



Australian Government
Department of Defence

ANNUAL
REPORT
16-17

Defence at a glance

Mission

The Defence mission is to defend Australia and its national interests.

Role

Defence's primary role is to protect and advance Australia's strategic interests through the provision of military capabilities, the promotion of security and stability, and the provision of support to the Australian community and civilian authorities as directed by Government.

Purposes

In the *2016–17 Defence Corporate Plan*, the Defence purposes were revised from 10 in the previous year's plan to a focus on three core outcomes that we deliver to Government:

1. Provide advice to Government
2. Deliver and sustain Defence capability and conduct operations
3. Develop the future capability Defence needs to conduct operations.

Defence's performance in achieving its purposes during the 2016–17 reporting period is described in Chapter 3—Annual performance statements.

Values

Our employees conduct their duties in accordance with the Australian Public Service (APS) Code of Conduct and the APS Values. The purpose of the *Defence Force Discipline Act 1982* is to maintain and enforce military discipline necessary for Australian Defence Force (ADF) operational capability. The ADF also has Service-specific values. These APS and ADF values and rules are the foundation for our work and govern the way we relate to our stakeholders and to each other.

Without diminishing the ADF and APS values, or their use, 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.

Strategy

Through the 2016 Defence White Paper, the Government has identified Australia's strategic defence interests as:

- a secure, resilient Australia, with secure northern approaches and proximate sea lines of communication
- a secure near region, encompassing maritime South-East Asia and the South Pacific
- a stable Indo-Pacific region and rules-based global order.

Securing these interests will require Australia to build on its strong network of bilateral and multilateral relationships. Through regular dialogue and practical cooperation, Defence is strengthening its engagement with partners to support shared responses to shared challenges.

Authority

Defence is administered by a diarchy, which is the term used to describe the joint leadership of Defence by the Secretary of Defence and the Chief of the Defence Force, under the general control of the Minister for Defence. The concept, which is supported by legislative and administrative arrangements, encompasses the individual and joint responsibilities and accountabilities of the Secretary and the Chief of the Defence Force.

Portfolio structure

As at 30 June 2017, the Defence portfolio consisted of:

- the Department of Defence (including the Australian Defence Force)
- trusts and companies
- statutory offices created by the *Defence Force Discipline Act 1982* and the *Defence Act 1903*
- the Department of Veterans' Affairs and its associated bodies.

Responsible ministers

As at 30 June 2017, the Defence portfolio has three ministers:

- Senator the Hon Marise Payne as Minister for Defence
- the Hon Christopher Pyne MP as Minister for Defence Industry
- the Hon Dan Tehan MP as Minister for Defence Personnel, Minister for Veterans' Affairs, Minister Assisting the Prime Minister for the Centenary of Anzac, and Minister Assisting the Prime Minister for Cyber Security.

Funding

As at 30 June 2017, the Defence departmental net cash spend was \$31.9 billion. More information about Defence funding can be found in Chapter 4—Financial performance.

Our people

As at 30 June 2017, the APS actual full-time equivalent workforce was 17,308, and the Australian Defence Force actual funded strength was 58,612 members. More information can be found in Chapter 7—Strategic workforce management.

Where we work

Defence has extensive land and property holdings in Australia, including large training areas and bases close to the coastline. Defence also operates a number of operational bases around the globe.

About this report

This is the Secretary of Defence and the Chief of the Defence Force's performance report to the Minister for Defence for the financial year ended 30 June 2017. The report addresses the purposes and outcomes of the Department of Defence and the Australian Defence Force—collectively known as Defence.

The report relates to Defence's performance for the period 1 July 2016 to 30 June 2017 and is the department's primary mechanism of accountability to the Parliament of Australia.

The report was prepared in accordance with parliamentary reporting and legislative requirements. The requirements table in Appendix C (starting on page 229) identifies for the reader where required information can be found.

Defence is committed to improving accountability and transparency in its reporting. This report is the second produced under the requirements of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) and represents an improvement in Defence's ability to tell a clear and logical story of our performance over the reporting period. We will continue to mature our performance reporting capacity in 2017–18.

Annual performance statements

As required under the PGPA Act, this report contains Defence's annual performance statements for 2016–17 (see Chapter 3). The annual performance statements detail results achieved against the planned performance criteria set out in the *2016–17 Defence Corporate Plan* and the 2016–17 Portfolio Budget Statements and Portfolio Additional Estimates Statements.

The performance criteria were assessed as being achieved or partially achieved, where:

- **achieved** means the intended result was achieved as planned
- **partially achieved** means the intended result was not fully achieved during the reporting period.

For operational reasons and because much of our work is classified, there are some activities we cannot report on publicly. When activities are no longer sensitive or constrained by legal or statutory requirements, and wherever possible, we are committed to being open and transparent and providing information to the public.

Online content

An electronic version of this report and supplementary performance information may be accessed at www.defence.gov.au/annualreports. Appendix B of this report (on page 228) lists the supplementary performance information that is available on the Defence website.



Australian Government
Department of Defence

Senator the Hon Marise Payne
Minister for Defence
Parliament House
Canberra ACT 2600

Dear Minister

We present the *Defence Annual Report 2016–17* for the year ended 30 June 2017. The report has been prepared for the purposes of section 46 of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act). Subsection 46(1) of the PGPA Act requires that an annual report be given to the responsible Minister, for presentation to the Parliament.

The report reflects the mandatory requirements as prescribed by the *Public Governance, Performance and Accountability Rule 2014* (PGPA Rule), and includes Defence's audited financial statements as required by subsection 43(4) of the PGPA Act. The report also includes Defence's annual performance statements as required by section 39 of the PGPA Act.

Consistent with the requirements set out in section 10 of the PGPA Rule, we certify that Defence has conducted whole-of-Defence fraud risk assessments as part of the biennial Defence fraud and corruption control planning cycle. We also certify that Defence has in place reasonable and appropriate measures, mechanisms and programs to prevent, detect, investigate, record and confidentially report suspected fraud and corruption.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Greg Moriarty'.

Greg Moriarty
Secretary
12 October 2017

A handwritten signature in black ink, appearing to read 'Mark Binskin'.

Mark Binskin AC
Air Chief Marshal
Chief of the Defence Force
12 October 2017



Royal Australian Air Force Aircraftman Brodie McIntyre performs at the NAIDOC Week Last Post Ceremony, to honour Private Maitland Madge, at the Australian War Memorial in Canberra on 7 July 2016.

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Squadron Leader (SQNLDR) Evelyn Wright holds an image of the new Korea and Vietnam-themed stamp. SQNLDR Wright has served with the Air Force for 15 years, specialising in environmental health. She deployed on Operation Slipper in 2011-12 and has a rich family military history, with a great uncle who served in World War I, two grandfathers who served in World War II, and her father who served in the Vietnam War.





REVIEWS BY THE ACTING SECRETARY AND THE CHIEF OF THE DEFENCE FORCE

1

Acting Secretary's review

This past year has seen our talented and hardworking Australian Public Service (APS) workforce deliver excellent results against the three purposes set out in the *2016–17 Defence Corporate Plan*. These results were achieved through a One Defence approach—working with our Australian Defence Force (ADF) colleagues to deliver Defence and ADF capability.

We developed and provided policy advice to support ADF operations and Defence's international activities. We worked with other government organisations and our international partners to develop Defence's international relationships and implement the Defence Cooperation Program. The Defence intelligence agencies continued to produce innovative and integrated products to support military operations and advice to Government.

We delivered an agreed two-year integrated Defence White Paper implementation strategy that ensures the alignment between strategy and capability with appropriate resources.

We achieved alignment of a renewed Strategy Framework with the Government's White Paper strategic direction, including release of the Naval Shipbuilding Plan, the classified Defence Planning Guidance, the Chief of the Defence Force Preparedness Directive and the Defence International Engagement Policy.

The Centre for Defence Industry Capability and the Defence Innovation Hub were launched in December 2016 to ensure Defence has the necessary relationships with national, regional and global allies and partners to deliver and sustain the required capability for the current force and the future force, as described in the 2016 Defence White Paper.

Implementation commenced on the \$730 million Next Generation Technologies Fund outlined in the 2016 Defence White Paper, with an initial \$16.3 million disbursed on various programs. The first of these was the Grand Challenges program, which called for solutions to counter improvised threats. A very strong response from industry and academia resulted in 215 proposals, now under consideration.

We completed the second year of the First Principles Review implementation, which saw Defence transform its organisational structures, business model and major business processes. The establishment of Defence's new strategic centre has strengthened Defence's ability to provide high-quality and timely policy advice to Government on Defence strategy, capability and resourcing.

The First Principles Review continues to drive major reform across Defence. We will continue to develop and pursue the reform agenda started by the First Principles Review to embed the reform as business as usual, but also embed the culture change necessary to sustain the reform.

Notable achievements flowing from the implementation of the First Principles Review include the following:

- The Smart Buyer process was successfully embedded into business-as-usual processes for Defence procurement projects that need second pass approval to proceed.
- Substantial progress was made in delivering the Integrated Investment Program and a total of 74 capability-related submissions were agreed by Government.
- The Contestability Division was established to strengthen policy development and risk management associated with major capability and investment decisions.
- The Defence Estate Strategy 2016–2036 was developed and released in May 2017 to provide the framework to achieve a strategically aligned, affordable, safe and sustainable estate that enables Defence capability and operations.



Brendan Sargeant, Associate Secretary of the Department of Defence and Acting Secretary from 13 May to 4 September 2017.

- The Defence Service Delivery Framework was launched in February 2017 and provides a roadmap to simplify customer access channels, integrate service delivery and improve the customer experience.
- The preparation of the Defence ICT Strategic Direction 2016–2020 reflected the need to manage the increased demands on ICT across Defence, the growing focus on information as a resource, the evolving technology landscape and changes in the way ICT services are delivered.
- The Defence Strategic Workforce Plan 2016–2026 was completed.

The year also saw the following:

- Mr John Coles' report, *Study into the Business of Sustaining Australia's Strategic Collins Class Submarine Capability: Beyond Benchmark*, noted a remarkable improvement in the sustainment of the Collins class submarine, which might now be considered an 'exemplar project'.
- In September 2016, the Commonwealth and Naval Group signed the design and mobilisation contract marking the start of the Future Submarine program.
- The SEA 5000 Phase 1 Future Frigate program request for tender was issued on schedule on 31 March 2017. This is Defence's second largest ever acquisition project.
- Australia's first two F-35A Joint Strike Fighters made their first public appearance in Australia at the 2017 Australian International Airshow.
- The final aircraft of 24 Seahawk Romeo helicopters was accepted. This project was delivered ahead of schedule and under budget.

Defence's commitment to cultural reform was a major priority. All the recommendations from Pathway to Change: Evolving Defence Culture 2012–2017 are now complete. Our next phase of cultural reform is under development and has been informed by Defence-wide conversations conducted during 2016.

Workforce diversity increased over the reporting period. The representation of women in the APS workforce is now 41.8 per cent, representation of Indigenous APS staff increased from 1.8 per cent to 2 per cent, and the representation of APS staff who identify as culturally and linguistically diverse has remained steady at 32.4 per cent. Representation of APS employees who identify as a person with disability increased from 3.5 per cent to 3.7 per cent.

Defence is taking practical steps to reduce barriers that people with disability face in the workplace.

The Dandelion@Defence Program, a joint Defence initiative with Hewlett Packard Enterprise and Danish company Specialisterne, harnesses the talents and develops the skills of a highly capable and diverse, yet previously overlooked, segment of the Australian workforce—people on the autism spectrum. Through the program, nine people commenced as cyber security analysts with Defence in September 2016 and have quickly made some very impressive progress with their allocated work.

The Defence Administrative Assistance Program, in partnership with local Australian Disability Enterprises, is delivering employment opportunities for people with intellectual disability. These partnerships, established in eight Defence locations across Australia, are employing almost 100 people who provide a range of valuable administrative and customer service support functions. The program provides participants with the chance to be part of an inclusive organisation and also enables them to develop the skills and confidence to pursue further opportunities in the wider community.

We worked with APS employees and their representatives on a new Defence Enterprise Agreement, which was endorsed by a majority of employees in June 2017.

Other notable achievements for 2016–17 include:

- Defence scientists provided urgent modelling of smoke dispersal in response to a fire at the Al-Shura plant near Mosul in Iraq. Provided on a daily basis, the modelling was critical in the development of essential force protection measures for Australian and allied forces around the vicinity of the fire.
- The Chief Finance Officer Group achieved a major milestone in providing the organisation with one source of financial truth by incorporating all key financial budget and actual data into the SAP corporate financial systems.

- Defence established an innovative partnership with the Australian Wildlife Conservancy to protect the flora and fauna of Yampi Sound Training Area in Western Australia's Kimberley region. The Defence – Australian Wildlife Conservancy partnership will ensure the continued protection of threatened flora and fauna on this Defence property.

I would like to thank Dennis Richardson, who retired as Secretary of Defence on 12 May 2017 after five decades of committed public service. He was a champion of and for the Australian Public Service, both in and beyond Defence. He helped steer Defence through a time of major change. His work has positioned Defence well to take on the challenges of 2017–18 and beyond.

My thanks to all Defence people for the professionalism, commitment and dedication they bring to the work of Defence.

Brendan Sargeant

Acting Secretary

Chief of the Defence Force's review

Over the past 12 months, the men and women of the Australian Defence Force (ADF) have again demonstrated their skill, professionalism and agility across a variety of operations. Successive rotations to Operation Okra have made an outstanding contribution to the fight against Daesh. The combined Australian-New Zealand Task Group Taji trained around 17,500 Iraqi personnel, while our advise and assist mission and the Air Task Group enabled Iraqi ground forces to destroy Daesh's combat capability and recapture the cities of Fallujah and Mosul.

In Afghanistan, Australia remains one of the largest non-NATO contributors. Our focus is on developing high-quality leaders with the skills necessary to command well. The Afghan National Army Officer Academy outside Kabul is an integral part of the future Afghan National Defense and Security Forces. Around 2,000 Afghan Army officers have completed military training at the academy since it was established in 2013. The ADF trainers and advisers who work with the Afghans are held in the highest regard by their students and their peers alike. That rapport and the ongoing success of our training mission was the foundation for our decision to increase our contribution in Afghanistan with an additional 30 personnel. As part of the international community, we recognise the importance of our continued assistance and remain committed to supporting long-term security and stability for the people of Afghanistan.

We have sustained this significant contribution to concurrent operations in the Middle East alongside deployments in South Sudan, the Sinai, the Golan Heights, and in support of border protection and regional surveillance operations. We have maintained these commitments while growing our contribution to regional counterterrorism efforts. In June 2017, an AP-3C Orion detachment deployed to the Philippines to assist the Armed Forces of the Philippines in their fight against terrorism following attacks by Daesh-inspired groups in Marawi City, north-west Mindanao.

One of the ADF's most significant operations over the past year was in response to a crisis here at home. In March 2017, severe Tropical Cyclone Debbie caused widespread damage to the Whitsunday Islands, Bowen, Proserpine and Mackay regions. The resultant rainfall caused major flooding across an area from Rockhampton through to Lismore. In the days prior, the ADF pre-positioned key assets that enabled us to provide immediate assistance to local communities within the storm zone.

Joint Task Force 661 quickly deployed air, maritime and land forces along with 1,600 ADF personnel under Operation Queensland Assist 2017. The ADF's rapid deployment was an essential feature of the overall emergency response, particularly to remote and isolated communities. In cooperation with federal, state and local authorities and volunteers, the ADF quickly completed damage assessments; provided essential food, water and supplies; transported medical personnel; and assisted in the extensive clean-up and remediation of critical infrastructure.

Our ability to work with other agencies was evident throughout the year. While continuing to secure our borders to the north, the ADF also assisted the Australian Federal Police and Australian Border Force to bring a number of joint counter-narcotic operations off the Australian coast to successful conclusions. Using the same skills as our boarding parties in the Middle East, ADF personnel in Royal Australian Navy ships *Newcastle*, *Adelaide* and *Bathurst* intercepted shipments of cocaine and methamphetamine with a combined street value of \$426 million, including the largest ever cocaine haul that prevented 1.4 tonnes of cocaine hitting our streets.

Sadly, we were also reminded of the risks we face on a daily basis as members of the ADF, and the need to look out for each other. That duty of care extends to include our ongoing efforts to confront and eliminate abusive behaviour. The courage shown by the survivors of abuse and their families has been one of the most powerful catalysts for



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

change and our cooperation with the Royal Commission into Institutional Responses to Child Sexual Abuse further demonstrates our commitment to provide a respectful and inclusive workplace.

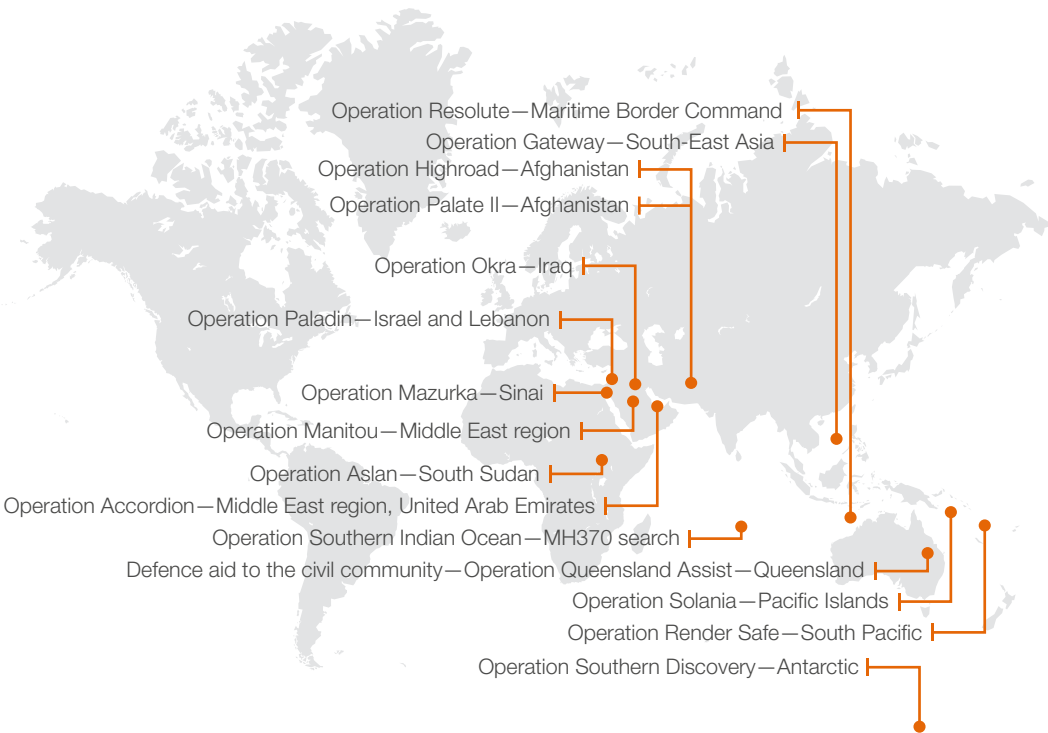
As the Centenary of Anzac continues, we remembered the 100th anniversary of some of our bloodiest battles on the Western Front, leading the French National Day Parade along the Champs-Élysées. We marked 75 years since World War II encroached into the Pacific; and commemorated the 50th anniversary of the Battle of Long Tan.

Regardless of the activity or mission, our people have done an excellent job, doing exactly what Government has asked us to do. I remain proud of our people; whether in combat or supporting Australian communities in need of assistance, the Australian Defence Force continues to demonstrate the highest levels of dedication, expertise, and compassion.

Mark Binskin AC

Chief of the Defence Force

Figure 1.1: **ADF operations during 2016–17**



Delivering major capability in the Antarctic

The hum of engines and the sight of a distant airplane piercing the swirling snow had never been more warmly greeted by staff of the Australian Antarctic Division (AAD) than when they were at the peak of the long dark winter in June 2016.

Creating history by performing an airdrop of vital supplies to the AAD in mid-winter was the Royal Australian Air Force C-17A Globemaster III strategic transport aircraft from No. 36 Squadron.

The aircraft was forward-based out of Avalon Airport while awaiting suitable weather over the Casey drop zone, approximately 70 kilometres from Wilkins Aerodrome. The load was delivered using the A-22 High-Velocity Container Delivery System.

The successful operation built upon Defence's summer airdrop of February 2016, and establishes the ability to provide all-season support to expeditions on the world's most desolate continent.

Officer Commanding No. 86 Wing, Group Captain Adam Williams, said the resupply capability was a big step forward in performance and confidence for both organisations.

'The airdrop delivered vehicles and plant equipment, medical supplies and—perhaps most desperately sought—personal mail from home,' Group Captain Williams said.

'We previously made an airdrop via a helibox in February 2016. Using a different airdrop method, such as the high-velocity drop, we can increase the loads and perform the airdrop with a higher tolerance for inclement weather.

'This delivery system allows the loads to fall at a higher speed, reducing the time spent in the air and limiting the effect of the wind during the descent.'

To prepare for the operation, the Globemaster aircraft from No. 36 Squadron completed five trial flights to Antarctica between November 2015 and February 2016. Based out of Hobart Airport, the crews travelled a return journey of nearly 3,500 kilometres to Wilkins Aerodrome. They moved 109 tonnes of cargo to Antarctica through the five flights, including a 23-tonne tractor.

Group Captain Williams said another benefit of the expanded capability was the increased confidence for the AAD staff and their families in management of crises, especially for medical circumstances.

'Simulated aeromedical evacuations were conducted by staff from No. 3 Aeromedical Evacuation Squadron during the mission,' Group Captain Williams explained.

'In addition, a sixth sortie was conducted to recover three Squirrel helicopters and 28 expeditioners after a blizzard damaged the supply ship *Aurora Australis*.'

Defence's achievements in expanding to mid-winter operations also support other major national and Government priorities. The supply of fuel, equipment and rations, in particular, delivers major capability for vital scientific research.

'The AAD assists with deep field science projects, and the fuel we delivered was used to support a key science project that investigated the contribution of the east Antarctic ice sheet to sea level rise,' Group Captain Williams said.

Australian Army soldier Private Kertisha Thompson of 1st Battalion, Royal Australian Regiment, at the Shoalwater Bay Training Area during Exercise Talisman Saber 2017.





DEPARTMENTAL
OVERVIEW

2

Purposes

Purposes are defined in the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) as ‘the objectives, functions or role’ of an entity.

Defence's primary role is to protect and advance Australia's strategic interests through the provision of military capabilities, to promote security and stability, and to provide support for the Australian community and civilian authorities as directed by Government.

In the *2016–17 Defence Corporate Plan*, the Defence purposes were revised from 10 in the previous year's plan to a focus on three core functions:

1. Provide advice to Government
2. Deliver and sustain Defence capability and conduct operations
3. Develop the future capability Defence needs to conduct operations.

Further information on the three Defence purposes is included in the *2016–17 Defence Corporate Plan*, which is available at www.defence.gov.au/publications/corporateplan. Defence's performance in achieving its purposes during the 2016–17 reporting period is described in Chapter 3—Annual performance statements.

Strategic direction

The Government expects Defence to be able to defend Australia and its national interests, to play an active role in contributing to regional security and stability, and to contribute to coalition operations around the world where our interests are engaged. Delivering on these requirements requires the strong, unified and integrated One Defence organisation being created through implementation of the First Principles Review recommendations, which will continue into 2017–18.

Through the 2016 Defence White Paper, the Government has identified Australia's strategic defence interests as a secure and resilient Australia; a secure near region, encompassing maritime South-East Asia and the South Pacific; and a stable Indo-Pacific region and a rules-based global order that supports our interests. Securing these interests will require Australia to build on its strong network of bilateral and multilateral relationships. Through regular dialogue and practical cooperation, Defence is strengthening its engagement with partners to support shared responses to shared challenges.

This engagement will be supported by the Government's commitment to stable and sustainable funding growth to invest in a more potent and capable defence force. Defence expenditure will be increased to 2 per cent of GDP by 2020–21, equating to \$34.6 billion in 2017–18 and \$150.6 billion over the forward estimates.

Defence will continue to build its strategic centre to strengthen accountability and top-level decision-making and improve policy formulation and the quality of advice provided to the Government. The strategic centre sets the performance requirements for Defence, provides the resources to the Groups and Services to operate, and monitors and measures performance to ensure Defence delivers on Government policy direction effectively and efficiently.

Defence portfolio structure

As at 30 June 2017, the Defence portfolio is supported by three ministers:

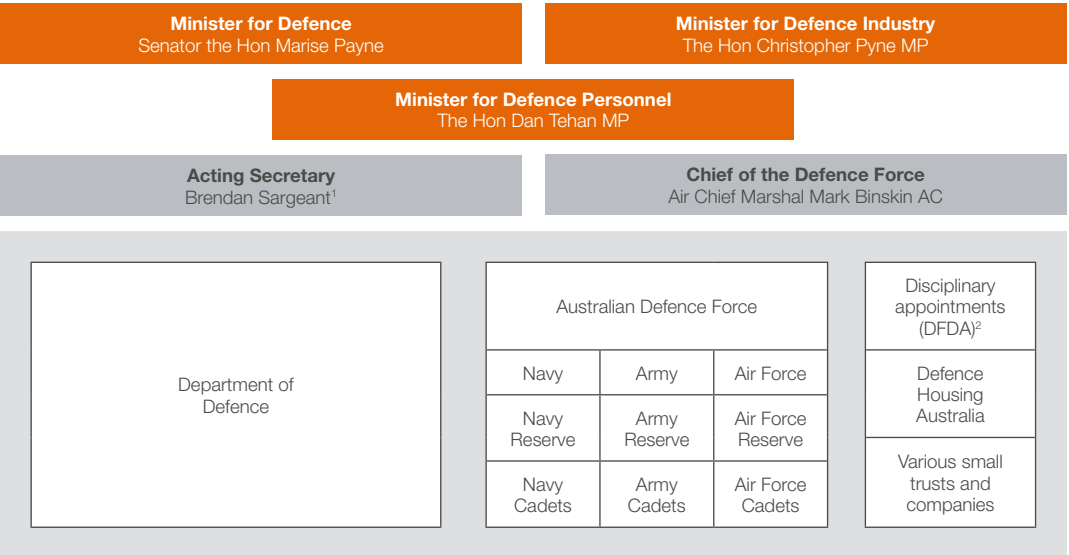
- Senator the Hon Marise Payne as Minister for Defence
- the Hon Christopher Pyne MP as Minister for Defence Industry
- the Hon Dan Tehan MP as Minister for Defence Personnel.

In addition to the Department of Defence and the Australian Defence Force, the Defence portfolio consists of some smaller entities, including a number of statutory offices, trusts and companies. Legislation that established the services trusts and companies in the Defence portfolio are the *Services Trust Fund Act 1947* and the *Royal Australian Air Force Veterans’ Residences Act 1953*, as well as the *Corporations Act 2001*.

The portfolio also contains the Department of Veterans’ Affairs and associated bodies, as designated in the Administrative Arrangements Order.

Figure 2.1 shows the Defence portfolio structure as at 30 June 2017.

Figure 2.1: Defence portfolio structure, as at 30 June 2017



Notes

1. Mr Greg Moriarty was appointed as the Secretary of Defence with effect from 4 September 2017.
2. Appointments made under the *Defence Force Discipline Act 1982*.

Changes in ministerial responsibilities

On 19 July 2016, a new ministry was sworn in following the federal election held on 2 July 2016. Senator the Hon Marise Payne continued as the Minister for Defence. New ministerial appointments were made, with the Hon Christopher Pyne MP sworn in as the Minister for Defence Industry and the Hon Dan Tehan MP sworn in as the Minister for Defence Personnel. These appointments replaced the roles of the Assistant Minister for Defence, held by the Hon Michael McCormack MP, and the Minister for Defence Materiel, held by the Hon Dan Tehan MP.

The Ministers and their portfolio responsibilities are as follows:

Senator the Hon Marise Payne, Minister for Defence

- Strategic policy
- Australian Defence Force operations
- International engagement
- Budget
- Defence White Paper implementation
- Force structure
- Development of capability requirements
- Capability/cost trade-off during capability life cycle
- Intelligence and security
- Information and communications technology
- Science and technology policy and support to operations

The Hon Christopher Pyne MP, Minister for Defence Industry

- Delivery of capability acquisition and sustainment projects
- Development of Australian industry involvement during capability life cycle
- Delivery of defence industry agenda
- Support for, and development of, Australian defence industry
- Encouragement of Australian defence industry involvement in global supply chains
- Implementation of Naval Shipbuilding Plan
- Centre for Defence Industry Capability
- Defence Innovation Hub
- Science and technology engagement with Australian industry
- Next Generation Technologies Fund

The Hon Dan Tehan MP, Minister for Defence Personnel

- Estate
- Garrison and personnel support
- Estate and equipment disposals
- Military justice
- Honours and awards
- Australian Defence Force Cadets
- Reserves
- Parliamentary exchange program

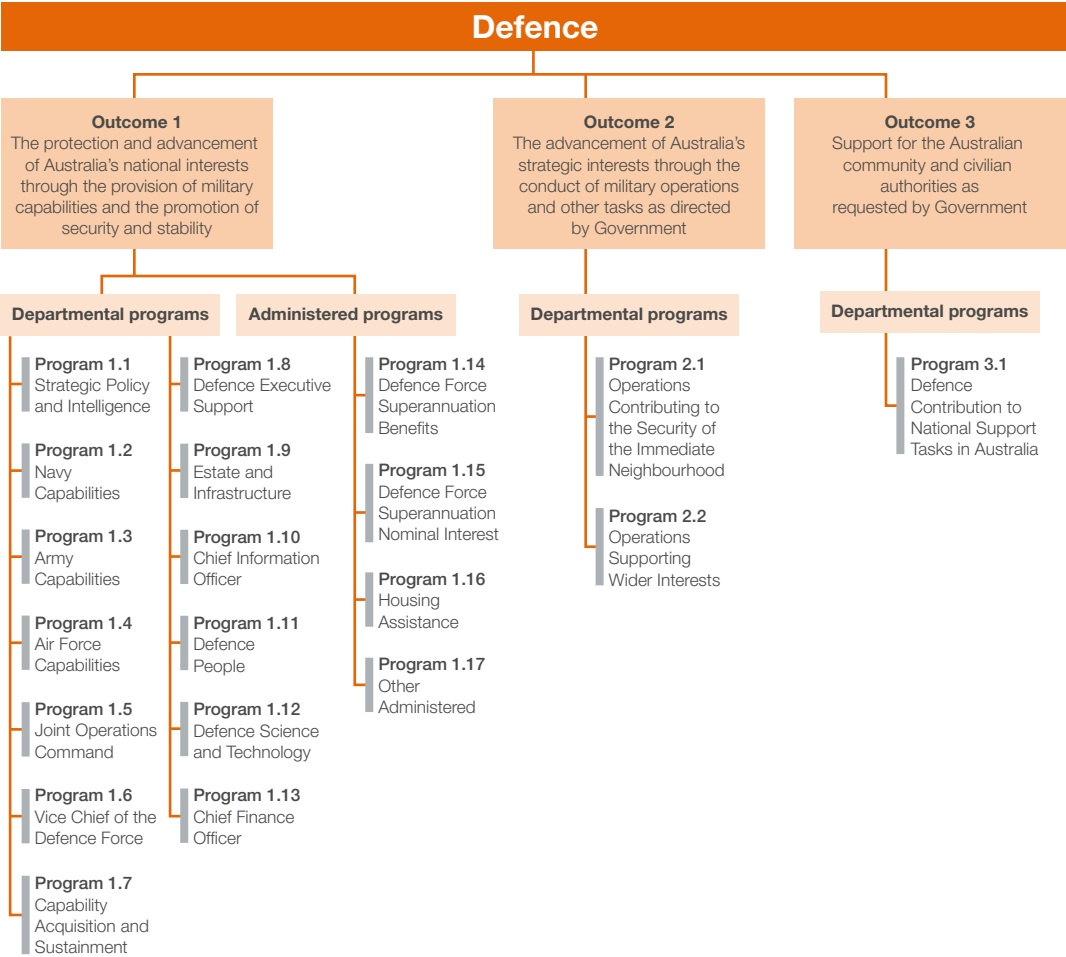
These ministerial responsibilities are correct as at 30 June 2017. Details of the current allocation of portfolio responsibilities for Defence are available online at www.minister.defence.gov.au.

Outcomes and programs

Defence's annual Portfolio Budget Statements (PBS) detail the outcomes and programs structures for the Defence portfolio. Within this framework, the outcome is the intended result, impact or consequence of our actions. We work towards achieving our outcomes through undertaking activities and delivering results for each program.

Figure 2.2 shows Defence's three outcomes for 2016–17, together with the related programs. The PBS describe the performance criteria and targets to be used in assessing and monitoring the performance of Defence in achieving government outcomes.

Figure 2.2: Defence's outcomes and programs, 2016–17



Note: Defence outcomes and programs have been realigned and renumbered in the Defence Portfolio Budget Statements 2017–18 to reflect the strategic intent of the 2016 Defence White Paper, the First Principles Review, and the purposes in the 2017–18 Defence Corporate Plan. This annual report covers performance against the outcomes and programs described in the Portfolio Budget Statements and Portfolio Additional Estimates Statements for 2016–17.

Organisational structure

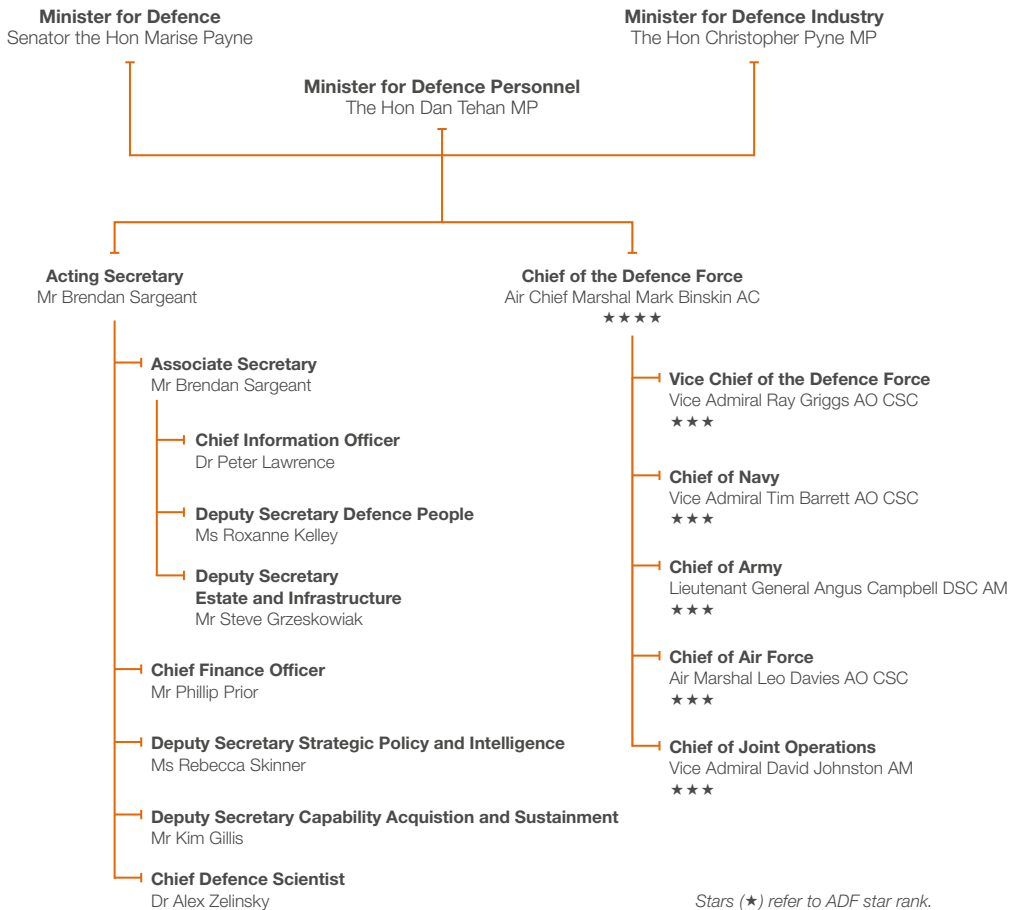
The Secretary of the Department of Defence and the Chief of the Defence Force jointly manage the organisation as a diarchy. The term ‘diarchy’ reflects the individual and shared responsibilities and accountabilities of the Secretary and the Chief of the Defence Force in ensuring that Defence meets Australian Government requirements. The manner in which the diarchy operates is further set out in directions given to the Secretary and the Chief of the Defence Force by the Minister for Defence.

Implementation of the First Principles Review, *Creating One Defence*, necessitated changes to the accountabilities, structures, systems and processes that build and operate the required organisational capacity. It also introduced the One Defence business model, which focuses Defence’s organisational capacity on achieving Government-directed outcomes. The business model has three key features:

- 1. A stronger strategic centre able to provide clear direction, contestability of decision-making, as well as enhanced control of resources and monitoring of organisational performance
- 2. An end-to-end approach for capability development
- 3. Enablers that are integrated and customer-centric with greater use of cross-functional processes, particularly in regional locations.

Figure 2.3 shows the elements and relationships of Defence’s organisational structure as at 30 June 2017.

Figure 2.3: Defence organisational structure, as at 30 June 2017



Note: This organisational chart is correct as at 30 June 2017. For a more current view, visit www.defence.gov.au. Biographies and high-resolution images of key Defence leaders and senior managers are available at the Defence Leaders site, www.defence.gov.au/Leaders.

Changes in senior leadership

The following changes in senior leadership occurred during 2016–17:

- Mr Stephen Meekin, the previous Deputy Secretary Intelligence and Security, retired from the Australian Public Service on 13 July 2016.
- Ms Rebecca Skinner, the previous Deputy Secretary Defence People, was appointed Deputy Secretary Strategic Policy and Intelligence on 12 September 2016.
- Mr Peter Baxter, the previous Deputy Secretary Strategic Policy and Intelligence, retired from the Australian Public Service on 14 November 2016.
- Ms Roxanne Kelley was promoted and appointed Deputy Secretary Defence People on 16 November 2016.
- Mr Dennis Richardson, the previous Secretary of Defence, retired from the Australian Public Service on 12 May 2017. Mr Brendan Sargeant was appointed as Acting Secretary on 13 May 2017.

Financial summary

Defence has a sound financial position, with sufficient cash reserves to fund its debts as and when they fall due. Defence's departmental net cash spend was \$31.9 billion in 2016–17. This was an underspend of \$30.5 million when compared to the revised estimate in the Defence Portfolio Budget Statements 2017–18.

Defence received an unqualified audit report on the 2016–17 financial statements from the Australian National Audit Office. These statements are in Chapter 11—Financial statements.

See Chapter 4—Financial performance for a financial overview of 2016–17.

People summary

Defence's workforce includes Australian Public Service (APS) employees and Australian Defence Force (ADF) members of the Navy, Army and Air Force.

The ADF's actual funded strength at 30 June 2017 was 58,612, compared to 58,578 at 30 June 2016. The APS actual full-time equivalent workforce at 30 June 2017 was 17,308, compared to 17,423 at 30 June 2016.

Detailed information on Defence's workforce is provided in Chapter 7—Strategic workforce management.



Communications Information Specialist, Petty Officer Talei Stoll (right), Flying Officer Phillip Johnson (left) and Electrical Engineer, Flight Lieutenant James Mead discuss information assurance procedures within No. 462 Squadron located in the Edinburgh Defence Precinct, South Australia.

Cyber security

Defence personnel working in the Australian Signals Directorate (ASD), the Australian Cyber Security Centre (ACSC) and the Chief Information Officer Group are on the front line of efforts to counter ransomware, spear phishing emails and other targeted cyber intrusions.

Deputy Director ASD and Coordinator ACSC, Clive Lines, said the organisations deal with thousands of cyber security incidents a year.

‘Many adversaries broadly follow the same approach when attempting to compromise a network, despite each threat group employing their own unique tradecraft,’ Clive said.

‘The methods they are using are becoming more convincing and difficult to spot. Many spear phishing emails employ psychological manipulation and deceit to establish trust and elicit information,’ Clive said.

He said more foreign states have acquired or are in the process of acquiring cyber espionage capabilities.

‘The ACSC is aware of diverse state-based adversaries attempting cyber espionage against Australian systems, seeking economic, foreign policy, defence and security information to satisfy strategic, operational and commercial intelligence requirements,’ he said.

‘Australian Government networks are regularly targeted by the full breadth of cyber adversaries. While foreign states represent the greatest level of threat, cyber criminals pose a threat to government-held information and provision of services through both targeted and inadvertent compromises of government networks with ransomware.

‘Hacktivists will also continue to use low-sophistication cyber capabilities, such as website defacement, the hack and release of personal or embarrassing information, distributed denial-of-service activities and the hijacking of social media accounts, generating attention and support for their cause.’

Defence Information Technology Security Adviser and Assistant Secretary ICT Security, Lindsay Morgan, said the Chief Information Officer Group works closely with the ACSC and ASD to understand current threats and implement measures to prevent, detect and respond to those threats.

‘Protecting Australia from cyber threats is one of the greatest national security challenges. For that reason, Defence will continue to invest in cyber and information security,’ Lindsay said.

Defence has one of the largest ICT footprints in Australia, supporting a wide range of military, administrative and management capabilities. The organisation is implementing numerous projects to enhance its ICT infrastructure to combat cyber intrusions.

‘Defence is making substantial improvements to the sustainability, security and currency of the Defence ICT environment through the ICT infrastructure transformation program, which will significantly enhance Defence’s ICT security protections,’ Lindsay said.

‘Defence has also identified future programs of work through the Integrated Investment Program to enhance Defence’s cyber security environment, including the ICT security program and deployed defence cyber operations.’

Cyber security capability

Defence continued to develop its cyber security capabilities in 2016–17. Key achievements during the year included:

- enhancement of our cyber security support to military operations and exercises through the establishment of a dedicated military capability manager for joint cyber capabilities to drive workforce and technology improvements
- enhancement of our use of cyber threat intelligence to guide our cyber security activities through the introduction of automated tools and a more highly skilled workforce that better understands threats and their appropriate mitigations
- enhancement of our cyber threat and security awareness and education activities to ensure a more cyber security-aware workforce, reducing the risk of cyber threats within Defence
- growing the numbers and skills of our cyber security workforce through a targeted recruitment and training program, allowing us to scale our capability to new and emerging threats and to protect our military and corporate systems
- delivery of information and communications technology (ICT) infrastructure upgrades that enhance security, including newly deployed and strategic ICT systems and networks, ensuring cyber resilience across Defence's single information environment and better preventing or mitigating cyber threats.

Defence Cooperation Program

The Defence Cooperation Program (DCP) has made a significant contribution to Australia's international defence engagement and its strategic interests since the 1960s. In line with those interests, the DCP priority countries and regions include Papua New Guinea, Indonesia, Timor-Leste, the South-West Pacific, South-East Asia, Pakistan and the Middle East. The program's objective is to maximise Australia's security through developing close and enduring links with partners that support their capacity to protect their sovereignty, work effectively with the ADF and contribute to regional security.

To achieve its objectives, the DCP suite of activities includes training, personnel exchanges, capacity building, military secondments, strategic dialogues, subject matter expert exchanges, infrastructure support, exercises and operations. These activities focus on enhancing the ADF's operational familiarity with different environments and on building partner capacity in humanitarian assistance and disaster relief, peacekeeping, counterterrorism, maritime security, military governance and professionalism.

Pacific Patrol Boat and Pacific Maritime Security programs

A key element of the DCP, and the centrepiece of Australia's defence engagement in the South Pacific, is the Pacific Patrol Boat Program, through which Australia has provided 22 patrol boats (with associated advisory personnel, training support and maintenance assistance) to 12 countries. The program enables Pacific navies and police maritime wings and is designed to help Pacific Island countries improve their ability to independently monitor and protect their maritime zones. Under the follow-on Pacific Maritime Security Program, Australia is replacing the fleet with new steel-hulled vessels. Austal Ships Pty Ltd was selected to construct up to 21 replacement patrol vessels in Australia, for gifting to Pacific Island nations from 2018. The Pacific Maritime Security Program will also provide contracted civilian aerial surveillance and enhanced regional coordination support to Pacific Island countries.

Papua New Guinea

In 2016–17, our Defence Cooperation Program with Papua New Guinea (PNG) focused on building the Papua New Guinea Defence Force's major event security capability in the lead-up to PNG's hosting of the Asia-Pacific Economic Cooperation summit in 2018. The program also built military and professional skills through the provision of approximately 300 training courses to PNG defence organisation personnel. Our support for infrastructure rehabilitation increased in 2016–17, and included a project to develop the communications centre at HMPNGS Tarangau, where PNG's maritime assets are based.

Women, Peace and Security seminar

The DCP funded a Women, Peace and Security seminar in December 2016. The Australian Department of Defence brought together female officers with operational experience from the Australian and Indonesian defence organisations for a workshop on having a gender perspective on peacekeeping operations. As Australia and Indonesia will be co-chairing the Experts Working Group on Peacekeeping Operations—under the auspices of the Association of Southeast Asian Nations (ASEAN) Defence Ministers' Meeting – Plus—for the next three years, seminar participants were tasked with making recommendations for how to advance the women, peace and security agenda during our co-chairing period. The seminar was very successful, with most of the participants' recommendations being accepted by the Australian and Indonesian co-chairs of the experts working group.

Timor-Leste

Defence's longstanding cooperation with Timor-Leste continued to build core skills and competencies throughout 2016–17, most notably through the ongoing success of our extensive English language training program. Australia also led the largest yet iteration of the multinational engineering Exercise Hari'i Hamutuk in October 2016, which saw over 110 personnel from four nations (Australia, Timor-Leste, the United States and Japan) working together to refurbish and improve infrastructure at various military establishments across Timor-Leste.

Middle East

Australia has longstanding economic and security interests in supporting the stability and security of the Middle East region. Among other lines of effort in support of those interests, Defence maintains cooperation programs with a number of countries in the Middle East, including Egypt, Lebanon and Jordan. The major focus of these programs is the provision of training and education to members of the armed forces of these nations. In 2016–17, DCP activities included the offering of short-term courses on a variety of topics, including rules of engagement, maritime operations, law and peace operations, as well as longer-duration positions at the Australian Command and Staff College, and the Centre for Defence and Strategic Studies at the Australian Defence College. In addition to training and education, as part of our DCP with Jordan, Defence also conducted an annual dialogue with the Jordanian Armed Forces to discuss cooperation and regional dynamics.



20 years of serving the community

2016 marked the 20th anniversary of the Army Aboriginal Community Assistance Program (AACAP), a Commonwealth Government initiative designed to improve infrastructure, health and living conditions in remote Indigenous communities. AACAP is delivered in collaboration with the Department of the Prime Minister and Cabinet.

The first project was completed in 1996 in Bulla, Northern Territory, and each year since has proved to be a great success. The program supports the Government's commitment to 'closing the gap' in disadvantage between Indigenous and non-Indigenous Australians. In 2016, AACAP was based in Laura, North Queensland. This saw approximately 150 Australian Army personnel living and working in Laura for five months building infrastructure and providing training to the local community. The completed infrastructure was handed over to the Ang-Gnarra Aboriginal Corporation and Cook Shire Council.

Colonel Rob Sanders, Force Engineer, explained how the Australian Army is uniquely qualified to support the delivery of the program.

Australian Army soldier Sapper Andrew McSpadden, lays concrete for the new veterans memorial at Pandanus Park War Veterans Retreat near Rinyirru (Lakefield) National Park, Cape York, on 21 August 2016.

'AACAP projects leverage the ability of the Army to deliver a range of services in remote areas, such as infrastructure works, employability skills training, and health promotion and support in a holistic and highly effective manner.

The program seeks to improve environmental health and living standards, and enhances employment opportunities through the provision of infrastructure, training and services. Each AACAP project aims to maximise benefit to the Indigenous community by tailoring the approach to that community,' he said.

Through the opportunity afforded by each AACAP project, the Australian Army aims to train and test selected capabilities against the themes of 'population support' and 'Indigenous capacity building'. The delivery of an AACAP project requires the generation, preparation, deployment and sustainment of a military contingent to remote locations in Australia for extended durations, exercising a wide range of Defence supporting capabilities.

The range of skills exercised during an AACAP project are the same as those required for deployment for disaster relief operations and population support operations. The skills and experience gained through AACAP have greatly assisted the Army in preparing for activities such as deployments to Timor-Leste in 1999 and 2006, and in support to humanitarian assistance disaster relief operations both in Australia and the region.

A key moment from the 20th anniversary year of AACAP included the completion ceremony for AACAP 2016, signifying the completion of the Army's deployment to the community and the handover of the completed infrastructure to the Ang-Gnarra Aboriginal Corporation and Cook Shire Council.

The program is a large and wide-reaching activity that engages many elements of the Australian Army, Defence community, as well as all three levels of government. It incorporates regional stakeholders and community service providers, and in recent times has also harnessed the support of soldiers from our nearer region, including from Tonga, Timor-Leste and Papua New Guinea. It brings together stakeholders both internal and external to Defence, demonstrating the value of collaboration and what can be achieved when a group works together towards a common goal.

'The program would not succeed without the teamwork that is fostered in each project,' Colonel Sanders said.

In addition to the commendable teamwork demonstrated, Colonel Sanders noted the value of the Army's engagement with the community.

'These men and women are fantastic representatives of the Army and the lasting legacy they leave in the communities is extraordinary to see. Just recently a team undertaking a review of an AACAP project from over a decade ago interviewed community members. They remain impacted by the positive influence the Army had on their community.'

The 2017 AACAP project is based in Toomelah, New South Wales. This year's group is working hard to deliver a community hall.

'The hall will be a significant achievement, and a large improvement to the facilities and services available to the Toomelah community,' said Colonel Sanders.

AACAP continues each year to support remote Indigenous communities across the country. In 2018, the program will deliver a range of infrastructure, education and training services in Yalata in South Australia, and for 2019 scoping is underway for engagement in a remote community in Western Australia.



ANNUAL PERFORMANCE STATEMENTS

3

Bobbie-Jo Stagg (right) and Julie Blogg check
an incoming order at the pharmacy at HMAS
Stirling Health Centre.

Annual performance statements

Statement of preparation

I, as the accountable authority of the Department of Defence, present the 2016–17 annual performance statements of the Department of Defence, as required under paragraph 39(1)(a) of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act). In my opinion, these annual performance statements are based on properly maintained records, accurately reflect the performance of the entity, and comply with subsection 39(2) of the PGPA Act.



Greg Moriarty
Secretary of the Department of Defence
3 October 2017

Section 39 of the PGPA Act requires Commonwealth entities to prepare annual performance statements. The annual performance statements for 2016–17 provide an assessment of Defence's performance in achieving our purposes, by reporting on the performance measures and criteria set out in the *2016–17 Defence Corporate Plan* and the performance criteria listed in the Portfolio Budget Statements (PBS) and Portfolio Additional Estimates Statements (PAES) for 2016–17. The annual performance statements provide a clear link between our planned performance for the financial year and our actual performance over the financial year.

The annual performance statements bring together relevant non-financial performance information into this chapter, much as the financial statements (Chapter 11) consolidate the financial performance information presented in Chapter 4. The annual performance statements certify the actual performance against the PBS, the PAES and the corporate plan, present results against the performance criteria, and provide an analysis of what we achieved and factors that contributed to our performance against the purposes and outcomes.

To enhance readability of the annual performance statements, the performance measures and criteria are organised around the three purposes described in the *2016–17 Defence Corporate Plan*:

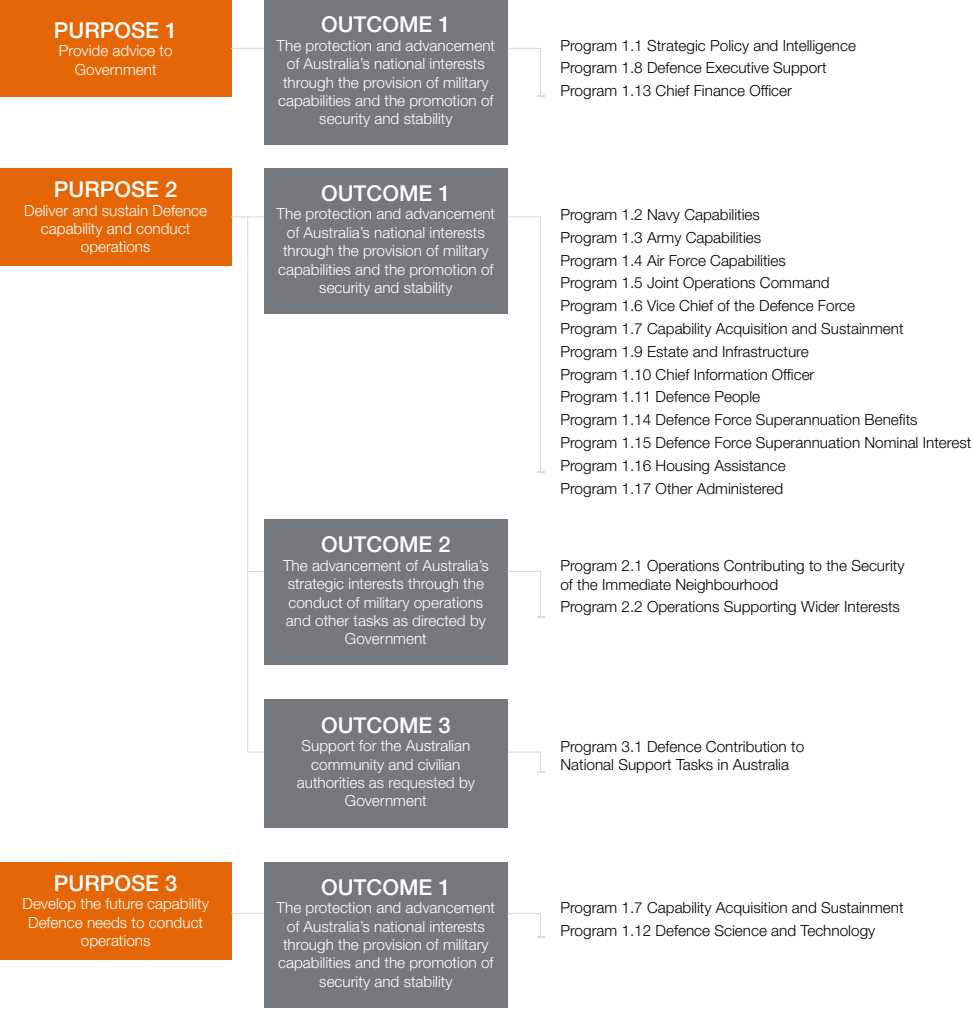
Purpose 1:	Provide advice to Government
Purpose 2:	Deliver and sustain Defence capability and conduct operations
Purpose 3:	Develop the future capability Defence needs to conduct operations

Together with the corporate plan, the PBS and PAES identify the outcomes, programs and performance criteria against which Defence's performance is assessed. Outcome statements describe what Government requires Defence to achieve using the resources allocated to us through the Commonwealth budget process. In 2016–17, Defence had three outcome statements:

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

The relationship between Defence's purposes and outcomes is shown in Figure 3.1.

Figure 3.1: Relationship between Defence's purposes and outcomes



Defence's annual performance statements were developed in accordance with guidelines provided by the Department of Finance. To enhance the content of the annual performance statements, we have included page references to relevant supplementary information, and we have clearly identified performance measures and criteria with the relevant source—the PBS and PAES, the corporate plan, or both.

Key

The annual performance statements detail actual performance in achieving each Defence purpose, including a 'snapshot' assessment against each performance criterion, using the following key:

Achieved—where the intended result was achieved as planned

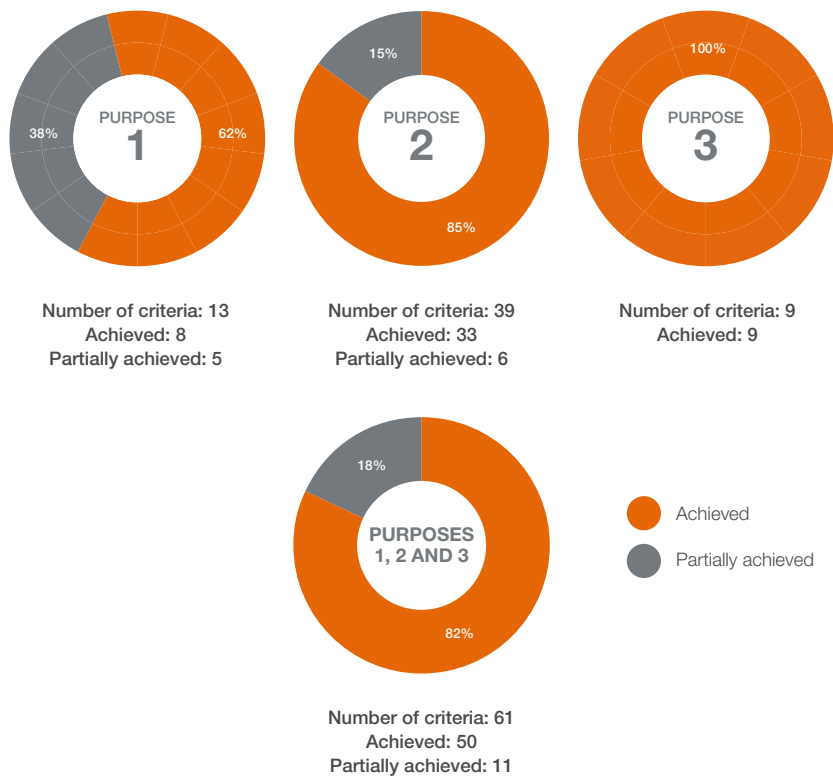
Partially achieved—where the intended result was not fully achieved during the reporting period.

Note: Due to national security considerations, not all targets are able to be published.

Performance snapshot

Figure 3.2 summarises Defence's performance results against each of its purposes in 2016–17.

Figure 3.2: **Performance results against Defence purposes, 2016–17**



Purpose 1 — Provide advice to Government

Analysis of performance against Purpose 1

Defence achieved Purpose 1 in 2016–17, with significant enhancements to the relevance and clarity of Defence advice to Government through the establishment of a strong strategic centre in Defence. The strategic centre is the senior management structure in Defence that sets priorities, manages resources and sets direction for all Defence activities in support of achieving Government-directed outcomes.

The establishment of new capability management and contestability processes has improved the timeliness and quality of advice to Government to support decision-making and value-for-money considerations concerning capability acquisitions, sustainment and disposals. In October 2016, the Contestability Division restructured and implemented a new, risk-based contestability model focused on contestability throughout the capability life cycle and the provision of clear, accurate and timely advice to key decision-makers. The inclusion of the Department of the Prime Minister and Cabinet and the Department of Finance representatives as full members of the Investment Committee has improved contestability of investment decisions through these members informing and challenging Defence policy advice and building central agency knowledge of the issues involved in specific investment decisions.

Defence continues to engage with whole-of-government and Defence stakeholders in the development of advice for Government on matters of national significance, including cyber policy in support of Australia's Cyber Security Strategy, intelligence, counterterrorism policy, foreign investment and critical infrastructure.

Effective corporate planning and performance monitoring are vital to ensure the direction set in the strategic centre is cascaded effectively through the organisation and that leaders are held accountable for their performance. As required by the *Public Governance, Performance and Accountability Act 2013* (PGPA Act), Defence continues to improve the way it uses risk to plan, prioritise and manage resources to achieve Government-directed outcomes. The development, approval and implementation of a number of key governance frameworks, such as the Strategy Framework, the Enterprise Performance Management Framework and the Defence Risk Management Framework, are improving Defence's capacity to translate government policy direction into enterprise requirements.

The Defence Enterprise Performance Management Framework was endorsed in November 2016. The statutory outputs of the framework are the Defence corporate plan and the Defence annual report, containing the financial statements and annual performance statements. Implementation of the framework facilitated the development of new Defence purposes and outcome statements for 2017–18, which formed the basis for the *2017–18 Defence Corporate Plan* and Portfolio Budget Statements 2017–18.

Complementing the allocation of enterprise performance management accountabilities and responsibilities, supporting enterprise risk management guidelines and accountabilities were introduced under a 'three systems of risk' model agreed by the Enterprise Business Committee in February 2017. This work has aligned the key enterprise accountabilities and responsibilities across enterprise planning, and performance and risk management processes in Defence. Work continues to mature Defence's key governance frameworks, with the Defence Strategy Framework endorsed for implementation in the second half of 2016–17 and the Defence Compliance Framework to be introduced in 2017–18. Once implementation of these frameworks reaches fully maturity, Defence will have the governance system it needs to respond quickly and effectively to changes in our strategic operating environment and in policy direction from Government.

Completion of the two-year implementation plan of the First Principles Review saw Defence transform its organisational structures, business model and major business processes to ensure it is able to deliver Government-directed policy outcomes both now and into the future. To ensure that One Defence reforms continue to achieve their intent, Defence will continue the Implementation Committee and Oversight Board for a further 12 months. In addition, an evaluation framework will be implemented in 2017–18 to assess the effectiveness of One Defence reforms.

The Australian Government Security Vetting Agency's performance in 2016–17 was in accordance with the requirements set out in the remediation strategy. Achievement of standards at the lower clearance levels (baseline to NV2) was strong in 2016–17. No backlogs remain at the end of the year and average processing times were consistently below benchmark timeframes through the reporting period; however, positive vetting average benchmark processing times remain high, with remediation activities to continue in 2017–18 to deliver sustainable improvements over time.

Detailed performance information related to Purpose 1 is in tables 3.1 and 3.2.

Table 3.1: Performance results for criteria relating to Purpose 1

Defence performance measure	Source	Results		
<p><i>Measure: Government has confidence in the relevance and quality of Defence advice.</i></p> <p><i>Methodology: Biannual survey of the relevant Ministers and the central agencies.</i></p>	2016–17 Defence Corporate Plan, p. 6	<p>Achieved. The relevance and clarity of Defence advice to Government was significantly enhanced by the establishment of a strong strategic centre in Defence underpinned by a more holistic, integrated approach to enterprise performance management through the One Defence business model. The strategic centre is the senior management structure in Defence that sets priorities, manages resources and sets direction for all Defence activities in support of Government outcomes. The establishment of a new capability life cycle, Smart Buyer framework and contestability function has improved the timeliness and quality of advice to Government to support decision-making and value-for-money considerations concerning capability acquisitions, sustainment and disposals.</p> <p>An immense volume of strategic policy was developed in close collaboration with government agencies through Defence Ministers to Government over the course of the performance period, including the release and implementation of the 2016 Defence White Paper. Through multiple exchanges and interactions in developing the White Paper and supporting policy guidance, the Ministers expressed high to very high confidence in the relevance and quality of Defence advice received.</p> <p>Defence continues to look at options for earlier engagement with the Minister for Defence in the preparation of policy, and ways to improve Defence responsiveness in progressing Government requirements.</p>		
<p><i>Measure: Government is assured that Defence advice has been appropriately contested.</i></p> <p><i>Methodology: Biannual survey of the relevant Ministers and the central agencies.</i></p>	2016–17 Defence Corporate Plan, p. 6	<p>Achieved. Defence's Contestability Division provides an independent review of investment proposals to ensure alignment with strategy and resources. In October 2016, the Contestability Division restructured and implemented a new, risk-based contestability model focused on contestability throughout the capability life cycle and the provision of clear, accurate and timely advice to key decision-makers.</p> <p>During the reporting period, the Contestability Division provided contestability advice on 83 per cent of the items considered by the Defence Investment Committee. The contestability function provided decision support to the Investment Committee on the majority of estate and information and communications technology proposals, except for low-complexity projects such as minor estate mid-term refreshes. The Contestability Division provided contestability on 100 per cent of capability manager gate reviews.</p> <p>The inclusion of Department of the Prime Minister and Cabinet and Department of Finance representatives as full members of the Defence Investment Committee in November 2015 and August 2016, respectively, has improved contestability of investment decisions through these members informing and challenging Defence policy advice and building central agency knowledge of the issues involved in specific investment decisions.</p>		
Intended result	Performance measure	Target	Source	Results
<p><i>The Minister receives policy advice that supports effective decision-making.</i></p>	Government has confidence in the relevance and quality of Defence advice.	Minister expresses high to very high confidence in Defence advice.	2016–17 Defence Corporate Plan, p. 7 PBS 2016–17, Program 1.1: Strategic Policy and Intelligence, p. 37	<p>Achieved. The establishment of Defence's new strategic centre has strengthened the organisation's ability to provide quality, coherent and timely policy advice to Government on Defence strategy, capability and resourcing.</p> <p>The strategic centre now drives strengthened decision-making and accountability across Defence, with the Minister for Defence meeting biannually with the Defence Committee to consider a formal strategic assessment of the alignment between Defence strategy, capability and resources.</p> <p>Defence is investigating options for earlier engagement with the Minister in the preparation of strategic policy, and ways to improve Defence responsiveness in progressing Government requirements. These changes ensure that the Minister continues to receive policy advice that supports effective decision-making; and assures confidence in the relevance and quality of this advice.</p>


Intended result	Performance measure	Target	Source	Results
<i>Defence strengthens its engagement on policy development with other national security participants and other relevant parties.</i>	Decision-makers understand Australian defence and national security policy issues.	Stakeholders express high confidence in Defence engagement.	2016–17 Defence Corporate Plan, p. 7	<p>Achieved. Defence continues to strengthen its engagement on policy development with other national security participants and other relevant parties through several collaborative initiatives, including:</p> <ul style="list-style-type: none"> • permanent central agency representation from the Department of the Prime Minister and Cabinet and the Department of Finance on the Defence Investment Committee • collaboration with whole-of-government and Defence stakeholders, as well as international partners, to support management of Defence's international relationships and the Defence Cooperation Program, and develop policy guidance for ADF operations and international defence activities • a new approach to working across Government with Defence Industry Policy Division officers seconded to the Centre for Defence Industry Capability, housed in the Department of Industry, Innovation and Science • working with the Department of Education and Training to select a provider or consortium to establish a naval shipbuilding college in South Australia, under a 'hub and spoke' model involving existing education and training providers across Australia. <p>Defence continues to engage with whole-of-government and Defence stakeholders in the development of advice for Government on matters of national significance, including cyber policy in support of Australia's Cyber Security Strategy, intelligence, counterterrorism policy, foreign policy, foreign investment and critical infrastructure, including through contributions to whole-of-government taskforces.</p>
<i>Assured data is available to support the design of good performance measures.</i>	Performance information uses validated information to support decision-making.	All performance information is supported by a reliable and validated data source.	2016–17 Defence Corporate Plan, p. 7	<p>Partially achieved. The development, approval and implementation of a number of key governance frameworks have established robust foundations to provide relevant business intelligence to managers across Defence. Through implementation of the Enterprise Information Management Strategy 2015–2025, there was also progress in improving information management practices and integrity within information systems. The focus for 2017–18 will be on developing the capacity across Defence required to determine business intelligence requirements, and sourcing the required information to support development of good performance measures.</p>
<i>Appropriate risk appetite is actively exercised based on all available information.</i>	Performance information uses validated information to support decision-making.	All performance information is supported by a reliable and validated data source.	2016–17 Defence Corporate Plan, p. 7	<p>Partially achieved. Training across 40 per cent of the Defence senior leadership helped build a common understanding of how to identify and manage shared risks under the new Commonwealth Risk Management Policy. Supporting guidelines and accountabilities, under the 'three systems of risk' model, were agreed by the Enterprise Business Committee in February 2017. This provided the key strategic accountabilities and responsibilities, linking risk management to key planning, performance and decision-making processes in Defence. Enterprise risk management capacity building will continue in 2017–18, and the introduction of a legislative compliance framework and supporting guidelines provide greater assurance that Defence activity is being undertaken in accordance with Commonwealth legislative and related policy requirements.</p>

Intended result	Performance measure	Target	Source	Results
<i>Managers across Defence have a view of performance within their work area that is based on true information, enabling them to make more robust decisions.</i>	Performance information uses validated information to support decision-making.	All performance information is supported by a reliable and validated data source.	2016–17 Defence Corporate Plan, p. 7	Partially achieved. During 2016–17, organisational performance reporting across Defence continued to mature. In 2017–18, Defence will focus on developing organisational capacity to better plan, monitor and measure how well the organisation performed in achieving whole-of-Defence intended results.

Table 3.2: Performance results against criteria relating to delivering the outcomes of Purpose 1

Source	Performance measure	Target	Results
PBS 2016–17, Program 1.8: Defence Executive Support, p. 63	Enterprise planning and performance monitoring processes are delivered in line with the requirements of the <i>Public Governance, Performance and Accountability Act 2013</i> .	Defence meets its non-financial performance management and risk management obligations under the <i>Public Governance, Performance and Accountability Act 2013</i> .	Achieved. Defence's enterprise planning, non-financial performance management and risk management processes met the performance and accountability requirements of the PGPA Act. Defence is taking an iterative approach to the design and development of its planning, performance and risk frameworks, practices and processes. Once implementation of these frameworks reaches full maturity, Defence will have the planning, performance and risk system it needs to respond quickly and effectively to changes in our strategic operating environment and in policy direction from Government.
	Business outcomes are improved as part of broader Defence reform.	Defence reform is achieved as agreed with Government and in accordance with the First Principles Review implementation plan.	Partially achieved. As at 30 June 2017, Defence completed implementation of the two-year First Principles Review implementation plan. Implementation of the One Defence business model, major business processes and management practices, including the capability life cycle and the Smart Buyer approach, continued to progress during the reporting period. The requirement to complete ongoing reform in the areas of capability life cycle, service delivery, information technology, behaviours and systems program office reform will require an extension of oversight arrangements in 2017–18. It is expected the remaining six recommendations will be completed in 2017–18.
	Security and vetting services are delivered to Defence, whole-of-government and industry customers. <i>Note: Also a performance measure in the 2016–17 Defence Corporate Plan, p. 10.</i>	Security services are delivered in accordance with the security and vetting services service offer. The Australian Government Security Vetting Agency meets its service charter.	Partially achieved. The Australian Government Security Vetting Agency met its service charter during the reporting period. Performance at the lower clearance levels (baseline to NV2) continues to be strong, and average processing times have been consistently within benchmark timeframes through 2016–17. Positive vetting average benchmark processing times remain high, but remediation activities continue to deliver sustainable improvements. A new service level charter and key performance indicators will be introduced for 2017–18.

Source	Performance measure	Target	Results
PBS 2016–17, Program 1.13: Chief Finance Officer, p. 77	Quality and timeliness of financial advice to the Minister, Secretary and Chief of the Defence Force.	Financial advice meets the Minister, Secretary and Chief of the Defence Force's requirements.	Achieved. In 2016–17, the Chief Finance Officer Group provided precise and timely written and verbal advice to the Minister for Defence, the Secretary and the Chief of the Defence Force. All financial information was supported by reliable and validated data sources in Defence's financial systems, meeting the Minister, Secretary and Chief of the Defence Force's requirements.
	Production of Defence's budget, financial statements and the annual Defence management and finance plan.	Produced in accordance with agreed statutory timeframes.	Achieved. During the reporting period, the Chief Finance Officer Group produced Defence's budget, financial statements and the annual Defence management and finance plan within agreed statutory timeframes.
	Status of financial statements.	Financial statements are unqualified.	Achieved. In 2016–17, the Chief Finance Officer Group produced audited Defence financial statements for publication in the Defence annual report. The Australian National Audit Office determined that the Defence financial statements: <ul style="list-style-type: none"> • were unqualified and contained no Category A findings • complied with Australian Accounting Standards and the <i>Public Governance, Performance and Accountability (Financial Reporting) Rule 2015</i> • presented fairly the financial position of Defence as at 30 June 2017 and its financial performance and cash flows for the year.



United States Air Force F-22 aircraft visit RAAF Base Townsville as part of the first Enhanced Air Cooperation activity in Australia under the US Force Posture Initiatives.

Australia – United States partnership growing strong under Force Posture Initiatives

The sixth year of the US Force Posture Initiatives was the most advanced yet and has been recognised as another successful development in the Australia–US alliance. The bilateral initiatives established between Australia and the United States in 2011 involve annual rotations of US Marines through Darwin and Enhanced Air Cooperation activities across northern Australia.

Brigadier Tim Bayliss, United States Force Posture Initiatives Program Manager, said this year's efforts are a testament to the strong and mature partnership Australia has grown with the United States over the past six years.

'Through the Force Posture Initiatives, we not only exercise and grow our defence capabilities, we also do business together. At times this can be challenging; however, our strong partnership means both sides can be open, honest and upfront with one another to solve issues,' Brigadier Bayliss said.

Brigadier Bayliss believes some of the most significant achievements over the past 12 months can be attributed to the mature partnership.

'This year we reached agreement on cost-sharing arrangements. This delivers a clear policy basis to

keep implementing the initiatives, recognising they require significant investment from both our countries,' Brigadier Bayliss said.

'Americans are renowned as tough negotiators, but we were fortunate that we could speak openly. This meant it was not a confrontational environment and we could work through financial arrangements collegiately.'

Brigadier Bayliss said the partnership between Australia and the United States is built on shared history, common regional interests and mutual commitment to achieving the objectives of the initiatives.

'Our key objective is to promote regional security and stability. Ensuring a safe, stable and prosperous region is in both of our national interests, and the interests of nations across the Indo-Pacific region.'

The commencement of Enhanced Air Cooperation activities in 2017 was a significant advancement for the initiatives. The first activity saw 12 US Air Force F-22 Raptors train at RAAF Base Tindal, introducing fifth-generation operations to northern Australia.

'This advancement is another demonstration of the ongoing commitment to the Australia–US partnership,' Brigadier Bayliss said.

Through the Force Posture Initiatives, Australia and the United States are working together as business

partners, engaging industry to expand and upgrade Defence estate and infrastructure.

‘Australia and the US will be investing around \$2 billion in estate and infrastructure in the Northern Territory, offering significant opportunities to local industries.

‘This year we have worked together with the Northern Territory Government to engage local industry in the territory to begin preparing them for upcoming opportunities,’ Brigadier Bayliss said.

The presence of US Marines in Darwin through the dry season each year brings many other community benefits that extend beyond boosts to local jobs markets.

‘While in Australia, the US Marines dedicate many personal hours to volunteer work in local communities, schools and animal shelters.

‘Even though they are temporary guests, they integrate well into the local community. It is now standard to hear an American accent at charity events and on the starting line of fun runs,’ Brigadier Bayliss said.

If the past is anything to go by, next year’s Force Posture Initiatives are set to be bigger and better than ever.

More information on the US Force Posture Initiatives can be found at www.defence.gov.au/Initiatives/USFPI.

As part of Exercise Pacific Agility, the third phase of the Enhanced Air Cooperation program focuses on the maintenance of the C-17 Globemaster III as a common platform between the United States Air Force and the Royal Australian Air Force.



Purpose 2—Deliver and sustain Defence capability and conduct operations

Analysis of performance against Purpose 2

Defence achieved Purpose 2 during the 2016–17 reporting period. Preparedness levels were achieved within agreed target ranges and operational deployments met requirements of Government policy. The specifics of preparedness achievement over the reporting period are contained in the classified quarterly Defence Preparedness Assessment Summary and Preparedness and Concurrency Ministerial Advice.

Defence continued to provide support to operations in support of a stable and secure near region. This included the successful conduct of ongoing operations in the Middle East (Operation Manitou), Afghanistan, South Sudan, Egypt, and the Golan Heights, and in support of border protection (Operation Resolute) and regional surveillance operations. Maritime surveillance patrols, such as those conducted in support of Operation Gateway, protected national interests and supported regional neighbours. Operation Solania supported enforcement of the Pacific Island countries' fisheries laws, specifically through the Pacific Islands Forum Fisheries Agency.

Substantial progress was made in delivering the Integrated Investment Program. The first Integrated Investment Program Update was accepted by the Minister for Defence on 30 January 2017, with subsequent endorsement by Cabinet. The resulting changes to appropriations were reflected in the Portfolio Budget Statements 2017–18. The new capability life cycle supported a materiel sustainment focus through clear definition of end-to-end accountabilities and responsibilities with no hard handovers, as well as a stronger consideration of whole-of-life or asset management strategies through the Smart Buyer decision-making framework.

Promoting good mental health and providing effective care and support to military personnel who are wounded, injured or ill remains one of our highest priorities. Defence worked with the Department of Veterans' Affairs to develop improved transition processes to boost early recognition of mental health problems. The Defence Work Health and Safety Committee continued its focus on organisational issues, including development of the Mental Health and Wellbeing Strategy 2017–2021 (inclusive of Australian Defence Force and Australian Public Service personnel). Defence also supported Australian Defence Force members and their families with future employment, family needs during transition, and wellbeing post separation.

Workforce diversity increased during the reporting period, with notable improvements in the representation of women in the Australian Defence Force and Australian Public Service—increasing to 16.7 and 41.8 per cent respectively. There were also increases in the number of Indigenous members and staff in the Australian Defence Force and Australian Public Service, and representation of Australian Public Service employees who identify as a person with disability has grown by 0.2 per cent (refer to pp. 109–115 for further information). All key actions and review recommendations set out in the Pathway to Change program were finalised as at December 2016. One of the key challenges for 2017–18 will be implementing a total workforce management model across a large and complex organisation that delivers a range of military and corporate services in support of Government's strategic objectives both now and into the future.

Defence's corporate and enabling services range from supporting the Australian Defence Force in the conduct of operations through information and communications technology services, logistics and health support, to building and remediating the Defence estate. Throughout 2016–17, the corporate and military enabling services continued to implement service delivery reforms, with customer satisfaction survey responses demonstrating that overall levels of satisfaction were increasing over time.

Detailed performance information related to Purpose 2 is in tables 3.3, 3.4 and 3.5.

Table 3.3: Performance results for criteria relating to Purpose 2

Defence performance measure	Source	Results
<p><i>Measure: Required preparedness levels are achieved.</i></p> <p><i>Methodology: Assessment of preparedness against the Chief of the Defence Force Preparedness Directive.</i></p>	2016–17 Defence Corporate Plan, p. 8	<p>Achieved. Defence manages preparedness of more than 220 Defence elements. Across the 2016–17 financial year, preparedness of available Defence elements improved from 76.3 per cent to 80.8 per cent. Defence successfully managed preparedness pressures and consistently met all tasking requirements from Government.</p>
<p><i>Measure: Operational outcomes meet the requirements of Government policy.</i></p> <p><i>Methodology: Assessment of operational deployments against operational outcomes agreed with Government.</i></p>	2016–17 Defence Corporate Plan, p. 8	<p>Achieved. All operational requirements of Government were met during 2016–17, including the deployment, sustainment and reconstitution of operational forces.</p>
<p><i>Measure: The capability delivery process maintains the integrity of the Integrated Investment Program and delivers the required capability for the force-in-being.</i></p> <p><i>Methodology: Assessment of delivery against the Integrated Investment Program.</i></p>	2016–17 Defence Corporate Plan, p. 8	<p>Achieved. During 2016–17, substantial progress was made in delivering the capability for the force-in-being as described in the Integrated Investment Program (IIP). A total of 74 capability-related submissions were agreed by Government against an initial plan of 62 as outlined in the 2016 Defence White Paper. These approvals comprised 15 first pass approvals, 31 second pass approvals, 15 other types of IIP project approvals, and 13 capability-related submissions. The capability-related submissions were Government priorities that are either on the IIP or will be included in the IIP in the future. The submissions included the Naval Shipbuilding Plan, Future Submarine Design and Construction, and a range of updates to Government on projects and programs such as the status of offshore patrol vessels and future frigates.</p> <p>Department of Finance and Department of the Prime Minister and Cabinet participation on the Investment Committee was integral to managing the IIP. Their participation strengthened submissions and facilitated smoother passage through Government, as evidenced by the approval of an increased number of capability proposals without changes or issues identified.</p> <p><i>Information on the management of Defence's major acquisition projects is available online (see Appendix B).</i></p>
<p><i>Measure: Military capability is sustained consistent with Government requirements.</i></p> <p><i>Methodology: Assessment of sustainment against capability manager requirements.</i></p>	2016–17 Defence Corporate Plan, p. 8	<p>Achieved.</p> <p>Acquisition</p> <p>At 30 June 2017, Defence was managing 203 active major and minor capital equipment projects worth \$105.9 billion. Military equipment projects are being delivered within the agreed parameters for scope and cost. Where schedule slippage has occurred, Capability Acquisition and Sustainment Group project managers are working closely with capability manager representatives to manage the impacts. Additional information on selected major capital equipment projects can be found in the Major Projects Report, which is provided annually to the Joint Committee of Public Accounts and Audit.</p> <p>Eleven major acquisition projects were closed in 2016–17. These projects had a combined budget of \$4.058 billion and a final spend of \$3.706 billion, which is 8.7 per cent less than the budget approved by Government.</p> <p>Sustainment</p> <p>At 30 June 2017, the Capability Acquisition and Sustainment Group was managing 112 active materiel sustainment agreement product schedules with an annual budget of \$5.6 billion. The Group supported capability managers in achieving preparedness levels and operational outcomes, through the delivery of sustainment of military equipment to agreed availability targets. A small number of major sustainment products have demonstrated variances in the areas of availability and/or cost performance, including the Canberra class landing helicopter dock, Armidale class patrol boats and the multi-role helicopter. Products of interest are reported to Government on a quarterly basis.</p> <p><i>Information on the management of Defence's top 30 sustainment products is available online (see Appendix B).</i></p>

Intended result	Performance measure	Target	Source	Results
<i>Government is able to deploy defence capability to support Government policy objectives.</i>	Chief of the Defence Force preparedness levels meet Government requirements.	Chief of the Defence Force preparedness levels are achieved as agreed with Government.	2016–17 Defence Corporate Plan, p. 9	Achieved. While there was pressure on the availability of some Defence elements in 2016–17, overall preparedness levels were achieved and maintained over the reporting period. Defence was able to manage preparedness levels within existing resourcing.
<i>Joint forces are able to be deployed and sustained efficiently and effectively, and in accordance with Government timeframes.</i>	Operational outcomes meet the requirements of Government policy.	All operational requirements are met.	2016–17 Defence Corporate Plan, p. 9	Achieved. All operational requirements of Government were met during 2016–17, including the deployment and sustainment of operational forces.
<i>Defence intelligence services enable efficient operations across national security agencies.</i>	Defence intelligence outputs align with Government intelligence priorities.	Whole-of-government and Australian Defence Force intelligence requirements are met.	2016–17 Defence Corporate Plan, p. 9 PBS 2016–17, Program 1.1: Strategic Policy and Intelligence, p. 37	<p>Achieved. As the intelligence capability manager, the Strategic Policy and Intelligence Group ensures whole-of-government and ADF intelligence requirements are met. Defence continued to deliver intelligence services that contributed to Government-directed operations and enabled efficient operations across national security agencies.</p> <p>The three Defence intelligence agencies delivered timely and accurate intelligence services against the National Intelligence Priorities to Defence and the whole-of-government stakeholders, including maintaining a watch function to ensure continuous 24/7 situational awareness for the ADF.</p> <p>Specifically, the Australian Signals Directorate continued to support ADF operations and provided direct support to the Australian Cyber Security Centre and Australia's Cyber Security Strategy.</p> <p>The Australian Geospatial-Intelligence Organisation provided intelligence and operational support to Defence, including timely and accurate geospatial intelligence in support to military operations and domestic and regional security priorities, and an evolving geospatial intelligence capability supporting a broad range of Australian Government customers.</p> <p>The Defence Intelligence Organisation delivered key intelligence assessment support to Defence and whole-of-government stakeholders across the reporting cycle, including the provision of intelligence strategic-level assessment support to ADF operations, Defence and Government.</p>
<i>Effective and efficient health support and welfare services are provided.</i>	Quality of health and welfare services delivered to Australian Defence Force members and families.	Delivery meets agreed standards.	2016–17 Defence Corporate Plan, p. 9	Achieved. Health readiness supported all operational requirements. Health services provided to the Australian Defence Force in 2016–17 were improved by strengthening critical business processes and continuing improvements in patient-centric health service delivery. This is evident through results of the 2016 customer satisfaction survey, which identified 73.2 per cent of respondents were satisfied or very satisfied with the health services provided to them. There was an overall increase in the take-up of the National ADF Family Health Program by 1,477 in the financial year to a total of 46,671 dependants.

Intended result	Performance measure	Target	Source	Results
<i>Defence develops organisational capability that ensures it can achieve Government-directed outcomes.</i>	Implementation of the First Principles Review recommendations.	Implementation is achieved by 30 June 2017.	2016–17 Defence Corporate Plan, p. 9	Partially achieved. As at 30 June 2017, Defence completed implementation of the two-year First Principles Review implementation plan. Implementation of the One Defence business model, major business processes and management practices, including the capability life cycle and the Smart Buyer approach, continued to progress during the reporting period. The requirement to complete ongoing reform in the areas of capability life cycle, service delivery, information technology, behaviours and systems program office reform will require an extension of oversight arrangements in 2017–18. It is expected the remaining six recommendations will be completed in 2017–18.
<i>Defence has the corporate and military enabling services it needs to support preparedness and operational requirements.</i>	Enabling services meet requirements.	Satisfaction with the service delivery system increases over time.	2016–17 Defence Corporate Plan, p. 10	Achieved. The corporate and military enabling services continued to implement service delivery reforms throughout 2016–17, with customer satisfaction surveys demonstrating that overall levels of satisfaction increased over time. Customer satisfaction survey data was also used to inform decision-making around what further adjustments to the service delivery frameworks and/or practices might need to be made in 2017–18 to ensure the service delivery system is meeting agreed standards.

Table 3.4: Performance results against criteria relating to delivering the outcomes of Purpose 2

Source	Performance criteria	Target	Results
PBS 2016–17, Program 1.2: Navy Capabilities, p. 40	Required preparedness levels are achieved and maintained.	As agreed with the Chief of the Defence Force.	Achieved. The Navy met its commitments to generate forces to meet Government-directed activities, despite some issues with platform availability that affected the Navy's ability to achieve all training and task group certification objectives for 2016–17.
	Operational outcomes meet the requirements of Government policy.	All operational requirements are met.	Achieved. All operational requirements were met in 2016–17. Operation Manitou deployments were lengthened in duration but reduced in number over the course of the 12-month reporting period, thereby providing greater flexibility for the tasking of frigates.
PBS 2016–17, Program 1.3: Army Capabilities, p. 44	Required preparedness levels are achieved and maintained.	As agreed with the Chief of the Defence Force.	Achieved. All preparedness requirements were met, with known deficiencies being managed toward effective remediation. The Army refined its preparedness management guidance to ensure better alignment across Defence and improved reporting on preparedness. The Army introduced a new tool (Defence Requirements Management Module) during the reporting period to enhance preparedness management.
	Operational outcomes meet the requirements of Government policy.	All operational requirements are met.	Achieved. Force elements for scheduled operations and contingency plans were prepared and deployed as required by Government, through the force generation cycle and accompanying preparedness requirements.
PBS 2016–17, Program 1.4: Air Force Capabilities, p. 47	Required preparedness levels are achieved and maintained.	As agreed with the Chief of the Defence Force.	Achieved. In 2016–17, the Air Force achieved and maintained Chief of the Defence Force-directed preparedness levels, with no significant risk to maintaining Chief of the Defence Force preparedness levels in 2017–18.
	Operational outcomes meet the requirements of Government policy.	All operational requirements are met.	Achieved. The Air Force met all Government requirements for multiple, concurrent joint operations.
PBS 2016–17, Program 1.5: Joint Operations Command, p. 51	Operational deployments meet requirements of Government policy.	All operational requirements are met.	Achieved. All requirements of Government policy relating to operational deployments were met. This included successful operations in the Middle East, Afghanistan, South Sudan, Egypt, and the Golan Heights, and in support of border protection and regional surveillance operations.

Source	Performance criteria	Target	Results
PBS 2016–17, Program 1.6: Vice Chief of the Defence Force, p. 57	Required preparedness levels are achieved and maintained.	Preparedness levels are achieved and maintained as directed by the Chief of the Defence Force.	Achieved. Preparedness performance improved in 2016–17, with the percentage of available Defence elements increasing from 76.3 per cent to 80.8 per cent. Defence successfully managed pressures caused by limitations on specific Defence elements and consistently achieved all tasking from Government.
	Strategic military advice supports Government decision-making.	Government expresses a high level of confidence in strategic military advice.	Achieved. Defence provided advice on Australian Defence Force operations and activities in support of national security objectives. Defence engaged across departments and agencies to deal with a variety of issues, ranging from short-notice issues relating to the Australian Defence Force's operations in the Middle East, to longer-term complex issues such as counterterrorism and future operations requiring Government consideration. Regular feedback from ministerial staff indicates satisfaction with the level of support provided.
	Integrity of the Integrated Investment Program.	Integrated Investment Program is delivered as agreed with Government.	Achieved. Substantial progress was made in delivering the Integrated Investment Program (IIP). In 2016–17, a total of 74 capability-related submissions were agreed by Government against an initial target of 62 in the 2016 Defence White Paper. Within the total of 74 approvals, 61 were IIP project approvals and 13 were capability-related Government submissions that provided advice to Government on current and future capability. Realignment of the IIP was agreed by Government through the IIP biannual update process, including updating the Government Forward Work Program and the establishment of approval authorities. This cyclic process maintains the ongoing integrity of the IIP by providing Government with a greater level of oversight of the IIP, and better enables trade-offs and prioritisation of proposals from one year to the next as strategic circumstances evolve.
PBS 2016–17, Program 1.9: Estate and Infrastructure, p. 66	Estate proposals, once approved by Government, meet agreed schedule and are delivered within agreed costs and scope.	The Facilities and Infrastructure Program ¹ is delivered within scope, budget and schedule. The Facilities and Infrastructure Program is compliant with legislative and other statutory requirements, standards and policies.	Achieved. Defence sustained facilities on the Defence estate and supported new capability in accordance with planned performance. Defence referred 11 infrastructure projects to the Parliamentary Standing Committee on Public Works and completed eight public hearings during 2016–17, with eight projects receiving parliamentary approval. The remaining three projects will be heard by the committee in the 2017–18 financial year. This will set up expenditure for future years, as expenditure rises to approximately \$2 billion in 2018–19.
	The estate is aligned with the requirements of the current and future force.	Surplus estate is disposed of as agreed with Government.	Achieved. Defence continues to develop a Future Defence Estate Profile, which will be implemented in 2017–18 to ensure the estate is aligned to the current and future force. During the reporting period, Defence achieved 11 property divestment outcomes, as agreed with Government. This is an excellent result and the most divestments achieved in a single financial year since 2004. Defence retained approximately \$53.65 million in gross revenue in 2016–17.
	Estate services enable Defence capability requirements.	Estate services are delivered within budget and meet service requirements.	Achieved. Defence enhanced service delivery and improved responsiveness to capability managers through a focus on integrating the delivery of enabling services, the implementation of a range of integrated service delivery initiatives, and working closely with capability managers through a range of planning forums. As required by the First Principles Review, the Defence estate is being managed as a strategic asset. A revised base accountabilities model will be introduced in 2017–18 to clarify joint accountabilities across various roles and responsibilities involved in managing the Defence estate. The estate works program completed 494 projects in 2016–17 and achieved within 1 per cent of the target budget of \$411 million for 2016–17. Additional control measures have been implemented to ensure estate services are delivered within budget in future years.

Note

1. The Major Capital Facilities Program in the 2016–17 Portfolio Additional Estimates Statements is now referred to as the Facilities and Infrastructure Program of the Integrated Investment Program. This comprises approved and yet-to-be-approved major and medium projects.

Source	Performance criteria	Target	Results
PBS 2016–17, Program 1.10: Chief Information Officer, pp. 68–69	ICT services meet requirements.	Satisfaction with the service delivery system increases over time.	<p>Partially achieved. Increased satisfaction with service delivery was evidenced in customer satisfaction surveys, primarily due to improvement in system response times, ease of accessing services and support, and the improvement in confidence with information and communications technology support to the Integrated Investment Program.</p> <p>The implementation of the Infrastructure Transformation Program is expected to improve service delivery satisfaction in 2017–18 through improvements to terrestrial communication upgrades, improvements to centralised processing and improvements to end-user computing.</p>
	Effective development of next-generation ICT services.	ICT capability development is in accordance with the Integrated Investment Program.	<p>Partially achieved. The Chief Information Officer Group implemented organisational changes to align ICT capability development processes to the capability life cycle and Integrated Investment Program (IIP) requirements. Key enabling projects and programs toward achieving the next generation of ICT services were approved in 2016–17. Some changes to the IIP baseline for ICT projects were required in order to account for more robust definition of requirements and an achievable pathway for Government approval.</p>
	Effective development of enterprise-wide frameworks for information management architecture standards and master data management.	Enterprise information management architecture is approved for implementation.	<p>Achieved. The enterprise information management architecture standards, logical and conceptual data architecture, master data management framework and technology portfolio assessment process were endorsed by the Architecture Management Review Board in September 2016. The implementation of the enterprise information management architecture will begin in 2017–18.</p>
PAES 2016–17, Program 1.11: Defence People, p. 41	ADF members and families are supported through the delivery of the family support program, transition services and bereavement support.	<p>Support is delivered in a timely and professional manner.</p> <p>Employment initiatives are implemented in line with Government direction.</p>	<p>Achieved. Defence supported ADF members and their families with future employment, family needs during transition and wellbeing post separation. A joint taskforce between Defence and the Department of Veterans' Affairs was established to facilitate improved transition from the ADF to civilian life.</p> <p>An individual case management service was introduced to assist Defence families across Australia to locate suitable childcare places.</p> <p>Enhanced transition support services for ADF members to better prepare them for employment opportunities were implemented.</p> <p>Bereavement support for families of ADF members who die in service is offered to all bereaved families regardless of cause of death.</p>

Source	Performance criteria	Target	Results
PBS 2016–17, Program 1.11: Defence People, p. 72	Achievement of ADF recruitment targets.	Meet recruitment targets as specified by the Services.	Partially achieved. ADF permanent full-time recruitment performance, across all avenues of entry, improved from 92 per cent in 2015–16 to 97.4 per cent achievement in 2016–17. Recruitment targets for part-time (Reserves) increased from 74.1 per cent in 2015–16 to 80.4 per cent achievement in 2016–17.
	Achieve ongoing cultural reform and workforce culture initiatives that embed diversity and inclusion.	Workforce diversity has been increased. Cultural reform initiatives are implemented as set out in the Pathway to Change program.	Achieved. Workforce diversity increased over the reporting period. The representation of women in the ADF and Australian Public Service (APS) increased to 16.7 per cent and 41.8 per cent respectively. Representation of Indigenous ADF members increased from 2 per cent to 2.3 per cent and Indigenous APS staff increased from 1.8 per cent to 2 per cent. The number of ADF members who identify as culturally and linguistically diverse has grown from 23.9 per cent to 24.3 per cent, and representation in the APS has remained steady at 32.4 per cent. Representation of APS employees who identify as a person with disability increased from 3.5 per cent to 3.7 per cent. (Refer to pp. 109–115 for further information.) All key actions and review recommendations set out in the Pathway to Change program were finalised as at December 2016. The implementation of the next phase of cultural reform will be implemented in 2017–18, with the introduction of a refreshed cultural intent statement and six Defence cultural reform priorities as outlined in Pathway to Change: Evolving Defence Culture 2017–2022.
	An agile and skilled workforce through alignment and balance of workforce supply and demand.	Workforce is aligned and managed in accordance with the workforce strategy and the ADF Total Workforce Model.	Partially achieved. During the reporting period, the workforce continued to grow in line with 2016 Defence White Paper requirements. Workforce plans were developed to ensure that the Defence workforce has the agility and skills required to meet current and future demand. The Services completed their implementation of the Total Workforce Model on 1 November 2016 less Service Category 6 (flexible service by members of the Permanent Force). Service Category 6 will be implemented in two stages beginning in early 2017–18.
	Complete implementation of the First Principles Review workforce and behavioural recommendations.	Implemented as agreed with Government.	Partially achieved. Activities relating to the implementation of recommendations about behaviours and performance management were progressed in 2016–17. All five recommendations relating to the workforce were successfully implemented. Work will continue in 2017–18 to ensure the intent of the recommendations is fully met.
PBS 2016–17, Program 1.14: Defence Force Superannuation Benefits, p. 83	Provision of timely payments to the Commonwealth Superannuation Corporation and quality administration of Defence Forces Retirement Benefits (DFRB) Scheme, Defence Force Retirement and Death Benefits (DFRDB) Scheme, Military Superannuation and Benefits Scheme (MSBS) and ADF Super employer and member contributions.	Payments are provided within agreed timeframes to the Commonwealth Superannuation Corporation and quality administration of DFRB, DFRDB, MSBS and ADF Super employer and member contributions.	Achieved. Employer and member contributions to the DFRB Scheme, the DFRDB Scheme and the MSBS were paid on time to the Commonwealth Superannuation Corporation throughout 2016–17. The related accounting entries were correctly recorded and reconciled in compliance with the monthly financial reporting timetable set by the Chief Finance Officer Group.
PBS 2016–17, Program 1.15: Defence Force Superannuation Nominal Interest, p. 84	Provide quality administration services for DFRB, DFRDB, MSBS and ADF Cover nominal interest transactions.	Administration services are provided as agreed for DFRB, DFRDB, MSBS and ADF Cover nominal interest transactions.	Achieved. The determination of the nominal interest transactions for the DFRB Scheme, the DFRDB Scheme and the MSBS was correctly made and recorded in compliance with the monthly financial reporting timetable set by the Chief Finance Officer Group.

Source	Performance criteria	Target	Results
PBS 2016–17, Program 1.16: Housing Assistance, p. 87	Members respond to and take up the scheme.	6,000 applications received with 3,800 members taking up the scheme.	Achieved. Interest in the Defence Home Ownership Assistance Scheme continues to be positive, with 6,196 applications and 3,844 subsidised loans processed by the Department of Veterans' Affairs as at 30 June 2017.
	Ensure that interest rates provided to ADF members by the panel of home loan providers are competitive with other interest rates in the market.	Interest rates offered are consistently lower than other interest rates in the market.	Achieved. The three appointed home loan providers on the Defence Home Ownership Assistance Scheme panel provided competitive interest rates in accordance with their obligations under their respective deeds.
PBS 2016–17, Program 1.17: Other Administered, p. 88	Account and report 'Other Administered'.	Accounting and reporting is accurate.	Achieved. Transactions relating to 'Other Administered' were correctly determined and recorded in compliance with the monthly financial reporting timetable set by the Chief Finance Officer Group. 'Other Administered' comprises interest on overdue accounts, interest on operational bank accounts, interest on loans to build accommodation, dividends and tax equalisation receipts from Defence Housing Australia, and royalty receipts.
PBS 2016–17, Program 2.1: Operations Contributing to the Security of the Immediate Neighbourhood, pp. 90–91	ADF operations meet requirements.	Operations meet Government's stated objectives. ADF forces are effectively deployed and sustained. ADF forces are withdrawn for reconstitution when they are no longer required.	Achieved. All directed Defence support to operations was achieved during the reporting period, encouraging a stable and secure near region. Maritime surveillance patrols such as Operation Gateway protected national interests and supported regional neighbours. Operation Solania supported the enforcement of Pacific Island countries' fisheries laws, specifically through the Pacific Islands Forum Fisheries Agency. Operational planning and performance oversight was conducted with strong stakeholder engagement. Forces were withdrawn for reconstitution successfully throughout the reporting period.
PBS 2016–17, Program 2.2: Operations Supporting Wider Interests, p. 93	ADF operations meet requirements.	Operations meet Government's stated objectives. ADF forces are effectively deployed and sustained. ADF forces are withdrawn for reconstitution when they are no longer required.	Achieved. All directed global operations contributing to national objectives and supporting alliances were achieved. Deployed forces were committed in air operations in Iraq and Syria, partner capacity building in Iraq, the NATO-led mission in Afghanistan, and United Nations-led missions and other international efforts in the maritime domain and the Middle East region. Continuous performance oversight of forces was provided to ensure sustainment of enduring commitments and capability. Operational design reviews ensured the force design construct, deployment period, preparedness, readiness and posture remained relevant to achieve the prescribed missions and tasks as directed by Government, while operational planning ensured forces were effectively deployed, sustained, and reconstituted when no longer required.
PBS 2016–17, Program 3.1: Defence Contribution to National Support Tasks in Australia, p. 97	ADF operations meet requirements.	Operations meet Government's stated objectives. ADF forces are effectively deployed and sustained. ADF forces are withdrawn for reconstitution when they are no longer required.	Achieved. Domestic operations delivered the required outcomes against Government's stated objectives. This included implementing a comprehensive Defence counterterrorism framework, meeting requests for domestic disaster relief, and surveillance operations to protect our maritime approaches. Defence continued to conduct exercises under the Shade series to practice counterterrorism capability. Defence continued to observe and participate in state and territory police force exercises, maximising mutual understanding and interoperability. Defence continued refinements of Operation Augury to bring greater coherence to the full suite of Defence capabilities that can be applied in support of Defence Force aid to civil authorities. The ADF supported the Queensland Government following Tropical Cyclone Debbie. The forces provided assistance to the civil community and were subsequently withdrawn and reconstituted.

Table 3.5: Performance against the performance criteria in the PBS and PAES 2016–17 for Purpose 2—unit availability days, HydroScheme products and flying hours

Source	Deliverable	2016–17 revised estimate	2016–17 actual
PAES 2016–17, Program 1.2: Navy Capabilities, p. 31 (<i>unit availability days</i>) ¹	Major combatants	3,389	3,332
	Minor combatants	4,268	3,775
	Amphibious and afloat support	1,150	964
	Maritime teams	2,557	2,557
	Hydrographic force	2,253	2,212
PBS 2016–17, Program 1.2: Navy Capabilities, p. 42 (<i>HydroScheme products</i>) ²	Maritime safety updates	1,100	1,048
	Charting products	15	9
	Nautical publications	29	29
PBS 2016–17, Program 1.2: Navy Capabilities, p. 43 (<i>flying hours</i>)	S-70B-2 (Seahawk)	1,200	1,112
	AS350BA (Squirrel)	2,000	1,929
	MH-60R	4,800	4,037 ³
	MRH-90 Taipan ⁴	–	–
	Laser airborne depth sounder (LADS) aircraft	980	1,201
PAES 2016–17, Program 1.3: Army Capabilities, p. 32 (<i>rate of effort—flying hours</i>)	CH-47F Chinook	1,850	1,388.0 ⁵
	CH-47D Chinook ⁶	–	–
	S-70 Black Hawk	4,552	4,124.5 ⁷
	Kiowa	5,150	4,592.6 ⁸
	Tiger armed reconnaissance helicopter	4,800	3,971.8 ⁹
	MRH-90 Taipan (multi-role helicopter)	7,000	5,348.7 ¹⁰
2016–17 PAES, Program 1.4: Air Force Capabilities, p. 34 (<i>flying hours</i>)	PC-9/A	17,648	16,703.2
	PC-21 ¹¹	–	–
	KA350 King Air	8,300	7,428.0
	C-130J Hercules	7,350	6,629.3
	C-17A Globemaster III	7,000	6,600.4
	C-27J Spartan	2,000	1,362.1
	KC-30A multi-role tanker transport	6,000	5,355.5
	737 Boeing business jet	1,600	1,506.5
	CL-604 Challenger	2,161	1,633.5
	AP-3C Orion	6,465	6,146.7
	E-7A Wedgetail	3,600	3,465.9
	F/A-18A/B Hornet	16,300	16,595.8
	F/A-18F Super Hornet	4,000	4,728.4
	P-8A Poseidon	450	519.3
	Hawk 127	6,000	5,501.7
	EA-18G Growler	800	470.8
	F-35A Lightning II	500	407.5
	Heron unmanned aircraft system (UAS)	1,000	295.4

Notes

1. Loss of unit availability days for major combatants was due to program changes associated with planned maintenance. Overall, the Navy achieved 84 per cent of the unit availability days target for amphibious and afloat support, due to system defects associated with the landing helicopter dock pod propulsion systems. The Navy achieved 88 per cent of the target for minor combatants; achievement of this target was affected by extensions to remediation dates, emerging defects and workup requirements.
2. A reduced volume of maritime safety updates was required in the 2016–17 financial year and all updates were applied within required timeframes to support maritime safety. Charting projects planned for the year were not fully achieved due to staffing limitations and a reprioritisation of effort to maintain minimum maritime safety update services and emerging support tasks.
3. Lower actual flying hours due to aircrew availability.
4. While the Navy operates the MRH-90s, flying hour achievement is reported by the Army.
5. Planned performance was not achieved due to a 25 per cent workforce deficiency against establishment. This has been addressed for 2017–18 onwards.
6. Actual flying hours for the CH-47D Chinook during the 2015–16 period were published in the 2016–17 Portfolio Budget Statements. The CH-47D was withdrawn from service in July 2016 and was not included in the 2016–17 Portfolio Additional Estimates Statements.

Notes (continued)

7. Delays in establishing a new deep-level maintenance support contract with industry in late 2016 and an ageing fleet resulted in airframe and component management challenges.
8. During 2016–17, there was a reduced overall training due to the ability to absorb pilots into operational units. This is a flow-on impact from the underperformance of the Tiger armed reconnaissance helicopter and the MRH-90 Taipan.
9. High maintenance liability continues to impact rate-of-effort achievement. There was reduced training throughput at the Army Aviation Training Centre due to the ability to absorb pilots into the operational unit.
10. Reliability, availability and maintainability deficiencies continued to impact the fleet. Availability levels have not yet been achieved for transition of the MRH-90 into the Special Forces support role. Flying was suspended twice during 2016–17 due to technical information management issues, with corresponding impact on rate-of-effort achievement.
11. The PC-21 flying hours are zero as this aircraft is not yet in service.



Defence civilian Dr Rohit Naik, of the Defence Science and Technology Group, demonstrates Greenium, a compact personal improvised explosive protection device, during the Land Forces international defence exposition at the Adelaide Convention Centre from 6 to 8 September 2016.

Australian Defence Force personnel board a Royal Australian Air Force C-130 Hercules aircraft at an Iraqi airbase.



Capturing images of the ADF in action

The First Joint Public Affairs Unit (1JPAU) is a tactical unit of around 30 personnel which can deliver an important strategic effect for the ADF and Australian Government.

The Unit, based in Fyshwick in the ACT, is home to the ADF's expeditionary imagery-gathering capability—Military Camera Teams of three or four people which deploy alongside frontline elements of the ADF personnel on operations and other activities. The teams' job is to gather still and video imagery showing the ADF in action, in order to support the mission within the area of operations and publicise the work of Defence more widely to domestic and international audiences.

'The Unit is an amazing place to work. By and large, wherever the ADF is sent, we go as part of the first push into theatre, and are often among the last to leave,' said the Officer Commanding 1JPAU, Major Dougie McGuire.

'That deployable "news-gathering" capability is unique to 1JPAU, roughly similar to the US combat camera operators, but with the command advice and leadership function from the team leaders giving us a very useful package to bring to an operation.

'The imagery we capture is used by print, online and broadcast media all over the world and can have a very significant influence on how the ADF, Australia, and our allies and partners are perceived.

'The teams are routinely providing pictures and stories from places the media is unable to get to. Much of

the combat footage captured during ADF operations in Afghanistan and Iraq was gathered by the Unit, and we are trained and equipped to work intimately with combat elements for extended periods,' Major McGuire said.

'That is important because it gives audiences across the world a better understanding of the extraordinary things that Australian service personnel are doing.'

The Unit also deploys on major humanitarian assistance tasks, helping to communicate to domestic and regional audiences the objectives and achievements of the Australian Government.

Some of the activities supported by the Unit in 2016–17 include Operations Okra, Accordion and Slipper, and Exercises Northern Shield, Hamel, Croix du Sud, Bersama Shield, Balikpapan and RIMPAC.

In May 2017, 1JPAU started a new line of operations by delivering public affairs capacity-building training with the Fijian military. The unit will continue to work with the International Policy Division in developing this activity with other partners in the Pacific region.

'We are blessed with some remarkably skilled people here,' said Major McGuire of his small command. 'The officers and imagery specialists have a unique blend of military skills and creative gifts which combine to deliver genuine positive effects in support of the broader mission at the tactical, operational and strategic levels.'

Purpose 3—Develop the future capability Defence needs to conduct operations

Analysis of performance against Purpose 3

During the reporting period, Defence performed well and made strong progress in implementing the 2016 Defence White Paper, including implementation of the Integrated Investment Program, Defence International Engagement Policy and Defence Industry Policy Statement. This will ensure Defence has the necessary relationships with national, regional and global allies and partners to deliver and sustain the required capability for the current force and the future force, as described in the 2016 Defence White Paper.

Early and consistent consideration of Australian industry as a Fundamental Input to Capability has been embedded in the new Defence capability life cycle, and more explicit requirements on tenderers under the Australian Industry Capability Program have been put in place to maximise consideration of Australian industry involvement in materiel procurements of \$20 million and above. The strengthened Australian Industry Capability Program requirements were applied in the SEA 1180 and SEA 5000 requests for tender and, as announced by the Minister for Defence Industry on 29 June 2017, have now been embedded as the standard across all materiel projects in this threshold.

The Smart Buyer detailed design was approved by the First Principles Review Implementation Committee in October 2016. Feedback has been overwhelmingly positive on Smart Buyer as an approach for improving environmental understanding and subsequent strategy development. Plans are underway to continue to expand Smart Buyer across the capability life cycle over the next 12 to 24 months, with better leveraging of industry a priority.

Intelligence capability continues to be developed in accordance with the Integrated Investment Program to develop the next generation of capability, including the creation of a unified geospatial enterprise in Defence. The Australian Geospatial-Intelligence Organisation continues to grow and evolve technologies, capabilities and partnerships to improve the provision of services to customers.

The Next Generation Technologies Fund (\$730 million over 10 years), launched in March 2017, began funding collaborative research initiatives to address priority areas identified in the Integrated Investment Program.

In accordance with the 2016 Defence Industry Policy Statement, the Centre for Defence Industry Capability and the Defence Innovation Hub were launched in December 2016. Their establishment supports a more strategic partnership between Defence and industry to deliver the right capability outcomes and investment in future skills. The Centre for Defence Industry Capability demonstrated its value as the front door to Defence for Australian industry through the provision of business and advisory services to Australian companies, including through Capability Improvement Grants, and supporting industry development and export programs, including the Global Supply Chain Program and Team Defence Australia initiatives. The Defence Innovation Hub consolidated Defence's disparate innovation programs into a single whole-of-Defence program focused on bringing Australian innovation into Defence capability and providing a single entry point for Australian companies—increasing the efficiency and effectiveness of Defence capability innovation.

The focus for 2017–18 will be on designing and delivering the Defence capability required by Government in the 2016 Defence White Paper within the costing envelope described in the Integrated Investment Program. The complex nature of Defence capability requires a robust and fit-for-purpose capability life cycle, integrated and contested capability acquisition and sustainment policy and practice, and deep engagement with Defence industry both in Australia and overseas.

Detailed performance information related to Purpose 3 is in tables 3.6 and 3.7.

Table 3.6: Performance results for criteria relating to Purpose 3

Defence performance measure	Source	Results
<p><i>Measure: The Integrated Investment Program is managed effectively and comprises all investment and sustainment inputs, incorporating the Fundamental Inputs to Capability.</i></p> <p><i>Methodology:</i></p> <ul style="list-style-type: none"> • Regular independent assurance of the Defence capability development process by the Defence Audit and Risk Committee. • Regular reviews of the Integrated Investment Program in consultation with the Minister and central agencies. 	<p>2016–17 Defence Corporate Plan, p. 11</p>	<p>Achieved. The new Defence capability life cycle process implemented in 2016–17 emphasises the importance of early consideration of all Fundamental Inputs to Capability. In consideration of capability proposals for Government approval, the Defence Investment Committee reviewed the Fundamental Inputs to Capability and ensured that appropriate planning and resource allocation occurred over the reporting period. Department of Finance and Department of the Prime Minister and Cabinet participation in the Investment Committee was integral to Defence's successful delivery of the Integrated Investment Program in 2016–17. Their participation strengthened submissions and facilitated smoother passage through Government, as evidenced by the approval of an increased number of capability proposals without changes or issues identified. The Vice Chief of the Defence Force provided regular updates to the Defence Audit and Risk Committee on the implementation of the new capability management processes.</p>
<p><i>Measure: Emerging capability and technology is used to support development of best value-for-money capability.</i></p> <p><i>Methodology: Regular assessment of how Defence's strategic research builds understanding of future Defence capability.</i></p>	<p>2016–17 Defence Corporate Plan, p. 11</p> <p>PBS 2016–17, Program 1.12: Defence Science and Technology, p. 75</p>	<p>Achieved. A refined process was developed in 2016–17 to assess, prioritise and balance Defence science and technology investment to provide best value in response to Defence needs. A Defence science and technology client forum ensured a balanced investment in both Defence science and technology capabilities and the delivery program for which formal approval is sought from the Defence Investment Committee.</p>
<p><i>Measure: Defence capability development leverages industry to promote innovation.</i></p> <p><i>Methodology: Regular assessment of the value of Defence engagement with industry.</i></p>	<p>2016–17 Defence Corporate Plan, p. 12</p>	<p>Achieved. Defence made significant progress implementing the Government's 2016 Defence Industry Policy Statement to leverage industry to promote innovation. Early and consistent consideration of Australian industry as a Fundamental Input to Capability has been embedded in the new Defence capability life cycle, and more explicit requirements on tenderers under the Australian Industry Capability Program have been put in place to maximise consideration of Australian industry involvement in materiel procurements of \$20 million and above.</p> <p>A dedicated defence industry forum with the state and territory governments was established in July 2016, meeting four times in 2016–17, and with a working group meeting twice. The forum addressed the full range of defence industry initiatives and established a new level of partnership in developing Australia's defence industry. Defence industry and innovation awareness and engagement events for industry have been presented at a large range of forums across Australia, including LAND 400 (Land Combat Vehicle System), SEA 1180 (Offshore Patrol Vessel), SEA 5000 (Future Frigate) and SEA 1000 (Future Submarine) industry events. This deep engagement has been reinforced by the Naval Shipbuilding Taskforce's and other Groups' regular engagement with relevant defence industry sectors, which has been recognised by Australian industry and the states and territories.</p> <p>The recently established Centre for Defence Industry Capability and Defence Innovation Hub have been shortlisted for the 2017 Public Sector Innovation Awards, recognising their achievements in bringing new cultural and business approaches to Defence's partnership with Australian industry.</p> <p>The Next Generation Technologies Fund (\$730 million over 10 years), launched in March 2017, has commenced funding collaborative research initiatives to address priority areas identified in the Integrated Investment Program. Major programs that commenced in 2016–17 include the Grand Challenges program and new Defence Cooperative Research Centres program.</p>

Intended result	Performance measure	Target	Source	Results
<i>Defence develops the capability it needs to meet Government's requirements now and into the future.</i>	Effective implementation of the 2016 Defence White Paper.	The 2016 Defence White Paper Implementation Plan is delivered as agreed with Government.	2016–17 Defence Corporate Plan, p. 12	Achieved. The 2016 Defence White Paper Implementation Plan remained on schedule during the reporting period. Implementation was supported by annual reviews of Defence's classified strategic planning documents that factor emerging challenges into policy settings and planning. Implementation will continue in 2017–18.
<i>A competitive Australian industrial base is able to support defence capability.</i>	The intent of the 2016 Defence Industry Policy Statement is met.	The Centre for Defence Industry Capability and the Defence Innovation Hub operate in accordance with the 2016 Defence Industry Policy Statement.	2016–17 Defence Corporate Plan, p. 12	<p>Achieved. In accordance with the 2016 Defence Industry Policy Statement, the Centre for Defence Industry Capability and the Defence Innovation Hub were launched in December 2016. This establishes a more strategic partnership between Defence and industry to deliver the right capability outcomes and investment in future skills.</p> <p>The Centre for Defence Industry Capability participated in SEA 5000 Future Frigate and SEA 1000 Future Submarine roadshows across Australia, ran a number of 'Working with Defence' activities for Australian companies, and received more than 5,000 unique website views in June 2017 alone.</p> <p>The Centre for Defence Industry Capability has received more than 650 contact centre enquiries, 165 new requests for advisory services since its launch, and provided 10 Capability Improvement Grants to Australian small to medium-sized enterprises.</p> <p>The Defence Innovation Hub received more than 200 innovation proposals over the reporting period. On 27 June 2017, the Minister for Defence Industry announced the first three innovation contracts worth more than \$887,000.</p>

Table 3.7: Performance results against criteria relating to delivering the outcomes of Purpose 3

Source	Performance measure	Target	Results
PBS 2016–17, Program 1.7: Capability Acquisition and Sustainment, pp. 59–60	Capability proposals, once approved by Government, meet agreed schedule and are delivered within agreed costs and scope.	Deliver Government approved acquisition projects to budget, schedule and agreed capability scope.	<p>Achieved.</p> <p>Acquisition</p> <p>At 30 June 2017, Defence was managing 203 active major and minor capital equipment projects worth \$105.9 billion. Military equipment projects are being delivered within the agreed parameters for scope and cost. Where schedule slippage has occurred, Capability Acquisition and Sustainment Group project managers are working closely with capability manager representatives to manage the impacts. Additional information on selected major capital equipment projects can be found in the Major Projects Report, which is provided annually to the Joint Committee of Public Accounts and Audit.</p> <p>Eleven major acquisition projects were closed in 2016–17. These projects had a combined budget of \$4.058 billion and a final spend of \$3.706 billion, which is 8.7 per cent less than the budget approved by Government.</p> <p>Sustainment</p> <p>At 30 June 2017, the Capability Acquisition and Sustainment Group was managing 112 active materiel sustainment agreement product schedules with an annual budget of \$5.6 billion. The Group supported capability managers in achieving preparedness levels and operational outcomes, through the delivery of sustainment of military equipment to agreed availability targets. A small number of major sustainment products have demonstrated variances in the areas of availability and/or cost performance, including the Canberra class landing helicopter dock, Armidale class patrol boats and the multi-role helicopter. Products of interest are reported to Government on a quarterly basis.</p> <p>Capability acquisition and sustainment advice</p> <p>Government, ministerial and departmental expectations and timeframes were met for provision of policy, advice and support and delivery of industry programs.</p>
	Procurement of Defence capability better leverages industry, is more agile and reduces the cost of doing business.	Develop the Smart Buyer function, which better leverages industry, delivers capability more rapidly and reduces the cost of doing business for Defence and industry.	<p>Achieved. The Smart Buyer detailed design was approved by the First Principles Review Implementation Committee in October 2016. As at 30 June 2017, 44 Defence capital projects have completed the Smart Buyer process, with 32 of these in preparation for 'Gate 0' Investment Committee consideration and six scheduled for 'Gate 1' consideration. Feedback from Gate 0 workshop participants agreed that the Smart Buyer approach supported improved environmental understanding and subsequent strategy development. Plans are underway to continue to expand the Smart Buyer approach across the capability life cycle over the next 12 to 24 months, with better leveraging of industry a priority.</p>
PBS 2016–17, Program 1.12: Defence Science and Technology, p. 75	Defence's strategic research builds understanding of future Defence capability.	Strategic research activities are aligned with Integrated Investment Program priorities.	<p>Achieved. The Defence Science and Technology Group's strategic research program was developed in accordance with domain-specific science and technology strategies. This program included the Next Generation Technologies Fund, in line with strategic research priorities identified in the Defence Integrated Investment Program.</p>
	Defence science and technology capability is enhanced through the delivery of collaborative partnerships with international research agencies, industry and academia.	Collaborative activities with industry, academia and allied defence research agencies are aligned to 2016 Defence White Paper and Defence Industry Policy Statement priorities.	<p>Achieved. The Next Generation Technologies Fund program was launched by the Minister for Defence Industry in March 2017, and expanded the range of Australian research partnerships addressing the priorities of the 2016 Defence White Paper and the 2016 Defence Industry Policy Statement.</p>



Innovation in science and technology

Innovative and game-changing technologies developed by Defence Science and Technology Group researchers—designed to strengthen Defence capability and cyber security—gained national recognition and commercialisation success in 2016–17.

Darryn Smart, from the Cyber and Electronic Warfare Division, received the 2017 Clunies Ross Knowledge Commercialisation Award for developing systems to protect against improvised explosive devices (IEDs). Dr Brian Ferguson, from the Maritime Division, won the 2016 Minister's Award for Achievement in Defence Science for his groundbreaking research in acoustics. And the Trustworthy Systems Team won South Australian and national iAwards for their multi-level computer security device.

Protection against improvised explosive devices

Under the Redwing program, Darryn Smart and his team developed two robust, lightweight systems that block the signals used to explode IEDs. The Greengum device is the world's first effective personal protection

device against IEDs and light enough to be worn by a soldier. The slightly larger Greygum device delivers the same protection when fitted to military vehicles.

The Greengum and Greygum devices are game-changers and another classic story of necessity leading to innovation. While Australian soldiers had a variety of force protection measures against IEDs in the Middle East area of operation, local security forces didn't possess similar equipment.

By mid-2016, Australia had issued over 150,000 units of the Redwing equipment to the Afghanistan National Defense and Security Forces. Another 34,000 units will be supplied by late 2017.

The Redwing systems were developed by Defence and manufactured by Australian industry under project coordination by the Australian Military Sales Office. The companies involved were L3 Micreo, Ultra Electronics Australia, Associated Electronic Services, AXIOM Precision Manufacturing and Lintek.

Commercialisation of the Redwing systems has delivered Australian industry well over \$60 million to date.

Acoustics and signal processing

In November 2016, Dr Brian Ferguson was given the Minister's Award for Achievement in Defence Science for his world-leading research in acoustics and signal processing, which has contributed significantly to Defence capability by detecting, classifying and tracking targets of military interest.

Brian's research has established a direct connection between acoustic signals and the course, speed and identity of ships, submarines, aircraft and projectiles. An acoustic system based on his studies accurately geolocated mortar fire from insurgents during Operation Iraqi Freedom and saved the lives of coalition forces and innocent civilians.

Brian's new data processing techniques enable the Navy's sonar operators to identify targets at significantly greater distances than before and allow submerged submarines to track aircraft flying overhead. His research has also improved safety in the Navy's mine-hunting operations by delivering acoustic imagery for examining mine-like objects from safe distances.

Sonar technology in Australian and US submarines has been upgraded as a result of Brian's research. The enhanced operational systems improve situational awareness and surveillance in conflict zones, but also protect our ports and harbours against threats.

Cyber security

A collaborative cyber security project between the Defence Science and Technology Group and CSIRO's Data61 took out two categories at the 2017 national iAwards. The Cross Domain Desktop Compositor won awards for infrastructure platform of the year and research and development project of the year.

The equipment allows content from multiple computers of different security classifications to be viewed securely on a single screen.

The technology has potential applications in both government and industry where staff use multiple computers for accessing different networks to maintain information of various classifications at the same time.

Team leader Mark Beaumont said, 'Our collaboration with Data61 has helped drive the technical development of the system, as well as position it for broader exposure and technology sales opportunities.'

Defence and Data61 are exploring opportunities to market the Cross Domain Desktop Compositor for applications across government and industry.

The advances in Defence science this year represent excellent case studies on the value of industry collaboration with flow-on benefits for commercial success.



Left: The winner of the 2016 Minister's Award for Achievement in Defence Science, Dr Brian Ferguson, at Russell Offices, Canberra, on 10 November 2016.

Main (previous page): Darryn Smart from the Defence Science and Technology Group makes remarks after accepting a Public Sector Innovation Award during the Institute of Public Administration Australia award ceremony in Canberra, 27 July 2016.



FINANCIAL PERFORMANCE

4

Alexander Zeigler of the Defence Science and Technology Group demonstrates rocket booster technology during the Land Forces international defence exposition at the Adelaide Convention Centre from 6 to 8 September 2016.

Summary

As at 30 June 2017, the Defence departmental net cash spend was \$31.9 billion. This was an underspend of \$30.5 million when compared to the revised estimate in the Defence Portfolio Budget Statements 2017–18.

Table 4.1 contains the Defence resource statement for 2016–17. Expenses by outcomes are detailed in tables 4.2 to 4.6, while the cost of operations is shown in tables 4.7 and 4.8.

Table 4.1: Defence resource statement, 2016–17

	Actual available appropriation for 2016–17 \$'000	Payments made 2016–17 \$'000	Balance remaining 2016–17 \$'000
ORDINARY ANNUAL SERVICES			
Outcome 1	30,020,611	30,020,529	82
Outcome 2	774,101	774,101	–
Outcome 3	22,462	22,462	–
Total departmental outputs	30,817,174	30,817,092	82
Total ordinary annual services	30,817,174	30,817,092	82
OTHER SERVICES			
Departmental non-operating			
Equity injection	1,064,704	1,064,704	–
Total departmental non-operating	1,064,704	1,064,704	–
Total other services	1,064,704	1,064,704	–
Total available annual appropriation	31,881,878	31,881,796	82
SPECIAL APPROPRIATIONS			
Special appropriations limited by criteria/entitlement			
<i>Defence Force Retirement Benefits Act 1948, Part 1, s. 15D and VIC, s. 82ZJ</i>	14,122	14,100	22
<i>Defence Force Retirement and Death Benefits Act 1973, Part XII, s. 125</i>	1,504,600	1,498,604	5,996
<i>Military Superannuation and Benefits Act 1991, Part V, s. 17</i>	6,091,696	6,335,668	(243,972)
<i>Defence Force (Home Loan Assistance) Act 1990, Part IV, s. 38</i>	618	587	31
<i>Australian Defence Force Cover Act 2015</i>	110,070	21,500	88,570
<i>Defence Home Ownership Assistance Scheme Act 2008, Part VI, s. 84</i>	104,867	97,816	7,051
Other administered	–	338	(338)
Total special appropriations	7,825,973	7,968,613	(142,640)
Total appropriations	39,707,851	39,850,409	(142,558)
Funding from other sources	2,158,128	2,454,100	(295,972)
Returns to the Official Public Account (net)	(1,560,915)	(1,720,246)	159,331
Previous years' outputs (appropriation receivable)	687,345	425,991	261,354
Cash available	47,597	88,823	(41,226)
Total other available resources	1,332,155	1,248,668	83,487
Total resourcing	41,040,006	41,099,077	(59,071)
Special accounts			
Opening balance	72,661	72,661	–
Appropriation receipts	–	–	–
Appropriation receipts—other agencies	–	–	–
Non-appropriation receipts to special accounts	27,924	53,840	(25,916)
Total special accounts	100,585	126,501	(25,916)

Expenses by outcomes

Table 4.2: Total cost of Defence outcomes on an accrual basis, 2016–17

	2016–17 budget estimate ¹ \$'000	2016–17 revised estimate ² \$'000	2016–17 actual result \$'000	Variation \$'000	Variation %
Outcome 1: The protection and advancement of Australia's national interests through the provision of military capabilities and the promotion of security and stability					
Departmental net cost of service	29,256,090	30,019,342	29,872,915	(146,427)	–
Administered net cost of service	3,861,024	6,288,467	6,375,559	87,092	1
Net cost of service for Outcome 1	33,117,114	36,307,809	36,248,474	(59,336)	–
Outcome 2: The advancement of Australia's strategic interests through the conduct of military operations and other tasks as directed by Government					
Net cost of service for Outcome 2	737,973	774,135	796,575	22,440	3
Outcome 3: Support for the Australian community and civilian authorities as requested by Government					
Net cost of service for Outcome 3	22,462	22,462	30,922	8,460	38
Net cost of service for Defence outcomes					
Departmental net cost of service	30,016,525	30,815,939	30,700,412	(115,527)	–
Administered net cost of service	3,861,024	6,288,467	6,375,559	87,092	1
Total cost of Defence outcomes	33,877,549	37,104,406	37,075,971	(28,435)	–

Notes

1. As published in the Portfolio Budget Statements 2016–17.
2. As published in the Portfolio Budget Statements 2017–18.

Table 4.3: Overall cost to government of Defence outcomes (departmental and administered), 2016–17

	Outcome 1 \$'000	Outcome 2 \$'000	Outcome 3 \$'000	Total \$'000
Departmental				
Expenses				
Employees	11,277,742	105,188	10,391	11,393,321
Suppliers	12,725,745	606,003	20,531	13,352,279
Grants	27,775	105,876	–	133,651
Depreciation and amortisation	5,462,402	–	–	5,462,402
Finance cost	124,430	–	–	124,430
Write-down of assets and impairment of assets	909,831	–	–	909,831
Net foreign exchange losses	7,826	–	–	7,826
Net losses from sale of assets	15,007	–	–	15,007
Other expenses	163,185	2	–	163,187
Total expenses	30,713,943	817,069	30,922	31,561,934
Income				
Revenue				
Goods and services	436,359	20,494	–	456,853
Rental income	6,414	–	–	6,414
Other revenue	36,954	–	–	36,954
Total revenue	479,727	20,494	–	500,221
Gains				
Reversals of previous asset write-downs	214,703	–	–	214,703
Other gains	146,598	–	–	146,598
Total gains	361,301	–	–	361,301
Total income	841,028	20,494	–	861,522
Net cost of departmental outcomes	29,872,915	796,575	30,922	30,700,412
Administered				
Expenses	7,968,613	–	–	7,968,613
Revenue	1,593,054	–	–	1,593,054
Net cost of administered outcomes	6,375,559	–	–	6,375,559
Total departmental and administered outcomes	36,248,474	796,575	30,922	37,075,971

Table 4.4: Total cost of Defence Outcome 1

	2016–17 budget estimate ¹ \$'000	2016–17 revised estimate ² \$'000	2016–17 actual result ³ \$'000	Variation \$'000	Variation %
Program 1.1 – Strategic Policy and Intelligence					
Revenues from other sources	2,095	6,758	4,164	(2,594)	(38)
Departmental outputs	866,778	909,177	973,489	64,312	7
Program 1.2 – Navy Capabilities					
Revenues from other sources	86,984	69,396	17,167	(52,229)	(75)
Departmental outputs	5,917,270	6,144,236	6,016,328	(127,908)	(2)
Program 1.3 – Army Capabilities					
Revenues from other sources	45,773	35,712	34,395	(1,317)	(4)
Departmental outputs	7,329,033	7,876,185	6,997,631	(878,554)	(11)
Program 1.4 – Air Force Capabilities					
Revenues from other sources	79,271	62,060	68,856	6,796	11
Departmental outputs	5,829,941	6,270,942	5,962,665	(308,277)	(5)
Program 1.5 – Joint Operations Command					
Revenues from other sources	–	–	249	249	–
Departmental outputs	48,775	44,640	50,042	5,402	12
Program 1.6 – Vice Chief of the Defence Force					
Revenues from other sources	216,540	218,584	166,241	(52,343)	(24)
Departmental outputs	1,466,071	1,344,496	2,057,112	712,616	53
Program 1.7 – Capability Acquisition and Sustainment					
Revenues from other sources	2,596	2,596	322	(2,274)	(88)
Departmental outputs	692,055	614,095	541,452	(72,643)	(12)
Program 1.8 – Defence Executive Support					
Revenues from other sources	9,912	10,837	22,845	12,008	111
Departmental outputs	194,155	204,608	255,910	51,302	25
Program 1.9 – Estate and Infrastructure					
Revenues from other sources	345,225	338,855	469,044	130,189	38
Departmental outputs	4,145,448	4,148,791	4,221,148	72,357	2
Program 1.10 – Chief Information Officer					
Revenues from other sources	72	4,546	15,717	11,171	246
Departmental outputs	1,632,688	1,246,811	1,714,596	467,785	38
Program 1.11 – Defence People					
Revenues from other sources	–	–	80	80	–
Departmental outputs	510,647	481,197	515,343	34,146	7
Program 1.12 – Defence Science and Technology					
Revenues from other sources	3,631	4,607	6,555	1,948	42
Departmental outputs	438,140	447,468	470,718	23,250	5
Program 1.13 – Chief Finance Officer					
Revenues from other sources	4,818	4,933	35,393	30,460	617
Departmental outputs	185,089	286,696	96,481	(190,215)	(66)
Program 1.14 – Defence Force Superannuation Benefits					
<i>Defence Forces Retirement Benefits Act 1948, Part 1, s. 15D and VIC, s. 82ZJ(1)</i>	–	–	–	–	–
<i>Defence Force Retirement and Death Benefits Act 1973, Part XII, s. 125(3)</i>	88,954	177,952	172,604	(5,348)	(3)
<i>Military Superannuation and Benefits Act 1991, Part V, s. 17</i>	1,472,240	4,038,303	4,281,668	243,365	6
<i>Australian Defence Force Cover Act 2015</i>	–	108,614	21,200	(87,414)	(80)
Total administered expenses	1,561,194	4,324,869	4,475,472	150,603	3
Administered revenue from other sources	1,358,948	1,416,269	1,462,077	45,808	3
Total Program 1.14	202,246	2,908,600	3,013,395	104,795	4

	2016–17 budget estimate ¹ \$'000	2016–17 revised estimate ² \$'000	2016–17 actual result ³ \$'000	Variation \$'000	Variation %
Program 1.15 – Defence Force Superannuation Nominal Interest					
<i>Defence Forces Retirement Benefits Act 1948, Part 1, s. 15D and VIC, s. 82ZJ(1)</i>	23,601	14,122	14,100	(22)	–
<i>Defence Force Retirement and Death Benefits Act 1973, Part XII, s. 125(3)</i>	1,745,927	1,326,648	1,326,000	(648)	–
<i>Military Superannuation and Benefits Act 1991, Part V, s. 17</i>	1,899,314	2,053,393	2,054,000	607	–
<i>Australian Defence Force Cover Act 2015</i>	–	1,456	300	(1,156)	(79)
Total administered expenses	3,668,842	3,395,619	3,394,400	(1,219)	–
Administered revenue from other sources	–	–	–	–	–
Total Program 1.15	3,668,842	3,395,619	3,394,400	(1,219)	–
Program 1.16 – Housing Assistance					
<i>Defence Force (Home Loans Assistance) Act 1990, Part IV, s. 38</i>	775	618	587	(31)	(5)
<i>Defence Home Ownership Assistance Scheme Act 2008, Part VI, s. 84</i>	110,852	104,867	97,816	(7,051)	(7)
Total administered expenses	111,627	105,485	98,403	(7,082)	(7)
Administered revenue from other sources	15,644	15,178	16,871	1,693	11
Total Program 1.16	95,983	90,307	81,532	(8,775)	(10)
Program 1.17 – Other Administered					
Expenses	–	–	338	338	–
Administered revenue from other sources	106,047	106,059	114,106	8,047	8
Total Program 1.17	(106,047)	(106,059)	(113,768)	(7,709)	7
Total resourcing					
Total departmental outputs	29,256,090	30,019,342	29,872,915	(146,427)	–
Total administered	3,861,024	6,288,467	6,375,559	87,092	1
Total departmental revenue from other sources	796,917	758,884	841,028	82,144	11
Total administered revenue from other sources	1,480,639	1,537,506	1,593,054	55,548	4
Equity injection	2,321,327	1,064,704	1,064,704	–	–
Total resources for Outcome 1	37,715,997	39,668,903	39,747,260	78,357	–

Notes

1. As published in the Portfolio Budget Statements 2016–17, table 12.
2. As published in the Portfolio Budget Statements 2017–18, table 15.
3. At the program level, departmental revenues from other sources include minor reclassifications from expenses.

Table 4.5: Total cost of Defence Outcome 2

	2016–17 budget estimate ¹ \$'000	2016–17 revised estimate ² \$'000	2016–17 actual result \$'000	Variation \$'000	Variation %
Program 2.1 – Operations Contributing to the Security of the Immediate Neighbourhood					
Revenues from other sources	–	–	26	26	–
Departmental outputs	1,023	1,050	3,904	2,854	272
Program 2.2 – Operations Supporting Wider Interests					
Revenues from other sources	15,589	15,644	20,468	4,824	31
Departmental outputs	736,950	773,085	792,671	19,586	3
Total resourcing					
Total departmental outputs	737,973	774,135	796,575	22,440	3
Total departmental revenue from other sources	15,589	15,644	20,494	4,850	31
Total resources for Outcome 2	753,562	789,779	817,069	27,290	3

Note: This table excludes capital payments for outcomes.

1. As published in the Portfolio Budget Statements 2016–17, table 38.

2. As published in the Portfolio Budget Statements 2017–18, table 11.

Table 4.6: Total cost of Defence Outcome 3

	2016–17 budget estimate ¹ \$'000	2016–17 revised estimate ² \$'000	2016–17 actual result \$'000	Variation \$'000	Variation %
Program 3.1 – Defence Contribution to National Support Tasks in Australia					
Revenues from other sources	–	–	–	–	–
Departmental outputs	22,462	22,462	30,922	8,460	38
Total resourcing					
Total departmental outputs	22,462	22,462	30,922	8,460	38
Total departmental revenue from other sources	–	–	–	–	–
Total resources for Outcome 3	22,462	22,462	30,922	8,460	38

Note: This table excludes capital payments for outcomes.

1. As published in the Portfolio Budget Statements 2016–17, table 41.

2. As published in the Portfolio Budget Statements 2017–18, table 11.

Cost of operations

Table 4.7: Net additional cost of operations, 1999–2000 to 2020–21

	1999–2000 to 2015–16 actual result \$m	2016–17 actual result \$m	2017–18 budget estimate \$m	2018–19 forward estimate \$m	2019–20 forward estimate \$m	2020–21 forward estimate \$m	Total \$m
Operation Slipper	7,202.6	109.4	–	–	–	–	7,312.0
Operation Manitou ¹	73.0	44.9	54.2	10.0	..	–	182.1
Operation Accordion	289.9	173.3	222.2	27.7	23.1	–	736.2
Operation Highroad	243.7	113.6	83.5	2.7	1.8	–	445.3
Operation Resolute ^{2,3}	251.1	30.6	55.6	..	–	–	337.3
Operation Okra	446.0	368.4	453.6	64.2	29.8	–	1,362.0
Defence Support to the 2018 Commonwealth Games ⁴	–	..	33.9	0.3	–	–	34.2
Total net additional costs	8,506.3	840.2	903.1	105.0	54.7	–	10,409.3
Sources of funding for operations							
Government supplementation	8,506.3	840.2	903.1	105.0	54.7	–	10,409.3
Total cost	8,506.3	840.2	903.1	105.0	54.7	–	10,409.3

Note: This table reflects ongoing and new operations funded under 'no win, no loss' arrangements. Double period (..) indicates 'not zero, but rounded to zero'.

1. The value of this Operation Manitou measure in 2019–20 is \$0.001 million.
2. Includes funding for expanded activities under Operation Sovereign Borders.
3. The value of this Operation Resolute measure in 2018–19 is \$0.047 million.
4. The value of Defence Support to the 2018 Commonwealth Games 2016–17 actual result is \$0.004 million.

Table 4.8: Net additional cost of operations, 2016–17

	2016–17 budget estimate ¹ \$m	2016–17 estimated actual ² \$m	2016–17 actual result \$m	Variation \$m
Operation Slipper	103.9	103.9	109.4	5.5
Operation Manitou	40.2	40.2	44.9	4.7
Operation Accordion	179.4	179.4	173.3	(6.1)
Operation Highroad	59.0	95.0	113.6	18.6
Operation Resolute ³	22.5	22.5	30.6	8.1
Operation Okra	353.0	353.0	368.4	15.4
Defence Support to the 2018 Commonwealth Games ⁴	–	–
Total net additional costs	757.9	794.0	840.2	46.2

Note: This table reflects ongoing and new operations funded under 'no win, no loss' arrangements. Double period (..) indicates 'not zero, but rounded to zero'.

1. As published in the Portfolio Budget Statements 2016–17, table 4.
2. As published in the Portfolio Budget Statements 2017–18, table 3.
3. Includes funding for expanded activities under Operation Sovereign Borders.
4. The value of Defence Support to the 2018 Commonwealth Games 2016–17 actual result is \$0.004 million.



Building the capability to save lives in the Pacific

Australian military personnel and civilian volunteers were at the centre of action during Exercise Pacific Partnership 2016, as they continued their mission to help improve the disaster preparedness of our Asian neighbours, on board the United States Navy hospital ship USNS *Mercy*.

Born from the inspiring response to the 2004 Indian Ocean tsunami, the multination Pacific Partnership initiative is now an annual effort that draws on the experiences and the relationships formed in the aftermath of that disaster.

The Australian contingent commander for Exercise Pacific Partnership 2016, Lieutenant Colonel Michael Abrahams, said the US Pacific Fleet-led initiative is aimed at strengthening alliances and promoting multilateral disaster management resilience.

‘Australians should be proud of their countrymen and women’s performances as they strove to meet their goals,’ Lieutenant Colonel Abrahams said.

‘Our military and civilian specialists worked with host nations to conduct medical, engineering, dental and veterinary clinics.

Australian Army Environmental Health Officer Lieutenant Matthew La Macchia conducts heat stress monitoring of a high-risk work zone, the laundry, onboard hospital ship USNS *Mercy* during Exercise Pacific Partnership 2016.

‘The Pacific Partnership series is held in alternating years in the South-West Pacific and South-East Asia regions. This last year saw our specialists travel to Vietnam, the Philippines, Timor-Leste, Malaysia, Indonesia and Palau.

‘Their dedication, professionalism and skill-sharing has helped to improve the capacities of the host nations and their emergency organisations. They can now respond to disasters more effectively by drawing on the recurring opportunities for cooperation and training that we help deliver.

‘The ADF also benefits from the exercise. Just as our regional neighbours benefit from increased capability, it’s also a great chance for us to enhance our experience and expertise.

‘Our personnel work closely with partner militaries, intergovernmental agencies, host nation civilian agencies and non-government organisations.

‘The result is a much improved and refined collective ability to provide humanitarian assistance and disaster

relief wherever it is needed,' Lieutenant Colonel Abrahams said.

An important feature of Exercise Pacific Partnership 2016 was the humanitarian assistance disaster relief symposium held on board the *Mercy* while moored at Dili, Timor-Leste.

The Australian contingent on board formed an integral part of symposium discussions by working through a variety of support elements that could be used to support and assist a host nation in any given humanitarian or disaster relief effort in the region.

'The ADF and our civilian volunteers were again great ambassadors, and were prominent in leading knowledge-sharing tasks,' Lieutenant Colonel Abrahams said.

'Their leadership and preparedness to roll up their sleeves during Exercise Pacific Partnership 2016 will benefit Australia's relationships with a number of countries.

'During the exercise, Australians combined their employment and capabilities with personnel from Japan, New Zealand, Canada, Indonesia and, of course, the United States.

'A Japanese vessel joined the USNS *Mercy* for the Philippine and Vietnam mission stops. An Indonesian vessel joined the exercise for the mission stop in their own waters.

'The 2004 tsunami was a tragedy. However, the concept and delivery of a recurring mission is genuinely a positive to emerge from it. Preparations in times of calm now mean we can help the US and its partners to deliver high-quality humanitarian assistance in the region if disaster relief efforts are ever needed again.

'Relationships and expertise are strengthened now, but people's lives will be saved in the future,' Lieutenant Colonel Abrahams said.

Military working dog puppy Ulf at an official ceremony at the Australian War Memorial in Canberra to introduce and launch the Australian Defence Force Canine Operational Service Medal in June 2017.



CORPORATE
GOVERNANCE

5

Authority

Defence is administered by a diarchy, which is the term used to describe the joint leadership of Defence by the Secretary of Defence and the Chief of the Defence Force, under the general control of the Minister for Defence. The concept, which is supported by legislative and administrative arrangements, encompasses the individual and joint responsibilities and accountabilities of the Secretary and the Chief of the Defence Force.

Within the diarchy:

- the role of the Chief of the Defence Force is to command the Australian Defence Force (ADF) and be the principal adviser to the Minister on military matters, including operations
- the role of the Secretary is that of the principal civilian adviser to the Minister. The Secretary has all the rights, duties and powers of an agency head under the *Public Service Act 1999* and is responsible for the Department of Defence and the ADF under the *Public Governance, Performance and Accountability Act 2013* (PGPA Act). The Secretary is responsible for advising the Minister for Defence on policy and departmental issues, and matters relating to the stewardship of Defence resources.

Senior management committees and their roles

Defence has seven senior management committees, which are the primary mechanisms for providing direction and assuring the alignment of strategy, capability and resources. A brief overview of each committee is provided in this section.

Defence Committee

The Defence Committee is the primary decision-making committee in the department. It is focused on the major capability and resource trade-offs and the management of the Secretary and the Chief of the Defence Force's shared accountabilities. The Defence Committee is also responsible for setting the direction and driving the implementation of the 2016 Defence White Paper and the recommendations from the First Principles Review.

The Defence Committee is supported by two subordinate committees—the Enterprise Business Committee and the Investment Committee.

Table 5.1 shows membership of the Defence Committee as at 30 June 2017.

Table 5.1: **Membership of the Defence Committee, as at 30 June 2017**

Position	Role	Incumbent
Secretary	Chair	Mr Brendan Sargeant (acting)
Chief of the Defence Force	Alternate Chair (in Secretary's absence)	Air Chief Marshal Mark Binskin
Associate Secretary	Responsible for enterprise planning, performance and risk management, and the integration of corporate enabling services	Mr Brendan Sargeant
Vice Chief of the Defence Force	Responsible for championing joint capabilities and future force design (including preparedness settings and military strategy), and integrating military enabling services (such as joint logistics policy, joint health and joint education)	Vice Admiral Ray Griggs
Deputy Secretary Strategic Policy and Intelligence	Responsible for policy, strategy, contestability, strategic risk and intelligence, including the three Defence intelligence agencies	Ms Rebecca Skinner
Chief Finance Officer	Responsible for financial control and assurance	Mr Phillip Prior

Enterprise Business Committee

The Associate Secretary chairs the Enterprise Business Committee, which is responsible for ensuring the effective running of Defence. Its remit includes corporate planning, performance monitoring and reporting, enterprise risk management, information management and service delivery reform.

Table 5.2 shows membership of the Enterprise Business Committee as at 30 June 2017.

Table 5.2: Membership of the Enterprise Business Committee, as at 30 June 2017

Position	Incumbent
Associate Secretary (Chair)	Mr Brendan Sargeant
Vice Chief of the Defence Force	Vice Admiral Ray Griggs
Deputy Secretary Strategic Policy and Intelligence	Ms Rebecca Skinner
Chief Finance Officer	Mr Phillip Prior
Chief of Navy	Vice Admiral Tim Barrett
Chief of Army	Lieutenant General Angus Campbell
Chief of Air Force	Air Marshal Leo Davies
Deputy Secretary Capability Acquisition and Sustainment	Mr Kim Gillis
Deputy Secretary Defence People	Ms Roxanne Kelley
Chief Information Officer	Dr Peter Lawrence
Deputy Secretary Estate and Infrastructure	Mr Steve Grzeskowiak
Chief Defence Scientist	Dr Alex Zelinsky

Investment Committee

The Vice Chief of the Defence Force chairs the Investment Committee, which is focused on the future force and is responsible for bringing the future force and supporting enablers into being. The Investment Committee governs the delivery of the Integrated Investment Program through review of proposals, taking into account force requirements, all necessary enabling functions and full-life costs. The Investment Committee provides advice to the Defence Committee to assure the alignment of strategy, capability and resources.

Table 5.3 shows membership of the Investment Committee as at 30 June 2017.

Table 5.3: Membership of the Investment Committee, as at 30 June 2017

Position	Incumbent
Vice Chief of the Defence Force (Chair)	Vice Admiral Ray Griggs
Associate Secretary	Mr Brendan Sargeant
Deputy Secretary Strategic Policy and Intelligence	Ms Rebecca Skinner
Chief Finance Officer	Mr Phillip Prior
Chief of Navy	Vice Admiral Tim Barrett
Chief of Army	Lieutenant General Angus Campbell
Chief of Air Force	Air Marshal Leo Davies
Deputy Secretary Capability Acquisition and Sustainment	Mr Kim Gillis
Chief Defence Scientist	Dr Alex Zelinsky
Deputy Secretary from the Department of Finance	Mr David Fredericks
Deputy Secretary from the Department of the Prime Minister and Cabinet	Mr Allan McKinnon
First Assistant Secretary Contestability (permanently invited official)	Mr Michael Shoebridge

Defence Audit and Risk Committee

The Defence Audit and Risk Committee, chaired by Mr Paul Rizzo, operates under the authority of the Secretary and is a central element of governance in Defence. It provides robust, independent advice on all aspects of Defence governance to the Secretary and the Chief of the Defence Force. The role and responsibilities of the Defence Audit and Risk Committee are to review all aspects of the governance and assurance frameworks, including financial, performance and risk management, the internal controls framework, compliance, accountability and audit.

Table 5.4 shows membership of the Defence Audit and Risk Committee as at 30 June 2017.

Table 5.4: Membership of the Defence Audit and Risk Committee, as at 30 June 2017

Position	Role	Incumbent
External member	Chair	Mr Paul Rizzo
External member	Deputy Chair	Mr Alan Beckett
Associate Secretary	Member	Mr Brendan Sargeant
Vice Chief of the Defence Force	Member	Vice Admiral Ray Griggs
External member	Member	Ms Jennifer Clark
First Assistant Secretary Audit and Fraud Control Division	Adviser	Dr Tom Clarke (acting)
Chief Finance Officer	Observer	Mr Phillip Prior
Australian National Audit Office	Observer	Ms Carla Jago
Australian National Audit Office	Observer	Mr Garry Sutherland

Chiefs of Service Committee

The Chief of the Defence Force chairs the Chiefs of Service Committee, which is the primary mechanism for providing his direction to the Australian Defence Force and for governing achievement of the Chief of the Defence Force Preparedness Directive. The effectiveness of military operations in meeting government policy requirements is monitored through the Chief of the Defence Force's Strategic Command Group.

Strategic Policy Committee

The Strategic Policy Committee is a whole-of-Defence forum that considers and makes decisions on key strategic issues including, but not limited to, strategic guidance for major capability decisions; development of Cabinet submissions on major policy issues; defence policy for major initiatives or international engagements; and the Defence position for significant international dialogues.

The Strategic Policy Committee is chaired by the Secretary, and the decisions of the committee are binding across the Defence organisation.

Gender Equality Advisory Board

The Gender Equality Advisory Board was established to drive and shape the strategic direction of the Secretary's and the Chief of the Defence Force's gender equality priorities within the broader Defence cultural reform agenda. The board considers the most significant gender equality issues applicable to the Defence workforce, and monitors and evaluates whole-of-Defence performance on these matters.

The Gender Equality Advisory Board comprises seven internal Defence members, including the Secretary and the Chief of the Defence Force, four external members and one special adviser. The board is chaired jointly by the Secretary and the Chief of the Defence Force.

Performance and accountability

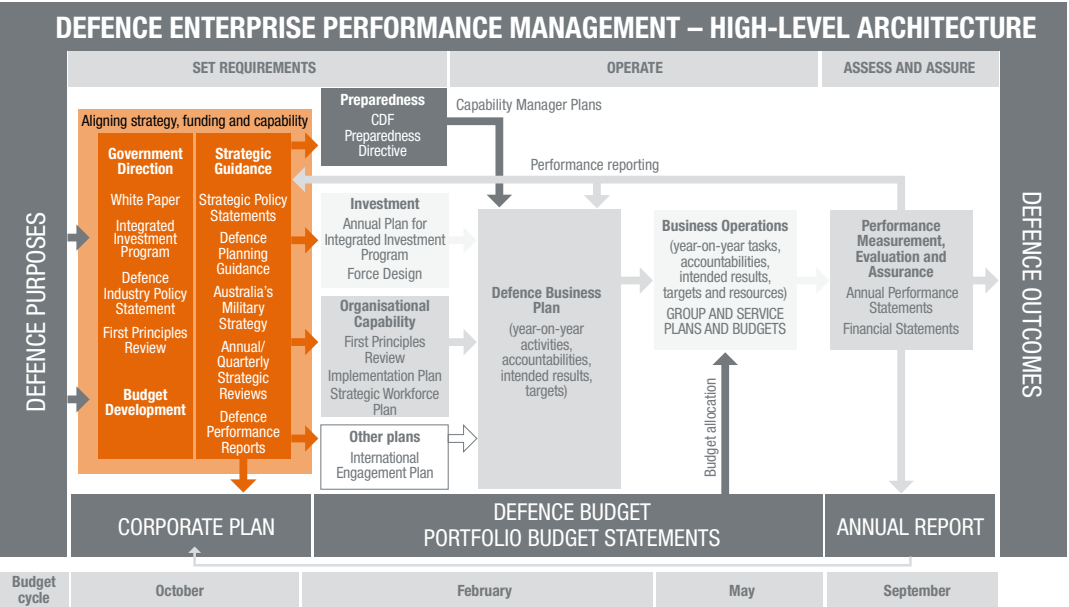
The purpose of enterprise performance management is to keep strategy, capability and resources aligned with Government direction. Performance management is a critical part of Defence's overall management strategy, and the PGPA Act obliges all Commonwealth officials to apply good governance and management practices and procedures in their day-to-day work.

Defence's Enterprise Performance Management Framework was implemented in November 2016. This framework describes how Government policy direction and requirements are translated into the required corporate planning and budget allocation framework and then cascaded into a set of activities that are implemented and resourced through Group- and Service-level plans.

Defence's Strategy Framework 2017 was released in May 2017 and is a key element of Defence enterprise performance management. Within the Strategy Framework, policy direction from Government includes the Defence White Paper, the Integrated Investment Program, the Defence Industry Policy Statement, the First Principles Review and the Defence budget. This policy direction shapes strategic policy guidance, including the Defence Planning Guidance and Australia's Military Strategy.

The high-level architecture of Defence's enterprise performance management is depicted in Figure 5.1.

Figure 5.1: Defence enterprise performance management architecture



As part of the Enterprise Performance Management Framework, the Defence Corporate Plan is underpinned by an internal Defence Business Plan. The business plan provides all Defence personnel with guidance about how the planned enterprise performance will be measured and how the activities in the corporate plan will be implemented. The business plan assigns enterprise accountabilities and responsibilities to members of the Senior Leadership Group, in accordance with the Secretary and Chief of the Defence Force Joint Directive on Enterprise Performance Management.

The Defence performance report provides the Enterprise Business Committee, the Defence Committee and the Minister for Defence with an update of Defence's achievement of the purposes and activities in the Defence Business Plan and other enterprise-level plans. The Defence performance report also monitors the enterprise-level risks and provides Defence's leadership team with the information they need to make decisions about Defence's

enterprise strategy and focus, including early identification of issues that may require their intervention. Three Defence performance reports were prepared during 2016–17.

The performance criteria in the *2016–17 Defence Corporate Plan* and the 2016–17 Portfolio Budget Statements (PBS), while not yet fully aligned, demonstrate a clearer relationship between corporate plan activities and PBS deliverables than in 2015–16. Greater alignment of the performance information has been achieved across the 2017–18 PBS and the *2017–18 Defence Corporate Plan*, and will enable Defence to tell a more targeted and effective story in the Defence Annual Report for 2017–18 about the extent to which Government policy outcomes were achieved, and how Defence delivered the capability required by Government over the reporting period.

Risk

In 2016–17, under the direction of the Associate Secretary, Defence continued to improve the alignment of its strategic and business environments to support the management of the future requirements and challenges outlined in the 2016 Defence White Paper.

Out of this work, Defence adopted a new risk management model that aligns the accountabilities and responsibilities for risk identification, analysis and management with those for business planning and performance evaluation. This model empowers accountable officers in providing direction and seeking assurance that risks are appropriately managed at the right level of the organisation.

Defence's model comprises three interdependent systems of risk management, coexisting at three different conceptual and organisational levels. These systems look at risks that may impact Government decisions on Defence capability and policy, shaping Defence's strategy; limit Defence's capacity to generate and maintain the required capability, shaping Defence's capacity; and impact specific Defence capabilities and outputs such as programs, projects and policy initiatives, shaping Defence's performance.

Defence's work on risk management was supported by the identification of the four enterprise risks that, when managed appropriately, ensure Defence has the capacity to manage the volatility and uncertainty of Australia's strategic environment. Defence will continue to mature this approach in 2017–18, developing a tighter relationship between risk and performance management across the enterprise.

Major projects management

The annual Major Projects Report is a joint publication of Defence and the Australian National Audit Office (ANAO), and is prepared in accordance with guidelines endorsed by the Joint Committee of Public Accounts and Audit (JCPAA). The report provides a review and analysis of the progress of selected major Defence acquisition projects managed by Defence, with the aim to improve the accountability and transparency of Defence acquisitions for the benefit of Parliament and other stakeholders.

The JCPAA assesses the overall content, accessibility and transparency of the information provided in the Major Projects Report, in addition to specific details of individual projects.

The JCPAA's review of the *2014–15 Major Projects Report* (ANAO report no. 16 of 2015–16) was published in May 2016. It is intended that the Major Projects Report is published in November each year; however, the tabling date is dependent on the resolution of issues that arise in any given year. The published reports are available on the ANAO website at www.anao.gov.au/pubs.

In accordance with paragraph 27 of Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, Defence's financial statements, except for cash flow information, are prepared using the accrual basis of accounting. The financial data provided within the Major Projects Report continues to be prepared on an accrual basis.

Commonwealth departments are appropriated on a cash basis and Defence manages its capital programs on a cash basis in order to achieve a balanced cash outcome. Accordingly, all financial data related to projects and Defence's capital programs provided within the Defence Portfolio Budget Statements, Portfolio Additional Estimates Statements, and annual report continue to be prepared on a cash basis.

Managing shared risk: a big step forward

'Not all superheroes wear capes' is the theme of the Department of Finance's senior leadership risk workshops. Since the release of Defence's first risk management policy in July 2015, the senior leadership has been working towards developing a positive risk culture. To support this effort, in partnership with the Department of Finance, a focused senior leadership risk training program was rolled out by Defence, with eight risk workshops run in 2016–17.

The program was attended by over 40 per cent of the Senior Leadership Group, with the workshops well received by all attendees. This training program, supported by a renewed focus of the Defence senior committees on shared risk management, has helped move Defence towards a positive risk culture.

This provided the environment in which Defence could implement a new and innovative approach to understanding and managing shared risk. In February 2017, the Enterprise Business Committee agreed to adopt a systems approach to identifying and managing Defence's most complex risks.

When looking at Defence risk management as a system, three interdependent systems of risk management emerge. These risk systems are coupled with key strategic accountabilities and responsibilities and integrated as part of decision-making systems and processes.

Defence's three risk management systems have identified that risk management at the three organisational levels of Defence—strategic, enterprise and delivery—adapt to cater for the unique needs of the decision-makers. The decision-making context at each level differs in terms of the tempo in which the decisions are made, the complexity and impact of the decisions, and the associated planning horizon. As such, Defence's risk management approach has been designed to support the nature of the decisions being made and the needs of the decision-maker.

Implementing this approach provided the context and environment for the Defence senior leadership to understand how to approach the management of Defence's most complex risks. The key to this model was recognising the central role of enterprise risk management, which translates the impact of the changes in Defence's strategic risk context in a way that can be understood, managed and monitored by Defence personnel.

Capability delivery

The First Principles Review's recommendation 2.11 stipulated the need for significant investment in the development of:

- an operational framework that briefly but comprehensively explains how the organisation operates and the roles and responsibilities within it
- a detailed set of life cycle management processes that provide the project and engineering discipline with which to manage complex materiel procurement from initiation to disposal
- a review architecture that reinforces accountability at all levels and brings together information at each level upon which good management decisions can be made.

The First Principles Review recognised that such an investment would involve a large amount of work but was essential for the proper governance of project management. The review also recognised the need for this work to be underpinned by a strong and enduring approach to communication to ensure quality employee and stakeholder commitment.

The major components implemented to meet the intent of recommendation 2.11 include:

- a new capability life cycle as the core Defence business process for all major Defence projects, including capability and enabling (estate, infrastructure and ICT) projects. Importantly, project proposals now use the new Smart Buyer risk assessment framework to inform decisions about tailored approval pathways
- the development of a streamlined Defence investment approval process for capability projects based on a shared understanding of risk. Defence worked closely with the central agencies, particularly the Department of Finance and the Department of the Prime Minister and Cabinet, to develop this process
- the transition to the Smart Buyer decision-making framework, enabling capability managers and project teams to identify key project risks and to develop tailored project execution strategies. These tailored strategies form a central part of the business case as projects progress through approval points
- the implementation of the Capability Acquisition and Sustainment Group's business framework, defining how the Group governs, organises and manages operations more efficiently and effectively, across the capability life cycle, with a focus on achieving Defence outcomes
- the establishment of centres of expertise within the Capability Acquisition and Sustainment Group, providing support to ensure the right people with the right skills are provided at the right time. This includes recruiting staff, managing careers, creating development opportunities, and job allocation. The centres of expertise are also responsible for the Group's policies, processes and procedures
- the creation of a range of processes and forums to ensure ongoing improvement in the capability life cycle process, involving senior representation from the capability managers and delivery groups. The primary objective is to develop, improve, standardise and rationalise governance across Defence in support of the capability life cycle to achieve capability outcomes.

First Principles Review— Creating One Defence

The focus of the First Principles Review was to ensure that Defence is fit for purpose, able to respond to future challenges and deliver against its outputs with the minimum resources necessary.

The review findings showed that Defence must move from its inefficient, federated approach to a single, integrated organisation that can shape and respond quickly to our changing strategic circumstances, and deliver enhanced joint capability. This is known as the One Defence approach. One Defence is a notion of a unified and integrated organisation that is consistently linked to its strategy and clearly led by its centre.

Unique to the implementation of the First Principles Review's recommendations was the establishment of a Government-appointed external Oversight Board to monitor the progress of implementation. The board assists the Government in ensuring the recommendations are implemented according to the One Defence approach and meet the intent of the review.

Key to the One Defence approach is working as one effective and skilled team focused on delivering overall Defence and Australian Defence Force capability outcomes. This holistic approach is critical to developing capabilities, generating joint forces and creating links with defence industry, and focuses on the importance of building capability through partnerships.

Examples of key reform initiatives implemented during 2016–17 that illustrate how Defence is becoming a significantly more agile and efficient organisation that builds capability through partnerships include:

- introducing a new end-to-end capability development and management life cycle, which simplifies and reduces the time taken for capability decision-making. For example, the average length of a Defence submission to Government has reduced from 70 pages to 20 pages, and the average period of time for a submission to be approved by Government has reduced from 16 weeks to eight weeks.

Partnerships with central agencies have been a key part of this process, with the Department of Finance and the Department of the Prime Minister and Cabinet now represented on Defence's Investment Committee

- simplifying commercial policies and practices, making it easier for industry to engage with Defence. For example, the Defence Procurement Policy Manual has reduced from 483 pages to 62 pages; and the number of mandatory Defence procurement requirements has dropped by more than 80 per cent, from 290 to 53
- engaging industry earlier in the capability life cycle, and recognising industry as a key partner in the delivery of Defence capability. This has been supported through implementing initiatives in the 2016 Defence Industry Policy Statement, including the Centre for Defence Industry Capability, the Defence Innovation Hub, and the Defence Innovation Portal.

Significant progress has been made on delivering the reforms. However, as with all reform programs, the completion of the review's recommendations is not the end, with critical work still ahead to ensure the full intent of the reform is realised, enabling the organisation to continually improve towards the One Defence approach.

Reform initiatives started as part of the implementation of the First Principles Review will continue into the future. Ongoing reform initiatives for 2017–18 include a focus on improving accountability through change in behaviours. As part of Defence creating a strong performance culture across the organisation, there is an increased focus on people management and on supervisory and leadership requirements.

The Government agrees with this approach and, while satisfied with Defence's progress, has extended the Oversight Board to ensure the necessary guidance and expertise so the One Defence approach is embedded for the future.

Audit

Through the audit work program, Defence addressed areas of high-level risk, or activities with potential control deficiencies, that could lead to significant operational or financial loss. In 2016–17, Defence’s Audit Branch issued 17 audit reports and completed 14 Management-Directed Tasks.

Defence worked with the Australian National Audit Office on a number of audits into Defence governance and management arrangements. The Australian National Audit Office completed six performance audits on Defence, and three cross-portfolio audits involving Defence. Further details are available in Chapter 6—Assurance.

Fraud and ethics

Throughout the reporting period and in accordance with the Commonwealth Fraud Control Framework 2014, Defence met its mandatory obligations to prevent, detect and respond to fraud and corruption. Defence has a comprehensive fraud and corruption control program that features a range of strategies to manage, evaluate and report fraud and corruption activities, including:

- the promotion of a strong ethical culture through mandatory and focused training, publications and an ethical advice service
- a rigorous fraud and corruption risk assessment program focusing on Defence-wide vulnerabilities
- an intelligence-led and targeted fraud and corruption detection program
- investigation of detected fraud, corruption, misconduct and unethical conduct with the application of appropriate criminal, civil, administrative or disciplinary action
- recovery of proceeds from fraudulent and corrupt conduct
- developing and strengthening partnerships, both at the Commonwealth and international level, to facilitate information-sharing arrangements.

Investigations

In 2016–17, there were 259 fraud investigations registered within Defence, with 274 investigations completed during the year (some of those completed were registered in previous years). Approximately 24 per cent of completed investigations resulted in criminal, disciplinary or administrative action. Of these, approximately 40 per cent related to disciplinary action under the *Defence Force Discipline Act 1982*.

Table 5.5. shows determined fraud losses and recoveries in 2016–17 and the preceding four years.

Table 5.5: **Determined fraud losses and recoveries, 2012–13 to 2016–17**

	2012–13 (\$)	2013–14 (\$)	2014–15 (\$)	2015–16 (\$)	2016–17 (\$)
Loss	835,685	1,400,422	480,937	535,766	608,593
Recovery	393,902	133,457	161,693	202,879	225,890

Compliance with the finance law

During 2016–17, Defence reported 29 instances of significant noncompliance with the finance law, proven as fraud committed by an official and addressed by Defence authorities through criminal, disciplinary or administrative action. Significant fraud cases are also reported separately to the Minister for Defence in accordance with reporting requirements set out in the Commonwealth Fraud Control Framework. Strategies for minimising instances of fraud are outlined above (see ‘Fraud and ethics’).

Exercise of the Defence Minister’s powers under the Customs Act

In accordance with the requirements of section 112BC, within Division 1AA of the *Customs Act 1901*, the Minister for Defence must table a statement on the exercise of the Minister’s powers under Division 1AA of the Act for each preceding year. For the period 1 July 2016 to 30 June 2017, the Minister for Defence exercised the powers pursuant to Division 1AA of the Act on one occasion.

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, who holds a statutory appointment outside the ordinary chain of command, independently and impartially monitors and assesses the health and effectiveness of the military justice system. A new Inspector-General of the Australian Defence Force Regulation 2016 came into force on 1 October 2016, providing additional IGADF functions.

The functions of the IGADF are to:

- provide the Chief of the Defence Force with a mechanism for internal audit and review of the military justice system
- provide an avenue by which failures in the military justice system may be examined and remedied
- provide advice on matters concerning the military justice system
- conduct internal reviews of redress of grievances
- conduct inquiries into or investigate deaths of Australian Defence Force (ADF) members (where the death appears to have arisen out of, or in the course of, the member’s Defence service)
- inquire into or investigate matters concerning the ADF as directed by the Minister for Defence or the Chief of the Defence Force.

Consistent with previous reporting periods, the operating tempo in the Office of the IGADF remained relatively high in 2016–17. Twenty-nine submissions were under inquiry at the start of the reporting period, and an additional 61 inquiry submissions were received by the IGADF during 2016–17. During the same period, 42 submissions were finalised. The remaining 48 inquiry submissions were ongoing at the end of the reporting period.

In addition to these inquiry submissions, the IGADF received 32 submissions relating to Service Police professional standards matters. Of these, 19 became the subject of IGADF investigations, while 13 were assessed by the IGADF as matters that should more appropriately be addressed by another Defence investigative authority.

During 2016–17, 53 military justice performance audits were conducted. This represents approximately 10 per cent of all auditable ADF units. Potential material deficiencies were identified in one unit. Units identified as having potential material deficiencies are re-audited within 12 months. During the conduct of the military justice performance audits, 2,669 ADF personnel participated in focus group discussions.

In 2016–17, the IGADF initiated 43 new reviews of deaths in service of ADF members and finalised 23 reviews (18 from deaths in previous years and five from 2016–17). The IGADF also finalised four formal inquiries into ADF member deaths, finalised one inquiry into a non-death matter, and recommenced management and coordination of administrative support for the resumption of a Chief of the Defence Force Commission of Inquiry.

In 2016–17, there were 423 new applications for redress of grievance received, an increase of approximately 8 per cent from 2015–16. Ninety-one of these applications were submitted under the Defence Force Regulations 1952, while 332 were submitted under the Defence Regulation 2016, which came into effect on 1 October 2016.

In 2016–17, there were 370 applications for redress of grievance finalised, some of which were received in the same financial year, while others had been received in previous reporting periods.

Pursuant to section 110R of the *Defence Act 1903*, the IGADF prepares an annual report on the operations of the Office of the IGADF for the Minister, for presentation to the Parliament, at the end of each financial year. For more information and to access a copy of the latest IGADF annual report, visit www.defence.gov.au/mjs/reports.asp.



ASSURANCE

6



Commanding Officer 2nd Battalion, Royal Australian Regiment,
Lieutenant Colonel Douglas Pashley CSC, speaks on his radio
during a contact at Shoalwater Bay Training Area in North
Queensland as part of Exercise Talisman Saber 2017.

Parliamentary business

In 2016–17, Defence provided 21 written submissions to various Senate, House of Representatives and joint committee inquiries. Defence witnesses appeared at 19 hearings and provided evidence on a range of issues. Defence took a total of 579 questions on notice from Senate estimates, House of Representatives/Senate notice papers, and parliamentary committees. Defence also contributed to three whole-of-government submissions and tabled 14 government responses to parliamentary committee reports throughout the year.

To assist parliamentary committee members to gain a better understanding of Defence issues, Defence provided 24 private briefings on a range of subjects.

Table 6.1 provides a summary of Defence's parliamentary contributions in 2016–17 and the three preceding years.

Table 6.1: Defence's parliamentary contributions, 2013–14 to 2016–17

Parliamentary contribution	2013–14	2014–15	2015–16	2016–17
Written submissions	8	10	11	21
Whole-of-government submissions	1	–	–	3
Government responses	8	7	12	14
Public hearings	12	25	36	19
Private briefings	25	12	14	24
Total	54	54	73	81

Parliamentary committees

Joint committees

Table 6.2 lists Defence's involvement in inquiries and reviews by parliamentary joint committees from 1 July 2016 to 30 June 2017. Defence's involvement in hearings of the Parliamentary Standing Committee on Public Works is discussed separately below.

Table 6.2: Defence's involvement with parliamentary joint committees, 2016–17

Joint Standing Committee on Foreign Affairs, Defence and Trade
Review of the Defence Annual Report 2015–16
Inquiry into principles and practice—Australian defence industry and exports
Joint Committee of Public Accounts and Audit
Inquiry into Defence sustainment expenditure
Inquiry into the 2015–16 Major Projects Report (ANAO audit report no. 40, 2016–17)
ANAO briefing on Tiger—Army's Armed Reconnaissance Helicopter report (ANAO audit report no. 11, 2016–17)
Report 456: Defence Major Equipment Procurement and Evaluation, and Great Barrier Reef Regulation ¹
Report 458: Defence Major Projects Report (2014–15) ¹
Parliamentary Joint Committee on Intelligence and Security
Review of Administration and Expenditure No. 15 (2015–16)
Joint Standing Committee on Treaties
Inquiry to examine the framework agreement between the Government of Australia and the Government of the French Republic concerning cooperation on the Future Submarine program
Inquiry to examine the agreement between the Government of Australia and the Government of the French Republic regarding the exchange and reciprocal protection of classified information
Inquiry to examine the agreement between the Government of Australia and the Government of Japan concerning reciprocal provision of supplies and services between the Australian Defence Force and the Self-Defense Forces of Japan
Women in Combat Duties—inquiry into the withdrawal of Australia's reservation under the Convention on the Elimination of all Forms of Discrimination against Women
Joint Select Committee on Northern Australia
Pivot North—inquiry into the development of northern Australia ²

Joint Standing Committee on the National Capital and External Territories

Inquiry into the strategic importance of the Indian Ocean Territories

Joint Select Committee on Government Procurement

Inquiry into the Commonwealth procurement framework

Note: Defence's involvement in hearings of the Parliamentary Standing Committee on Public Works are discussed separately. Defence major projects and medium works referred or notified to the committee in 2016–17 are shown in tables 6.3 and 6.4.

1. Defence provided responses to reports 456 and 458 of the Joint Committee of Public Accounts and Audit in November 2016.

2. Defence provided a revised response to the Pivot North inquiry in March 2017.

Parliamentary Standing Committee on Public Works

In 2016–17, Defence witnesses appeared at eight hearings of the Parliamentary Standing Committee on Public Works. Defence referred 11 major projects and notified 19 medium works to the committee in 2016–17 (tables 6.3 and 6.4).

Table 6.3: Defence major projects referred to the Parliamentary Standing Committee on Public Works, 2016–17

Project	Location	Value (\$m)
LAND 17 Phases 1B and 1C—Indirect Fire Support Facilities	Multiple sites	57.1
AlR 3024—Woomera Range Safety and Control System Remediation	SA	48.6
JP 500 Phase 2A—Electronic Warfare Operational Support	SA	24.9
Australian Cyber Security Centre	ACT	36.3
Garden Island East Critical Infrastructure Recovery, Stage 1	NSW	213.4
Russell Buildings R5 and R6 Infrastructure Upgrade	ACT	75.4
LAND 155—Enhanced Gap Crossing Capability	Multiple sites	23.4
HMAS Moreton Unit Relocation	QLD	15.6
JP 2008 Phase 5B2—Satellite Ground Station – East Facilities Project	NSW	34.0
Explosive Ordnance Logistics Reform Program	Multiple sites	230.9
HMAS Cerberus Redevelopment	VIC	463.1
Total		1,222.7

Table 6.4: Defence medium works notified to the Parliamentary Standing Committee on Public Works, 2016–17

Project	Location	Value (\$m)
Building Works at Royal Military College – Duntroon	ACT	3.3
Garden Island (East) Building 130 Refurbishment	NSW	5.6
AMAB 157—Partial Reconstruction of Papa Ramp at Al Minhad Air Base	United Arab Emirates	11.3
Tank Integration Interim Facilities	SA	7.6
First Principles Review Accommodation Implementation	ACT	7.4
RAAF Base Curtin Fuel Instillation Works	WA	10.3
LAND 136 Phase 1—Land Force Mortar Replacement	Multiple sites	4.5
Joint Australian National University – Defence Cyber Facility	ACT	12.0
Vehicle Wash Point, Shoalwater Bay Training Area	QLD	6.8
QD 10750—Road Maintenance at Shoalwater Bay Training Area	QLD	5.3
SN 10622—Solar Power Plant for Headquarters Joint Operations Command	ACT	9.8
Infrastructure in Support of LAND 3025 Phase 1 at Holsworthy Barracks	NSW	8.1
Helicopter Support Facility Hangar Remediation, HMAS Stirling	WA	2.6
Next Generation Desktop End User Computing Project	Multiple sites	5.3
Combat Training Centre (Tully Training Area) Replacement Stokes Litters and Suspension Bridge	QLD	4.4
Defence Science and Technology Group Graytown Armour Testing Facility	VIC	5.0
Defence Science and Technology Group Underwater Explosive Ordnance Test Facility, Nagambie	VIC	7.6
LAND 500 Phase 1—Remediation of Tactical Land Electronic Warfare	Multiple sites	14.3
Small Arms Range Project, Robertson Barracks	NT	6.9
Total		138.1

Senate committees

Table 6.5 lists Defence's involvement in Senate committee inquiries from 1 July 2016 to 30 June 2017.

Table 6.5: Defence's involvement with Senate committees, 2016–17

Senate Standing Committee on Foreign Affairs, Defence and Trade
Inquiry into the Planned Acquisition of the F-35A Lightning II (Joint Strike Fighter)
Inquiry into the Operation of the Australian Defence Force's Resistance to Interrogation Training
Inquiry into Defence's Physical Science and Engineering Workforce
Inquiry into the Defence Legislation Amendment (Military Justice Enhancements—Inspector-General ADF) Bill 2014
Inquiry into the Impact of Defence Training Activities and Facilities on Rural and Regional Communities
Inquiry into the Department of Defence's Management of Credit and Other Transaction Cards
Inquiry into New South Wales Police Strike Force CIVET
Inquiry into the Mental Health of ADF Serving Personnel
Inquiry into the Safety, Rehabilitation and Compensation Legislation Amendment (Defence Force) Bill 2016
Inquiry into Suicide by Veterans and Ex-Service Personnel
Inquiry into Veterans' Affairs Legislation Amendment (Omnibus) Bill 2017 [provisions]
Senate Economics References Committee
Inquiry into the Foreign Investment Review Framework
Inquiry into the Future of Australia's Naval Shipbuilding Industry Part 2
Inquiry into the Future of Australia's Naval Shipbuilding Industry Part 3
Senate Finance and Public Administration References Committee
Inquiry into the Operation of the Administrative Arrangements Order
Senate Rural and Regional Affairs and Transport References Committee
Inquiry into the Regulatory Requirements that Impact on the Safe Use of Remotely Piloted Aircraft Systems, Unmanned Aerial Systems and Associated Systems
Senate Select Committee into the Scrutiny of Government Budget Measures
Inquiry into the Scrutiny of Government Budget Measures

House of Representatives committees

Defence did not have any direct involvement in inquiries or reviews undertaken by House of Representatives committees in 2016–17.

Senate estimates and questions on notice

Defence attended four estimates hearings before the Senate Standing Committee on Foreign Affairs, Defence and Trade in 2016–17. A total of 432 questions were taken on notice.

In 2016–17, Defence was asked a total of 38 questions in the Senate and House of Representatives. For parliamentary inquiries, Defence was asked a total of 110 questions during 2016–17.

Table 6.6 provides information on Defence's activities in relation to the Senate estimates process from 1 July 2016 to 30 June 2017. Table 6.7 presents a breakdown of the parliamentary questions on notice.

Table 6.6: Defence's involvement with Senate estimates, 2016–17

Senate Standing Committee on Foreign Affairs, Defence and Trade	
Supplementary Budget Estimates 2016–17	Defence witnesses appeared at a hearing on 19 October 2016. A total of 168 questions, consisting of 234 parts, were taken on notice from the hearing.
Additional Estimates 2016–17	Defence witnesses appeared at a hearing on 1 March 2017. A total of 105 questions, consisting of 268 parts, were taken on notice from the hearing.
Additional Estimates (Spill-over) 2016–17	Defence witnesses appeared at a hearing on 30 March 2017. A total of 21 questions, consisting of 55 parts, were taken on notice from the hearing.
Budget Estimates 2016–17	Defence witnesses appeared at a hearing on 29–30 May 2017. A total of 138 questions, consisting of 368 parts, were taken on notice from the hearing.

Table 6.7: Defence's questions on notice, 2014–15 to 2016–17

Source of questions on notice	2014–15	2015–16	2016–17
House of Representatives/Senate notice paper	134	142	37
Senate estimates (October, March and May)	359	314	432
Parliamentary inquiries	134	80	110
Total	627	536	579

Judicial and administrative tribunal decisions

In *Chief of the Defence Force v Gaynor* [2017] FCAFC 41, the Full Federal Court of Australia determined on appeal that the primary judge erred in the level at which he applied the test in *Lange v Australian Broadcasting Corporation* (1997) 189 CLR 520, by finding the freedom of political communication as an individual right. On this basis, and upon finding that regulation 85 of the Defence Force (Personnel) Regulations 2002 (Cth) was valid, the appeal was allowed. The significance of the court's decision is that the implied freedom test is not to be applied to an individual exercise of (statutory) executive power, but to the statute or regulation under which the administrative action is taken. Mr Bernard Gaynor has applied to the High Court of Australia for special leave to appeal from the whole of the judgment of the Full Federal Court.¹

In *FJ v Commonwealth of Australia* [2017] VSCA 84, the Victorian Court of Appeal found that a damages action for pregnancy and childbirth is not barred by section 388 of the *Military Rehabilitation and Compensation Act 2004* (MRCA). The Court of Appeal delivered a unanimous joint judgment of the three judges granting the applicant's application to further amend her statement of claim; granting leave to appeal and allowing the appeal. The Commonwealth has lodged an application to the High Court seeking special leave from the decision of the Court of Appeal. The application was made on the basis that FJ's continued pregnancy and childbirth is properly characterised as compensable injuries under the MRCA, and therefore an action for common law damages does not lie against the Commonwealth as it is barred by section 388 of the MRCA.

There were eight appeals dealt with by the Defence Force Discipline Appeal Tribunal during the reporting period. These cases (in order of judgment) were *Angre v Chief of Navy (No 1)* [2016] ADFDAT 1, *Angre v Chief of Navy (No 2)* [2016] ADFDAT 2, *Williams v Chief of Army* [2016] ADFDAT 3, *McKenna v Chief of Navy* [2017] ADFDAT 1, *Angre v Chief of Navy (No 3)* [2017] ADFDAT 2, *Baker v Chief of Army* [2017] ADFDAT 3, *Douglas v Chief of Army* [2017] ADFDAT 5, and *Komljenovic v Chief of Navy* [2017] ADFDAT 4. The tribunal's judgments may be obtained from its website (www.defenceappeals.gov.au).

Commonwealth Ombudsman and Defence Force Ombudsman reports

There were no reports by either the Commonwealth Ombudsman or the Defence Force Ombudsman pursuant to sections 15, 16, 17 or 19 of the *Ombudsman Act 1976* during the 2016–17 reporting period.

¹ The High Court has listed the special leave application for oral hearing on 18 August 2017.

Auditor-General's reports

In 2016–17, six performance audit reports by the Auditor-General relating directly to Defence were tabled in Parliament, as outlined in Table 6.8.

Table 6.8: Auditor-General's reports on Defence, 2016–17

Report	Date presented to Parliament	Audit objective
ANAO report no. 11—Tiger—Army's Armed Reconnaissance Helicopter	1 September 2016	Examine progress since 2007 in introducing into service a fully capable Tiger fleet and cost-effective sustainment arrangements
ANAO report no. 21—Reforming the Disposal of Specialist Military Equipment	17 October 2016	Assess implementation of the five recommendations in ANAO report no. 19, 2014–15—Management of the Disposal of Specialist Military Equipment, and the related recommendation in Joint Committee of Public Accounts and Audit Report 449—Review of Auditor-General's Reports Nos. 1–23 (2014–15)
ANAO report no. 29—Design and Implementation of Defence's Base Services Contracts	14 December 2016	Assess effectiveness of design and implementation of the Base Services contracts
ANAO report no. 40—2015–16 Major Projects Report	28 February 2017	Provide the Auditor-General's independent assurance over the status of selected major projects
ANAO report no. 44—Army's Workforce Management	27 March 2017	Assess effectiveness of the Army's workforce planning
ANAO report no. 48—Future Submarine—Competitive Evaluation Process	27 April 2017	Assess effectiveness of design and implementation of arrangements to select a preferred strategic partner for the Future Submarine program

In 2016–17, the Auditor-General tabled in Parliament three cross-portfolio performance audit reports involving Defence (Table 6.9).

Table 6.9: Auditor-General's cross-portfolio reports involving Defence, 2016–17

Report	Date presented to Parliament	Audit objective
ANAO report no. 16—Offshore Processing Centres in Nauru and Papua New Guinea: Procurement of Garrison Support and Welfare Services	13 September 2016	Assess whether the Department of Immigration and Border Protection had appropriately managed the procurement of garrison support and welfare services at offshore processing centres in Nauru and Papua New Guinea
ANAO report no. 18—Confidentiality in Government Contracts: Senate Order for Entity Contracts (Calendar Year 2015 Compliance)	27 September 2016	Assess appropriateness of the use and reporting of confidentiality provisions in a sample of Australian Government contracts
ANAO report no. 46—Conduct of the OneSKY Tender	10 April 2017	Assess whether the OneSKY tender was conducted so as to provide value with public resources and achieve required timeframes for the effective replacement of the existing air traffic management platforms

Capability reviews

No external reviews of Defence's organisational capability were conducted by the Australian Public Service Commission in 2016–17.

Defence Housing Australia

Defence Housing Australia (DHA) has a strong record of establishing and maintaining relationships with the communities in which DHA residential developments are constructed. During 2016–17, DHA continued to review its approach to ensure that communication plans were tailored to meet the specific needs of each residential development. DHA aims to make information about residential development projects publicly available wherever possible, in line with the requirements of the applicable local council or authorities.

Defence is satisfied that DHA had appropriate procedures in place during 2016–17 to engage with the community and stakeholders regarding its residential developments. Consultation is undertaken with the community and feedback is considered as part of the planning process for every residential development. DHA's community engagement guidelines include communication strategies such as letter drops, internet sites, newsletters, digital and print media, and community information sessions.

Further information is available in DHA's annual reports, which can be accessed at www.dha.gov.au/about-us/our-organisation/annual-reports.

Freedom of information

During 2016–17, Defence received 384 requests for information under section 15 of the *Freedom of Information Act 1982* (FOI Act) and finalised 381. This latter figure includes requests carried over from 2015–16. An additional two requests, for amendment or annotation of records of personal information, were managed under section 48 of the FOI Act. Defence also received 47 internal reviews of freedom of information decisions and finalised 45. The finalised internal reviews included cases carried over from the previous financial year. Defence remained 100 per cent compliant with the legislative deadlines in 2016–17.

Defence managed an additional 843 requests for information outside the FOI Act. Of these, 389 were requests for access to personnel records. These were processed in accordance with section 15A of the FOI Act, which provides for access to be given in such cases through established administrative channels. Defence received 85 courtesy consultations from other government agencies in 2016–17.

Contracts exempt from publication on AusTender

In 2016–17, Defence reported a total of 248 contracts, standing offers or variations, with a total value of \$434,141,533.29, which were exempt from being published on the AusTender website under provisions of the FOI Act. These exemptions were generally applied under the national security, defence or international relations provisions of the Act.

Information Publication Scheme

Entities subject to the FOI Act are required to publish information 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 on Defence's Information Publication Scheme website at www.defence.gov.au/ips.

Defence Public Interest Disclosure Scheme

The Defence Public Interest Disclosure Scheme continues to facilitate a strong reporting culture in Defence. The scheme facilitates and encourages reports of suspected wrongdoing, provides support and protection to disclosers, and ensures that suspected wrongdoing is investigated where appropriate.

Defence worked closely with the Commonwealth Ombudsman in 2016–17 to ensure continuing improvement and consistency with the rest of government in the implementation and operation of the *Public Interest Disclosure Act 2013*.

During 2016–17, Defence received a total of 269 matters reported under the Defence Public Interest Disclosure Scheme. Of these, Defence accepted 217 matters as public interest disclosures and allocated them for investigation.

New recruitment strategies delivering a diverse and skilled workforce

Diversity and inclusion in Defence is a critical capability issue. Attracting people who represent the Australian population in its diversity ensures that we are getting the best talent that Australia can provide, and in doing so, ensures that we can deliver and sustain Defence capability.

This year, the focus has continued on the recruitment of Indigenous Australians, women, and science, technology, engineering and mathematics graduates.

This focus has seen the percentage of Indigenous Australian Defence Force members increase from 2 per cent to 2.3 per cent and Indigenous Australian Public Service employees increase from 1.8 per cent to 2 per cent.

The percentage of women in the Australian Defence Force and Defence Australian Public Service workforce increased from 15.5 per cent to 16.7 per cent and from 41.2 per cent to 41.8 per cent respectively.

Indigenous entry pathways

In 2016–17, Defence prepared around 200 Indigenous Australians for a job in the Navy, Army or Air Force through the Indigenous Pre-Recruit Program, the Defence Indigenous Development Program and the Army Indigenous Development Program.

The Indigenous Pre-Recruit Program is a six-week residential program held at the Kapooka Army base in Wagga Wagga, New South Wales. Participants from all over Australia become ADF members on day one of the program. Upon completion, members undertake recruit training with the Navy, Army or Air Force before commencing employment.

Twenty-year-old Wiradjuri man, Blake Kernan, graduated in June 2017 and described the program as ‘amazing’.

‘I was quite the shy one, but being here has helped me lift my voice. They have given me leadership and a lot

of courage. I am proud to be who I am,’ Kernan said.

Defence will continue to offer entry pathways to Indigenous Australians interested in a career in 2017 and beyond, with at least 10 programs to be available each year.

A military career is not the only pathway into Defence for Aboriginal and Torres Strait Islander people. The Indigenous Apprenticeships Program (managed and coordinated by the Department of Human Services) and the Indigenous Australian Government Development Program (managed by the Department of Employment) saw the successful engagement of 70 Indigenous Australians in 2016–17.

Trainees enter Defence at either the APS 2 or APS 3 level and complete a certificate- or diploma-level qualification before moving on to their next Australian Public Service classification.

Defence has committed to the recruitment of a further 90 trainees through the two programs in 2017–18.

Women

While women make up half the Australian population, they remain underrepresented in Defence. Achieving a better gender balance is not just about equality or doing the right thing, it is about building our capability and ensuring our operational effectiveness.

As Senator the Hon Marise Payne, Minister for Defence, said at a Defence leadership forum in early 2017:

As the Minister for Defence, and particularly the first female Minister for Defence, I am enormously proud of the significant focus this organisation has placed on increasing gender equality. I am particularly proud of the number of initiatives Defence has in place to increase female participation and the advancement of women through the leadership pipeline. These initiatives are removing barriers and are paying dividends.

Over the past 12 months, there has been an increase in the number of women in both the Australian Defence Force and Defence’s public service workforce. In the most recent recruitment rounds for the Senior Executive Service, where 43 per cent of appointments were women, compared to around 30 per cent in the existing senior executive cohort. For the first time, there are two women at the top table in the Defence leadership ranks—Deputy Secretary Strategic Policy and Intelligence, Rebecca Skinner, and Deputy Secretary Defence People, Roxanne Kelley.

Defence will continue to sustain a dedicated focus on increasing the representation of women in Defence. This includes an ongoing investment in attraction, recruitment and retention of women, the removal of barriers to progression, and facilitating career development through mentoring and leadership opportunities.

Science, technology, engineering and mathematics workforce

Defence's innovative efforts to attract and retain a workforce with science, technology, engineering and mathematics (STEM) skills are also producing results.

Defence conducts entry-level engagement activities, including sponsorships, cadetships, employability workshops and 'women in leadership' talks for female tertiary students studying STEM disciplines. Defence also supports STEM-focused tertiary, secondary and primary school outreach activities through

targeted programs, and via collaboration with external specialist organisations.

To support retention of women in STEM disciplines, the Defence Science and Technology Group is participating in the Science in Australia Gender Equity program of the Athena SWAN (Scientific Women's Academic Network). The Science in Australia Gender Equity program is an accreditation and improvement program promoting gender equity in science, technology, engineering, mathematics and medicine organisations.

In addition, the Defence Civilian Undergraduate Sponsorship offers aspiring university students the opportunity to study engineering or ICT through the University of New South Wales Canberra campus at the Australian Defence Force Academy. Participants receive 'hands on' paid work experience and get a head start for a future career within Defence.



HMAS Anzac sailors work as members of the flight deck team to safely receive stores from an MRH-90 helicopter during Exercise Talisman Saber 2017.



STRATEGIC WORKFORCE MANAGEMENT

Members of the Defence Strategic Workforce Plan team go over the final edition of their plan.

L-R: Kim Anderson (seated), Wing Commander Ian Kirkham, Kathryn Buoro (seated), Wendy Wallace-Pannell, Commander Greg Chesher, and Tanya Sargeant (seated).

Workforce summary

Defence budgets for its Australian Defence Force (ADF) workforce on a ‘funded strength’ basis and the Australian Public Service (APS) workforce on a full-time equivalent (FTE) basis. Defence uses actual FTE as the most accurate indicator of current staffing levels. By contrast, workforce planning is based on average funded strength (for the ADF) and average FTE (for the APS workforce) for the financial year. These averages, while suitable for planning and budgeting purposes, are lag indicators against the actual end-of-year figures.

Defence also records some statistical data by headcount, in which 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, and 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 figures.

Implementation of First Principles Review recommendations

The First Principles Review recommended that Defence be clear and deliberate about its workforce requirements and ensure that staff are appropriately skilled. To support implementation of the First Principles Review and Defence White Paper capabilities, key workforce initiatives in 2016–17 included:

- the development of the Defence Strategic Workforce Plan 2016–2026, which provides the strategic direction and defines the system for the future Defence workforce. It outlines initiatives to address risks and other issues that were identified after analysis of the environment and workforce
- the completion of Group and job family workforce plans, which was informed by a skills census across the 20 job families in the APS. These plans will assist in driving recruitment, learning and development, and succession planning and talent management, including in occupations involving science, technology, engineering and mathematics
- the review of ADF positions in non-Service Groups. The purpose of the review was to ensure Defence employs ADF personnel in non-Service roles only when it is critical to achieving capability.

A core theme of the First Principles Review was leadership accountability, with an emphasis on the organisation being ‘One Defence’. Over the past 12 months, the focus has been on embedding the One Defence leadership behaviours within the Senior Leadership Group (Figure 7.1).

Figure 7.1: One Defence leadership behaviours



Key achievements include:

- a new approach to Senior Executive Service performance appraisals, which places greater emphasis on leadership behaviour, particularly people management and the demonstration of the One Defence leadership behaviours
- Senior Leadership Group role charters, which articulate the accountabilities for every senior leadership position in Defence, and when mapped out across the organisation, align to form a complete picture of what Defence needs to do in order to deliver on Government requirements
- a 360-degree feedback program for senior leaders, which provides feedback against the One Defence leadership behaviours, including an individual development plan to assist the leader in focusing on specific areas requiring development
- an annual upward feedback process for the Senior Leadership Group, so that direct reports provide feedback to their second-level supervisor on the performance and people leadership of their first-level supervisor over the performance period
- a leadership 'climate scan', which provides workforce data specific to each senior leader's team, to support conversations around organisational performance. The tool is used by senior leaders and their managers to discuss areas that warrant further focus in terms of improving organisational performance.

The One Defence leadership behaviours have been incorporated into all enterprise leadership and development programs to instil stronger accountability for delivering One Defence outcomes.

Over the next 12 months, Defence will maintain the focus on continuing organisational change to achieve a stronger performance culture. This includes building on the Pathway to Change cultural reform program and the First Principles Review reforms through a new cultural intent statement and six enterprise priorities for driving cultural reform from 2017 through to 2022.

Workforce planning

This section provides information on average workforce strength during 2016–17. Like other Commonwealth agencies, Defence uses average workforce strength figures for planning and budgeting purposes.

Australian Defence Force

ADF staffing figures for 2015–16 and 2016–17 are shown in Table 7.1.

Table 7.1: Australian Defence Force staffing figures, 2015–16 and 2016–17

ADF staffing measure ^{1,2}	2015–16	2016–17	Variation
For workforce planning purposes:			
Actual funded strength (paid strength as at 30 June)	58,578	58,612	+34
Average funded strength (over the financial year)	58,061	58,680	+619
For other statistical data:			
Permanent headcount (on duty/leave and paid/unpaid)	58,014	58,206	+192

Notes

1. Funded strength figures include the ADF Gap Year. For consistency with other tables in this chapter, the headcount figures do not include the ADF Gap Year, which had 395 participants on 30 June 2016, rising to 457 participants on 30 June 2017.
2. Funded strength figures do not include the Reserve workforce other than those on continuous full-time service, who are paid through the same mechanism as Permanent Force members. For consistency with other tables in this chapter, the headcount figures do not include Reserve members.

Table 7.2 details ADF Permanent Force average funded strength for 2016–17, which includes Reserves on continuous full-time service. ADF strength was 58,680 in 2016–17, an increase of 619 from 2015–16. Average funded strength for Reservists on continuous full-time service was 823 (comprising Navy 290, Army 447 and Air Force 86)—a decrease of 103 from 2015–16.

Table 7.2: **ADF Permanent Force, and Reserves undertaking continuous full-time service, average funded strength, 2015–16 and 2016–17**

	2015–16 actual	2016–17 budget estimate ¹	2016–17 revised estimate ²	2016–17 actual	Variation (2016–17 revised estimate and actual)	
					No.	%
Navy	14,232	14,394	14,219	14,077	–142	–1.0
Army	29,635	30,430	30,309	30,314	+5	0.0
Air Force	14,194	14,385	14,295	14,289	–6	0.0
Total average funded strength	58,061	59,209	58,823	58,680	–143	–0.2

Note: Figures in this table are average strengths; they are not a headcount. Reservists undertaking continuous full-time service are included in the figures. Members on forms of leave without pay are not included.

- 1. As published in the Portfolio Budget Statements 2016–17.
- 2. As published in the Portfolio Additional Estimates Statements 2016–17.

ADF enlistments and separations

The permanent ADF headcount increased by 192 in 2016–17; this reflects the net difference between enlistments and separations.

The ADF enlisted 5,462 permanent members, made up of 3,927 men and 1,535 women, for the 12 months to 30 June 2017. This was 33 more enlistments than in 2015–16.

ADF enlistments can be categorised as ab initio (those with no prior military service) or prior service enlistments. Of the 5,462 ADF permanent members enlisted, 936 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 4,526 ab initio entrants.

A-22 bundles containing rations descend to the Cormorant Drop Zone in High Range Field Training Area, after being airdropped for Exercise Brolga Strike 2017.



Tables 7.3 and 7.4 provide comparative information about ADF Permanent Force separations over the last two years.

Table 7.3: **ADF Permanent Force, 12-month rolling separation rates, as at 30 June 2016 and 30 June 2017**

12-month rolling separation rate (%)		
	30 June 2016	30 June 2017
Navy	7.7	9.6
Army	10.1	10.2
Air Force	5.3	6.0
Total ADF Permanent Force	8.3	9.0

Table 7.4: **ADF Permanent Force separations, 2015–16 and 2016–17**

		Voluntary separations ¹	Involuntary separations ²	Age retirement	Trainee separations	Total
2015–16³						
Navy	Officers	117	32	7	51	207
	Other ranks	477	182	2	211	872
Army	Officers	251	67	26	117	461
	Other ranks	1,303	661	14	538	2,516
Air Force	Officers	140	54	16	41	251
	Other ranks	324	106	21	61	512
Total ADF Permanent Force	Officers	508	153	49	209	919
	Other ranks	2,104	949	37	810	3,900
	Total	2,612	1,102	86	1,019	4,819
2016–17						
Navy	Officers	144	37	12	64	257
	Other ranks	607	304	3	170	1,084
Army	Officers	225	90	5	94	414
	Other ranks	1,312	804	17	525	2,658
Air Force	Officers	160	53	9	33	255
	Other ranks	381	147	28	46	602
Total ADF Permanent Force	Officers	529	180	26	191	926
	Other ranks	2,300	1,255	48	741	4,344
	Total	2,829	1,435	74	932	5,270

Notes: Figures in this table show Permanent Force headcount 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. ADF members 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, unsuitable for further duty, who died while serving or who were part of 'management-initiated early retirement', which is now called 'command-initiated transfer to the Reserve'.

3. Data for 2015–16 does not match the data provided in the *Defence Annual Report 2015–16* due to retrospective transactions.

ADF Reserves

The number of days each ADF Reserve member works in a year can vary substantially, depending on personal circumstances and organisational need. To reflect this, Table 7.5 shows both the total number of days served by Reserve members in 2016–17, and the number of Reservists who rendered paid service.

During 2016–17, there was a decrease of 22,455 days' service over 2015–16 to a total of 967,063 (104,445 Navy, 653,458 Army and 209,160 Air Force), while the number of Reservists undertaking service increased by 296 to 19,634 (1,777 Navy, 14,579 Army and 3,278 Air Force).

As Table 7.5 shows, the number of days served by both Navy and Air Force Reserve members was higher than forecast (by 4.4 per cent and 2.5 per cent respectively), while the variation for the Army was minimal.

Table 7.5: ADF Reserve paid strength, 2015–16 and 2016–17

	2015–16 actual: days served (members paid)	2016–17 budget estimate ¹ : days served (members paid)	2016–17 revised estimate ² : days served (members paid)	2016–17 actual: days served (members paid)	Variation (2016–17 revised estimate and actual)	
					No.	%
Navy	101,729 (1,803)	81,000 (1,760)	100,000 (1,800)	104,445 (1,777)	+4,445 –23	4.4 –0.0
Army	684,673 (14,402)	700,000 (14,250)	660,000 (14,500)	653,458 (14,579)	–6,542 +79	–1.0 0.5
Air Force	203,116 (3,133)	190,000 (3,100)	204,000 (3,100)	209,160 (3,278)	+5,160 +178	2.5 5.7
Total paid Reserves	989,518 (19,338)	971,000 (19,110)	964,000 (19,400)	967,063 (19,634)	+3,063 +234	0.3 1.2

Note: As the number of days or hours worked by Reserve members can vary greatly, figures in this table show the total number of days' service rendered, with a headcount of members rendering paid service in brackets. Reservists undertaking continuous full-time service in the Permanent Force are not included in this table; they are included in Table 7.2.

1. As published in the Portfolio Budget Statements 2016–17.

2. As published in the Portfolio Additional Estimates Statements 2016–17.

Australian Public Service workforce

APS staffing figures for 2015–16 and 2016–17 are shown in Table 7.6.

Table 7.6: Australian Public Service staffing figures, 2015–16 and 2016–17

APS staffing measure	2015–16	2016–17	Variation
For workforce planning purposes:			
Actual full-time equivalent (paid strength as at 30 June)	17,423	17,308	–115
Average full-time equivalent (over the financial year)	18,071	17,269	–802
For other statistical data:			
Headcount figure (on duty/leave, full-time or part-time, paid/unpaid)	18,577	18,397	–180

Note: Figures include both ongoing and non-ongoing APS employees.

Table 7.7 shows details of the APS workforce average strength, expressed as average FTE, for 2016–17. The APS average strength was 17,269 in 2016–17. This was a decrease of 802 from the 2015–16 figure of 18,071. As Table 7.8 shows, there was a decrease in the APS workforce, as measured on the last payday in 2016–17, of 192 FTE staff compared to the 2016–17 revised estimate of 17,500—the lowest workforce level since 2001–02.

The reduction occurred through continuing reforms to Defence's business practices and service delivery model, which laid the foundation for a rebalancing of the workforce through 2016 Defence White Paper initiatives, and to meet the recommendations of the First Principles Review.

Table 7.7: APS workforce, average full-time equivalent, 2015–16 and 2016–17

	2015–16 actual	2016–17 budget estimate ¹	2016–17 revised estimate ²	2016–17 actual	Variation (2016–17 revised estimate and actual)	
					No.	%
Total APS	18,071	17,950	17,350	17,269	–81	–0.5

Note: These figures are average full-time equivalent; they are not a headcount.

1. As published in the Portfolio Budget Statements 2016–17.

2. As published in the Portfolio Additional Estimates Statements 2016–17.

Table 7.8: APS workforce, end-of-year full-time equivalent, 2015–16 and 2016–17

	2015–16 actual	2016–17 budget estimate ¹	2016–17 revised estimate ²	2016–17 actual	Variation (2016–17 revised estimate and actual)	
					No.	%
Total APS	17,423	18,200	17,500	17,308	–192	–1.1

Note: Figures in this table are actual full-time equivalent for the last payday of 2016–17. Employees on forms of leave without pay are not included. The figures differ from Table 7.7, as that table shows the average full-time equivalent across the full year.

1. As published in the Portfolio Budget Statements 2016–17.

2. As published in the Portfolio Additional Estimates Statements 2016–17.

Contractor workforce

Defence's contractor workforce was 2,037 as at 30 June 2017.

APS recruitment and separations

Defence recruited 1,366 APS employees during 2016–17, including 284 as part of the graduate program.

The APS headcount decreased by 180, which reflects the net difference between recruitment and separations (Table 7.9). The majority of separations were due to resignation or retirement from Defence.

Table 7.9: APS separations, 2015–16 and 2016–17

	Voluntary redundancy ¹	Involuntary separations ²	Resignation/retirement ³	Transfers ⁴	Total
2015–16⁵					
Senior Executive Service	2	–	32	4	38
Executive Levels 1 and 2	573	22	278	121	994
Other levels	74	63	854	238	1,229
Total APS	649	85	1,164	363	2,261
2016–17					
Senior Executive Service	1	–	9	6	16
Executive Levels 1 and 2	50	13	265	58	386
Other levels	127	71	816	130	1,144
Total APS	178	84	1,090	194	1,546

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

1. Voluntary redundancies are those that are program initiated.

2. Involuntary figures include breach of code of conduct, invalidity retirement, involuntary redundancies, 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.

5. Some 2015–16 figures have been adjusted from what was reported in the *Defence Annual Report 2015–16* to account for retrospective transactions.

Actual staffing

This section provides workforce information as at 30 June 2017 and outlines changes in the workforce that occurred during 2016–17. Tables 7.10 to 7.16 include numbers of people, employment categories, locations and gender information. The information is based on headcount.

At 30 June 2017, Defence had a permanent workforce of 76,470, comprising 58,206 permanent ADF members and 18,264 ongoing APS employees (Table 7.10). An additional 133 APS employees were employed on a non-ongoing basis.

The Reserve headcount increased by 320 to 21,694 (including those members on continuous full-time service). The total ADF workforce was 79,900, and included 16,480 Navy permanent and Reserve members, 43,962 Army permanent and Reserve members, and 19,458 Air Force permanent and Reserve members. At 30 June 2017, 995 Reservists were also Defence APS employees.

Table 7.10: Defence workforce headcount, as at 30 June 2016 and 30 June 2017

	Navy	Army	Air Force	ADF ¹	APS ²
Headcount 30 June 2016	14,023	29,652	14,339	58,014	18,577
Additions	975	3,581	906	5,462	1,366
Separations	1,341	3,072	857	5,270	1,546
Headcount 30 June 2017	13,657	30,161	14,388	58,206	18,397
Change	-366	509	49	192	-180

Note: Figures in this table show headcount numbers (substantive headcount).

1. ADF figures are for permanent members and do not include Reserves, Reservists undertaking continuous full-time service, or ADF Gap Year participants.

2. APS figures include paid and unpaid employees, which covers full-time, part-time, ongoing and non-ongoing employees.

Table 7.11: Defence workforce by employment location, as at 30 June 2017

	NSW	VIC ¹	QLD	SA	WA	TAS	NT	ACT ²	O/S ³	Total
Permanent Force⁴										
Navy	6,635	1,274	788	154	2,407	18	578	1,627	176	13,657
Army	5,290	3,285	12,779	1,585	884	60	3,175	2,832	271	30,161
Air Force	4,599	982	3,152	2,028	288	11	949	2,048	331	14,388
Subtotal	16,524	5,541	16,719	3,767	3,579	89	4,702	6,507	778	58,206
Reserves⁵										
Navy	791	251	353	104	227	104	77	911	5	2,823
Army	3,600	2,509	3,209	1,244	1,457	428	418	932	4	13,801
Air Force	1,214	420	1,433	482	269	60	124	1,068	–	5,070
Subtotal	5,605	3,180	4,995	1,830	1,953	592	619	2,911	9	21,694
Total ADF	22,129	8,721	21,714	5,597	5,532	681	5,321	9,418	787	79,900
APS⁶										
Total APS	2,746	3,582	1,315	2,034	476	69	267	7,865	43	18,397

Note: Figures in this table show headcount numbers (substantive headcount).

1. Victorian figures include individuals located in Albury, NSW.

2. ACT figures include individuals located in Jervis Bay (Commonwealth), Queanbeyan (NSW) and Bungendore (NSW).

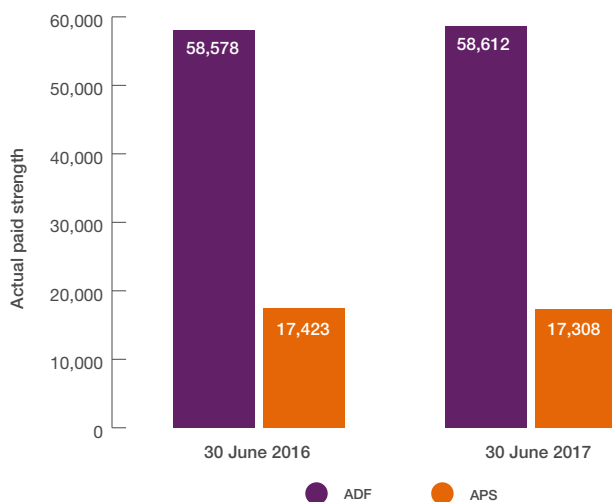
3. Individuals posted overseas for reasons including long-term duty, training, exchange and liaison.

4. Includes paid and unpaid members.

5. Includes Reserves on continuous full-time service.

6. Includes paid and unpaid employees, which covers full-time, part-time, ongoing and non-ongoing employees. The 30 June 2017 figures for the APS include 995 APS employees who are also counted as Reserve members.

Figure 7.2: ADF and APS workforce snapshot, as at 30 June 2016 and 30 June 2017



Note: ADF figures are actual funded strength as at 30 June. APS figures are actual full-time equivalent as at 30 June.

Table 7.12: Star-ranked officers, as at 30 June 2017

	Star-ranked officers			2016–17 promotions			2016–17 separations		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Four-star									
Navy	–	–	–	–	–	–	–	–	–
Army	–	–	–	–	–	–	–	–	–
Air Force	1	–	1	–	–	–	–	–	–
Three-star									
Navy	3	–	3	–	–	–	–	–	–
Army	1	–	1	–	–	–	–	–	–
Air Force	1	–	1	–	–	–	–	–	–
Two-star									
Navy	10	–	10	1	–	1	2	–	2
Army	20	2	22	2	1	3	–	–	–
Air Force	12	2	14	4	–	4	1	–	1
One-star									
Navy	32	5	37	8	1	9	8	1	8
Army	47	10	57	8	3	11	11	1 ¹	12
Air Force	38	4 ²	42	15	–	15	4 ³	1	5
Total	165	23	188	38	5	43	26	3	28

Notes

1. Includes separation of one Reserve brigadier on continuous full-time service.

2. Includes one Reserve air commodore on continuous full-time service.

3. Includes separation of one air commodore relinquishing temporary rank.

Table 7.13: APS Senior Executive Service employees, as at 30 June 2017

	Total SES ¹			2016–17 engagements ^{2,3}			2016–17 separations ^{2,4}		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Senior Executive									
Secretary	–	–	–	–	–	–	1	–	1
Band 3	6	2	8	–	–	–	2	–	2
Band 2 ⁵	21	7	28	2	–	2	1	–	1
Band 1 ⁶	58	33	91	5	4	9	7	2	9
Chief of Division									
Grade 2	6	2	8	–	–	–	2	1	3
Grade 1	2	–	2	–	–	–	–	–	–
Senior Executive									
Relief staff ⁷	17	8	25	–	–	–	–	–	–
Total	110	52	162	7	4	11	13	3	16

Notes

1. Figures in this table show actual employee numbers at their substantive level, but not staff on long-term unpaid leave.

2. Gains and losses do not reflect movement of officers between levels in each of the Senior Executive Service and Chief of Division streams.

3. Engagement figures include new engagements and transfers from other agencies only.

4. Separation figures include resignations, retirements, redundancies, and promotions and transfers to other departments.

5. Senior Executive Service Band 2 includes Medical Officer Grade 6.

6. Senior Executive Service Band 1 includes Medical Officer Grade 5.

7. Relief staff indicates non-SES employees on long-term acting arrangements in SES/Chief of Division positions that are vacant, or where the incumbents are taking leave, acting in higher positions or undertaking other duties.

Table 7.14: APS Executive Level employees and below, by gender and classification, as at 30 June 2017

	30 June 2017 headcount			2016–17 engagements			2016–17 separations		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Executive Level									
Executive Level 2	1,240	385	1,625	38	21	59	94	45	139
Executive Level 1	2,368	1,221	3,589	83	67	150	168	79	247
Subtotal	3,608	1,606	5,214	121	88	209	262	124	386
Other staff									
APS Level 6	3,128	1,888	5,016	136	117	253	280	148	428
APS Level 5	1,797	1,332	3,129	104	82	186	186	95	281
APS Level 4	897	1,076	1,973	47	87	134	73	90	163
APS Level 3	547	1,038	1,585	31	81	112	41	93	134
APS Level 2	479	600	1,079	187	151	338	59	53	112
APS Level 1	148	112	260	62	61	123	10	16	26
Subtotal	6,996	6,046	13,042	567	579	1,146	649	495	1,144
Total APS	10,604	7,652	18,256	688	667	1,355	911	619	1,530

Note: Figures in this table show ongoing and non-ongoing employee numbers (substantive headcount). Figures include paid, unpaid, full-time and part-time employees. Figures exclude employees who do not exclusively identify as either male or female. Figures exclude SES employees.

Table 7.15: APS employees by gender, as at 30 June 2016 and 30 June 2017

	30 June 2016 ¹			30 June 2017		
	Full-time	Part-time ²	Total	Full-time	Part-time ²	Total
Ongoing employees						
Men	10,624	221	10,845	10,392	229	10,621
Women	6,518	1,103	7,621	6,540	1,102	7,642
Unspecified ³	–	1	1	–	1	1
Total ongoing	17,142	1,325	18,467	16,932	1,332	18,264
Non-ongoing employees						
Men	70	13	83	69	9	78
Women	26	1	27	53	2	55
Unspecified ³	–	–	–	–	–	–
Total non-ongoing	96	14	110	122	11	133
Total APS employees						
Men	10,694	234	10,928	10,461	238	10,699
Women	6,544	1,104	7,648	6,593	1,104	7,697
Unspecified³	–	1	1	–	1	1
Total	17,238	1,339	18,577	17,054	1,343	18,397

Notes: Figures in this table show headcount numbers (substantive headcount). Figures include paid and unpaid employees.

1. Some 30 June 2016 figures have been adjusted from what was reported in the *Defence Annual Report 2015–16* to account for retrospective transactions.

2. Part-time employees are those with weekly hours less than the standard hours.

3. Figures include employees who have identified as indeterminate, intersex or unspecified.

Table 7.16: ADF permanent, Gap Year and Reserve forces and APS by gender, as at 30 June 2016 and 30 June 2017

	30 June 2016 ¹				30 June 2017			
	Men	%	Women	%	Men	%	Women	%
Navy permanent²								
<i>Trained force</i>								
Officers	2,053	14.6	488	3.5	2,030	14.9	509	3.7
Other ranks	7,462	53.2	1,738	12.4	7,424	54.4	1,777	13.0
<i>Training force</i>								
Officers	593	4.2	158	1.1	600	4.4	168	1.2
Other ranks	1,242	8.9	289	2.1	814	6.0	335	2.5
Total Navy	11,350	80.9	2,673	19.1	10,868	79.6	2,789	20.4

	30 June 2016 ¹				30 June 2017			
	Men	%	Women	%	Men	%	Women	%
Army permanent²								
<i>Trained force</i>								
Officers	4,480	15.1	821	2.8	4,547	15.1	844	2.8
Other ranks	18,493	62.4	2,254	7.6	18,556	61.5	2,362	7.8
<i>Training force</i>								
Officers	761	2.6	212	0.7	810	2.7	242	0.8
Other ranks	2,327	7.8	304	1.0	2,270	7.5	530	1.8
Total Army	26,061	87.9	3,591	12.1	26,183	86.8	3,978	13.2
Air Force permanent²								
<i>Trained force</i>								
Officers	3,397	23.7	906	6.3	3,428	23.8	945	6.6
Other ranks	7,147	49.8	1,476	10.3	7,107	49.4	1,593	11.1
<i>Training force</i>								
Officers	533	3.7	188	1.3	550	3.8	187	1.3
Other ranks	507	3.5	185	1.3	342	2.4	236	1.6
Total Air Force	11,584	80.8	2,755	19.2	11,427	79.4	2,961	20.6
ADF permanent²								
<i>Trained force</i>								
Officers	9,930	17.1	2,215	3.8	10,005	17.2	2,298	3.9
Other ranks	33,102	57.1	5,468	9.4	33,087	56.8	5,732	9.8
<i>Training force</i>								
Officers	1,887	3.3	558	1.0	1,960	3.4	597	1.0
Other ranks	4,076	7.0	778	1.3	3,426	5.9	1,101	1.9
Total ADF permanent	48,995	84.5	9,019	15.5	48,478	83.3	9,728	16.7
ADF Gap Year								
Navy	36	9.1	33	8.4	22	4.8	53	11.6
Army	158	40.0	53	13.4	183	40.0	85	18.6
Air Force	58	14.7	57	14.4	69	15.1	45	9.8
Total ADF Gap Year	252	63.8	143	36.2	274	60.0	183	40.0
Reserves³								
Navy	2,451	11.5	690	3.2	2,168	10.0	655	3.0
Army	11,629	54.4	1,910	8.9	11,792	54.4	2,009	9.3
Air Force	3,752	17.6	942	4.4	4,028	18.6	1,042	4.8
Total Reserves	17,832	83.4	3,542	16.6	17,988	82.9	3,706	17.1
APS^{4,5}								
Total APS	10,928	58.8	7,648	41.2	10,699	58.2	7,697	41.8

Note: Figures in this table show headcount numbers (substantive headcount). Percentage figures for each overall section (shown in bold) add to 100 per cent for each year. Percentage figures for the separate categories within a section may not sum to the provided total due to rounding.

1. Some 30 June 2016 figures have been adjusted from what was reported in the *Defence Annual Report 2015–16* to account for retrospective transactions.
2. Permanent Force headcounts do not include ADF Gap Year participants, who are reported separately in this table.
3. Reserves include all active members (training, deployed and other part-time military work commitments) and Reservists undertaking continuous full-time service.
4. Figures include paid, unpaid, full-time, part-time, ongoing and non-ongoing employees. The 30 June 2017 figures for the APS include 995 APS employees who are also counted as Reserve members.
5. Figures exclude employees who do not exclusively identify as either male or female.

Australian Air Force cadets disembark a C-130J Hercules during their visit to RAAF Base Richmond.



Australian Defence Force Cadets

The Australian Defence Force Cadets (ADF Cadets) is a personal development program for young people, supported by the Australian Defence Force in cooperation with the community. The program benefits the nation by developing the capacity of Australian youth to contribute to society, while fostering an interest in Defence Force careers and developing ongoing support for Defence.

The ADF Cadets 'enterprise' comprises three Cadet organisations administered by the Navy, Army and Air Force, and a newly established ADF Cadets Headquarters, which is tasked with the governance of common elements of the three organisations' programs.

Approximately 26,000 cadets are currently enrolled in the three Cadet programs; 3,200 officers and instructors of cadets and 'approved helpers' supervise and support the young people engaged in the programs; and there are 508 ADF Cadets units across all states and territories. Cadet units occupy facilities in Defence establishments, Defence-owned or leased buildings, schools, and buildings leased by individual units.

Major influences and issues in 2016–17

Two major influences have driven significant changes across the ADF Cadets enterprise in 2016–17. On 1 July 2016, significant changes to the *Defence Act 1903* came into effect, which included a particular focus on increased responsibilities for the Chief of the Defence Force and the Vice Chief of the Defence Force in the administration of the ADF Cadets program.

And in mid-2016, the Royal Commission into Institutional Responses to Child Sexual Abuse undertook its Defence hearings, during which survivors of child abuse within the ADF Cadets organisations provided compelling testimonies that highlighted flaws in the programs' youth safety regimes. The Vice Chief of the Defence Force was the senior Defence witness in these hearings and he committed Defence to substantially improving its youth safety policies and practices.

Defence Youth Safety Framework

Development of the Defence Youth Safety Framework commenced in 2015; however, the Royal Commission's assessment of Defence's performance as a 'child-safe' organisation has given it much greater impetus—

particularly within the ADF Cadets program. The framework comprises four interwoven streams of effort:

Youth safety governance—development of systems and processes that support Defence being a youth-safe organisation.

Youth safety training—development and rollout of the Defence Youth Safety Training Continuum.

Youth safety assurance—development of a youth safety toolkit, which includes the Youth Safety Standards and the Youth Safety Maturity Model; and the completion of a pilot youth safety status assessment.

Youth safety culture—inclusion of youth safety in every aspect of Defence activity where adults interact with young people under the age of 18.

The framework's development will be completed by September 2017.

'One Cadet' reform program

In October 2016, the 'One Cadet' reform program was initiated to standardise the governance of common elements of the three Cadet organisations' programs, with a focus on youth safety. A key element of the program was the formation of the ADF Cadets Headquarters, which was formally established on 1 February 2017. It is led by a two-star officer (Commander ADF Cadets), who is directly accountable

to the Vice Chief of the Defence Force for:

- development of common policies and procedures
- implementation of the ADF Cadets assurance regime
- coordination of a number of enabling functions across the ADF Cadets enterprise, including training development, utilisation of common ICT systems, and coordination of support for aspects such as security, facilities and legal assistance.

The headquarters of the three ADF Cadets organisations will collocate in the ADF Cadets Headquarters in August 2017. The primary purposes of this collocation are to enable synergies inherent in having all headquarters staff in a single location, and to drive standardisation of the three programs' elements where coherent and consistent implementation is necessary. Approximately 110 Defence staff will be working within the headquarters in direct support of the ADF Cadets enterprise.

Over 1,000 cadets and staff form up in front of the Sydney Opera House at the conclusion of the Freedom of Entry to the City of Sydney parade by No. 3 Wing Australian Air Force Cadets (New South Wales and Australian Capital Territory).



Current initiatives and activities

Within the three ADF Cadets organisations, a number of initiatives are being implemented to enhance the programs and provide a better developmental experience for participants. These include the Australian Army Cadets Transformation Program and the Australian Air Force Cadets Aviation Program.

Australian Army Cadets Transformation Program

In 2016, the Australian Army embarked on a substantial transformation program to professionalise, modernise and grow its Cadet program. These three lines of effort gained significant momentum in 2016–17. Increased Defence staffing levels for the Australian Army Cadets have contributed to improvements in governance, accountability and training delivery; new resources and electives, such as robotics, are being added to the cadet training continuum; and growth in cadet volunteer staff is continuing. Progress has also

been made in establishing new units to support the Army's diversity objectives.

Australian Air Force Cadets Aviation Program

The Royal Australian Air Force (RAAF) is providing increased opportunities for members of the Australian Air Force Cadets to gain exposure to aviation activities through its aviation program for cadets.

The RAAF has purchased a fleet of 22 gliders, and is leasing eight powered aircraft, to facilitate the aviation program. Australian Air Force Cadets flying training is being reviewed, with consideration of a 'flying continuum' that includes advanced flying to a recognised level of competency, which could be recognised for civil or military training.

The Australian Defence Force Academy's first-year officer cadets and midshipmen visit the Australian War Memorial in Canberra for the annual Napier Waller Reflection Ceremony, to reflect on the sacrifices made by those who have served before them and their own service in the Australian Defence Force.



ADF Gap Year program

The ADF Gap Year program was expanded to include the Navy in 2016, and a total of 445 participants enlisted in the program that year (78 Navy, 250 Army and 117 Air Force) (Table 7.17). In 2017, a total of 495 participants were enlisted in the program (75 Navy, 300 Army and 120 Air Force). As at 30 June 2017, two members from the 2016 program and 455 members from the 2017 program were still participating, totalling 457.

Table 7.17: **ADF Gap Year participants, 2016 and 2017 programs**

	Navy		Army		Air Force		ADF		Total
	Men	Women	Men	Women	Men	Women	Men	Women	
2016 program									
Participants	39	39	190	60	60	57	289	156	445
Status after program completion									
Separated or transferred to inactive Reserves	21	25	64	10	5	2	90	37	127
Transferred to permanent ADF	17	14	89	45	25	39	131	98	229
Transferred to active Reserves	–	–	36	5	30	16	66	21	87
Still participating in 2016 program (at 30 June 2017)	1	–	1	–	–	–	2	–	2
2017 program									
Participants	21	54	209	91	70	50	300	195	495
Status after program completion									
Separated or transferred to inactive Reserves	–	1	25	6	1	5	26	12	38
Transferred to permanent ADF	–	–	–	–	–	–	–	–	0
Transferred to active Reserves	–	–	2	–	–	–	2	–	2
Still participating in 2017 program (at 30 June 2017)	21	53	182	85	69	45	272	183	455

Project Suakin

A new ADF Total Workforce Model, designed to enhance the attraction and retention of ADF capability through workforce flexibility, was delivered under Project Suakin in 2015–16. The transition to the new service continuum has occurred throughout 2016–17.

The ADF Total Workforce Model provides Defence with the ability to meet changes in the workforce environment, and provides individuals with enhanced access to a range of service arrangements. The model strengthens the opportunity for longer-term ADF careers by providing flexible ways to serve, which in turn will help to attract and retain skilled personnel. Rather than ‘Permanent Force’ or ‘Reserves’, the Total Workforce Model features a continuum of service categories that better reflect the type of service provided. From 2017–18, the ADF workforce information will be presented in a manner that explains the transition from ‘Permanent Force’ and ‘Reserve’ service to the Total Workforce Model’s service continuum.

During 2016–17, the Navy, Army and Air Force began implementation of the Total Workforce Model and introduced all but one of the new categories of service available under the model. The three Services continued the cultural and business reforms to facilitate optimal application of the Total Workforce Model. These reforms will enable members of the ADF to move across the service category continuum, which includes full-time and part-time arrangements for both Permanent Force and Reserve members and an innovative dual employment option to be delivered in partnership with industry.

The implementation of the permanent part-time category will be completed in 2017–18.

Job families project

The Defence APS job families framework provides a whole-of-department view of APS capability and is used to assist with workforce planning, skilling, education and training. The job family framework also informs strategy development for recruitment and retention.

Job families are used to describe similar workforce functions and occupations. The job families are aligned to the framework developed by the Australian Public Service Commission, and to the Australian and New Zealand Standard Classification of Occupations. This standardised and externally relevant framework helps to identify gaps in the workforce and pressures in related areas of the Australian labour market.

The Defence Strategic Workforce Plan 2016–2026 used the job family framework to identify areas of risk across the Defence workforce. One of the recommendations from the strategic workforce plan was to review the job family framework to ensure that it continues to support the changing workforce environment. The framework will be reviewed over the coming two years.

As recommended by the First Principles Review of Defence, and linked to the Defence Strategic Workforce Plan 2016–2026, workforce plans have been developed for 15 Groups/Divisions and 20 job families. Initiatives that have been identified from these plans will be implemented from 2017–18.

Recruitment activities

Improvements to attraction and recruitment for the military and civilian components of the Defence workforce are specific action areas of focus in the Defence Strategic Workforce Plan 2016–2026. As part of the implementation of the plan, Defence commenced work to improve the efficiency of recruitment processes through upgrades to information systems and streamlined processes, and enhanced the way that Defence engages with candidates, such as through improved online testing and a candidate self-service portal.

Recruitment priorities are informed by Service workforce plans. Marketing is used to improve the attraction of personnel to ADF priority workforce segments. During 2016–17, brand campaigns were launched for Indigenous recruits, the Navy and the Air Force, while a campaign was developed for the Army. A new campaign, titled 'The ADF Surprised Us', was developed and is aimed at attracting individuals from culturally and linguistically diverse backgrounds. These campaigns aim to identify the ADF as a technologically advanced employer of choice and a career option for previously untapped markets, and to dispel misperceptions about the ADF.

Defence uses a number of initiatives to attract the workforce that it requires, particularly in the science, technology, engineering and mathematics (STEM) fields. These initiatives include STEM cadetships, Defence technical scholarships, Defence university sponsorship and the ADF Gap Year program.

Remuneration and benefits

Defence remuneration is a key component of the Defence employment package. The diverse remuneration structures and non-salary benefits of the ADF and APS are explained further 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 2014–17 is a key component of the ADF remuneration framework, and has provided a 6 per cent increase to the pay and pay-related allowances of ADF members. The arrangement is part of the ADF remuneration framework aimed at attracting and retaining military personnel, and forms a significant part

of ADF members' total employment package. Other conditions of service are determined by the Minister for Defence under section 58B of the Defence Act.

The development of the next Workplace Remuneration Arrangement commenced during 2016–17, including engagement with ADF members as part of the consultation process. The current arrangement expires on 1 November 2017.

Table 7.18 details salary ranges for permanent ADF members as at 30 June 2017.

Table 7.18: Permanent ADF salary ranges, as at 30 June 2017

Rank	Salary range (\$)	
	Minimum	Maximum
Officer of the Permanent Force		
General (equivalent) ¹	814,700	814,700
Lieutenant General (equivalent) ¹	390,024	574,470
Major General (equivalent) ²	230,975	281,674
Brigadier (equivalent) ^{2,3}	161,628	257,581
Colonel (equivalent) ^{2,3,5}	144,875	245,908
Lieutenant Colonel (equivalent) ^{2,5}	123,216	233,998
Major (equivalent) ^{2,5}	86,313	210,792
Captain (equivalent) ^{2,5}	67,603	200,075
Lieutenant (equivalent) ⁴	56,197	117,798
2nd Lieutenant (equivalent) ⁴	52,505	109,969
Other rank of the Permanent Force		
Warrant Officer Class 1 (equivalent)	76,552	117,821
Warrant Officer Class 2 (equivalent)	70,508	109,173
Staff Sergeant (equivalent)	68,143	105,320
Sergeant (equivalent)	60,927	100,723
Corporal (equivalent)	52,649	92,103
Lance Corporal (equivalent)	48,430	85,607
Private Proficient (equivalent)	47,429	84,606
Private (equivalent)	46,448	83,629

Note: This table lists ADF salary ranges by Army rank. The same salary ranges also apply to the equivalent ranks in the Navy and Air Force.

1. General (equivalent) and some Lieutenant General (equivalent) rates are set by the Remuneration Tribunal.

2. Includes rates for medical officers.

3. Includes rates for chaplains.

4. Includes transitional rates for other rank appointed as officer.

5. Excludes medical procedural specialist.

ADF benefits

In addition to remuneration, ADF members receive a range of conditions of service, including leave, flexible work arrangements, home purchasing and housing assistance, medical and dental, deployment support, family support, career opportunities, nationally recognised qualifications, childcare support, access to base facilities, education and training, and transition management services. Further information is available online at the Defence Pay and Conditions site at www.defence.gov.au/PayAndConditions.

ADF superannuation arrangement

From 1 July 2016, all new military members are covered by the ADF superannuation arrangement. The employer contribution rate under the superannuation arrangement is 16.4 per cent per annum.

ADF Super is the default employer superannuation fund for all new permanent ADF members and members of the Reserves on continuous full-time service. Members can elect to join ADF Super or another superannuation fund of their choice.

The ADF superannuation arrangement is underpinned by a death and invalidity scheme called ADF Cover. ADF Cover benefits are consistent with those provided by the Military Superannuation and Benefits Scheme, which was closed to new members from 1 July 2016.

Support to ADF families

Defence provides support to ADF members and their families through the Defence Community Organisation. Support services range from crisis and bereavement support through to assistance to help families adjust to some of the challenges of military life.

Initiatives for partners of ADF members to gain skills to help secure employment are provided, as is advice, information and resources to help reduce the effects that mobility can have on a child's education. Members who have a dependant with special needs may also receive assistance.

In 2016–17, Defence provided a range of support services, practical assistance and resources to support Defence families when a member is deployed or absent from home for service reasons. This support includes community events to foster a sense of connectedness, absence-from-home support calls delivered by the Defence Family Helpline, short-term funding for practical assistance in emergencies, and programs and resources for partners and children.

The Defence Community Organisation developed a mental health training program to upskill all Defence Community Organisation frontline staff on mental health issues, including risk assessments, safety planning, and practical strategies for assisting families in living with a member with mental health issues.

An individual case management service was launched in 2016–17 to assist with childcare arrangements. Defence families can request assistance at any time through this service to review their childcare requirements or seek an alternative childcare centre.

In 2016–17, a total of 229 schools and approximately 12,000 Defence children were provided with support under the Defence School Transition Aide Program. In addition, 57 not-for-profit community organisations received grant funds under the Family Support Funding Program, and 26 paid Defence Community Centre coordinators were supported through the Community Support Coordinator Program. These programs assist Defence families with challenges relating to mobility and absence from home, and improve resilience, strengthen relationships and improve children's wellbeing.

Transition management

ADF Transition Support Services ensure that members and their families are well informed regarding transition from military to civilian life. Members are encouraged to access educational, financial and other government services to facilitate sound transition planning.

The reform of ADF Transition Support Services commenced in 2016–17, with the transition process moving from an administrative model to one of coaching and mentoring with a focus on developing a post-transition plan, particularly around employment. When fully implemented, the new model will assist ADF members and their families to be more prepared for the transition to civilian life, both during transition and for 12 months after leaving the ADF.

In 2016–17:

- all ADF Transition Support Services staff commenced training for a Certificate IV in Career Development, with additional competencies in coaching and mentoring
- three launch sites (Adelaide, Holsworthy and Townsville) began trialling the transition coaching model
- the individual transition plan was improved to assist members leaving the ADF with their administration requirements, including leaving with all appropriate documentation, such as medical services and records

- a new two-day Job Search Preparation course was designed and implemented to specifically assist those ADF members leaving with less than 12 years of service
- a new post-transition survey was trialled to assess the effectiveness of transition programs and inform future initiatives, with full implementation scheduled for 2017–18.

ADF transition seminars can be attended by ADF members and their families at any time during their career to help them prepare for their transition.

APS remuneration—workplace agreements

The Defence Enterprise Collective Agreement sets out most of the terms and conditions of employment, including remuneration, performance management and working arrangements for the Defence APS workforce, excluding the Senior Executive Service (SES). In addition, the agreement enables for conditions, including remuneration, to be varied through the use of a Building Defence Capability Payment or individual flexibility arrangement. The legal framework that underpins the agreement includes the *Fair Work Act 2009* and the *Public Service Act 1999*. The agreement is developed through consultation with employees and their representatives and is negotiated in a manner consistent with legislation and the Government's bargaining policy.

A new enterprise agreement was agreed by a majority vote of the non-SES workforce on 20 June 2017, and will come into effect on 16 August 2017.

Table 7.19 shows the types of employment arrangements covering SES and non-SES employees in Defence as at 30 June 2017.

Table 7.19: Number of SES and non-SES employees by employment arrangement, as at 30 June 2017

Employment arrangement	Non-SES	SES
Enterprise agreement (Defence Enterprise Collective Agreement 2012–2014) ¹	18,284	–
Section 24(1) determination and common law agreement ²	–	137

Notes

1. Includes 212 employees covered by a Building Defence Capability Payment or individual flexibility arrangement that varies the terms of the Defence Enterprise Collective Agreement.
2. SES remuneration is set by a single determination made under subsection 24(1) of the *Public Service Act 1999* covering terms and conditions of employment, and is supplemented on an individual basis by a common law agreement covering remuneration.

Table 7.20 shows Defence APS salary rates as at 30 June 2017. While the majority of Defence employees receive salaries within the standard ranges, the Defence Enterprise Collective Agreement has provision to vary remuneration and other benefits so that Defence can develop, attract and retain selected employees with the necessary skills and knowledge to deliver capability. These individual arrangements are referred to as Building Defence Capability Payments.

Table 7.20: APS salary ranges, as at 30 June 2017

Classification	Minimum (\$)	Maximum (\$)	Individual flexibility arrangements ¹ (\$)
SES pay arrangements			
SES Band 3	240,245	286,456	525,300
SES Band 2 ²	193,349	241,583	367,710
SES Band 1 ³	159,339	203,889	281,923
Non-SES pay arrangements⁴			
	Minimum (\$)	Maximum (\$)	Special pay points (\$)
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	–
APS Level 3	55,825	61,512	–
APS Level 2	49,009	55,096	55,663 ⁹
APS Level 1	43,306	48,613	–

Notes

1. Maximum salary paid under an individual flexibility arrangement shown.
2. Includes rates for Chief of Division Grade 2 and Medical Officer Class 6.
3. Includes rates for Chief of Division Grade 1 and Medical Officer Class 5.
4. Salary ranges provided under the Defence Enterprise Collective Agreement.
5. Maximum rate for Executive Level 2.1, Executive Level 2.2, Legal and Science specialist structures and Medical Officer Class 3 and 4.
6. Maximum rate for Public Affairs and Legal specialist structures and Medical Officer Class 1 and 2.
7. Maximum rate for Public Affairs Grade 2 retained pay point.
8. Maximum rate for Senior Technical Officer Grade 1 retained pay point.
9. Maximum rate for Technical Assistant Grade 2 retained pay point.

APS benefits

All Defence APS employees receive a range of non-salary benefits, including access to flexible work arrangements and various types of leave. These benefits are outlined in the Defence Enterprise Collective Agreement and in Defence's APS People Policy. Defence invests heavily in the training and development of its staff and has a range of formal and informal recognition schemes to recognise exemplary performance and achievement.

Senior Leadership Group remuneration

ADF: All ADF senior officers (excluding statutory office holders) are remunerated under the ADF Workplace Remuneration Arrangement 2014–17. Other non-pay-related conditions of service are determined by the Minister for Defence under section 58B of the *Defence Act 1903*.

Statutory officers: Statutory office holders, including the Secretary and the Chief of the Defence Force, are remunerated under determinations decided by the independent Remuneration Tribunal, under the *Remuneration Tribunal Act 1973*.

APS: SES remuneration is set by a single determination made under subsection 24(1) of the *Public Service Act 1999* covering terms and conditions of employment, and is supplemented on an individual basis by a common law agreement covering remuneration.

Managing and developing staff

In 2016–17, Defence continued to focus on APS leadership and core skills development and building accountability in people management.

The One Defence leadership behaviours identify the types of behaviours that Defence requires its people to demonstrate in order to drive the cultural change needed to become a higher performing organisation. The initial focus has been on the Senior Leadership Group through activities such as the role charters, a leadership 'climate scan' and a 360-degree feedback program. Efforts have now moved to engaging and embedding the required behaviours within the wider workforce, including through Defence leadership programs aimed at APS 5 through to Executive Level 2 staff.

The Defence Leading for Reform program, which aims to enhance and invigorate the leadership and management skills of executive-level employees, continued to be implemented. In 2016–17, this program was opened to all executive-level employees, as well as ADF members who manage integrated teams. A further 16 cohorts, comprising 40 executive-level employees in each cohort, commenced the program.

An increased number of staff have attended internal Defence leadership programs such as the Gateway and Catalyst programs, and Australian Public Service Commission leadership, core and foundational skills programs. In 2016–17, Defence offered 13 Gateway and 10 Catalyst courses, resulting in 269 Gateway and 135 Catalyst completions. Two of the Catalyst courses had not concluded as at 30 June 2017, and will result in an additional 31 completions.

In 2016–17, professionalisation pathways for each of the 20 APS job families were established. The pathways are the mechanism by which learning and development needs are identified for each APS occupation. The professionalisation pathways and related guidebooks provide APS employees with the tools to identify occupational levels of competencies and skills, and training options to develop their skills. The pathways will be revised in 2017–18 in line with the job family renewal project, and incorporated into job family workforce plans.

The development of the skills of all personnel continued through a range of modes and programs in 2016–17:

- Defence's education assistance programs for both APS employees and ADF members encourage personnel to gain tertiary qualifications. Support is provided in the form of capped reimbursement for approved study expenses and/or work release for study purposes.
- Fully funded postgraduate places at the master's level are available through the University of New South Wales Canberra at the Australian Defence Force Academy, with study undertaken through intensive or distance education modes.
- Scholarships are offered annually through the Chief of Defence Force Fellowship for ADF members, and the Secretary of Defence Fellowship and the Sir Roland Wilson Foundation PhD Scholarship schemes for high-performing executive-level staff.

Performance pay

Under the current Defence Enterprise Collective Agreement, non-SES employees move through their salary range subject to fully effective or better performance. Employees at the top of the range receive a 1 per cent lump sum bonus. This bonus is considered a form of performance pay.

An SES employee may be paid a performance bonus at the discretion of the Secretary either as reward for exceptional performance or as a retention incentive to remain in an identified role.

Table 7.21 shows SES and non-SES employee performance payments for 2016–17.

Performance-based pay is not a feature of any existing ADF remuneration framework. Career development opportunities, including promotion, are the key recognitions of performance.

Table 7.21: **SES and non-SES employee performance payments for 2016–17**

Classification	No. of employees	Aggregated amount (\$)	Average amount (\$)
Trainee	27	21,387.50	792.12
APS Level 1	71	49,693.82	699.91
APS Level 2	768	551,048.36	717.51
APS Level 3	1,447	1,023,369.06	707.24
APS Level 4	1,625	1,133,613.77	697.61
APS Level 5	2,576	1,894,993.87	735.63
APS Level 6	4,192	3,441,302.85	820.92
Executive Level 1	2,970	3,236,056.39	1,089.58
Executive Level 2	1,240	1,785,600.28	1,440.00
SES Band 1	2	46,627.52	23,313.76
SES Band 2	1	28,833.59	28,833.59

Note: The annual performance cycle is 1 September to 31 August.

Work health and safety

The health and safety of Defence personnel remained a key priority in 2016–17.

The Defence Work Health and Safety Committee continued its focus on strategic issues, including the development of the Defence Work Health and Safety Strategy 2017–2022. This strategy builds on the progress of earlier strategies through strengthening the health and safety culture and influencing workforce behaviours. The new strategy is expected to improve work health and safety management and performance, ensuring hazards and risks are actively managed with the entire workforce engaged in hazard identification and risk management.

A range of information and support tools have been delivered to support people who may be experiencing mental stress, along with increased education and support for commanders, managers and supervisors. Key initiatives in 2016–17 included:

- developing the Defence Family and Domestic Violence Strategy 2017–2022
- introducing a mental health speaker series and mental health toolkit to help raise awareness about mental health issues and to make people aware of the different support services available
- in partnership with Beyondblue, trialling a new stress and anxiety coaching service for personnel called NewAccess. This is in addition to Defence's Employee Assistance Program.

During 2016–17, Defence continued work to revise the Defence Work Health and Safety Policy Manual to simplify and streamline the structure and content. Policy and guidance materials have been restructured to remove duplication of legislation and codes of practice, and consolidated into more comprehensive documents. The process has resulted in more user-friendly policies and a reduction in the number of policies.

In 2016–17, the Work Health and Safety Branch conducted 40 work health and safety audits across Defence. This comprised 21 safety management system audits and 19 compliance audits in the risk areas of hazardous chemicals and the joint special licence for the operation of plant.

Defence continues to maintain a strong relationship through working collaboratively with Comcare. The biannual Defence–Comcare liaison forum and Comcare representation on the Defence Work Health and Safety Committee aim to improve work health and safety performance.

In 2016–17, Comcare undertook 330 investigations across Defence based on known high-risk areas, and issued four notices (Table 7.22). In addition to partnering with Comcare on investigations, Defence actively investigates safety incidents. Investigations focused on psychosocial factors, hazard exposures and safety systems. Defence used these interventions to develop and refine associated hazard reduction programs and improve work health and safety performance.

Table 7.22: Number of Comcare work health and safety notices, 2014–15 to 2016–17

Type of notice	2014–15	2015–16	2016–17
Improvement notice ¹	–	3	3
Prohibition notice ²	–	–	1
Non-disturbance notice ³	–	–	–

Notes

1. Improvement notices are based on incidents and occurrences that contravene work health and safety legislation.
2. Prohibition notices are issued to remove an immediate threat to the health and safety of workers.
3. Non-disturbance notices are issued for a specific period of time to remove a threat to the health and safety of personnel.

The number of notifiable work health and safety events or incidents continued to decline in 2016–17, as shown in Table 7.23. Figure 7.3 provides a breakdown of the types of work health and safety incidents that occurred in 2016–17.

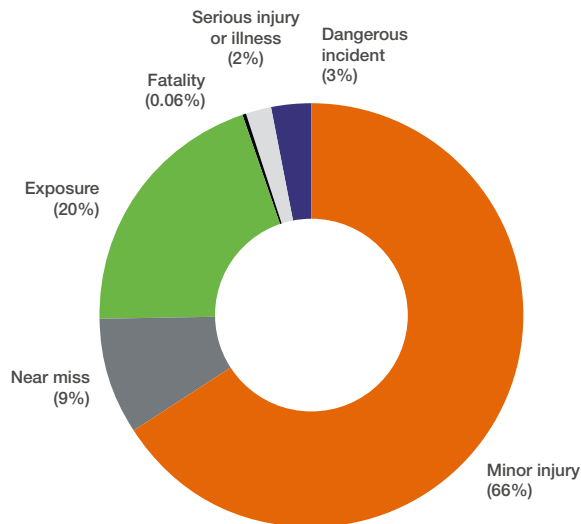
Table 7.23: Number of work health and safety incidents and involved persons, 2014–15 to 2016–17

	2014–15		2015–16		2016–17	
	Number of incidents ²	Number of people involved in an incident ³	Number of incidents ²	Number of people involved in an incident ³	Number of incidents ²	Number of people involved in an incident ³
Fatality ¹	12	12	9	9	8	8
Serious injury or illness ¹	442	449	318	359	248	283
Dangerous incident ¹	253	603	226	405	213	388
Minor injury	10,918	10,980	10,197	10,329	9,279	9,374
Near miss	1,114	1,256	1,197	1,450	1,116	1,340
Exposure	1,152	1,864	1,016	3,266	888	2,809
Total	13,891	15,164	12,963	15,818	11,752	14,202

Note: Incidents are recorded on the date of the event. A single event can include multiple individuals. Numbers can vary from previous annual reports as reports can be made for incidents occurring in previous years and severity statuses can be updated. Data as at 11 July 2017.

1. Fatalities, serious injury or illness, and dangerous incidents are notifiable to Comcare.
2. The 'Number of incidents' columns show the number of incidents occurring in that financial year; however, a single event can include multiple individuals.
3. The 'Number of people involved in an incident' columns show the number of employees harmed or at risk in the event. One event may result in multiple injuries or none.

Figure 7.3: Types of work health and safety incidents, by severity, 2016–17



Note: Components do not sum to 100 per cent due to rounding.

Work health and safety and culture

A positive Defence safety culture is the primary focus of the Defence Work Health and Safety Strategy 2017–2022. In 2016–17, Defence continued its efforts to mainstream work health and safety as an embedded element of business effectiveness across the organisation. Defence's YourSay survey measures the attitudes of staff to aspects of work health and safety. The 2016–17 results are consistent with those of previous years, as shown in Table 7.24.

Table 7.24: **Attitudes to work health and safety, results of YourSay survey, 2014–15 to 2016–17**

Attitude survey statement	ADF			APS		
	2014–15 Agree (%)	2015–16 Agree (%)	2016–17 Agree (%)	2014–15 Agree (%)	2015–16 Agree (%)	2016–17 Agree (%)
Health and safety is treated as an important issue in my workplace	92	90	88	86	85	84
I know how/where to obtain safety information relevant to my workplace	92	92	91	89	88	89
When I report an accident/injury/incident/hazard, I believe that appropriate action will be taken	85	84	84	82	81	81

Cultural reform

The Pathway to Change: Evolving Defence Culture strategy was launched in March 2012, with an initial implementation period of five years. The cultural reform program included 175 key actions and recommendations and advice from seven reviews into aspects of Defence culture and other reform directions. All key actions and review recommendations were finalised as at December 2016.

Results from the Defence 2017 YourSay survey support the organisation's commitment to cultural reform, with approximately two-thirds of respondents reporting that they, and their supervisors, were committed to Pathway to Change. In addition, over 80 per cent of respondents felt that their supervisor's leadership and behaviour was in accordance with Defence values.

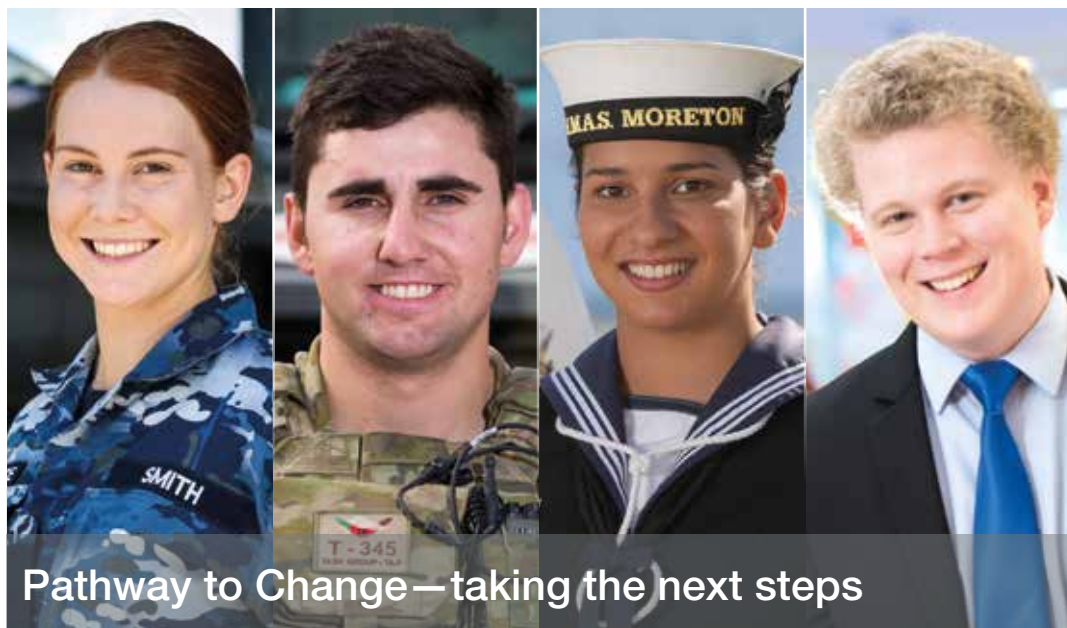
Although much has been done since 2012 to strengthen the best in Defence culture, workforce and survey data shows that there is more work to be done. The next evolution of cultural reform has been informed by a deliberate and significant Defence-wide consultation effort held in 2016. Staff at all levels agreed on the importance of building on the Pathway to Change: Evolving Defence Culture strategy.

A refreshed statement of cultural intent was seen as important, encompassing the principles of Pathway to Change: Evolving Defence Culture, but also giving weight to the progress made since 2012 and providing a platform to sustain a more positive culture. The 2016 consultation showed that a more positive and inclusive culture is understood by many to be a key part of Defence capability. Across the workforce, leadership accountability for delivering reform was also seen as critical, as was working more collaboratively as One Defence.

Based on feedback from the Defence-wide consultation, a refreshed statement of cultural intent, including six priorities for future cultural reform focus, was developed, and is being incorporated into Defence business planning and reporting frameworks. The priorities being worked on across Defence are:

- leadership accountability
- capability through inclusion
- ethics and workplace behaviours
- health, wellness and safety
- workplace agility and flexibility
- leading and developing integrated teams.

During 2016–17, Defence also completed its third year of collaboration with the Australian Human Rights Commission. This collaboration has included visits by the commission to 18 Defence establishments to examine particular aspects of culture and how effective particular strategies have been, and to provide input into more specific reform initiatives. The findings from these visits informed wider reform efforts and are being implemented by the respective Services, with oversight provided by Defence's Gender Equality Advisory Board.



Pathway to Change—taking the next steps

Pathway to Change is Defence's strategic cultural reform program. Launched in March 2012, the program had an initial implementation period of five years. The initial focus of Pathway to Change was cultural reform through implementation of key actions and recommendations. All 175 actions and recommendations have now been completed.

Reflecting on the evolution of Pathway to Change, there are many important initiatives that highlight the positive steps we have made. Significant achievements include establishing the Sexual Misconduct Prevention and Response Office; release of the ADF Alcohol Management Strategy and Plan 2014–2017; release of the Defence Family and Domestic Violence Strategy 2017–2022; and the integration of agreed values and behaviours as core foundations of Defence education and training programs.

These achievements indicate the value Defence is placing on the health, welfare and safety of our people and their families, with a clear aim of promoting a more inclusive, respectful and safe working environment, where all of our people can produce their best efforts.

Achieving the overall intent of Pathway to Change is a significant undertaking, and while it is important and

timely that we acknowledge the successes to date, there is still more work to be done.

Our decision to engage in a Defence-wide consultation process is an important component of our approach to cultural reform. The recent series of leadership-guided conversations with staff at all levels provided opportunities for our people to provide their input into the important things that shape our culture—who we are, what we stand for, how we work. The conversations were also an opportunity to reflect on how far we have come and identify areas we need to prioritise to ensure our future success.

These conversations informed the next iteration of cultural reform—Pathway to Change: Evolving Defence Culture 2017–2022. A refreshed cultural intent statement will guide Defence through the ongoing journey of cultural reform.

An important focus of cultural reform across Defence will be on leaders being accountable for creating a more positive culture. Pathway to Change: Evolving Defence Culture 2017–2022 will recognise and promote a high-performing and inclusive culture as a key enabler of Defence capability.

Removal of gender restrictions on ADF combat role employment categories

The removal of gender restrictions on ADF combat role employment categories has been instrumental in a significant and ongoing shift in the ADF culture. Defence is creating an environment that supports the aspiration of all members to contribute fully to ADF capability.

Since January 2016, all ADF employment categories have been open to women currently serving in the ADF, as well as those applying to join the ADF for the first time. The decision to remove gender restrictions was about maximising capability by opening up a wider recruitment pool of talent for combat roles. This decision provides equal opportunity for both men and women wanting to apply for these roles and provides an avenue for ability, not gender, to be the deciding factor when determining which roles ADF members can serve in.

In 2017, Defence supported the withdrawal of Australia's reservation to the Convention on the Elimination of All Forms of Discrimination against Women, and the repeal of section 43 of the *Sex Discrimination Act 1984*. Defence's support for these actions reflects the removal of gender restrictions on ADF combat roles, which has played an important role in enabling a more diverse and inclusive culture.

Defence continues to assess and refine its training and combat-specific processes, policies and systems to ensure that the environments in which members are trained and undertake combat roles provide the opportunity for all members to contribute fully to ADF capability.

Complaint handling and resolution

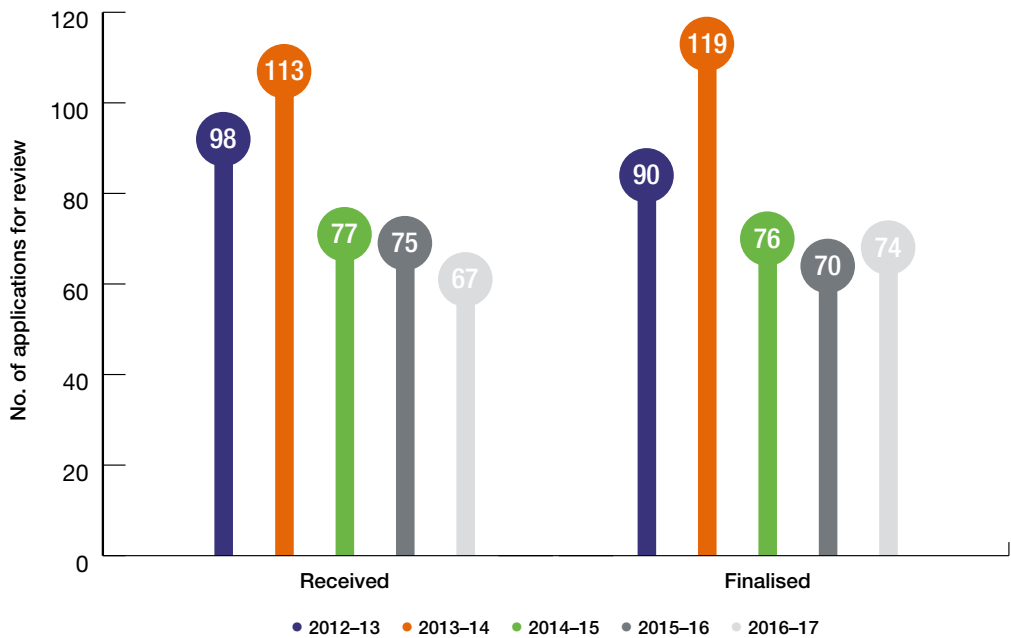
Defence personnel have the right to complain if they are aggrieved by matters relating to their employment. ADF members may apply for redress under the Defence Regulation 2016. APS employees may seek a review of actions under the *Public Service Act 1999*.

APS review of actions

Section 33 of the *Public Service Act 1999* establishes a 'review of actions' scheme and allows non-Senior Executive Service APS employees to seek review where they have a complaint about an action or a decision relating to their employment. Defence received 67 applications for review of actions in 2016–17, which is a small reduction from the previous year (Figure 7.4). In 2016–17, 74 applications were finalised, including several received in the previous year. The following areas continue to feature most regularly in the applications for review:

- performance management, assessment and reporting
- management of unacceptable behaviour complaints by line management
- security clearance decisions
- staff selection and the allocation of duties
- access to leave or other employment conditions.

Figure 7.4: APS review of actions applications received and finalised, 2012–13 to 2016–17



Unacceptable behaviour

Defence personnel can make a complaint about any incident of unacceptable behaviour that they have experienced or witnessed in the workplace. Complaints of unacceptable behaviour are reported and recorded in a central database. Guidance and support is available to ensure that complaints are managed and resolved appropriately.

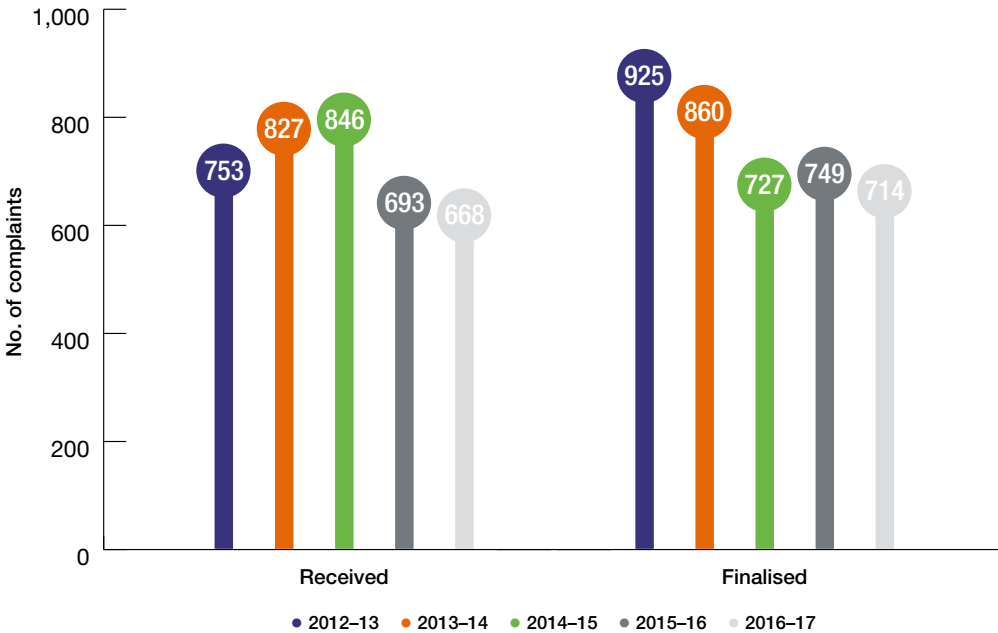
All Defence personnel are required to undertake annual workplace behaviour training, which includes information about expected behaviours and guidance on making and managing complaints.

In 2016–17, 668 complaints of unacceptable behaviour were recorded in the Defence complaints management, tracking and reporting system (Figure 7.5). This continues a trend of decreasing complaint numbers and reflects ongoing efforts across Defence to reduce the incidence of unacceptable behaviour.

In 2016–17, 714 complaints were finalised, including those received in previous years. While the majority of complaints are expected to be finalised within three months, some complaints remain open for extended periods, such as when the matter is subject to an inquiry or investigation. In the past two years, the higher number of complaints finalised compared to the number received reflects efforts to finalise longstanding open complaints, as well as improvements made to the self-service functionality of the Defence complaints management, tracking and reporting system.

On average, between 80 and 90 per cent of unacceptable behaviour incidents are of a level where local management is the most appropriate course of action. However, between 10 and 20 per cent are of a seriousness that results in a formal disciplinary or administrative outcome. Defence encourages the use of alternative dispute resolution, and the majority of complaints continue to be resolved at the lowest practical level. The number of complaints of alleged unacceptable behaviour represents complaints from less than 1 per cent of the Defence workforce.

Figure 7.5: **Unacceptable behaviour complaints received and finalised, 2012–13 to 2016–17**



Reporting on sexual misconduct

Defence's Sexual Misconduct Prevention and Response Office (SeMPRO) provides personnel with victim support, case management services, including assistance through formal reporting, investigation and legal processes, and educational programs and resources.

Victim services encompass a 24/7 telephone response service for Defence personnel seeking help with their experiences of sexual offences and sexual harassment. The service also offers assistance for commanders, managers and colleagues managing sexual misconduct incidents. In 2016–17, 488 clients were assisted with support and case management; incident management advice and information; debriefing and other mental health support; and information on available services, civilian assaults, and other behaviour management systems in Defence. SeMPRO is also a primary data collection point for sexual misconduct incidents formally reported to Defence.

The Sexual Ethics Education in Defence learning strategy was developed as a primary prevention program that aims to ensure all military personnel have the appropriate knowledge, skills and attitudes needed to make sound ethical decisions in their sexual relationships. The learning strategy elements are designed to target different audiences to engender a zero tolerance culture towards sexual misconduct and create a Defence workplace that is respectful of the sexual safety of all.

There is increased awareness and understanding of the services of the Sexual Misconduct Prevention and Response Office. Education programs have been implemented, including the rollout of bystander awareness training. During 2016–17, SeMPRO provided awareness briefings to over 29,000 Defence personnel.

The *SeMPRO Supplementary Report 2016–17* contains detailed information on client service provision and formally reported incidents in Defence during 2016–17. The report is available online at www.defence.gov.au/annualreports/16-17.

Diversity in Defence

The Defence Diversity and Inclusion Strategy 2012–2017 outlines the commitment to creating an inclusive and progressive organisation that maximises capability through capitalising on a diverse and inclusive workforce. This aim is further supported through the recently endorsed statement of cultural intent and the key priority ‘capability through inclusion’.

Creating a diverse and inclusive workforce continued to be a key priority for Defence in 2016–17, with achievements made against the five strategic goals within the Defence Diversity and Inclusion Strategy 2012–2017, which is available at www.defence.gov.au/diversity.

Defence implemented a range of initiatives to increase the number of women in both the ADF and the APS workforce. This includes attracting, recruiting and retaining women, removing the barriers to career progression, and facilitating career development through mentoring and leadership opportunities.

Women in the Defence APS workforce

Defence developed an action plan to support implementation of *Balancing the Future: The Australian Public Service Gender Equality Strategy 2016–19*, which sets out actions for addressing the gender imbalance across the APS.

Initiatives implemented to support women in achieving their full potential included:

- increased representation of women in Executive Levels 1 and 2 talent management programs
- partnerships with industry and academia aimed at attracting and retaining women in science, technology, engineering and mathematics
- developing an unconscious bias awareness package, which includes specific modules for recruitment and selection, and commanders and managers who have supervisory responsibilities
- implementing a flexible work education campaign to identify and challenge potential barriers to implementing a mainstream, Defence-wide approach to flexible work
- developing a range of interventions to address domestic and family violence.

There has been an increase in the representation of women at all levels within the Defence APS workforce. Since 30 June 2016, the representation of women in the Defence APS ongoing workforce increased from 41.2 per cent to 41.8 per cent over the last 12 months (Table 7.15). A particular increase has been seen at the Senior Executive Service level, with women now representing 32.6 per cent of the Defence Senior Executive Service, an increase of 2.8 per cent. While the representation of women at the APS 1 to 6 levels and Executive Levels 1 and 2 showed a slight improvement, there is more to be done. Gender representation recruitment targets have been established for the graduate program and for executive and senior executive levels. This is reinforced through the action plan under the Defence Gender Equality Strategy.

Women in the ADF

Defence is conducting a range of activities to increase the number of women in the ADF, including by setting female workforce participation targets for each Service. The ADF is also implementing options for greater flexibility in the Services’ career models to ensure women’s advancement is supported—and not impacted adversely—when taking career breaks or seeking location stability.

The Women in the ADF report is published as an online supplement to the Defence annual report. The report is a mechanism for the Services to report against achievements that address elements of the recommendations from the Australian Human Rights Commission’s *Review into the treatment of women in the Australian Defence Force—Phase 2 report* (2012). This includes recommendation 3—women’s participation, women’s experience and access to flexible work; recommendation 6—promotional gateways; recommendation 9—recruitment targets; and recommendation 13—flexible work arrangement targets.

Flying Officer Sarah Fraser facilitates Air Mobility Group's first annual Women, Peace and Security working group.

What brings you here today

1325
women | peace | security

Women, Peace and Security in 2016–17

In 2000, the United Nations (UN) Security Council adopted Resolution 1325 on Women, Peace and Security (WPS). This landmark resolution recognises that the experiences and needs of women and girls differ from those of men and boys in conflict and post-conflict situations and that this underlines the essential role of women in conflict prevention, peacebuilding and post-conflict reconstruction and recovery efforts.

The resolution tasked the UN system and member states with thoroughly integrating a gender perspective into all peacekeeping operations in conflict and post-conflict settings. Since 2000, a number of other resolutions related to Resolution 1325 have been adopted and these form the UN WPS agenda.

As of August 2017, 67 countries have developed national action plans to implement Resolution 1325 and the UN WPS agenda. Australia's plan was released in March 2012 and contains five strategies and 24 actions that describe what the Australian Government will do to achieve this implementation. Defence is responsible in whole or in part for 17 of those 24 actions. The most effective way of implementing the national action plan for the ADF is to mainstream WPS and gender perspective considerations into operational strategic guidance and into the planning and conduct of ADF operations.

The inclusion of the WPS mandate in Chief of the Defence Force Planning Directions and other

departmental strategic guidance has led to a greater demand for ADF gender advisor capability. Previously, the only training available was conducted at the Nordic Centre for Gender in Military Operations at the Swedish Armed Forces International Centre, designed to train NATO and partner forces. Over the past three years, a number of ADF personnel have participated in this highly effective training course.

During Operation Fiji Assist 2016, three gender advisors were allocated to the operation and were able, for example, to directly speak with Fijian women about their specific needs for assistance and resources. At the conclusion of the operation, pragmatic and visible examples of how a gender advisor can contribute to overall operational effectiveness became clearly evident.

To meet the increase in ADF gender advisor capability, for the first time in the Southern Hemisphere, an ADF Operational Gender Advisor course was conducted by Headquarters Joint Operations Command at the Peace Operations Training Centre at the Australian Defence Force Academy in June 2017. Twenty-four students, including ADF members, a Department of Foreign Affairs and Trade employee and several US Armed Forces members, attended the course. They learned how to become gender advocates and advisors to commanders and staff across all the operational functions in order to deliver more effective mission success while supporting the objectives of the WPS agenda.

Several of the graduates were put straight to the test by being deployed to Exercise Talisman Saber 2017. Some of the excellent products and outcomes

arising from the exercise included the development of a reporting format for field forces to report incidences of conflict-related sexual and gender-based violence, increased liaison with targeting and effects planners, and robust discussion arising from examining how a maritime refugee situation can impact on maritime operations.

The formalisation of the role of the gender advisor and the role of the WPS framework enhances the ADF's operational and planning activities. This is achieved by looking at actions and consequences through a gender lens, and through the conduct of a gender analysis of the impact that the ADF can have on a population. Gender roles and power relations play a key role in our engagement, interactions and operations with local populations, other partner forces and agencies.

Australians are now filling key international advisory roles in conflict and disaster zones around the world. The US four-star general leading operations

in Afghanistan has been advised by an Australian gender advisor since 2015, and a gender advisor is deployed to the UN Mission in South Sudan, with an additional advisor based at the ADF headquarters in the Middle East.

In the near future, more gender advisors will be employed in regional exercises and operations, and increased dialogue with our regional partners is planned in regards to integration of a regional gender lens.

Research shows that peace lasts longer and a conflict zone becomes more stable when the WPS framework is implemented. Since the tenets of WPS can equally apply to humanitarian operations and disaster relief, heavy investment in training and implementation will be required for some time yet.

The ADF's commitment to the WPS framework will assist in delivering better conflict and peacetime strategies and policies. There can be no better goal pursued for any military or government agency than that.

The report presents a range of workforce and attitudinal data and compares the current year's data with that of the previous year to gain an indication of the progress Defence has achieved. This is the fifth year of the *Women in the ADF* report and, in addition to comparing the current and previous year, this year's report also conducts a five-year comparison to 2012–13 to provide an overview of long-term progress. Over the last five years, the scope of the report has evolved and expanded to provide a view of gender inclusion across the Defence people system.

The *Women in the ADF Report 2016–17* shows that, since the commencement of the Pathway to Change: Evolving Defence Culture strategy and the implementation of the recommendations from the Phase 2 report, the ADF has put considerable effort into growing and advancing the female ADF workforce. As at 30 June 2017, the participation rate of women in the ADF reached 16.7 per cent, an increase of 1.2 per cent from 15.5 per cent as at 30 June 2016 (Table 7.16). The number of women serving in the ADF is 709 more than at the same time last year. As at 30 June 2017, there were also 79 women in senior officer positions in the ADF, seven more than at the same time last year.

The report also highlights areas that require more comprehensive analysis, allowing Defence to prioritise further research on gender diversity.

The *Women in the ADF Report 2016–17* will be available online from December 2017 at www.defence.gov.au/annualreports/16-17.

Indigenous participation and engagement

The Defence Reconciliation Action Plan 2015–2018 commits Defence to a range of activities to increase cultural awareness, representation and procurement opportunities for Indigenous Australians.

By 2018, Defence is aiming for an Indigenous workforce representation of 2.7 per cent. Indigenous ongoing APS employees increased from 1.8 per cent on 30 June 2016 to 2 per cent on 30 June 2017, while Indigenous ADF permanent members increased from 2 per cent on 30 June 2016 to 2.3 per cent on 30 June 2017 (Figure 7.6 and Table 7.25).

Defence engaged 55 new Indigenous APS employees through entry-level programs managed by the Department of Human Services and the Department of Employment.

Defence introduced a new Indigenous ADF pathway model, providing more tailored pre-recruit and development programs to better prepare candidates for recruit school and ADF employment. In excess of 150 Indigenous Australians completed Indigenous ADF pre-employment programs.

Defence doubled this year’s target of domestic contracts to Indigenous businesses from 210 to 420 contracts, bringing forward to 2016–17 the 3 per cent target initially set for 2019–20. Defence was recognised as the Government Member of the Year at the 2017 Supply Nation Connect Awards for its contribution to increasing economic opportunities for Indigenous Australians.

The Defence Reconciliation Action Plan 2015–2018 is available at www.defence.gov.au/Diversity/Indigenous/strategic/drap/Default.asp.

Figure 7.6: Defence Indigenous personnel, as at 30 June 2016 and 30 June 2017

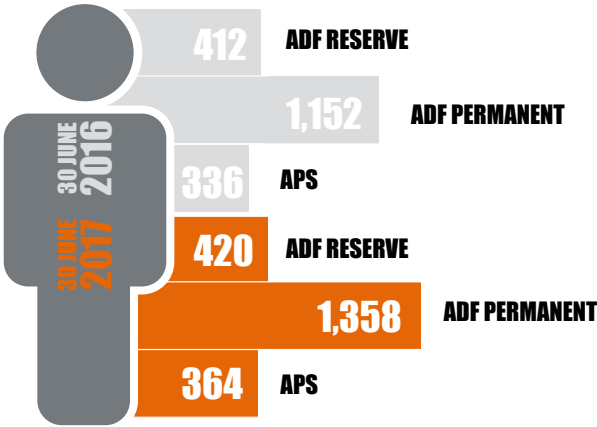


Table 7.25: Defence Indigenous personnel, as at 30 June 2016 and 30 June 2017

ADF	30 June 2016 ¹		30 June 2017	
	Number	% of total	Number	% of total
Permanent	1,152	2.0	1,358	2.3
Active Reserve ²	412	1.9	420	1.9
Navy				
Permanent	364	2.6	404	3.0
Active Reserve ²	22	0.7	21	0.7
Army				
Permanent	625	2.1	776	2.6
Active Reserve ²	341	2.5	346	2.5
Air Force				
Permanent	163	1.1	178	1.2
Active Reserve ²	49	1.0	53	1.0
APS				
Ongoing	335	1.8	363	2.0
Non-ongoing	1	0.9	1	0.8

Note: Data for this table is reliant on self-identification on the Defence human resources system; therefore, the data is likely to under-report actual participation rates.

1. Data for 30 June 2016 does not match the data provided in the *Defence Annual Report 2015–16*. Ethnicity is self-reported in Defence’s human resources system. If a person first identified their Indigenous heritage during 2016–17, then this is retrospectively applied to their status for 30 June 2016.
2. This table includes permanent Australian Defence Force personnel and Active Reserve personnel. The Reserve figures include Reservists on continuous full-time service.

Workforce diversity — disability employment pathways

The Defence Diversity and Inclusion Strategy 2012–2017 outlines Defence’s commitment to creating an inclusive organisation, one which maximises capability by capitalising on a diverse workforce.

One in five people in Australia identify as having some form of disability, and around 2 to 3 per cent of Australia’s population has an intellectual disability. There is a large, untapped workforce and Defence is in a position to provide opportunities for people with disability.

Defence continues to invest in creating and sustaining a range of disability employment programs and pathways, such as:

- the Inclusive Employment Program, which offers permanent employment at the APS 1 and 2 levels for people with intellectual disability

- the Defence Administrative Assistance Program, which offers employment through a partnership with local Australian Disability Enterprises
- direct employment using the Australian Public Service Commissioner’s Directions on affirmative measures
- targeted recruitment through the Defence Graduate Program
- implementation of an improved, client-centric approach to support people with disability and managers in accessing workplace adjustments and assistive technology to eliminate workplace barriers.

Through the above employment programs, 129 people with disability have a valued role in Defence. The cultural and capability benefits to the individuals and the organisation are significant. Defence has increased the visibility of how to reduce barriers that people with disability face in the workplace, and is leading the way in the Australian Public Service. Defence has openly shared the success of the programs across other public sector agencies to inspire others to create further employment opportunities for people with disability.

People from culturally and linguistically diverse backgrounds

Defence continues to develop specific initiatives to attract, recruit, develop and retain people from culturally and linguistically diverse backgrounds.

During 2016–17, Defence developed a new recruitment and marketing campaign aimed at attracting individuals from culturally and linguistically diverse backgrounds to work in the ADF. The campaign promotes Australian Defence Force careers to people from culturally and linguistically diverse backgrounds, and also encourages increased engagement with local communities.

During 2016–2017, marketing material for Australian Public Service recruitment, including for graduate programs, was developed to attract greater representation of people from culturally and linguistically diverse backgrounds.

People with disability

Defence continued to deliver programs to increase the representation of people with disability and to reduce workplace barriers.

A focus during 2016–17 has been on implementing an improved, client-centric approach to support people with disability and managers in accessing workplace adjustments and assistive technology to eliminate workplace barriers.

In 2016, Defence undertook the Australian Network on Disability’s Access and Inclusion Index comprehensive self-assessment. The focus of the assessment was to determine Defence’s understanding of access and inclusion practices across a wide range of areas and to provide guidance on enhancing accessibility for people with disability.

Defence builds cyber capability with talents of people with autism

Defence is contributing to the Government's enhanced national cyber security efforts in a unique and impressive way.

The Dandelion@Defence program is a joint initiative between Defence, Hewlett Packard Enterprise and Danish company Specialisterne, turning the traits of autism into a competitive advantage in the area of cyber security. The Dandelion@Defence program harnesses the talents and develops the skills of a highly capable and diverse, yet previously overlooked, segment of the Australian workforce—people living with autism.

The program utilises the strengths of high-performing autistic individuals, such as a remarkable eye for detail; accuracy and consistency; a logical and analytical approach to detecting irregularities; pattern-matching skills; and a high tolerance for repetitive mental tasks. These exceptional skills create a competitive advantage for Defence in the achievement of its mission, while at the same time opening up a world of opportunity for adults with autism.

Nine talented individuals were chosen from over 50 applicants. They were selected through a unique yet rigorous two-stage assessment and selection process, designed to tap into these strengths.

The Dandelion@Defence program provides a highly supportive and tailored working environment that enables the individuals to reach their full potential on both a personal and professional level. The nine individuals began their journey as cyber security analysts with Defence in September 2016 and have quickly made some very impressive progress with their allocated work.

'I believe the Dandelion@Defence program will not only change the way we think about people with autism, but will go some way to both enhance our capability as well as alleviating the shortage of skills we face in the critical area of cyber security,' said Chief Technology Officer, Mohan Aiyaswami.

'What is important isn't the money; it's giving something back to society that's important. Without a job ... I feel like I'm not giving anything back, I feel it's my duty—it's the right thing to do ... we have an understanding of how society works, even if we don't fit in.'

Participant, Dandelion@Defence program

Even more importantly, in addition to the capability benefits for Defence, the employment provides the individuals with a broader personal and social benefit, including a sense of independence, increased social opportunities, greater confidence when engaging with the community, and improved physical and mental health.

Through this assessment, Defence was identified as one of the top five leading organisations in maturity of access and inclusion practices.

In addition, Defence was one of the first APS agencies to be recognised by the Australian Network on Disability as a Disability Confident Recruiter. This recognition demonstrates that Defence is an industry leader in the recruitment of people with disability.

During 2016–17, Defence expanded its programs for people with disability through a range of dedicated programs, including:

- the Inclusive Employment Program, which provides an employment pathway for people with intellectual disability to begin their work journey and to build a career with Defence and the public service. To date, 16 individuals have been engaged through this program
- the Dandelion@Defence program, which provides employment to nine people with high-functioning autism spectrum disorder to deliver technology and cyber capability in Defence
- the Defence Administrative Assistance Program, where Defence partners with local Australian Disability Enterprises to provide meaningful employment for people with disability. The program establishes corporate support teams for the provision of low-complexity administrative assistance to Defence. To date, the program has been established at eight Defence sites across Australia and has engaged 98 people.

Defence is also improving support mechanisms in the workplace for employees with disability, and building manager confidence for staff who supervise people with disability.

Disability reporting mechanisms

The 2015 Defence census indicates 20.3 per cent of Defence APS employees have at least one form of disability or chronic medical condition. However, official Defence data shows the percentage of Defence APS employees who have self-identified as having a disability is 3.7 per cent.

Reporting of the number of employees with disability or chronic illness relies upon individuals self-identifying. One of the ongoing challenges is the reluctance to report for fear of stigma, discrimination and negative stereotypes associated with disability in the workplace.

The increased level of reporting in the Defence census reflects the anonymity as well as the broader definition of disability to include chronic illness or injury, which may be more temporary in nature.

Defence's focus on removing barriers for people with disability includes strategies to address stigma in the workplace, which should increase the willingness of individuals to share information regarding their disability.

Additional information is available at www.defence.gov.au/defencecensus.

Lesbian, gay, bisexual, transgender and intersex people

Defence seeks to create an inclusive workplace by driving greater awareness of, and developing support structures for, lesbian, gay, bisexual, transgender and intersex people.

Defence renewed its membership with Pride in Diversity, Australia's only not-for-profit employer support program for lesbian, gay, bisexual, transgender and intersex workplace inclusion, to deliver targeted education, awareness and support sessions. In 2016–17, Defence saw an increase in the demand for these sessions across the organisation.

Defence participated in the Australian Workplace Equality Index, which is a benchmarking initiative that assesses an organisation's commitment to lesbian, gay, bisexual, transgender and intersex workplace practices. In 2016, Defence was awarded bronze tier status and maintains its place as one of the top 20 employers in Australia for workplace inclusion of lesbian, gay, bisexual, transgender and intersex people.

On Base Advisory Service

The On Base Advisory Service was established in 2011 and provides advice on Department of Veterans' Affairs (DVA) services and benefits to currently serving ADF personnel. This service is another way for ADF personnel to contact DVA to receive information about services and benefits and/or to make a claim.

DVA and Defence provide a support continuum performance report on a quarterly basis to the Defence – Department of Veterans' Affairs Links Steering Committee. This report, which is collated and managed by DVA, includes a summary of key performance areas across the support continuum for serving and former ADF members and their families. The report statistics specific to the On Base Advisory Service include the number of users of the service, how many claims have resulted from contact with the service, who in Defence is accessing the service, who is referring Defence personnel to the service, and where the service users are being referred.



Fit to fight and fit for life

Whether it's measured in time, dollars, research or dedication, one of Defence's greatest investments is the protection and enhancement of the mental health and wellbeing of ADF personnel and veterans.

Underpinning the work of Joint Health Command to improve the resilience of servicemen and women are strong partnerships with Commonwealth, state and territory agencies and not-for-profit organisations. Collaboration with the Department of Veterans' Affairs (DVA) has been especially important and prominent.

David Morton, the Director-General of Mental Health, Psychology and Rehabilitation, explained that since 2010 Defence and DVA had been collaborating strongly in areas of best practice of post-traumatic stress disorder (PTSD) treatment and suicide prevention.

'Rehabilitation, transition and mental health have become shared responsibilities for both departments,' Mr Morton said.

'Strong integration and a team approach now define how we support current and former serving personnel and their families. This is one of the best changes since the early days of establishing mental health programs, because consistent and integrated approaches to

Australian Defence Force personnel and Defence public servants, alongside family and colleagues from ACT and NSW police, fire and ambulance services, the Australian Federal Police and the Australian Border Force, participate in the CDF Mental Health Walk around Lake Burley Griffin, Canberra.

support reduce gaps and help people understand how to access care at every stage of their career.

'In fact, a great deal of Defence's activity in mental health service delivery now occurs within a framework of collaboration, partnership and/or integration.'

The Commander of the Joint Health Command and Surgeon-General of the ADF, Air Vice-Marshal Tracy Smart, said a major focus for the Joint Health Command over the last 12 months was the work being done on suicide prevention, which also relied on partnerships and collaboration for success.

'In providing suicide prevention support to veterans and current ADF members and their families, Defence, DVA and the Department of Health work closely together, coordinating programs and exchanging knowledge,' Air Vice-Marshal Smart said.

In August 2016, the Prime Minister, the Hon Malcolm Turnbull MP, announced that the National Mental Health Commission would review the suicide prevention programs of Defence, DVA and the Department of Health.

'The commission consulted widely before delivering its independent report, which helped the Government set priorities for suicide prevention support services for current and former ADF personnel and their families,' Air Vice-Marshal Smart said.

'Another example of collaboration is with Phoenix Australia – Centre for Posttraumatic Mental Health to design and develop mental health training for defence healthcare providers. Our training helps medical professionals like doctors and nurses to assess a patient's risk for suicide, self-harm and harm to others and provide early intervention to those who need support.'

Efforts to develop more effective and accessible treatment for mental health conditions such as PTSD require careful clinical research. Collaboration is occurring around how to apply evidence-based treatment for PTSD in ways that are more accessible and timely.

RESTORE is a national clinical trial into treatment for PTSD, bringing together Defence, DVA and Phoenix Australia. The trial involves up to 200 current and former serving ADF personnel and will assess the impacts of intensive PTSD treatment compared to benefits of the standard exposure treatment that is conducted for a longer duration.

'The RESTORE trial began last year and will conclude in 2018,' Air Vice-Marshal Smart said.

'If the evidence shows that participants get the same good results from the shorter intensive treatment, we can begin to make it more widely available and remove the barriers to care that often arise with longer treatment periods.

'The last 18 months have also seen a real galvanising of our work with civilian first responders and other frontline agencies in how they develop and design mental health support.

'Defence is helping the emergency services by sharing our knowledge, strategies and programs such as our "Battle Smart" resilience training. We also share our information about mental health awareness resources and peer support programs.

'With some adaption to their specific needs, Defence mental health experience and expertise is helping civilian emergency servicemen and women, and their families, to benefit from similar benefits ADF members and veterans have enjoyed in recent years.

'These examples of collaboration and evidence-based contributions demonstrate that we are not just focusing on servicemen, servicewomen and veterans, but finding ways to demonstrate leadership and contribute to the mental health of other Australians,' Air Vice-Marshal Smart said.

Research on suicide and prevention program design has also been intensified over the last 12 months. While Defence has a strong understanding of factors impacting serving personnel, knowledge about those who have transitioned back to a civilian life has been limited.

David Morton explained that Defence worked closely with DVA to support the Australian Institute of Health and Welfare (AIHW) to undertake research into the incidence of suicide among current and former serving members last year, with results already shedding light on what is a complex matter.

'The AIHW delivered its first summary report in November last year, and their second "in brief" report was released on 30 June this year. Their final report will be completed by the end of 2017,' Mr Morton said.

'We have confirmed the prevalence of suicide in serving ADF and Reserve members is about half that in the general Australian community. This would suggest screening, recruitment and support services that are designed to protect ADF members are effective.

'While this is good news, of course we always want to improve, so we are closely analysing results to determine how we can continue to boost resilience and support.

'Sadly, the incidence of suicide for former members is around twice that of the community, so Defence and DVA are committed to building a framework that effectively addresses this.

'AIHW research shows the most vulnerable group is typically males under 25 who had a short military career before being medically discharged, and left Defence within the last 12 months. Knowing this means we can appropriately target them with the support and dedication they need and deserve,' Mr Morton said.

The collaboration with the AIHW will continue beyond 2017, with ongoing research—delivered biannually to both departments—expected to continue improving Defence and DVA's work in suicide prevention for current and former serving personnel.

Mental health programs

Defence continues to provide ongoing reporting of its mental health programs, including through the online publication of an annual ADF health review. The *Joint Health Command Annual Review 2015–16* is available at www.defence.gov.au/health/home/healthupdates.asp. The 2016–17 review is expected to be published in November 2017.

In addition, data collection for a longitudinal ADF study evaluating resilience (LASER-Resilience) commenced in 2009, and a final report from the study will be finalised in 2018.

Recognising the need to also focus on mental health issues for Defence APS personnel, a number of initiatives commenced in 2016–17 that focus on the Defence APS workforce, including:

- delivery of the Defence mental health speaker series
- development of a mental health awareness training program for members of the Senior Executive Service and military equivalents, plus a separate program for managers and supervisors
- establishment of an APS mental health working group with representatives from all Groups. This working group will help ensure all areas of Defence's APS workforce can provide input into the APS component of the Mental Health and Wellbeing Strategy 2017–2021.

Physical employment standards

In 2016–17, Defence continued to explore ways to enhance and increase the participation of diverse groups in the Australian Defence Force, while recognising the unique nature, and sometimes strict parameters, of ADF requirements.

Defence's physical employment standards enable the preparation of appropriate physical tests for entry into, and continued employment in, various employment categories, and the selection of personnel who are best suited to the demands of the different categories of employment. The selection of personnel who meet appropriate physical standards helps to contribute to a reduction in injuries, with a consequent increase in personnel availability for operations and training, and a reduction in healthcare and compensation costs.

The application of physical employment standards to roles within the Army, Navy and Air Force is subject to ongoing trials and evaluation.

Army

The Army's physical employment standards define the minimum level of physical capacity required by Army members to perform their duties. These task-based assessments are gender and age neutral. Regular Army recruits must now meet the All Corps Soldier requirements prior to entering the trained force. Where the physical demands of a particular employment category are higher than All Corps Soldier requirements, trainees must pass the physical assessment for their employment category as an initial employment training graduation requirement. Within the trained force, the force generation cycle dictates when personnel must achieve the relevant physical employment standards.

Navy

A 'whole-of-ship' baseline for physical employment standards is under development for delivery by the end of 2017. The physical employment standards for remaining employment categories are to be reviewed from late 2017 to late 2019.

Air Force

The physical employment standards for the Air Force's high- and medium-priority employment categories are under review and are scheduled to be delivered by the end of 2017.



ASSET MANAGEMENT,
PURCHASING AND
CAPITAL INVESTMENT

8

The Air Warfare Destroyer NUSHIP *Hobart* commences its first series of trials—builder's sea trials—that demonstrate the functionality of the ship's propulsion, manoeuvring, auxiliary, control and navigation systems.

Asset management

Defence manages \$95.4 billion of total assets. This includes approximately:

- \$58.6 billion of specialist military equipment
- \$25.7 billion of plant, land, buildings and infrastructure
- \$6.8 billion of inventory
- \$0.6 billion of heritage and cultural assets
- \$3.8 billion of other items, including cash, receivables and prepayments.

Defence Groups and Services, are accountable for the underlying business transactions and records that substantiate the reported financial balances of assets under their control.

Chief Finance Officer Group undertakes accounting processes to enable the accurate and timely reporting of asset balances and ensure that they are consistent with requirements for financial statement reporting defined in the Australian Accounting Standards.

Defence conducts an annual fair value assessment of all assets.

During 2016–17, Defence worked to secure and advance the improvements in financial and asset management achieved in previous years. This has been achieved by:

- an embedded shared service delivery model for asset accounting to further enhance 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 swiftly identify and resolve asset management issues as they occur.

Purchasing

Defence undertakes procurement in accordance with the Commonwealth Procurement Rules and Defence policies. In 2016–17, Defence released a new Defence Procurement Policy Manual, which sets out in one place the 1 March 2017 edition of the Commonwealth Procurement Rules and additional Defence procurement policy directives, all of which must be complied with by Defence officials undertaking procurement.

In accordance with the Commonwealth Procurement Rules, the Defence annual procurement plan is published on the AusTender website (www.tenders.gov.au) to provide industry notice of proposed Defence procurements and enable industry to prepare for the competitive tendering phase. Defence also publishes open tenders on AusTender.

Procurement initiatives to support small business

Defence supports small business participation in the Commonwealth Government procurement market. Small and medium-sized enterprise participation statistics are available on the Department of Finance's website at www.finance.gov.au/procurement/statistics-on-commonwealth-purchasing-contracts.

Defence also recognises the importance of ensuring that small businesses are paid on time. The results of the survey of Australian Government payments to small business are available on the Treasury's website at treasury.gov.au/publication/australian-government-pay-on-time-survey-performance-report.

To ensure non-corporate Commonwealth entities pay small and medium-sized enterprises on time, the Department of Finance released Resource Management Guide No. 417 — *Supplier Pay On-Time or Pay Interest Policy*. To comply with the policy, Defence contracting templates include provisions that require the Commonwealth to make a self-generated interest payment for late payments that accrue interest of more than \$100 (and without the need for any further invoice) for all contracts valued up to \$1 million.

Defence has implemented a mandatory procurement policy on the use of the Defence Purchasing Card as the method of payment for purchases of less than \$10,000. The method of payment for purchases at or above \$10,000 is decided on a case-by-case basis. This policy reduces the administrative burden for payment and is of particular benefit to small business.

Australian industry involvement

Australian industry continued to play a vital role in the acquisition and sustainment of Defence capability in 2016–17. The criticality of the Defence–industry partnership was recognised in the Defence Industry Policy Statement released in February 2016. Defence continued to roll out the initiatives in the Defence Industry Policy Statement to support maximising Australian industry involvement. Specific activities include:

- the launch of the Centre for Defence Industry Capability in December 2016
- the launch of the Defence Innovation Hub in December 2016
- the launch of the Next Generation Technologies Fund in March 2017
- strengthening the Australian Industry Capability Program in late 2016.

The work will continue in 2017–18 with the development of:

- the Sovereign Industrial Capability Assessment Framework and Defence Industrial Capability Plan, to be released in late 2017
- the Defence Export Strategy for release in late 2017
- a defence industry skilling and science, technology, engineering and mathematics strategy for release in mid-2018
- the Defence Industry Participation Policy for release in the first half of 2018.

These initiatives focus on planning, guiding and supporting Australian defence industry to support Defence capability.

The 2016 Defence Industry Policy Statement set out a new approach to Defence industry and innovation, supported by almost \$1.6 billion of funding over 10 years. The new approach is built around two high-profile programs: the Next Generation Technologies Fund (\$730 million) and the Defence Innovation Hub (\$640 million). These two programs focus on the research and development ends of the innovation spectrum respectively, and they form the complementary pillars of the enhanced Defence innovation pipeline.

Centre for Defence Industry Capability

Launched by the Hon Christopher Pyne MP, Minister for Defence Industry, in December 2016, the Centre for Defence Industry Capability is the 'front door' to the new innovation programs and provides a simplified access point to engage Defence on innovative ideas. Furthermore, the Centre for Defence Industry Capability provides a range of advisory services to assist small to medium-sized enterprises seeking to do business with Defence, as well as export facilitation services, including Team Defence Australia and the Global Supply Chain Program.

Next Generation Technologies Fund

The Next Generation Technologies Fund was launched by Mr Pyne in March 2017 and is investing \$730 million over the coming decade in strategic research and innovation partnerships. Through these partnerships with academia, industry and publicly funded research agencies, Defence is building capability in the national innovation system to develop game-changing capabilities of the future.

Since the launch, several new research frameworks have been developed to grow cross-disciplinary collaboration, and new partnerships with the university sector and publicly funded research agencies have been established. Twenty-two universities across Australia are now conducting research in one or more of nine priority areas identified in the Integrated Investment Program (IIP). More information about the IIP is on page 123.

Defence Innovation Hub

The Defence Innovation Hub was launched by Mr Pyne in December 2016, and received more than 200 innovation proposals up to 30 June 2017. The Defence Innovation Hub seeks proposals aligned with the six capability streams identified in the Integrated Investment Program. The investment priorities are reviewed on an annual basis.

The Centre for Defence Industry Capability and the Defence Innovation Hub were shortlisted for the 2017 Public Sector Innovation Awards, recognising their achievements in bringing new cultural and business approaches to Defence's partnership with Australian industry.

Australian Industry Capability Program

During 2016–17, the Australian Industry Capability Program retained its focus on Australian industry involvement in Defence acquisition and sustainment activities. The Australian Industry Capability Plan template has been strengthened in line with the Government's policy of maximising Australian industry involvement in meeting Australia's defence capability goals. Under the strengthened program, tenderers are now required to provide more detail in their Australian industry capability plans for projects at or above a threshold of \$20 million, or where a sovereign industrial capability requirement is applicable (sovereign industrial capabilities will be released at the end of 2017).

Changes to the Australian Industry Capability Plan template have been made to explicitly address:

- the tenderer's strategy for maximising Australian industry involvement in the project and enduring Australian industry capability benefit beyond the work period
- maximising the inclusion of competitive Australian small to medium-sized enterprises and Indigenous business enterprises
- details on the proposed investment in innovation, and collaborative research and development efforts in Australia
- establishing, transitioning or enhancing skills, knowledge, systems, technology and infrastructure within Australian industry
- identification and promotion of Australian defence export opportunities and contributions to the global supply chain.

Defence closely monitors the implementation of the plans, which are a contracted deliverable for the successful tenderer. This improved approach to Australian industry involvement is fully aligned with the 2016 Defence White Paper, the Integrated Investment Program and the Defence Industry Policy Statement, and highlights Defence's commitment to supporting Australian industry.

Indigenous procurement policy

Defence is committed to procuring from Indigenous businesses through the application of the Indigenous Procurement Policy, which commenced in July 2015. Portfolio targets are established annually by the Department of the Prime Minister and Cabinet. Defence exceeded its initial 2015–16 target of 70 contracts, with 285 contracts valued at \$142 million being placed with Indigenous businesses. Defence has subsequently had its target of eligible domestic contracts for 2016–17 increased from 210 to 420 contracts, bringing forward the 3 per cent target initially set for 2019–20.

Defence was recognised as the Government Member of the Year at the 2017 Supply Nation Connect Awards for its commitment and contribution to increasing opportunities for Indigenous Australians to participate in the economy.

Defence is implementing a number of initiatives to ensure:

- stakeholder engagement to promote a coordinated approach to ongoing implementation of the Indigenous Procurement Policy
- continuous review and updating of policy and guidance
- improved system reporting
- internal outreach, including establishment of a Defence Indigenous Procurement Policy working group
- Indigenous business outreach activity to achieve maximum exposure to available resources and opportunities for Indigenous businesses to provide goods and services to Defence
- the development of an Indigenous Procurement Policy strategic plan, with expected completion in August 2017.

Capital investment

The Integrated Investment Program now combines the previously separate programs of major capital equipment (formerly known as the Defence Capability Plan), information and communications technology, and estate and infrastructure investment.

The Integrated Investment Program includes investments that have been approved by Government, in addition to the unapproved proposals for which Defence will be seeking Government approval over the decade to 2025–26. The Integrated Investment Program is reviewed biannually by Government.

During 2016–17, 74 capability-related submissions were approved by Government against an initial plan of 62 (as given in the 2016 Defence White Paper). Fifteen of those submissions received first pass approvals, 31 received second pass approvals, 15 received other types of Integrated Investment Program project approvals, and 13 approvals were granted for submissions that provided advice to Government on current and future capability. Significant approvals were granted for:

- maritime and anti-submarine warfare
 - release of the Naval Shipbuilding Plan
 - approval to commence design of the 12 future submarines, to be built in Australia
- intelligence, surveillance, reconnaissance and electronic warfare, and space and cyber
 - second pass approval to enhance Defence access to commercial satellites to support ADF operations around the world and at home to secure Australia's borders
 - second pass approval for electronic warfare infrastructure to counter emerging electronic warfare threats
- land combat and amphibious warfare
 - second pass approval for the replacement of night fighting equipment
- air and sea lift
 - second pass approval for small unmanned aerial surveillance and reconnaissance capability
 - second pass approval for a new fleet of petrol tankers and aviation refuelling vehicles
- strike and air combat
 - first pass approval for a short-range ground-based air defence system.
- key enablers
 - second pass approval for an upgrade to the Navy's Garden Island facility in Sydney.

Eleven of these approvals, totalling \$1.2 billion, required referral to the Parliamentary Standing Committee on Public Works. Of the 11 projects referred, the committee held public hearings for eight major capital facilities and infrastructure projects, valued at over \$494 million. It is anticipated that the other three projects referred to the committee in 2016–17 will be the subject of public hearings in early 2017–18. In addition, 19 medium work projects, valued at \$138.1 million, were notified to the Parliamentary Standing Committee on Public Works, indicating a strong project pipeline for the next two years.

Additional performance information about major capital projects and the Defence estate is available on the Defence website at www.defence.gov.au/annualreports/16-17. A list of the additional information is provided at Appendix B—Supplementary online material.

Projects of concern

The Projects of Concern regime is a proven process for managing seriously underperforming projects at a senior level. Once listed, the primary objective of the regime is to remediate these projects by implementing an agreed plan to resolve any significant commercial, technical, cost and/or schedule difficulties. Projects of concern receive targeted senior management attention and must be reported on more regularly to the Government.

Table 8.1 provides a list of projects of concern as at 30 June 2017. A significant change since the end of the previous reporting period is the successful remediation of the Mulwala Redevelopment Project (JP 2086, Phase 1) and the subsequent removal of the project from the list.

Table 8.1: Projects of concern, as at 30 June 2017

Project name	Project number and phase	Date added
Collins Class Submarines Sustainment	CN 10	November 2008
Multi-Role Helicopter (MRH-90)	AIR 9000, Phases 2, 4 and 6	November 2011
Air Warfare Destroyer	SEA 4000, Phase 3	June 2014
Australian Defence Satellite Communications Capability Terrestrial Enhancement	JP 2008, Phase 3F	September 2014

Defence will continue to actively manage the remaining projects of concern in 2017–18, as agreed with Government.

Smart Buyer program is a smart blueprint for Commonwealth project management

With constant pressure on departments to deliver more and better with less, it appears Defence may have developed the model for ensuring the Government and taxpayers get the value for money they are seeking.

The Capability Acquisition and Sustainment Group's Smart Buyer program has only been operating for just over 12 months, but it is already gaining widespread recognition for supporting better decisions on procurement, sustainment and disposal.

The Smart Buyer program director, Chad Tyrrell, described the program as a 'keystone initiative' for Defence, and is an essential component of Defence's new capability life cycle, implemented as part of the First Principles Review.

'The Smart Buyer program is an expenditure decision-making framework,' Mr Tyrrell said.

'It commenced in May 2016 to modernise Defence's approach to acquisition and sustainment strategy development and management.

'It does this by getting key stakeholders to develop an improved understanding of a project's risk profile at workshops facilitated by experienced and independent Defence personnel and industry experts.

'The shared understanding of a project's risk profile delivers better value and more effective Defence capabilities, because investment approvals are better informed, contested and timely.

'Smart Buyer has been designed and implemented with the intention of better understanding and communicating risks and costs for both Defence and industry.

One of the biggest achievements by the Smart Buyer team over the last 12 months has been successfully embedding Smart Buyer into business-as-usual processes for Defence procurement projects that need second pass approval to proceed.

'We have designed and rolled out the program to provide support to project sponsors and project managers as they prepare their projects for consideration by the Defence Investment Committee,' Mr Tyrrell said.

Mr Tyrrell said credit for the fast-paced success of Smart Buyer was also due to having the 'right people in the room' when discussions about procurement design and implementation were made.

'Those right people include the Capability Acquisition and Sustainment Group external board members serving as facilitators and advisers during Smart Buyer workshops. This team offers decades of experience and advice that project sponsors and managers can draw on when grappling with enormous complexity in the Defence environment,' Mr Tyrrell said.

'Good planning by Defence and Smart Buyer's blended team, combined with strong support from Defence's senior leadership, has contributed to good outcomes and earned the program a positive reputation.'

The current focus for the Smart Buyer program is on procurement projects that need second pass approval to proceed. However, the program is already trialling the application of the Smart Buyer decision framework to projects that have already obtained second pass approval, and to sustainment and disposal projects, over the next two years.

'Our early success is something we're proud of, but we are constantly striving to sharpen up existing processes, templates and outputs,' Mr Tyrrell said.

'This last year has set a solid foundation, but our focus on continuous improvement makes me believe we will have even more positive news to report next year.'

So, do Chad Tyrrell and his Smart Buyer team have an idea about how to make a good thing even better?

'A greater number of appropriately experienced facilitators and external board members would be welcome, so we can scale up effectively while still maintaining quality service delivery,' Mr Tyrrell said.

More information on the Capability Acquisition and Sustainment Group's Smart Buyer program can be found at www.defence.gov.au/CASG/NewsMedia/DMOBulletin/smart_buyer.

World-first service medal for military working dogs



Main image: Chief of Joint Operations Vice Admiral David Johnston AM RAN gives military working dog puppy Ulf, a Belgian shepherd, a big hug at the launch of the Canine Operational Service Medal at the Australian War Memorial, Canberra, on 8 June 2017.

Inset: The Canine Operational Service Medal.

Defence's Directorate of Honours and Awards has made history by implementing the Chief of the Defence Force's vision of developing and awarding a service medal for military working dogs. The Australian Defence Force (ADF) is the first military organisation to formally recognise the contribution military working dogs make during operations, with the Canine Operational Service Medal becoming part of Defence's internal recognition system.

As technology has evolved, the need for Defence to use other animals such as camels and donkeys ceased, but military working dogs continue to serve as explosive detection dogs, combat assault dogs, patrol dogs and military police dogs. The Canine Operational Service Medal will be awarded to military working dogs with 30 days service in operations from 1999 onwards. Further research will be undertaken into recognising military working dogs from the Vietnam War to 1999.

The Chief of Joint Operations, Vice Admiral David Johnston, announced the Canine Operational Service Medal in front of the sculpture of the explosive detection dog and handler at the Australian War Memorial in Canberra in June 2017.

'Military working dogs have been by our side in combat and on peacekeeping missions for more than a century,' Vice Admiral Johnston said.

'The Canine Operational Service Medal is a symbol of service and recognises our deep appreciation for the critical work these canines perform to help keep ADF personnel safe.'

Corporal Mark Donaldson VC attended the announcement of the new medal and gave a personal account of his experience as a dog handler.

'Over the years, as an observer and as a handler of military working dogs, I and many of my comrades have seen how much these animals contribute to every effort of the Australian military capability,' Corporal Donaldson said.

The medal itself is made in Australia from nickel silver and features combat assault dog, Quake, who died on operations in Afghanistan in 2012. The reverse features the ADF emblem. The four ribbon colours represent animals (purple), land (green), loyalty (yellow), and sea and sky (blue).

A clasp with the name of the operation is presented with the medal.

More information about the Canine Operational Service Medal is available at www.defence.gov.au/Medals/News.asp.



Policy Officer from the North East Asia Section, in the International Policy Division, Aaron Lovell presented a speech at the Graduate Completion Ceremony for the 2016 Policy and Intelligence Pathway, part of the Defence Graduate Program.



9

ENVIRONMENTAL PERFORMANCE

9

Chief Petty Officer Clearance Diver Christian O'Neill checks a shot line and conducts an environmental survey after demolition of a World War II sea mine in shallow water off the coast of Cooktown in Far North Queensland.

Environmental performance

The Secretary and the Chief of the Defence Force launched the Defence Environmental Policy in September 2016. Through implementation of the policy, Defence will:

- deliver a sustainable estate across Defence maritime, land and aerospace areas, activities and operations
- understand and manage its environmental impacts
- minimise future pollution risks and manage existing contamination risks
- improve the efficiency of its resource consumption and strengthen resource security
- recognise and manage the Defence estate heritage values.

The Defence Environmental Policy is supported by the Defence Environmental Strategy 2016–2036 and the Defence Environmental Plan. The Defence Environmental Strategy articulates how Defence will achieve its environmental vision. The Defence Environmental Plan outlines specific actions, timeframes and responsibilities for implementing the strategy and reporting on achievements.

Land management

Defence, in working with its Base Services contractors, continues to manage its estate in a way that promotes environmental sustainability and meets legislative environmental obligations.

During 2016–17, the Base Services contracts continued to provide a better opportunity for an integrated service delivery approach to land and environmental management, thereby preventing cumulative adverse impacts on environmental and heritage values. Defence identified a number of ad hoc environmental projects to be moved into scheduled and planned approaches to activities such as bushfire monitoring and management; water quality monitoring; management of native, domestic, feral and invasive species; and biosecurity management.

Defence also continued to assess the effectiveness of the Base Services land management scope of works to ensure that it is delivering on the initial intent of proactive, adaptive and responsive service delivery that complies with Defence's legislative obligations.

Waste management

Defence has specific waste management targets that include minimising the amount of material from Defence being diverted to landfill; reducing consumption of natural resources by minimising the amount of packaging material purchased; and reducing waste management and disposal costs through waste streaming. Defence, with its Base Services contractor, continues to focus on meeting these targets through waste management service delivery rationalisation.

During 2016–17, Defence managed the removal of over 38,000 tonnes of waste from the domestic Defence estate utilising its national Base Service contractor. Working with the contractor, Defence has been able to divert over 7,000 tonnes of landfill waste to the contractor's bioreactor facilities, converting this waste into electricity by harvesting methane gas produced during the biodegradation process. In addition, over 5,000 tonnes of recyclable materials have been diverted from various local and municipal landfill sites.

Energy service delivery

Defence continues to support energy innovation through data and information analysis, the procurement of energy supply agreements, and specific projects such as the Carnegie Clean Energy wave energy project in Western Australia.

In supporting energy innovation, Defence remains focused on ensuring energy supply effectiveness, infrastructure maintenance and usage management. During 2016–17, the rollout of a photovoltaic solar program commenced,

and included the provision of solar-generated energy at Defence sites such as Cowley Beach, Innisfail (20 kilowatts), 51st Battalion, Far North Queensland Regiment Headquarters, Porton Barracks, Cairns (56 kilowatts), the Army Museum of North Queensland, Townsville (32 kilowatts), and Victoria Barracks, Melbourne (100 kilowatts).

Referrals under the Environment Protection and Biodiversity Conservation Act

No Defence projects were referred for formal consideration under the *Environment Protection and Biodiversity Conservation Act 1999* (EPBC Act) in 2016–17. No Defence projects were formally assessed under the EPBC Act during 2016–17.

Environmental improvement initiatives and review

Exercise Talisman Saber 2017

Defence completed a comprehensive environmental assessment for Exercise Talisman Saber 2017, which is a major military exercise involving Australian and international armed forces operating across various locations throughout Australia.

Remediation programs

Defence is undertaking ongoing contamination and explosive ordnance waste assessments and remediation across priority areas on the Defence estate, including environmental remediation works at Moorebank, New South Wales, and the remediation of explosive ordnance waste at multiple air weapons ranges, including Salt Ash and Evans Head in New South Wales and Delamere in the Northern Territory.

Heritage management on the Defence estate

Defence manages heritage values on the Defence estate consistent with the principles and requirements of Commonwealth heritage legislation, including identification and management of risks to heritage assets during planning, development and operation of Defence facilities. Defence continues to progress heritage assessments and development of heritage management plans in accordance with the Defence Estate Heritage Strategy.

Land Activities Environmental Management Plan

During 2016–17, Defence completed the Land Activities Environmental Management Plan, which provides guidance for military activities on the Defence estate and at non-Defence training areas. This guidance includes provision of environmental reference cards for use by ADF personnel in the field, and covers 15 training areas. Guidance within the Land Activities Environmental Management Plan was used in the planning of the military exercises Hamel 2016 and Talisman Saber 2017.

Pollution prevention manual

During 2016–17, Defence completed a review and draft update of its pollution prevention manual, including 10 specific pollution prevention guidelines. The Defence water quality monitoring manual was also updated and published. A national program has commenced to remove and dispose of disused fuel storage tanks across the Defence estate.

Land management and biodiversity

Defence continues to update and develop bushfire management plans for fire-prone sites and to progress cooperative arrangements with state and territory bushfire authorities.

Defence has engaged the Australian Wildlife Conservancy to undertake land management at the Yampi Sound Training Area in the West Kimberley. Activities include monitoring for threatened species, mosaic burning to promote biodiversity, and engaging traditional owners in land management.

In May 2017, the Bradshaw Field Training Area hosted Bush Blitz, a program aimed at the discovery of new species. Bush Blitz is a collaborative venture between the Australian Government, universities and private sector organisations. Discoveries in the Bradshaw Field Training Area included an exceedingly rare fish, the Angalarri grunter, specifically the identification of juveniles of that species.

Ecologically sustainable development

The Ecologically Sustainable Development Program continues to deliver energy, water and waste efficiency projects to improve the sustainability of the Defence estate and reduce whole-of-life costs. Projects include the installation of rooftop solar photovoltaic systems, lighting upgrades and water-efficient fittings.

Defence commissioned over 400 kilowatts of power from solar photovoltaic panels across the estate during 2016–17, with over half of the panels installed by an Indigenous company.

The Smart Infrastructure Manual, released in 2015, continues to be implemented. The manual defines requirements and obligations for design and construction of infrastructure projects, including energy, water, waste, pollution prevention and smart procurement. The manual requirements are included in all new infrastructure contracts.

Energy

In 2015–16, total energy consumption increased by 13.9 per cent compared to 2014–15. This increase can be largely attributed to a rise in operational fuel consumption. Stationary energy use (electricity and gas) increased by 0.9 per cent. This can be largely attributed to multiple major base redevelopments.

Land management innovation—Yampi Sound

In August 2016, Defence signed a contract to partner with the Australian Wildlife Conservancy to trial its land management and conservation services throughout the 560,000-hectare Yampi Sound Training Area for an initial term of six years and a renewal term of two years.

The Yampi Sound Training Area has been Defence-owned since the 1970s and is home to more than 1,000 plant species and a large number of animal species, including over 50 mammal species, more than 170 bird species and around 100 reptile species, many of which are endangered.

Central to the success of the partnership will be the involvement of Yampi's traditional owners—the Dambimangari people. The initiative will deliver a significant increase in Dambimangari involvement at Yampi through employment within the Australian Wildlife Conservancy's on-ground team, training, and ongoing engagement in the design and delivery of fire management and other land management strategies.



Defence environmental management

Defence is one of the largest landholders in Australia and is responsible for vast tracts of diverse and geographically dispersed maritime, land and aerospace areas. These areas are essential to Defence capability and are significant national assets, comprising important environmental values and ecological systems.

As the custodian of the environment within which it operates, Defence is committed to responsibly managing its natural assets and meeting its environmental obligations.

Defence's environmental vision, articulated in the Defence Environmental Policy and Defence Environmental Strategy 2016–2036, is to be a leader in sustainable environmental management to support the ADF capability to defend Australia and its national interests.

Defence is committed to implementing programs aimed at building energy resilience, improving energy efficiency, reducing energy costs, and reducing greenhouse gas emissions.

Australian Army personnel from the 2nd/14th Light Horse Regiment take part in a training scenario during Chauvel Cup 2017.

Approximately 80 per cent of Defence's total energy consumption consists of fuel used for aircraft, ships, tanks and other vehicles to support ADF activities, with the remaining consumption being electricity and gas consumed in offices and other estate facilities.

Defence is committed to reducing its energy consumption and carbon emissions, particularly in non-operational and support activities.

Defence has a number of programs in place to reduce its energy consumption, including a renewable energy program, an ecologically sustainable development program and the Smart Infrastructure Manual.

For example, Defence awarded a contract to Indigenous company Kenjarhy Solar, which completed the installation of 220 kilowatts of solar panels across three Defence sites in the Northern Territory and Queensland in 2016.

Defence is also working with Carnegie Clean Energy to install a microgrid consisting of 2 megawatts of solar, 0.5 megawatts of battery storage and up to 1.5

megawatts of wave energy at HMAS Stirling, Western Australia. Once completed, the project will be the largest embedded, grid-connected solar and battery microgrid in Australia.

Defence properties often contain significant native vegetation, threatened species and cultural heritage sites. This is a result of their size, restricted access, and the fact that, where possible, Defence properties are actively managed to protect environmental values. This feature of Defence properties is most apparent in urban fringes, where the pressures on natural systems from clearing and urban encroachment are often greatest.

Defence regularly undertakes environmental management activities with neighbouring land managers. In December 2016, Defence partnered with the Great Barrier Reef Marine Park Authority and the Fitzroy Basin Association to reduce the number of feral pigs at the Shoalwater Bay Training Area in Queensland.

As part of the Shoalwater Bay pest animal management program, Defence is also focused on the protection of vulnerable shorebird nests and the internationally significant Ramsar wetlands. Defence is committed to general pest management across the entire Defence estate to reduce environmental and economic harm stemming from pest species.

Defence's commitment to responsibly managing its natural assets is further demonstrated through the recent partnership with the Australian Wildlife Conservancy (AWC) to manage the Yampi Sound Training Area in Western Australia's Kimberley region.

Recognising Yampi's environmental significance, Defence established a contract with AWC in 2016 to provide land management and conservation services specifically aimed at protecting the endangered species that live on the property through controlled fire regimes, and pest and weed control.

This partnership enables Defence to meet its environmental goals by integrating a contemporary business model with the land management and conservation practices of the traditional owners, the Dambimangari people.

Contamination from unexploded ordnance and other harmful substances such as asbestos and per- and polyfluorinated alkyl substances (PFAS) remains a significant management issue and financial liability for Defence. Ongoing remediation works such as the Mulwala Explosives Facility groundwater remediation project continue to successfully clean up legacy contamination.

Defence has completed a range of activities to manage the impacts of PFAS on, and in the vicinity of, affected Defence bases around Australia. Fifteen sites have commenced detailed environmental investigations, with three further sites to commence shortly.

During 2016–17, Defence completed a review and draft update of its pollution prevention manual, including 10 specific pollution prevention guidelines. The Defence water quality monitoring manual was also updated and published.

Where legacy contamination issues are identified, Defence is proactive in investigating the nature, extent and consequences of contamination, and developing cost-effective, risk-based management responses.

Although Defence has already achieved considerable progress in achieving environmental outcomes in support of capability, compliance and sustainability, we still have more work to do to achieve the environmental vision. The Defence Environmental Strategy 2016–2036, along with Defence's environmental policy and plan, lay out the foundations for achieving this aim.

Defence fuel supply chain reform and initiatives

During 2016–17, Defence continued its program of hazard identification and risk assessments across the Defence fuel supply chain. A major focus of the program was the integrity of underground and above-ground storage tanks, associated environmental monitoring facilities and leak detection processes, adequacy and condition of bunding, and wastewater treatment and management.

A complementary program of engineering integrity technical reviews was also completed at selected sites across the Defence fuel supply chain that were identified as needing remediation works. These works have either been completed or are scheduled to be undertaken in 2017–18.

In addition, a Defence fuel network review identified, as part of the optimisation of the fuel network, 21 sites for closure out of the existing 107 sites. Twenty-one closures will be undertaken in 2017–18 and will assist in reducing potential adverse environmental impacts.

National per- and polyfluorinated alkyl substances investigation and management

Defence continued to expand the national per- and polyfluorinated alkyl substances (PFAS) environmental investigation and management program, which is investigating the extent of contamination from the historical use of firefighting foams containing PFAS. Defence and other organisations in Australia and around the world have used these foams since the 1970s to suppress liquid fuel fires.

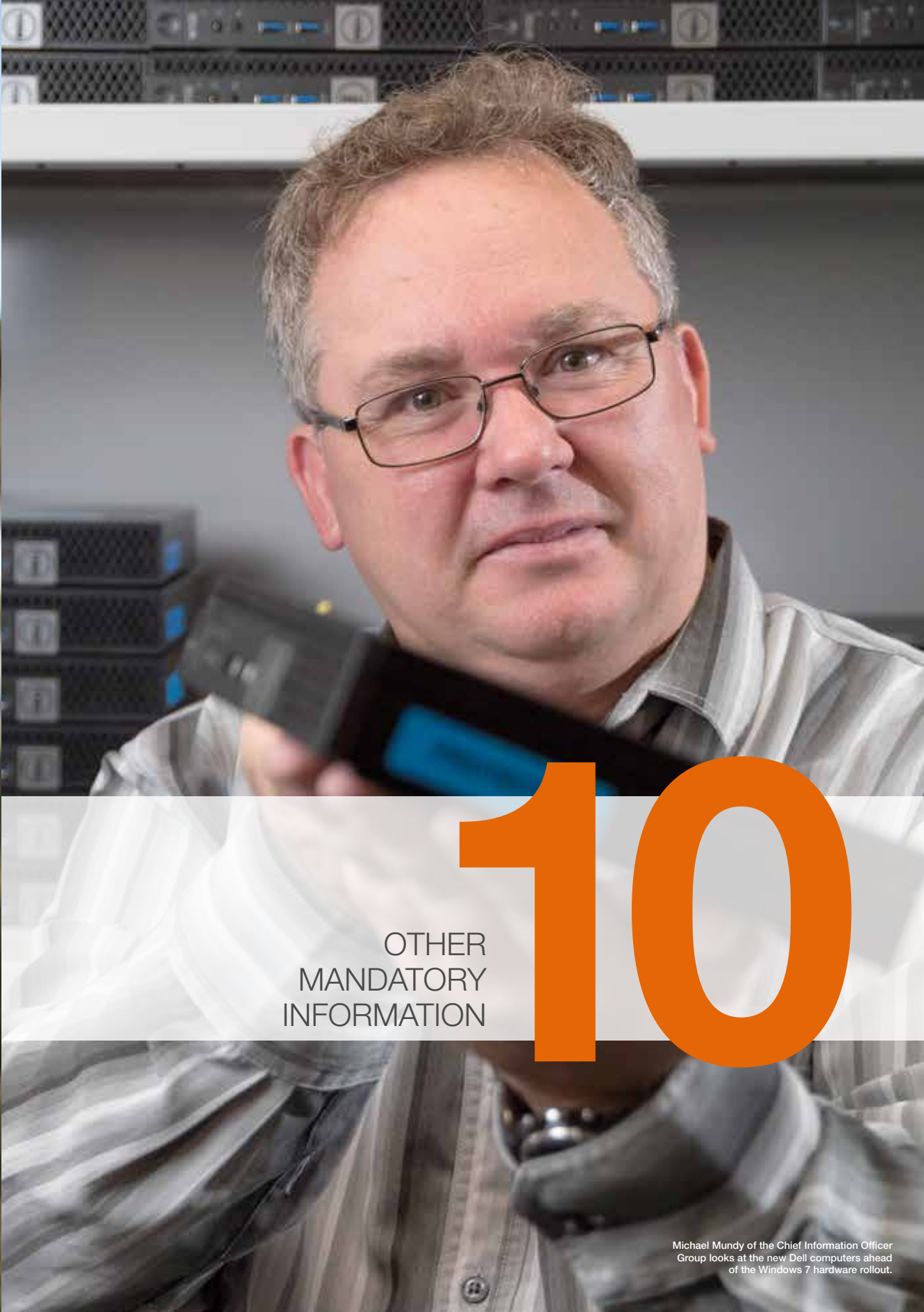
In 2016–17, Defence completed the detailed investigations and related assessments at RAAF Base Williamtown and Army Aviation Centre Oakey. Defence also commenced detailed environmental investigations at another 16 sites. This represents the largest environmental investigation ever undertaken in Australia.

The program includes a comprehensive and detailed environmental investigation—underway at 18 Defence properties, including RAAF Base Williamtown and Army Aviation Centre Oakey—that entails environmental site assessments, human health risk assessments, ecological assessments and strategic management plans. Defence provided an alternative water supply to those residents neighbouring investigation sites who were reliant on bore water for drinking. In late 2016, Defence also began exploring and implementing options for the management and remediation of contaminated water and soil. These options range from clearance of drains and water processing plants through to exploring emerging scientific and technical approaches for future application.

In the first half of 2017, Defence worked with Commonwealth, state, territory and local authorities, including the PFAS Taskforce (led by the Department of the Prime Minister and Cabinet) and the Commonwealth Department of Health, to communicate details of the investigations and the broader management program to local communities.



APS Overseas Deployment Group
Coordinator Rachael Rennick.



OTHER
MANDATORY
INFORMATION

10

Michael Mundy of the Chief Information Officer
Group looks at the new Dell computers ahead
of the Windows 7 hardware rollout.

Grants

Information on grants awarded by Defence during 2016–17 is available at www.defence.gov.au/disclosures.asp. In 2016–17, Defence paid approved grants with a total value of \$132.9 million, an increase of \$4.2 million compared to the previous year (Table 10.1)

Table 10.1: **Approved grants, 2015–16 and 2016–17**

	2015–16 actual value (\$'000) ¹	2016–17 actual value (\$'000) ¹
Grants programs		
Army History Research Grants Scheme	52	55
Defence Science and Technology Group—Industry Placement Program	384	–
Family Support Funding Program	1,473	1,553
Indigenous Australians and the Australian Defence Force	–	86
Industry Skilling Enhancement	563	600
New Air Combat Capability—Industry Support Program	2,654	1,038
Priority Industry Capability Innovation Program	291	1,265
Skilling Australia's Defence Industry	3,710	–
Other grants		
3 Wing Australian Air Force Cadets	49	–
ADF Long Tan Youth Leadership and Teamwork Awards	–	1,602
Afghan National Army Trust Fund contribution	107,052	105,876
Alliance 21 Program, United States Studies Centre, University of Sydney	560	260
Army and Air Force Canteen Service	–	800
Australian Airports Association	–	720
Australian Member Committee of the Council for Security Cooperation in the Asia-Pacific (multi-year grant)	153	129
Australian National University—Shedden Professor of Strategic Policy Studies position (multi-year grant)	339	291
Australian Nuclear Science and Technology Organisation	–	2,000
Australian Peacekeeping Memorial Project	2,000	1,100
Australian Sailor Pty Ltd	250	–
Australian Strategic Policy Institute (multi-year grant)	3,358	3,442
Australian Surf Rowers League	–	200
Australian War Memorial—Anzac Centenary travelling exhibition	2,727	2,727
Australian War Memorial—MV <i>Krait</i>	–	250
China Matters	100	–
Fisher House Foundation (multi-year grant)	25	–
Institute for Regional Security (previously Kokoda Foundation)—Young Leaders Strategic Program	176	176
Invictus Games 2018	–	7,000
Multinational Force and Observers (multi-year grant)	939	870
National Boer War Memorial Association	1,450	500
Research Unit on Military Law and Ethics at the University of Adelaide—development of a Manual on International Law Applicable to Military Uses of Outer Space	–	36
Royal United Services Institute of Australia	99	–
Sir Richard Williams Foundation (multi-year grant)	50	50
Stand Tall for PTS	150	220
University of Melbourne—PhD study	19	–
UNSW Canberra at the Australian Defence Force Academy	–	20
Total approved grants paid	128,623	132,866

Note

1. Figures are GST exclusive.

Advertising and market research

During 2016–17, Defence conducted advertising for recruitment and other campaigns. Information on those advertising campaigns is available in reports on Australian Government advertising prepared by the Department of Finance. Those reports are available on the Department of Finance's website, www.finance.gov.au.

Table 10.2 shows total advertising and market research expenditure by Defence during 2016–17. Table 10.3 shows Defence spending on advertising and market research by Service and Group.

Table 10.2: Total advertising and market research, by type, 2016–17

Type	2016–17 expenditure (\$)
Advertising	19,069,792
Market research	1,087,653
Polling	–
Direct mail	18,009
Media advertising	45,385,214
Total	65,560,668

Note: All figures are GST inclusive.

Table 10.3: Total advertising and market research expenditure, by Service and Group, 2016–17

Service or Group	2015–16 expenditure (\$)	2016–17 expenditure (\$)
Navy	23,014	48,498
Army	29,201	98,592
Air Force	225,454	277,354
Associate Secretary (Defence Executive Support)	126,203	–
Vice Chief of the Defence Force Group	139,630	127,217
Joint Operations Command	–	–
Strategic Policy and Intelligence Group	16,023	171,070
Chief Finance Officer Group	–	–
Chief Information Officer Group	192,945	315,021
Capability Acquisition and Sustainment Group	62,808	57,710
Defence Science and Technology Group	34,332	76,473
Estate and Infrastructure Group	160,166	35,596
Defence People Group	69,685,027	64,353,137
Total	70,694,803	65,560,668

Note: All figures are GST inclusive.

Table 10.4 provides details of individual payments of more than \$13,000 (including GST) to persons or organisations for advertising campaigns and market research.

Table 10.4: Individual payments of more than \$13,000 to advertising and market research agencies, by Service and Group, 2016–17

Service/Group and agency name	2016–17 expenditure (\$)	Purpose
Navy		
Direct mail		
Direct Response Australia Pty Ltd	18,009	Coordination of the Young Endeavour Youth Scheme mail-out to schools
Army		
Advertising		
Havas Worldwide Australia Pty Ltd	66,554	ADF recruitment
Air Force		
Media advertising		
Dentsu Mitchell Media Australia	29,825	Volunteer position of Commander Australian Air Force Cadets
Vice Chief of the Defence Force Group		
Advertising		
Chilli Promotions Pty Ltd	15,345	Promotional items for the Defence Work Experience Program
Intandem	19,915	Promotional items for the Defence Work Experience Program
Promotion Products Pty Ltd	30,402	Promotional items for the Defence Work Experience Program
Media advertising		
Mitchell and Partners Australia	13,780	Multiple public notices across Australia to advise the community of upcoming range noise due to military training or explosive ordnance activities
Strategic Policy and Intelligence Group		
Advertising		
Tank Pty Ltd	69,315	Recruitment
Infocus Australia	14,837	Recruitment
Mitchel and Partners Australia	73,419	Recruitment
Media advertising		
Enex Pty Ltd	13,500	Media production for Stay Smart Online
Chief Information Officer Group		
Advertising		
White Pages	315,021	White Pages advertising
Capability Acquisition and Sustainment Group		
Advertising		
HorizonOne Recruitment	39,364	Non-ADF advertising costs for Government-directed recruitment for various projects
Mitchell Communications Group	18,346	Non-ADF advertising costs for Government-directed recruitment for multiple submarine programs
Defence Science and Technology Group		
Media advertising		
Faircount Media Group LCC (USA)	13,366	Advertisement in <i>100 Years of World-Class Leadership in Materials and Manufacturing for Our Airmen</i>
Refraction Media Pty Ltd	24,142	Full-page advertisement for <i>STEM in Careers with Science 2017</i> , <i>Careers with Maths 2017</i> , <i>Careers with Engineering 2017</i> and <i>Careers with Code 2017</i>
The Royal Institution of Australia (RiAus)	13,200	<i>Ultimate Careers 2017</i> corporate advertising package
Estate and Infrastructure Group		
Advertising		
Mitchell and Partners Australia	18,547	Advertisement placement service—newspaper
Mitchell and Partners Australia	17,049	Public notices—field firing ranges—metro areas

Service/Group and agency name	2016–17 expenditure (\$)	Purpose
Defence People Group		
Advertising		
Havas Worldwide Australia Pty Ltd	18,312,248	ADF recruitment advertising
Market research		
Chat House Research Pty Ltd	277,395	Qualitative and quantitative research to maximise ADF recruitment targets
GfK Australia Pty Ltd	81,764	Qualitative and quantitative research to maximise ADF recruitment targets
Hall & Partners Open Mind	600,865	Qualitative and quantitative research to maximise ADF recruitment targets
Taylor Nelson Sofres	81,011	Qualitative and quantitative research to maximise ADF recruitment targets
WhereTo Research Based Consulting	60,643	Qualitative and quantitative research to maximise ADF recruitment targets
Media advertising		
Australian Public Service Commission	109,946	APS employees (non–Capability Acquisition and Sustainment Group)—Public Service Gazette
Dentsu Mitchell Media Australia	44,794,463	Planning and placement of campaign advertising

Note: All figures are GST inclusive.

Legal expenses

Expenditure on internal and external legal services in 2016–17 is shown in tables 10.5 to 10.7. Internal expenses include salaries for military and civilian staff, divisional operating costs and military justice disbursements. External expenses are professional fees, disbursements and legal assistance at Commonwealth expense.

Table 10.5: Estimated expenditure on internal and external legal services, 2015–16 and 2016–17

Type of legal expenditure	2015–16 (\$m)	2016–17 (\$m)
Internal	48.02	46.92
External	38.02	46.59
Total	86.04	93.51

Note: All figures are GST exclusive.

Table 10.6: Estimated cost breakdown of internal legal expenses, 2015–16 and 2016–17

Item	2015–16 (\$m)	2016–17 (\$m)
Salaries for military lawyers	19.83	19.14
Salaries for civilian staff	15.91	14.93
ADF Reserve legal officers	7.45	8.07
Operating costs of Defence Legal Division	4.41	4.43
Military justice disbursements	0.42	0.35
Total	48.02	46.92

Note: All figures are GST exclusive.

Table 10.7: Estimated cost breakdown of external legal expenses, 2015–16 and 2016–17

Item	2015–16 (\$m)	2016–17 (\$m)
Professional fees—Defence legal panel	35.48	43.84
Disbursements	2.19	2.38
Legal assistance at Commonwealth expense	0.35	0.37
Total	38.02	46.59

Note: All figures are GST exclusive.

Omissions and errors

Defence Annual Report 2015–16

Work health and safety incidents and number of people involved, 2012–13 to 2015–16 (Volume 1, page 108, Table 7.21)

The number of fatalities was incorrectly reported for 2014–15 and 2015–16. Examination of individual fatality records identified a duplicate record reported within the 2014–15 figure (reported in the *Defence Annual Report 2015–16* as 13 fatalities). This has now been corrected to 12 fatalities for 2014–15. Data for 2015–16 was incorrectly reported as 10 fatalities. On investigation, it was found that this was due to human error. The correct figure for 2015–16 is nine fatalities.

In the same table, the total number of incidents and number of people involved for 2014–15 were incorrectly reported as 14,411 and 15,551 respectively. Examination of reported data shows that erroneously reported incidents were included into the report dataset. On investigation, it was found that this was due to human error. The correct figures for the total number of incidents and number of people involved for 2014–15 are 13,891 and 15,164 respectively (data as at 30 June 2017).

Suppliers expense—operating lease commitments (Volume 2, page 24, note 1.1B)

The value of operating lease commitments was incorrectly reported due to foreign exchange implications. The correct value of commitments (in thousands) was \$8,176,420.

Reconciliation of the opening and closing balances of property, plant and equipment, and intangibles—capital commitments (Volume 2, page 35, note 3.2A)

The value of capital commitments was incorrectly reported due to foreign exchange implications. The correct value of commitments (in thousands) by category was:

- Land and buildings—\$1,963,498
- Specialist military equipment—\$14,586,125
- Infrastructure, plant and equipment—\$1,478,157
- Intangibles—\$95,107

Annual appropriation for 2015–16 (Volume 2, page 56, note 5.1A)

The value of section 74 receipts and appropriation applied value were incorrectly reported as (in thousands) \$358,227 and \$29,386,391 respectively. The GST portion of section 74 receipts was recorded incorrectly. The correct value (in thousands) was \$701,833 of section 74 receipts and \$29,729,997 of appropriation applied.

Payment of accounts

In 2016–17, Defence met 99 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 Purchasing Cards and Travel Cards represented more than 81 per cent (2015–16, 89 per cent) of all payments, which continued to have a positive effect on the paid-by-due-date result (Table 10.8).

Table 10.8: Accounts paid by due date, 2014–15 to 2016–17

	2014–15	2015–16	2016–17
Number of accounts paid	2,013,583	2,113,079	2,410,605
Accounts paid by due date	1,997,627	2,101,908	2,386,393
Percentage of accounts paid by due date	99.2	99.5	99.0



Operation Render Safe: dealing with the explosive remnants of war

Every country ravaged by war knows that the impacts of conflict last long after the final shot is fired. Despite the Second World War ending more than seven decades ago, the South Pacific region is still littered with explosives that pose a threat to the life of local communities and anyone unlucky enough to stumble upon the abandoned or unexploded wartime munitions.

Commonly referred to as explosive remnants of war, the munitions have denied local communities a sense of using and enjoying their land and waters safely.

Australia's enduring commitment to the region and its wartime allies has led to the establishment of Operation Render Safe. This year's activities saw around 120 ADF personnel joined by 40 specialists from New Zealand, Canada and the United Kingdom in the Solomon Islands to remove the unexploded and abandoned World War II munitions.

Operation Render Safe was primarily conducted in areas around Honiara (Guadalcanal Island), Tulagi (Nggela Islands) and Yandina (Russell Islands) in September and October 2016.

The ADF contributed the mine-hunting vessels HMAS *Huon* and HMAS *Diamantina*. Explosive ordnance

Royal Australian Navy clearance divers prepare to destroy explosive remnants of war during Operation Render Safe 2016 in the Solomon Islands.

disposal specialists from the Navy, Army and Air Force were supported by health personnel and logistics troops. The Royal Australian Air Force also provided strategic airlift with a C-130J Hercules transport aircraft.

The Australian-led operation had the full cooperation of the Solomon Islands Government and enjoyed a close partnership with the Royal Solomon Islands Police Force.

The Australian contingent commander for Operation Render Safe, Commander Etienne Mulder, said the removal of wartime explosives is a challenging task, but made far more manageable by the assistance and cooperation of local people who have lived in the shadows of the explosive remnants of war for decades.

'We worked closely with the Royal Solomon Islands Police Force in this year's Solomon Islands operations. We also rely heavily on the local civilian communities,' Commander Mulder explained.

'They know where much of the old munitions are. Working side by side with them, we can benefit from their extensive knowledge and experience.

'Without this positive interaction and community support, the mission becomes very difficult.'

Commander Mulder said the deployment holds special significance for the personnel involved, as they contributed directly to the safety and wellbeing of the local people.

'We are proud to help save lives, but we know we also help to improve lifestyles,' Commander Mulder said.

'Every time explosive remnants of war are removed, we provide the opportunity for potential economic

prosperity by allowing families and communities to farm more land safely. That delivers more food cultivation for local use, as well as trade.

'The use of mine-hunting vessels from Australia, a diving support ship from New Zealand and clearance divers this year allowed us to undertake more underwater clearances.

'This also delivered a safer maritime environment for activities like tourism and fishing.'

Tactical payment scheme

The tactical payment scheme was legislated on 1 July 2009, under sections 123H and 123J 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 is critical for maintaining local community support and thereby ensuring the safety of deployed forces.

In 2016–17, eight individual payments totalling \$1,896 were made under the scheme. Seven payments were a consequence of minor damage to property from motor vehicles, and one payment related to a damaged laptop.



11

FINANCIAL STATEMENTS

Paul Etches (seated) demonstrates his daily duties as Finance Manager for No. 95 Wing to co-workers Gillian Burgess and Squadron Leader Robin Welch.



Auditor-General for Australia



INDEPENDENT AUDITOR'S REPORT

To the Minister for Defence

Opinion

In my opinion, the financial statements of the Department of Defence for the year ended 30 June 2017:

- comply with Australian Accounting Standards - Reduced Disclosure Requirements and the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015*; and
- present fairly the financial position of the Department of Defence as at 30 June 2017 and its financial performance and cash flows for the year then ended.

The financial statements of the Department of Defence, which I have audited, comprise the following statements as at 30 June 2017 and for the year then ended:

- Statement by the Accountable Authority and Chief Finance Officer;
- Statement of Comprehensive Income;
- Statement of Financial Position;
- Statement of Changes in Equity;
- Cash Flow Statement;
- Administered Schedule of Comprehensive Income;
- Administered Schedule of Assets and Liabilities;
- Administered Reconciliation Schedule;
- Administered Cash Flow Statement; and
- Notes to and forming part of the financial statements, comprising a Summary of Significant Accounting Policies and other explanatory information.

Basis for Opinion

I conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Department of Defence in accordance with the relevant ethical requirements for financial statement audits. These include the relevant independence requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* to the extent that they are not in conflict with the *Auditor-General Act 1997* (the Code). I have also fulfilled my other responsibilities in accordance with the Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the financial statements of the current period. These matters were addressed in the context of my audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.

Key audit matter

Existence, completeness and valuation of specialist military equipment

Refer to Notes 3.2A 'Reconciliation of the opening and closing balances of property, plant and equipment, and intangibles'

How the audit addressed the matter

I addressed the existence, completeness and valuation of specialist military equipment through:

- testing controls that apply to key system components, processes and data within the logistics and financial management information systems;

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19 National Circuit BARTON ACT
Phone (02) 6203 7300 Fax (02) 6203 7777

The Department of Defence (Defence) has balances of \$58.6 billion in specialist military equipment.

Specialist military equipment was measured at year-end at its fair value. Specialist military equipment includes platform assets in use and under construction and spare parts for these assets.

I focused on this area because:

- the measurement of specialist military equipment at fair value involves a high degree of management judgement due to the highly specialised nature of the assets and the subjectivity of the valuation; and
- Defence is in the process of implementing the Warehouse Management System, which manages components of the specialist military equipment balance. The implementation of a new system presents a risk that the control environment is not secure and the transactions processed in this new system are incomplete or inaccurate.

- assessing the significant judgements made by Defence throughout the process of determining a fair value for specialist military equipment;
- assessing whether the useful lives applied to specialist military equipment (for the calculation of depreciation) are consistent with other available information such as the expected withdrawal dates for these assets;
- testing of the data migrated on implementation between the existing logistics information system and the new Warehouse Management System and re-performance of a sample of daily reconciliations between the systems;
- inspecting a sample of specialist military equipment for existence and indicators of impairment;
- observation and re-performance of Defence's stocktaking activities at selected locations; and
- substantiation of a sample of transactions processed through Defence's logistics and financial management information systems.

Key audit matter

Completeness and valuation of general and intangible assets

Refer to Note 3.2A 'Reconciliation of the opening and closing balances of property, plant and equipment, and intangibles'

Defence has a balance of \$27.0 billion in general and intangible assets. General assets include land and buildings, infrastructure, plant and equipment and heritage and cultural assets.

I focused on this area because:

- the capitalisation of intangible assets is subject to judgement in respect of classifying project costs as capital or expense;
- the completeness of the asset register is reliant on detailed information being provided by service groups;
- the valuation of general and intangible assets is subjective and based on assumptions and judgements made by management; and
- the recognition of impairment of general and intangible assets due to damage, obsolescence or discontinued use is subject to judgement as it is based on assumptions and decisions made by management.

How the audit addressed the matter

I addressed the completeness and valuation of general and intangible assets by:

- assessing Defence's methodologies and assumptions used in the valuation of general and intangible assets;
- assessing whether the useful lives applied to the various asset classes (for the calculation of depreciation) is consistent with Defence's plans for replacement of each asset;
- assessing the assumptions and judgements used by Defence to determine the impairment of general and intangible assets;
- assessing a sample of cost attribution models, approvals of cost allocations and year-end accruals relating to the roll-out of general assets under construction;
- substantiating a sample of transactions for acquisitions, rollouts, disposals, transfers, write-downs, and other adjustments to supporting documentation; and
- inspecting a sample of general assets for indicators of impairment.

Key audit matter**Accuracy and completeness of inventories**

Refer to Note 3.2B 'Inventories'

Defence has a balance of \$6.8 billion in inventories which include general inventories, fuel and explosive ordnance.

I focused on this area because:

- of the number of inventory items which are managed across a large number of geographically dispersed locations and are valued using a weighted average cost methodology; and
- Defence is implementing a new Warehouse Management System which will manage a large volume of inventory items. The implementation of a new system presents a risk that the control environment is not secure and the transactions processed in this new system are incomplete or inaccurate.

How the audit addressed the matter

I addressed the accuracy and completeness of the balance of inventories through:

- testing of the controls that apply to key system components, processes and data for the new Warehouse Management System;
- testing of the data migrated on implementation between the existing logistics information system and the new Warehouse Management System and re-performance of a sample of daily reconciliations between these systems;
- re-performance of a sample of Defence's testing of the accuracy of price records for general inventory;
- re-performance of a sample of Defence's testing of the appropriate use of fuel cards;
- observation and re-performance of Defence's stocktaking activities at selected locations; and
- substantiation of a sample of transactions processed through Defence's logistics and financial management information systems.

Key audit matter**Valuation of employee provisions**

Refer to Note 4.4A 'Employee provisions'

Defence has a balance of \$107.0 billion in administered employee provisions. The department administers two superannuation defined benefit plans that entitle Australian Defence Force members to retirement and death benefits based on past service.

I focused on this area because the complexity of the calculation and the sensitivities of the assumptions applied.

In addition, the Australian Accounting Standards include detailed requirements for the presentation and disclosure of defined benefit superannuation schemes.

How the audit addressed the matter

I addressed the valuation of administered employee provisions by:

- assessing the control processes relating to the management of military superannuation schemes;
- engaging an independent actuary to assist in assessing the methodology, assumptions and judgements used by Defence in relation to the estimation of the superannuation provision;
- testing the completeness and accuracy of data used by Defence in the year-end estimation process;
- confirming that the journals processed by Defence are based on their estimate of the superannuation provision; and
- assessing the presentation and disclosure of military superannuation schemes in the Defence's financial statements against the requirements of the Australian Accounting Standards.

Accountable Authority's Responsibility for the Financial Statements

As the Accountable Authority of Defence the Secretary is responsible under the *Public Governance, Performance and Accountability Act 2013* for the preparation and fair presentation of annual financial statements that comply with Australian Accounting Standards - Reduced Disclosure Requirements and the rules made under that Act. The Secretary is also responsible for such internal control as the Secretary determines is necessary to enable the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Secretary is responsible for assessing Defence's ability to continue as a going concern, taking into account whether the entity's operations will cease as a result of an administrative restructure or for any other reason. The Secretary is also responsible for disclosing matters related to going concern as applicable and using the going concern basis of accounting unless the assessment indicates that it is not appropriate.

Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian National Audit Office Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

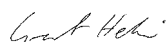
As part of an audit in accordance with the Australian National Audit Office Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit 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 entity's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Accountable Authority;
- conclude on the appropriateness of the Accountable Authority's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern; and
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

From the matters communicated with those charged with governance, I determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. I describe these matters in my auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Australian National Audit Office



Grant Hehir
Auditor-General
Canberra
27 September 2017

Department of Defence

STATEMENT BY THE ACCOUNTABLE AUTHORITY AND CHIEF FINANCE OFFICER

In our opinion, the attached financial statements for the year ended 30 June 2017 comply with subsection 42(2) of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act), and are based on properly maintained financial records as per subsection 41(2) of the PGPA Act.

In our opinion, at the date of this statement, there are reasonable grounds to believe that the Department of Defence will be able to pay its debts as and when they fall due.

Signed



Mr. Greg Moriarty
Secretary - Defence

27 September 2017

Signed



Mr. Phillip Prior
Chief Finance Officer - Defence

27 September 2017

Department of Defence

Financial Statements

For the period ended 30 June 2017

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Department of Defence
STATEMENT OF COMPREHENSIVE INCOME

For the period ended 30 June 2017

		2017	2016	Original Budget ¹
		\$'000	\$'000	\$'000
NET COST OF SERVICES				
	Notes			
EXPENSES				
Employee benefits	1.1A	11,393,321	11,655,972	11,636,412
Suppliers expenses	1.1B	13,352,279	12,191,530	13,041,999
Grants	1.1C	133,651	128,625	106,833
Depreciation and amortisation	3.2A	5,462,402	4,511,504	4,893,340
Finance costs	1.1D	124,430	114,908	152,971
Write-down and impairment of assets	1.1E	909,831	696,765	991,461
Foreign exchange losses	1.1F	7,826	18,624	-
Losses from asset sales		15,007	657	-
Other expenses	1.1G	163,187	244,917	5,985
Total Expenses		31,561,934	29,563,502	30,829,001
LESS:				
OWN-SOURCE INCOME				
Own-Source Revenue				
Provision of goods and rendering of services (including cost recovery)	1.2A	456,853	447,417	451,204
Rental income	1.2B	6,414	5,722	9,638
Other revenue	1.2C	36,954	74,864	39,256
Total Own-Source Revenue		500,221	528,003	500,098
Gains				
Gains from asset sales		-	-	3,252
Reversals of previous asset write-downs and impairment	1.2D	214,703	258,502	304,308
Other gains	1.2E	146,598	70,218	4,818
Total Gains		361,301	328,720	312,378
Total own-source income		861,522	856,723	812,476
Net cost of services		30,700,412	28,706,779	30,016,525
Revenue from Government	1.2F	30,914,234	28,900,438	30,016,525
Surplus attributable to the Australian Government		213,822	193,659	-
OTHER COMPREHENSIVE INCOME				
Items not subject to subsequent reclassification to net cost of services				
Changes in asset revaluation reserves	3.2A	492,703	9,775,665	-
Total other comprehensive income		492,703	9,775,665	-
Total comprehensive income attributable to the Australian Government		706,525	9,969,324	-

¹ Defence's original budgeted financial statement that was first presented to parliament in respect of the reporting period (i.e. from Defence's 2016-17 Portfolio Budget Statements). The budget is not audited.

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

Department of Defence
STATEMENT OF COMPREHENSIVE INCOME (continued)

For the period ended 30 June 2017

Budget Variances Commentary

Explanations are only provided where the variance at a financial statement line item level is greater than 10% of the Original Budget for that line item.

Statement of Comprehensive Income

Affected line items	Explanation of major variances
<i>Grants</i> <i>Variance: \$27m; 25%</i>	Grants predominantly relate to the overseas payment of USD80m to the Afghan National Army Trust Fund. The depreciation of the Australian dollar to the USD has resulted in additional payments being made.
<i>Depreciation and amortisation</i> <i>Variance: \$569m; 12%</i>	During the 2015-16 financial year, Defence were required to adopt a fair value policy in relation to Specialist Military Equipment. As a result of this policy, the fair value increased by \$9.8bn (21%) which in turn has driven an increase in depreciation expense which was not anticipated in the Original Budget.
<i>Finance costs</i> <i>Variance: \$29m; 19%</i>	As a result of the early payout of housing projects and the upfront payment made in relation to the refinancing leases, finance costs are less than that anticipated in the Original Budget.
<i>Foreign exchange losses</i> <i>Variance: \$8m</i>	The actual loss has resulted from currency fluctuations against the Australian dollar throughout the year. This was not included in the Original Budget as the Budget is constructed on a no win/no loss basis for foreign exchange movements.
<i>Losses from asset sales</i> <i>Variance: \$15m</i>	During 2016-17 sales of land and buildings resulted in unanticipated losses as a result of market conditions. The Original Budget does not account for any losses from sales of assets.
<i>Other expenses</i> <i>Variance: \$157m; 2,627%</i>	Land decontamination work continued to be carried out for certain Defence facilities during 2016-17. This work provided a more reliable basis to determine future costs which resulted in a much higher than anticipated increase in the provision in 2016-17 compared to the Original Budget.
<i>Rental income</i> <i>Variance: \$3m; 33%</i>	The actual rental of non-housing properties was less than budgeted.
<i>Reversals of previous asset write-downs and impairment</i> <i>Write-down and impairment of assets</i> <i>Variance: \$8m; 1%</i>	In aggregation, reversal of previous asset write-downs and write-down expenses is consistent with the Original Budget.
<i>Other gains</i> <i>Variance: \$142m; 2,943%</i>	Defence reduced the decommissioning provisions for some of its Specialist Military Equipment in 2016-17 based on observable costs and activities, resulting in higher than expected other gains. Land decontamination activities for the Maribyrnong site were re-estimated to a cost that was lower than initially anticipated resulting in a write-back of the decontamination provision for that facility.
<i>Changes in asset revaluation reserves</i> <i>Variance: \$493m</i>	The revaluation of all property, plant and equipment is not included in the Original Budget due to the uncertainty of the movement in the market for these assets.

Department of Defence
STATEMENT OF FINANCIAL POSITION

as at 30 June 2017

		2017	2016	Original
		\$'000	\$'000	Budget ¹
	Notes			\$'000
ASSETS				
Financial Assets				
Cash and cash equivalents	3.1A	88,823	47,597	11,530
Trade and other receivables	3.1B	1,005,919	1,406,929	595,186
Total financial assets		1,094,742	1,454,526	606,716
Non-financial assets				
Land and buildings	3.2A	17,492,218	17,641,072	18,275,135
Specialist military equipment	3.2A	58,572,944	56,217,433	47,848,649
Infrastructure	3.2A	5,874,047	5,630,439	5,890,336
Plant and equipment	3.2A	2,286,663	2,111,345	2,019,147
Heritage and cultural assets	3.2A	607,285	623,102	907,345
Intangibles	3.2A	749,190	794,155	722,199
Inventories	3.2B	6,775,387	6,729,988	6,107,144
Prepayments	3.2C	1,909,787	2,874,690	3,203,904
Total non-financial assets		94,267,521	92,622,224	84,973,859
Assets held for sale	3.2D	62,436	63,538	37,684
Total Assets		95,424,699	94,140,288	85,618,259
LIABILITIES				
Payables				
Suppliers	3.3A	2,304,285	2,539,881	2,412,367
Personal benefits	3.3B	54,578	27,776	304,061
Other payables	3.3C	293,267	225,123	43,461
Total Payables		2,652,130	2,792,780	2,759,889
Interest bearing liabilities				
Finance leases	3.4A	1,549,237	1,534,423	1,390,347
Total interest bearing liabilities		1,549,237	1,534,423	1,390,347
Provisions				
Employee provisions	3.5A	2,627,662	2,705,095	2,589,834
Restoration, decontamination and decommissioning	3.5B	1,166,051	1,286,184	1,048,168
Other provisions	3.5C	51,693	29,193	290
Total provisions		3,845,406	4,020,472	3,638,292
Total Liabilities		8,046,773	8,347,675	7,788,528
NET ASSETS		87,377,926	85,792,613	77,829,731
EQUITY				
Contributed equity		26,519,722	25,810,891	27,218,461
Reserves		25,250,201	24,757,498	15,299,751
Retained surpluses		35,608,003	35,224,224	35,311,519
TOTAL EQUITY		87,377,926	85,792,613	77,829,731

¹ Defence's original budgeted financial statement that was first presented to parliament in respect of the reporting period (i.e. from Defence's 2016-17 Portfolio Budget Statements). The budget is not audited.

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

Department of Defence
STATEMENT OF FINANCIAL POSITION (continued)

as at 30 June 2017

Budget Variances Commentary

Explanations are only provided where the variance at a financial statement line item level is greater than 10% of the Original Budget for that line item.

Statement of Financial Position

Affected line items	Explanation of major variances
Cash and cash equivalents Variance: \$77m; 670%	Defence had an unanticipated net over spend in operations and foreign exchange (no-win/no-loss), resulting in the need for unspent prior period appropriations to be drawn down, leading to an increase in cash and cash equivalents at year end.
Trade and other receivables Variance: \$411m; 69%	Trade and other receivables exceeded budget due to Defence maintaining a legal right to those amounts of prior period's unspent appropriations which are yet to be quarantined. The unspent appropriations were unanticipated in the Original Budget.
Specialist military equipment Variance: \$10,724m; 22%	In the 2015-16 financial year, Defence was required to adopt a fair value policy in relation to Specialist Military Equipment, resulting in a revaluation increment being recorded against Specialist Military Equipment for that year. The Original Budget was constructed on the basis of these assets being at cost.
Plant and equipment Variance: \$268m; 13%	During 2016-17, \$250m of plant and equipment was acquired which was not included in the Original Budget.
Heritage and cultural assets Variance: \$300m; 33%	The variance results from downward revaluations of Heritage buildings in 2015-16, which were previously valued on the reproduction costs basis and now valued on the depreciated reproduction cost basis consistent with the current accounting treatment for Heritage buildings. Due to the uncertain nature of revaluations these were not included in the Original Budget.
Inventories Variance: \$668m; 11%	The variance relates to a timing difference between budgeted and actual consumption and purchases.
Prepayments Variance: \$1,294m; 40%	Prepayments include amounts paid to Foreign Military Sales (FMS) Account in the United States of America for purchases of Military Equipment. Payments are made in accordance with the Special Billing Arrangements in the Memorandum of Understanding. The decreased balance reflects increased utilisation of existing prepayments and a decreased level of cash payments than was anticipated in the Original Budget.
Assets held for sale Variance: \$25m; 66%	The variance for assets held for sale is predominantly due to additional Defence properties and Specialist Military Equipment being held for sale as at 30 June 2017 which was not in the Original Budget.
Personal Benefits Variance: \$249m; 82%	The variance arises due to the timing of the last pay run in the financial year. In 2016-17 the last pay run was on 29 June 2017, resulting in accrual of an additional day compared to 2015-16.
Other Payables Variance: \$250m; 575%	The variance relates to the timing of PAYG tax paid.
Finance Leases Variance: \$159m; 11%	The difference is due to a new Navy lease entered into the previous year which was not included in the Original Budget.
Restoration decontamination and decommissioning Variance: \$118m; 11%	The variance is predominantly due to a significant increase in a number of Defence's existing land decontamination provisions. Remediation work on the sites provided a more reliable basis to estimate the decontamination cost for these facilities.
Other provisions Variance: \$51m; 17,725%	In 2016-17, Defence increased other provisions due to a higher probability for legal claims against the Department. Due to the uncertain nature of these items, the movement in the provision was not anticipated in the Original Budget.
Reserves Variance: \$9,950m; 65%	The revaluation of all property, plant and equipment is not included in the Original Budget due to the uncertainty of the movement in the market for these assets.

Department of Defence
STATEMENT OF CHANGES IN EQUITY

For the period ended 30 June 2017

	2017	2016	Original Budget ¹
	\$'000	\$'000	\$'000
Notes			
CONTRIBUTED EQUITY			
Opening balance			
Balance carried forward from previous period	25,810,891	22,321,616	24,898,031
Adjustment for errors	-	-	-
Adjusted opening balance	25,810,891	22,321,616	24,898,031
Transactions with owners			
<i>Distribution to owners</i>			
Returns on capital - other	-	-	(897)
<i>Contribution by owners</i>			
Equity injection - Appropriation	5.1A 1,064,704	2,942,961	2,321,327
Restructuring	8.2A -	444,566	-
Transfers from/(to) other entities	(355,873)	101,748	-
Total transactions with owners	708,831	3,489,275	2,320,430
Closing balance as at 30 June	26,519,722	25,810,891	27,218,461
RETAINED EARNINGS			
Opening balance			
Balance carried forward from previous period	35,224,224	34,347,064	35,311,519
Adjustment for errors	169,957	683,501	-
Adjusted opening balance	35,394,181	35,030,565	35,311,519
Transactions with owners			
<i>Contribution by owners</i>			
Transfers from/(to) other entities	-	-	-
Total transactions with owners	-	-	-
Comprehensive income			
Surplus/(deficit) for the period	213,822	193,659	-
Total comprehensive income	213,822	193,659	-
Closing balance as at 30 June	35,608,003	35,224,224	35,311,519
ASSET REVALUATION RESERVE			
Opening balance			
Balance carried forward from previous period	24,757,498	15,299,466	15,299,751
Adjustment for errors	-	(317,633)	-
Adjusted opening balance	24,757,498	14,981,833	15,299,751
Comprehensive income			
Other comprehensive income	492,703	9,775,665	-
Total comprehensive income	492,703	9,775,665	-
Closing balance as at 30 June	25,250,201	24,757,498	15,299,751

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

Department of Defence
STATEMENT OF CHANGES IN EQUITY (Continued)

For the period ended 30 June 2017

Original

Budget¹

	2017	2016	
	\$'000	\$'000	\$'000
Notes			
TOTAL EQUITY			
Opening balance			
Balance carried forward from previous period	85,792,613	71,968,146	75,509,301
Adjustment for errors	169,957	365,868	-
Adjusted opening balance	85,962,570	72,334,014	75,509,301
Comprehensive income			
Surplus/(deficit) for the period	213,822	193,659	-
Other comprehensive income	492,703	9,775,665	-
Total comprehensive income	706,525	9,969,324	-
Transactions with owners			
<i>Distribution to owners</i>			
Returns on capital - other	-	-	(897)
<i>Contribution by owners</i>			
Equity injection - Appropriation	1,064,704	2,942,961	2,321,327
Restructuring	8.2A -	444,566	-
Transfers from/(to) other entities	(355,873)	101,748	-
Total transactions with owners	708,831	3,489,275	2,320,430
Closing balance as at 30 June	87,377,926	85,792,613	77,829,731

¹ Defence's original budgeted financial statement that was first presented to parliament in respect of the reporting period (i.e. from Defence's 2016-17 Portfolio Budget Statements). The budget is not audited.

Budget Variances Commentary

Explanations are only provided where the variance at a financial statement line item level is greater than 10% of the Original Budget for that line item.

Statement of Changes in Equity

Affected line items	Explanation of major variances
Adjustment for errors Variance: \$170m	Accounting errors are not budgeted for. These errors were identified in 2016-17, but relate to prior years and as a result have been recorded to equity rather than in the Statement of Comprehensive Income.
Other comprehensive income Variance: \$493m	The revaluation of all property, plant and equipment is not included in the Original Budget due to the uncertainty of the movement in the market for these assets.
Equity Injection - Appropriation Variance: \$1,257m; 54%	Through the provision of Appropriation Bill 4 2016-17, a revision was made to the appropriation available to Defence that was not known at the time of the Original Budget.
Transfers (from)/to other entities Variance: \$356m	During the year, the Department of Defence transferred land to the Department of Infrastructure. The transfer was unanticipated at the time of the Original Budget.

Accounting Policy

(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 Public Governance, Performance and Accountability (Financial Reporting) Rule 2015 (FRR) requires 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.

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

Department of Defence
CASH FLOW STATEMENT

For the period ended 30 June 2017

	2017	2016	Original Budget ¹
	\$'000	\$'000	\$'000
Notes			
OPERATING ACTIVITIES			
Cash received			
Appropriations (current year)	30,837,008	28,882,900	30,016,525
Appropriations (prior year)	97,000	145,264	-
Section 74 receipts from OPA	438,036	358,227	-
Goods and services (including cost recovery)	451,446	535,650	451,204
Interest received	4,526	2,751	-
Net GST received	1,655,319	1,490,160	1,619,911
Other	167,856	137,944	48,894
Total cash received	33,651,191	31,552,896	32,136,534
Cash used			
Employees	(11,312,760)	(11,693,870)	(11,570,112)
Suppliers	(11,595,716)	(11,375,647)	(11,520,104)
Net GST paid	(1,695,179)	(1,495,981)	(1,619,911)
Grants	(128,960)	(129,411)	(106,833)
Section 74 receipts transferred to OPA	(404,672)	(352,406)	-
Cash returned to OPA	(39,861)	(10,064)	(897)
Other	(23,893)	(34,217)	(5,985)
Total cash used	(25,201,041)	(25,091,596)	(24,823,842)
Net cash flows from operating activities	8,450,150	6,461,300	7,312,692
INVESTING ACTIVITIES			
Cash received			
Proceeds from sales of land and buildings	73,670	44,360	14,127
Proceeds from sales of specialist military equipment	17,999	14,860	7,549
Proceeds from sales of plant and equipment	22,142	26,905	23,312
Other	2,712	619	-
Total cash received	116,523	86,744	44,988
Cash used			
Purchase of land and buildings	(1,107,404)	(672,507)	(865,627)
Purchase of specialist military equipment	(5,992,262)	(5,918,596)	(6,097,456)
Purchase of infrastructure	(335,398)	(187,327)	(678,114)
Purchase of plant and equipment	(461,903)	(389,284)	(291,967)
Purchase of heritage and cultural assets	(343)	(6,301)	-
Purchase of intangibles	(49,400)	(93,879)	(105,535)
Purchase of inventory	(1,512,076)	(1,654,853)	(1,491,637)
Selling costs on sale of assets	(6,276)	(4,271)	(4,982)
Finance costs	(90,952)	(87,585)	(111,233)
Total cash used	(9,556,014)	(9,014,603)	(9,646,551)
Net cash flows used by investing activities	(9,439,491)	(8,927,859)	(9,601,563)

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

Department of Defence
CASH FLOW STATEMENT (Continued)

For the period ended 30 June 2017

	2017	2016	Original
	\$'000	\$'000	Budget ¹
			\$'000
Notes			
FINANCING ACTIVITIES			
Cash received			
Contributed equity (current year)	1,064,704	2,535,548	2,321,327
Total cash received	1,064,704	2,535,548	2,321,327
Cash used			
Repayments of debt (including finance lease principal)	(30,700)	(32,498)	(32,456)
Total cash used	(30,700)	(32,498)	(32,456)
Net cash from financing activities	1,034,004	2,503,050	2,288,871
Net increase in cash held	44,663	36,491	-
Cash and cash equivalents at the beginning of the reporting period	47,597	44,150	11,530
Opening cash transferred in relation to DMO	-	(32,619)	-
Effect of exchange rate movements on cash and cash equivalents at the beginning of the reporting period	(3,437)	(425)	-
Cash and cash equivalents at the end of the reporting period	88,823	47,597	11,530

3.1A

¹ Defence's original budgeted financial statement that was first presented to parliament in respect of the reporting period (i.e. from Defence's 2016-17 Portfolio Budget Statements). The budget is not audited.

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

Department of Defence
CASH FLOW STATEMENT (continued)

For the period ended 30 June 2017

Budget Variances Commentary

Explanations are only provided where the variance at a financial statement line item level is greater than 10% of the Original Budget for that line item.

Cash Flow Statement

Affected line items	Explanation of major variances
<i>Appropriations (prior year)</i> <i>Variance: \$97m</i>	The variance is due to additional appropriations required to be drawn down to meet cash flow requirements. This was not expected at the time of the Original Budget.
<i>Section 74 receipts from OPA;</i> <i>Section 74 receipts transferred to OPA; and</i> <i>Cash returned to the OPA</i> <i>Aggregated Variance: \$6m</i>	Defence is entitled to retain Section 74 receipts under the <i>Public Governance, Performance and Accountability Act 2013</i> . These receipts are returned to OPA and drawn down as Appropriations when required. The Original Budget did not include the transfer of funds to and from the OPA as the receipts transferred and amounts ultimately drawn down as Appropriations are budgeted to be the same.
<i>Other cash received from operating activities</i> <i>Variance: \$119m; 243%</i>	During the 2016-17 financial year, Defence received operating cash for liquidated damages, and refunds relating to Foreign Military Sales (FMS). Due to the uncertain nature of these activities, the Original Budget does not anticipate such receipts.
<i>Grants</i> <i>Variance: \$22m; 21%</i>	Grants predominantly relate to the overseas payment of USD80m to the Afghan National Army Trust Fund. The depreciation of the Australian dollar to the USD has resulted in additional payments being made.
<i>Other cash used in operating activities</i> <i>Variance: \$18m; 299%</i>	Other cash used in operating activities predominantly relates to cash paid to complete decontamination activities. The payment of these amounts was ahead of schedule and unanticipated at the time of the budget.
<i>Proceeds from sale of land and buildings</i> <i>Variance: \$60m; 421%</i>	A number of properties which were anticipated to be sold by Defence in 2015-16 were sold in 2016-17, resulting in more proceeds from the sales of land and buildings than budgeted.
<i>Proceeds from sale of specialist military equipment</i> <i>Variance: \$10m; 138%</i>	This relates to proceeds from the sale of a number of assets that were not anticipated to be sold in the Original Budget.
<i>Purchase of land and buildings</i> <i>Variance: \$242m; 28%</i>	The variance in cash utilised to purchase land and buildings is predominantly due to the purchase of additional properties not anticipated at the time of the Original Budget.
<i>Purchase of infrastructure</i> <i>Variance: \$343m; 51%</i>	The variance in cash utilised to purchase infrastructure is predominantly due to the deferral of payments in the facilities and infrastructure program from the current period to future years. This was not anticipated at the time of the Original Budget.
<i>Purchase of plant and equipment</i> <i>Variance: \$170m; 58%</i>	The purchase of plant and equipment was over expectations due to a number of additional purchases made that were not anticipated at the time of the budget.
<i>Purchase of intangibles</i> <i>Variance: \$56m; 53%</i>	The variance in the purchase of intangibles is predominantly due to fewer acquisitions of software made in the current period than was anticipated at the time of the Original Budget.
<i>Selling costs on sales of assets</i> <i>Variance: \$1m; 26%</i>	The variance in selling costs of assets predominantly relates to more land and buildings sold than was expected at the time of the Original Budget.
<i>Finance costs</i> <i>Variance: \$20m; 18%</i>	As a result of the early payout of housing projects and the upfront payment made in relation to the refinancing leases, finance costs are less than that anticipated in the Original Budget.
<i>Contributed Equity</i> <i>Variance: \$1,257m; 54%</i>	Through the provision of Appropriation Bill 4 2016-17, a revision was made to reduce the appropriation available to Defence that was not known at the time of the Original Budget.

Department of Defence

ADMINISTERED SCHEDULE OF COMPREHENSIVE INCOME

Original

For the period ended 30 June 2017

2017

2016

Budget¹

\$'000

\$'000

\$'000

NET COST OF SERVICES

	Notes			
EXPENSES				
Employee benefits	2.1A	7,869,872	6,750,415	5,230,036
Subsidies	2.1B	98,403	104,569	111,627
Write-down and impairment of assets	2.1C	143	72	-
Foreign exchange losses	2.1D	154	-	-
Other expenses	2.1E	41	-	-
Total expenses		7,968,613	6,855,056	5,341,663
LESS:				
INCOME				
Revenue				
Non taxation revenue				
Fees and fines	2.2A	16,871	15,094	15,644
Interest	2.2B	25,866	26,479	28,027
Dividends	2.2C	39,585	62,719	50,767
Military superannuation contributions	2.2D	1,462,077	1,522,810	1,358,948
Other revenue	2.2E	48,655	46,643	27,253
Foreign exchange gains	2.2F	-	148	-
Total non-taxation revenue		1,593,054	1,673,893	1,480,639
Total revenue		1,593,054	1,673,893	1,480,639
Net cost of services		6,375,559	5,181,163	3,861,024
Deficit attributable to the Australian Government		(6,375,559)	(5,181,163)	(3,861,024)

OTHER COMPREHENSIVE INCOME

Items not subject to subsequent reclassification to net cost of services

Changes in asset revaluation reserves		98,910	75,374	-
Actuarial gains/(losses) on defined benefits plans		23,171,300	(25,997,700)	36,507,182
Total other comprehensive income		23,270,210	(25,922,326)	36,507,182
Total comprehensive income/(loss)		16,894,651	(31,103,489)	32,646,158

¹ Defence's original budgeted financial statement that was first presented to parliament in respect of the reporting period (i.e. from Defence's 2016-17 Portfolio Budget Statements). The budget is not audited.

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

Department of Defence
ADMINISTERED SCHEDULE OF COMPREHENSIVE INCOME (continued)

For the period ended 30 June 2017

Budget Variances Commentary

Explanations are only provided where the variance at a financial statement line item level is greater than 10% of the Original Budget for that line item.

Administered Schedule of Comprehensive Income

Affected line items	Explanation of major variances
<i>Employee Benefits</i> Variance: \$2,640m; 50%	The variance predominantly relates to the basis of the unfunded superannuation liabilities based on which the superannuation expenses are projected. The balance is based on the actual liabilities as at 30 June 2016. However, the Original Budget is prepared based on the long term superannuation liabilities estimate using the long term discount rate of 6%.
<i>Subsidies</i> Variance: \$13m, 12%	The variance against the prior year of \$13.6m predominantly relates to subsidy payments under Defence Home Ownership Assistance Scheme (DHOAS). The movement is due to the interest rate being lower than last year, despite the fact that the number of beneficiaries have increased. The average interest rate during FY2016-17 was 4.50% (FY2015-16: 4.83%).
<i>Other Revenue</i> Variance: \$21m, 79%	The variance predominantly relates to DHA State Tax Equivalent Payment (STEP) receipts being higher than forecast.
<i>Changes in asset revaluation reserves</i> Variance: \$99m	The variation is due to the revaluation of investments accounted for using the equity method not included in the Original Budget due to the uncertainty of the movement in the fair value for these assets.
<i>Dividends</i> Variance: \$11m; 22%	The variation is due to the lower dividend income from related parties as a result of related parties achieving lower net profit after tax.
<i>Actuarial gains/(losses) on defined benefits plans</i> Variance: \$13,336m, 37%	The variation is due to the budget being developed utilising a discount rate of 6.0% as compared to a lower actual interest rate that has ultimately been used by the Australian Government Actuary to determine the actual defined benefit superannuation liability as at 30 June 2017.

Department of Defence

ADMINISTERED SCHEDULE OF ASSETS AND LIABILITIES

Original

as at 30 June 2017

2017

2016

Budget¹

\$'000

\$'000

\$'000

		Notes			
ASSETS					
Financial assets					
Cash and cash equivalents	4.1A	-	-	-	-
Trade and other receivables	4.1B	572,385	588,444	569,151	
Investment accounted for using the equity method	4.1C	2,662,673	2,563,763	2,459,537	
Total financial assets		3,235,058	3,152,207	3,028,688	
Non-financial assets					
Prepayments	4.2A	240,452	203,121	271,556	
Total non-financial assets		240,452	203,121	271,556	
TOTAL ASSETS ADMINISTERED ON BEHALF OF GOVERNMENT		3,475,510	3,355,328	3,300,244	
LIABILITIES					
Payables					
Other payables	4.3A	6,427	8,262	5,502	
Total Payables		6,427	8,262	5,502	
Provisions					
Employee provisions	4.4A	106,972,301	124,727,700	64,437,987	
Total provisions		106,972,301	124,727,700	64,437,987	
TOTAL LIABILITIES ADMINISTERED ON BEHALF OF GOVERNMENT		106,978,728	124,735,962	64,443,489	
NET LIABILITIES		(103,503,218)	(121,380,634)	(61,143,245)	

¹ Defence's original budgeted financial statement that was first presented to parliament in respect of the reporting period (i.e. from Defence's 2016-17 Portfolio Budget Statements). The budget is not audited.

Budget Variances Commentary

Explanations are only provided where the variance at a financial statement line item level is greater than 10% of the Original Budget for that line item.

Administered Schedule of Assets and Liabilities

Affected line items	Explanation of major variances
Prepayments Variance: \$31m; 11%	The balance as at 30 June was higher than last year as the payments made to new beneficiaries will outweigh the winding down of the prepayment for existing benefit. The scheme has since been closed to members enlisted after October 2005, the continual reduction of the prepayment over long-term is expected.
Other Payables Variance: \$0.925m; 17%	The variation is due to Fringe Benefit Tax (FBT) being higher than budgeted.
Employee Provisions Variance: \$42,534m; 66%	The variance predominantly relates to the unfunded superannuation liabilities. The balance is based on the actual liabilities as at 30 June 2017 discounted using discount rates of 2.7% (DFRB), 3.4% (DFRDB) and 3.5% (MSBS and ADF Cover). However, the Original budget is prepared based on the long term superannuation liabilities estimate using the long term discount rate of 6%.

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

ADMINISTERED RECONCILIATION SCHEDULE

For the period ended 30 June 2017

	2017 \$'000	2016 \$'000
Opening assets less administered liabilities as at 1 July	(121,380,634)	(90,861,050)
Adjustment for errors	-	-
Adjusted opening assets less administered liabilities	(121,380,634)	(90,861,050)
Net (cost of)/contribution by services		
Income	1,593,054	1,673,893
Expenses		
Payments to entities other than corporate Commonwealth entities	(7,968,613)	(6,855,056)
Other comprehensive income:		
Revaluations taken to/(from) reserves:		
– Defence Housing Authority (DHA)	99,446	70,297
– Small portfolio entities	(536)	5,077
Actuarial gains/(losses)	23,171,300	(25,997,700)
Transfers (to)/from Australian Government:		
Appropriation transfers from Official Public Account:		
Special appropriations (unlimited) (non corporate Commonwealth entities)	5.1C 2,471,514	2,338,744
Transfers to Official Public Account	(1,713,749)	(1,754,913)
Funded benefit payments to the members, not drawn down from Special Appropriations	225,000	-
Restructuring	-	74
Closing assets less administered liabilities as at 30 June	(103,503,218)	(121,380,634)

Accounting Policy

Cash Transfers to and from the Official Public Account

Revenue collected by Defence for use by the 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 Government. These transfers to and from the OPA are adjustments to the administered cash held by Defence on behalf of the Government and reported as such in the schedule of administered cash flows and in the administered reconciliation schedule.

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

Department of Defence
ADMINISTERED CASH FLOW STATEMENT

For the period ended 30 June 2017

	2017 \$'000	2016 \$'000
	Notes	
OPERATING ACTIVITIES		
Cash received		
Fees	14,731	13,960
Interest	19,418	26,552
Superannuation contributions	1,566,878	1,608,048
Other	50,003	51,716
Total cash received	1,651,030	1,700,276
Cash used		
Subsidies paid	(100,238)	(101,810)
Employees	(2,371,235)	(2,236,934)
Section 77 payments	(41)	-
Total cash used	(2,471,514)	(2,338,744)
Net cash flows from/(used by) operating activities	(820,484)	(638,468)
INVESTING ACTIVITIES		
Cash received		
Dividends	62,719	54,637
Total cash received	62,719	54,637
Net cash flows from/(used by) investing activities	62,719	54,637
Net increase/(decrease) in cash held	(757,765)	(583,831)
Cash from the Official Public Account for:		
Appropriations	2,471,514	2,338,744
Cash to the Official Public Account for:		
Appropriations	(1,713,749)	(1,754,913)
Cash and cash equivalents at the end of the reporting period	4.1A	
	-	-

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

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2017

OVERVIEW

The Basis of Preparation

The financial statements and notes are required by section 42 of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) and are general purpose financial statements.

The financial statements and notes have been prepared in accordance with:

- *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015* (FRR) for reporting periods ending on or after 1 July 2016; 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 otherwise specified.

New Accounting Standards

There were no new standards and/or interpretations issued during the financial year that was applicable to the 2016-17 financial year. However, there was one new standard issued in the current financial year that will have a future material impact on the Defence financial statements being:

- AASB 16 *Leases* (effective from 1 January 2019).

Defence expects to apply AASB 16 from 2019-20 financial year. This standard will require the net present value of payments under most operating leases to be recognised as assets and liabilities.

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.

Reporting of Administered activities

Administered revenues, expenses, assets, liabilities and cash flows are disclosed in the administered schedules and related notes.

Except where otherwise stated, 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.

Events After the Reporting Period

Departmental

There are no post balance date events with a material effect on the financial statements.

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 2017

FINANCIAL PERFORMANCE

This section analyses the financial performance of Defence for the year ended 30 June 2017.

1.1: Expenses

	2017 \$'000	2016 \$'000
1.1A: Employee benefits		
Australian Public Service (APS) employee benefits		
Wages and salaries	1,399,994	1,470,251
Superannuation:		
Defined contribution plan	115,942	111,985
Defined benefit plans	159,336	172,310
Leave and other entitlements	148,046	225,183
Fringe benefits tax	19,595	16,438
Separation and redundancies	12,039	63,549
Other allowances	42,862	42,776
Health expenses	5,718	5,315
Other employee expenses	1,370	889
Total APS employee benefits	1,904,902	2,108,696
Australian Defence Force (ADF) employee benefits		
Wages and salaries	4,877,027	4,731,482
Superannuation:		
Defined contribution plan	29,286	-
Defined benefit plans	1,653,559	1,659,137
Housing ¹	870,413	877,990
Leave and other entitlements	454,386	683,554
Fringe benefits tax	512,423	517,478
Overseas allowances	157,165	158,391
Separation and redundancies	11,047	12,152
Other allowances	357,028	347,354
Health expenses	438,444	429,805
Other employee expenses	127,641	129,933
Total ADF employee benefits	9,488,419	9,547,276
Total employee benefits	11,393,321	11,655,972

¹ Housing expenses include lease payments made to DHA for the provision of Housing for 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 period, sublease expenses were \$532.5m (2015-16: \$530.1m).

Accounting Policy

Defence's workforce comprises APS (i.e. civilians) and 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.

Department of Defence
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the period ended 30 June 2017

1.1A: Employee benefits (continued)

(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.

(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

Permanently appointed ADF employees of Defence are members of The Defence Force Retirement and Death Benefits Scheme (DFRDB), the Military Superannuation Benefits Scheme (MSBS) and Australian Defence Force Superannuation (ADF Super).

DFRDB and 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.

ADF Super is a defined contribution scheme which commenced on 1 July 2016.

The liability for superannuation recognised in the departmental statements as at 30 June represents outstanding contributions yet to be paid.

(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.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2017

	2017 \$'000	2016 \$'000
1.1B: Suppliers expenses		
Goods and Services		
Inventory consumption	1,259,406	1,187,375
Sustainment (including repair and overhaul)	4,705,151	4,299,288
Garrison support and mess operations	301,225	292,909
Travel	236,962	235,910
Freight, storage and removal	454,379	465,636
Training	477,108	458,422
Communications and information technology	1,503,948	1,327,870
Professional services/technical advice	406,521	276,454
Estate upkeep	987,066	996,115
Research and development	241,668	164,614
Utilities	336,739	326,207
Purchase of minor assets	203,732	161,027
Other	1,901,751	1,632,059
Total goods and services	13,015,656	11,823,886
Goods and services are made up of:		
Provision of goods	2,206,807	1,848,111
Rendering of services	10,808,849	9,975,775
Total goods and services	13,015,656	11,823,886
Other supplier expenses		
Operating lease rentals	304,536	330,027
Workers compensation premiums	32,087	37,617
Total other supplier expenses	336,623	367,644
Total supplier expenses	13,352,279	12,191,530

Leasing commitments

The operating leases are non-cancellable and are described in the table below:

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 6 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 3 and 15 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.

Department of Defence
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the period ended 30 June 2017

	2017	2016
	\$'000	\$'000

1.1B: Suppliers expenses (continued)

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

Within 1 year	1,048,640	901,494
Between 1 to 5 years	3,805,101	3,801,715
More than 5 years	2,654,611	3,473,211
Total operating lease commitments	7,508,352	8,176,420

Accounting Policy

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.

1.1C: Grants

State and Territory Governments	7,219	2,794
Non-profit organisations	19,687	17,840
Overseas	106,745	107,991
Total grants	133,651	128,625

Accounting Policy

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.

1.1D: Finance costs

Finance leases	104,554	94,332
Unwinding of discount - restoration, decontamination and decommissioning	19,869	20,557
Bank interest	7	19
Total finance costs	124,430	114,908

1.1E: Write-down and impairment of assets

Impairment on financial instruments	5,392	473
Write-down of property, plant and equipment	348,432	250,380
Write-down and impairment on intangible assets	14,322	1,680
Write-down of inventory	541,685	444,232
Total write-down and impairment of assets	909,831	696,765

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2017

	2017 \$'000	2016 \$'000
1.1F: Foreign exchange		
Foreign exchange gains		
Non-speculative	45,116	61,376
Foreign exchange losses		
Non-speculative	(52,942)	(80,000)
Total net gain/(loss) foreign exchange	(7,826)	(18,624)

Accounting Policy

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.

1.1G: Other expenses

Act of Grace payments (section 65)	520	2,185
Tactical Payment Scheme payments	2	6
Defective Administration Scheme payments	2,623	1,623
Restoration, decontamination and decommissioning costs	153,195	236,860
Other	6,847	4,243
Total other expenses	163,187	244,917

Department of Defence
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the period ended 30 June 2017

1.2: Own-Source Revenue and gains

Own-Source Revenue	2017 \$'000	2016 \$'000
1.2A: Provision of goods and rendering of services (including cost recovery)		
Provision of goods		
Rations and quarters - cost recovery	69,373	65,324
Provision of fuel - cost recovery	51,943	49,047
Other (including sale of obsolete and surplus inventory)	15,210	21,326
Total provision of goods	136,526	135,697
Rendering of services		
Group rental scheme	208,135	210,929
Logistics support recovery	23,616	18,991
s74 recoveries	36,875	34,675
Other governments/agencies	-	1,586
Other	51,701	45,539
Total rendering of services	320,327	311,720
Total provision of goods and rendering of services (including cost recovery)	456,853	447,417

Accounting Policy

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.

1.2B: Rental income

Operating leases:

Other	6,414	5,722
Total rental income	6,414	5,722
Commitments for sublease rental income are receivable as follows:		
One year or less	19,362	20,895
From one to five years	5,370	6,500
Over five years	8,137	8,521
Total sublease rental income commitments	32,869	35,917

The lease rental income includes rental contributions from Defence service members for residences sub-leased by Defence. The Lease term is normally 3 to 12 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.

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.

Accounting Policy

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.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2017

	2017 \$'000	2016 \$'000
1.2C: Other revenue		
Excise refunds	4,766	2,568
Settlement of damages	2,378	47,772
Foreign military sales refunds	16,749	5,309
Other minor revenues	9,231	10,909
Resources received free of charge		
Remuneration of auditors	3,800	4,700
Assets received free of charge	30	3,606
Total other revenue	36,954	74,864

Accounting Policy

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.

1.2D: Reversals of previous asset write-downs and impairment

Land and buildings	6,724	785
Specialist military equipment	10,593	44,625
Infrastructure	7,418	2,299
Plant and equipment	19,825	16,155
Heritage and cultural assets	3,618	107
Software and intangibles	27	-
Total property, plant and equipment and intangibles	48,205	63,971
Receivables	452	343
Inventory	166,046	194,188
Total reversal of previous asset write-downs and impairment	214,703	258,502

1.2E: Other gains

Other gains	146,598	70,218
Total other gains	146,598	70,218

Accounting Policy

(a) 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. Fair value is assessed by asset class as described in 3.2A(f).

(b) Sale of Assets

Gains or loss 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).

(c) Other Gains

Other gains relate to the reversals and/or write backs of provisions based on changes in estimates.

Department of Defence
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the period ended 30 June 2017

	2017 \$'000	2016 \$'000
1.2F: Revenue from Government		
Departmental Appropriations:		
Departmental appropriations: 2016-17 Supply Act 1, Appropriation Act 1 and Appropriation Act 3	30,817,179	-
Drawdown of prior year appropriation: 2015-16 Appropriation Act 3	97,055	-
Total revenue from Government	30,914,234	28,900,438

Defence is appropriated on a net cash basis which includes the appropriation revenue of \$30,914m (2015-16: \$28,900m) included in the Statement of Comprehensive Income, and the equity injection of \$1,065m (2015-16: \$2,943m) included in the Statement of Financial Position.

Accounting Policy

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 2017 are reflected as a receivable and are available to be drawn down to meet future obligations. Appropriations receivable are recognised at their nominal amounts.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2017

INCOME AND EXPENSES ADMINISTERED ON BEHALF OF THE GOVERNMENT

This section analyses the activities that Defence does not control but administers on behalf of the Government. Unless otherwise noted, the accounting policies adopted are consistent with those applied for departmental reporting.

2.1: Administered - Expenses

		2017 \$'000	2016 \$'000
2.1A: Employee benefits			
Superannuation:			
Defined benefit plans			
Net service cost		4,397,255	3,180,083
Net interest cost		3,394,400	3,502,000
Retention benefits		78,217	68,332
Total employee benefits		7,869,872	6,750,415
2.1B: Subsidies			
Related parties:			
Defence Home Owner Scheme		587	828
Defence Home Ownership Assistance Scheme		97,816	103,741
Total subsidies		98,403	104,569
2.1C: Write-down and impairment of assets			
Impairment of financial instruments	7.3B	143	72
Total write-down and impairment of assets		143	72
2.1D: Foreign exchange losses			
Foreign exchange losses:			
Non-speculative	7.3B	154	-
Total foreign exchange losses		154	-
2.1E: Other expenses			
Section 77 payments		41	-
Total other expenses		41	-

2.2: Administered - Income

Non-Taxation Revenue

2.2A: Fees and fines

License fees	16,871	15,094
Total fees and fines	16,871	15,094

Accounting Policy

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.

2.2B: Interest

Deposits	-	(42)
Loans to Defence Housing Australia	25,866	26,521
Total interest	25,866	26,479

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2017

	2017 \$'000	2016 \$'000
2.2C: Dividends		
Australian Government Entities - Defence Housing Australia	39,585	62,719
Total dividends	39,585	62,719
2.2D: Military superannuation contributions		
Military Superannuation contributions	1,462,077	1,522,810
Total military superannuation contributions	1,462,077	1,522,810
2.2E: Other revenue		
Competitive Neutrality Revenue - Defence Housing Australia	42,158	42,159
Other	6,497	4,484
Total other revenue	48,655	46,643
2.2F: Foreign exchange gains		
Non-speculative	-	148
Total foreign exchange gains	-	148

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2017

FINANCIAL POSITION

This section analyses Defence's assets used to conduct its operations and the operating liabilities incurred as a result.

3.1: Financial Assets

	2017	2016
	\$'000	\$'000
3.1A: Cash and cash equivalents		
Cash on hand	4,563	5,144
Cash at bank - at call	84,260	42,453
Total cash and cash equivalents	88,823	47,597

Accounting Policy

Cash and cash equivalents includes notes and coins held, any deposits in bank account held at call with a bank, and cash held in special accounts. Cash is measured at its nominal amount.

3.1B: Trade and other receivables

Goods and services receivables

Goods and Services	45,624	98,815
Total receivables for goods and services	45,624	98,815

Appropriations receivable

For existing programs	425,991	687,345
Total appropriations receivable	425,991	687,345

Other receivables

GST receivable from the Australian Taxation Office	234,527	243,199
Accrued revenue	31,264	11,907
Other	276,331	368,866
Total other receivables	542,122	623,972
Total trade and other receivables (gross)	1,013,737	1,410,132

Less impairment allowance

Goods and services	(7,818)	(3,203)
Total impairment allowance	(7,818)	(3,203)
Total trade and other receivables (net)	1,005,919	1,406,929

Credit terms for goods and services were within 1-30 days (2015-16: 1-30 days).

Accounting Policy

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. The relevant accounting policy is detailed in note 7.2A on Financial Instruments.

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. Long term receivables are discounted to the present value using the effective interest method.

Department of Defence**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS***For the period ended 30 June 2017*

3.1B: Trade and other receivables (continued)	2017	2016
	\$'000	\$'000
Reconciliation of the impairment allowance:		
Opening balance	(3,203)	(3,390)
Adjustment to opening balance for DMO amounts transferred in	-	(188)
Amounts written off	-	272
Amounts recovered and reversed	452	343
(Increase)/decrease recognised in net cost of services	(5,067)	(240)
Closing balance	<u>(7,818)</u>	<u>(3,203)</u>

Accounting Policy

Financial assets are assessed for impairment at the end of each reporting period.

Department of Defence
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the period ended 30 June 2017

3.2: Non-Financial Assets

3.2A: Reconciliation of the opening and closing balances of property, plant and equipment, and intangibles (2016-2017)

Item	Land ¹	Buildings ¹	Specialist Military Equipment	Infra-structure	Plant and Equipment ¹	Heritage and Cultural Assets ²	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 2016											
Gross Book value	5,505,638	12,568,373	56,217,433	5,846,671	2,324,503	682,484	1,059,046	385,700	294,001	23,953	84,907,802
Accumulated depreciation/amortisation	-	(432,939)	-	(216,232)	(213,158)	(59,382)	(599,722)	(185,564)	(167,176)	(16,083)	(1,890,256)
Net book value 1 July 2016	5,505,638	12,135,434	56,217,433	5,630,439	2,111,345	623,102	459,324	200,136	126,825	7,870	83,017,546
Additions:											
By purchase	15,666	978,701	6,197,407	486,726	371,912	1,613	57,418	65,657	1,198	-	8,176,298
By finance lease	4,394	37,325	-	-	4,548	-	-	-	-	-	46,267
Adjustments to opening balance	-	26,400	126,951	34,202	(114)	(297)	(1,015)	1,294	3	-	187,424
Revaluations/impairments recognised in other comprehensive income	251,727	(314,175)	431,180	8,433	98,447	17,091	-	-	-	-	492,703
Reclassification	(71,394)	(17,442)	12,857	90,417	(18,428)	672	(11,729)	15,047	-	-	-
Depreciation/amortisation expense	-	(606,846)	(4,045,922)	(376,713)	(237,548)	(36,830)	(64,479)	(53,113)	(39,114)	(1,837)	(5,462,402)
Revaluations/write-downs and impairment recognised in net cost of services	-	(6,082)	(292,560)	(2,358)	(46,724)	(708)	(13,682)	(133)	(507)	-	(362,754)
Other movements	-	-	-	-	-	-	-	-	-	-	-
Reversal of previous asset write-downs	319	6,405	10,593	7,418	19,825	3,618	27	-	-	-	48,205
Transfers in/(out)	(351,900)	(7,625)	(78,953)	(3,974)	(278)	(976)	-	-	-	-	(443,706)
Transfers (to)/from Assets Held for Sale	(11,418)	4,008	8,329	218	(35)	-	-	-	-	-	1,102
Disposals:											
Other disposals	(7,090)	(79,827)	(14,371)	(761)	(16,287)	-	-	-	-	-	(118,336)
Net book value 30 June 2017	5,335,942	12,156,276	56,572,944	5,874,047	2,286,663	607,285	425,864	228,888	88,405	6,033	85,562,347
Net book value as at 30 June 2017 represented by:											
Gross book value	5,335,942	12,565,368	59,274,566	6,122,273	2,497,423	672,641	1,089,063	461,367	295,199	23,953	88,337,815
Accumulated depreciation/amortisation and impairment	-	(409,112)	(701,622)	(248,226)	(210,760)	(65,356)	(663,199)	(232,479)	(206,794)	(17,920)	(2,755,468)
Closing net book value at 30 June 2017	5,335,942	12,156,276	56,572,944	5,874,047	2,286,663	607,285	425,864	228,888	88,405	6,033	85,562,347

¹ The carrying amount of land, buildings, infrastructure and plant and equipment under finance lease as at 30 June 2017 were \$75.6m, \$1,051.4m, \$111.7m and \$191.2m respectively.

² Where land, buildings, infrastructure and plant and equipment meet the definition of a heritage and cultural item, they have been disclosed in the heritage and cultural assets class.

Department of Defence
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the period ended 30 June 2017

3.2A: Reconciliation of the opening and closing balances of property, plant and equipment, and intangibles (2015-2016)

Item	Land ¹	Buildings ¹	Specialist Military Equipment	Infra-structure	Plant and Equipment ¹	Heritage and Cultural Assets ²	Computer Software - Purchased	Computer Software - Internally Generated	Other Intangibles Purchased	Other Intangibles Internally Generated	Total ³
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
As at 1 July 2015											
Gross Book value	5,110,068	12,903,108	81,185,331	5,780,270	1,925,942	1,060,336	962,513	361,225	294,001	23,953	109,606,747
Accumulated depreciation/amortisation	-	(358,663)	(38,534,094)	(208,276)	(145,296)	(53,388)	(538,244)	(143,579)	(127,335)	(14,204)	(40,123,079)
Net book value 1 July 2015	5,110,068	12,544,445	42,651,237	5,571,994	1,780,646	1,006,948	424,269	217,646	166,666	9,749	69,483,668
Additions:											
By purchase	168	553,779	6,753,067	287,422	390,754	1,252	94,816	29,246	-	-	8,110,504
By finance lease	1,452	4,240	-	-	120,127	-	-	-	-	-	125,819
Adjustments to opening balance	-	11,058	601,311	3,587	(10,030)	(318,704)	-	-	-	-	287,222
Revaluations/impairments recognised in other comprehensive income	459,966	(147,839)	9,388,585	131,948	(34,877)	(22,118)	-	-	-	-	9,775,665
Reclassification	(31,619)	(173,640)	46,968	(53,376)	202,534	5,964	1,946	1,223	-	-	-
Depreciation/amortisation expense	-	(619,488)	(2,976,143)	(392,703)	(323,720)	(49,724)	(61,477)	(46,532)	(39,838)	(1,879)	(4,511,504)
Revaluations/write-downs and impairment recognised in net cost of services	-	(22,510)	(213,709)	(2,357)	(11,111)	(693)	(230)	(1,447)	(3)	-	(252,060)
Other movements	-	-	-	-	-	-	-	-	-	-	-
Reversal of previous asset write-downs	-	785	44,625	2,299	16,155	107	-	-	-	-	63,971
Transfers in/(out)	-	18,864	(59,654)	82,190	5,805	70	-	-	-	-	47,275
Transfers (to)/from Assets Held for Sale	(15,693)	(310)	(9,801)	(453)	25	-	-	-	-	-	(26,232)
Disposals:											
Other disposals	(18,704)	(33,950)	(9,053)	(112)	(24,963)	-	-	-	-	-	(86,782)
Net book value 30 June 2016	5,505,638	12,135,434	56,217,433	5,630,439	2,111,345	623,102	459,324	200,136	126,825	7,870	83,017,546
Net book value as at 30 June 2016 represented by:											
Gross book value	5,505,638	12,568,373	56,217,433	5,846,671	2,324,503	682,484	1,059,046	385,700	294,001	23,953	84,907,802
Accumulated depreciation/amortisation and impairment	-	(432,939)	-	(216,232)	(213,158)	(59,382)	(599,722)	(185,564)	(167,176)	(16,083)	(1,890,256)
Closing net book value at 30 June 2016	5,505,638	12,135,434	56,217,433	5,630,439	2,111,345	623,102	459,324	200,136	126,825	7,870	83,017,546

¹ The carrying amount of land, buildings, infrastructure and plant and equipment under finance lease as at 30 June 2016 were \$80.9m, \$1,102.3m, \$118.3m and \$219.5m respectively.

² Where land, buildings, infrastructure and plant and equipment meet the definition of a heritage and cultural item, they have been disclosed in the heritage and cultural assets class.

³ This balance was impacted by the integration of Defence Materiel Organisation on 1 July 2015 - refer to Note 8.2A.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2017

3.2A: Reconciliation of the opening and closing balances of property, plant and equipment, and intangibles (continued)

	2017 \$'000	2016 \$'000
Commitments payable relating to property, plant and equipment and intangibles		
Land and buildings ¹	1,302,461	1,963,498
Specialist military equipment ²	14,328,701	14,586,125
Infrastructure, plant and equipment ³	1,583,427	1,478,157
Intangibles ⁴	167,101	95,107
Total capital commitments	17,381,690	18,122,887

1. Outstanding contractual payments for buildings under construction.
2. Outstanding contractual payments for specialist military equipment under construction.
3. Infrastructure, plant and equipment capital commitments include outstanding contractual payments relating to the Major Capital Facilities (MCF) program.
4. Intangible commitments include contractual payments for software licence agreements.

Accounting Policy

(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 other parts of the asset. The useful lives of components may be determined with reference to the individual component or the related primary asset.

(c) Decontamination, Restoration and Decommissioning Costs

Where a legal or constructive obligation arises on acquisition to restore an asset back to its original condition, or dismantle an asset at the end of its useful life, the net present value of estimated restoration and/or decommissioning costs are capitalised and added to the cost of the underlying asset and depreciated over the asset's useful life.

(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) include expenditure to date on major military capability and facilities projects. AUC projects are reviewed annually for indicators of impairment. Prior to rollout into service, the accumulated AUC balance is reviewed to ensure accurate capitalisation.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2017

3.2A: Reconciliation of the opening and closing balances of property, plant and equipment, and intangibles (continued)

Accounting Policy (continued)

(f) Subsequent valuations

All property, plant and equipment is measured and disclosed at fair value, less any accumulated depreciation and accumulated impairment losses.

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.

Specialist Military Equipment is valued internally by the Department of Defence. Valuation techniques include reference to comparable assets, recently purchased assets and indexation based on the country of manufacture. Valuation for land, buildings, infrastructure, other plant and equipment and heritage and cultural assets are performed by independent external valuers using inputs such as sales prices of comparable assets, replacement cost, expected useful life and adjustments for obsolescence.

Following initial recognition at cost, valuations for land, buildings, infrastructure and specialist military equipment are conducted every year; other plant and equipment are revalued annually on a sample basis and heritage and cultural assets are revalued over a five year period.

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.

(g) Depreciation

Property, plant and equipment items having limited useful lives are systematically depreciated over their estimated useful lives on a straight-line basis.

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.

	2016-17	2015-16
Buildings	1 to 100 years	1 to 100 years
Infrastructure	2 to 99 years	2 to 99 years
Specialist military equipment	1 to 48 years	1 to 54 years
Other plant and equipment	1 to 100 years	2 to 100 years
Assets under finance lease	5 to 48 years	5 to 60 years
Heritage and cultural	10 to Indefinite	10 to 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.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2017

3.2A: Reconciliation of the opening and closing balances of property, plant and equipment, and intangibles (continued)

Accounting Policy (continued)

(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.

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 estate assets are amortised on a straight-line basis over their anticipated useful 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, are not subject to depreciation which is in accordance with the implementation guidance (G4) provided in AASB 116.

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/estatemangement/governance/Policy/Environment/Heritage/default.asp>.

(i) *Intangible Assets*

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.

All intangibles are amortised on a straight-line basis over their anticipated useful lives. The useful lives of Defence software are 2-24 years (2015-16: 1-24 years) and the useful lives of Defence's other intangibles are 4-35 years (2015-16: 3-35 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 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.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2017

3.2A: Reconciliation of the opening and closing balances of property, plant and equipment, and intangibles (continued)

Accounting Policy (continued)

(j) Acquisition of Assets

Assets are initially recorded at cost on acquisition which 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.

(k) 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.

(l) Derecognition of Assets

Assets are derecognised upon disposal or when no further economic benefits or capability are expected from their use or disposal.

Significant Accounting Judgements and Estimates

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.

Property, plant and equipment is measured at fair value using revaluation techniques that require significant judgements and estimates to be made.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2017

	2017 \$'000	2016 \$'000
3.2B: Inventories		
Inventories - General	2,409,183	2,480,594
Inventories - Explosive ordnance	4,299,246	4,149,445
Inventories - Fuel	66,958	99,949
Total inventories	6,775,387	6,729,988

No items of inventory were recognised at fair value less cost to sell.

The reversal of previous inventory write downs is attributable to price and quantity adjustments in the current financial year.

Accounting Policy

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.

Significant Accounting Judgements and Estimates

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.

3.2C: Prepayments

Capital prepayments	1,373,194	1,999,679
Non capital prepayments	536,593	875,011
Total prepayments	1,909,787	2,874,690

Accounting Policy

Prepayments, excluding those paid to employees as retention benefit payments, are recognised if the value of the payment is \$50,000 or greater.

3.2D: Assets held for sale

Land	32,504	25,093
Specialist military equipment	14,043	22,375
Heritage and cultural	-	-
Other infrastructure, plant and equipment	308	489
Inventories	15,581	15,581
Total assets held for sale	62,436	63,538

Accounting Policy

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 2017

	2017	2016
	\$'000	\$'000

3.3: Payables

3.3A: Suppliers

Trade creditors and accruals	2,300,716	2,508,872
Operating lease rentals	3,569	31,009
Total suppliers payable	2,304,285	2,539,881

Settlement is usually made within 30 days.

3.3B: Personal benefits

Australian Public Service (APS) employee payables

Salaries and wages	11,929	5,969
Superannuation	2,109	1,040
Separations and redundancies	-	689

Australian Defence Force (ADF) employee payables

Salaries and wages	32,051	15,642
Superannuation	8,489	4,436
Separations and redundancies	-	-

Total personal benefits payable	54,578	27,776
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3.3C: Other payables

Statutory payable	217,064	141,218
Other	76,203	83,905
Total other payables	293,267	225,123

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2017

	2017 \$'000	2016 \$'000
3.4: Interest Bearing Liabilities		
3.4A: Finance leases		
Finance leases	1,549,237	1,534,423
Total finance leases	1,549,237	1,534,423
Minimum lease payments expected to be settled		
Within 1 year	46,557	35,993
Between 1 to 5 years	243,729	204,924
More than 5 years	1,258,951	1,293,506
Total finance leases	1,549,237	1,534,423

31 (2015-16: 33) finance leases exist in relation to properties and technology. The leases are non-cancellable and for fixed terms with an average remaining term of 18.06 years (2015-16: 19.42 years). The maximum number of years remaining is 26.58 years (2015-16: 27.58 years) relating to Single LEAP finance 2 leases (2015-16: Single LEAP finance 2 leases). The lease assets secure the lease liabilities. Interest rates applied averaged 5.78% (2015-16: 6.21%).

Accounting Policy

The relevant accounting policy for leases is detailed in Note 1.1B Suppliers Expenses.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2017

3.5: Provisions	2017	2016
	\$'000	\$'000
3.5A: Employee provisions		
Australian Public Service (APS) employee provisions		
Leave	681,827	701,604
Total APS employee provisions	681,827	701,604
Australian Defence Force (ADF) employee provisions		
Leave	1,931,394	1,985,493
Other provisions	14,441	17,998
Total ADF employee provisions	1,945,835	2,003,491
Total employee provisions	2,627,662	2,705,095
Employee provisions are expected to be settled in:		
No more than 12 months	779,022	816,295
More than 12 months	1,848,640	1,888,800
Total employee provisions	2,627,662	2,705,095

Accounting Policy

The relevant accounting policy for employee provisions is detailed in Note 1.1A Employee Benefits.

Significant Accounting Judgements and Estimates

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.

3.5B: Restoration, decontamination and decommissioning provisions

Provisions for restoration and decommissioning	533,734	645,747
Provision for decontamination	632,317	640,437
Total restoration, decontamination and decommissioning provisions	1,166,051	1,286,184

Accounting Policy

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.

Significant Accounting Judgments and Estimates

Provisions for specialist military equipment decommissioning are based on Defence's estimates of future obligations relating to the underlying assets. Provisions for land decontamination and site restoration are supported by external valuer's opinions.

Refer to Note 3.5D for a reconciliation of this balance.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2017

	2017	2016
	\$'000	\$'000
3.5C: Other provisions		
Other provisions	51,693	29,193
Total other provisions	51,693	29,193

Refer to Note 3.5D for a reconciliation of this balance.

3.5D: Reconciliation of provision balances Movement in relation to 2017

	Restoration and decommissioning provisions \$'000	Decontamination provisions \$'000	Other provisions \$'000
Carrying amount 1 July 2016	645,747	640,437	29,193
Additional provisions made	27,617	147,792	37,154
Amounts used	(177)	(40,075)	(14,654)
Amounts reversed	(13,327)	(126,752)	-
Unwinding of discount rate	10,699	9,170	-
Parameter changes	(136,825)	1,745	-
Closing balance 30 June 2017	533,734	632,317	51,693

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2017

ASSETS AND LIABILITIES ADMINISTERED ON BEHALF OF THE GOVERNMENT

This section analyses assets used to conduct operations and the operating liabilities incurred as a result of activities that Defence does not control but administers on behalf of the Government. Unless otherwise noted, the accounting policies adopted are consistent with those applied for departmental reporting.

4.1: Administered - Financial Assets

	2017 \$'000	2016 \$'000
4.1A: Cash and cash equivalents		
Cash on hand or on deposit	-	-
Total cash and cash equivalents	-	-
4.1B: Trade and other receivables		
Goods and services:		
In connection with - external parties	16,882	8,456
Total receivables for goods and services	16,882	8,456
Other receivables:		
Accrued superannuation	61	37
Interest Receivable	-	-
Dividends	39,585	62,719
Loans receivable - Defence Housing Australia	509,580	509,580
Competitive neutrality - Defence Housing Australia	6,706	7,941
Total other receivables	555,932	580,277
Total trade and other receivables (gross)	572,814	588,733
Less impairment allowance:		
Goods and services	(429)	(289)
Total impairment allowance	(429)	(289)
Total trade and other receivables (net)	572,385	588,444

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2017

4.1B: Trade and other receivables (continued)

2017	2016
\$'000	\$'000

Loans to Defence Housing Australia as at 30 June 2017 have a remaining term of up to 9 years. No security is provided. Principal is required to be repaid in full at maturity, however in practice the principal is normally rolled over in a new loan agreement. Interest rates are fixed. Weighted average interest rate is 5.08%. Interest payments are due every quarter or when the loan matures.

Reconciliation of the impairment allowance

Opening Balance	(289)	(223)
Amount written off	-	-
Amounts recovered and reversed	289	223
Increase recognised in net cost of service	(429)	(289)
Closing Balance	(429)	(289)

Credit terms for goods and services were within 1-30 days (2015-16: 1-30 days).

Accounting Policy

Loans and 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.

4.1C: Investments accounted for using the equity method

Other investments shares (or equity in) - Defence Housing Australia	2,573,475	2,474,029
Other investments - Small portfolio entities	89,198	89,734
Total investments	2,662,673	2,563,763

Accounting policy

Defence reports the Australian Government's capital investment in Defence Housing Australia (DHA).

The investment is classified as 'available for sale' and is measured at fair value using the net assets valuation approach in accordance with the FRR. The investment was assessed for impairment at year end and no indicators of impairment were noted.

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's operational needs.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2017

4.1C: Investments accounted for using the equity method (continued)

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 Australian 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 oversight role on the investment in these bodies on behalf of the beneficiaries.

These investments are classified as 'available for sale' and are measured using the net assets valuation approach in accordance with the FRR.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2017

	2017 \$'000	2016 \$'000
4.2: Administered - Non-Financial Assets		
4.2A: Other non-financial assets		
Prepayments - retention benefits	240,452	203,121
Total other non-financial assets	240,452	203,121
Accounting policy		
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.		
4.3: Administered - Payables		
4.3A: Other payables		
Other payables	6,427	8,262
Total other payables	6,427	8,262
4.4: Administered - Provisions		
4.4A: Employee provisions		
Superannuation - DFRDB	43,502,800	50,358,700
Superannuation - MSBS	63,451,000	74,369,000
Superannuation - ADFC	18,501	-
Total employee provisions	106,972,301	124,727,700
Employee provisions are expected to be settled in:		
No more than 12 months	2,324,000	2,194,000
More than 12 months	104,648,301	122,533,700
Total employee provisions	106,972,301	124,727,700
Accounting Policy		
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 2014.		
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 2017

4.4A: Employee provisions (continued)

Accounting Policy (continued)

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-measurements 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.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2017

4.5: Administered - Defined Benefit Superannuation Plans

Defence administers on behalf of the Australian Government, three defined benefit superannuation plans for ADF members. The three plans are the Defence Force Retirement and Death Benefits Scheme (DFRDB), the Military Superannuation and Benefits Scheme (MSBS) and Australian Defence Force Cover (ADF Cover).

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 2017 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.

	2017 \$'000	2016 \$'000
Amounts recognised in comprehensive income in respect of these defined benefit plans are as follows.		
Service cost:		
Current service cost	4,397,201	3,400,000
Past service cost and (gain)/loss from settlements	-	-
Net interest expense	3,596,400	3,761,000
Expected return on plan assets	(202,000)	(259,000)
Components of defined benefit costs recorded in net cost of service	7,791,601	6,902,000
Re-measurement on the net defined benefit liability:		
The return on plan assets (excluding amounts included in net interest expense)	(487,000)	115,000
Actuarial gains and losses arising from changes in liability assumptions	1,189,400	(650,200)
Actuarial gains and losses arising from changes in financial assumptions	(23,873,700)	26,532,900
Adjustments for restrictions on the defined benefit asset	-	-
Other	-	-
Components of defined benefit costs recorded in other comprehensive income	(23,171,300)	25,997,700
Total of components of defined benefit cost	(15,379,699)	32,899,700

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	115,268,301	132,047,700
Fair value of plan assets	8,296,000	7,320,000
Net liability arising from defined benefit obligation	106,972,301	124,727,700

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2017

4.5: Administered - Defined Benefit Superannuation Plans (continued)

	2017 \$'000	2016 \$'000
Movements in the present value of the defined benefit obligation in the current year were as follows:		
Opening defined benefit obligation	132,047,700	100,899,400
Current service cost	4,397,201	3,400,000
Interest cost	3,596,400	3,761,000
Contributions from plan participants	271,000	329,000
Re-measurement (gains)/losses:		
Actuarial gains and losses arising from changes in liability assumptions	1,189,400	(650,200)
Actuarial gains and losses arising from changes in financial assumptions	(23,873,700)	26,532,900
Past service cost	-	-
Losses/(gains) on curtailments	-	-
Liabilities extinguished on settlements	-	-
Liabilities assumed in a business combination	-	-
Benefits paid	(2,359,700)	(2,224,400)
Other	-	-
Closing defined benefit obligation	115,268,301	132,047,700
Movements in the present value of the plan assets in the current year were as follows:		
Opening fair value of plan assets	7,320,000	6,798,000
Interest income	202,000	259,000
Re-measurement gain (loss):		
Actuarial gains and losses	487,000	(115,000)
The return on plan assets (excluding amounts included in net interest expense)	-	-
Contributions from the employer	769,000	697,000
Contributions from plan participants	271,000	329,000
Benefits paid	(753,000)	(648,000)
Assets distributed on settlements	-	-
Other	-	-
Closing fair value of plan assets	8,296,000	7,320,000
The major categories of plan assets at the end of the reporting period for each category, as follows:		
Australian equities	1,659,200	1,317,600
Overseas equities	1,908,080	1,537,200
Property and infrastructure	1,078,480	951,600
Private equity	580,720	585,600
Cash, debt instruments	1,493,280	1,537,200
Other liabilities	1,576,240	1,390,800
Subtotal	8,296,000	7,320,000

4.5: Administered - Defined Benefit Superannuation Plans (continued)

The actual return on plan assets was \$689m.

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 50 basis points (0.5 percent) higher (lower), the defined benefit obligation would decrease by \$11,326m (increase by \$13,429m) if all other assumptions were held constant.
- If the expected salary growth and age pension methodology would increase (decrease) by 0.5%, the defined benefit obligation would increase by \$4,906m (decrease \$4,541m) if all other assumptions were held constant.
- If the CPI would increase (decrease) by 0.5%, the defined benefit obligation would increase by \$7,390m (decrease by \$7,515m) if all assumptions were held constant.

The expected superannuation contributions for 2017-18 is \$1,352m per the 2017-18 Portfolio Budget Statements.

In reality one might expect interrelationships between the assumptions, especially between discount rate and expected salary increases that both depends 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 2017

4.5: Administered - Defined Benefit Superannuation Plans (continued)

	2017 \$'000	2016 \$'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	43,502,800	50,358,700
Unrecognised past service cost	-	-
Net liability in statement of financial position	43,502,800	50,358,700
Amounts in statement of financial position:		
Liabilities	43,502,800	50,358,700
Assets	-	-
Net liability in statement of financial position	43,502,800	50,358,700
The amount recognised in income or expense are as follows:		
Current service cost	173,000	175,000
Net interest	1,340,100	1,563,000
Past service cost	-	-
Expense	1,513,100	1,738,000
Net actuarial losses (gains) recognised in equity	(6,762,300)	7,251,700
Changes in the value of defined benefit obligations are as follows:		
Net liability at 1 July	50,358,700	42,945,400
Current Service cost	173,000	175,000
Interest cost	1,340,100	1,563,000
Actuarial losses (gains)	(6,762,300)	7,251,700
Benefits paid	(1,606,700)	(1,576,400)
Past service cost	-	-
Other	-	-
Net liability as at 30 June	43,502,800	50,358,700
Changes in the fair value of plan assets are as follows:		
Opening fair value of plan assets	-	-
Contributions by employer	1,606,700	1,576,400
Interest on plan assets	-	-
Benefits paid	(1,606,700)	(1,576,400)
Closing value of plan assets	-	-
Principal actuarial assumptions at the reporting date (expressed as weighted averages)		
	2017	2016
Discount rate at 30 June (DFRDB)	3.4%	2.7%
Discount rate at 30 June (DFRB)	2.7%	
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%	4.0%
Future pension increases (under age 55)	2.5%	2.5%
Weighted mean term of the DFRDB liabilities is 17.2 years.		
Weighted mean term of the DFRB liabilities is 10.0 years.		
The demographic assumptions are those used for the preparation of the Long Term Cost Report for the MSBS, DFRDB, DFRB and ADF as at 30 June 2014.		
* 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 2017

4.5: Administered - Defined Benefit Superannuation Plans (continued)

	2017 \$'000	2016 \$'000
Military Superannuation Benefits Scheme (MSBS)		
The amounts recognised in the statement of financial position are as follows:		
Present value of funded obligations	8,296,000	7,320,000
Fair Value of plan assets	8,296,000	7,320,000
Present value of unfunded obligations	63,451,000	74,369,000
Unrecognised past service cost	-	-
Net liability in statement of financial position	63,451,000	74,369,000
Amounts in statement of financial position:		
Liabilities	71,747,000	81,689,000
Assets	8,296,000	7,320,000
Net liability in statement of financial position	63,451,000	74,369,000
The amount recognised in income or expense are as follows:		
Current service cost	4,203,000	3,225,000
Interest on obligation	2,054,000	1,939,000
Expense	6,257,000	5,164,000
Liability actuarial losses (gains) recognised in equity	(15,919,000)	18,631,000
Actuarial losses (gains) on plan assets recognised in equity	487,000	115,000
Components recorded in equity	(15,432,000)	18,746,000
Changes in the value of defined benefit obligations are as follows:		
Net liability at 1 July	81,689,000	57,954,000
Current Service cost	4,203,000	3,225,000
Non-employer contributions	271,000	329,000
Interest cost	2,256,000	2,198,000
Actuarial losses (gains)	(15,919,000)	18,631,000
Benefits paid	(753,000)	(648,000)
Past service cost	-	-
Closing value of plan liabilities	71,747,000	81,689,000
Changes in the fair value of plan assets are as follows:		
Opening fair value of plan assets	7,320,000	6,798,000
Expected return on plan assets	-	259,000
Interest on plan assets	202,000	-
Actuarial gains and losses	487,000	(115,000)
Contributions by employer	769,000	697,000
Funded non-employer contributions	271,000	329,000
Benefits paid	(753,000)	(648,000)
Closing value of plan assets	8,296,000	7,320,000

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2017

4.5: Administered - Defined Benefit Superannuation Plans (continued)

Principal actuarial assumptions at the reporting date (expressed as weighted averages):

	2017	2016
Discount rate at 30 June (unfunded amount)	3.5%	2.7%
Discount rate at 30 June (funded amount)	3.5%	2.7%
Expected return on plan assets	3.5%	2.7%
Future salary increases*	4.0%	4.0%
Future pension increases	2.5%	2.5%

Weighted mean term of the liabilities is 28.7 years.

The demographic assumptions are those used for the preparation of the Long Term Cost Report for the MSBS, DFRDB, DFRB and ADF as at 30 June 2014.

* 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 2017

4.5: Administered - Defined Benefit Superannuation Plans (continued)

	2017 \$'000	2016 \$'000
Australian Defence Force Cover (ADF Cover)		
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	18,501	-
Unrecognised past service cost	-	-
Net liability in statement of financial position	18,501	-
Amounts in statement of financial position:		
Liabilities	18,501	-
Assets	-	-
Net liability in statement of financial position	18,501	-
The amount recognised in income or expense are as follows:		
Current service cost	21,201	-
Net interest	300	-
Past service cost	-	-
Expense	21,501	-
Net actuarial losses (gains) recognised in equity	(3,000)	-
Changes in the value of defined benefit obligations are as follows:		
Net liability at 1 July	-	-
Current Service cost	21,201	-
Interest cost	300	-
Actuarial losses (gains)	(3,000)	-
Benefits paid	-	-
Past service cost	-	-
Other	-	-
Net liability as at 30 June	18,501	-
Changes in the fair value of plan assets are as follows:		
Opening fair value of plan assets	-	-
Contributions by employer	-	-
Interest on plan assets	-	-
Benefits paid	-	-
Closing value of plan assets	-	-
Principal actuarial assumptions at the reporting date (expressed as weighted averages)		
	2017	2016
Discount rate at 30 June	3.5%	0.0%
Expected return on plan assets	0.0%	0.0%
Future salary increases*	4.0%	0.0%
Future pension increases	2.5%	0.0%

Weighted mean term of the ADF Cover liabilities is 29.3 years.

The demographic assumptions are those used for the preparation of the Long Term Cost Report for the MSBS, DFRDB, DFRB and ADF as at 30 June 2014.

* 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 2017

FUNDING

This section identifies Defence's funding structure.

5.1: Appropriations

5.1A: Annual appropriations ('recoverable gst exclusive')

Annual Appropriations for 2016-17

	Annual Appropriation ¹ \$'000	Adjustments to appropriation ² \$'000	Total \$'000	Appropriation applied in 2017 (Current and prior years) \$'000	Variance ³ \$'000
DEPARTMENTAL					
Ordinary annual services	30,826,904	438,036	31,264,940	(31,310,029)	(45,089)
Capital budget ⁴	-	-	-	-	-
Other services					
Equity	2,321,327	-	2,321,327	(1,064,704)	1,256,623
Total departmental	33,148,231	438,036	33,586,267	(32,374,733)	1,211,534
ADMINISTERED					
Ordinary annual services					
Capital budget ⁴	-	-	-	-	-
Administered items	-	-	-	-	-
Payments to corporate Commonwealth entities	-	-	-	-	-
Other Services					
Specific payments to States, ACT, NT and Local government	-	-	-	-	-
New administered outcomes	-	-	-	-	-
Administered assets and liabilities	-	-	-	-	-
Payments to corporate Commonwealth entities	-	-	-	-	-
Total administered	-	-	-	-	-

Department of Defence
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the period ended 30 June 2017

5.1: Appropriations (continued)

5.1A: Annual appropriations ('recoverable gst exclusive') (continued)

Notes:

1 Details of quarantined appropriations are as follows: \$'000

Quarantined appropriations

No Win No Loss - 2012-13 Act 3 (Outputs)	67,349
No Win No Loss - 2013-14 Act 1 (Outputs)	97,994
No Win No Loss - 2013-14 Act 3 (Outputs)	87,801
No Win No Loss - 2013-14 Act 5 (Outputs)	58,495
No Win No Loss - 2013-14 Act 6 (Equity)	103,103
2015-16 Act 2 (Equity)	407,411

Amounts withheld under section 51 determinations

2014-15 Act 4 Portfolio Additional Estimates adjustment Act 2 (Equity)	116,914
No Win No Loss - 2014-15 Act 1 (Outputs)	121,512
2014-15 Act 5 Supplementary Portfolio Additional Estimates adjustment Act 3 (Outputs)	91,401
No Win No Loss - 2015-16 Appropriation Act 1	94,754
No Win No Loss - 2015-16 Appropriation Act 3	69,948
2016-17 Appropriation Act 1	9,725
2016-17 Appropriation Act 2	1,256,623

Total Quarantined	2,583,030
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2. Adjustment to appropriations include Advance to the Finance Minister (AFM), PGPA Section 74 receipts and PGPA Act PGPA Act Section 75 transfers.

3. Reasons for material variance:

	Ordinary Annual Service \$'000	Equity \$'000
Section 74 receipts yet to be reflected in ACM	2,239	-
Undrawn departmental annual appropriations 2016-17	87	-
Prior Year Appropriation Drawn Down	(97,000)	-
2016-17 Appropriation Act 1 withheld under Section 51	9,725	-
2016-17 Appropriation Act 2 withheld under Section 51	-	1,256,623
GST Payable made not yet recovered	39,860	-
Total	(45,089)	1,256,623

4. Departmental and Administered Capital Budgets are appropriated through Appropriation Acts (No.1,3,5). They form part of ordinary annual services, and are not separately identified in the Appropriation Acts.

5. Reconciliation to appropriation receivable:

	Notes	\$'000
2015-16 Appropriate Act 1		4
2015-16 Appropriation Act 2 (Equity)		407,411
2015-16 Appropriation Act 3		18,489
2016-17 Appropriation Act 1		87
	3.1B	425,991

Department of Defence
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the period ended 30 June 2017

5.1: Appropriations (continued)

5.1A: Annual appropriations ('recoverable gst exclusive') (continued)

Annual Appropriations for 2015-16

	Annual Appropriation ¹ \$'000	Adjustments to appropriations ² \$'000	Total Appropriations \$'000	Appropriation applied in 2016 (Current and prior years) \$'000	Variance ³ \$'000
DEPARTMENTAL					
Ordinary annual services	29,162,834	701,833	29,864,667	(29,729,997)	134,670
Capital Budget ⁴	-	-	-	-	-
Other services					
Equity	2,942,959	-	2,942,959	(2,535,548)	407,411
Loans	-	-	-	-	-
Total departmental	32,105,793	701,833	32,807,626	(32,265,545)	542,081
ADMINISTERED					
Ordinary annual services					
Capital Budget ⁴	-	-	-	-	-
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 2017

5.1: Appropriations (continued)

5.1A: Annual appropriations ('recoverable gst exclusive') (continued)

Notes:

1. Details of quarantined appropriations are as follows:	\$'000
No Win No loss - 2012-13 Act 3 (Outputs)	67,349
No win No Loss - 2013-14 Act 1 (Outputs)	97,994
No win No Loss - 2013-14 Act 3 (Outputs)	87,801
No win No Loss - 2013-14 Act 5 (Outputs)	58,495
No win No Loss - 2013-14 Act 6 (Equity)	103,103
2015-16 Act 2 (Equity)	407,411

Amounts withheld under section 51 determinations

No Win No Loss - 2014-15 Act 1 (Outputs)	71,357
No Win No Loss (FX, Ops and LAFHA)- 2014-15 Act 1 (Outputs)	50,155
2014-15 Act 4 Portfolio Additional Estimates adjustment Act 2 (Equity)	116,914
2014-15 Act 5 Supplementary Portfolio Additional Estimates adjustment Act 3 (Outputs)	91,401

Total Quarantined	1,151,980
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2. Adjustment to appropriations include Advance to the Finance Minister (AFM), PGPA Section 74 receipts and PGPA Act PGPA Act Section 75 transfers.

3. Reasons for material variance:

	Ordinary Annual Service \$'000	Equity \$'000
Prior year appropriation drawn down	(145,264)	-
Undrawn departmental annual appropriations 2015-16	279,934	407,411
Total	134,670	407,411

4. Departmental and Administered Capital Budgets are appropriated through Appropriation Acts (No.1,3,5). They form part of ordinary annual services, and are not separately identified in the Appropriation Acts.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2017

5.1B: Unspent annual appropriations ('recoverable gst exclusive')

Authority	2017 \$'000	2016 \$'000
DEPARTMENTAL		
Operating		
Act 1 2016-17 ¹	49,672	-
Act 1 2015-16 ¹	94,758	94,498
Act 1 2014-15 ²	121,512	121,512
Act 1 2013-14	97,994	97,994
Act 1 2012-13	67,349	67,349
Act 3 2015-16 ¹	88,437	185,437
Act 3 2014-15 ²	91,401	91,401
Act 3 2013-14	87,801	87,801
Act 5 2013-14	58,495	58,495
Total Operating	757,419	804,487
Equity		
Act 2 2016-17 ²	1,256,623	-
Act 2 2015-16	407,411	407,411
Act 2 2014-15 ²	116,914	116,914
Act 6 2013-14	103,103	103,103
Total Equity	1,884,051	627,428
Total	2,641,470	1,431,915
Cash and cash equivalents	88,823	47,597
Total unspent annual appropriations ³	2,730,293	1,479,512

Notes

1. Unspent annual appropriations have been partially extinguished by the Department of Finance. Of the \$232.867m of unspent appropriations, \$174.427m has been formally extinguished, with the remaining \$58.440m being available to the Department.

2. Unspent annual appropriations have been formally extinguished by the Department of Finance.

3. The unspent annual appropriations are \$2,730.293m, allocated as follows:

- \$2,583.030m has been formally quarantined and/or extinguished by Department of Finance,
- \$107.404m of unspent annual appropriations (including cash and cash equivalents) available to the Department; and
- \$39.860m of unspent annual appropriations relating to GST payments made in 2016-17 but not yet recovered.

Department of Defence
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the period ended 30 June 2017

5.1: Appropriations (continued)

5.1C: Special appropriations ('recoverable gst exclusive')

Authority	Nature	Type	Purpose	Appropriation Applied	
				2017 \$'000	2016 \$'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.	45,668	47,419
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.	1,535,637	1,506,904
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.	674,253	583,909
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.	587	828
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.	99,651	100,981
Military Superannuation and Benefits Act 1991, Administered	Administered	Unlimited Amount	To make provision for and in relation to retention benefits for ADF personnel.	115,656	98,703
Public Governance, Performance and Accountability Act 2013, Administered	Administered	Unlimited Amount	To make provision for and in relation to funds that have been received by Defence that are required or permitted to be repaid where there is no other appropriation for the repayment.	-	-
Australian Defence Force Cover Act 2015, Administered ^(a)	Administered	Unlimited Amount	To make provision for benefits for incapacity or death suffered by certain members of the Australian Defence Force, and for related purposes.	21	-
Public Governance, Performance and Accountability Act 2013, Administered	Administered	Unlimited Amount	To make provision for and in relation to funds that have been received by the Commonwealth or Commonwealth entities that are required or permitted to be repaid where there is no other appropriation for the repayment.	41	-
Total				2,471,514	2,338,744

(a) Commonwealth Superannuation Corporation 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 2017*

5.1: Appropriations (continued)**5.1D: Disclosure by agent in relation to annual and special appropriations ('recoverable gst exclusive')**

2017	Department of Finance ¹ \$'000
Total receipts	-
Total payments	6,079

2016	Department of Finance ¹ \$'000
Total receipts	-
Total payments	23,707

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*).

Department of Defence
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the period ended 30 June 2017

5.2: Special Accounts

	Service for Other Entities And Trust Monies Defence Special Account ^{1,5}		Young Endeavour Youth Program Special Account ^{2,5}		Defence Endowments Special Account ^{3,5}		Fedorczenko Legacy Special Account ^{4,5}	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
Balance brought forward from previous period	70,953	64,827	1,491	1,375	48	48	169	167
Total increases	53,771	39,056	65	198	1	1	3	4
Available for payments	124,724	103,883	1,556	1,573	49	49	172	171
Decreases:								
Departmental								
Total departmental	-	-	-	-	-	-	-	-
Administered								
Total Administered	(38,197)	(32,930)	(36)	(82)	-	(1)	(4)	(2)
Total Decreases	(38,197)	(32,930)	(36)	(82)	-	(1)	(4)	(2)
Total Balance to be carried forward to next period	86,527	70,953	1,520	1,491	49	48	168	169
Balance represented by:								
Cash held in entity bank accounts	-	-	-	-	-	-	-	-
Cash held in the Official Public Account	86,527	70,953	1,520	1,491	49	48	168	169

Notes

1. Appropriation: Public Governance, Performance and Accountability Act 2013 section 78.

- 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: Public Governance, Performance and Accountability Act 2013 section 78.

- 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 2017

5.2: Special Accounts (continued)

3. *Appropriation: Public Governance, Performance and Accountability Act 2013 section 78.*

- 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: Public Governance, Performance and Accountability Act 2013 section 78.*
- Establishing Instrument: Financial Management and Accountability Determination 2009/13.
 - Purpose: For expenditure in relation to the defence of Australia of the residual of the estate of the late Petro Fedorczenko.
 - Special account is disclosed on a recoverable GST exclusive basis.
 - This account is interest bearing.

5. *Monies held within special accounts:*

Service for Other Entities and Trust Monies Defence Special Account:

Woomera Security Lodgements, Peter Mitchell Trust Fund, Project Q, Metal Storm R&D, Singapore Armed Forces (Army 1), Singapore Armed Forces (Army 2), 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, Share Vision CSNE, Emerging Technologies, Accommodation Purchases, P303, Paris, Ex Auswing, Pitchpipe 2009, Spurgalls 2, Research Program, SEET (JIC), Doppler Targets, Hercules, Rascal, FA18 Barrel Testing, Virsuite, OOT Project, Geospatial Intelligence, DHS, CTTSO, US Collaboration and RSAF Oakey Facilities Works.

Young Endeavour Youth Program Special Account:

Young Endeavour Youth Program Special Account and Young Endeavour Youth Program Special Public Fund.

Defence Endowments Special Account:

Parker Trophy, Gowlland Medal, Edward Rodwell Memorial Prize, Joseph Schultz Memorial Prize, C.J. Toohy Memorial Prize, Ronald Syme Trust Prize, General Bridges Memorial Prize Fund, T.J. Stevens Memorial Fund and RAN Training Prizes.

Fedorczenko Legacy Special Account:

Fedorczenko.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2017

PEOPLE AND RELATIONSHIPS

This section describes our relationship with key people.

6.1: Key Management Personnel Remuneration

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of Defence, directly or indirectly. This definition has narrowed in comparison to the definition of Senior Management applied in the 2015-16 financial statements. According to AASB 124 and Department of Finance guidance, the key management personnel of Defence are considered to be the:

- i) Minister for Defence;
- ii) Minister for Defence Industry;
- ii) Minister for Defence Personnel;
- iv) Secretary and Chief of the Defence Force (CDF); and
- v) Direct reports to Secretary and CDF (Group Heads and Service Chiefs).

Key management personnel remuneration is reported in the table below.

	2017 \$	2016 ¹ \$
Short-term employee benefits	6,913,570	7,286,496
Post-employment benefits	1,316,081	1,338,949
Long-term benefits	785,433	758,491
Termination benefits	-	-
Total key management personnel remuneration expenses²	9,015,084	9,383,936

The total number of key management personnel that are included in the above table are 15 (2015-16: 18).

Notes

1. In the financial statements for the period ended 30 June 2016, Defence was required to disclose Senior Management Personnel Remuneration in accordance with section 27 of the Financial Reporting Rule that existed at that time. Senior Management were defined as the senior executive of the Department. For comparative purposes, the disclosure in the financial statements for the period ended 30 June 2016 was as follows:

	2016 \$
Short-term employee benefits	
Salary	63,459,634
Performance bonus	174,779
Other	19,073,362
Total short-term employee benefits	82,707,775
Post-employment benefits	
Superannuation	15,170,961
Total post-employment benefits	15,170,961
Other long-term benefits	
Annual leave	6,282,712
Long-service leave	2,177,158
Total other long-term benefits	8,459,870
Termination benefits	11,284,152
Total senior management personnel remuneration	117,622,758

The total number of senior management personnel that are included in the above table are 395.

2. The above key management personnel remuneration excludes the remuneration and other benefits of the Minister for Defence, Minister for Defence Industry and Minister for Defence Personnel. The remuneration and other benefits of the Minister for Defence, Minister for Defence Industry and Minister for Defence Personnel are set by the Remuneration Tribunal and are not paid by the Department of Defence.

6.2: Related Party Disclosures

Related party relationships:

Defence is an Australian Government controlled entity. Related parties to this entity are:

- i) Key Management Personnel (as detailed in Note 6.1);
- ii) Spouse or domestic partners of (i);
- iii) Children or dependents of (i); and
- iv) Entities, individually or jointly, controlled by the above individuals.

Transactions with related parties:

Given the breadth of Government activities, related parties may transact with the government sector in the same capacity as ordinary citizens. Such transactions include the payment or refund of taxes, receipt of a Medicare rebate or higher education loans. These transactions have not been separately disclosed in this note.

No transactions with related parties occurred during the financial year.

Department of Defence
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2017

MANAGING UNCERTAINTIES

This section analyses how Defence manages financial risk within its operating environment.

7.1: Contingent Liabilities and Assets

7.1A: Contingent liabilities and assets

	Claims for damages / costs		Total	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
Contingent Assets				
Balance from previous period	5,477	7,208	5,477	7,208
New	2,246	1,898	2,246	1,898
Re-measurement	15,987	(3,629)	15,987	(3,629)
Assets realised	-	-	-	-
Rights expired	(540)	-	(540)	-
Total contingent assets	23,170	5,477	23,170	5,477
Contingent Liabilities				
Balance from previous period	94,939	24,993	94,939	24,993
New	1,191	48,529	1,191	48,529
Re-measurement	(37,264)	25,945	(37,264)	25,945
Liabilities realised	(5,572)	(4,528)	(5,572)	(4,528)
Obligations expired	-	-	-	-
Total Contingent liabilities	53,294	94,939	53,294	94,939
Net contingent assets (liabilities)	(30,124)	(89,462)	(30,124)	(89,462)

Quantifiable Contingencies

Contingent Assets: At 30 June 2017, the Schedule of Contingencies contains 11 (2015-16: 19) instances of non-remote, quantifiable contingent assets in respect of claims by the Department valued at \$23.2m (2015-16: \$5.5m). 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 2017, the Schedule of Contingencies contains 14 (2015-16: 19) instances of non-remote, quantifiable contingent liabilities in respect of claims on the Department valued at \$53.2m (2015-16: \$94.9m). The estimated figure is determined by conducting an objective analysis of the probable amount payable for all the matters managed by firms engaged by Defence through the Attorney General's Legal Services Multi Use List and those being handled in-house by Defence Legal Division. However, the exact amount payable under those claims is uncertain. The Department is defending the claims or is trying to resolve them by recourse to alternative dispute resolution measures.

Unquantifiable Contingencies

Contingent Assets: At 30 June 2017 Defence had 8 (2015-16: 6) instances of unquantifiable non-remote contingent assets.

Contingent Liabilities: At 30 June 2017 Defence had 40 (2015-16: 36) instances of unquantifiable non-remote contingent liabilities.

Land decontamination, site restoration and decommissioning of Defence assets: Defence has made financial provision for the future estimates involved in land decontamination, site restoration and decommissioning of Defence assets where a legal or constructive obligation has arisen. For those decontamination, restoration and decommissioning activities for which there is no legal or constructive obligation, the potential costs have not been assessed and are unquantifiable. Where there is a possible legal or constructive obligation, but the potential cost could not be quantified, the obligations have been assessed as unquantifiable contingencies. It was not possible to estimate the amounts of any eventual payments or receipts that may have eventuated in relation to these claims.

Costs associated with the Royal Commission into Institutional Responses to Child Sexual Abuse have not been assessed and are considered unquantifiable at this time. It is currently not possible to estimate the amounts of any eventual payments that may eventuate in relation to any such claims.

Quantifiable Remote Contingencies

Remote Contingent Assets: At 30 June 2017 Defence had 3 (2015-16: 1) instances of quantifiable remote contingent assets valued at \$0.790m (2015-16: \$0.05m).

Remote Contingent Liabilities: At 30 June 2017 Defence had 1,462 (2015-16: 1,409) instances of quantifiable remote contingent liabilities valued at \$5,269m (2015-16: \$5,416m).

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2017

7.1: Contingent Liabilities and Assets (continued)

Unquantifiable Remote Contingencies

Contingent Assets: At 30 June 2017 Defence had 1 instance of unquantifiable remote contingent assets (2015-16: nil).

Contingent Liabilities: At 30 June 2017 Defence had 27 instances of unquantifiable remote contingent liabilities (2015-16: 23).

Accounting Policy

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.

Department of Defence
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2017

7.2: Financial Instruments

		2017 \$'000	2016 \$'000
7.2A: Categories of financial instruments			
Financial Assets			
Cash and cash equivalents	3.1A	88,823	47,597
Loans and receivables:			
Trade and other receivables		402,464	462,561
Total Financial Assets		491,287	510,158
Carrying amount of financial assets		491,287	510,158
Financial Liabilities			
At amortised cost:			
Suppliers		2,304,285	2,263,290
Other payables		131,907	111,429
Finance leases		1,549,237	1,534,423
Total Financial Liabilities at Amortised Cost		3,985,429	3,909,142
Carrying amount of financial liabilities		3,985,429	3,909,142

Accounting Policy

Financial Assets

Defence classifies its financial assets in the following categories;

- a) financial assets at fair value through profit or loss;
- b) held-to-maturity investments;
- c) available-for-sale financial assets; and
- d) 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.

(a) 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 except for financial assets that are recognised at fair value through profit or loss.

(b) Loans and Receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and 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. Long term receivables are discounted to the present value using the effective interest method.

(c) 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 or held to maturity investments held at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the 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.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2017

Accounting Policy (Continued)

Financial Liabilities

Financial liabilities are classified as either financial liabilities 'at fair value through profit or loss' or other financial liabilities. Financial liabilities are derecognised upon trade date.

(a) Financial Liabilities at Fair Value Through Profit or Loss

Financial liabilities at fair value through profit or loss are initially measured at fair value. Subsequent fair value adjustments are recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability.

(b) Other Financial Liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. These liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on the financial liability.

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.

Defence's supplier 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 (and irrespective of having been invoiced).

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.

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.

	2017 \$'000	2016 \$'000
7.2B: Net gains or losses on financial assets		
Loans and receivables		
Exchange gains/(loss)	(3,299)	(107)
Impairment reversal/(impairment)	(4,940)	(130)
Net gain/(loss) on loans and receivables	(8,239)	(237)
Net gain/(loss) on financial assets	(8,239)	(237)

There is no interest income from financial assets not at fair value through the net cost of services.

7.2C: Net gains or losses on financial liabilities

At amortised cost

Exchange gains/(loss)	(4,527)	(18,517)
Interest expense	(104,561)	(94,351)
Net gain/(loss) financial liabilities - at amortised cost	(109,088)	(112,868)
Net gain/(loss) on financial liabilities	(109,088)	(112,868)

There is no interest expense from financial liabilities not at fair value through the net cost of services.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2017

7.3: 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 7.2A Financial Instruments.

		2017 \$'000	2016 \$'000
7.3A: Categories of financial instruments			
Financial Assets			
Cash and cash equivalents		-	-
Loans and receivables:			
Receivables	4.1B	572,385	588,444
Total		572,385	588,444
Available for sale:			
Investment - Defence Housing Australia	4.1C	2,573,475	2,474,029
Investment - Small Portfolio bodies	4.1C	89,198	89,734
Total		2,662,673	2,563,763
Carrying amount of financial assets		3,235,058	3,152,207
Financial Liabilities			
At amortised cost:			
Other payables	4.3A	6,427	8,262
Total		6,427	8,262
Carrying amount of financial liabilities		6,427	8,262
7.3B: Net gains or losses on financial assets			
Loans and receivables			
Interest revenue		25,866	26,479
Impairment		(143)	(72)
Exchange gains/(loss)		(154)	148
Net gain/(loss) on loans and receivables		25,569	26,555
Available for sale			
Dividend revenue	4.1B	39,585	62,719
Net gain/(loss) available for sale		39,585	62,719
Net gain/(loss) on financial assets		65,154	89,274

7.3C: Net gains or losses on financial liabilities

There was no net gain / (loss) from financial liabilities.

Department of Defence
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the period ended 30 June 2017

7.4: Fair Value Measurements

The following disclosures provide an analysis of assets and liabilities that are measured at fair value. The remaining assets and liabilities disclosed in the statement of financial position do not apply to the fair value hierarchy.

The different levels of the fair value are detailed below:

- Level 1: Quote prices (unadjusted) in the active market 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 an asset or liability.

Accounting Policy

In estimating the fair value of an asset or a liability, Defence uses market-observable data to the extent it is available. For level 2 and 3 inputs, Defence engages third party qualified valuers and internal experts to establish the appropriate valuation techniques and inputs to the models to ensure the valuation are in line with AASB 13.

The Asset Accounting branch reviews all reports received from third party valuers and internal experts to ensure unobservable inputs used align 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.

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.

		Fair value measurements at the end of the reporting period	
		2017 \$'000	2016 \$'000
7.4A: Fair Value Measurements			
Non-financial assets - Recurring fair value			
Land	3.2A	5,335,942	5,505,638
Buildings	3.2A	12,156,276	12,135,434
Specialist Military Equipment	3.2A	58,572,944	56,217,433
Infrastructure	3.2A	5,874,047	5,630,439
Plant and Equipment	3.2A	2,286,663	2,111,345
Heritage and Cultural	3.2A	607,285	623,102
Total Non-financial assets - Recurring fair value		84,833,157	82,223,391
Financial liabilities - Recurring fair value			
Employee provisions	3.5A	2,627,662	2,705,095
Total financial liabilities - Recurring fair value		2,627,662	2,705,095
Non financial liabilities - Recurring fair value			
Restoration, decontamination and decommissioning	3.5B	1,166,051	1,286,184
Total Non-financial liabilities - Recurring fair value		1,166,051	1,286,184
Assets not measured at fair value in the statement of financial position¹			
Cash and cash equivalents	3.1A	88,823	47,597
Trade and other receivables	3.1B	1,005,919	1,406,929
Inventories	3.2B	6,775,387	6,729,988
Intangibles	3.2A	749,190	794,155
Prepayments	3.2C	1,909,787	2,874,690
Total assets not measured at fair value in the statement of financial position		10,529,106	11,853,359
Liabilities not measured at fair value in the statement of financial position¹			
Other provisions	3.5C	51,693	29,193
Suppliers	3.3A	2,304,285	2,539,881
Other payables and personal benefits	3.3B, 3.3C	347,845	252,899
Finance lease payables	3.4A	1,549,237	1,534,423
Total liabilities not measured at fair value in the statement of financial position		4,253,060	4,356,396

¹ These items carrying amounts equate to their approximate fair values.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2017

7.5: Administered - Fair Value Measurements

Accounting Policy

The following tables provide an analysis of the assets and liabilities that are measured at fair value. The remaining assets and liabilities disclosed in the statement of financial position do not apply the fair value hierarchy.

The different levels of the fair value are detailed below:

- Level 1: Quote prices (unadjusted) in the active market 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 an asset or liability.

Administered investments are valued using the net assets valuation approach.

		Fair value measurements at the end of the reporting period	
		2017 \$'000	2016 \$'000
7.5A: Administered Fair value measurements			
Financial assets			
Administered Investment	4.1C	<u>2,662,673</u>	<u>2,563,763</u>
Total Financial Assets		<u>2,662,673</u>	<u>2,563,763</u>
Assets not measured at fair value in the statement of financial position¹			
Trade and other receivables	4.1B	<u>572,385</u>	<u>588,444</u>
Prepayments	4.2A	<u>240,452</u>	<u>203,121</u>
Total assets not measured at fair value in the statement of financial position		<u>812,837</u>	<u>791,565</u>
Liabilities not measured at fair value in the statement of financial position¹			
Other payables	4.3A	<u>6,427</u>	<u>8,262</u>
Total liabilities not measured at fair value in the statement of financial position		<u>6,427</u>	<u>8,262</u>

¹ These items carrying amounts equate to their approximate fair values.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2017

OTHER INFORMATION

8.1: Assets Held in Trust

	2017 \$'000	2016 \$'000
Young Endeavour Youth Program Public Fund (Trust)		
Monetary assets held in trust were also disclosed in 5.2 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	1,360	1,274
Other receipts	53	88
Total credits	1,413	1,362
Payment made to suppliers	(33)	(2)
Total debits	(33)	(2)
Total amount held at the end of the reporting period	1,380	1,360
Peter Mitchell Trust Fund (Trust)		
Monetary assets held in trust were also disclosed in 5.2 Special Accounts in the table titled "Services for Other Entities and Trust Monies" (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	3
Other receipts	6	3
Total credits	7	6
Payment made to suppliers	(3)	(5)
Total debits	(3)	(5)
Total amount held at the end of the reporting period	4	1
Fedorczenko Legacy Fund Special Account (Trust)		
Monetary assets held in trust were also disclosed in 5.2 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 residual of the estate of the late Petro Fedorczenko.</i>		
Total amount held at the beginning of the reporting period	169	167
Other receipts	3	4
Total credits	172	171
Payment made to suppliers	(4)	(2)
Total debits	(4)	(2)
Total amount held at the end of the reporting period	168	169

Department of Defence
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2017

8.2: Restructuring

8.2A: Departmental restructuring

		Defence Materiel Organisation
	2017	2016¹
	\$'000	\$'000
FUNCTIONS ASSUMED		
Assets recognised		
Cash and cash equivalents	-	(32,619)
Trade and other receivables	-	575,441
Property, plant and equipment	-	4,732
Intangibles	-	6
Prepayments	-	2,909,916
Total assets recognised	-	3,457,476
Liabilities recognised		
Suppliers	-	1,417,301
Unearned income	-	1,091,018
Grants	-	859
Other payables	-	232,726
Employee provisions	-	156,310
Other provisions	-	1,073
Total liabilities recognised	-	2,899,287
Net assets recognised²	-	558,189
Less DMO appropriation receivable not transferred to Defence	-	(113,623)
Net contribution by owners	-	444,566

¹ As a result of the First Principles Review, the Defence Materiel Organisation (DMO) was delisted and reintegrated into the Department of Defence on 1 July 2015. The activities undertaken by DMO prior to 1 July 2015 were absorbed into Defence's operations from that date.

² The net book value of assets and liabilities were transferred from DMO to Defence for no consideration on 1 July 2015. These values, as noted above, are the same as those reported in the financial statements for DMO for the year ended 30 June 2015.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2017

8.3: 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 to address the same issue for the *Defence Force (Home Loans Assistance) Act 1990* and the *Defence Home Ownership Assistance Scheme Act 2008* has not progressed at this stage. It should be noted that both schemes have provisions that allow for the recovery of an overpayment. However, at the time when all legislation was being assessed for potential section 83 breaches it was considered that the current recovery provisions were not broad enough to meet future section 83 breaches. Defence or Department of Finance has been unable to secure a place on the parliamentary program due to the low priority Government has placed on the proposed amendments. That is it is unlikely that this matter will be addressed by legislative amendment in the near future. Therefore, if reporting of such breaches is still required 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 2017 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	2	1	1
<i>Defence Home Ownership Assistance Scheme Act 2008</i>	Completed	LP,SM	299	209	205
<i>Services for Other Entities and Trust Moneys - Defence Special Account s20 FMA Act Det 2009/15</i>	Completed	SM	1	6,047	6,047

¹ Legislation

Amounts paid under each legislation are disclosed in Note 5.1C Special Appropriations and Note 5.2 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

This is a potential issue that still exists for two Defence home loan schemes which will be addressed at a time to be confirmed by Government legislation. Amounts reported have been derived by analysing data on recovery of overpayments and other identified risk areas for 2016-17. Business processes are in place to ensure that identified overpayments are recovered. The numbers and amounts represent the overpayments made during 2016-17.



Karen Radford, Assistant Director Pacific Islands, with Japanese exchange officer Takaaki Ohno, who worked in the Pacific Islands and Maritime Security Section in the International Policy Division from August 2016 to August 2017.



APPENDICES

Defence Civilian Policy Advisers Nuala Bethell and Anna Koestenbauer read the 2016 Defence White Paper at Australia's main operating base in the Middle East region.

Appendix A: Consultancies and contracts

Consulting contracts

Defence engages consultants where it lacks specialist expertise or when independent research and assessment is required. The process for selecting consultants is consistent with Defence procurement policies and the Commonwealth Procurement Rules.

In 2016–17, Defence entered into 950 new consultancy contracts (714 with a value greater than \$10,000) involving total actual expenditure of \$49.9 million (including GST). In addition, 873 consultancy contracts were active during the reporting year, involving total actual expenditure of \$204.6 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, www.tenders.gov.au.

Table A.1 shows a summary, sorted by Defence program, of new consultancy contracts entered into during 2016–17 with a contract value greater than \$10,000 (including GST).

Table A.1: New consultancy contracts entered into (value greater than \$10,000), by program, 2016–17

Program	Number of new contracts	Total contract value (\$)
Program 1.1 Strategic Policy and Intelligence	116	30,224,096
Program 1.2 Navy Capabilities	46	5,893,421
Program 1.3 Army Capabilities	15	3,404,095
Program 1.4 Air Force Capabilities	12	9,824,043
Program 1.5 Joint Operations Command	–	–
Program 1.6 Vice Chief of the Defence Force	40	9,911,000
Program 1.7 Capability Acquisition and Sustainment	29	34,389,300
Program 1.8 Defence Executive Support	300	37,591,636
Program 1.9 Estate and Infrastructure	71	7,958,573
Program 1.10 Chief Information Officer	6	714,695
Program 1.11 Defence People	39	4,816,463
Program 1.12 Defence Science and Technology	40	8,531,361
Program 1.13 Chief Finance Officer	–	–
Total	714	153,258,683

Table A.2 records total expenditure in-year for consulting contracts rather than the full value of the contract.

Table A.2: Total expenditure on consulting contracts, 2014–15 to 2016–17

	2014–15 (\$m)	2015–16 (\$m)	2016–17 (\$m)
Defence	71.3	90.7	254.5
Defence Materiel Organisation ¹	10.3	–	–

Note: Figures are GST inclusive.

1. From 1 July 2015, the Defence Materiel Organisation was incorporated into the Department of Defence. It is no longer a separate listed entity.

Australian National Audit Office access clause

The Defence contracting templates include standard clauses providing for the Auditor-General access to contractors' and major subcontractors' premises, records and accounts. During 2016–17, Defence had 37 contracts that were exempt from the requirement to provide access to the Auditor-General (Table A.3).

Table A.3: **Contracts that do not include the ANAO access clause, 2016–17**

Service/Group and contractor ¹	Value (\$)	Purpose of contract	Reason for non-inclusion of ANAO access clause
Army			
ICE Demolitions & Asbestos Removal Pty Ltd	239,292	Building demolition	Omission
Portion Pack Foods Pty Ltd	1,292,775	Supply of ration packs to Australian Army Cadets	Omission
The Stanley Hotel and Suites	449,765	Provision of overseas accommodation	Vendor-controlled contract
General Dynamics Mission System	115,314	Secure communications	Vendor-controlled contract
National Test Pilot School	1,235,216	Rotary wing test pilot	Vendor-controlled contract
National Test Pilot School	643,889	Rotary wing test pilot	Vendor-controlled contract
Foreign Military Sales contract	32,798,948	Provision of training through United States Government	Vendor-controlled contract
US Treasury, New York	159,299	Acquisition and cross-servicing agreement	Vendor-controlled contract
US Department of Defense	1,496,585	Sustainment	Memorandum of understanding
US Department of Defense	333,759	Sustainment	Memorandum of understanding
Harvard University	107,339	Training	Vendor-controlled contract
Total for the Army	38,872,180		
Capability Acquisition and Sustainment Group			
Foreign Military Sales contract	3,129,158	Light weapons and ammunition	Vendor-controlled contract
Foreign Military Sales contract	935,113	Light weapons and ammunition	Vendor-controlled contract
Foreign Military Sales contract	6,601,456	Sustainment services	Vendor-controlled contract
Foreign Military Sales contract	1,434,805	Personal protective equipment	Vendor-controlled contract
Foreign Military Sales contract	493,780	Engineering design and concept analysis	Vendor-controlled contract
Foreign Military Sales contract	278,406	Light weapons and ammunition	Vendor-controlled contract
Foreign Military Sales contract	287,348	Light weapons and ammunition	Vendor-controlled contract
Foreign Military Sales contract	32,420,182	Light weapons and ammunition	Vendor-controlled contract
Foreign Military Sales contract	132,173	Light weapons and ammunition	Vendor-controlled contract
Foreign Military Sales contract	629,754	Software maintenance and support	Vendor-controlled contract
Foreign Military Sales contract	220,722	Aircraft support	Vendor-controlled contract
Foreign Military Sales contract	22,245,119	Acquisition of video data link capability	Vendor-controlled contract
Foreign Military Sales contract	610,350,130	Procure special military equipment	Vendor-controlled contract
Foreign Military Sales contract	811,333	Inert warheads and fin assemblies	Vendor-controlled contract
Foreign Military Sales contract	126,069,548	70 radio frequency	Vendor-controlled contract
Foreign Military Sales contract	2,995,557	Light weapons and ammunition	Vendor-controlled contract
Foreign Military Sales contract	186,647,365	Acquisition of specialist military equipment	Vendor-controlled contract
Foreign Military Sales contract	24,756,411	Professional engineering services	Vendor-controlled contract
Foreign Military Sales contract	13,025,069	Anti-radiation missile support	Vendor-controlled contract
Foreign Military Sales contract	1,800,443	Sustainment support	Vendor-controlled contract
Foreign Military Sales contract	5,268,000	Technical and engineering support	Vendor-controlled contract
Foreign Military Sales contract	9,315,163	Support for explosive ordnance	Vendor-controlled contract
Foreign Military Sales contract	3,305,995	Technical assistance	Vendor-controlled contract
Foreign Military Sales contract	65,677,000	Spares and repairs	Vendor-controlled contract
Foreign Military Sales contract	1,282,815	Crypto equipment	Vendor-controlled contract
Foreign Military Sales contract	98,595,561	Wideband satellite communications	Vendor-controlled contract
Total for Capability Acquisition and Sustainment Group	1,218,708,405		

Note: Figures are GST inclusive.

1. Defence uses 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 of Foreign Military Sales contracts do not contain ANAO access provisions.

Appendix B: Supplementary online material

Supplementary performance information for 2016–17 is available on the Defence website, as listed below. All supplementary information can be found at www.defence.gov.au/annualreports/16-17 unless otherwise indicated.

Reports

Inspector-General of the Australian Defence Force Annual Report 2016–17 (available at www.defence.gov.au/mjs/reports.asp)

Women in the ADF Report 2016–17 (available from December 2017)

Sexual Misconduct Prevention and Response Office Supplementary Report 2016–17

Acquisition, sustainment, and facilities and infrastructure information

Web Table B.1: Top 30 sustainment products by expenditure, 2016–17

Web Table B.2: Top 30 acquisition projects by expenditure, 2016–17

Web Table B.3: Top 30 acquisition projects by expenditure, variations, 2016–17

Web Table B.4: Current status of previously reported top 30 acquisition projects (projects reported in the last five financial years)

Web Table B.5: Major acquisition projects closed in 2016–17

Web Table B.6: New major acquisition projects approved by Government in 2016–17

Web Table B.7: Top 10 minor acquisition projects, 2016–17

Web Table B.8: Minor acquisition projects closed in 2016–17

Web Table B.9: New minor acquisition projects approved by Government in 2016–17

Web Table B.10: Major capital investment projects approved and announced by Government in 2016–17

Web Table B.11: Approved facilities and infrastructure projects, expenditure by state/territory and federal electorate

Web Table B.12: Performance of capital facilities projects, 2016–17

Web Table B.13: Status of capital facilities projects for approval by Government and consideration by the Parliamentary Standing Committee on Public Works in 2017–18

Web Table B.14: Major Defence establishments and bases

Appendix C: List of requirements

Appendix C contains a list of annual report requirements prepared in accordance with paragraph 17AJ(d) of the *Public Governance, Performance and Accountability Rule 2014* (PGPA Rule). Page references for Defence's compliance with these requirements are provided in the right-hand column of Table C.1.

Table C.1: List of requirements

PGPA Rule reference	Description	Requirement	Page number
17AD(g)	Letter of transmittal		
17AI	A copy of the letter of transmittal signed and dated by the accountable authority on date final text approved, with statement that the report has been prepared in accordance with section 46 of the PGPA Act and any enabling legislation that specifies additional requirements in relation to the annual report	Mandatory	v
17AD(h)	Aids to access		
17AJ(a)	Table of contents	Mandatory	vii
17AJ(b)	Alphabetical index	Mandatory	236–243
17AJ(c)	Glossary of abbreviations and acronyms	Mandatory	233
17AJ(d)	List of requirements	Mandatory	229–231
17AJ(e)	Details of contact officer	Mandatory	237
17AJ(f)	Entity's website address	Mandatory	237
17AJ(g)	Electronic address of report	Mandatory	237
17AD(a)	Review by accountable authority		
17AD(a)	A review by the accountable authority of the entity	Mandatory	2–4
17AD(b)	Overview of the entity		
17AE(1)(a)(i)	A description of the role and functions of the entity	Mandatory	10
17AE(1)(a)(ii)	A description of the organisational structure of the entity	Mandatory	14
17AE(1)(a)(iii)	A description of the outcomes and programs administered by the entity	Mandatory	13
17AE(1)(a)(iv)	A description of the purposes of the entity as included in the corporate plan	Mandatory	22–23
17AE(1)(b)	An outline of the structure of the portfolio of the entity	Portfolio departments—mandatory	11
17AE(2)	Where the outcomes and programs administered by the entity differ from any Portfolio Budget Statements, Portfolio Additional Estimates Statements or other portfolio estimates statement that was prepared for the entity for the period, include details of variation and reasons for change	If applicable, mandatory	13
17AD(c)	Report on the performance of the entity		
	Annual performance statements		
17AD(c)(i); 16F	Annual performance statements in accordance with paragraph 39(1)(b) of the PGPA Act and section 16F of the PGPA Rule	Mandatory	22–46
17AD(c)(ii)	Report on financial performance		
17AF(1)(a)	A discussion and analysis of the entity's financial performance	Mandatory	50–57
17AF(1)(b)	A table summarising the total resources and total payments of the entity	Mandatory	50
17AF(2)	If there may be significant changes in the financial results during or after the previous or current reporting period, information on those changes, including the cause of any operating loss of the entity; how the entity has responded to the loss and the actions that have been taken in relation to the loss; and any matter or circumstances that it can reasonably be anticipated will have a significant impact on the entity's future operation or financial results	If applicable, mandatory	N/A
17AD(d)	Management and accountability		
	Corporate governance		
17AG(2)(a)	Information on compliance with section 10 of the PGPA Rule (fraud systems)	Mandatory	v
17AG(2)(b)(i)	A certification by the accountable authority that fraud risk assessments and fraud control plans have been prepared	Mandatory	v
17AG(2)(b)(ii)	A certification by the accountable authority that appropriate mechanisms for preventing, detecting incidents of, investigating or otherwise dealing with, and recording or reporting fraud that meet the specific needs of the entity are in place	Mandatory	v

PGPA Rule reference	Description	Requirement	Page number
17AG(2)(b)(iii)	A certification by the accountable authority that all reasonable measures have been taken to deal appropriately with fraud relating to the entity	Mandatory	v
17AG(2)(c)	An outline of structures and processes in place for the entity to implement principles and objectives of corporate governance	Mandatory	60–70
17AG(2)(d)–(e)	A statement of significant issues reported to the Minister under paragraph 19(1)(e) of the PGPA Act that relates to noncompliance with the finance law and action taken to remedy noncompliance	If applicable, mandatory	69
External scrutiny			
17AG(3)	Information on the most significant developments in external scrutiny and the entity's response to the scrutiny	Mandatory	72–76
17AG(3)(a)	Information on judicial decisions and decisions of administrative tribunals and by the Australian Information Commissioner that may have a significant effect on the operations of the entity	If applicable, mandatory	75
17AG(3)(b)	Information on any reports on operations of the entity by the Auditor-General (other than the report under section 43 of the PGPA Act), a parliamentary committee, or the Commonwealth Ombudsman	If applicable, mandatory	76
17AG(3)(c)	Information on any capability reviews on the entity that were released during the period	If applicable, mandatory	76
Management of human resources			
17AG(4)(a)	An assessment of the entity's effectiveness in managing and developing employees to achieve entity objectives	Mandatory	101
17AG(4)(b)	Statistics on the entity's APS employees on an ongoing and non-ongoing basis, with statistics on: <ul style="list-style-type: none"> • staffing classification level • full-time employees • part-time employees • gender • staff location • employees who identify as Indigenous 	Mandatory	86–91, 111–112
17AG(4)(c)	Information on any enterprise agreements, individual flexibility arrangements, Australian workplace agreements, common law contracts and determinations under subsection 24(1) of the <i>Public Service Act 1999</i>	Mandatory	99
17AG(4)(c)(i)	Information on the number of SES and non-SES employees covered by agreements, etc., identified in paragraph 17AG(4)(c) of the PGPA Rule	Mandatory	99
17AG(4)(c)(ii)	The salary ranges available for APS employees by classification level	Mandatory	100
17AG(4)(c)(iii)	A description of non-salary benefits provided to employees	Mandatory	100
17AG(4)(d)(i)	Information on the number of employees at each classification level who received performance pay	If applicable, mandatory	101–102
17AG(4)(d)(ii)	Information on aggregate amounts of performance pay at each classification level	If applicable, mandatory	101–102
17AG(4)(d)(iii)	Information on the average amount of performance payment, and range of such payments, at each classification level	If applicable, mandatory	101–102
17AG(4)(d)(iv)	Information on the aggregate amount of performance payments	If applicable, mandatory	101–102
Asset management			
17AG(5)	An assessment of effectiveness of asset management where asset management is a significant part of the entity's activities	If applicable, mandatory	120
Purchasing			
17AG(6)	An assessment of entity performance against the Commonwealth Procurement Rules	Mandatory	120

PGPA Rule reference	Description	Requirement	Page number
Consultants			
17AG(7)(a)	A summary statement detailing the number of new contracts engaging consultants entered into during the period; the total actual expenditure on all new consultancy contracts entered into during the period (inclusive of GST); the number of ongoing consultancy contracts that were entered into during a previous reporting period; and the total actual expenditure in the reporting year on the ongoing consultancy contracts (inclusive of GST)	Mandatory	226
17AG(7)(b)	A statement that <i>'During [reporting period], [specified number] new consultancy contracts were entered into involving total actual expenditure of \$[specified million]. In addition, [specified number] ongoing consultancy contracts were active during the period, involving total actual expenditure of \$[specified million].'</i>	Mandatory	226
17AG(7)(c)	A summary of the policies and procedures for selecting and engaging consultants and the main categories of purposes for which consultants were selected and engaged	Mandatory	226
17AG(7)(d)	A statement that <i>'Annual reports contain information about actual expenditure on contracts for consultancies. Information on the value of contracts and consultancies is available on the AusTender website.'</i>	Mandatory	226
Australian National Audit Office access clauses			
17AG(8)	If an entity entered into a contract with a value of more than \$100,000 (inclusive of GST) and the contract did not provide the Auditor-General with access to the contractor's premises, the report must include the name of the contractor, purpose and value of the contract, and the reason why a clause allowing access was not included in the contract	If applicable, mandatory	226–227
Exempt contracts			
17AG(9)	If an entity entered into a contract or there is a standing offer with a value greater than \$10,000 (inclusive of GST) which has been exempted from being published on AusTender because it would disclose exempt matters under the FOI Act, the annual report must include a statement that the contract or standing offer has been exempted, and the value of the contract or standing offer, to the extent that doing so does not disclose the exempt matters	If applicable, mandatory	77
Small business			
17AG(10)(a)	A statement that <i>'[Name of entity] supports small business participation in the Commonwealth Government procurement market. Small and medium-sized enterprise and small enterprise participation statistics are available on the Department of Finance's website.'</i>	Mandatory	120
17AG(10)(b)	An outline of the ways in which the procurement practices of the entity support small and medium-sized enterprises	Mandatory	120–121
17AG(10)(c)	If the entity is considered by the department administered by the Finance Minister as material in nature—a statement that <i>'[Name of entity] recognises the importance of ensuring that small businesses are paid on time. The results of the survey of Australian Government payments to small business are available on the Treasury's website.'</i>	If applicable, mandatory	120
Financial statements			
17AD(e)	Inclusion of the annual financial statements in accordance with subsection 43(4) of the PGPA Act	Mandatory	146–223
17AD(f) Other mandatory information			
17AH(1)(a)(i)	If the entity conducted advertising campaigns, a statement that <i>'During [reporting period], the [name of entity] conducted the following advertising campaigns: [names of advertising campaigns undertaken]. Further information on those advertising campaigns is available at [address of entity's website] and in the reports on Australian Government advertising prepared by the Department of Finance. Those reports are available on the Department of Finance's website.'</i>	If applicable, mandatory	139
17AH(1)(a)(ii)	If the entity did not conduct advertising campaigns, a statement to that effect	If applicable, mandatory	N/A
17AH(1)(b)	A statement that <i>'Information on grants awarded by [name of entity] during [reporting period] is available at [address of entity's website].'</i>	If applicable, mandatory	138
17AH(1)(c)	Outline of mechanisms of disability reporting, including reference to website for further information	Mandatory	115
17AH(1)(d)	Website reference to where the entity's Information Publication Scheme statement pursuant to Part II of FOI Act can be found	Mandatory	77
17AH(1)(e)	Correction of material errors in previous annual report	If applicable, mandatory	142
17AH(2)	Information required by other legislation	Mandatory	92–94, 102–104, 130–132, 139–141

Royal Australian Navy Clearance Diver Lieutenant Robert Kelly carries explosive remnants of war from the ocean to a collection on the beach at Hells Point during Operation Render Safe 2016 in the Solomon Islands.



Abbreviations and acronyms

AACAP	Army Aboriginal Community Assistance Program
AAD	Australian Antarctic Division
ACSC	Australian Cyber Security Centre
ADF	Australian Defence Force
AIHW	Australian Institute of Health and Welfare
ANAO	Australian National Audit Office
APS	Australian Public Service
ASD	Australian Signals Directorate
AWC	Australian Wildlife Conservancy
CDF	Chief of the Defence Force
DCP	Defence Cooperation Program
DHA	Defence Housing Australia
DVA	Department of Veterans' Affairs
EPBC Act	<i>Environment Protection and Biodiversity Conservation Act 1999</i>
FOI Act	<i>Freedom of Information Act 1982</i>
FTE	full-time equivalent
GDP	gross domestic product
GST	goods and services tax
HMAS	Her Majesty's Australian Ship
HMPNGS	Her Majesty's Papua New Guinea Ship
ICT	information and communications technology
IED	improvised explosive device
IGADF	Inspector-General of the Australian Defence Force
IIP	Integrated Investment Program
JCPAA	Joint Committee of Public Accounts and Audit
JP	joint project
MRCA	<i>Military Rehabilitation and Compensation Act 2004</i>
MRH	multi-role helicopter
NAIDOC	National Aborigines and Islanders Day Observance Committee
NATO	North Atlantic Treaty Organization
PAES	Portfolio Additional Estimates Statements
PBS	Portfolio Budget Statements
PFAS	per- and polyfluorinated alkyl substances
PGPA Act	<i>Public Governance, Performance and Accountability Act 2013</i>
PGPA Rule	<i>Public Governance, Performance and Accountability Rule 2014</i>
PNG	Papua New Guinea
PTSD	post-traumatic stress disorder
RAAF	Royal Australian Air Force
SeMPRO	Sexual Misconduct Prevention and Response Office
SES	Senior Executive Service
STEM	science, technology, engineering and mathematics
WPS	Women, Peace and Security
1JPAU	First Joint Public Affairs Unit

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