Leave	Retained	% Retained
Air Chief Marshal (O10)	-	-	-	Air Chief Marshal (O10)	-	-	-
Air Marshal (O09)	-	-	-	Air Marshal (O09)	-	-	-
Air Vice-Marshal (O08)	-	-	-	Air Vice-Marshal (O08)	-	-	-
Air Commodore (O07)	-	-	-	Air Commodore (O07)	-	-	-
Group Captain (O06)	-	-	-	Group Captain (O06)	2	2	100.0%
Wing Commander (O05)	-	-	-	Wing Commander (O05)	4	4	100.0%
Squadron Leader (O04)	15	15	100.0%	Squadron Leader (O04)	59	53	89.8%
Flight Lieutenant (O03)	29	27	93.1%	Flight Lieutenant (O03)	82	77	93.9%
Flying Officer (O02)	8	7	87.5%	Flying Officer (O02)	20	20	100.0%
Pilot Officer (O01)	1	1	100.0%	Pilot Officer (O01)	7	7	100.0%
Officer Cadet (O00)	-	-	-	Officer Cadet (O00)	1	1	100.0%
Non-Commissioned Officer Cadet (E51)	-	-	-	Non-Commissioned Officer Cadet (E51)	3	3	100.0%
Warrant Officer (E09)	-	-	-	Warrant Officer (E09)	4	4	100.0%
Flight Sergeant (E08)	9	8	88.9%	Flight Sergeant (E08)	11	10	90.9%
Sergeant (E06)	20	17	85.0%	Sergeant (E06)	74	71	95.9%
Corporal (E05)	49	41	83.7%	Corporal (E05)	167	146	87.4%
Leading Aircraftman/Woman (E03)	31	29	93.5%	Leading Aircraftman/Woman (E03)	143	133	93.0%
Aircraftman/Woman (E02)	2	2	100.0%	Aircraftman/Woman (E02)	18	17	94.4%
Aircraftman/Woman Trainee (E01)	-	-	-	Aircraftman/Woman Trainee (E01)	9	8	88.9%
Total	164	147	89.6%	Total	604	556	92.1%

Source: Defence HR system.

Note

1. Leave types include adoption leave—paid, forces maternity leave—ADF, paid parental leave—ADF, maternity leave—paid and parental leave.

Figure 11: Percentages of women and men retained after taking paid maternity or parental leave in the 18 months to 30 June 2014

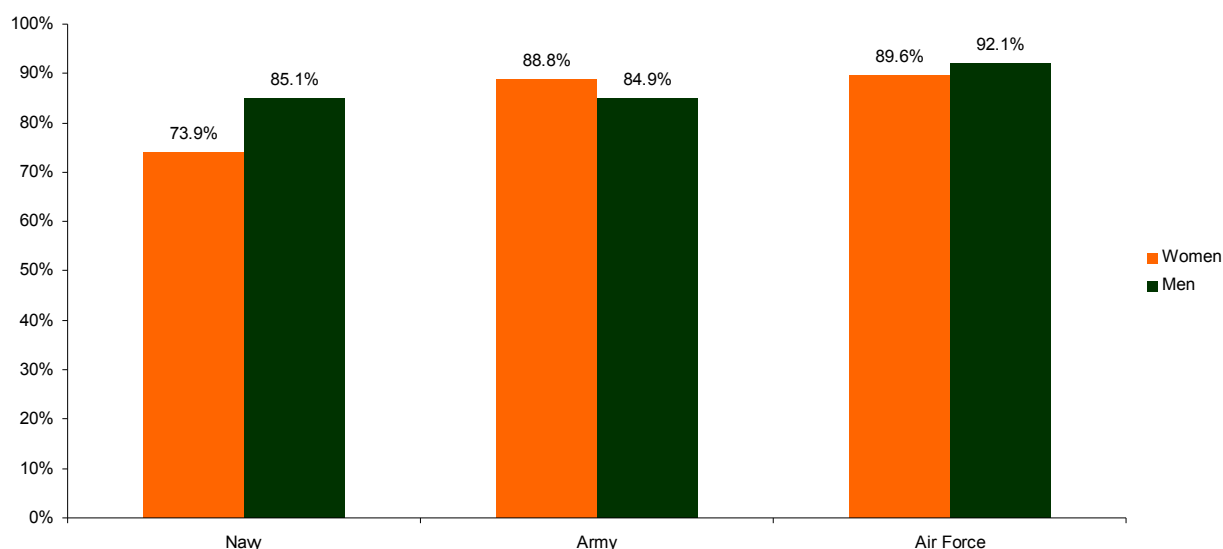


Figure 11 shows the proportions of women and men in each service who continued to work in Defence after taking maternity or parental leave. This is a proxy indicator of how viable they find working for the ADF after they have children. Most women and men continue working for Defence in a permanent capacity in the 18 months after they take maternity or parental leave. The rate at which members are retained after such leave is somewhat lower for Navy women, which perhaps reflects the difficulties of incorporating sea service obligations and childcare responsibilities. Compared to figures at the end of 2012–13, there was an improvement in the retention rates for men in the Navy and Air Force (70.7 per cent and 72.7 per cent, respectively).

Career breaks

Tables 15 to 17 show the numbers of women and men at each rank who returned from a career break in 2013–14. Such a break has been defined as a continuous period of annual leave, leave without pay or long service leave of three months or longer, followed by three months of active duty. Those who took leave but then left the permanent service

are not included; only those retained in the ADF for at least three months after their return from leave are considered to have been on a career break.

Table 15: Navy members retained after taking a career break of three months or more, 2013–14^{[1][2][3][4]}

Rank	Number and Proportion of Women and Men Taking Career Breaks at each Rank (Retained only)				Total
	Women	%	Men	%	
Admiral (O10)	-	-	-	-	-
Vice Admiral (O09)	-	-	-	-	-
Rear Admiral (O08)	-	-	-	-	-
Commodore (O07)	-	-	-	-	-
Captain (O06)	0	0.0%	1	100.0%	1
Commander (O05)	2	22.2%	7	77.8%	9
Lieutenant Commander (O04)	4	21.1%	15	78.9%	19
Lieutenant (O03)	9	45.0%	11	55.0%	20
Sub Lieutenant (O02)	1	50.0%	1	50.0%	2
Acting Sub Lieutenant (O01)	1	100.0%	0	0.0%	1
Midshipman (O00)	0	0.0%	2	100.0%	2
Warrant Officer (E09)	0	0.0%	2	100.0%	2
Chief Petty Officer (E08)	0	0.0%	9	100.0%	9
Petty Officer (E06)	5	41.7%	7	58.3%	12
Leading Seaman (E05)	0	0.0%	8	100.0%	8
Able Seaman (E03)	2	28.6%	5	71.4%	7
Seaman (E02)	0	0.0%	1	100.0%	1
Seaman * (E01)	-	-	-	-	-
Recruit (E00)	-	-	-	-	-
Total	24	25.8%	69	74.2%	93

Source: Defence HR system.

Notes

- Figures include members who took a continuous period of leave for three months or longer and who remained in the service for at least three months after returning from leave.
- Leave types include long service leave, forces annual leave and leave without pay.
- Figures exclude members who took a leave break but subsequently left the service.
- Figures exclude members who took any form of paid maternity or parental leave in the 18 months before the first date of leave.

Table 16: Army members retained after taking a career break of three months or more, 2013–14^{[1][2][3][4]}

Rank	Number and Proportion of Women and Men Taking Career Breaks at each Rank (Retained only)				Total
	Women	%	Men	%	
General (O10)	-	-	-	-	-
Lieutenant General (O09)	-	-	-	-	-
Major General (O08)	-	-	-	-	-
Brigadier (O07)	2	100.0%	0	0.0%	2
Colonel (O06)	0	0.0%	9	100.0%	9
Lieutenant Colonel (O05)	1	5.9%	16	94.1%	17
Major (O04)	8	13.6%	51	86.4%	59
Captain (O03)	10	22.7%	34	77.3%	44
Lieutenant (O02)	2	40.0%	3	60.0%	5
Officer Cadet (O00)	3	75.0%	1	25.0%	4
Warrant Officer Class 1 (E09)	1	7.7%	12	92.3%	13
Warrant Officer Class 2 (E08)	1	4.2%	23	95.8%	24
Sergeant (E06)	5	9.3%	49	90.7%	54
Corporal (E05)	4	10.0%	36	90.0%	40
Lance Corporal (E04)	1	7.7%	12	92.3%	13
Private Proficient (E03)	2	2.9%	66	97.1%	68
Private (E02)	-	-	-	-	-
Private Trainee (E01)	-	-	-	-	-
Recruit (E00)	-	-	-	-	-
Total	40	11.4%	312	88.6%	352

Source: Defence HR system.

Notes:

- Figures include members who took a continuous period of leave for three months or longer and who remained in the service for at least three months after returning from leave.
- Leave types include long service leave, forces annual leave and leave without pay.
- Figures exclude members who took a leave break but subsequently left the service.
- Figures exclude members who took any form of paid maternity or parental leave in the 18 months before the first date of leave.

Table 17: Air Force members retained after taking a career break of three months or more, 2013–14^{[1][2][3][4]}

Rank	Number and Proportion of Women and Men Taking Career Breaks at each Rank (Retained only)				
	Women	%	Men	%	Total
Air Chief Marshal (O10)	-	-	-	-	-
Air Marshal (O09)	-	-	-	-	-
Air Vice-Marshal (O08)	-	-	-	-	-
Air Commodore (O07)	-	-	-	-	-
Group Captain (O06)	-	-	-	-	-
Wing Commander (O05)	0	0.0%	4	100.0%	4
Squadron Leader (O04)	8	57.1%	6	42.9%	14
Flight Lieutenant (O03)	6	40.0%	9	60.0%	15
Flying Officer (O02)	3	30.0%	7	70.0%	10
Officer Cadet (O00)	-	-	-	-	-
Warrant Officer (E09)	0	0.0%	7	100.0%	7
Flight Sergeant (E08)	0	0.0%	2	100.0%	2
Sergeant (E06)	4	40.0%	6	60.0%	10
Corporal (E05)	8	17.4%	38	82.6%	46
Leading Aircraftman/Woman (E03)	2	10.0%	18	90.0%	20
Aircraftman/Woman (E02)	-	-	-	-	-
Aircraftman/Woman Trainee (E01)	-	-	-	-	-
Aircraftman/Woman Recruit (E00)	-	-	-	-	-
Total	31	24.2%	97	75.8%	128

Source: Defence HR system.

Notes

- 1 Figures include members who took a continuous period of leave for three months or longer and who remained in service for at least three months after returning from leave.
2. Leave types include long service leave, forces annual leave and leave without pay.
3. Figures exclude members who took a leave break but subsequently left the service.
4. Figures exclude members who took any form of paid maternity or parental leave in the 18 months before the first date of leave.

Figure 12: Percentage of career breaks taken by women and men, by service, 2013–14

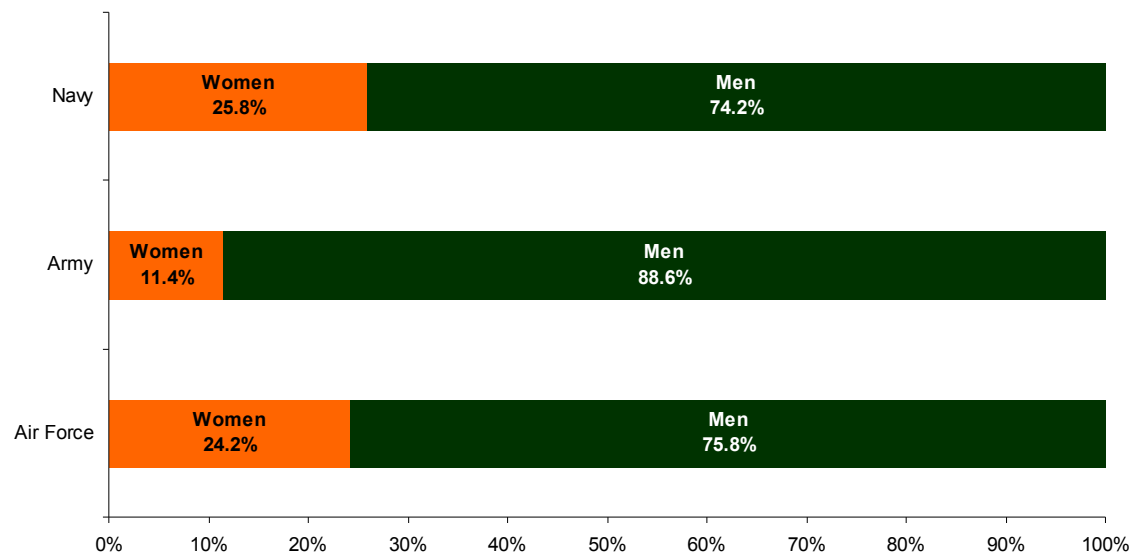


Figure 12 charts the proportion of career breaks taken by women and men, by service. In the Navy and the Air Force, approximately one-quarter of those taking career breaks were women, which was higher than the proportion of women in those services (18.6 per cent and 18.2 per cent, respectively). In the Army, 11.4 per cent of those taking career breaks were women, which was almost the same as the proportion of women in the Army (11.8 per cent), indicating that Army women are evenly represented among Army members taking career breaks. As might be expected, members at very junior and very senior ranks are less likely to take career breaks.

Compared with figures for 2012–13, there was a small reduction in the number of Army members taking career breaks.

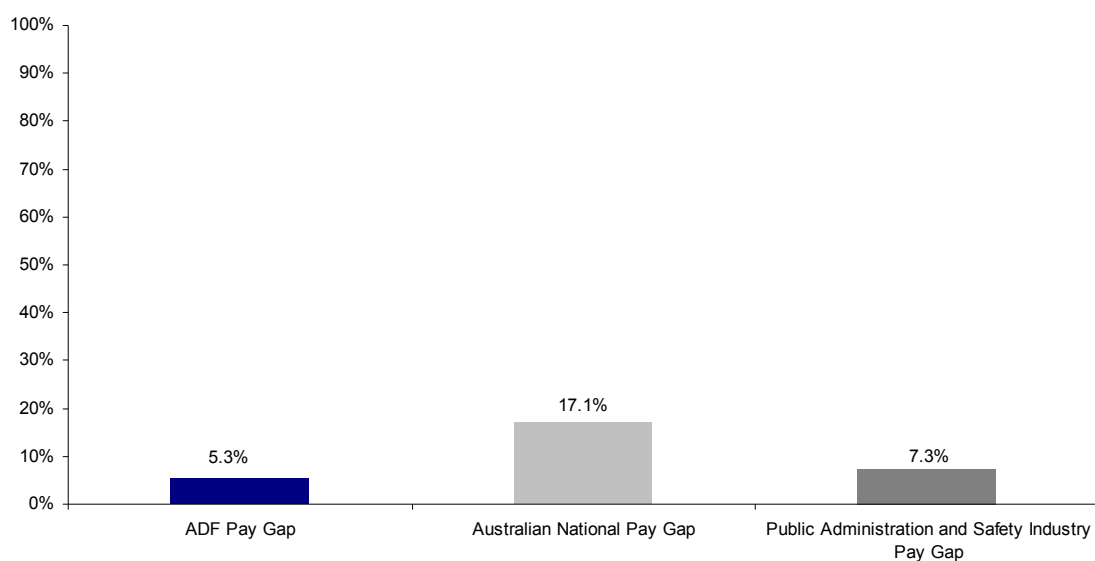
Gender pay audit

A key indicator of gender equity in Australia, in various industries and in each organisation, is gender pay equity as measured by the gender pay gap. The gap is the percentage difference between women's average salary and men's average salary. This metric is of interest at the national level and is one of the gender equity indicators that private companies in Australia must report in accordance with the *Workplace Gender Equality Act 2012*. While Defence is not compelled to report under that Act, a gender pay gap analysis is useful in assessing gender equity.

The gender pay gap does not refer to the difference in pay between a man and a woman carrying out the same work with the same experience and qualifications. Under Defence's remuneration system, men and women are paid the same in the same circumstances. A gender pay gap does not necessarily indicate gender bias or an undervaluation of traditionally female roles, but can reflect legitimate differences in pay due to different work undertaken. These differences are influenced by structural contributors, such as women occupying less well-remunerated occupations and ranks, which Defence is assiduously addressing through the implementation of the Broderick review recommendations.

This section presents outcomes of a gender pay audit, which includes an analysis of the overall Defence gender pay gap, calculated in the same way that the Australian national pay gap is calculated and guided by how private companies examine gender pay gaps to satisfy Workplace Gender Equality Agency reporting requirements. This method involves first calculating the average salary of all permanent and continuous full-time service ADF women, and then the average salary of all permanent and continuous full-time service ADF men. The average female salary is subtracted from the average male salary. This difference is then divided by the average male salary, resulting in the percentage difference (the pay gap). Gender pay gaps have also been calculated for each rank in each service. Defence is also developing a data storage and reporting mechanism that will facilitate future gender pay gap analyses by occupational group, enabling greater granularity in the gender pay audit.

Figure 13: ADF gender pay gap, Australian national pay gap and public administration and safety industry pay gap



Source: ADF pay—Defence HR system; Australian and industry pay —ABS (2014), *Average weekly earnings, Australia, November 2013*, cat. no 6302.0.

Figure 13 shows the ADF gender pay gap alongside the Australian national pay gap and the pay gap in the most relevant industry, which is public administration and safety. The gender pay gap is the difference between the average male salary and the average female salary, expressed as a proportion of the average male salary. The average ADF woman is paid 5.3 per cent less than the average ADF man. The ADF gender pay gap is due to ADF women being disproportionately represented in lower ranks and in occupational groups that are in the lower pay grades. The gap is also influenced by women's lower average length of service and their lower average seniority at rank. Defence is addressing each of these factors by increasing overall female participation and by facilitating longer careers for women by providing adequate support (for example, by supporting flexible work and flexible career pathways).

The ADF compares favourably with the Australian national benchmark and with the public administration and safety industry benchmark, which show gender pay gaps of 17.1 per cent and 7.3 per cent, respectively.

Table 18 shows the outcome of the gender pay audit by rank for the ADF workforce at 30 June 2014.

Table 18: Gender pay gap in ADF—comparisons of average actual salary by service and rank, 30 June 2014^{[1][2][3][4][5]}

Navy Officers		Army Officers		Air Force Officers	
Rank	% Salary Difference	Rank	% Salary Difference	Rank	% Salary Difference
Rear Admiral (O08)	-20.51%	Major General (O08)	3.89%	Air Commodore (O07)	-5.54%
Commodore (O07)	-28.54%	Brigadier (O07)	-0.89%	Group Captain (O06)	2.90%
Captain (O06)	0.62%	Colonel (O06)	-0.89%	Wing Commander (O05)	3.90%
Commander (O05)	3.13%	Lieutenant Colonel (O05)	0.83%	Squadron Leader (O04)	5.60%
Lieutenant Commander (O04)	3.22%	Major (O04)	1.96%	Flight Lieutenant (O03)	9.86%
Lieutenant (O03)	3.53%	Captain (O03)	2.13%	Flying Officer (O02)	4.05%
Sub Lieutenant (O02)	2.82%	Lieutenant (O02)	2.62%	Pilot Officer (O01)	1.08%
Acting Sub Lieutenant (O01)	5.73%	Officer Cadet (O00)	1.11%	Officer Cadet (O00)	0.09%
Midshipman (O00)	2.26%				

Navy Other Ranks		Army Other Ranks		Air Force Other Ranks	
Rank	% Salary Difference	Rank	% Salary Difference	Rank	% Salary Difference
Warrant Officer (E09)	5.02%	Warrant Officer Class 1 (E09)	4.58%	Warrant Officer (E09)	5.72%
Chief Petty Officer (E08)	5.26%	Warrant Officer Class 2 (E08)	4.85%	Flight Sergeant (E08)	6.54%
Petty Officer (E06)	4.66%	Sergeant (E06)	4.47%	Sergeant (E06)	5.27%
Leading Seaman (E05)	4.00%	Corporal (E05)	5.07%	Non-Commissioned Officer Cadet (E51)	0.89%
Able Seaman (E03)	3.36%	Lance Corporal (E04)	4.61%	Corporal (E05)	7.32%
Seaman (E02)	0.83%	Private Proficient (E03)	3.84%	Leading Aircraftman/Woman (E03)	4.26%
Seaman* (E01)	0.21%	Private (E02)	1.94%	Aircraftman/Woman (E02)	1.33%
Recruit (E00)	0.00%	Private Trainee (E01)	0.72%	Aircraftman/Woman Trainee (E01)	1.04%
		Recruit (E00)	0.00%	Aircraftman/Woman Recruit (E00)	0.00%

Source: Defence HR system.

Notes

1. Positive numbers indicate that average salary is higher for men; negative numbers indicate that average salary is higher for women. This was changed for this report to reflect the standard calculation method according to the Workplace Gender Equality Agency guidelines.
2. Based on average actual salaries.
3. Excludes allowances.
4. Based on permanent and continuous full-time service ADF members.
5. Calculated from the average salary of men at rank, minus the average salary of women at rank. The difference is expressed as a percentage of the average salary of men at rank.

Figure 14: Average gender pay gap at each officer rank, by service, 30 June 2014

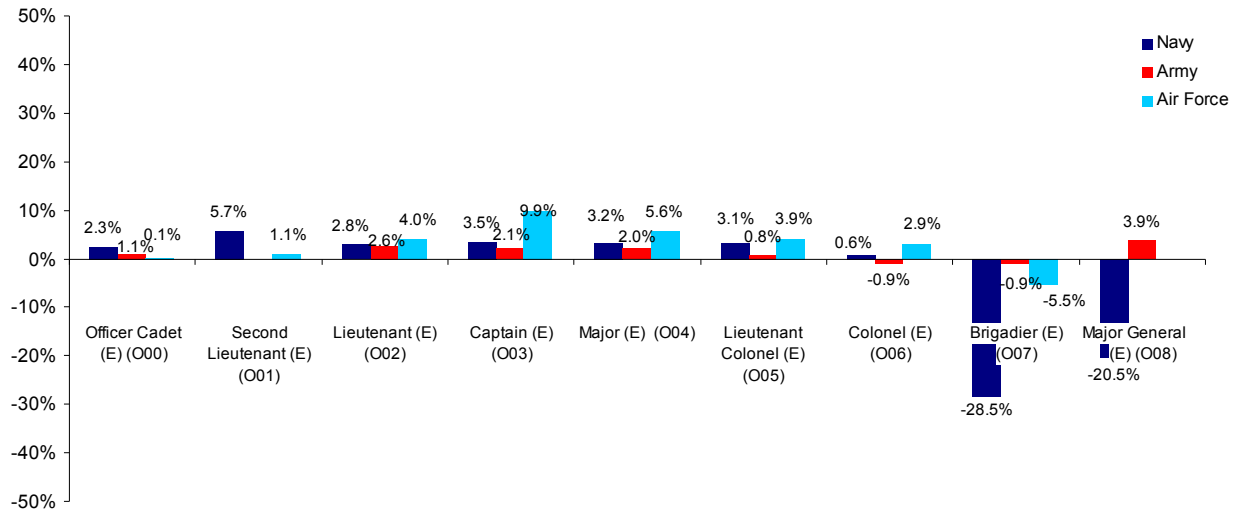


Figure 14 shows the percentage difference between the average salaries of male and female ADF officers. The largest differences are in women's favour, at Navy's Commodore and Rear Admiral ranks (equivalent to Brigadier and Major General, respectively). Differences at these levels should be interpreted with caution, due to the small numbers; for example, there is only one Navy woman at the O08 rank. Women's representation in specialist roles (for example, health) accounts for the higher average salary at O07 and O08 ranks. The smaller but more consistent differences are in men's favour at less senior officer ranks. Most of the differences are less than five per cent and reflect women's lower representation in the most highly remunerated occupation groups. The Army's gender pay gap tends to be lower at most officer ranks, as Army officers' pay grades are based more on rank than occupation.

Figure 15: Average gender pay gap at each other rank, by service, 30 June 2014

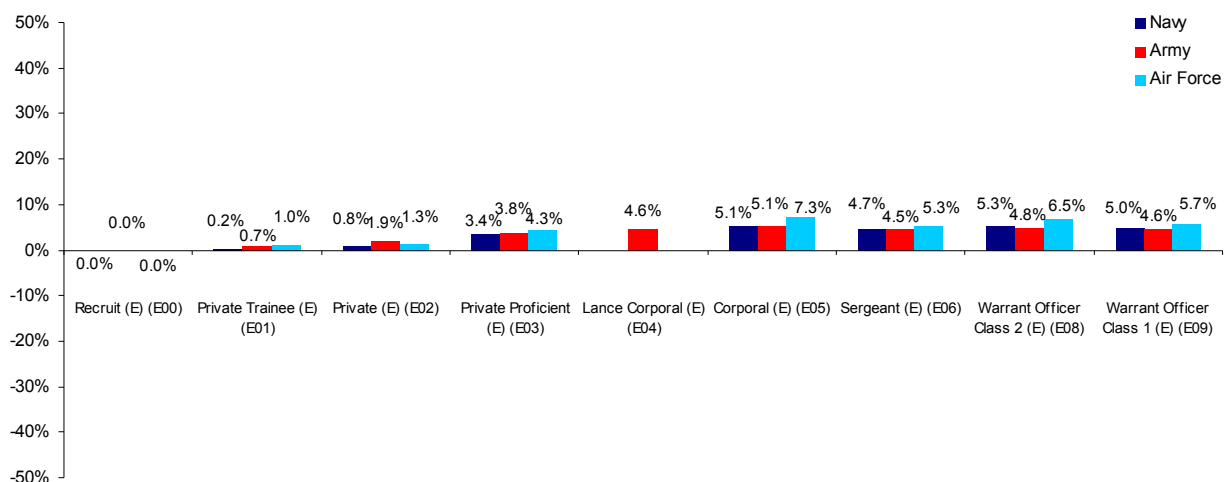


Figure 15 shows the percentage differences between the average salaries of female and male ADF members at the other ranks at the end of 2013–14. There were small gender pay gaps: average male salaries were slightly higher than average female salaries. There was no difference in men's and women's pay among recruits and a very small gap for junior ranks. Small gaps begin to appear in the more senior NCO ranks, as differences in occupations and seniority levels begin to affect pay averages.

There are several possible contributing factors to consider in interpreting some small pay gaps in Defence. Defence is aware that gender bias and gender-based undervaluation can cause a gender pay gap. This was noted in Ian Watson's analysis⁴, which found that between 65 per cent and 90 per cent of the gender pay gap among Australian managers could not be explained by any legitimate variable, and that a major part of the earnings gap is 'simply due to women managers being female'. Other research⁵ suggests that men's concentration in higher-paid occupations is due to higher work value being ascribed to those occupations simply because they are occupied by men. In fact, as more women enter an occupation, the average salary decreases.

Defence is aware of the potential for these biases and historical gender-based undervaluation, and therefore has a robust process to ensure that pay is determined fairly and equitably. The ADF determines work value and subsequent remuneration proposals based primarily on capability delivery. Where there is a direct or similar civilian (non-military) occupation, market relativities may contribute to remuneration determinations. One example of this is in Defence's technical trades, where there are measurable market influences and relativity for trades such as vehicle mechanics. In contrast, many trades do not have a market equal, including some in the Army's combat arms (for example, infantry sergeant or tank commander). Such trades must be grown from within the ADF. In this context, direct contributors to ADF capability (military combat outputs) may be ascribed a higher work value.

The process of ascribing pay grades to trades is most often initiated by the industrial relations cells of the individual services. Proposals are then developed and proofed through a Defence committee process, and an endorsed proposal is submitted to the independent Defence Force Remuneration Tribunal. The tribunal makes a determination on the Defence salary and/or salary-related allowance. This process provides several points at which trade pay grade considerations can be reviewed for fairness and equity.

Because these processes reduce the likelihood of gender bias or discrimination, it is apparent that the small gender pay gaps in Defence are due to more structural issues, such as women being concentrated in less highly remunerated occupations, and men being represented more among higher ranks and often having greater seniority. Defence recognises these issues and has a multifaceted strategy to address them through the implementation of the Broderick review's recommendations. To increase the proportion of women in non-traditional roles, Defence has enhanced recruiting targets, has established tailored mentoring and networking support for women in these roles, and is removing gender restrictions on combat roles. To increase the proportion of women in more senior ranks, the organisation ensures that women are well-represented in promotional gateways, further education and leadership development programs.

Defence also acknowledges the importance of indirect factors in women's participation in non-traditional roles and in senior positions, including by offering flexible working arrangements and more flexible career pathways.

⁴ Watson, I. (2010). 'Decomposing the gender pay gap in the Australian managerial labour market', *Australian Journal of Labour Economics*, 13(1).

⁵ Olsen, W., & Walby, S. (2004) *Modelling gender pay gaps*, working paper series no. 17, Equal Opportunities Commission, Manchester.

Separation rates

Table 19: ADF permanent force 12-month rolling separation rates, by gender and rank group, 30 June 2014^[1]

2013-14	Women	Men	Total
Navy			
Officers	4.6%	5.2%	5.1%
Other Ranks	10.9%	9.1%	9.4%
Total Navy	9.3%	8.2%	8.4%
Army			
Officers	6.8%	7.1%	7.1%
Other Ranks	12.4%	14.0%	13.9%
Total Army	10.7%	12.6%	12.4%
Air Force			
Officers	3.2%	4.0%	3.9%
Other Ranks	6.3%	6.4%	6.4%
Total Air Force	5.1%	5.6%	5.5%
ADF			
Officers	4.9%	5.7%	5.5%
Other Ranks	10.3%	11.3%	11.2%
Total ADF	8.6%	9.9%	9.7%

Source: Defence HR system.

Note

1. Separation rates are based on the total permanent force; including the trained and the training force.

Figure 16: ADF permanent force 12-month rolling separation rate, by service, rank group and gender, 30 June 2014

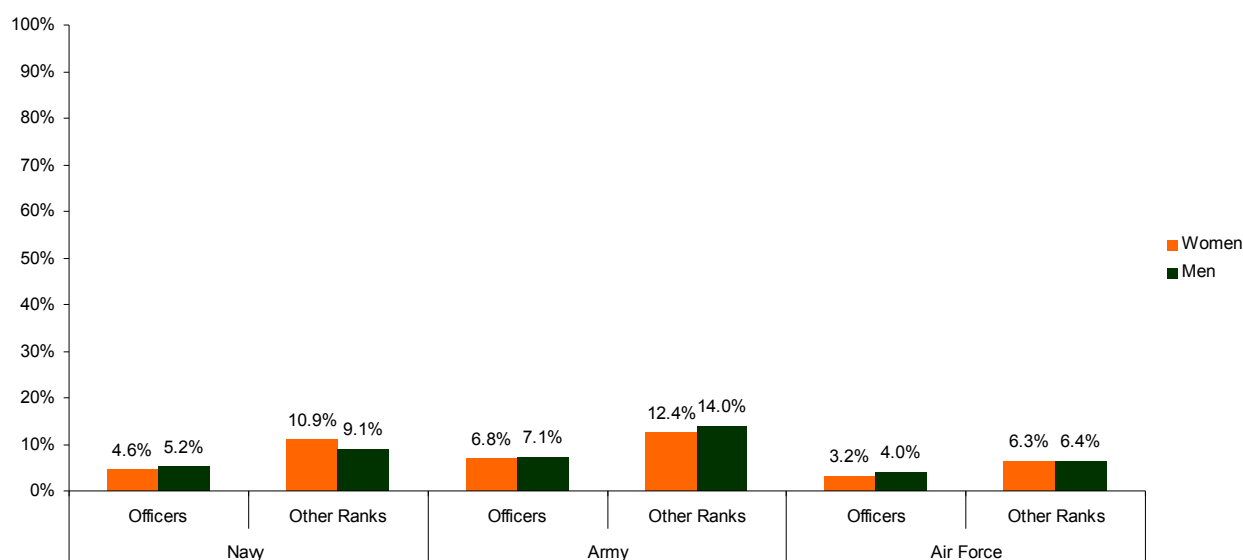


Figure 16 shows the 12-month rolling separation rate for permanent ADF women and men by each service and by rank group. Generally, the separation rate for officers in each service is lower than for other ranks in that service. In most groups, women have lower separation rates than men, with the exception of Navy other ranks, in which women have a slightly higher separation rate than men.

In all services, the separation rate for female officers in 2013–14 fell compared with rates in 2012–13. Among other ranks, female separation rates also fell, with the exception of Army other ranks. While female separation rates for Army other ranks were still below those of male Army other ranks, they increased from 10.6 per cent to 12.4 per cent, which may be associated with the one-year IMPS program. Of the women who enlisted under that program in 2012–13, 23 per cent separated during or at the end of their one year.

Women's experience

Attitudes and perceptions

The experiences of women as they join and work in Defence help to form their perceptions and attitudes, which then affect their decision to remain in the ADF and their degree of engagement with the organisation. This section explores women's perceptions of and attitudes to many issues compared with those of men. In particular, some items selected are 'outcome measures', which have been determined to be the most representative of people's experience of an organisation and the most salient when they are deciding whether they want to continue in Defence. Survey responses for 2013–14 are disaggregated by service and gender and are compared to survey responses in 2012–13.

Table 20: YourSay surveys (October 2013 and February 2014)—responses on ADF men’s and women’s experiences^{[1][2][3][4][5][6]}

YourSay Survey	Navy		Army		Air Force		Total ADF	
	Women	Men	Women	Men	Women	Men	Women	Men
My job gives me a feeling of personal accomplishment	67.5%	71.8%	70.5%	67.1%	69.6%	70.3%	69.3%	69.2%
My job gives me opportunities to utilise my skills and training	65.8%	72.4%	67.9%	68.3%	74.8%	71.3%	69.6%	70.2%
I am satisfied with the recognition I receive for doing a good job	49.2%	51.4%	55.4%	46.2%	56.3%	46.8%	53.8%	47.6%
The people in my work group are honest, open and transparent in their dealings	64.4%	73.1%	64.6%	65.2%	65.3%	68.4%	64.8%	68.1%
My supervisor encourages me	78.3%	76.4%	75.8%	70.6%	74.6%	74.8%	76.1%	73.3%
I have a good supervisor	▲78.6%	79.1%	74.9%	73.1%	▲76.1%	76.1%	76.4%	75.4%
Communication between Defence senior leaders and other employees is effective	▲45.8%	41.5%	45.0%	36.7%	▲45.6%	36.9%	45.4%	37.9%
My workplace provides access to effective learning and development opportunities	62.4%	62.9%	67.7%	56.9%	63.9%	57.2%	64.8%	58.5%
Employees in the Navy/Army/Air Force/Department of Defence feel they are valued for their contribution	35.8%	▲42.2%	44.3%	42.3%	▲44.2%	42.2%	41.8%	42.2%
When someone praises the accomplishments of the Navy/Army/Air Force/ Department of Defence, it feels like a personal compliment to me	45.7%	48.0%	49.2%	42.2%	44.2%	39.2%	46.5%	42.7%
I am actively looking at leaving Defence/ (Service)	▼24.5%	26.7%	20.9%	26.7%	17.4%	21.3%	20.8%	25.1%
I like the job I do in my current position	65.5%	69.5%	64.6%	64.8%	65.8%	66.0%	65.3%	66.3%
Overall, I am satisfied with my job	62.5%	66.9%	65.2%	61.1%	63.7%	63.3%	63.9%	63.2%
I am proud to tell others that I am a member of Defence	80.8%	82.5%	81.5%	79.3%	85.3%	83.1%	82.6%	81.2%
I feel a strong sense of belonging to Defence	67.9%	71.4%	72.5%	67.7%	70.2%	66.6%	70.3%	68.3%
How would you rate your current individual level of morale? (% high/very high)	36.7%	44.1%	42.3%	41.0%	39.6%	38.3%	39.8%	40.9%
I could easily find employment outside of Defence	60.2%	66.8%	60.1%	62.9%	55.9%	55.9%	58.7%	61.7%
I believe Defence will benefit from Pathway to Change	48.6%	47.1%	▲38.3%	28.8%	▲53.0%	47.4%	▲46.3%	38.8%
I have seen evidence of Pathway to Change being used in Defence	42.6%	40.5%	▲35.2%	31.4%	▲50.6%	49.2%	▲42.6%	39.0%
I have seen evidence of Pathway to Change being used in my work area	36.6%	36.9%	▲30.0%	26.7%	▲42.6%	44.5%	▲36.2%	34.5%

Source: YourSay surveys, October 2013 and February 2014.

Notes

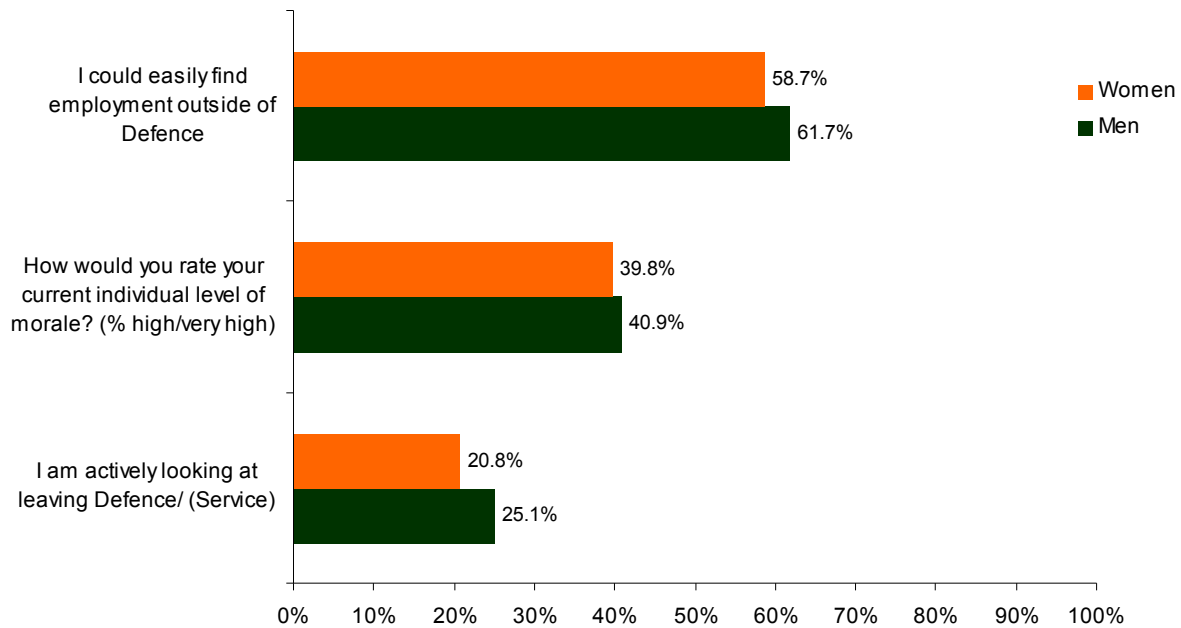
1. Data includes responses from ADF personnel.
2. Cells highlighted in green indicate that 2013–14 responses were significantly more positive than for 2012–13.
3. Cells highlighted in red indicate that the 2013–14 responses were significantly less positive than for 2012–13.
4. An upward-pointing arrow indicates that responses were significantly higher in 2013–14 compared with 2012–13 (but may be positive or negative, depending on the wording of the question).
5. A downward-pointing arrow indicates that responses were significantly lower in 2013–14 compared with 2012–13 (but may be positive or negative, depending on the wording of the question).
6. Differences are based on statistical significance ($p < .05$) and measure of association (*Cramer’s V* > 0.1).

Figure 17: Percentages of ADF women and men agreeing or strongly agreeing with *YourSay* items about job satisfaction, 2013–14



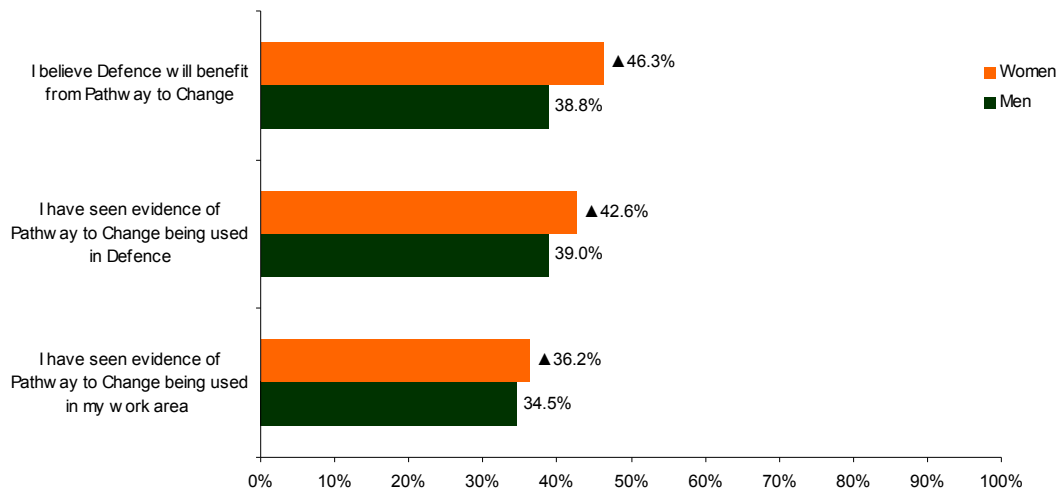
Figure 17 charts the responses of women and men in the ADF to questions about their satisfaction with their jobs, or aspects of their jobs. Overall, the responses were positive: over half of respondents were satisfied with most of the aspects covered. The aspect of the job that people were least satisfied with was recognition, although women were more positive than men about it. There were some modest differences in responses between women and men. Women in the Army and the Air Force were more positive than their male counterparts about access to learning and development and about recognition. While women and men in the Navy had positive attitudes about opportunities to use skills and training, and the honesty and transparency of their colleagues, men in the Navy were slightly more positive than women. Attitudes to job aspects charted in this figure did not differ between 2012–13 and 2013–14.

Figure 18: Percentages of ADF women and men agreeing or strongly agreeing with *YourSay* items about morale and intention to leave, 2013–14



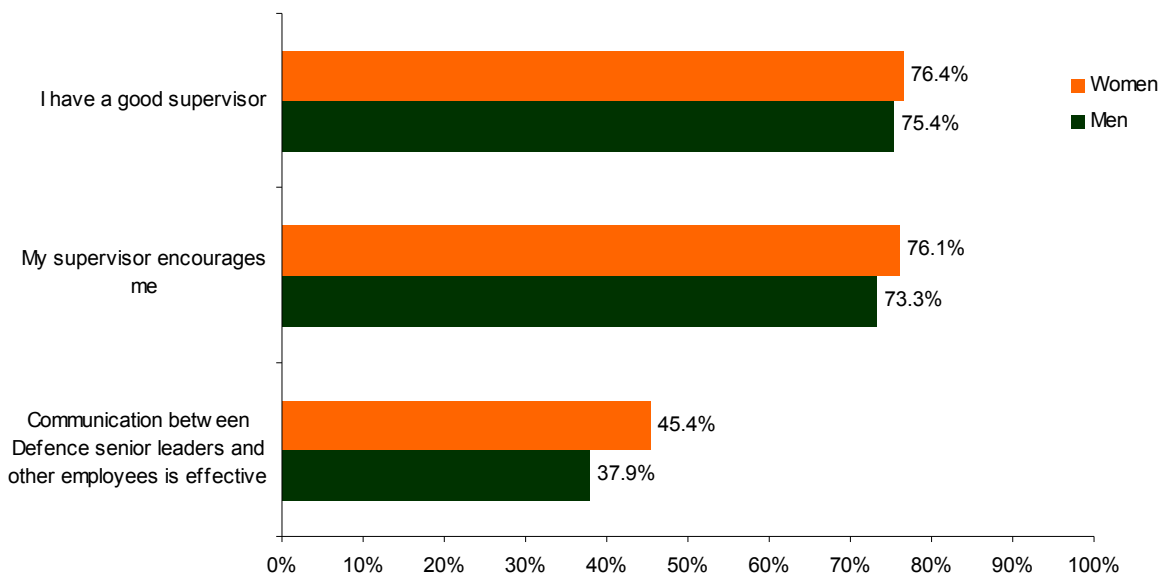
Outcome measures, such as morale and intention to leave, are key indicators of men's and women's experiences in the ADF (Figure 18). In 2013–14, over half of ADF women and men were confident about their ability to find work outside Defence, although Navy men were more confident than Navy women. Navy men also reported higher morale than other demographic groups. While only two-fifths of ADF members reported high or very high morale, a further 35 per cent described their morale as 'moderate', rather than low or very low. One-quarter of ADF men and one-fifth of ADF women were considering leaving Defence; this difference appears to be driven mostly by the figures for the Army, where 26.7 per cent of men are considering leaving, compared to 20.9 per cent of women. This corresponds to the separation rates presented in Table 19, which shows that men were more likely than women to leave the ADF. While there were some fluctuations in responses from 2012–13 to 2013–14, most changes were not statistically significant, which means that changes were due to random fluctuations and did not reflect a true change in the attitudes of ADF members. The only exception to this was that Navy women were less likely to be considering leaving compared to 2012–13, which was a positive outcome.

Figure 19: Percentages of ADF women and men agreeing or strongly agreeing with *YourSay* items about Pathway to Change, 2013–14



While less than half of women and men believe Defence will benefit from Pathway to Change (Figure 19), that was a considerable improvement from the first time ADF members were asked this question in May 2013, when only 32 per cent of women and men agreed. The improvement is marked for women, particularly those in the Army and Air Force. Navy women were already quite positive about Pathway to Change in May 2013, most likely due to the considerable cultural reform efforts of the New Generation Navy program. Similarly, as Defence’s cultural reform program has been implemented, more women and men are seeing evidence of Pathway to Change throughout Defence, compared with 32 per cent in the previous financial year.

Figure 20: Percentages of ADF women and men agreeing or strongly agreeing with *YourSay* items about leadership, 2013–14



In 2013–14, most ADF members were quite positive about their supervisors: around three-quarters of women and men indicated that they had a good supervisor and that their supervisor encouraged them (Figure 20). There was little difference between the genders in their opinions of supervisors; however, Army women perceived slightly more encouragement (75.8 per cent) than Army men (70.6 per cent). There was also an improvement in Navy and Air Force women’s perceptions of their supervisors from the previous year. Some 78.6 per cent of Navy women and 76.1 per cent of Air Force women

agreed that they had a good supervisor, compared to 69.3 per cent and 69.2 per cent, respectively, in 2012–13.

Perceptions about communication between senior leaders and other employees were less positive: less than half of women and men agreed or strongly agreed that it was effective. Further analysis indicates that most of the remainder did not disagree with this statement. Over 30 per cent of women and men responded neutrally to the item, indicating that they did not perceive communication to be ineffective but that they had no strong opinion about it. This was perhaps to be expected in a large organisation with many levels of hierarchy throughout various Branches, Groups and Divisions. Nevertheless, Defence has been targeting this as an area of attention, and progress is becoming evident. There was a notable increase in the proportion of Navy women (45.8 per cent) and Air Force women (45.6 per cent) who agreed that communication with senior leaders was effective, compared with 36.7 per cent and 34.5 per cent, respectively, in the previous year.

Figure 21: Percentages of ADF women and men agreeing or strongly agreeing with *YourSay* items about identification with Defence, 2013–14

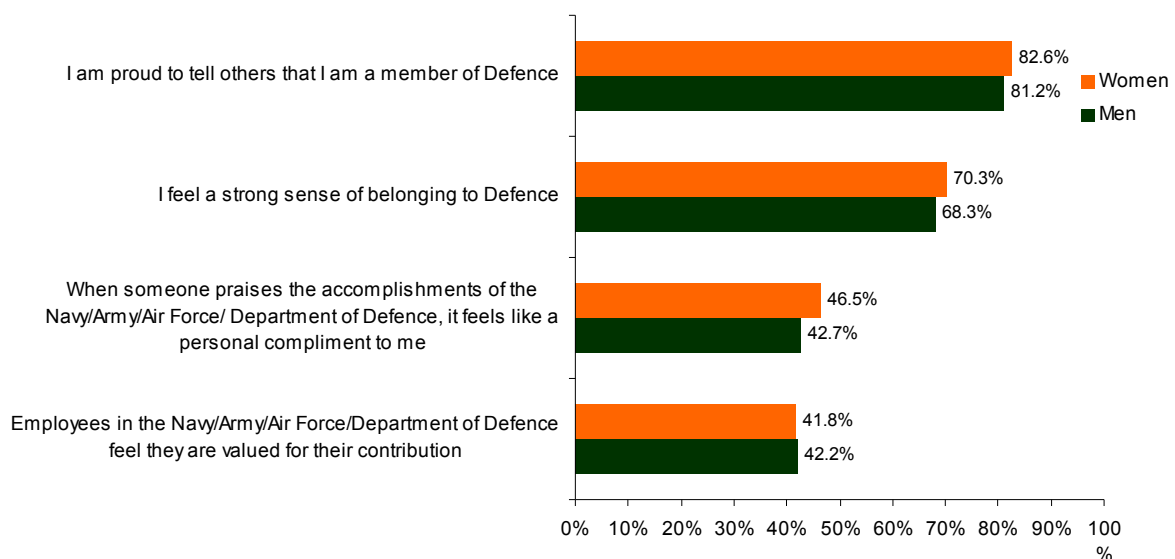


Figure 21 shows the extent to which women and men feel that they are a part of Defence—a concept known as ‘affective commitment’, which has been found to be very important in people’s engagement in their jobs. There are a wide range of attitudes to items in this group, with a high level of feelings of belonging and pride in being a member of the ADF, but less positive attitudes towards praise and feeling valued. Further analysis shows that quite a high proportion (approximately one-third) of respondents gave ‘neutral’ responses to the praise and feeling valued items, indicating that most people simply did not feel strongly about these questions, rather than having negative feelings. Women and men are equally proud to tell others that they are in Defence, and feel an equally strong sense of belonging. Army and Air Force women are more likely than their male counterparts to feel that praise for their service is a personal compliment, while Navy men are somewhat more likely than Navy women to feel that they are valued for their contribution. The only item that changed significantly from 2012–13 to 2013–14 was the item regarding feeling valued for contributions, about which both Navy men and Air Force women were more positive than they were in the previous year.

Table 21: 2013 *YourSay* Leaving Defence—top 10 reasons for ADF members leaving Defence^[1]

Rank	Total ADF	Women	Men
1	To make a career change while still young enough	1 Lack of control over life	1 To make a career change while still young enough
2	Lack of control over life	2 To make a career change while still young enough	2 Better career prospects in civilian life
3	Better career prospects in civilian life	3 Desire to live in a particular location	3 Lack of control over life
4	Lack of job satisfaction	4 Lack of job satisfaction	4 Lack of job satisfaction
5	Desire to live in a particular location	5 Better career prospects in civilian life	5 Desire to live in a particular location
6	Impact of job demands on family / personal life	6 Desire to stay in one place	6 Impact of job demands on family / personal life
7	Limited opportunities in my present category / trade / mustering or primary qualification	7 Limited opportunities in my present category / trade / mustering or primary qualification	7 Limited opportunities in my present category / trade / mustering or primary qualification
8	General dissatisfaction with service life	8 A desire for more challenging work	8 General dissatisfaction with service life
9	Desire to stay in one place	9 Desire for less separation from family	9 Desire to stay in one place
10	Low morale in my work environment	10 General dissatisfaction with service life	10 Low morale in my work environment

Source: YourSay Leaving Defence Survey 2013 (formerly ADF Exit Survey).

Note

1. Data includes responses from ADF members who were discharged in calendar year 2013.

As outlined in the YourSay Leaving Defence gender comparison analysis⁶, the following themes were evident in both women's and men's reasons for leaving:

- leaving Defence while young enough to explore other prospects
- a lack of control over life
- a general dissatisfaction with their job and service life.

However, women were more likely than men to indicate that issues involving their immediate supervisor and work led them to leave the ADF, while men were more motivated by issues at a broader level, such as Defence senior leadership and a belief that their service could no longer help them meet their goals. Women were more likely than men to provide the following reasons for leaving:

- a desire for more challenging work
- poor leadership by immediate supervisor
- lack of recognition or credit for work done
- the nature of work in future postings
- desire to return to their home location
- desire to pursue further education that is not available through or relevant to Defence.

Conversely, men were more likely than women to indicate the following as factors in their decision to leave:

- impact of job demands on family or personal life

⁶ *YourSay* Leaving Defence, Reasons for Leaving 2013 Gender Comparison, Directorate of Strategic People Research, Department of Defence.

- lack of confidence in senior Defence leadership
- their goals within the service were satisfied
- little financial reward for what would be considered overtime in the civilian community
- underuse or non-use of training and skills.

Compared to ADF women who exited in previous years, women who left in 2013 were more likely to indicate that civilian career prospects, poor leadership from an immediate supervisor or a desire to return to their home location led to their decision to leave the ADF. Men leaving the ADF in 2013 were more likely than in previous years to have been influenced by low morale at work, lack of confidence in senior leadership and having already satisfied their goals in the service.

Mentoring, networking and sponsorship

There are many well-established mentoring initiatives in Defence for ADF women and men. To support them, Defence has developed a strategic approach to mentoring through its Mentoring Framework. The framework aims to ensure the support required for the successful implementation of Defence mentoring initiatives through four key elements:

- planning and communication
- education, awareness and training
- mentoring resources
- evaluation and continuous improvement processes.

There are also a number of formal networks in place to support female ADF members: the Navy's Women's Network, the Regional Army People Forum (previously known as the Army Women's Networking Forum), and the Air Force's Women's Integrated Networking Groups (WINGS) program and Women's Forums. While these networks target specific service personnel, there are also broader networks for Defence women in leadership roles, including the Women's Speaker Series program. The program invites guest speakers to address Defence's senior APS and ADF women on their personal experiences and insights on leadership. This provides a range of successful role models for senior women to engage with as an interim measure until there is greater gender balance at senior levels within Defence.

Currently, sponsorship pertains to the leadership development and education sponsorship programs through which Defence supports its staff.

This section outlines the mentoring, networking and sponsorship programs that are available to women in the ADF. This is included to address recommendation 3 section A of the Broderick's phase 2 report, regarding access to mentoring and sponsorship.

Navy

Navy Women's Mentoring Program

In 2010, the Navy implemented the Navy Women's Mentoring Program, a personal and professional self-development program completed over a four-month period. Called 'My Mentor', the program is produced by Emberin Pty Ltd (Ms Maureen Frank). To date, nearly 200 women have participated in the program, and 38 women are currently completing the 2014 program. The program helps women achieve their career potential while providing positive and useful tools to counter the gender imbalance in the workforce.

Navy Women's Networking Forum

The Navy Women's Networking Forum has held events in Canberra and Sydney for the past two years. Now using a regionally based model, the first regional Women's Networking Forum was held at HMAS *Albatross* for all service women and APS personnel working in the Shoalhaven region. This inaugural event was very successful; it was attended by more than 50 women and provided a successful foundation template for future events to be held in other locations. Forums are planned for Canberra (HMAS *Harman*) and Sydney (HMAS *Sydney* and HMAS *Penguin*).

Navy Women's Leadership Program

Sponsored by Workplace Training Advisory Australia and Women and Leadership Australia since 2009, the Navy's Women's Leadership Program has provided opportunities for approximately 120 Navy women to participate in leadership development programs, conferences and seminars around Australia each year. The program is designed to enhance female leadership in the Navy and can be used to counter any negative cultural elements through empowering and supporting future leaders. The 2013–14 program has 18 positions in leadership conferences around Australia and more than 100 opportunities for women to participate in short (one-day and half-day) seminars. Additionally, between four and six places will be made available for women in the Great Leaders are Made (GLAM) program run by Avril Henry Pty Ltd and two positions in the Australian Management Colloquium.

Army

Army Women's Networking Forum

In 2007 the Army began conducting the Army Women's Networking Forum. The intent of the forum was to bring together female personnel in each region to allow them to hear from policy and career management subject matter experts about topics specific to service life as a female in the Australian Army. Over time, it became apparent that the topics discussed at the forums were relevant to all personnel, regardless of gender. The original Army Women's Networking Forum evolved into the Regional Army People Forum, which continues to provide a workforce engagement activity with Army personnel that allows them to hear from policy and career management experts, but more importantly allows them to discuss work-related issues that are then used to inform future policy development. In 2013–14, three sessions were run, involving around 2,400 people.

The original Army Women's Networking Forum is now under revision following its evolution to the Regional Army People Forum. Once implemented, the revised Army Women's Networking Forum will provide a regional approach to networking. The networking program will form the foundation for female soldiers and officers to establish mentoring relationships within their regions. Female personnel in each region will be encouraged to meet monthly to discuss either a predetermined topic for which Army Headquarters is seeking feedback, or a topic of local interest. Some of the meetings will involve guest speakers; others will be discussion based and will be moderated by a facilitator. Funding for the Army Women's Networking Forum is covered under the Chief of Army's priority taskings.

Army Outplacement Program

The Army targets women for participation in the Army Outplacement Program. Under this program, each year up to six talented senior NCOs have the opportunity to pursue external-to-Army career outplacements of up to six months duration in renowned, diverse and inclusive government, emergency services and industry environments. The program's aim is to promote talent management and retention, and to drive behavioural change in the Army, thereby enhancing workplace diversity and inclusivity. It also provides an opportunity to reinforce the Army as an employer of choice, while providing

invaluable exposure to alternative styles of leadership, management and ways of doing business.

Chief Executive Women's Leadership Program

The Army engages the Chief Executive Women's Leadership Program and selects participants for the program on an annual basis. The program brings together women in senior leadership positions across a range of industries and sectors, and aims to enhance participants' leadership potential in future employment. In 2014, the Army sponsored six women to participate in the program.

Great Leaders are Made (GLAM) program

Great Leaders are Made is another talent management program targeted at developing women, particularly in a male-dominated environment. The Army's Career Management section sponsored four women in 2013 and another six in 2014; however, other areas throughout Defence have recognised the value of this program and have funded further participation, bringing the total to eight in 2014.

Air Force

Women's Integrated Networking Group

The Women's Integrated Networking Group (WINGs) is a facilitated networking program designed specifically to meet the needs of Air Force women. The program offers the chance to hear about women and their careers from invited guest speakers from within Defence and external organisations, with a dedicated theme each session. There is also the opportunity for women to discuss issues affecting them in the workplace while building valuable networks. The program began in Williamstown, but has now become established in other Air Force bases. Table 22 shows the approximate frequency of WINGs meetings and the average number of participants per session at each base.

Table 22: Women's Integrated Networking Group program

Location	Frequency	Participants per Session
Amberley	Every 3 months	22
Darwin	Approx. 8 times per year	14
East Sale	Every 5 to 6 weeks	14
Edinburgh	Monthly	15-20
Pearce	5 times per year	14
Richmond	Approx. every 6 weeks	15-20
Williams	Every 3 months	5-7
Wagga	Every 8 weeks	20-25
Williamstown	Every 6 weeks	20

Source: Director General Personnel—Air Force.

In addition to regular WINGs sessions, coordinators ran base-wide events over 2013–14. They included a Q&A forum with Defence senior leadership in Canberra that attracted 120 women, a session with Sex Discrimination Commissioner Elizabeth Broderick in Richmond, which had approximately 100 participants, and a session with the theme 'Mythbusting: women in the ADF' in Williamstown, which attracted around 200 participants (both women and men).

WINGs Technical Network (TECHNET)

A side network of the WINGs program has been established to address the needs of the increasing number of women in non-traditional employment roles, with a particular focus on technical trades and aircrew. Known as TECHNET, it focuses on the unique and sometimes difficult career and workplace challenges of women in these roles. Table 23

shows the approximate frequency of TECHNET sessions and the average number of participants per session.

Table 23: Women's Technical Network

Location	Frequency	Participants per Session
Edinburgh	Every 3 months	5
Richmond	Every 6 months	2
Williamstown	Every 3 months	7

Source: Director General Personnel—Air Force.

Note

1. During 2013–14, the TECHNET coordinator was absent from Richmond following a posting. The TECHNET Richmond group is being re-established and expects up to 13 participants at sessions to be held every month.

Leadership Exchange Program

The Air Force also runs a Leadership Exchange Program, which is a professional development workshop aimed at enhancing individual leadership effectiveness. Eligible participants range in rank from Leading Aircraftman/woman to Squadron Leader, and include APS and Reserves equivalents. The mixed-occupation forum allows participants to learn from the leadership experience of others, based on their personal and professional experiences. The program focuses on four leadership pillars: self-awareness and self-development; communication; assertiveness; and leading teams. Of the 120 participants in 2013–14, 40 were women (33 per cent), including 20 officers, 16 Airwomen and 4 APS staff.

Education

Table 24: ADF education sponsorship, by service and gender, 2014

ADF Education Assistance Scheme	Navy				Army				Air Force				ADF			
	Women	%	Men	%	Women	%	Men	%	Women	%	Men	%	Women	%	Men	%
Defence Assisted Study Scheme (DASS)	110	34.1%	213	65.9%	259	26.0%	738	74.0%	86	25.6%	250	74.4%	455	27.5%	1201	72.5%
ADFA Postgraduate	77	17.3%	369	82.7%	80	12.6%	554	87.4%	30	16.0%	157	84.0%	187	14.8%	1080	85.2%
Chief of Defence Force Fellowship	0	-	0	-	0	0.0%	1	100.0%	0	-	0	-	0	0	1	100.0%

Source: Navy data: Director General Navy People; Army data: Headquarters Forces Command; Air Force data: Defence Learning Branch.

Figure 22: Percentage of women in ADF sponsored study, by service and percentage of women in the workforce, 30 June 2014

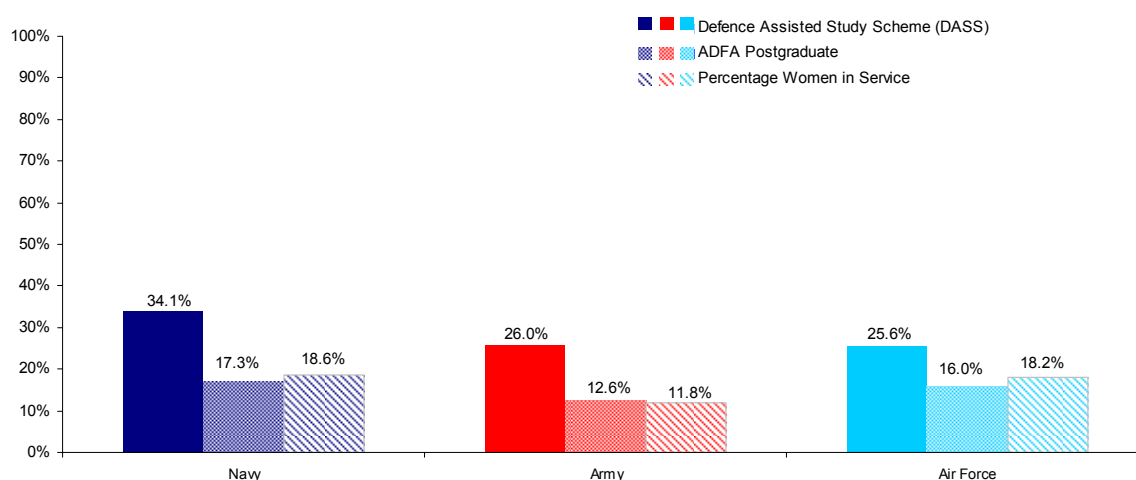


Figure 22 shows the proportion of female ADF members undertaking study through the Defence Assisted Study Scheme and undertaking postgraduate study through the Australian Defence Force Academy (ADFA). The proportion of women in each service is also shown to give an indication of whether women are over- or under-represented in sponsored study. The proportion of women in the assisted study scheme is well above

the proportion of women in the workforce for all services, indicating that women are over-represented. The proportion of women undertaking ADFA postgraduate study is approximately the same as the proportion of women in the workforce for each service. Lower female participation in ADFA postgraduate study is influenced by the nature of ADFA postgraduate courses, which focus on engineering, information technology and science— fields predominantly filled by men.

Access to flexible working arrangements

Access to flexible work is crucial to a member's ability to continue working and thriving in Defence, allowing them to fulfil their work responsibilities while fulfilling family or other commitments. This extends not only to parents, but to all Defence men and women who have responsibilities beyond the workplace. Flexible work availability for men is just as important, as enabling couples to share family responsibilities reduces the disproportionate career impact on women. This section presents attitudinal data on flexible work practices, followed by some indicative figures on these practices, including ADF members on part-time leave without pay. While formal monitoring and reporting mechanisms for flexible work are not yet fully mature, each of the services has interim reporting solutions. That data is presented towards the end of this section.

In addition to the services' programs to encourage and monitor a range of flexible working arrangements, Defence has developed Suakin, a whole-of-Defence Total Workforce Employment Model designed to contribute to capability by giving Defence the strategic flexibility to manage the workforce. While Defence has supported access to flexible employment arrangements, Suakin aims to move those arrangements from individual and localised agreements to a more enduring solution. This will entail offering casual, part-time and full-time work options, allowing Defence to draw on both the permanent and Reserve workforce components more flexibly, with much more mobility between them.

Table 25 outlines attitudes to flexible work, and tables 26 to 29 provide details of formalised Flexible Work Arrangements (FWAs) for each of the Services. This information is presented in support of the Broderick review's phase 2, recommendation 3, section C, 'Access to flexible work'.

Table 25: YourSay surveys (October 2013 and February 2014)—responses on flexible work, by service and gender^{[1][2][3][4][5][6]}

YourSay Survey	Navy		Army		Air Force		Total ADF	
	Women	Men	Women	Men	Women	Men	Women	Men
My CO / Branch Manager actively supports work-life balance and flexible work arrangements (% Agree/Strongly Agree)	62.2%	56.6%	64.9%	53.3%	73.8%	62.0%	67.1%	56.8%
My supervisor is flexible when I have personal demands to attend to (% Agree/Strongly Agree)	81.6%	81.9%	80.2%	79.4%	▲86.4%	86.5%	82.7%	82.1%
If I accessed flexible working arrangements (such as working part time) my career progression would be negatively impacted (% Agree/Strongly Agree)	43.8%	41.2%	47.7%	48.1%	33.8%	40.4%	41.9%	44.1%
Are flexible working arrangements available in your area (e.g. part-time work, home-based work)? (% Yes)	▲52.2%	38.6%	56.9%	▲36.0%	64.5%	43.3%	58.0%	38.8%
How often do you personally take advantage of documented (or formal) flexible work arrangements? (% Sometimes - Always)	▲31.9%	21.9%	22.9%	16.1%	32.5%	18.1%	28.8%	18.1%
How often do you personally take advantage of informal flexible work arrangements (such as leaving work early?) (% Sometimes - Always)	▲72.9%	61.1%	66.5%	57.0%	▲69.2%	63.4%	▲69.3%	59.9%

Source: YourSay Survey, October 2013 and February 2014.

Notes

1. Data includes responses from ADF personnel.
2. Cells highlighted in green indicate that 2013–14 responses were significantly more positive than in 2012–13.
3. Cells highlighted in red indicate that 2013–14 responses were significantly less positive than in 2012–13.
4. An upward-pointing arrow indicates that responses were significantly higher in 2013–14 than in 2012–13 (but may be positive or negative, depending on the wording of the question).

5. A downward-pointing arrow indicates that responses were significantly lower in 2013–14 than in 2012–13 (but may be positive or negative, depending on the wording of the question).
6. Differences are based on statistical significance ($p < .05$) and measure of association (*Cramer's V* > 0.1).

Figure 23: Percentages of ADF women and men responding positively to *YourSay* items about flexible work, 2013–14

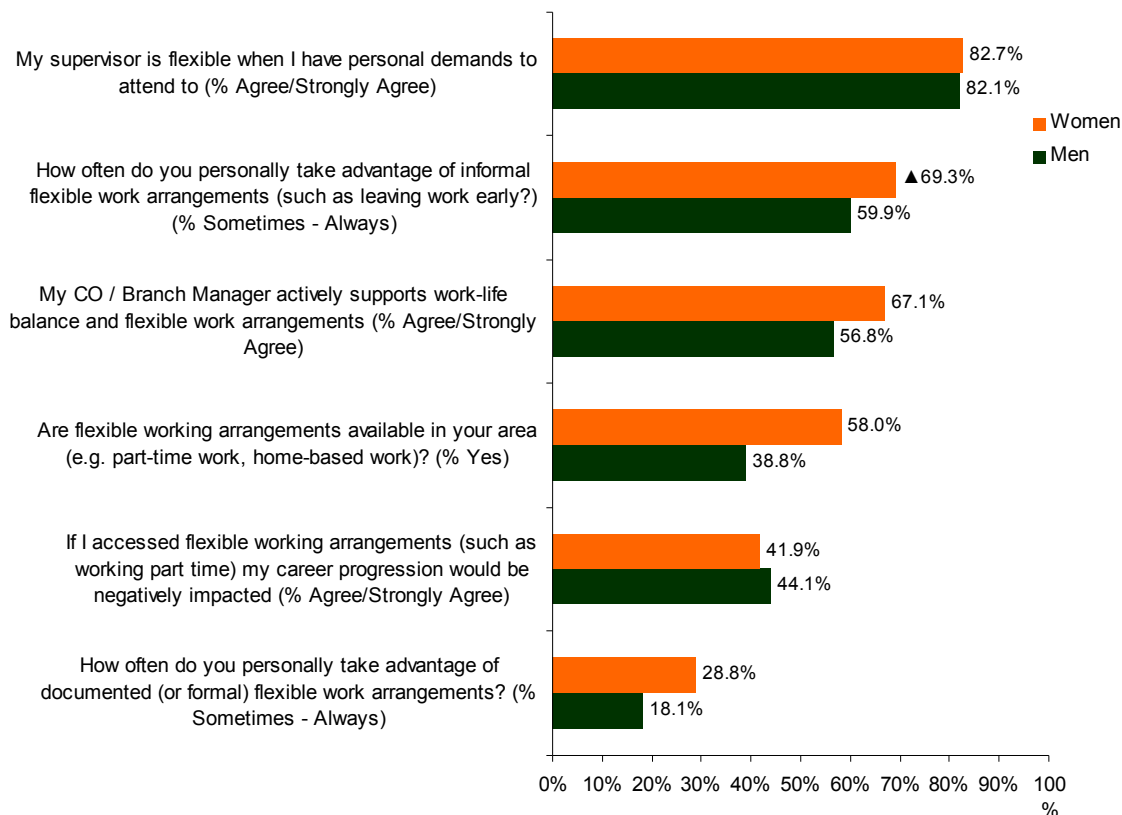


Figure 23 shows responses to various survey questions about flexible work. Women and men equally felt that they had some flexibility in ad hoc absences to attend to personal demands. However, this was the only item in which there was no gender difference. Air Force men were more likely than Air Force women to feel that their career would be affected if they accessed flexible work. For all remaining items, in each service, women were more positive than men. This was true for actual use of flexible work, and in perceptions of how available flexible work is.

There were some changes in attitudes from 2012–13 to 2013–14, each of them an improvement. Navy women had improvements in several areas in 2013–14; they were more likely to perceive their ability to take flexible work, and subsequently more likely to use both informal and formal FWAs. Air Force women were more likely to perceive their supervisor as more flexible with work in response to ad hoc absences, and more likely to take advantage of informal FWAs. Encouragingly, men also showed some positive changes; for example, in 2013–14, Army men were more likely to state that FWAs were available in their area than they were in 2012–13.

Formalised Flexible Work Arrangements

Navy

Until now, the Navy did not have a baseline understanding of the number of Navy people with approved FWA, as many arrangements were informal, based on trust and output and therefore not documented.

In order to establish a baseline for future measurement and to enable the Navy to report on its progress towards meeting the agreed FWA growth target of two per cent by

December 2014, the Navy conducted a once-off data collection exercise to seek information from commands and establishments on the numbers of Navy people engaged in enduring (30 days or longer) formal FWAs. This represents a total of 703 Navy members, which equates to 9.3 per cent of Navy trained force members who are not currently posted to sea positions (at 30 June 2014, the total Navy trained force was 11,020, of whom 3,483 were posted to sea positions and 7,537 were posted ashore).

Table 26 shows the breakdown of the types of FWAs involved. This represents a total of 703 Navy members, which equates to 9.3 per cent of Navy trained force members who are not currently posted to sea positions (at 30 June 2014, the total Navy trained force was 11,020, of whom 3,483 were posted to sea positions and 7,537 were posted ashore).

Table 26: Navy shore-based members engaged in enduring Flexible Work Arrangements, by type, 2013–14

2013-14 FWA Occurrences	Flexible Work Type as % of Total Flexible Work
Flexible Work Type	% Women
Alternate Location Work	7%
Variable Work Hours	54%
Home Located Work	15%
Remote Overseas Work	1%
Part Time Leave Without Pay	11%
Workplace Release for Study	12%
Total	100%

Source: Director General–Navy People.

Table 27: Navy shore-based members engaged in enduring Flexible Work Arrangements, by gender, 2013–14

2013-14 FWA Occurrences	Percentage of Total Flexible Work Occurrences
Flexible Work Type	%
Male	55%
Female	45%
Total	100%

Source: Director General–Navy People.

With the exception of ships alongside for extended periods, data was not collected from sea-going units, and does not include personnel in training.

In 2013–14, 922 Navy people were involved in flexi-crewing, which is another form of FWA in the Navy. If this figure were included in the actual FWA achievement for the Navy, the percentage would be even greater. The Navy is well placed to continue to exceed the agreed FWA target through:

- the implementation of the New-Generation Navy ‘Enhancing Capability through Flexibility’ project recommendations
- a planned communications and education campaign about what constitutes flexibility and how to access it
- the formalisation of reporting through the changes to PMKeyS reporting against this target.

Army

Table 28: Flexible Work Arrangement Occurrences in the Army, 2013–14

2013-14 FWA Occurrences				Other Ranks			Officers		
Flexible Work Type	Women	Men	% Women	Women	Men	% Women	Women	Men	% Women
Alternate Location Work	1	3	25.0%				3	3	50.0%
Variable Work Hours	35	58	37.6%				2	5	28.6%
Home Located Work	2	8	20.0%				2	0	100.0%
Remote Overseas Work	2	1	66.7%				4	1	80.0%
Part Time Leave Without Pay	117	30	79.6%				105	33	76.1%

Source: Director General personnel—Army.

Data presented in Table 28 reflects formal FWAs only. The Army is working to develop a methodology for collecting data on informal FWAs.

The Army created a Flexible Work and Retention (FWR) cell within the Directorate of Soldier Career Management—Army (DSCM-A) in August 2013 to provide a single repository of information on FWAs. Since its inception, the FWR cell has been providing advice and information to career advisers, the chain of command and members on FWAs and assisting the Army with ideas and initiatives supporting FWA within units.

The figures in Table 28 are conservative and do not reflect the true extent of FWAs in the Army. The information gathered for this report is based on formal FWA applications that have been submitted to Career Management—Army (CM-A) indicating that a member was on an approved FWA during 2013–14. Throughout the year, CM-A maintaining a spreadsheet of all FWAs forwarded to it. Although MILPERMAN Part 7, chapter 6 requires that completed AE 406s are to be submitted for statistical purposes to CM-A, this form was not introduced until 18 March 2014. Throughout the period, the FWR cell has provided assistance to members in units to facilitate individual FWA requests.

There was a steady increase in the number of FWAs submitted over 2013–14, particularly for men who took the opportunity to secure an FWA. The FWR cell is establishing a job share group through ForceNet to enable Army personnel to locate other interested members considering part-time leave without pay and find a suitable job-share partner to negotiate and enter into a job-share FWA. The FWR cell is also investigating establishing a group on ForceNet that can provide information on FWAs to those on maternity and parental leave. The FWR cell will continue to promote FWAs throughout the Army and educate the chain of command on the requirement to forward all FWA requests through to the cell.

Air Force

Table 29: Flexible Work Arrangement occurrences in the Air Force, 2013–14

2013-14 FWA Occurrences	Other Ranks			Officers		
	Women	Men	% Women	Women	Men	% Women
Alternate Location Work	8	6	57.1%	5	9	35.7%
Variable Work Hours	73	122	37.4%	39	64	37.9%
Home Located Work	18	12	60.0%	27	30	47.4%
Remote Overseas Work	3	3	50.0%	5	6	45.5%
Part Time Leave Without Pay	75	16	82.4%	60	19	75.9%

Source: Director General Personnel–Air Force.

Table 29 shows the take-up of FWAs in the Air Force by FWA type, rank group and gender. Among the other ranks, the proportion of women and men who undertook alternate location work and remote overseas work were approximately even in 2013–14, while more women undertook home-located work and part-time leave without pay. More men than women took advantage of variable work hours. Among officers, men comprised the majority of members who undertook most types of FWAs, with the exception of part-time leave without pay, while women comprised three-quarters (75.9 per cent) of the officers who took this type of FWA.

Broderick review's phase 2 report, recommendations 6, 9 and 13

Recommendation 6: promotional gateways

One factor in the rate at which women are promoted is the formal preparation they receive. Participation in leadership development opportunities such as staff college and command appointments increases eligibility for promotion, and in some cases is a prerequisite. It is therefore important to ensure that women are able to participate in these opportunities. This section looks at the proportion of women engaging in such opportunities, compared with the proportion of women in the competitive pool, as defined by the Services' Personnel Agencies. It addresses Broderick review's phase 2, recommendation 6, which includes reporting annually against targets for participation in these gateways.

Table 30: Navy officer staff college attendance and command appointments, 2013–14^[1]

2013-14	Proportion of Women in Competitive Pool			Representation of Women Achieved		
	Total (Women and Men)	Women	% Women	Total Places/Appointments	Women	% Women
Australian Command and Staff College	60	13	21.7%	25	6	24.0%
Centre for Defence and Strategic Studies	40	10	25.0%	5	2	40.0%
Command Appointments	218	14	6.4%	65	13	20.0%

Source: Director General—Navy People.

Note

1. Figures are for the Permanent Naval Forces only.

Table 30 shows the proportion of women in the competitive pool for attendance at the Australian Command and Staff College (21.7 per cent) and the proportion of women who were attending the course in 2013–14 (24.0 per cent). The proportion of women attending the course was slightly higher than those in the pool from which they were selected,

indicating that Navy women were well represented in the course. Likewise, the proportion of women attending the Centre for Defence and Strategic Studies and appointed to command was higher than in the pool from which they were selected.

Table 31: Navy other ranks promotional gateway to Petty Officer (Navy Sergeant equivalent), 2013–14

2013-14	Proportion of Women in Competitive Pool			Representation of Women Achieved		
	Total (Women and Men)	Women	% Women	Total Places/ Appointments	Women	% Women
Petty Officer Promotion Course	748	155	20.7%	191	25	13.1%

Source: Director General—Navy People.

Note

1. Figures are for the Permanent Naval Forces only.

Table 31 shows the proportion of women in the competitive pool for the Petty Officer promotion course (21.8 per cent) in 2013–14 and the proportion of women attending the course (21.4 per cent). The proportion of women attending the course was almost identical to the proportion of women in the competitive pool, indicating that Navy women were well represented in the course.

Table 32: Army officer staff college attendance and command appointments, 2013–14^{[1][2][3]}

2013-14	Proportion of Women in Competitive Pool			Representation of Women Achieved		
	Total (Women and Men)	Women	% Women	Total Places/ Appointments	Women	% Women
Australian Command and Staff College	163	22	13.5%	71	7	9.9%
Centre for Defence and Strategic Studies	31	2	6.5%	10	2	20.0%
Command Appointments	168	38	22.6%	32	5	15.6%

Source: Director General Personnel—Army.

Notes

- Figures are for the Australian Regular Army only.
- Completion of the Centre for Defence and Strategic Studies is normally a prerequisite for promotion to Brigadier on the command and leadership pathway.
- Command appointments figures represent selections made for commanding officers in 2013 for command in 2014.

Outcomes shown in Table 32 indicate an increase in women in the competitive pool for the key developmental milestones of Australian Command and Staff College (ACSC) and command. While numbers for the Centre for Defence and Strategic Studies remained constant, this was a factor in the small cohorts that have passed through the ACSC and command milestones. The increases in female officers competing for and attending ACSC will, over time, create larger competitive pools for unit command and CDSS. It is expected that these numbers will trend upwards in the future, particularly in the medium term, with increased female participation rates.

Table 33: Army other ranks promotional gateways to rank of Sergeant, 2013–14^{[1][2]}

2013-14	Proportion of Women in Competitive Pool			Representation of Women Achieved		
	Total (Women and Men)	Women	% Women	Total Places/ Appointments	Women	% Women
Subject 1 for Sergeant	3,470	500	14.4%	395	50	12.7%

Source: Director General Personnel—Army.

Note

- Subject 1 for Sergeant is a promotion course that is a prerequisite for promotion to Sergeant for all Army trades. In addition, each trade has one or more additional trade-specific promotion training requirements.
- Figures are for the Australian Regular Army only.

The competitive pool is inclusive of all Corporals (male and female) in the Army (Table 33). Those selected have completed prerequisite courses for consideration of attendance

on the Subject 1 Sergeant Course. Female participation is based on merit selection. The Directorate of Soldier Career Management—Army does not have target allocations for female participation on subject courses or promotion. There is only minor variance in this area annually. The directorate works to achieve the directed training requirement set by Headquarters Forces Command each year.

Considerations for course or promotion are merit based and gender neutral, enabling all soldiers, including the most talented soldiers, to balance progressive and rewarding careers through a fair and transparent procedure. In addition, the proportion of women presented to the Sergeant Promotion Advisory Committee for career management cycle 15 was 13.8 per cent, so this was a highly competitive cohort.

Table 34: Air Force officer staff college attendance and command appointments, 2013–14^{[1][2][3][4][5]}

2013-14	Proportion of Women in Competitive Pool			Representation of Women Achieved		
	Total (Women and Men)	Women	% Women	Total Places/ Appointments	Women	% Women
Command and Staff College - Total	845 ^[1]	153	18.1%			
Command and Staff College - Applicants	95 ^[2]	18	18.9%	31	7	22.6%
Centre for Defence and Strategic Studies	138 ^[3]	17	12.3%	5	0	0.0%
Command Appointments						
Group Captain (O06)	91 ^[4]	15	16.5%	21	1	4.8%
Wing Commander (O05)	512	72	14.1%	35	6	17.1%

Source: Director General Personnel—Air Force.

Notes

1. Squadron Leaders with greater than two years seniority who have not completed CSC.
2. Applicants for Command and Staff College commencing in calendar year 2014.
3. Group Captains who have not completed Centre for Defence and Strategic Studies courses.
4. Group Captains less those who have already held an O06 command position (repeat command tours most unlikely).
5. Figures are for the Permanent Air Force only.

Successful completion of the Command and Staff College (CSC) course (Australian and overseas equivalent) is not a prerequisite for promotion to Wing Commander or for selection to command. Nevertheless, the achievement of this qualification favourably influences promotion and command selection.

Importantly, the Air Force has been progressively removing unnecessary barriers to promotion since 2007. Highly talented officers who may have missed out on selection to attend the CSC can still expect to be identified for promotion and command. This is evidenced by the command selections for January 2015, in which 35 officers were selected, six of whom were women, and 17 of whom had not completed CSC.

Subsequent promotion to Group Captain is influenced primarily by performance in a command role, rather than completion of CSC.

While no women were selected to attend CDSS commencing in 2013–14, three were selected to attend CDSS or an overseas equivalent commencing in 2014–15.

Table 35: Air Force other ranks promotional gateways to rank of Sergeant, 2013–14^{[1][2]}

2013-14	Proportion of Women in Competitive Pool			Representation of Women Achieved		
	Total (Women and Men)	Women	% Women	Total Places/ Appointments	Women	% Women
Members meeting promotion conditions including Professional Military Education and Training	1,152	151	13.1%	206	39	18.9%

Source: Director General Personnel—Air Force.

Note

1. Merit-based selective promotion from Corporal to Sergeant—excludes members subject to time promotion.
2. Figures are for the Permanent Air Force only.

The percentage of women presented to the Sergeant Promotion Board in 2013–14 was unchanged from 2012–13. However, the percentage of women identified for promotion in 2013–14 was significantly higher than the percentage of women considered for promotion and also represented a significant increase compared to men identified for promotion (a 5.2 per cent increase).

Female promotions to Sergeant reflect broader Air Force promotion statistics. For promotions to ranks up to and including Wing Commander, a greater proportion of women were identified for promotion than were eligible for consideration for promotion.

This was not dissimilar to results in recent years and is likely to have been a product of the positive steps taken to remove promotion barriers and reduce the potential impact of unconscious bias on promotion board outcomes. An example of this has been the deliberate inclusion of females on promotion boards since about 2003 and the recent introduction of unconscious bias awareness training for all promotion board participants. Recent attention has also been placed on recognising the importance of varied career paths and reduced emphasis on the occurrence of career breaks.

Recommendation 9: recruitment growth targets

In order to create substantial progress in the recruitment of women, each service identified and committed to a growth target for the number of women to be recruited into the service. This section outlines each service's targets and their progress against them. This reporting addresses Broderick review's phase 2, recommendation 9, which requires Defence to report annually against these targets. Further detail on flexible work is provided in the 'Access to flexible work arrangements' of this report.

Navy

The Navy has set a target of increasing the participation of women to 25 per cent by 2023. To achieve this, the Navy set recruitment goals for 2013–14, which were to recruit an additional 60 female officers and 270 female sailors. As shown in Table 5, the Navy recruited 35 female officers and 271 female sailors, which is a considerable increase from the previous year, in which 35 female officers and 186 female sailors were recruited. Female sailor recruiting goals for 2014–15 are set at approximately 27 per cent (299), which provides a potential growth of 58 on the previous year. All targets (sailor and officer) are open to females; consequently there is no upper limit on female recruitment.

Achievement against Navy recruiting targets is reported in tables 5 to 7.

Army

The Army has set a target for increasing the participation of women to 15 per cent 2023. To achieve its long-term target, it set a short-term goal of increasing the representation of women to 12 per cent by 1 July 2014. At 1 July 2014, it had achieved a representation rate of 11.8 per cent in the Australian Regular Army. A further 70 women would have been needed to achieve the target (assuming that the number of men remained constant). The Chief of Army has set a further goal of 13 per cent by 1 July 2015. The Army has extended the 10 female recruiting positions at Defence Force Recruiting for an additional 12 months (until January 2016) and continues to offer special measure recruitment mechanisms to facilitate the achievement of the 13 per cent goal. The Chief of Army is currently considering recruiting targets to enable the achievement of 13 per cent.

Achievement against Army recruiting initiatives to increase the representation of women is reported in Table 8, and overall recruiting achievement figures are reported in tables 5 to 7.

Air Force

The Air Force is seeking to increase female representation to 25 per cent by 2023. To achieve this target, it has developed a non-linear growth path for the number of women to be recruited. This path consists of planned growth of no more than 0.5 per cent (a net increase of 70 women each year) for the first two years from 2013–14, followed by an increase of 1 per cent annually until 2022, at which point it is expected that the target of 25 per cent will have been reached.

In support of this growth path, the Air Force has implemented, or is implementing, a number of recruitment and retention initiatives, including:

- specific female recruiting targets
- recruit to area (where desired)
- a 'Women in the Air Force' marketing campaign
- embedding a specialist women's recruitment team in Defence Force Recruiting
- reducing the initial minimum period of service for a number of workforces
- introducing a graduate pilot scheme for women
- changing direct entry female pilot return of service obligations
- running experiential camps for girls (technical and aircrew focused programs).

Female representation in the Air Force increased from 17.5 per cent at 30 June 2013 to 18.2 per cent at 30 June 2014, reflecting satisfactory progress against the growth target.

Achievement against Air Force recruiting initiatives to increase the representation of women is reported in Table 9, and overall recruiting achievement is reported in tables 5 to 7.

Recommendation 13: flexible work arrangement targets

Defence aims to increase access to FWAs to allow ADF members to balance competing work, family and other commitments. This flexibility is expected to enhance capability, so Defence is providing organisational support to facilitate greater access to FWAs. To that end, Service Chiefs have set flexible work arrangement targets of two per cent of the trained workforce. This section reports on Defence's FWA targets and progress against them. It addresses Broderick review's phase 2, recommendation 13, which includes reporting progress against flexible work targets.

Navy

The number of Navy people on FWAs is 703, which is 9.3 per cent of the Navy's predominantly non-seagoing trained force.

Army

Table 36: Army officer women and men on Flexible Work Arrangements, 2012–14

2013-14	No. on Flexible Work Arrangement	No. in Total Trained Workforce	% of Trained Workforce on FWA
Women	82	798	10.3%
Men	37	4535	0.8%
Total	119	5333	2.2%

Source: Director General personnel—Army.

Table 37: Army other ranks women and men on Flexible Work Arrangements, 2013–14

2013-14	No. on Flexible Work Arrangement	No. in Total Trained Workforce	% of Trained Workforce on FWA
Women	115	1987	5.8%
Men	79	17344	0.5%
Total	194	19331	1.0%

Source: Director General Personnel—Army.

Tables 36 and 37 show the numbers of Army women and men who have accessed formal FWAs for officers and other ranks, respectively. These figures sum to a total of 313 Army members on FWAs. Out of a trained force of 24,664 for the Army, this equates to 1.3 per cent on FWAs. However, these figures are conservative and are based on formal FWA applications, which may be under-reported because the FWA application form was published only in March 2014. Attitudinal data shown in Table 25 indicates that the true extent of formal FWAs may be much higher.

Air Force

Table 38: Air Force officer women and men on Flexible Work Arrangements, 2013–14

2013-14	No. on Flexible Work Arrangement	No. in Total Trained Workforce	% of Trained Workforce on FWA
Women	103	947	10.9%
Men	97	3801	2.6%
Total	200	4748	4.2%

Source: Director General Personnel—Air Force.

Table 39: Air Force other ranks women and men on Flexible Work Arrangements, 2013–14

2013-14	No. on Flexible Work Arrangement	No. in Total Trained Workforce	% of Trained Workforce on FWA
Women	160	1545	10.4%
Men	147	7823	1.9%
Total	307	9368	3.3%

Source: Director General Personnel—Air Force.

The data shows that 507 Air Force members (formally reported and recorded in the Defence HR system and via legacy manual reporting systems) accessed flexible work in 2013–14. This constituted 3.6 per cent of the 14,116 members of the trained force and exceeded the initial FWA target of 2 per cent. Continued focus and further initiatives are expected to further improve these results in 2014–15. Anecdotal evidence suggests a considerably higher take-up of FWAs through informal arrangements.

Sexual Misconduct Prevention and Response Office

The Sexual Misconduct Prevention and Response Office (SeMPRO) was launched in July 2013. SeMPRO aspires to support Defence to create a culture that respects the sexual safety of all.

SeMPRO's key objectives are:

- to respond to and support victims of sexual misconduct and personnel impacted by sexual misconduct
- be the single point of data collection and analysis of sexual misconduct within Defence
- to provide policy, education and primary prevention tools and advice related to sexual misconduct in Defence.

SeMPRO has prepared this report as a key output of its role as the central point of data collection and reporting for sexual misconduct within Defence. SeMPRO will use this data as a baseline of sexual misconduct trends within Defence.

Definition of sexual misconduct

Defence uses the term sexual misconduct to describe a range of non-consensual behaviours of a sexual nature, that are committed by force or intimidation, or that are otherwise unwelcome. Sexual misconduct includes, but is not limited to, sex discrimination, sexual harassment and sexual offences.

What data does SeMPRO collect?

Defence population data used in this report is a headcount by service and actual location, downloaded from the Management and Analysis Reporting Solution database as at 6 July 2014.

SeMPRO collects demographic data of allegations of sexual misconduct, including de-identified data on the victims of these reports. This data will enable the identification of behavioural trends, or areas of prevalence of sexual misconduct, to inform and enhance Defence's strategies for prevention and response.

SeMPRO collects data from existing Defence databases including the Defence Policing and Security Management System used by the Defence Force Investigative Service and ComTrack, used by the Values Behaviours and Resolutions Branch. SeMPRO has initiated a process to collect additional de-identified data from support personnel who receive confidential disclosures of sexual misconduct in their professional capacity (such as doctors, psychologists and chaplains) where these reports of sexual misconduct have not been captured in existing Defence databases.

While SeMPRO makes every effort to capture all incidents of sexual misconduct in Defence, a complete picture is difficult to achieve. Confidential crime surveys consistently demonstrate a non-reporting of sexual offences at around 80–90 per cent. While SeMPRO will endeavour to increase the capture of reports of sexual misconduct in Defence, adding survey data about

prevalence and reporting behaviour to our framework will deepen our understanding of sexual misconduct and support cultural change.

Survey data

The Defence 2013 Unacceptable Behaviour survey was administered by Workforce Planning in September 2013 to a 25 per cent sample of ADF and Defence APS personnel. Respondents were asked about their attitudes towards, and experiences of, unacceptable behaviour within Defence including unacceptable behavior of a sexual nature.

While reports of sexual misconduct show the extent of formally reported incidents, survey data supplements this with data on cases which may not have been reported. This can give a more comprehensive view of the prevalence of sexual misconduct in Defence.

Table 1: Prevalence of perceived experiences of unacceptable behavior of a sexual nature

Prevalence	Navy		Army		Air Force		ADF		APS	
	Women	Men	Women	Men	Women	Men	Women	Men	Women	Men
Sexual-related unacceptable behaviour	12%	7%	18%	5%	23%	5%	18%	5%	13%	6%

Table 1 shows the percentages of men and women in each of the ADF services who have perceived experiences of sexually-related unacceptable behaviour. This behaviour includes crude behaviour, unwanted sexual attention, sexual coercion, acts of indecency, and sexual assault. While the proportion of men who have experienced sexually-related unacceptable behaviour is quite consistent throughout the services (5–7 per cent), the proportion of women is higher and varies throughout the services, with Air Force having the highest proportion of women who have experienced sexually-related unacceptable behaviour.

Table 2: Satisfaction with the sexually-related unacceptable behaviour complaint process

Respondents' evaluations of the complaint processes by unacceptable behaviour experienced					
Percentage moderately to extremely satisfied		Navy	Army	Air Force	ADF APS
Sexually-related unacceptable behaviour		60%	47%	64%	57% 57%

Respondents who had experienced sexually-related unacceptable behaviour and made a report or complaint were asked to describe how satisfied they were with the complaint process. Table 2 shows the proportion of these respondents who were at least moderately satisfied with this process. Over half of respondents were satisfied, with the exception of Army personnel, where just under half (47 per cent) were at least moderately satisfied with the complaint process.

Sexual misconduct reports¹

The data presented in Figures 1–7 focus on the prevalence and demographics of sexual misconduct reports for 2013–14.

¹ Note: Some sexual misconduct reports do not define all of the incident demographics.

Figure 1: Sexual misconduct reports—percentage per capita by service area in 2013–14

Service	Sexual misconduct count	% per capita
Navy	57	0.22
Army	115	0.16
RAAF	30	0.12
APS	14	0.07
Unknown ¹	10	N/A
Total	226	0.16

The data in Figure 1 indicates a higher percentage of sexual misconduct reports (0.22 per cent) in the Navy of followed by the Army (0.16 per cent).

Figure 2: Sexual misconduct reports by region in 2013–14

Region	Sexual misconduct count
ACT	21
NSW	40
NT	14
QLD	40
SA	7
TAS	2
VIC	35
WA	5
Multi-region	44
Overseas	18
Total	226

The data in Figure 2 indicates that the higher number of sexual misconduct reports were in Queensland, followed by Victoria. Of note is the number of reports of incidents overseas, given the small percentage of deployed personnel. Multi-region reports are those that contain multiple alleged incidents, with one or more victims, that occurred in more than one state.

Figure 3: Sexual harassment cases finalised and time taken to close

Time open	Sexual harassment	% finalised
< 1 Month	27	26
1–3 Months	25	24
3–6 Months	9	9
Over 6 Months	42	41
Total	103	100

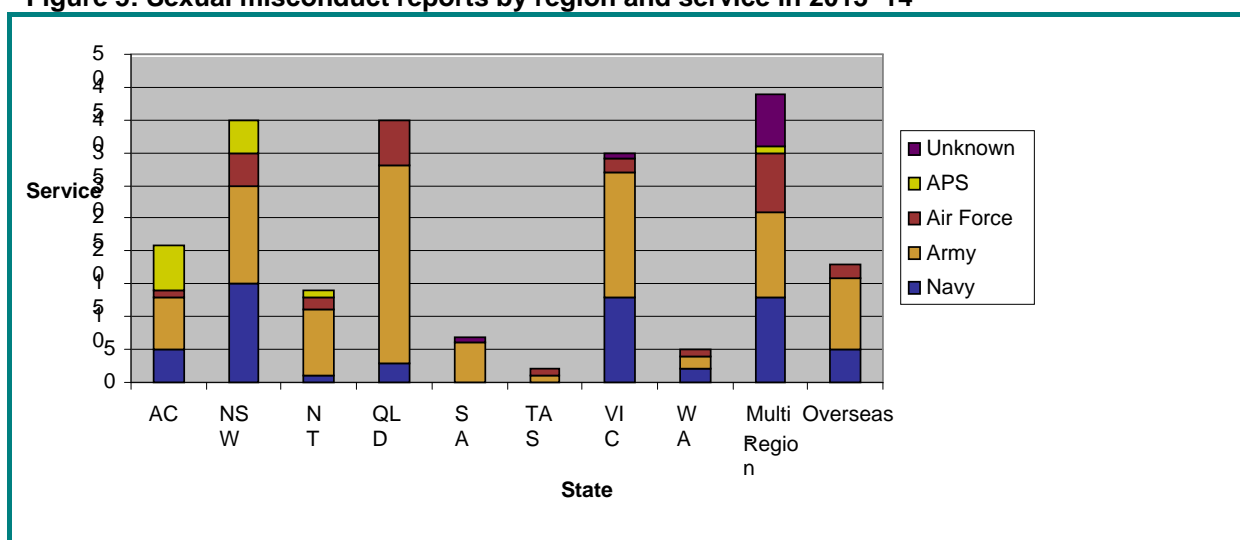
Figure 3 shows that during the 2013–14 financial year a quarter of sexual harassment reports were finalised within one month, half within six months and the remainder took longer than six months.

In future reports, SeMPRO will present data identifying the time taken to finalise all categories of reported incidents of sexual misconduct.

Figure 4: Sexual misconduct reports by region and service in 2013–14

Region	Navy	Army	Air Force	APS	Unknown ²	Total
ACT		5	8	1	7	21
NSW	15	15	5	5		40
NT	1	10	2	1		14
QLD	3	30	7			40
SA		6			1	7
TAS		1	1			2
VIC	13	19	2		1	35
WA	2	2	1			5
Multi-region	13	13	9	1	8	44
Overseas	5	11	2			18
Grand Total	57	115	30	14	10	226

Figure 5: Sexual misconduct reports by region and service in 2013–14



The data presented in Figures 4 and 5 depicts reports of sexual misconduct by region and service. Please note that some reports do not define which part of the ADF is involved and this data is presented as 'unknown'. The data depicts a spread of reported incidents across all regions, predominately from the Army and Navy in most areas.

While there are multiple definitions for classifying sexual misconduct SeMPRO has adopted a simple framework to categorise reports of sexual misconduct in Defence. The types of reports received included the following:

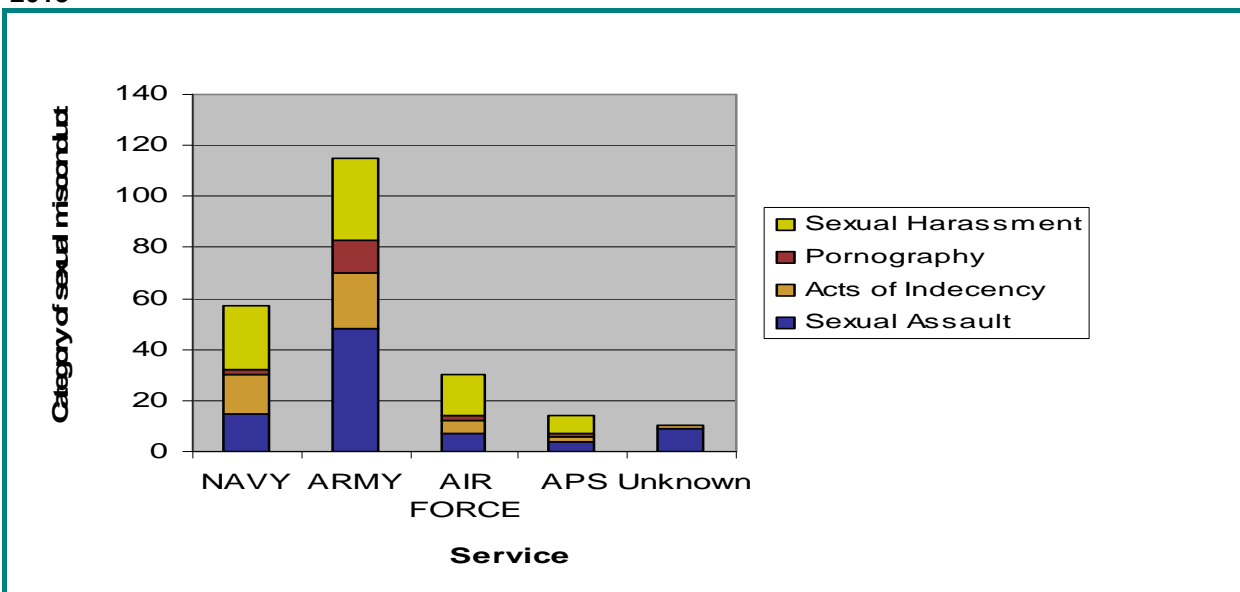
- *Sexual harassment*: suggestive comments or jokes, insults or taunts of a sexual nature
- *Pornography*: posting sexually explicit pictures, hardcopy on lockers, softcopy on social media
- *Acts of indecency*: flashing, masturbation
- *Sexual assault*: rape, physical assault of a sexual nature.

² Note: Some sexual misconduct reports do not define all of the incident demographics.

Figure 6: Sexual misconduct reports by service area and category in 2013–14

Subgroup	Sexual assault	Acts of indecency	Pornography	Sexual harassment	Total
Navy	15	15	2	25	57
Army	48	22	13	32	115
Air Force	7	5	2	16	30
APS	4	2	1	7	14
Unknown ³	9	1	-	-	10
Total	83	45	18	80	226

Figure 7: Sexual misconduct reports by service area and category of sexual misconduct in 2013



The data presented in Figures 6 and 7 depict the reports of sexual misconduct for the 2013–14 by the categories of sexual harassment, pornography, acts of indecency and sexual assault, by Service.

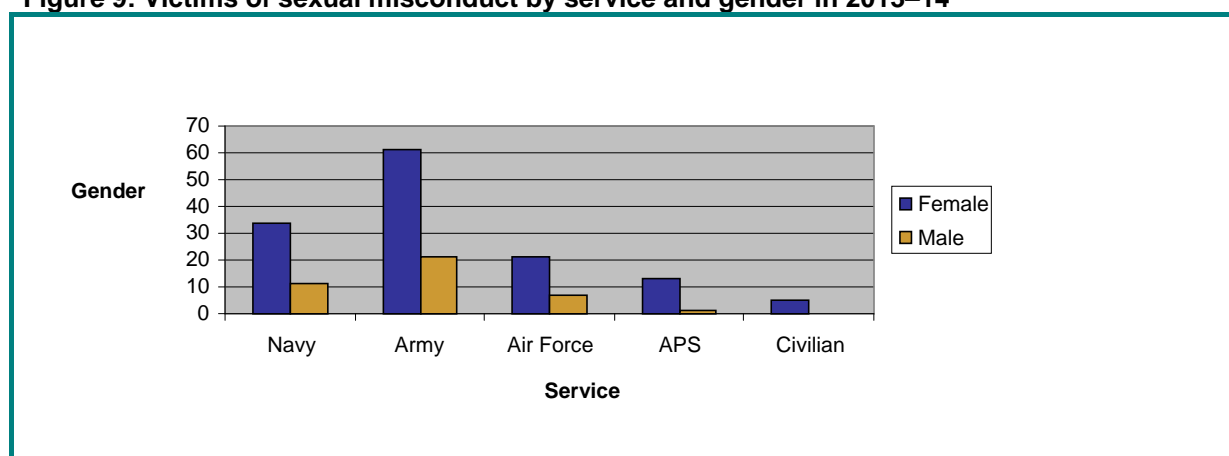
³ Note: Some sexual misconduct reports do not define all of the incident demographics.

The data presented in Figures 8–17 focuses on the de-identified demographics of the victims involved in the reported incidents of sexual misconduct for 2013–14.

Figure 8: Sexual misconduct victims by service and gender in 2013–14

Service	Female	Male	Total
Navy	34	11	45
Army	61	21	82
Air Force	21	7	28
APS	13	1	14
Civilian ⁴	5	0	5
Total	134	40	174

Figure 9: Victims of sexual misconduct by service and gender in 2013–14



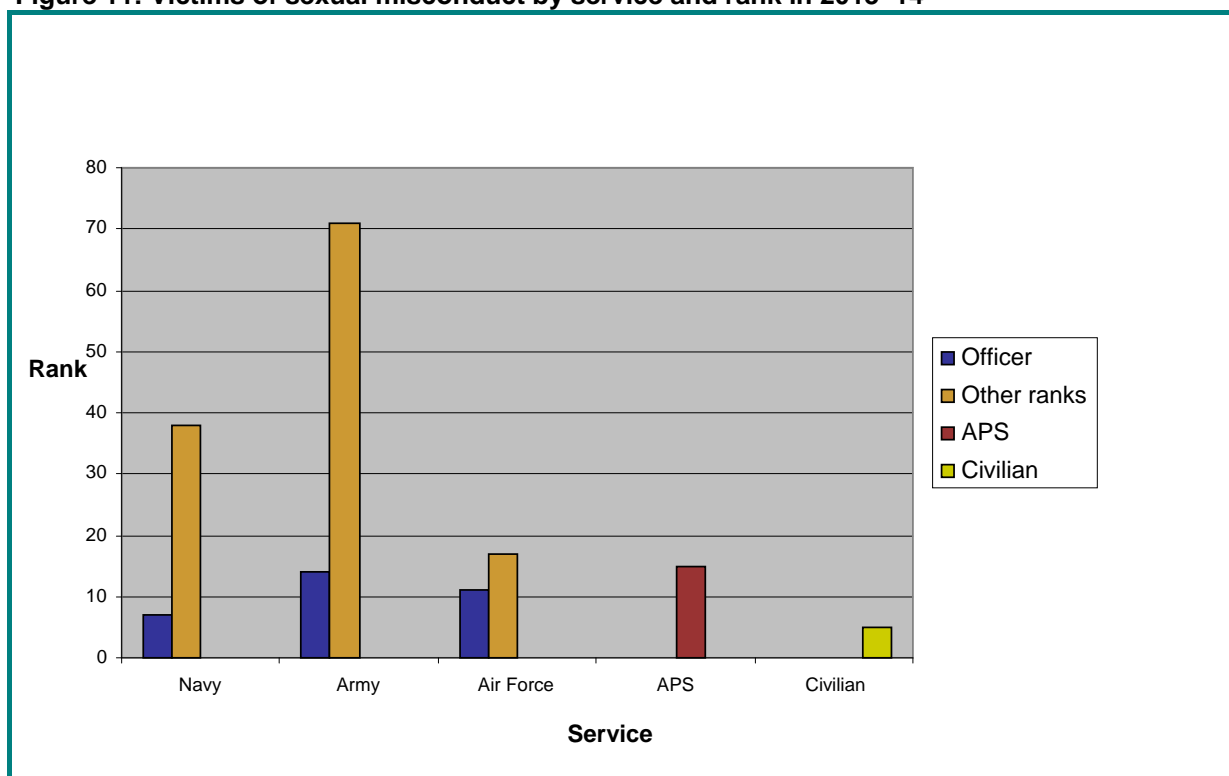
Figures 8 and 9 show that female victims accounted for 80 per cent of reports and male victims for 20 per cent of reports of sexual misconduct in 2013–14. The highest number of reports was received by the Army.

⁴ Note: Victims in the subgroup Civilian are not Defence personnel.

Figure 10: Sexual misconduct victims by service and rank in 2013–14

Service	Officer	Other Ranks	APS	Civilian ⁵	Total
Navy	7	38			45
Army	14	71			85
Air Force	11	17			28
APS			15		15
Civilian ⁶				5	5
Total	32	126	15	5	178

Figure 11: Victims of sexual misconduct by service and rank in 2013–14



Figures 10 and 11 show that 71 per cent of victims of sexual misconduct are Other Ranks, 18 per cent are Officers and 11 per cent are APS and Civilians.

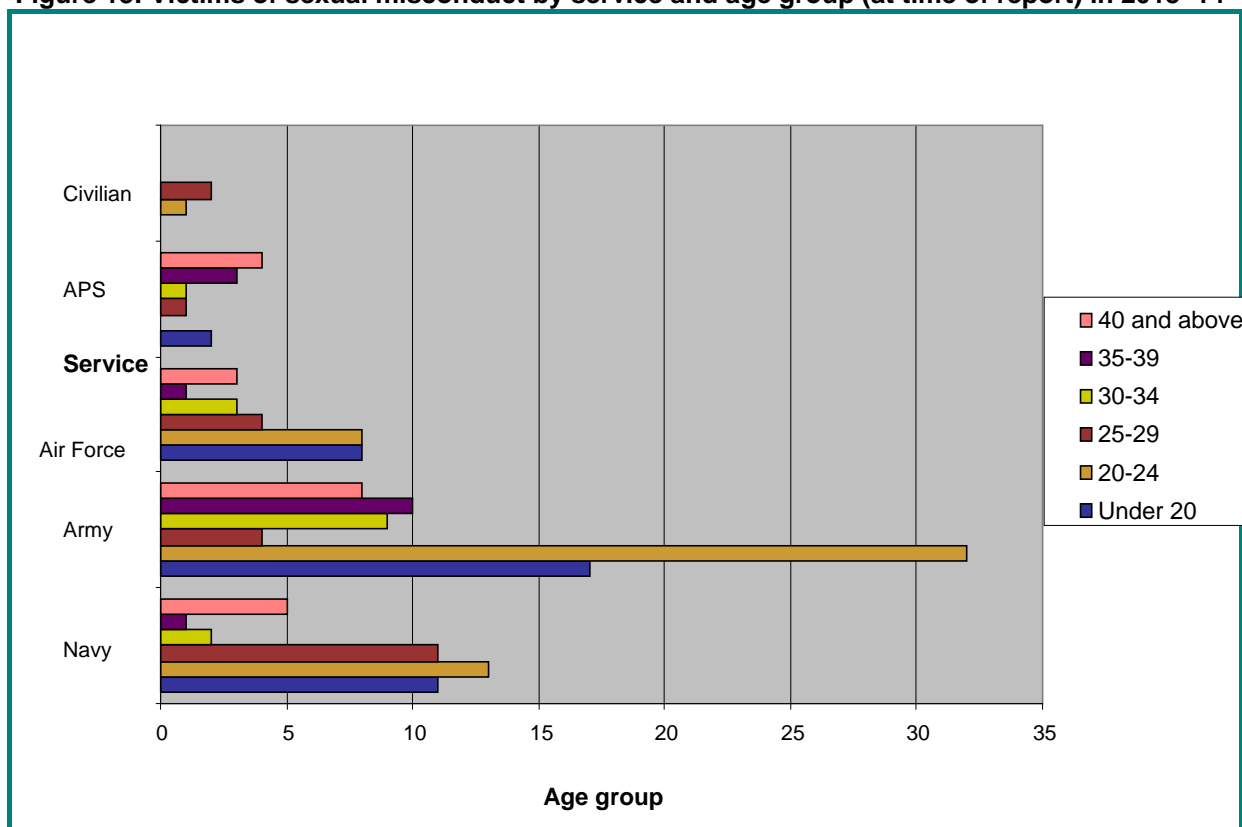
⁵ Note: Victims in the subgroup Civilian are not Defence personnel.

⁶ Note: Victims in the subgroup Civilian are not Defence personnel.

Figure 12: Sexual misconduct victims by service and age group (at time of report) in 2013–14

	Under 20	20–24	25–29	30–34	35–39	40 and above	Total
Navy	11	13	11	2	1	5	43
Army	17	32	4	9	10	8	80
Air Force	8	8	4	3	1	3	27
APS	2		1	1	3	4	11
Civilian ⁷		1	2				3
Total	38	54	22	15	15	20	164

Figure 13: Victims of sexual misconduct by service and age group (at time of report) in 2013–14



Figures 12 and 13 show that 50 per cent of victims are from the Army, 25 per cent from the Navy, 15 per cent from the Air Force and 10 per cent are APS or Civilians⁸. The data also shows the correlation between age groups and percentage of victims: 23 per cent of under 20 year olds, 33 per cent of 20–24 year olds, 13 per cent of 25–29 year olds, 9 per cent of 30–34 year olds, 9 per cent of 35–39 year olds and 12 per cent of those 40 and over.

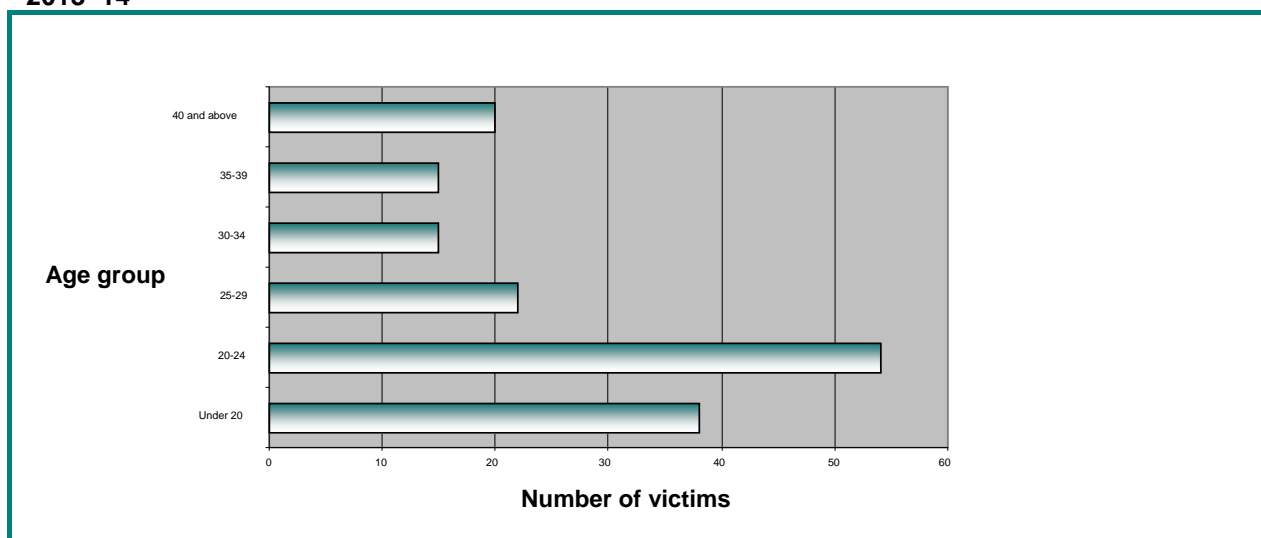
⁷ Note: Victims in the subgroup Civilian are not Defence personnel.

⁸ Note: Victims in the subgroup Civilian are not Defence personnel.

Figure 14: Victims of sexual misconduct victims by age group (at time of report) for all Defence in 2013–14

Age	Total
Under 20	38
20-24	54
25-29	22
30-34	15
35-39	15
40 and above	20
Total	164

Figure 15: Victims of sexual misconduct by age group (at time of report) for all Defence in 2013–14

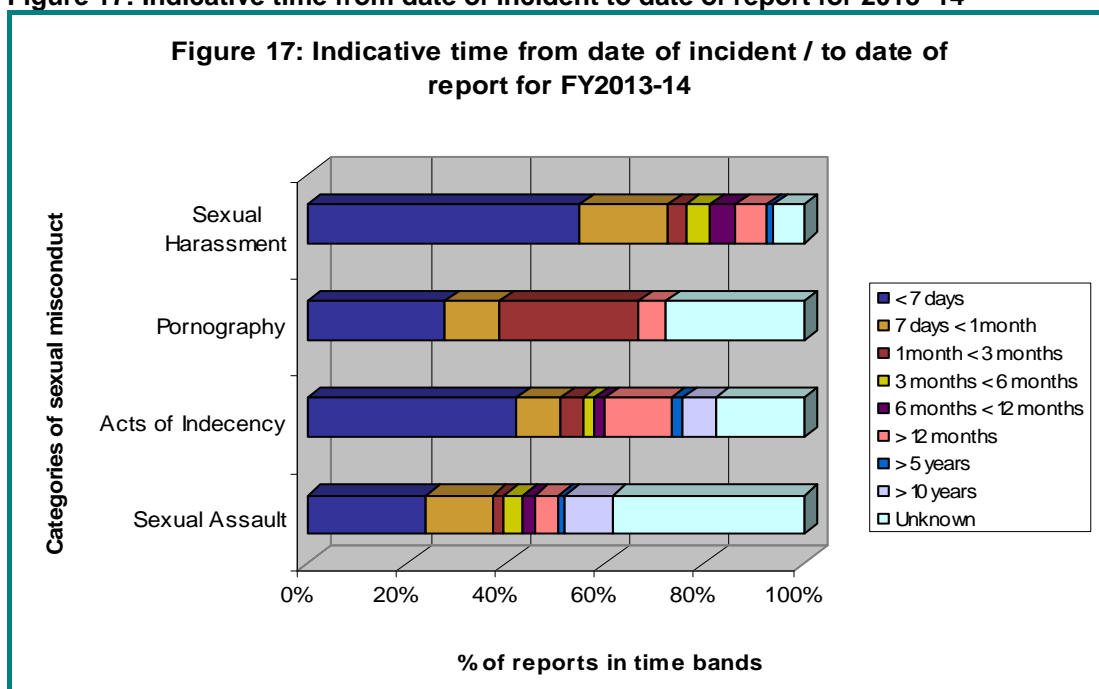


Figures 14 and 15 show that 56 per cent of the victims are less than 25 years old.

Figure 16: Indicative time from date of incident to date of report for 2013–14

	< 7 days	7 days < 1 month	1 month < 3 months	3 months < 6 months	6 months < 12 months	> 12 months	> 5 years	> 10 years	Unknown	Total
Sexual assault	20	11	2	3	2	4	1	8	32	83
Acts of indecency	19	4	2	1	1	6	1	3	8	45
Pornography	5	2	5			1			5	18
Sexual harassment	44	14	3	4	4	5	1		5	80
Total	88	31	12	8	7	16	3	11	50	226

Figure 17: Indicative time from date of incident to date of report for 2013–14



Figures 16 and 17 show that almost 40 per cent of all sexual misconduct is reported within one week of the occurrence, 73 per cent within one year and 6 per cent after one year. Twenty per cent is unknown where no date of occurrence has been supplied.