



Australian Government
Department of Defence

ANNUAL
REPORT
17-18

AGENCY COLLABORATION | REGIONAL
NEIGHBOURHOOD | CAPABILITY | ADVICE
GIVING | INTERNATIONAL PARTNERSHIPS
COOPERATION | ALLIES | PARTNERS
INTEGRITY | ADVICE | BUILDING | SHARED
LEADERSHIP | INTERNATIONAL PARTNERSHIPS



Australian Government
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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 the Government.

Purposes

In the *2017–18 Defence Corporate Plan* the Defence purposes were revised from three to two core outcomes that Defence delivers to the Government and the Australian community:

1. Defend Australia and its national interests
2. Protect and advance Australia's strategic interests.

Defence's performance in achieving its purposes during the 2017–18 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) 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.

These values are also reflected in the One Defence Leadership Behaviours, which help to embed an organisational culture where leadership, professionalism and corporate behaviour are valued and rewarded. The One Defence Leadership Behaviours underpin all decisions and actions of Defence personnel. They are:

- Contributor
- Learner
- Accountable
- Risk Manager
- Inclusive
- Team Builder
- Innovator.

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 nearer region, encompassing maritime South-East Asia and the South Pacific
- a stable Indo-Pacific region and rules-based global order.

The First Principles Review, which commenced in 2014, aims to ensure that Defence will remain fit for purpose and able to promptly respond to future challenges. The review report, *First Principles Review: Creating One Defence* (2014), made 75 recommendations that will ensure Defence is fit for purpose and can deliver against the Government's strategy. The majority of the recommendations are now closed (71 of 75 as at June 2018). Defence continues to focus on embedding the changes to create a more unified and integrated organisation, more consistently linked to its strategy and clearly led by its centre.

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.

As at 30 June 2018, the Defence portfolio consisted of:

- ## Responsible ministers

- Senator the Hon Marise Payne as Minister for Defence
- the Hon Christopher Pyne MP as Minister for Defence Industry
- the Hon Darren Chester MP as Minister for Defence Personnel, Minister for Veterans' Affairs, and Minister Assisting the Prime Minister for the Centenary of ANZAC.

As at 30 June 2018, the Defence departmental net cash spend was \$34.9 billion. More information about Defence funding can be found in Chapter 4, 'Financial performance'.

As at 30 June 2018, the ADF actual strength was 58,363 members, and the APS actual full-time equivalent workforce was 17,728. More information can be found in Chapter 7, 'Strategic workforce management'.

Defence has the most 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.

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About this report

This is the Secretary of Defence and Chief of the Defence Force's performance report to the Minister for Defence, the Parliament of Australia and the Australian public for the 2017–18 financial year. The report addresses the purposes and outcomes of the Department of Defence, including the Australian Defence Force—collectively known as Defence.

The report relates to Defence's performance for the period 1 July 2017 to 30 June 2018 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. Appendix C of this report identifies for the reader where required information may be found.

Defence actively engages with, and incorporates feedback from, the Department of Finance, the Australian National Audit Office, the Joint Standing Committee on Public Accounts and Audit and annual reviews by the Joint Standing Committee on Foreign Affairs, Defence and Trade in pursuit of best-practice corporate governance. As a result, the 2018–19 planning and reporting cycle will see greater alignment of performance criteria and targets in Defence's key planning documents: the Corporate Plan and the Portfolio Budget Statements. This alignment will allow Defence to provide a clearer assessment of how we have succeeded in achieving our purposes, representing a significant step forward in maturing Defence's planning and reporting processes.

Annual performance statements

As required under the *Public Governance, Performance and Accountability Act 2013*, this report contains Defence's annual performance statements for 2017–18 (see Chapter 3). The annual performance statements detail results achieved against planned performance criteria set out in the *2017–18 Defence Corporate Plan*, the *Portfolio Budget Statements 2017–18* and the *Portfolio Additional Estimates Statements 2017–18*.

The performance criteria were assessed as follows:

- Achieved—the intended result was achieved as planned.
- Partially achieved—the intended result was not fully achieved during the reporting period.

For operational reasons, and because much of Defence's work is classified, there are some activities that cannot be reported on publicly. Wherever possible, when activities are no longer sensitive or constrained by legal or statutory requirements, Defence is 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 via the Defence website. Appendix B of this report lists the supplementary information that is available.



Australian Government
Department of Defence

The Hon Christopher Pyne MP
Minister for Defence
Parliament House
Canberra ACT 2600

Dear Minister,

We present the Defence Annual Report 2017–18 for the year ended 30 June 2018. 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 provided to the responsible Minister for presentation to the Parliament.

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

Greg Moriarty
Secretary
2 October 2018

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

Angus J Campbell, AO, DSC
General
Chief of the Defence Force
2 October 2018

cc The Hon Steven Ciobo MP, The Hon Darren Chester MP



Recruit Raelene Pearson celebrates graduating from the Indigenous Pre-Recruitment Program.

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A RAAF C-17A Globemaster arrives at RAAF Base Edinburgh.





REVIEWS BY THE SECRETARY AND CHIEF OF THE DEFENCE FORCE

1



HMAS *Adelaide* utilises one of her MRH-90 helicopters at sunset to transfer supplies and stores to nearby HMAS *Toowoomba*, as a means to support and replenish ships at sea.

Secretary's review

Defence has had a successful year in 2017–18, with some significant achievements based on a trio of key pillars: transformational reform; an ongoing commitment to building our capability; and aligned strategic policy supported by international engagement. These achievements could not have occurred without the expertise, passion and perseverance of our people. Our workforce, with its unique civilian and military components, will continue to strive for a truly united One Defence.

Over the past 12 months, Defence has had a clear focus on reform. We have made strong progress, particularly in implementing the majority of recommendations of the First Principles Review. Rather than resting on these laurels, our challenge now is to take the next step: to manage holistic reform and continual improvement through a One Defence approach, to deliver better business outcomes across the whole of Defence and real change for all our people.

We must also continue our cultural reform. I want Defence employees to work in an environment where leaders are accountable for a positive culture of collegiality and mutual respect. Defence leaders must therefore clearly promote and embody the behaviours we expect in such an environment. We must call out and deal with behaviour that does not meet these standards.

As always, consistency and professionalism are key.

Three years on from the launch of the First Principles Review, I am pleased to say that we have completed 71 of the 75 recommendations and implemented significant changes to ensure we operate as a strategic, effective and efficient organisation. Reform is a multi-faceted, gradual process that takes hard work. It is a cause I believe in deeply, and an endeavour that I will pursue continually.

Diversity of our workforce is another area of good achievement over the last 12 months. The overall diversity of our Australian Public Service (APS) workforce in Defence has continued to increase, with the number of women in the APS increasing from 41.8 to 42.4 per cent. The number of women in Executive Level positions increased by 266 from 7,698 to 7,964. For the Senior Executive Service (and equivalent), the number of women increased by four from 44 to 48. We have also seen an increase in the number of APS Indigenous staff, increasing from 2 to 2.2 per cent. Results were similarly encouraging for those within the Australian Defence Force (ADF).

The number of women on Defence boards increased by 5.6 per cent to 45.8 per cent. This improvement has been supported through implementation of the *Defence women on Boards Action Plan 2017–19*, which is designed to meet the Government's gender diversity target on boards of 50 per cent.

As well as building a strong and positive Defence culture, we are committed to strengthening our military and intelligence capabilities through the acquisition and sustainment of major assets. This commitment was a major element of the Australian Government's 2016 Defence White Paper. It is an ambitious, but critical undertaking. This year, we have made significant steps on key capability deliverables including the *Hunter* class Future Frigates, Land Combat Vehicle System, Offshore Patrol Vessels, and the critical infrastructure and other enabling capabilities needed to operate and sustain our evolving capabilities.

The Naval Shipbuilding Plan is a national enterprise, the likes of which we have not embarked on before. We are growing the skills of our own people and developing a variety of trusted partnerships with industry that Defence has not had before. Success will see the significant strategic, economic and employment advantages to Australia that a national naval shipbuilding and sustainment capability can bring.



Mr Greg Moriarty, Secretary of Defence.

The first Defence Industry and Innovation Programs Update Report was released in May 2018. The Next Generation Technologies Fund, focused on the priority areas identified in the Defence White Paper, received more than 800 proposals and is funding collaborations with more than 40 companies, universities and publicly-funded research organisations. The Centre for Defence Industry Capability supports Australian businesses entering or working in the defence industry. The Centre's adviser network has assisted over 750 businesses, three quarters of which are working with us for the first time.

Defence has continued its commitment to ensuring regional and global stability and security through international collaboration. On 20 July 2018, the then Minister for Defence, Senator the Hon Marise Payne, participated in the 10th annual Australia-United Kingdom Ministerial Consultations held in Edinburgh, Scotland. Ministers committed to strengthening the dynamic Australia-UK partnership for the 21st Century, including intensifying efforts to strengthen international rules and norms.

2018 marked the 100th anniversary of Australian and United States (US) forces fighting alongside each other at the Battle of Hamel. Minister Payne led a Defence delegation to Palo Alto, California, in July for the Australia US Ministerial Consultations, the principal forum for our bilateral discussions with the US. Security and bilateral defence and intelligence cooperation under our enduring Australia-US Alliance are as important today as when the ANZUS Treaty was signed back in 1951. Accordingly, Ministers affirmed our two countries' commitment to work side-by-side as part of the global coalition against terrorism, and continue a deep commitment to the security, stability and prosperity of the Indo-Pacific region, including through supporting strong regional organisations.

The Defence Counter-Terrorism Review, announced by the Prime Minister in July 2017, made recommendations to review Part IIIA of the *Defence Act (1903)*. Defence conducted this work in 2017-18 and, in July 2018, a number of changes were tabled in the Parliament that would make it simpler for states and territories to request ADF support and strengthen the ADF's ability to respond to a range of threats across multiple jurisdictions.

Through 2017-18 Defence worked hard to support the establishment of an independent Australian Signals Directorate as a statutory agency on 1 July 2018. The Directorate will remain in the Defence portfolio and the Department of Defence will continue to support and collaborate on matters of cyber security and intelligence.

Defence has made some great progress in the past year, and I thank all Defence people for their dedication and commitment. There is always more to do and I look forward to working with the recently appointed Chief of the Defence Force, General Angus Campbell, AO, DSC, and the entire Defence team to anticipate and meet the challenges of the next year.

Greg Moriarty

Secretary of Defence.

Chief of the Defence Force's review

In 2018, Australian Defence Force (ADF) personnel past and present commemorated 100 years since the Second Battle of Villers-Bretonneux in World War I; the 75th anniversary of the Battle of Milne Bay in World War II; the 50th anniversary of the Battle of Coral–Balmoral in Vietnam; and 25 years since our peacekeeping deployment to Somalia. Together, these historic events provide a snapshot of Australian military operations over the past century. While the nature of operations and technology has evolved, our people remain committed to the tenets of courage, sacrifice, endurance and mateship.

Those traits were evident in the ADF's work at home and abroad over the past year. Whether responding with humanitarian aid, as we did following the Papua New Guinea earthquake and Tropical Cyclone Gita in Tonga, or supporting the Iraqi Security Forces as they fought to reclaim their country from Daesh and liberate millions of civilians, the ADF has continued to demonstrate skill, professionalism and dedication to service.

Over the past 12 months, the ADF has achieved significant results in challenging and often dangerous tasks. As part of Operation OKRA, the Australian Air Task Group successfully completed its strike mission in Iraq and Syria, allowing our F/A-18 Hornets to return home in January. However, the end of air combat operations does not signal the end of Operation OKRA. Other elements of the Air Task Group continue to support coalition air operations against the remnants of Daesh.

Like the Air Task Group, our Special Forces personnel provided critical battlefield assistance to Iraq's Counter Terrorism Service—particularly during key battles in Mosul, Fallujah, Ramadi and Tal Afar. Members of Australia's Special Operations Task Group coordinated air support and administered life-saving medical treatment to wounded Iraqi soldiers.

The combined Australian–New Zealand Task Group Taji—our combined military training force—also proved successful over the past year, reaching a significant milestone in 2018. By the end of Rotation 6, the Building Partner Capacity Mission had trained a total of over 34,500 Iraqis, who remain the primary force to combat any terrorist resurgence.

Like our work in Iraq, throughout 2017–18 the ADF's contribution in Afghanistan focused on training, advising and assisting the national defence and security forces to defend their country in the face of terrorism and other destabilising influences. The fragile security situation in Afghanistan was further complicated by the growing fight for dominance between the Taliban and Islamic State Khorosan Province. Despite some setbacks, the Afghan National Defense and Security Forces kept the provincial capitals safe under government control over the past 12 months. With the help of the North Atlantic Treaty Organisation-led Resolute Support Mission, they also protected key military and civilian infrastructure.

The ADF's contribution to the global fight against terrorism includes support to the Armed Forces of the Philippines. Following an initial deployment of two AP-3C Orions to assist with surveillance and intelligence gathering, ADF land, air and maritime teams have participated in peer-to-peer engagement activities. All three peer engagement elements proved highly effective and were well received by over 4,400 Armed Forces of the Philippines personnel who completed these activities.

Our work with the Armed Forces of the Philippines highlights the ADF's deliberate, coordinated approach to regional security. The deployment of a P-8A Poseidon maritime patrol aircraft and support personnel as part of an international contingent enforcing United Nations Security Council resolutions is another example. Our contribution alongside our international partners as part of a coordinated effort to maintain economic and diplomatic pressure on North Korea demonstrates the ADF's ongoing commitment to tangible and meaningful engagement in our region.

In late 2017, the ADF embarked on its largest task group deployment in almost 40 years. Embarked in six ships, the 1,300-strong Joint Task Group Indo-Pacific Endeavour 2017 led a range of regional engagement activities over 11 weeks designed to promote security and stability. The second iteration, Indo-Pacific Endeavour 2018,



General Angus J Campbell, AO, DSC,
Chief of the Defence Force.

commenced in May 2018 with four ships and around 1,000 personnel participating in planning and training activities with partner nations in the south west Pacific.

The scale of Indo-Pacific Endeavour was only surpassed by Exercise TALISMAN SABER in 2017. The Australian–United States exercise included around 33,000 participants and more than 220 aircraft and 36 ships. One of the key serials was the successful combined amphibious assault involving Australian, United States and New Zealand forces, which was observed by representatives from over 24 countries.

Despite our extensive overseas commitments, the ADF remains ready to respond at home. When Tropical Cyclone Marcus struck Darwin in March 2018, the locally based 1st Brigade was quick to help with the clean-up. At its peak, Joint Task Force 659 included 800 Navy, Army and Air Force personnel working to remove debris and to repair schools and public buildings. The ADF contingent was complemented by around 50 United States Marines who had recently arrived in Darwin as part of the Marine Rotational Force.

Included high on the list of ADF achievements in 2017–18 was the HMAS *Warramunga* crew's completion of one of the most successful Middle East deployments on record. During their nine-month deployment, from October 2017 to July 2018, *Warramunga*'s crew intercepted, seized and destroyed approximately 31.8 tonnes of hashish and approximately two tonnes of heroin, valued at around \$2.17 billion Australian. The C-130 Hercules marked 15 years of operations in the Middle East region, achieving 98 per cent mission success, while the P-8A Poseidon maritime patrol aircraft joined our border protection patrols under Operation RESOLUTE.

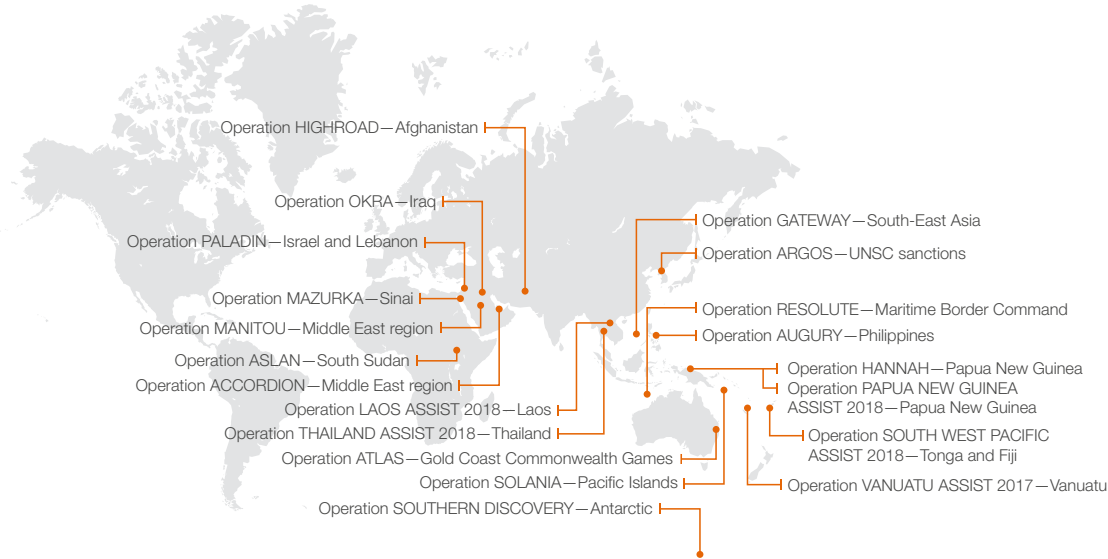
None of this work has detracted from our sustained commitment to ongoing reform. The newly released Defence Mental Health and Wellbeing Strategy 2018–2023 includes Defence civilian employees for the first time, and the second iteration of the Pathway to Change cultural reform program was released following extensive consultation across all levels of the organisation. That this work has continued while the ADF exceeds expectations on operations is a testament to the leadership of former Chief of the Defence Force, Air Chief Marshal Mark Binskin, and Vice Chief of the Defence Force, Vice Admiral Ray Griggs.

On 6 July 2018 I was honoured to accept leadership of the ADF as the Chief of the Defence Force. This is a great organisation filled with people who every day do extraordinary things in the defence of our nation and its interests. We have an outstanding leadership team and together with the Secretary, we look forward to working together to keep Defence moving forward.

Angus J Campbell, AO, DSC

General
Chief of the Defence Force

Figure 1.1: ADF operations during 2017–18





An Australian Army Taipan MRH-90 multi-role helicopter flies over Surfers Paradise during preparations for the 2018 Gold Coast Commonwealth Games in Queensland.

Operation ATLAS—ADF support to the Gold Coast 2018 Commonwealth Games

The 21st Commonwealth Games was held from 4–15 April 2018 on the Gold Coast in Queensland, with some events in Brisbane, Cairns and Townsville. The 2018 Commonwealth Games was the largest event staged in Australia in a decade: more than 6600 athletes and team officials from 70 nations and territories came to the games to compete.

In March 2018, under Operation ATLAS, Joint Task Force 637 was established and assisted Queensland authorities in ensuring the security of the 2018 Commonwealth Games. Operation ATLAS was one of Defence's largest contributions to a whole-of-government security operation in Australia since the G20 Leader's Summit in 2014.

The Joint Task Force was comprised of full-time and reserve Navy, Army and Air Force personnel, from across a number of disciplines and areas of Defence. Joint Task Force 637 provided key capabilities such as Army Engineers and Navy Clearance

Divers; MRH-90 Taipan helicopters; and a mobile information and communication technology system that enhanced command and control across all elements of the Joint Task Force.

Army Aviation's MRH-90 Taipan helicopters were an important element in the assistance to the Queensland Police Service for the Games given that the Gold Coast and Brisbane's road network was put under strain from the thousands of additional visitors to the city. The Air Force also provided an Air Task Group, comprising predominately F/A-18F Super Hornet aircraft. The Air Task Group provided airspace security for key events throughout the Games. Headquarters Special Operations Command was also prepared to provide specialist counter-terrorist capabilities if called upon.

Security operations in support of the Games reinforced the interoperability of government agencies at both the state and federal level. ADF personnel, the Australian Federal Police and Queensland Police performed well together, creating and reinforcing relationships while making important contributions to a safe, secure and enjoyable Games.



DEPARTMENTAL
OVERVIEW

2

Purposes

The *Public Governance, Performance and Accountability Act 2013* (PGPA Act) defines ‘purposes’ 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 the Government.

In the *2017–18 Defence Corporate Plan*, the Defence purposes were revised from three in the previous year’s plan to two core outcomes:

- Defend Australia and its national interests.
- Protect and advance Australia’s strategic interests.

Further information on the two Defence purposes is in the *2017–18 Defence Corporate Plan*. Defence’s performance in achieving its purposes during the 2017–18 reporting period is described in Chapter 3 of this report, ‘Annual performance statements’.

Strategic direction

The Government expects Defence to be able to defend Australia and its national interests, play an active role in contributing to regional security and stability, and contribute to coalition operations around the world where our interests are engaged. To deliver on these requirements, we are building a unified and integrated One Defence organisation, led by a strong strategic centre. Continued focus on improvement and implementation of the four remaining recommendations of the First Principles Review will continue into 2018–19.

The 2016 Defence White Paper 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; a stable Indo-Pacific region; and a rules-based global order that supports our interests. To secure these interests, Australia must 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 continued to 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 gross domestic product by 2020–21.

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

Defence portfolio structure

As at 30 June 2018, 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 Darren Chester MP as Minister for Defence Personnel, Minister for Veterans' Affairs, and Minister Assisting the Prime Minister for the Centenary of ANZAC.

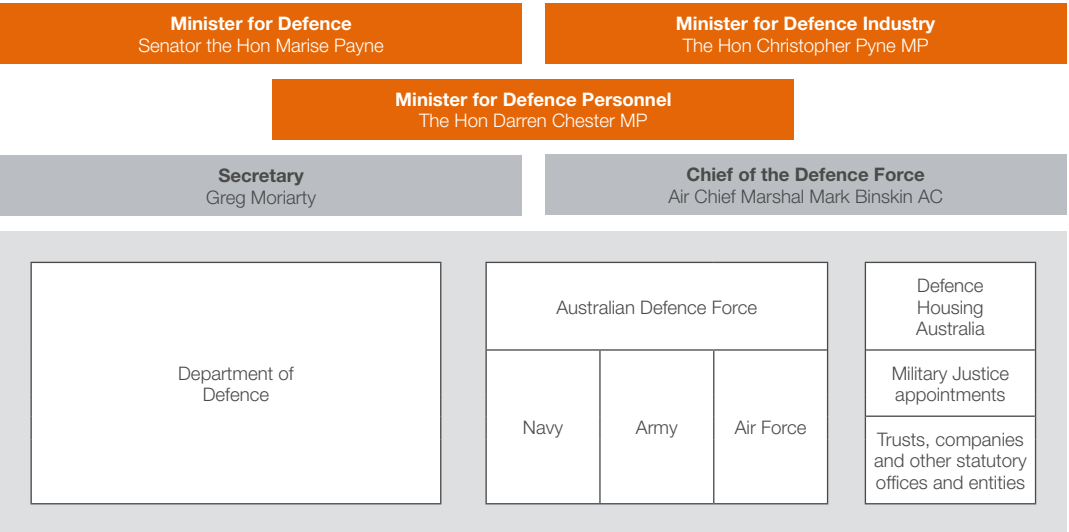
Defence is established as a Department of State under the Administrative Arrangements Order. The Department of Defence operates under the *Public Service Act 1999* and is a non-corporate Commonwealth entity under the PGPA Act. The ADF is constituted through the *Defence Act 1903*.

In addition to the Department of Defence and the ADF, the Defence portfolio comprises other entities including Defence Housing Australia, the Australian Defence Force Cadets, and a number of statutory offices, canteens, trusts and companies.

Legislation that establishes these entities includes the *Defence Housing Australia Act 1987*, the *Defence Act 1903*, the *Army and Air Force (Canteen) Regulation 2016*, the *Navy (Canteen) Regulation 2016*, the *Services Trust Funds Act 1947*, the *Royal Australian Air Force Veterans' Residences Act 1953*, and 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: Defence portfolio structure as at 30 June 2018



Note: The Department of Veterans' Affairs is not included in Figure 2.1.

Changes in ministerial responsibilities

Following the Prime Minister's announcement of changes to the ministry on 19 December 2017, the Hon Michael McCormack MP was sworn in as the Minister for Defence Personnel on 20 December 2017, replacing the Hon Dan Tehan MP.

The Hon Darren Chester MP was sworn in as Minister for Defence Personnel on 5 March 2018, replacing the Hon Michael McCormack MP.

Senator the Hon Marise Payne continued as the Minister for Defence, and the Hon Christopher Pyne MP continued as the Minister for Defence Industry.

Inaugural Sub-Regional Defence Ministers' Meeting on Counter-Terrorism

The inaugural Sub-Regional Defence Ministers' Meeting on Counter-Terrorism was held in Perth on 1–2 February 2018. An Australian initiative originally proposed by then-Minister for Defence, Senator the Hon Marise Payne, this meeting sought to address the threat posed by regional terrorism, highlighted by the 2017 terrorist seizure of Marawi, in the Philippines.

Reflecting the urgency of the issue for the region, Defence Ministers and senior representatives from Australia, Brunei, Indonesia, Malaysia, the Philippines, Singapore, and Thailand all participated. Ministers shared assessments of counter-terrorist trends and challenges, and exchanged lessons learned on operational methods used in both the Middle East and the southern Philippines.

The meeting also included a Special Forces demonstration, highlighting Australia's capability to assist in any response to future terrorist incidents.

Ministers reaffirmed their commitment to work together in the fight against terrorism, and agreed on the importance of improving information sharing on regional terrorist threats. Ministers also agreed to various practical outcomes, including:

- for regional armed forces to share more lessons learned from recent operations, principally inside existing exercises and activities;
- a new defence-led, terrorism-focused, working-level intelligence analytics exchange; and
- to explore opportunities to enhance regional defence cooperation on maritime counter-terrorism.

By leading this inaugural Sub-Regional Defence Ministers' Meeting on Counter-Terrorism, Australia demonstrated its commitment to the region as a genuine, reliable, and long-term partner of choice in regional counter-terrorism efforts.

Outcomes and programs

Defence's annual Portfolio Budget Statements 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 two outcomes for 2017–18, together with the related programs. The Portfolio Budget Statements 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, 2017–18

Purpose	Outcome Statement	Budget Program
Purpose 1: Defend Australia and its national interests.	Outcome 1: Defend Australia and its national interests through the conduct of operations and provision of support for the Australian community and civilian authorities in accordance with Government direction.	1.1 Operations Contributing to the Safety of the Immediate Neighbourhood
		1.2 Operations Supporting Wider Interests
		1.3 Defence Contribution to National Support Tasks in Australia
Purpose 2: Protect and advance Australia's strategic interests.	Outcome 2: Protect and advance Australia's strategic interests through the provision of strategic policy, the development, delivery and sustainment of military, intelligence and enabling capabilities, and the promotion of regional and global security and stability as directed by Government.	Departmental
		2.1 Strategic Policy and Intelligence
		2.2 Defence Executive Support
		2.3 Chief Finance Officer
		2.4 Joint Capabilities
		2.5 Navy Capabilities
		2.6 Army Capabilities
		2.7 Air Force Capabilities
		2.8 ADF Headquarters
		2.9 Capability Acquisition and Sustainment
		2.10 Estate and Infrastructure
		2.11 Chief Information Officer
		2.12 Defence People
		2.13 Defence Science and Technology
		Administered
		2.14 Defence Force Superannuation Benefits
		2.15 Defence Force Superannuation Nominal Interest
		2.16 Housing Assistance
		2.17 Other Administered

Note: Portfolio Budget Statement programs mapped to Defence Purposes and Outcomes for 2017-18. This table reflects the information as per the *Portfolio Additional Estimates Statements 2017–18*.

Organisational structure

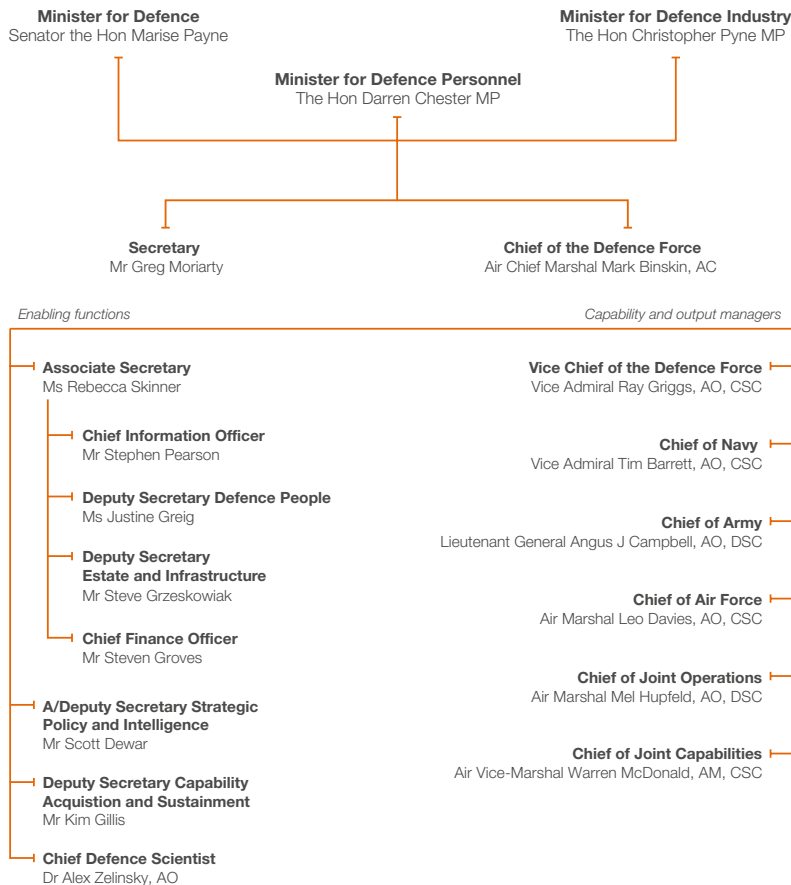
The Secretary of the Department of Defence and the Chief of the Defence Force jointly manage the organisation as a diarchy. The term ‘diarchy’ reflects the individual and shared responsibilities and accountabilities of the Secretary and the Chief of the Defence Force in ensuring that Defence meets Australian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

As a result of the implementation of the First Principles Review, there have been changes to the accountabilities, structures, systems and processes that build and operate the required organisational capacity. The First Principles Review 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 2018.

Figure 2.3: Defence organisational structure as at 30 June 2018



Note: This organisational chart is correct as at 30 June 2018. 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 leadership occurred during 2017–18:

- On 1 July 2017, Air Vice-Marshal Warren McDonald was appointed as the inaugural Chief of Joint Capabilities.
- On 23 August 2017, Dr Peter Lawrence, the previous Chief Information Officer, resigned.
- On 23 August 2017, Mr Aiyaswami Mohan commenced acting as the Chief Information Officer.
- On 28 October 2017, Ms Rebecca Skinner commenced acting as the Associate Secretary.
- On 28 October 2017, Mr Marc Ablong commenced acting as the Deputy Secretary Strategic Policy and Intelligence.
- On 2 November 2017, Mr Stephen Johnson commenced acting as the Enterprise Director Naval Shipbuilding in the Capability Acquisition and Sustainment Group.
- On 20 November 2017, Ms Angela Diamond commenced acting as the Chief Finance Officer.
- On 4 January 2018, Mr Michael Burgess was appointed as the Director-General Australian Signals Director designate in the Strategic Policy and Intelligence Group.
- On 19 January 2018, Mr Phillip Prior, the previous Chief Finance Officer, retired from the Australian Public Service.
- On 1 February 2018, Mr Stephen Pearson was engaged as the Chief Information Officer.
- On 1 March 2018, Lieutenant General John Frewen was appointed as the Principal Deputy Director-General, Australian Signals Directorate designate, within the Strategic Policy and Intelligence Group.
- On 5 March 2018, Ms Roxanne Kelley, the previous Deputy Secretary Defence People, transferred to the Department of Social Services.
- On 5 March 2018, Mr Richard Oliver commenced acting as the Deputy Secretary Defence People.
- On 6 March 2018, Mr Brendan Sargeant, the previous Associate Secretary, retired from the Australian Public Service.
- On 3 April 2018, Mr Scott Dewar commenced acting as the Deputy Secretary Strategic Policy and Intelligence.
- On 3 May 2018, Mr Simeon Gilding was appointed as the Deputy Secretary Signals Intelligence & Network Operations in the Strategic Policy and Intelligence Group.
- On 21 May 2018, Mr Steven Groves was appointed as the Chief Finance Officer.
- On 25 May 2018, Air Marshal Mel Hupfeld was appointed as the Chief of Joint Operations.
- On 28 June 2018, Ms Justine Greig was appointed as the Deputy Secretary Defence People.

Financial summary

Defence has a sound financial position, with sufficient cash reserves and future appropriations to fund its debts as and when they fall due. Defence's departmental net cash spend was \$34.9 billion in 2017–18. This was an underspend of \$26.2 million when compared to the revised estimate in the *Defence Portfolio Budget Statements 2018–19*, excluding expenditure on operations funded on a No Win, No Loss basis.

Defence received an unqualified audit report on the 2017–18 Financial Statements from the Australian National Audit Office. These statements are in Chapter 11, 'Financial statements'.

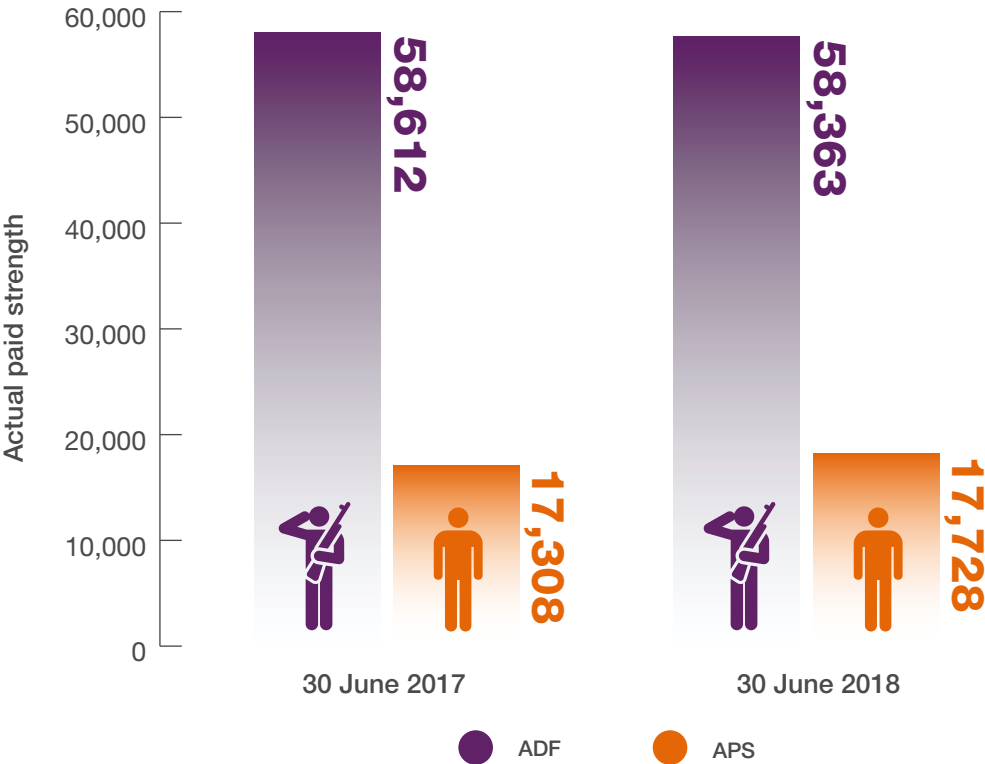
See Chapter 4, 'Financial performance', for a financial overview of 2017–18.

People summary


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

Figure 2.4 shows the ADF's actual funded strength at 30 June 2018 was 58,363, compared with 58,612 at 30 June 2017. The actual full-time equivalent APS workforce at 30 June 2018 was 17,728, compared with 17,308 at 30 June 2017.

Figure 2.4: **ADF and APS comparative funded strength for 2016–17 and 2017–18.**



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

A photograph of Judy Swann, Director Pacific Island Maritime Security, speaking at a podium during a conference. She is wearing a dark jacket and glasses. In the background, a large audience of men in white uniforms is seated at long tables, listening to her address.

Director Pacific Island Maritime Security, Judy Swann delivers an address at the annual Maritime Surveillance Adviser/Technical Adviser conference at the Rex Hotel in Canberra.

Pacific Maritime Security Program

As highlighted in the 2016 Defence White Paper, Australia has an enduring interest in the stability and security of the South West Pacific. Defence's longstanding engagement in the region focuses on supporting our Pacific Island neighbours protect their security and sovereignty.

This support continued to grow in 2017 as Australia implemented the second component of the region-wide Pacific Maritime Security Program. The program is a *\$2 billion* commitment to the region over the next 30 years, and consists of three components: Pacific Patrol Boat replacement, integrated regional aerial surveillance, and efforts to strengthen regional coordination.

The Pacific Maritime Security Program is the successor to the original Pacific Patrol Boat Program, which saw Australia gift vessels to Pacific Island countries between 1987 and 1997. These vessels, which are packaged with long-term Australian sustainment, training, infrastructure, and advisory support, are now approaching the end of

their serviceable life. Defence will progressively replace these with 19 larger and more capable Guardian-class Patrol Boats, to be gifted to 12 Pacific Island countries from late 2018–23. Two further vessels will be gifted to Timor-Leste in 2023.

The second component of the Pacific Maritime Security Program commenced in financial year 2017–18: region-wide civilian contracted aerial surveillance. This contracted fixed wing capability is supporting targeted, intelligence-driven maritime patrols, enhancing the capacity of our Pacific Island neighbours to locate and stop illegal activity within their Exclusive Economic Zones and adjacent high seas.

The Pacific Maritime Security Program has continued enhancing Pacific Island countries' capacity to effectively collect, analyse, manage, and share maritime security information – internally, with neighbours, and with the region. Defence has stepped up its support for regional countries to conduct cooperation patrols, and has enhanced the capability of regional maritime coordination centres through new equipment.



Member of 7th Combat Brigade in front of an M1A1 Abrams during Exercise Diamond Run 2017 at Shoalwater Bay Training Area, Queensland.



ANNUAL
PERFORMANCE
STATEMENTS

3



Statement of preparation

I, as the accountable authority of the Department of Defence, present the 2017–18 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 Defence
27 September 2018

The annual performance statements for 2017–18 provide an assessment of Defence's performance in achieving our purposes by reporting on the performance measures and criteria set out in the *2017–18 Defence Corporate Plan* and the performance criteria listed in the *Portfolio Budget Statements 2017–18* (PBS) and the *Portfolio Additional Estimates Statements 2017–18* (PAES).

For 2017–18, the purposes are directly aligned to the Defence outcomes in the Portfolio Budget Statements. This is part of a program of work to align the Portfolio Budget Statements and the Defence Corporate Plan.

To enhance readability of the annual performance statements, the performance measures and criteria are organised around the two purposes described in the *2017–18 Defence Corporate Plan*:

Purpose 1:	Defend Australia and its national interests.
Purpose 2:	Protect and advance Australia's strategic interests.

Outcome statements describe what the Government requires Defence to achieve using resources allocated through the Commonwealth budget process. In 2017–18 Defence had two Outcome statements:

Outcome 1:	Defend Australia and its national interests through the conduct of operations and provision of support for the Australian community and civilian authorities in accordance with Government direction.
Outcome 2:	Protect and advance Australia's strategic interests through the provision of strategic policy, the development, delivery and sustainment of military, intelligence and enabling capabilities, and the promotion of regional and global security and stability as directed by Government.

The purpose of the Defence enterprise performance management architecture is to ensure alignment between Government direction, strategy, funding and capability, such that the purposes of Defence are achieved.

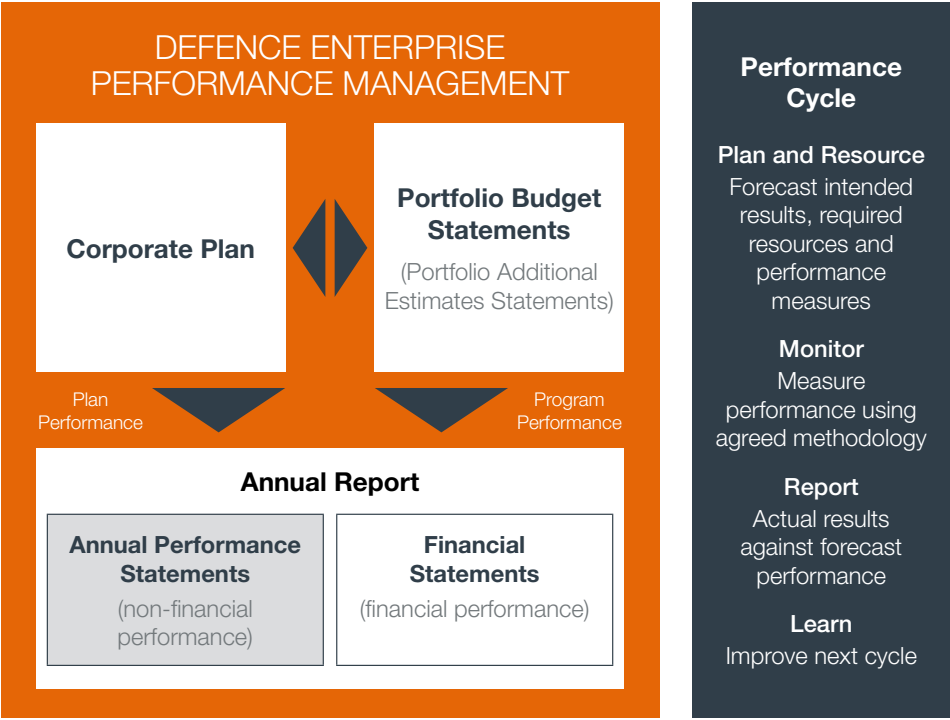
In line with the Enhanced Commonwealth Performance Framework, the Defence enterprise performance management architecture aims to provide a clear line of sight between:

- Corporate Plan (purposes, activities and intended results)
- Portfolio Budget Statements (allocation of resources to Programs to achieve Government outcomes and a forecast of expected performance)
- Annual performance statements within Defence's Annual Report (actual performance results for the financial year against the Corporate Plan and the Portfolio Budget Statements)
- The Defence Financial Statements (Chapter 11).

Defence is continuing to mature the architecture and the mechanisms which will further enable improved traceability in demonstrating the achievement of Government outcomes in accordance with the requirements of the PGPA Act.

Figure 3.1 demonstrates the relationship of the annual performance statements within Defence enterprise performance management.

Figure 3.1: Defence enterprise performance management



Defence's annual performance statements provide an assessment of actual performance of results in achieving each Defence purpose. This includes analysis against each performance criterion, using the key:

- Achieved—the intended result was achieved as planned
- Partially achieved—the intended result was not fully achieved during the reporting period.

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

Analysis of performance against Purpose 1: Defend Australia and its national interests

Defence achieved Purpose 1 in 2017–18. In accordance with the Chief of the Defence Force Preparedness Directive, the Government deployed Australian Defence Force (ADF) capabilities to meet requirements of Government policy. The ADF conducted operations and provided support within Australia and our immediate neighbourhood; and globally promoted stability, integrity and cohesion.

Defence engaged across a range of Commonwealth departments and agencies to support operations in Australia's immediate neighbourhood and achieve whole-of-government outcomes. For example, Defence is contributing to Operation SOLANIA, which focuses on maritime surveillance within the Pacific region, while Operation AUGURY — Philippines is enhancing shared understanding of experiences and approaches to countering complex urban terrorist tactics. Additionally, in 2017 Defence conducted its first 'Indo-Pacific Endeavour' — a major maritime activity designed to promote security and stability in Australia's near neighbourhood. The first iteration transited a range of South-East Asian nations from September to November 2017. The second iteration, which commenced in June 2018, focused on the South-West Pacific. As part of this activity, ADF personnel worked alongside partner security forces to support the development of regional maritime security capacity; and humanitarian assistance and disaster relief capabilities.

Throughout 2017–18 Defence also provided assistance to a number of regional humanitarian assistance and disaster relief efforts, including those in response to Tropical Cyclone Gita in Tonga and the 7.5 magnitude earthquake that struck the Highlands in Papua New Guinea. Regional activities such as these, complemented by increased investment in the internationally focused Defence Cooperation Program, further bolster Defence's ability to work jointly with regional partners in pursuit of Australia's national security interests.

Contributing to stable, rules-based global security is one of Australia's national objectives. Defence collaborated with partners on the global stage to address issues such as engagement in the Middle East and counter-terrorism. Operation MANITOU supports international efforts to promote maritime security, stability and prosperity in the Middle East region. As part of Operation MANITOU, HMAS *Warramunga's* seizures totalled approximately 26 tonnes of hashish and approximately two tonnes of heroin between December 2017 and May 2018.

Through Operation OKRA, the ADF collaborated closely with the Iraqi government, Gulf nations and international partners to combat the Daesh terrorist threat in Iraq and Syria. ADF personnel provided military advice and assistance to the Counter-Terrorism Service of the Iraqi Security Forces, supported international efforts to train and build the capacity of the regular Iraqi Security Forces and operated within the United States-led international coalition assembled to disrupt and degrade Daesh.

Through Operation HIGHROAD, the ADF has directly contributed to the North Atlantic Treaty Organization led Resolute Support Mission to train, advise and assist the Afghan National Defense and Security Forces as part of Australia's commitment to a stable and secure Afghanistan. ADF personnel provided military advice and training to the Afghan Air Force, Afghan Special Security Forces and the Kabul Garrison Command. ADF personnel provided instruction and education to Afghan trainees at the Afghan National Army's Officer, Command and Staff and Sergeants Major Academies, to support the longer-term growth and development of the Afghan National Defense and Security Forces.

Defence intelligence agencies delivered timely assessments, signals intelligence and accurate intelligence services against the National Intelligence Priorities. This included geospatial intelligence and hydrographic outputs to support military operations and domestic and regional security priorities of the Australian Government.

Defence planned and participated in a range of national support tasks in 2017–18, including securing the Australian coastline, counter-terrorism responses, search and rescue, humanitarian assistance and disaster relief. Joint Task

Force 659, comprising up to 800 ADF personnel, supported the clean-up in Darwin after Tropical Cyclone Marcus on 17 March 2018—the largest response to a natural disaster in the Northern Territory for more than 30 years. In April 2018, more than 1,000 personnel from Navy, Army and Air Force worked collaboratively with the Queensland Police Service to provide additional security for the Gold Coast 2018 Commonwealth Games.

Defence is leading the Government's priority agenda for the creation of a national continuous naval shipbuilding enterprise, as outlined in the *2017 Naval Shipbuilding Plan*. The continuous naval shipbuilding will be founded on four key programs: Future Submarine; Pacific Patrol Boat; Offshore Patrol Vessel; and Future Frigate. Delivering the Government's agenda will require an unprecedented level of coordination, with a focus on maximising the benefits for Australia. Defence continues to have extensive whole-of-government collaboration, mapping the complex interdependencies between relevant portfolios, to better leverage existing Government programs and resources.

Defence continues to ensure that the Defence estate is fit-for-purpose with the expansion of the Shoalwater Bay Training Area and the establishment of a training area in northern Queensland as part of the Australia–Singapore Military Training Initiative.



Purpose 1: Defend Australia and its national interests.	
Outcome 1: Defend Australia and its national interests through the conduct of operations and provision of support for the Australian community and civilian authorities in accordance with Government direction.	
Measure	1.i. Required preparedness levels are achieved.
Methodology	Assessment of preparedness against the Chief of the Defence Force Preparedness Directive.
Source	Corporate Plan, p 11
Results	Achieved. The ADF's preparedness to meet Government direction, in accordance with the Chief of the Defence Force Preparedness Directive, has been achieved. The Services delivered specific capabilities within directed preparedness time frames while supporting multiple joint operations throughout 2017–18. The enabling support of Groups enhanced the sustainment and monitoring of ADF preparedness.
Measure	1.ii. Operational outcomes meet the requirements of Government policy.
Methodology	Assessment of operational deployments against operational outcomes agreed with Government.
Source	Corporate Plan, p 11
Results	Achieved. Defence operations and activities were successfully planned and executed as directed by the Government. Government directed operational outcomes actively promote regional stability, integrity and cohesion and contribute to United Nations and international efforts to uphold global security. Defence collaborated with other departments and agencies to manage short-notice issues, like humanitarian assistance, to longer-term complex issues, like defeating terrorism, to future operations requiring Government consideration.
Measure	1.iii. State/Territory and inter-agency cooperation enables Defence to contribute effectively to whole-of-Government outcomes, in accordance with Government direction.
Methodology	Assessment of inter-agency engagement against whole-of-Government outcomes agreed with Government.
Source	Corporate Plan, p 11
Results	Achieved. Defence has contributed effectively to whole-of-government outcomes throughout 2017–18 by working collaboratively with other government departments and agencies at state, territory and Commonwealth level. Defence policy advice on national security issues is rigorously contested through a wide range of policy and capability stakeholders across national security agencies. In partnership with the Department of the Prime Minister and Cabinet, Defence has established a range of committees with stakeholders across the Commonwealth, industry and state and territory governments. This whole-of-government collaboration is integral to harness critical advice and expertise for the delivery of naval shipbuilding outcomes.
Intended result	Government is able to deploy Defence capability to support Government policy objectives.
Performance criteria	Chief of the Defence Force preparedness levels meet Government requirements.
Target	Chief of the Defence Force preparedness levels are achieved as agreed with Government.
Source	PAES 2017–18 Program 2.8: Australian Defence Force Headquarters, p 45; Corporate Plan, p 12
Results	Achieved. The achievement of the Chief of the Defence Force's prescribed preparedness levels resulted in ADF performance that enabled the Government to deploy Defence capabilities to support Government policy objectives.

Intended result	Defence intelligence services enable efficient operations across national security agencies.
Performance criteria	Defence intelligence outputs align with Government intelligence priorities.
Target	Whole-of-government and Australian Defence Force intelligence requirements are met.
Source	PBS 2017–18 Program 2.1: Strategic Policy and Intelligence, p 50; PAES 2017–18, p 35; Corporate Plan, p 12
Result	<p>Achieved. The Defence intelligence agencies delivered timely and accurate intelligence services against the National Intelligence Priorities to Defence and whole-of-government stakeholders. This included maintaining a watch function to ensure continuous 24/7 situational awareness for the ADF.</p> <p>The Defence Intelligence Organisation has provided strategic-level intelligence assessment to support to ADF operations, Defence and whole-of-government policy and decision-making, and capability development.</p> <p>The Australian Signals Directorate's intelligence production has aligned with Government's intelligence priorities.</p> <p>The Australian Geospatial-Intelligence Organisation met whole-of-government and ADF intelligence requirements through the provision of intelligence and operational support. This included timely and accurate geospatial intelligence and hydrographic outputs in support to military operations and domestic and regional security priorities and an evolving geospatial intelligence capability to support a broad range of Australian Government customers.</p>

Intended result	Joint forces are able to be deployed and sustained efficiently and effectively, and in accordance with Government time frames.
Performance criteria	Operational outcomes meet the requirements of Government policy.
Target	All operational requirements are met.
Source	PAES 2017–18 Program 2.8: Australian Defence Force Headquarters, p 45; Corporate Plan, p 12
Result	<p>Achieved. Defence operations and activities were conducted successfully in accordance with direction from the Government by ensuring joint forces were operationally ready.</p> <p>Defence provided timely and accurate advice to Government on operations and military commitments through multiple ministerial submissions, Cabinet submissions, Estimates briefs and personal ministerial briefings.</p>

Intended result	The generation and sustainment of the Australian Defence Force are enabled by a fit-for-purpose estate.
Performance criteria	The estate meets the requirements of the Capability Managers.
Target	The Defence Estate Strategy implementation plan is delivered as agreed.
Source	PBS 2017–18 Program 2.10: Estate and Infrastructure, p 72; PAES 2017–18, p 48; Corporate Plan, p 12
Result	<p>Achieved. Implementation of the Defence Estate Strategy 2016–2036 is in its second year. The following outcomes were achieved in 2017–18:</p> <ul style="list-style-type: none"> • The Estate and Infrastructure Capital Investment Program is now fully integrated into Defence's Integrated Investment Program. • The purchase of land from willing sellers is contributing to the expansion of the Shoalwater Bay Training Area and establishment of a new military training area in northern Queensland as part of the Australia–Singapore Military Training Initiative.

Performance criteria	Operational outcomes meet the requirements of Government policy.
Target	All operational requirements are met.
Source	PBS 2017–18 Program 1.1: Operations Contributing to the Safety of the Immediate Neighbourhood, p 36; PAES 2017–18, p 29
Results	<p>Achieved. Defence operations and activities were successfully planned and executed as directed by the Government.</p> <p>Defence provided advice to the Government on ADF operations and activities that actively promote regional stability, integrity and cohesion.</p> <p>Defence collaborated with other departments and agencies to manage operations in Australia's immediate neighbourhood with Indonesia, New Zealand, Papua New Guinea, Timor-Leste, South-East Asian countries and the island countries of the South-West Pacific.</p>

Performance criteria	Operational outcomes meet the requirements of Government policy.
Target	All operational requirements are met.
Source	PBS 2017–18 Program 1.2: Operations Supporting Wider Interests, p 38; PAES 2017–18, p 30
Results	<p>Achieved. Defence provided advice to Government on upholding global security through operations and activities in support of international efforts.</p> <p>Defence collaborated with other departments and agencies on short-notice and longer-term complex issues requiring Government consideration.</p> <p>Government relies on accurate and timely advice about operations and activities. Regular feedback from ministerial staff indicates satisfaction with the level of support provided.</p>

Performance criteria	Operational outcomes meet the requirements of Government policy.
Target	All operational requirements are met.
Source	PBS 2017–18 Program 1.3: Defence Contribution to National Support Tasks in Australia, p 40; PAES 2017–18, p 31
Results	<p>Achieved. Defence advised on and supported whole-of-government operations and activities, including providing security to Australia's approaches, ensuring a national response to terrorism, planning and executing search and rescue activities and providing humanitarian assistance and disaster relief.</p> <p>Key to this was Defence's engagement with the Department of Home Affairs (formerly the Department of Immigration and Border Protection) civil surveillance program and Maritime Border Command.</p> <p>Defence support following Tropical Cyclone Marcus in Darwin and the Gold Coast Commonwealth Games are important examples of contributions to national support tasks through the Defence Assistance to the Civil Community program.</p>

A Royal Australian Air Force F/A-18F Super Hornet aircraft refuels from a United States Air Force KC-10 Tanker aircraft over the skies of the Middle East, during an Operation OKRA mission.



ADF contributes to the defeat of Daesh in Iraq

The liberation of Iraq from Daesh in December 2017 followed a sustained Iraqi and Global Coalition campaign spanning more than three years. Australia contributed to the Iraqi Security Forces' success by supporting their campaign through direct air support, advice and assistance, and training Iraqi Army and law enforcement units.

Operation OKRA was Australia's commitment to the US-led Combined Joint Task Force—Operation Inherent Resolve, a global coalition committed to eliminating the terrorist group Daesh. The ADF contribution to this operation included an Air Task Group, Task Group Taji, Special Operations Task Group and ADF personnel embedded with coalition forces.

Task Group Taji trained more than 35,000 Iraqi Security Forces, working with them before and after each offensive, helping the Iraqis prepare for the next battle and apply the lessons learned from the last. The Australian-trained Iraqi Security Forces made a vital contribution to the decisive operations in Mosul, the Euphrates River Valley, Fallujah, and Ramadi.

Special Operations Task Group personnel trained, advised and assisted the Iraqi Counter Terrorism

Service as it fought the battle for Mosul, including ADF combat medics treating and evacuating wounded members of the Counter Terrorism Service and Iraqi Security Forces. Overhead, the Air Task Group maintained close air support, destroying Daesh targets and protecting Iraqi forces.

The Air Task Group, initially comprising F/A-18 Hornets, an E-7A Wedgetail and KC-30A multi-role tanker transport aircraft, deployed at short notice in October 2014.

The F/A-18 Hornet and Super Hornet aircraft flew around 2,800 sorties releasing 2,395 precision guided munitions during their three-year deployment. In January 2018, Australia's remaining Super Hornets returned home, marking the end of Australia's successful air strike operations in Iraq and Syria. Australia's E-7A Wedgetail and KC-30A tanker aircraft continue to support counter-Daesh Coalition operations on a rotational basis.

Australia remains committed to training and assisting the Iraqi Security Forces to ensure that Iraq consolidates the gains made against Daesh for a secure and safe future for all Iraqis.

Analysis of performance against Purpose 2: Protect and advance Australia's strategic interests

Defence achieved Purpose 2 in 2017–18. Defence is continuing to ensure that Government direction on strategy is implemented across the enterprise. This includes an annual review of Defence's classified strategy document—the Defence Planning Guidance—so that the organisation is positioned to meet the strategic objectives set by the Government and is effectively pursuing Australia's interests in a more competitive and contested world.

The Defence Strategic Workforce Plan continued to be implemented, achieving 94 per cent of recruiting targets for permanent ADF personnel and 84 per cent for reserve personnel. All ADF services achieved Government preparedness targets in force generation and sustainment. Workforce diversity profiles improved during the reporting period, with notable improvements in the representation of women and Indigenous Australians in the ADF and APS. Defence's updated cultural reform initiative, *Pathway to Change: Evolving Defence Culture 2017–22*, was launched in November 2017, demonstrating Defence's continued commitment to improving and reinforcing a positive culture within Defence.

Defence's corporate enabling services, including estate and infrastructure support, health support and logistics and information technology, continued to implement service delivery reforms in line with the recommendations of the 2015 First Principles Review. The Customer Satisfaction Survey, measuring customer experience and satisfaction, has been improving throughout the implementation of the First Principles Review. Defence's military enabling services continued to integrate and mature Defence's joint capability, ensuring that preparedness levels were achieved. Notably, the Defence Fuel Transformation Program was endorsed in May 2018, and Joint Health Command implemented a new occupational rehabilitation service delivery system and periodic mental health screening for ADF personnel.

Defence has continued to deliver the Integrated Investment Program through 2017–18, with the Government approving a total of \$21 billion of capital investment across major equipment, facilities, infrastructure, information and communications technology, and science and technology. Permanent participation in the Investment Committee by the Department of the Prime Minister and Cabinet and the Department of Finance has strengthened Defence's capability submissions to Government. Defence managed 198 active major and minor capital equipment projects worth \$103.5 billion with a 2017–18 budget of \$6.9 billion. During this period Defence also managed 111 active Material Sustainment Agreement Product Schedules with an annual budget of \$5.6 billion. Twenty-five Major Acquisition Projects were closed in this period, with a total budget of 0.9 per cent less than that approved by the Government.

Defence has also matured its relationship with industry, bringing the Centre for Defence Industry Capability and Defence Innovation Hub completely online and releasing the Defence Industrial Capability Plan and Defence Export Strategy in the first half of 2018. The Next Generation Technologies Fund has enabled better collaboration with industry, Australian and international universities and publicly funded research agencies, accelerating the development of new technologies and new capability.

Defence supported ADF members and veterans through the provision of financial assistance, family support programs, transition services and bereavement services, with strong inter-agency engagement with Defence Housing Australia and the Department of Veterans' Affairs. The Defence Home Ownership Assistance Scheme panel, administered by the Department of Veterans' Affairs, continued to provide competitive financial support for loans, which have been taken up by a high number of ADF personnel. Defence increased its engagement and information exchange with the Department of Veterans' Affairs, ensuring greater support to ADF members and veterans by both agencies. ADF Transition Support Services continued to transform from an administrative service to one of coaching and mentoring, focusing on tailored transition plans to better prepare ADF members and their families for civilian life.

Purpose 2: Protect and advance Australia's strategic interests.

Outcome 2: Protect and advance Australia's strategic interests through the provision of strategic policy, the development, delivery and sustainment of military, intelligence and enabling capabilities, and the promotion of regional and global security and stability as directed by Government.

Measure	2.i. Government has confidence in the relevance and quality of Defence advice.
Methodology	Bi-annual survey of the relevant ministers and the central agencies.
Source	Corporate Plan, p 13
Results	<p>Achieved. Defence has provided high-quality advice over the reporting period to inform ministers' consideration of a wide range of complex national security issues and continued efforts to implement the guidance of the 2016 Defence White Paper. This has included provision of over 3,000 individual pieces of advice and approval of over 100 submissions for major capability decisions.</p> <p>Implementation of new tools during the reporting period to manage and track Defence's advice to ministers also helped deliver improvements in the timeliness of information flows.</p> <p>Defence is further strengthening coordination with ministers and their staff to improve feedback on the Department's advice. This includes through ministers' participation in bi-annual iterations of the Defence Committee as a means to shape and integrate Defence's strategic and policy advice to the Government. Implementation of stronger consultation with stakeholders across Government in shaping policy and investment options has also enhanced the relevance and quality of Defence's advice.</p>

Measure	2.ii. Government is assured that Defence advice has been appropriately contested.
Methodology	Bi-annual survey of the relevant Ministers and the central agencies.
Source	Corporate Plan, p 13
Results	<p>Achieved. Defence continues to provide high-quality, accurate and timely policy advice to the Government on Defence strategy, capability and resourcing to shape Australia's strategic environment.</p> <p>Defence policy advice on national security issues is rigorously contested through a wide range of policy and capability stakeholders within Defence and across national security agencies, including principally through rolling review of the classified Defence Planning Guidance.</p> <p>The Contestability Division provides a source of independent assurance to the Vice Chief of the Defence Force as chair of the Investment Committee, the Secretary and Chief of the Defence Force, the central agencies, the ministers and the Government that Defence's capability needs and requirements are aligned with strategy and resources and can be delivered in accordance with Government direction.</p> <p>The Contestability Division has contributed to a marked improvement in the early engagement between the departments of Defence, the Prime Minister and Cabinet and Finance. In 2017 central agencies advised that, since the creation of the function, there had been significant improvements in early engagement and relationships and more relevant dialogue provided by the Contestability Division on complex capability issues for the Investment Committee.</p>

Measure	2.iii. The capability delivery process maintains the integrity of the Integrated Investment Program and delivers the required capability for the force-in-being.
Methodology	Assessment of delivery against the Integrated Investment Program.
Source	Corporate Plan, p 13
Results	<p>Achieved. Defence has continued to deliver the Integrated Investment Program through the \$200 billion recapitalisation of ADF capability outlined in the 2016 Defence White Paper.</p> <p>During 2017–18, the Government approved 111 capability-related submissions for major equipment, facilities and infrastructure, information and communications technology and science technology. This comprised of 21 ‘First Pass’ approvals, 35 ‘Second Pass’ approvals and 55 ‘Other Pass’ approvals.</p> <p>Significant Government announcements included:</p> <ul style="list-style-type: none"> • Second Pass approval for the Future Frigate program (approximately \$35 billion capital) • Other Pass approval for Future Submarine Design and Construction (approximately \$700 million capital) • Second Pass approval for Combat Reconnaissance Vehicles (approximately \$5.2 billion capital).

Measure	2.iv. Defence capability is sustained consistent with Government requirements.
Methodology	Sustainment meets capability manager requirements.
Source	PBS 2017–18 Program 2.9: Capability Acquisition and Sustainment, p 70; PAES 2017–18, p 47; Corporate Plan, p 13
Results	<p>Achieved. As at 30 June 2018, Defence was managing 111 active product lines with an annual budget of \$5.6 billion. Availability and cost performance targets were consistently achieved in support of the Capability Manager meeting preparedness and operational outcomes through sustainment of military equipment. Of the 111 sustainment products managed, nine products (or 8.1 per cent) experienced issues with availability and cost that were significant enough to be identified as Products of Interest.</p>

Measure	2.v. International and inter-agency cooperation enables Defence to shape the international security environment, in accordance with Government direction.
Methodology	Assessment of delivery against the Defence International Engagement Strategy.
Source	Corporate Plan, p 14
Results	<p>Achieved. Defence has engaged effectively through international and inter-agency cooperation. Defence and whole-of-government outcomes have been achieved through effective delivery of the Defence International Engagement Policy. Bilateral and multilateral relationships have been strengthened throughout 2017–18, and Australia’s position as a strong alliance partner has been reinforced.</p>

Measure	2.vi. The Integrated Investment Program is managed effectively and comprises all investment and sustainment inputs, incorporating the Fundamental Inputs to Capability.
Methodology	<ol style="list-style-type: none"> 1. Regular independent assurance of the Defence capability development process by the Defence Audit and Risk Committee. 2. Regular reviews of the Integrated Investment Program in consultation with the Minister and central agencies.
Source	Corporate Plan, p 14
Results	<p>Achieved. The Integrated Investment Program is reviewed bi-annually and Defence uses this to report performance to the Government on the progress of capability delivery and seek agreement to any statement variations required to maintain alignment between Defence strategy, capability and funding. Three updates have been presented to the Government since the 2016 Defence White Paper.</p> <p>Considerable consultation, both internally to Defence and externally with central agencies and the offices of the Minister for Defence and the Minister for Defence Industry, is conducted throughout the Bi-Annual Update process.</p> <p>Defence conducted seven internal audits that addressed elements of the Integrated Investment Program.</p>

Measure	2.vii. Emerging science and technology is used to support development of best value capability.
Methodology	Regular assessment of how Defence's strategic research builds understanding of future Defence capability.
Source	Corporate Plan, p 14
Results	<p>Achieved. Defence has continued to use science and technology to inform the Integrated Investment Program, the Naval Shipbuilding Plan and the Defence Capability Assessment Program to advance capability.</p> <p>The Next Generation Technologies Fund research frameworks have been established, enabling new approaches to collaboration to accelerate the development of future Defence capability. The Defence Innovation Hub and the Centre for Defence Industry Capability demonstrate Defence's continuing commitment to enhance capability.</p> <p>Defence has strengthened its strategic research and development alliances with industry, academia and other publicly funded research agencies. Internationally, Defence has cultivated deeper relationships with our five eyes¹ partners and is building cooperative relationships with counterpart science and technology agencies across the region.</p> <p>¹ Five eyes nations include Australia, the United States, the United Kingdom, Canada and New Zealand.</p>

Measure	2.viii. Defence capability development leverages industry to promote innovation.
Methodology	Regular assessment of the value of Defence engagement with industry.
Source	Corporate Plan, p 14
Results	<p>Achieved. Defence capability is enhanced through engagement with industry and through a strategy-led approach to Defence innovation working with Australian industry and research organisations.</p> <p>Defence has also advanced the key policy deliverables to give effect to the long-term objectives of defence industry policy to meet Defence's capability needs.</p> <p>The Defence Innovation Hub has made significant progress in the reporting period. It will invest approximately \$640 million over the decade to 2025–26 in maturing and further developing technologies and promoting innovative solutions to Defence capability challenges.</p>

Intended result	The Minister receives policy advice that supports effective decision-making.
Performance criteria	Government has confidence in the relevance and quality of Defence policy advice.
Target	Minister expresses high to very high confidence in Defence advice.
Source	PBS 2017–18 Program 2.1: Strategic Policy and Intelligence, p 50; PAES 2017–18, p 35; Corporate Plan, p 14
Result	<p>Achieved. Defence has provided high-quality advice over the reporting period to inform ministers' consideration of a wide range of complex national security issues, and continued efforts to implement the guidance of the 2016 Defence White Paper. This has included provision of over 3,000 individual pieces of advice and approval of over 100 submissions for major capability decisions.</p> <p>Implementation of new tools during the reporting period to manage and track Defence's advice to ministers also helped deliver improvements in the timeliness of information flows.</p> <p>Defence is further strengthening coordination with ministers and their staff to improve feedback on the Department's advice. This includes through ministers' participation in bi-annual iterations of the Defence Committee as a means to shape and integrate Defence's strategic and policy advice to the Government. Implementation of stronger consultation with stakeholders across Government in shaping policy and investment options has also enhanced the relevance and quality of Defence's advice.</p>

Intended result	Defence strengthens its engagement on policy development with other national security participants and other relevant parties.
Performance criteria	Proposals presented to Government for decision incorporate all relevant considerations.
Target	Stakeholders express high confidence in Defence engagement.
Source	PBS 2017–18 Program 2.1: Strategic Policy and Intelligence, p 50; PAES 2017–18, p 35; Corporate Plan, p 14
Result	<p>Achieved. Defence continues to strengthen its engagement on policy development with other national security departments and agencies in the development of Cabinet submissions and other proposals through several collaborative measures, including:</p> <ul style="list-style-type: none"> ongoing engagement with Defence and external stakeholders, including through whole-of-government task force participation and secondments, in the development of advice for the Government on matters of national significance— notably, cyber policy support of Australia's Cyber Security Strategy, intelligence, counter-terrorism policy, foreign and security policy, foreign investment and critical infrastructure consultation on international relationships and the Defence Cooperation Program as well as development of policy guidance for ADF operations and international defence activities collaboration on development of the Defence Industrial Capability Plan and its Sovereign Industrial Capability Priorities, including with industry and states and territories development and implementation of Defence industry policy initiatives in close coordination with other Commonwealth departments, state and territory governments and industry permanent representation from the Department of the Prime Minister and Cabinet and the Department of Finance on the Defence Investment Committee.

Intended result	An appropriate risk appetite is actively exercised based on all available information. Assured data is available to support the design of good performance measures. Managers across Defence have a view of organisational performance within their work area which is based on true information, enabling them to make effective and robust decisions.
Performance criteria	Performance information uses validated information to support decision-making.
Target	All performance information is supported by a reliable and validated data source.
Source	PBS 2017–18 Program 2.2: Defence Executive Support, p 53; PAES 2017–18, p 36; Corporate Plan, p 15
Result	<p>Achieved. Defence performance and risk management architecture supports regular reporting and informed decision-making across the enterprise on organisational performance and risk:</p> <ul style="list-style-type: none"> • Administrative frameworks and policies facilitate the requirement and practice of risk-informed decision-making across Defence based on reliable evidence. • Governance structures ensure that Accountable and Responsible Officers validate performance measures and that supporting data and performance assessments are true and correct.

Intended result	Effective and efficient health support and welfare services are provided.
Performance criteria	Quality of health and welfare services delivered to Australian Defence Force members and families.
Target	Delivery meets agreed standards.
Source	PAES 2017–18 Program 2.4: Joint Capabilities Group, p 38; Corporate Plan, p 15
Result	<p>Achieved. The quality of health services delivered to ADF members and families was improved in 2017–18 through ongoing activities to further strengthen critical business processes and enhance member-centric, but command-responsive, service delivery. This is evident through the results of the 2017 Customer Satisfaction Survey, which indicated improved respondent satisfaction and service quality from the previous year. There was also a decrease in the average monthly number of complaints during the reporting period.</p> <p>There was an overall increase in the take-up of the National ADF Family Health Program, increasing by 1,700 in 2017–18 to a total of 48,029 dependants.</p>

Intended result	Defence implements policy direction to meet Government's requirements now and into the future.
Performance criteria	Effective implementation of the 2016 Defence White Paper.
Target	The 2016 Defence White Paper implementation plan activities for 2017–2021 are delivered as agreed with the Government.
Source	PAES 2017–18 Program 2.8: Australian Defence Force Headquarters, p 45; Corporate Plan, p 15
Result	<p>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 2018–19.</p>

Intended result	Defence develops the capability it needs to meet Government's requirements now and into the future.
Performance criteria	Effective implementation of the Integrated Investment Program.
Target	The Integrated Investment Program is delivered as agreed with the Government.
Source	PAES 2017–18 Program 2.8: Australian Defence Force Headquarters, p 45; Corporate Plan, p 15
Result	<p>Achieved. Defence has continued to deliver the Integrated Investment Program through the \$200 billion recapitalisation of ADF capability outlined in the 2016 Defence White Paper. During 2017–18, the Government approved 111 capability-related submissions for major equipment, facilities and infrastructure, information and communications technology and science technology. This comprised of 21 'First Pass' approvals, 35 'Second Pass' approvals and 55 'Other Pass' approvals.</p> <p>Significant Government announcements included:</p> <ul style="list-style-type: none"> • Second Pass approval for the Future Frigate program (approximately \$35 billion capital) • Other Pass approval for Future Submarine Design and Construction (approximately \$700 million capital) • Second Pass approval for Combat Reconnaissance Vehicles (approximately \$5.2 billion capital).

Intended result	A competitive Australian industrial base is able to support Defence capability.
Performance criteria	The intent of the Defence Industry Policy Statement is met.
Target	The Centre for Defence Industry Capability and the Defence Innovation Hub operate in accordance with the Defence Industry Policy Statement.
Source	PBS 2017–18 Program 2.1: Strategic Policy and Intelligence, p 50; PAES 2017–18, p 35; Corporate Plan, p 15
Result	<p>Achieved. Defence has made strong progress on further developing and maturing the Government's Defence Industry Policy Framework beyond that in the 2016 Defence Industry Policy Statement. The Centre of Defence Industry Capability and Defence Innovation Hub are fully operational. Defence has also advanced the key policy deliverables to give effect to the long-term objectives of defence industry policy to meet Defence's capability needs. Notably, the Defence Industrial Capability Plan and the Defence Export Strategy were both released in the first half of 2018.</p>

Performance criteria	Enterprise planning and performance monitoring processes are delivered in line with the requirements of the <i>Public Governance, Performance and Accountability Act 2013</i> .
Target	Defence meets its non-financial performance management and risk management obligations under the <i>Public Governance, Performance and Accountability Act 2013</i> .
Source	PBS 2017–18 Program 2.2: Defence Executive Support, p 53; PAES 2017–18, p 36
Results	<p>Achieved. In the 2017–18 financial year Defence complied with the requirements of the <i>Public Governance, Performance and Accountability Act 2013</i>.</p> <p>The <i>2017–18 Defence Corporate Plan</i> was published on time and incorporated all required elements (<i>Public Governance, Performance and Accountability Rule 2014</i>, section 16E)</p> <p>The <i>2016–17 Defence Annual Report</i> (containing annual performance statements) was tabled on time and incorporated all required elements, as noted in the <i>2016–17 Defence Annual Report</i>, Appendix C.</p> <p>The Defence Audit and Risk Committee has reviewed the annual performance statements, Defence Corporate Plan, systems of internal control and systems of risk oversight and management.</p>

Performance criteria	The Service Delivery System enables Australian Defence Force operations.
Target	Enabling services are delivered in accordance with agreed requirements.
Source	PBS 2017–18 Program 2.2: Defence Executive Support, p 53; PAES 2017–18, p 36
Results	Achieved. Corporate enabling groups have service offers in place which outline the services being delivered to meet organisational requirements. Customer satisfaction with these services is measured through an annual Customer Satisfaction Survey.

Performance criteria	Quality and timeliness of financial advice to the Minister, the Secretary and Chief of the Defence Force.
Target	Financial advice meets the Minister, the Secretary and Chief of the Defence Force's requirements.
Source	PBS 2017–18 Program 2.3: Chief Finance Officer, p 55; PAES 2017–18, p 37
Results	<p>Achieved. Defence provided precise and timely, written and verbal, strategic financial advice to the Minister for Defence, the Secretary and the Chief of the Defence Force. This included:</p> <ul style="list-style-type: none"> • ministerial and Cabinet submissions • responses to Questions on Notice • support to Senate Estimates and other public accountability activities. <p>Defence provided financial information and advice based on an understanding of the underlying cost drivers of the business. 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.</p>

Performance criteria	Production of Defence's Budget, Financial Statements and the annual Defence Management and Finance Plan.
Target	Produced in accordance within agreed statutory time frames.
Source	PBS 2017–18 Program 2.3: Chief Finance Officer, p 55; PAES 2017–18, p 37
Results	<p>Achieved. Defence produced the Defence Budget, and the annual Defence Management and Finance Plan within agreed statutory time frames, including:</p> <ul style="list-style-type: none"> • the Defence Portfolio Budget Submission and Defence Management and Financial Plan • the Defence Portfolio Budget Statements • the Defence Portfolio Additional Estimates Statements • input to the Commonwealth Budget Management System • Defence's Financial Statements.

Performance criteria	Status of Financial Statements.
Target	Financial Statements are unqualified.
Source	PBS 2017–18 Program 2.3: Chief Finance Officer, p 55; PAES 2017–18, p 37
Results	<p>Achieved. Defence produced audited Defence Financial Statements for publication in the Defence Annual Report. The Australian National Audit Office determined that the Defence financial statements:</p> <ul style="list-style-type: none"> • were unqualified • complied with Australian Accounting Standards and the Public Governance, Performance and Accountability (Financial Reporting) Rule 2015 • presented fairly the financial position of Defence as at 30 June 2018 and its financial performance and cash flows for the year.

Performance criteria	Chief of the Defence Force preparedness levels meet Government requirements.
Target	Chief of the Defence Force preparedness levels are achieved as agreed with Government.
Source	PAES 2017–18 Program 2.4: Joint Capabilities Group, p 38
Result	Achieved. In 2017–18, the Joint Capabilities Group developed and delivered joint enabling projects, services and information warfare effects to ensure the Chief of the Defence Force's preparedness levels were achieved as agreed with the Government.

Performance criteria	Effective implementation of the 2016 Defence White Paper.
Target	The 2016 Defence White Paper Implementation Plan activities for 2017–21 are delivered as agreed with Government.
Source	PAES 2017–18 Program 2.4: Joint Capabilities Group, p 38
Results	<p>Achieved. In 2017–18, Joint Capabilities Group ensured implementation of the 2016 Defence White Paper through the delivery of projects that support the Government's plans to design a future force and invest in vital enabling capabilities. These included the Defence Fuel Transformation Program, the Warehouse Management System, the Explosive Ordnance Logistic Reform Program Project and the implementation of a new occupational rehabilitation service delivery model. The Digitisation Project, complementary to the Defence eHealth System, did not meet anticipated performance with mitigation activities put in place for 2018–19.</p> <p>The Information Warfare Division further developed a joint cyber capability for the ADF, including the establishment of the Defence Signals Intelligence and Cyber Command in January 2018.</p> <p>The Australian Defence College delivered joint professional military education and joint individual training and met all international military training requirements.</p>

Performance criteria	Chief of the Defence Force preparedness levels meet Government requirements.
Target	Chief of the Defence Force preparedness levels are achieved as agreed with Government.
Source	PBS 2017–18 Program 2.5: Navy Capabilities, p 59; PAES 2017–18, p 40
Results	Achieved. The Navy achieved its commitment to generate forces to meet Government-directed activities. Reduction in achievement of unit availability days and flying hours was due to emerging defects; program changes associated with planned maintenance; and aircrew availability.

Performance criteria	Chief of the Defence Force preparedness levels meet Government requirements.
Target	Chief of the Defence Force preparedness levels are achieved as agreed with Government.
Source	PBS 2017–18 Program 2.6: Army Capabilities, p 63; PAES 2017–18, p 42
Results	Achieved. The Army met its commitments to generate land forces to meet Government-directed activities, and the required preparedness levels were achieved and maintained as agreed with the Chief of the Defence Force. Known deficiencies continue to be managed toward effective remediation. Raise, train and sustain activities were conducted to ensure land forces were prepared and available to meet Government direction.

Performance criteria	Chief of the Defence Force preparedness levels meet Government requirements.
Target	Chief of the Defence Force preparedness levels are achieved as agreed with Government.
Source	PBS 2017–18 Program 2.7: Air Force Capabilities, p 65; PAES 2017–18, p 43
Results	<p>Achieved. The Air Force achieved all preparedness requirements as agreed with the Government. Variation in flying hours expended is linked to:</p> <ul style="list-style-type: none"> • changes in demand to support operations, including Operation OKRA, Operation ARGOS, Operation ATLAS and Operation AUGURY (P-8A, AP-3C, KC-30A) • one aircraft type (P-8A) exceeded its budget and revised estimate due to operational tasking for Operation ARGOS • one aircraft type (Heron UAS) was withdrawn early from operations and did not fly, as per its revised estimate • transition management of new and retiring aircraft (PC-9A, PC-21, KA350, C-27J, E/A-18G, F/A-18A/B, F-35A) resulted in some variation in actual versus planned flying hours.

Performance criteria	Capability proposals, once approved by Government, meet agreed schedule and are delivered within agreed costs and scope.
Target	Deliver Government approved acquisition projects to budget, schedule and agreed capability scope.
Source	PBS 2017–18 Program 2.9: Capability Acquisition and Sustainment, p 70; PAES 2017–18, p 47
Results (as provided)	<p>Achieved. As at 30 June 2018, Defence was managing 198 active major and minor capital equipment projects worth \$103.5 billion with a 2017–18 budget of \$6.9 billion. Military equipment projects are being delivered within the agreed parameters of scope and cost. Where schedule slippage has occurred, project managers are working with the Capability Manager representatives to manage the impacts.</p> <p>Of the 120 post Second Pass approved major capital equipment projects, three projects (or 2.5 per cent) had issues with capability, schedule or cost which were significant enough to be included in the Projects of Concern report. A further nine projects (or 7.5 per cent) were identified as Projects of Interest, with risks associated with capability, schedule or cost that warrant attention from senior executives. Additional information on selected major capital equipment projects can be found in the Major Projects Report, which is tabled annually with the Joint Committee of Public Accounts and Audit.</p> <p>Twenty-five Major Acquisition Projects were closed in 2017–18, 15 more than 2016–17, due to reformed closure process. These projects had a combined budget of \$7.5 billion and a final spend of \$7.4 billion, which is 0.9 per cent less than the budget approved by the Government.</p>

Performance criteria	Information and communication technology services meet requirements.
Target	Information and communication technology (ICT) capabilities are delivered in accordance with the Integrated Investment Program requirements as governed by the Investment Committee.
Source	PBS 2017–18 Program 2.11: Chief Information Officer, p 74; PAES 2017–18, p 49
Results	<p>Achieved. Transformation of the ICT environment continued through the delivery of capability via key projects. The Centralised Processing project achieved final operating capability in December 2017 and has consolidated Defence's computing infrastructure and applications into 11 national and three international data centres.</p> <p>Critical upgrades to the Defence PROTECTED desktop computing environment are progressing through the End User Computing project and are expected to be complete by June 2019.</p> <p>The Terrestrial Communications project is replacing and rationalising the existing Defence network and achieved initial operating capability in April 2018.</p> <p>Changes in Defence's complex information and communications technology operating environment, combined with changing user demands, growth and expectations, led to increased pressure to deliver key transformational technology projects in parallel to delivering the enabling technology for the major capability projects. The sequencing of projects, increased workloads, industry capacity and resource constraints have impacted on the effectiveness of information and communications technology rollouts. The impacts on capability are being managed.</p>

Performance criteria	Achievement of ADF recruitment targets.
Target	Meet recruitment targets as specified by the Services.
Source	PBS 2017–18 Program 2.12: Defence People, p 77; PAES 2017–18, p 50
Results	<p>Partially achieved. ADF permanent force enlistments from all sources (ab initio and prior service) was 94 per cent of the full-year target of 5,593. Recruiting targets for the Reserve force were 84 per cent of the full-year target of 2,349.</p> <p>ADF recruiting achievement has improved in recent years, with a focus on candidate engagement and targeted marketing to attract a greater diversity of candidates. A strong focus continues in regard to attracting candidates to those occupations which are more difficult to recruit to, such as Army Reserves and Medical Officers.</p>

Performance criteria	Achieve ongoing cultural reform and workforce culture initiatives that embed diversity and inclusion.
Target	Workforce diversity has increased. Cultural reform initiatives are implemented as set out in the Pathway to Change strategy.
Source	PBS 2017–18 Program 2.12: Defence People, p 77; PAES 2017–18, p 50
Results	<p>Achieved. <i>Pathway to Change: Evolving Defence Culture 2017–22</i> was launched in November 2017. Efforts to implement the strategy have commenced and are ongoing. This includes a number of in-depth reviews of the six priorities intended to provide quality assurance, support and guidance for ongoing reform efforts.</p> <p>With a continued focus on broadening diversity to advance capability and performance, the following progress has been made.</p> <p>As at 1 July 2018:</p> <ul style="list-style-type: none"> • 17.9 per cent of the permanent ADF is female—an increase from 16.7 per cent on 1 July 2017 • 42.4 per cent of the ongoing APS workforce is female—an increase from 41.9 per cent on 1 July 2017 • 2.6 per cent of the permanent ADF identify as Indigenous—an increase from 2.4 per cent on 1 July 2017 • 2.2 per cent of ongoing APS employees identify as Indigenous—an increase from 2.0 per cent on 1 July 2017.

Performance criteria	Actions identified in the 2016–2026 Defence Strategic Workforce Plan are implemented to attract, recruit, develop and retain a highly skilled workforce.
Target	Implementation milestones are achieved.
Source	PBS 2017–18 Program 2.12: Defence People, p 77; PAES 2017–18, p 50
Results	<p>Partially achieved. Delivery of the Strategic Workforce Plan has continued. Although some individual activities have been delayed, these are not having an impact on overall delivery of the action plan. The annual update of the Strategic Workforce Plan will continue to focus on achieving the required workforce, and improving retention in certain workgroups. A focus on growing the science, technology, engineering and mathematics workforce, including enabling the shipbuilding and cyber capabilities, will continue.</p>

Performance criteria	Enhanced linkages between Defence and the Department of Veterans' Affairs enable greater support to veterans and ADF members.
Target	Improved electronic information exchange is implemented as agreed between Defence and Department of Veterans' Affairs (DVA).
Source	PBS 2017–18 Program 2.12: Defence People, p 77; PAES 2017–18, p 50
Results	<p>Partially achieved. Defence and the DVA work closely regarding improving information exchange to support members and veterans. The information and communications technology architecture for the Defence DVA Electronic Information Exchange Project has been approved. Funding from the 2016 Defence White Paper for implementation of this project commences from 2018–19. The project is aligned with the Veterans' Centric Reform program.</p>

Performance criteria	Australian Defence Force members and families are supported through the delivery of the family support program, transition services and bereavement support.
Target	Support is delivered in a timely and professional manner.
Source	PBS 2017–18 Program 2.12: Defence People, p 77; PAES 2017–18, p 50
Results	<p>Partially achieved. ADF members and families have been supported through successful delivery of family support programs, ADF transition services and bereavement support.</p> <p>Reform of ADF Transition Support Services continued. The new transition process implemented in 2017–18 has moved from an administrative model to that of coaching and mentoring. Defence is focused on providing a tailored and individual transition plan and coaching session, which assists the ADF member and their family to be better prepared for the transition to civilian life during transition and 12 months afterwards.</p> <p>The ‘partially achieved’ status reflects the continued focus on improving the transition process and outcomes for Defence. In 2018–19, Defence will further embed the transition coaching model, review the Career Transition Assistance Scheme and ADF transition seminars, promote greater engagement with families, and introduce Military Transition Support Officer roles.</p>

Performance criteria	Emerging science and technology is used to support development of best value capability.
Target	Science and technology activities are balanced to support Defence capability and operational priorities in accordance with 2016 Defence White Paper.
Source	PBS 2017–18 Program 2.13: Defence Science and Technology, p 79; PAES 2017–18, p 51
Results	<p>Achieved. Defence continues to prioritise and balance investment in science and technology. Planned investment decisions are considered at the Defence Science and Technology Client Forum, prior to formal consideration by the Defence Investment Committee.</p> <p>Scientific personnel have been deployed to provide urgent scientific and technical support to Defence operations, including priority access to the full range of scientific expertise within Defence Science and Technology.</p> <p>Science and technology considerations inform the specialist advice, technical risk assessments and specific research to support the sustainment, acquisition and development of best-value capability for Defence, particularly through the Integrated Investment Program, the Naval Shipbuilding Plan and the Defence Capability Assessment Program.</p>

Performance criteria	Defence's strategic research builds understanding of future Defence capability.
Target	Strategic research activities are aligned with Integrated Investment Program priorities.
Source	PBS 2017–18 Program 2.13: Defence Science and Technology, p 79; PAES 2017–18, p 51
Results	<p>Achieved. The Defence strategic research program is aligned to domain-specific science and technology strategies (Maritime, Land, Aerospace, Joint and Intelligence). Research initiated under the Next Generation Technologies Fund is aligned with the priorities identified in the 2016 Defence White Paper and the Integrated Investment Program. The research program is delivered through collaborations with Australian and international universities, publicly funded research agencies and industry. The alignment of the research program to Defence priorities is verified by annual investment reviews.</p> <p>The Next Generation Technologies Fund program is fully operational, accelerating the development of key game-changing technologies that will underpin new capabilities.</p>

Performance criteria	Defence science and technology capability enhanced through the delivery of collaborative partnerships with industry, academia and international research agencies.
Target	Collaborative activities with industry, academia and allied defence research agencies are aligned to 2016 Defence White Paper and Defence Industry Policy Statement priorities.
Source	PBS 2017–18 Program 2.13: Defence Science and Technology, p 79; PAES 2017–18, p 51
Results	<p>Achieved. Through the Next Generation Technologies Fund a new portfolio of partnerships has been established which address the science and technology priorities set out in the 2016 Defence White Paper and Defence Industry Policy Statement.</p> <p>More than 100 collaborative research activities with industry, academia and other research agencies have commenced. Major initiatives include the Defence Cooperative Research Centre in Trusted Autonomous Systems, the Grand Challenge in Counter Improvised Threats, and the Australia–United States Multidisciplinary University Research Initiative. The outcomes from these research partnerships will inform and guide Defence's future capability decisions and provide game-changing innovations to maintain Defence's capability edge.</p> <p>Defence is an active participant in the Technical Cooperation Program with members of the five eyes¹ nations. Defence is also building regional Defence science and technology relationships with Japan, the Republic of Korea and Singapore.</p> <p>¹ Five eyes nations include Australia, the United States, the United Kingdom, Canada and New Zealand.</p>
Performance criteria	Provision of timely payments to the Commonwealth Superannuation Corporation and quality administration of Defence Force Retirement Benefits, Defence Force Retirement Defined Benefits, Military Super Benefits Scheme and ADF Super employer and member contributions.
Target	Payments are provided within agreed time frames to the Commonwealth Superannuation Corporation and quality administration of Defence Force Retirement Benefits (DFRB), Defence Force Retirement Defined Benefits (DFRDB), Military Super Benefits Scheme (MSBS) and ADF Super employer and member contributions.
Source	PBS 2017–18 Program 2.14: Defence Force Superannuation Benefits, p 81–82; PAES 2017–18, p 52
Results	<p>Achieved. Employer and member contributions to DFRB, DFRDB and MSBS were paid on time to the Commonwealth Superannuation Corporation throughout 2017–18.</p> <p>The related accounting entries were correctly recorded and reconciled in compliance with the monthly financial reporting timetable set by Defence.</p>
Performance criteria	Provide quality administration of DFRB, DFRDB, MSBS and ADF Cover nominal interest transactions.
Target	Administration services are provided as agreed for DFRB, DFRDB, MSBS and ADF Cover nominal interest transactions.
Source	PBS 2017–18 Program 2.15: Defence Force Superannuation Nominal Interest, p 83; 2017–18; PAES 2017–18, p 53
Results	<p>Achieved. The determination of the nominal interest transactions for DFRB, DFRDB and MSBS were correctly made and recorded in compliance with the monthly financial reporting timetable set by Defence.</p>

Performance measure	Members respond to and take up the scheme.
Target	6,000 applications received, with 3,800 members taking up the scheme.
Source	PBS 2017–18 Program 2.16: Housing Assistance, p 85; PAES 2017–18, p 54
Results	Achieved. Interest in this scheme continues to remain positive with ADF members. There has been a continued high uptake of Defence Home Ownership Assistance Scheme applications/subsidised loans processed by the Department of Veterans' Affairs as the Scheme Administrator. A total of 6,232 applications were received and 3,869 members commenced subsidy payments.

Performance criteria	Ensure that interest rates provided to ADF members by the Home Loan Providers are competitive with other interest rates in the market.
Target	Interest rates offered are consistently lower than other interest rates in the market.
Source	PBS 2017–18 Program 2.16: Housing Assistance, p 85; PAES 2017–18, p 54
Results	Achieved. The three appointed home loan providers on the Defence Home Ownership Assistance Scheme panel are providing competitive interest rates in accordance with their obligations under their respective deeds.

Performance criteria	Account and report 'Other Administered'.
Target	Accounting and reporting is accurate.
Source	PBS 2017–18 Program 2.17: Other Administered, p 87; PAES 2017–18, p 55
Results	Achieved. Transactions relating to 'Other Administered' were correctly determined and recorded in compliance with the monthly financial reporting timetable set by Defence. '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.

Table 3.1 shows Defence performance against the unit availability days, HydroScheme and flying hours performance criteria in the *Portfolio Budget Statements 2017–18* and the *Portfolio Additional Estimates Statements 2017–18* for Purpose 2.

Table 3.1: Unit availability days, HydroScheme products and flying hours

Source	Deliverable	2017–18 Revised estimate	2017–18 Actual
2017–18 PAES, Program 2.5: Navy Capabilities, p 41 (unit availability days ¹)	18 Major combatants ²	3,461	3,408
	21 Minor combatants ³	3,880	3,546
	5 Amphibious and afloat support ⁴	1,179	1,145
	7 Maritime teams ⁵	2,555	2,541
	7 Hydrographic Force ⁶	1,574	1,547
2017–18 PAES, Program 2.5: Navy Capabilities, p 41 (flying hours)	4 S-70B-2 (Seahawk) ⁷	190	151.50
	24 MH-60R	6,050	6,059
	6 AS350BA (Squirrel) ⁸	450	633
	- MRH-90 Taipan ⁹	–	–
	1 Laser airborne depth sounder aircraft ¹⁰	1,260	1,193
2017–18 PAES, Program 2.6: Army Capabilities, p 42 (rate of effort—flying hours)	7 CH-47F Chinook	2,000	2,000
	34 S-70A-9 Black Hawk	4,550	4,193.6
	41 B-206B-1 Kiowa	3,800	3,058.6
	22 ARH Tiger ¹¹	5,050	2,867.5
	47 MRH-90 Taipan	7,600	7,348.7
2017–18 PAES, Program 2.7: Air Force Capabilities, p 44 (flying hours)	62 PC-9/A ¹²	16,952	14,836.2
	8 PC-21 ¹²	2,200	1,224.2
	16 KA350 King Air ¹²	8,700	7,394
	12 C-130J Hercules	7,350	6,999
	8 C-17A Globemaster III	7,000	6,972
	10 C-27J Spartan ¹²	4,000	2,144
	5 KC-30A MRTT ¹³	6,000	5,662
	2 737 BBJ	1,600	1,435
	3 CL-604 Challenger	2,403	1,737
	15 AP-3C Orion ¹³	4,660	4,281.5
	8 P-8A Poseidon ¹³	2,562	2,773.7
	6 E-7A Wedgetail	3,600	3,018.4
	71 F/A-18A/B Hornet ¹²	12,000	10,375.4
	24 F/A-18F Super Hornet ¹²	8,094	5,183
	33 Hawk 127	6,500	5,782
	12 E/A-18G Growler ¹²	1,600	1,089.5
	2 F-35A Lightning II ¹²	752	701.9
	2 Heron UAS ¹⁴	0	0
2017–18 PBS, Program 2.1: Strategic Policy and Intelligence Deliverables, p 52 (Hydrographic Products and Services)	Maritime safety updates	1,100	1063 ¹⁵
	Charting projects	15	11 ¹⁶
	Nautical publications	29	29
	Survey projects	15	17 ¹⁷
	AHO availability	249	247 ¹⁸

Table notes:

1. A unit availability day is a day when a unit is materially ready and its personnel state and level of competence enables the unit to safely perform tasks in the unit's normal operating environment, immediately.
2. Major combatants comprises Adelaide Class Frigates (FFG) Anzac Class Frigates (FFH), Collins Class Submarines (CCSM) and the Hobart Class Air Warfare Destroyers (DDG). The decrease in unit availability days is due to emerging defects across platforms and amendments to planned maintenance schedules.
3. Minor combatants comprises Armidale Class Patrol Boats (ACPB), Cape Class Patrol Boats (CCPB) and Coastal Minehunters (MHC). Unit availability day decrease is due to emerging defects across platforms, extensions to planned maintenance and workup requirements.
4. Amphibious and afloat support comprises the Oil Tanker (AO), Replenishment Ship (AOR), Landing Ship Dock (LSD) and Canberra Class Landing Helicopter Dock (LHD). The decrease in unit availability days is due to defects across platforms and amendments to planned maintenance schedules.
5. Maritimes teams comprise clearance diving, Deployable Geospatial Support and Mobile Meteorological and Oceanographic teams. The reduction in unit availability days is due to reduced capacity over the Christmas / New Year period.

6. Hydrographic Force comprises the hydrographic ships, survey motor launches, chart production office and meteorological and oceanographic centres. The decrease in unit availability days is due to defects across platforms.
7. The S-70B-2 was withdrawn from service in December 2017. The reduction in flying hours is due to aircrew availability.
8. The AS350BA was withdrawn from service in December 2017.
9. The Navy is operating MRH-90 Taipans; however, their flying hours are included under Army Aviation because the Army is joint capability manager of the aircraft.
10. The reduction in flying hours is due to poor weather, aircrew availability and defects.
11. Note that AHR operations were suspended for four months.
12. Transition management of new and retiring aircraft resulted in variation of actual versus planned flying hours.
13. Changes in demand to support operations.
14. The aircraft were withdrawn from operations and did not fly.
15. Total received. The figure of 1,100 was based on average updates over last five years.
16. In 2017–18, 11 of the 15 (73%) of charting projects were completed. Receipt of data from external authorities did not occur in the expected time frame; hence, two projects were not commenced. Another two projects were not completed due to a combination of software implementation delays, additional training overhead of new staff and prioritisation of alternative short-notice work, including support for the Asia-Pacific Economic Cooperation forum in 2018. The risk associated with the four incomplete tasks is assessed as low, noting that existing products remain current and safe.
17. Additional survey projects were undertaken by Royal Australian Navy assets.
18. Failure of the server room air conditioning system led to temporary shutdown of information and communications technology systems. As a result, chart production was unavailable for two days until repairs were effected.

ADF iWar capability development

The Defence Information Warfare Division was formed in 2017 with the aim of building critical information warfare capabilities such as cyber, and integrating these to have a decisive impact in the battlespace.

Lessons learned and observed during recent conflicts and crises demonstrate the character of the contemporary battlespace and highlight the criticality of information warfare (iWar) capabilities. As the ADF fields more advanced capabilities, it is important that the ADF develops and integrates iWar capabilities as part of its combat power.

The ADF requires iWar capabilities that reinforce friendly information while degrading that of potential adversaries in order to create a decisive advantage during times of conflict and/or crisis.

ADF iWar capabilities include command, control, and communications; joint data networks; battlespace situational awareness; cyberspace operations; electronic warfare; space warfare; influence activities; targeting; and joint intelligence capabilities such as human intelligence, counter-intelligence, biometrics, advanced analytics, and production, exploitation and dissemination.

Within the first six months of Information Warfare Division's operation, the Chief of the Defence Force formally established the Defence Signals Intelligence and Cyber Command, an element of Information Warfare Division. The Defence Signals Intelligence

and Cyber Command was formed to unify the ADF's Signals Intelligence and Cyber personnel working under a single command structure, providing mission clarity and service identity for this important part of the ADF workforce. It works closely with Headquarters Joint Operations Command in the planning of ADF operations, providing a niche range of information and effects to support operational execution.

Within Information Warfare Division, the Joint Cyber Unit coordinates the delivery of defensive and offensive military cyberspace effects in support of Australian Defence Force operations. Joint Cyber Unit is tasked with providing critical Signals Intelligence in support of Chief of Joint Operations intelligence priorities. It operates under the direction and control of Australian Signals Directorate and under the command of Commander Defence Signals Intelligence and Cyber Command.

While it is still in an embryonic state, future Joint Cyber Unit growth was clearly articulated in the 2016 Defence White Paper, so both the size and mission of the unit will evolve over time. The iWar capabilities being generated by Information Warfare Division will deliver a coherent suite of information effects to ADF Commanders that can integrate into their plans whether they be for combat operations, or operations other than war. The goal is to one day have iWar as an integral part of all operational planning and execution. We will know we have succeeded when combat commanders consider kinetic and cognitive effects together.

Iwona Lisowska (right) and Steph Carbone are Australian public servants deployed to the Middle East in finance roles.



FINANCIAL
PERFORMANCE

4

Summary

Defence closely manages its performance against its cash based budget throughout the year. The cash based budget is the primary focus of the organisation on which it judges its financial performance. The final cash outcome for 2017–18 (after adjustments) was a cash surplus of \$26.2 million against our cash based budget of \$35,168 million. This represents a variance of 0.08 per cent and demonstrates the close scrutiny the Department has placed on its financial management during 2017–18. In the 2017–18 accrual based financial statements included at Section 11 Defence incurred an operating surplus of \$853.1 million. From a cash perspective, the operating surplus has been offset by a commensurate increase in capital expenditure associated with specialist military equipment.

Table 4.1 contains the Defence resource statement for 2017–18. Expenses by outcomes are detailed in tables 4.2 to 4.5, while the cost of operations is shown in tables 4.6 and 4.7.

Table 4.1: Defence Resource Statement, 2017-18

	Actual available appropriation for 2017-18 \$'000	Payments made 2017-18 \$'000	Balance remaining 2017-18 \$'000
ORDINARY ANNUAL SERVICES			
Prior year departmental appropriation available	18,579	–	18,579
Departmental appropriation	33,171,420 ¹	32,930,464	240,956 ²
Receipts retained under PGPA Act - section 74	392,391	392,391	–
Total Departmental Outputs	33,582,390	33,322,855	259,535
Total Ordinary Annual Services	33,582,390	33,322,855	
OTHER SERVICES			
Departmental non-operating			
Prior year equity injection available	407,411	–	407,411
Equity injection	1,995,519 ³	1,995,519	–
Total Departmental non-operating	2,402,930	1,995,519	407,411
Total other services	2,402,930	1,995,519	
Total Available Annual Appropriation and Payments	35,985,320	35,318,374	
SPECIAL APPROPRIATIONS			
Special appropriations limited by criteria/entitlement			
<i>Defence Force Retirement Benefits Act 1948 Part 1 s. 15D and VIC, s. 82ZJ</i>		41,144	
<i>Defence Force Retirement and Death Benefits Act 1973 Part XII, s. 125</i>		1,560,425	
<i>Military Superannuation and Benefits Act 1991 Part V, s. 17</i>		853,435	
<i>Defence Force (Home Loan Assistance) Act 1990 Part IV, s. 38</i>		441	
<i>Australian Defence Force Cover Act 2015</i>		1,647	
<i>Defence Home Ownership Assistance Scheme Act 2008 Part VI, s. 84</i>		105,219	
<i>Other Administered</i>		1,743	
Total Special Appropriations		2,564,054	
Special Accounts			
Opening balance	88,264		
Non-appropriation receipts to special accounts	68,118		
Payments made		43,071	
Total Special Accounts	156,382	43,071	113,311
Total Resourcing and Payments	36,141,702	37,925,499	

Notes:

1. This represents actual appropriations available, reduced by \$1 million transferred to the Department of Jobs and Small Business
2. Includes No Win No Loss amounts in relation to Operations of \$215.7 million
3. This represents actual equity injection available, reduced by \$369.8 million withheld under section 51 of the PGPA Act, as outlined in Note 5.1A of the 2017-18 Financial Statements

Expenses by outcomes

Table 4.2: **Total Cost of Defence Outcomes and Programs on an Accrual Basis, 2017-18**

	2017-18 budget estimate ¹ \$'000	2017-18 revised estimate ² \$'000	2017-18 actual result \$'000	Variation \$'000	Variation %
Outcome 1: Defend Australia and its national interests through the conduct of operations and provision of support for the Australian community and civilian authorities in accordance with Government direction					
Net cost of service for Outcome 1	1,010,331	944,785	715,785	(229,000)	(24)
Outcome 2: Protect and advance Australia's strategic interests through the provision of strategic policy, the development, delivery and sustainment of military, intelligence and enabling capabilities, and the promotion of regional and global security and stability as directed by Government					
Departmental net cost of service	31,194,895	32,227,635	31,471,898	(755,737)	(2)
Administered net cost of service	4,090,963	5,625,515	5,503,087	(122,428)	(2)
Net cost of service for Outcome 2	35,285,858	37,853,150	36,974,985	(878,165)	(2)
Net cost of service for Defence Outcomes					
Departmental net cost of service	32,205,226	33,172,420	32,187,683	(984,737)	(3)
Administered net cost of service	4,090,963	5,625,515	5,503,087	(122,428)	(2)
Total cost of Defence Outcomes	36,296,189	38,797,935	37,690,770	(1,107,165)	(3)

Notes

1. As published in the *Portfolio Budget Statements 2017-18*.

2. As published in the *Portfolio Budget Statements 2018-19*.

Table 4.3: Overall Cost to Government of Defence Outcomes (Departmental and Administered), 2017-18

	Outcome 1 \$'000	Outcome 2 \$'000	Total \$'000
DEPARTMENTAL			
Expenses			
Employees	110,524	11,868,361	11,978,885
Suppliers	628,949	12,684,633	13,313,582
Grants	–	129,805	129,805
Depreciation and amortisation	–	5,935,531	5,935,531
Finance cost	–	115,225	115,225
Write-down of assets and impairment of assets	–	906,722	906,722
Net Foreign exchange losses	(1,912)	13,858	11,946
Net losses from sale of assets	–	44,073	44,073
Other expenses	6	403,993	403,999
Total expenses	737,567	32,102,201	32,839,768
Income			
Revenue			
Goods and services	21,768	433,173	454,941
Rental income	–	3,698	3,698
Other revenue	14	57,231	57,245
Total revenue	21,782	494,102	515,884
Gains			
Reversals of previous asset writedowns	–	82,605	82,605
Other gains	–	53,596	53,596
Total gains	–	136,201	136,201
Total income	21,782	630,303	652,085
Net cost of Departmental Outcomes	715,785	31,471,898	32,187,683
ADMINISTERED			
Expenses	–	7,066,582	7,066,582
Revenue	–	1,563,495	1,563,495
Net cost of Administered Outcomes	–	5,503,087	5,503,087
Total Departmental and Administered Outcomes	715,785	36,974,985	37,690,770

Table 4.4: Total Cost of Defence Outcome 1

	2017-18 budget estimate ¹ \$'000	2017-18 revised estimate ² \$'000	2017-18 actual result \$'000	Variation \$'000	Variation %
Program 1.1 Operations Contributing to the Security of the Immediate Neighbourhood					
Revenues from other sources	–	–	–	–	–
Departmental outputs	792	39,784	19,811	(19,973)	(50)
Program 1.2 Operations Supporting Wider Interests					
Revenues from other sources	22,809	22,809	21,768	(1,041)	(5)
Departmental outputs	919,986	815,448	632,337	(183,111)	(22)
Program 1.3 Defence Contribution to National Support Tasks in Australia					
Revenues from other sources	–	–	14	14	–
Departmental outputs	89,553	89,553	63,637	(25,916)	(29)
Total resourcing					
Total Departmental outputs	1,010,331	944,785	715,785	(229,000)	(24)
Total Departmental revenue from other sources	22,809	22,809	21,782	(1,027)	(5)
Total resources for Outcome 1	1,033,140	967,594	737,567	(230,027)	(24)

Note: This table excludes capital payments for outcomes.

- As published in the *Portfolio Budget Statements 2017-18*, table 11.
- As published in the *Portfolio Budget Statements 2018-19*, table 11.

Table 4.5: Total Budgeted Resources Available for Outcome 2

	2017-18 budget estimate ¹ \$'000	2017-18 revised estimate ² \$'000	2017-18 actual result ³ \$'000	Variation \$'000	Variation %
Program 2.1 - Strategic Policy and Intelligence					
Revenue from other sources	7,048	6,789	5,460	(1,329)	(20)
Departmental outputs	1,031,349	1,162,456	1,163,001	545	0
Program 2.2 - Defence Executive Support					
Revenue from other sources	22,568	23,425	25,284	1,859	8
Departmental outputs	212,629	246,886	287,003	40,117	16
Program 2.3 - Chief Finance Officer					
Revenue from other sources	5,053	4,938	1,496	(3,442)	(70)
Departmental outputs	244,128	207,956	151,052	(56,904)	(27)
Program 2.4 - Joint Capabilities Group⁴					
Revenue from other sources	–	168,065	124,584	(43,481)	(26)
Departmental outputs	–	1,710,192	1,784,939	74,747	4
Program 2.5 - Navy Capabilities					
Revenue from other sources	72,274	60,555	17,814	(42,741)	(71)
Departmental outputs	6,413,617	6,750,755	6,075,814	(674,941)	(10)
Program 2.6 - Army Capabilities					
Revenue from other sources	38,226	30,054	14,286	(15,768)	(52)
Departmental outputs	7,325,798	7,393,181	7,172,670	(220,511)	(3)
Program 2.7 - Air Force Capabilities					
Revenue from other sources	65,355	52,499	39,303	(13,196)	(25)
Departmental outputs	6,821,824	6,964,710	6,460,306	(504,404)	(7)
Program 2.8 - Australian Defence Force Headquarters⁴					
Revenue from other sources	–	–	4,214	4,214	–
Departmental outputs	–	118,686	104,444	(14,242)	(12)
Program 2.9 - Capability Acquisition and Sustainment					
Revenue from other sources	963	963	3,947	2,984	310
Departmental outputs	653,823	691,354	621,316	(70,038)	(10)
Program 2.10 - Estate and Infrastructure					
Revenue from other sources	363,206	332,692	375,828	43,136	13
Departmental outputs	4,546,774	4,490,084	5,047,947	557,863	12
Program 2.11 - Chief Information Officer					
Revenue from other sources	11,116	6,572	13,728	7,156	109
Departmental outputs	1,500,627	1,468,535	1,629,683	161,148	11
Program 2.12 - Defence People					
Revenue from other sources	–	–	118	118	–
Departmental outputs	486,039	550,974	494,035	(56,939)	(10)
Program 2.13 - Defence Science and Technology					
Revenue from other sources	4,862	5,126	4,241	(885)	(17)
Departmental outputs	472,997	471,866	479,688	7,822	2
Program 2.14 - Defence Force Superannuation Benefits					
<i>Defence Force Retirement Benefits Act 1948 Part 1, s.15D and VIC, s.82ZJ (1)</i>	–	–	–	–	–
<i>Defence Force Retirements and Death Benefits Act 1973 Part XII, s.125(3)</i>	80,316	120,984	122,000	1,016	1
<i>Military Superannuation and Benefits Act 1991 Part V, s.17</i>	1,408,240	2,919,709	3,059,660	139,951	5
<i>Australian Defence Force Cover Act 2015</i>	116,675	101,880	66,600	(35,280)	(35)
Total Administered expenses	1,605,231	3,142,573	3,248,260	105,687	3
<i>Administered revenue from other sources</i>	<i>1,352,073</i>	<i>1,237,907</i>	<i>1,444,915</i>	<i>207,009</i>	<i>17</i>
Total Program 2.14	253,158	1,904,666	1,803,344	(101,322)	(5)

	2017-18 budget estimate ¹ \$'000	2017-18 revised estimate ² \$'000	2017-18 actual result ³ \$'000	Variation \$'000	Variation %
Program 2.15 - Defence Force Superannuation Nominal Interest					
<i>Defence Force Retirement Benefits Act 1948 Part 1, s.15D and VIC, s.82ZJ (1)</i>	21,611	13,295	13,300	5	–
<i>Defence Force Retirements and Death Benefits Act 1973 Part XII, s.125 (3)</i>	1,725,008	1,437,009	1,437,000	(9)	–
<i>Military Superannuation and Benefits Act 1991 Part V, s.17</i>	2,074,992	2,258,287	2,258,000	(287)	–
<i>Australian Defence Force Cover Act 2015</i>	5,901	2,382	1,800	(582)	(24)
Total Administered expenses	3,827,512	3,710,973	3,710,100	(873)	–
<i>Administered revenue from other sources</i>	–	–	–	–	–
Total Program 2.15	3,827,512	3,710,973	3,710,100	(873)	–
Program 2.16 - Housing Assistance					
<i>Defence Force (Home Loan Assistance) Act 1990 Part IV, s.38</i>	484	476	19	(457)	(96)
<i>Defence Home Ownership Assistance Scheme Act 2008 Part VI, s.84</i>	117,015	116,400	108,159	(8,241)	(7)
Total Administered expenses	117,499	116,876	108,178	(8,698)	(7)
<i>Administered revenue from other sources</i>	15,932	15,599	15,305	(294)	(2)
Total Program 2.16	101,567	101,277	92,873	(8,404)	–
Program 2.17 - Other Administered					
<i>Expenses</i>	–	–	45	45	–
<i>Administered revenue from other sources</i>	91,274	91,401	103,275	11,874	13
Total Program 2.17	(91,274)	(91,401)	(103,230)	(11,829)	13
Total resourcing					
Total Departmental outputs	31,194,895	32,227,635	31,471,898	(755,737)	(2)
Total Administered	4,090,963	5,625,515	5,503,087	(122,428)	(2)
Total Departmental revenue from other sources	808,395	691,678	630,303	(61,375)	(9)
Total Administered revenue from other sources	1,459,279	1,344,907	1,563,495	218,588	16
Equity Injection	2,365,307	1,995,519	1,995,519	–	–
Total resources for Outcome 2	39,918,839	41,885,255	41,164,302	(720,952)	(2)

Note: This table excludes Capital Payments for Outcomes.

1. As published in the *Portfolio Budget Statements 2017-18*, table 15.
2. As published in the *Portfolio Budget Statements 2018-19*, table 15.
3. At the program level, departmental revenues from other sources include minor reclassifications from expenses.
4. Pursuant to a restructure of the Defence Programs, the revised estimates were reported under the following programs:

	2017-18 budget estimate ¹ \$'000	2017-18 revised estimate ² \$'000	2017-18 actual result ³ \$'000	Variation \$'000	Variation %
Program 2.4 - Vice Chief of the Defence Force					
Revenues from other sources	217,724	–	–	–	–
Departmental outputs	1,433,960	–	–	–	–
Program 2.8 - Joint Operations Command					
Revenues from other sources	–	–	–	–	–
Departmental outputs	51,330	–	–	–	–

Cost of operations

Table 4.6: **Net additional cost of operations from 1999-2000 to 2021-22**

	1999-00 to 2016-17 actual result \$m	2017-18 actual result \$m	2018-19 budget estimate ¹ \$m	2019-20 forward estimate ¹ \$m	2020-21 forward estimate ¹ \$m	2021-22 forward estimate ¹ \$m	Total \$m
Operation MANITOU	117.9	62.3	64.9	18.9	18.7	–	282.7
Operation ACCORDION	463.2	215.2	235.8	24.8	24.7	–	963.7
Operation HIGHROAD	357.3	82.4	89.5			–	529.2
Operation RESOLUTE ²	281.7	50.2	53.2	24.5	8.8	–	418.4
Operation OKRA	814.4	305.7	306.5	28.1	26.9	–	1,481.6
Operation AUGURY - Philippines ³	–	12.5	40.1	–	–	–	52.6
Defence Support to the 2018 Commonwealth Games ⁴	..	7.7	0.3	–	–	–	8.0
Total Net Additional Costs	2,034.5	736.0	790.2	96.2	79.2	–	3,736.1
Sources of Funding for Operations							
Government Supplementation	2,034.5	736.0	790.2	96.2	79.2	–	3,728.4
Department of Defence (absorbed)	–	7.7	–	–	–	–	7.7
Total Cost	2,034.5	736.0	790.2	96.2	79.2	–	3,736.1

Note: This table reflects on-going 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 2018-19*, table 3.

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

3. A decision was made in early May 2018 that the figures for Operation Augury - Philippines could be publicly released but this was not determined in time to incorporate the figures in the published *Portfolio Budget Statements 2018-19*.

4. The expenditure for Defence Support to the 2018 Commonwealth Games measure in 2016-17 actual result was \$0.004m.

Table 4.7: **Net additional cost of operations, 2017-18**

	2017-18 budget estimate ¹ \$m	2017-18 estimated actual ² \$m	2017-18 actual result \$m	Variation \$m
Operation MANITOU	54.2	54.2	62.3	8.1
Operation ACCORDION	222.2	222.2	215.2	(7.0)
Operation HIGHROAD	83.5	83.5	82.4	(1.1)
Operation RESOLUTE ³	55.6	55.6	50.2	(5.4)
Operation OKRA	453.6	453.6	305.7	(147.9)
Operation AUGURY - Philippines ⁴	–	39.1	12.5	(26.6)
Defence Support to the 2018 Commonwealth Games	33.9	33.9	7.7	(26.2)
Total Net Additional Costs	903.1	942.2	736.0	(206.2)

Note: This table reflects on-going and new Operations funded under No Win, No Loss arrangements.

1. As published in the *Portfolio Budget Statements 2017-18* table 3.

2. As published in the *Portfolio Budget Statements 2018-19* table 3.

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

4. A decision was made in early May 2018 that the figures for Operation Augury - Philippines could be publicly released but this was not determined in time to incorporate the figures in the published *Portfolio Budget Statements 2018-19*.

From Left, Neil Taverner, Bryan Clarke, Alan Lavery (from Ron Allum Deepsea Services), and Peter Formby from the Defence Science and Technology Group with the Sun Ray Glider at Woronora Dam, Sydney.



A new model for innovation in Defence

The 2016 Defence Industry Policy Statement outlined a single innovation pipeline to deliver future Defence capability.

The innovation pipeline consists of two signature programs – the Defence Innovation Hub and the Next Generation Technologies Fund. These programs actively encourage collaboration across industry and academia to develop innovative capability solutions.

The Defence Innovation Hub, with funding of \$640 million to 2025–26, brings industry and Defence together to undertake collaborative innovation activities from concept through to introduction into service. Defence works with industry to develop technologies that have progressed from the early science stages into the engineering and development stages of the innovation process.

A more focused, coordinated and transparent approach to innovation has ensured that investment priorities are coherent across Defence and aligned with Defence strategy. This new approach was well received by the market. In 2017–18:

- 88 per cent of all innovation proposals received by the Hub aligned with Defence's top three innovation priority capability streams
- 76 per cent of contracts were awarded to small-to-medium enterprises and micro-businesses.

The Next Generation Technologies Fund, with a budget of \$730 million to 2025–26, focuses on research and development in future technologies under nine identified priority areas that can create or prevent strategic surprise and lead to game-changing capabilities. Seven specific programs were chosen, each with a different model of collaboration to stimulate innovation. They include:

- The Grand Challenge program to solve intractable problems by inviting solutions from multiple sources and disciplines. Defence received over 200

proposals for the first Grand Challenge to counter improvised threats without casualties. Twenty-two organisations were selected to collaborate on a threat detection-and-defeat prototype for delivery in four years.

- The Defence Cooperative Research Centre for Trusted Autonomous Systems, established in May 2018, to deliver game-changing autonomous technologies to Defence, using academic and industry partners as research providers. The inaugural participating members are BAE Systems, DefendTex, RMIT University and Defence Science and Technology.
- The Small Business Innovation Research for Defence program to harness the innovation potential of Australia's small-to-medium enterprises. Collaboration includes the Fight Recorder—a soldier-worn emergency beacon to capture battlefield data, being developed by two small firms, Myriota in South Australia and IMeasureU in New Zealand.
- The US-Australia International Multidisciplinary University Research Initiative program for Australian universities to participate in the United States Department of Defense's Multidisciplinary University Research Initiative on defence capability projects. In 2017–18, four Australian universities were selected to collaborate with a number of US universities on quantum technologies and advanced material sciences which are critical for future defence capabilities.

The new Defence innovation system is leveraging the expertise of the larger science and technology community in Australia to improve the competitiveness and sustainability of the country's defence industry while underpinning the ADF's capability edge.



CORPORATE GOVERNANCE

Australian Army soldier Corporal Jared Smart from Townsville's 5th Aviation Regiment stands in front of Taipan MRH-90 multi-role helicopter during preparations for the 2018 Gold Coast Commonwealth Games in Queensland.

ONE DEFENCE | Our continuing journey

2014



Government commissioned the First Principles Review (FPR) to ensure Defence was fit for purpose and able to respond to future challenges.

2015



75 recommendations to create a more unified and integrated organisation, more consistently linked to its strategy and clearly led by its centre.

2017



Implementation of detailed project plans (2015–2017) that cover ongoing work associated with the Review's recommendations.

71 of the 75 recommendations have now been completed. 2017–2018 highlights include:

Government approved a revised approval process for Defence capability proposals based on the relative risk—reducing approval from 16 weeks to six weeks.

A revised performance management system, revising the reward and recognition framework, and continuing to promote the senior leadership group performance framework.

The second annual update on progress was provided in August 2017, and will now be complemented by this third annual update.

71/75
recommendations



as at
June
2018

The Australian National Audit Office released a performance audit of Defence's implementation of the Review in April 2018:

The audit was broadly positive, noting that implementation has been largely successful.

Some areas were identified where Defence's implementation represents best practice, and other departments and agencies could learn from Defence's example.

The remaining recommendations relate to Systems Program Office (SPO) reform. This work is complex, with the Capability Acquisition and Sustainment Group reviewing each SPO to ensure it is operating as efficiently as possible. Defence expects to continue implementing Systems Program Office reform until 2023.

Work also continues on increasing thresholds for referral to the Parliamentary Standing Committee on Public Works. While the FPR recommended increasing the financial thresholds for referrals, Defence is developing a risk-based framework that would enable the Public Works Committee to focus its scrutiny on higher risk Defence infrastructure proposals.

Beyond 2017–2018, Defence will continue to embed change and drive wider reform with a focus on...



building a single integrated Defence organisation, both civilian and military, working towards a common goal



cultural reform, building an environment where leaders are accountable for a positive culture



improving capability life cycle and ensuring reforms are adopted across the organisation



delivering Government's Defence industry agenda and the recapitalisation outlined in the Defence White Paper

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.

Senior management committees and their roles

Defence's enterprise management and advisory committees 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's 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 2018.

Table 5.1: **Membership of the Defence Committee as at 30 June 2018**

Position	Incumbent
Secretary (Chair)	Mr Greg Moriarty
Chief of the Defence Force (alternative Chair)	Air Chief Marshal Mark Binskin
Associate Secretary	Ms Rebecca Skinner (acting)
Vice Chief of the Defence Force	Vice Admiral Ray Griggs
Deputy Secretary Strategic Policy and Intelligence	Mr Scott Dewar (acting)
Chief Finance Officer	Mr Steven Groves

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 2018.

Table 5.2: Membership of the Enterprise Business Committee as at 30 June 2018

Position	Incumbent
Associate Secretary (Chair)	Ms Rebecca Skinner (acting)
Vice Chief of the Defence Force	Vice Admiral Ray Griggs
Chief of Joint Capabilities	Air Vice-Marshal Warren McDonald
Deputy Secretary Strategic Policy and Intelligence	Mr Scott Dewar (acting)
Chief Finance Officer	Mr Steven Groves
Chief of Navy	Vice Admiral Tim Barrett
Chief of Army	Lieutenant General Angus Campbell
Chief of Air Force	Air Marshal Gavin (Leo) Davies
Deputy Secretary Capability Acquisition and Sustainment	Mr Kim Gillis
Deputy Secretary Defence People	Ms Justine Greig
Chief Information Officer	Mr Stephen Pearson
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 focuses on the future force. The committee 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 2018.

Table 5.3: Membership of the Investment Committee as at 30 June 2018

Position	Incumbent
Vice Chief of the Defence Force (Chair)	Vice Admiral Ray Griggs
Associate Secretary	Ms Rebecca Skinner (acting)
Deputy Secretary Strategic Policy and Intelligence	Mr Scott Dewar (acting)
Chief Finance Officer	Mr Steven Groves
Chief of Navy	Vice Admiral Tim Barrett
Chief of Army	Lieutenant General Angus Campbell
Chief of Air Force	Air Marshal Gavin (Leo) Davies
Chief of Joint Capabilities	Air Vice-Marshal Warren McDonald
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
Director General Australian Signals Directorate	Mr Mike Burgess
Deputy Director General from the Office of National Intelligence (permanently invited official)	Dr Paul Taloni
First Assistant Secretary Contestability (permanently invited official)	Mr Cyril Karo (acting)

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 2018.

Table 5.4: **Membership of the Defence Audit and Risk Committee as at 30 June 2018**

Position	Incumbent
External member (Chair)	Mr Paul Rizzo
External member (Deputy Chair)	Mr Alan Beckett
Associate Secretary	Ms Rebecca Skinner (acting)
Vice Chief of the Defence Force	Vice Admiral Ray Griggs
External member	Ms Jennifer Clark
First Assistant Secretary Audit and Fraud Control	Dr Tom Clarke (acting)
Chief Finance Officer (Observer)	Mr Steven Groves
Australian National Audit Office (Observer)	Ms Serena Buchanan / Mr David Brunoro
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 ADF and for governing achievement of the Chief of the Defence Force's 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 *Public Governance, Performance and Accountability Act 2013* (PGPA Act) obliges all Commonwealth officials to apply good governance and management practices in their day-to-day work.

Defence's enterprise performance is achieved by ensuring that the Government's strategic direction and policy requirements are translated into corporate planning and budget allocation, which can then be implemented and resourced through Group and Service business plans. Performance and risks to achievement are monitored and reported by Responsible and Accountable Officers to the Enterprise Business Committee, the Defence Committee and the Minister for Defence.

In 2017–18 Defence undertook a body of work to improve the quality of planning and reporting, guided by the Department of Finance and the Enhanced Commonwealth Performance Framework. Defence's Enterprise Performance Management 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 is a key element of Defence's enterprise performance management. It includes the 2016 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.

The performance criteria in the *2017–18 Defence Corporate Plan* and the *Portfolio Budget Statements 2017–18* demonstrate a clearer relationship between Corporate Plan activities and Portfolio Budget Statements deliverables than in 2016–17. Lessons from performance reporting during 2017–18 have enabled further alignment of the performance information in the *Portfolio Budget Statements 2018–19* and the *2018–19 Defence Corporate Plan*. This will enable Defence to continue to create a clearer line of sight in the *Defence Annual Report 2018–19*.

Risk

Defence's risk management approach has matured further in 2017–18, with prioritised activities in a number of key areas. Defence is:

- stocktaking legislative compliance obligations to ensure they are being met in accordance with Commonwealth standards and the expectations of Government
- embarking on a process to identify the pressures that affect Defence's capacity to deliver at an organisational level
- building awareness of the need to strengthen links between on-the-ground risk management and whole-of-enterprise risk management within Defence.

Defence's senior leadership risk training program fosters a positive risk culture and builds senior leaders' ability to recognise key and emerging risk management issues as administrators. The training continued in 2017–18, with 40 SES/Star rank participants over the 12 months.

In 2017–18 two independent reviews of the Defence Risk Management Framework and the proposed internal control assurance processes were undertaken. The recommendations from these reviews will form part of a three-year forward work program to mature Defence's approach to risk management and governance. The focus will be on greater information sharing, robust evidence-based performance measures and a closer relationship between risk and performance monitoring across the enterprise.

Major Projects Report

The annual Major Projects Report reviews and analyses progress on selected major acquisition projects that Defence manages. Its aim is to improve the accountability and transparency of Defence acquisitions for the benefit of Parliament and other stakeholders. The report is a joint publication between Defence and the Australian National Audit Office (ANAO), and it is prepared in accordance with guidelines endorsed by the Joint Committee of Public Accounts and Audit. The Joint Committee of Public Accounts and Audit assesses the overall content, accessibility and transparency of the information provided in the Major Projects Report as well as specific details of individual projects.

The Joint Committee of Public Accounts and Audit's review of the *2015–16 Major Projects Report* (ANAO report no 40 of 2016–17) was published in October 2017. The Major Projects Report is usually published in November each year. However, the tabling date depends on the resolution of issues that arise in any given year. The published reports are available on the ANAO website: www.anao.gov.au/pubs.

Capability delivery

The Capability Life Cycle commenced in April 2016 to address First Principles Review Recommendation 2, which called for Defence to 'Establish a single end-to-end capability development function within the Department to maximise the efficient, effective and professional delivery of military capability'. The Capability Life Cycle is Defence's response to this recommendation.

Over the last two years, Defence has implemented the Capability Life Cycle, which is the mechanism that delivers the Government's capability aspirations outlined in the 2016 Defence White Paper and the Integrated Investment Program. The Capability Life Cycle provides Defence with an end-to-end process for capability development and delivery of capital projects, and associated through-life support, related to major capital equipment, infrastructure, enterprise enablers and information and communications technology. Several factors were key to this success:

- *Enhanced Capability Managers accountability:* The new Capability Life Cycle has been designed with strong partnerships between the Capability Managers (customers) and the Delivery Groups (suppliers) founded on clear end-to-end accountabilities and responsibilities. Program and Project Sponsors work closely with the Delivery Group to ensure that they have a clear and achievable plan (in terms of both time and resources) to deliver and sustain all fundamental inputs to capability before the acquisition phase begins.
- *The maturing of the Six Capability Stream Framework:* The 2016 Defence White Paper and accompanying Integrated Investment Program introduced six 'capability streams':
 - Intelligence, Surveillance, Reconnaissance, Space, Electronic Warfare and Cyber
 - Maritime and Anti-Submarine Warfare
 - Strike and Air Combat
 - Land Combat and Amphibious Warfare
 - Key Enablers
 - Air and Sea Lift.

Capability streams better represent the key force elements and support a clearer picture between strategy, capability and resources. The introduction of the capability streams has assisted in reducing 'stovepipes' in Defence (that is, preventing a situation where the flow of information within Defence is largely up and down through lines of control, inhibiting or preventing cross-organisational communication) and shift the focus from a project-centric view to a capability effect view of Defence investment activities.

- *Integration and continuous improvement of Force Design, Contestability and the Smart Buyer decision-making framework:* Defence has continued to refine and embed these key functions across the organisation. Force Design takes a lead role in providing decision-makers with evidence-based analysis, aligned with strategic guidance, to enable capability investment decisions. Contestability assures senior Defence decision-makers that proposals have been robustly examined. Through the application of the Smart Buyer decision-making



Wing Commander Darren Clare is marshalled into the parking area by a Lockheed Martin maintainer after returning from a training mission where his wingman Squadron Leader David Bell flew the 1000th sortie in a Royal Australian Air Force F-35A.

Vision for success

The Williamstown-based Tactical Fighter Systems Program Office is responsible for acquisition and sustainment of the F/A-18AB Classic Hornet.

In July 2016 the Hornets had only four years' service life remaining, and the Systems Program Office had to plan for closure in December 2021 while maintaining high-tempo and deployed operations.

They began an ambitious reform agenda to outsource Hornet support and save the Commonwealth \$13 million over 4.5 years while releasing 98 staff to other Air Force capability projects. The challenge required an agile approach and the critical changes were achieved in only 18 months.

Tactical Fighter Systems Program Office leadership set a clear mission statement: transform to support the establishment of fifth generation air power while delivering air combat capability. This helped Defence staff understand the need to contribute to higher Defence goals and reaffirmed the need to maintain quality support for Air Force throughout the reform process.

The result was a relationship-based contract with Boeing to deliver sustainment services for the Classic Hornet fleet. Building trust and a common understanding of the challenge with Boeing was key.

Despite the challenge of working in a change environment, the personal commitment to Defence from both Commonwealth and Boeing staff resulted in historically high Classic Hornet performance levels.

The Tactical Fighter Systems Program Office now operates on a 'lean' model, focusing on governance and assurance so that the contract delivers on Commonwealth and Air Force expectations.

Three key factors contributed to the success of the Tactical Fighter Systems Program Office's reforms. First, strong, evident and committed leadership provided a clear vision of maintaining air combat capability. Second, the Systems Program Office built the right team to guide the change. Finally, transparency with staff, customers and industry support partners was essential for cultivating trust and credibility.

framework, Defence is becoming more effective in identifying key project risks and developing suitable project management, acquisition and sustainment strategies that deliver the best value for money. This ensures that timely and informed decisions can be made for each project, based on an understanding of risk.

Overall the implementation of the Capability Life Cycle is enabling Defence to deliver on the ambitious \$200 billion recapitalisation outlined in the 2016 Defence White Paper. This is evidenced through the significant throughput to Government discussed further in Chapter 8, 'Capability investment'.

For more information on the Capability Life Cycle, see the Capability Life Cycle Detailed Design.

Audit

The Defence internal audit program provides independent assurance to senior internal stakeholders on the department's controls and the effectiveness of those controls in mitigating strategic enterprise risks. In 2017–18, 20 audit reports were issued and nine management-directed review tasks were completed.

Defence also supported audit activities undertaken by the ANAO. In 2017–18, the Auditor-General completed five performance audits on Defence, one cross-portfolio audit involving Defence, and the priority assurance review (Major Projects Report).

Defence also monitors the implementation of recommendations from internal audits and ANAO audits, reporting to the Defence Audit and Risk Committee and the Enterprise Business Committee.

Fraud and ethics

In 2017–18 Defence continued to meet its mandatory obligations to prevent, detect and respond to fraud and corruption in line with the Commonwealth Fraud Control Framework 2017. Defence has a comprehensive fraud and corruption control program, which uses a range of strategies to manage, evaluate and report fraud and corruption activities. Defence:

- promotes integrity and development of a strong ethical culture through mandatory and focused training, publications and an ethical advice service
- runs a rigorous fraud and corruption risk assessment program focusing on Defence-wide vulnerabilities
- has an intelligence-led and targeted fraud and corruption detection program
- investigates fraud, corruption, misconduct and unethical conduct and applies the appropriate criminal, civil, administrative or disciplinary action
- recovers the proceeds of fraudulent and corrupt conduct
- develops and strengthens partnerships, at the Commonwealth and international levels, to facilitate information-sharing arrangements.

Investigations

In 2017–18, there were 249 fraud investigations registered within Defence, with 242 investigations completed during the year (some of those completed were registered in previous years). Approximately 33 per cent of completed investigations resulted in criminal, disciplinary or administrative action. Of these, approximately 27 per cent related to disciplinary action under the *Defence Force Discipline Act 1982*.

Table 5.5: **Determined fraud losses and cash recoveries, 2013–14 to 2017–18**

	2013–14 (\$)	2014–15 (\$)	2015–16 (\$)	2016–17 (\$)	2017–18 (\$)	Total
Loss	1,400,422	480,937	535,766	608,593	605,351	3,631,069
Cash recovery ¹	430,239	418,120	272,380	425,165	795,438	2,341,342

Notes:

1. In previous annual reports the cash recovery figure showed the total amount recovered for investigations closed within the financial year. This enabled a direct comparison on the same dataset for the fraud loss and the amount recovered at a point in time. However, as recovery action can span many financial years, this method under-reported the actual recovery payments received in the financial year for all fraud matters. The table has been changed to show the cash recovery figure relating to payments received in the financial year, regardless of the year in which the investigation was closed, and includes recoveries relating to matters that are currently the subject of investigation.

Compliance with finance law

During 2017–18, Defence reported 26 instances of significant noncompliance with the finance law which were proven as fraud committed by an official. Defence authorities addressed these instances through criminal, or disciplinary prosecution 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 in Division 1AA of the *Customs Act 1901* (the Act), 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 2017 to 30 June 2018, the Minister for Defence did not exercise the powers pursuant to Division 1AA of the Act.

Report of the Inspector-General of the Australian Defence Force

The Inspector-General of the Australian Defence Force independently and impartially monitors and assesses the health and effectiveness of the ADF military justice system. The position of Inspector-General of the Australian Defence Force is established under section 110B of the *Defence Act 1903*. This statutory appointment is outside the ordinary chain of command.

The functions of the Inspector-General of the Australian Defence Force 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 ADF members (where the death appears to have arisen from, or in the course of, the member’s Defence service)
- inquire into or investigate matters concerning the ADF as directed by the Minister or the Chief of the Defence Force.

In 2017–18 the operating tempo in the Office of the Inspector-General of the Australian Defence Force increased significantly compared with previous reporting periods. There was an increase in the number of submissions received for investigation or inquiry, an increase in the number of military justice performance audits conducted, and an increase in the number of inquiries into deaths in service being completed.

There were also 48 open inquiry submissions carried over from 2016–17. In 2017–18, the Inspector-General of the Australian Defence Force received 65 new inquiry submissions—an approximate increase of 6 per cent over the number submitted in 2016–17. Approximately 30 per cent of those submissions proceeded to a full inquiry—a figure comparable to previous reporting periods. As at 30 June 2018, 53 submissions had been finalised as a result of Inspector-General of the Australian Defence Force inquiry or assessment and 60 submissions remain under inquiry.

The Inspector-General of the Australian Defence Force received an additional 35 notifications of possible Service Police professional standards breaches. Of those, 24 became the subject of investigations. The Inspector-General of the Australian Defence Force assessed the remaining 11 notifications as matters that should more appropriately be addressed by another Defence Investigative Authority or the military chain of command.

At the request of the Chief of Army, and at the direction of the Chief of the Defence Force, the Inspector-General of the Australian Defence Force has established an inquiry into rumours of breaches of the law of armed conflict in Afghanistan between 2005 and 2016 and associated matters. In 2017–18, the inquiry gained significant momentum after a public call for information was made on 1 September 2017. The public call concluded on 3 November 2017, and the inquiry is now pursuing additional lines of inquiry. Over 200 witnesses have been interviewed to date.

In 2017–18, the Inspector-General of the Australian Defence Force conducted 57 military justice performance audits—a slight increase of approximately 8 per cent from 2016–17. Potential material deficiencies were identified in three ADF units, which means they will be re-audited within 12 months. During the conduct of the military justice performance audits, 3,690 ADF personnel participated in focus group discussions.

In 2017–18, the Inspector-General of the Australian Defence Force initiated 40 new reviews of deaths of serving ADF members and finalised 69 reviews (24 from deaths that occurred in 2017–18 and 45 from deaths in previous reporting periods).

In 2017–18, the Inspector-General of the Australian Defence Force received 392 new applications for redress of grievance—a decrease of approximately 8 per cent from 2016–17. As at 30 June 2018, 397 applications had been finalised (285 applications received in 2017–18 and 112 in previous reporting periods).

Pursuant to section 110R of the *Defence Act 1903*, the Inspector-General of the Australian Defence Force prepares an annual report on the operations of the Office 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 Inspector-General of the Australian Defence Force Annual Report are detailed in Appendix B.

Women, Peace and Security in 2017–18

Defence seeks to situate itself as a world leader in the operational application of the Women, Peace and Security Agenda, and will complete all action items required to implement the Australian National Action Plan by December 2018.

In April 2017, the then-Minister for Defence, Senator the Hon Marise Payne, announced the creation of a Fellowship for Women, Peace and Security at University of New South Wales, Canberra and appointed the inaugural Minister's Fellow in February 2018. The fellowship is a two-year appointment that seeks to advance Defence's understanding of Women, Peace and Security through academic progress and contribute to Defence's role as a regional leader.

In the South Pacific, Defence Ministers endorsed a Women, Peace and Security initiative during the South Pacific Defence Ministers' meeting in 2015. The initiative involves sponsoring women from Defence forces in Papua New Guinea, Tonga and Fiji to attend Women, Peace and Security seminars in Australia, and uses other initiatives such as the South Pacific Future Leaders' Summit (most recently held in March 2018) to provide modules on Women, Peace and Security implementation.

In April 2018, Australia hosted the first Association of Southeast Asian Nations and Australia 'Dialogue on Women, Peace and Security' with support from the Australian Civil-Military Centre. The dialogue was opened by the Minister for Women, the Hon Kelly O'Dwyer MP, and closed by the Minister for Defence. The dialogue followed from the Association of Southeast Asian Nations and Australia Special Summit, hosted by the Prime Minister in Sydney on 17–18 March 2018, and was the first opportunity for Association of Southeast Asian Nations and Australia to collaborate in support of the Women, Peace and Security Agenda. Robust discussions, facilitated by the dialogue, resulted in recommendations to address increasing and diverse challenges in the region.



Royal Australian Air Force officer and Senior Gender Adviser, Group Captain Kirrily Dearling, of Headquarters Resolute Support, is a North Atlantic Treaty Organisation embed deployed to Kabul on Operation HIGHROAD.

In support of Afghanistan, Australia provides a senior gender advisor at the North Atlantic Treaty Organisation Resolute Support mission Headquarters. The gender advisor leads a team of advisors from coalition partners to ensure the meaningful participation and integration of women into the Afghan National Defense and Security Forces. This includes developing recruitment and career progression plans and providing a gender perspective on all planning and activities in the mission. An important component of Australia's contribution is the building of new facilities to support increased female participation in the Afghan National Defense and Security Forces.

In late 2017, Australia deployed the first ever Gender Advisor to the Global Coalition against Daesh. The Gender Advisor initiated a number of substantial activities in support of the Women, Peace and Security Agenda in Iraq, including the development and coordination of an Embassy-led gender working group and development of specific initiatives to reintroduce women into the Iraqi Security Forces.



ASSURANCE

Royal Australian Air Force officer, Flight Lieutenant Maggy Wong supports personnel at RAAF Base Tindal.

Parliamentary business

In 2017–18, Defence provided 17 written submissions to various Senate, House of Representatives and joint committee inquiries. Defence witnesses appeared at 24 hearings and provided evidence on a range of issues. Defence took a total of 704 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 six government responses to parliamentary committee reports throughout the year.

To assist parliamentary committee members to gain a better understanding of Defence issues, Defence provided 25 private briefings on a range of subjects.

Table 6.1 provides a summary of Defence's parliamentary contributions in 2017–18 and the three preceding years.

Table 6.1: Defence's parliamentary contributions, 2014–15 to 2017–18

Parliamentary contribution	2014–15	2015–16	2016–17	2017–18
Written submissions	10	11	21	17
Whole-of-government submissions	–	–	3	3
Government responses	7	12	14	6
Public hearings	25	36	19	24
Private briefings	12	14	24	25
Total	54	73	81	75

Parliamentary committees

Table 6.2 lists Defence's involvement in inquiries and reviews by parliamentary joint committees between 1 July 2017 and 30 June 2018. Defence's involvement in hearings of the Parliamentary Standing Committee on Public Works is provided separately below.

Table 6.2: Defence's involvement with parliamentary joint committees, 2017–18

Joint Standing Committee on Electoral Matters
Inquiry into and report on all aspects of the conduct of the 2016 Federal Election and matters related thereto
Joint Standing Committee on Foreign Affairs, Defence and Trade
Inquiry into the benefits and risks of a Bipartisan Australian Defence Agreement, as a basis of planning for, and funding of, Australian Defence capability
Review of the Defence Annual Report 2015–16
Joint Standing Committee on National Capital and External Territories
Inquiry into Australia's Antarctic Territory
Inquiry into the Strategic Importance of the Indian Ocean Territories ¹
Parliamentary Joint Committees on Intelligence and Security
Review of Administration and Expenditure No 16 (2016–17) ²
Joint Committee of Public Accounts and Audit
Australian Government Contract Reporting—Inquiry based on Auditor-General's report No 19 (2017–18)
Report 470: Defence Sustainment Expenditure
Inquiry into the 2015–16 Defence Major Projects Report 2015–16 ³
Inquiry into the 2016–17 Defence Major Projects Report
Joint Standing Committees 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 ⁴
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 ⁵
Inquiry to examine the agreement between the Government of Australia and the Government of the Republic of Singapore concerning the Republic of Singapore Air Force Flying Training Institute Detachment at Royal Australian Air Force Base Pearce

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

Inquiry to examine the agreement between the Government of Australia and the Government of Solomon Islands Concerning the Basis for Deployment of Police, Armed Forces and other Personnel to Solomon Islands

Parliamentary Joint Committee on Human Rights

Report 12 of 2017: Human rights scrutiny report

Report 3 of 2018: Human rights scrutiny report

Note: Defence's involvement in hearings of the Parliamentary Standing Committee on Public Works is discussed separately. Defence major projects and medium works referred or notified to the committee in 2017–18 are shown in tables 6.3 and 6.4.

1. The Department of Defence was involved in this inquiry during 2016–17 and 2017–18.
2. The Department of Defence was involved in this inquiry during 2016–17 and 2017–18.
3. The Department of Defence was involved in this inquiry during 2016–17 and 2017–18.
4. The Department of Defence was involved in this inquiry during 2016–17 and 2017–18.
5. The Department of Defence was involved in this inquiry during 2016–17 and 2017–18.

Parliamentary Standing Committee on Public Works

In 2017–18, Defence witnesses appeared at 11 hearings of the Parliamentary Standing Committee on Public Works. Defence referred 10 major projects and notified eight medium works to the committee in 2017–18.

Table 6.3: Defence major projects referred to the Parliamentary Standing Committee on Public Works, 2017–18

Project	Location	Value (\$m)
Joint Health Command Garrison Health Facilities Upgrade Project	Multiple	212.5
Engine Test Cell 1 Upgrade Project at Royal Australian Air Force Base Amberley	Royal Australian Air Force Base Amberley	23.7
JP157 Phase 1 Replacement Aviation Refuelling Vehicles	Multiple	40.4
SEA1654 Ph 3 Maritime Operations Support Capability	Multiple	220.5
Larrakeyah Barracks Redevelopment	Larrakeyah Barracks	223.0
Facilities to Support Naval Operations in the North	Multiple	272.5
Garden Island Critical Infrastructure Recovery Project Stage 2	Garden Island Defence Precinct	286.5
JP2110 Ph1B Chemical, Biological, Radiological & Nuclear Capability Facilities	Multiple	23.0
AIR 2025 Phase 6 Jindalee Operational Radar Networks	Multiple	50.7
Point Wilson Waterside Infrastructure Redevelopment	Victoria—Jagajaga	218.9
Total		1,571.7

Table 6.4: Defence medium works notified to the Parliamentary Standing Committee on Public Works, 2017–18

Project	Location	Value (\$m)
LAND 9000 Chinook Configuration Alignment Program	Royal Australian Air Force Base Townsville	7.0
Defence Site Maribyrnong Remediation	Defence Site Maribyrnong	3.0
Robertson Barracks Small Arms Range Project	Robertson Barracks	6.9
Proof and Experimental Establishment Vibration Test Facility Port Wakefield	Port Wakefield	8.5
DEF799-1 Geospatial Intelligence Satellite	Multiple	10.3
SEA 1778 Ph1 Deployable Mine Counter Measures	Multiple	3.8
Royal Australian Air Force Base Pearce—Upgrade of Potable Water Infrastructure	Royal Australian Air Force Base Pearce	7.1
Building 106 Extensions and Alterations, Environmental Test Facility Proof and Experimental Establishment	Port Wakefield	5.2
Total		51.8

Senate committees

Table 6.5 lists Defence's involvement in Senate inquiries from 1 July 2017 to 30 June 2018.

Table 6.5: **Defence's involvement with Senate committees, 2017–18**

Senate Economics References Committee
Inquiry into the future of Australia's naval shipbuilding industry ¹
Inquiry into the future sustainability of Australia's strategically vital steel industry and its supply chain
Senate Finance and Public Administration Legislation Committee
Government Procurement (Judicial Review) Bill 2017 [provisions]
Senate Finance and Public Administration References Committee
Inquiry into the digital delivery of government services
Senate Foreign Affairs, Defence and Trade Legislation Committee
Intelligence Services Amendment (Establishment of the Australian Signals Directorate) Bill 2018
Senate Foreign Affairs, Defence and Trade References Committee
Inquiry into the implications of climate change for Australia's national security
Inquiry into the Department of Defence's management of credit and other transaction cards ²
Inquiry into the impact of Defence training activities and facilities on rural and regional communities ³
Inquiry into the operation of the Australian Defence Force's Resistance to Interrogation Training ⁴
Inquiry into the use of the Quinoline anti-malarial drugs Mefloquine and Tafenoquine in the Australian Defence Force
Inquiry into suicide by veterans and ex-service personnel ⁵
Senate Legal and Constitutional Affairs Legislation Committee
Judiciary Amendment (Commonwealth Model Litigant Obligations) Bill 2017
Senate Standing Committee for the Scrutiny of Bills
Intelligence Services Amendment (Establishment of the Australian Signals Directorate) Bill 2018
Senate Standing Committee on Regulations and Ordinances
Defence Determination (Short-term overseas duty travel and benchmark schools) 2018 (No 2)
Senate Rural and Regional Affairs and Transport Legislation Committee
Air Services Amendment Bill 2018
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 ⁶

Notes:

1. The Department of Defence was involved in this inquiry during 2016–17 and 2017–18.
2. The Department of Defence was involved in this inquiry during 2016–17 and 2017–18.
3. The Department of Defence was involved in this inquiry during 2016–17 and 2017–18.
4. The Department of Defence was involved in this inquiry during 2016–17 and 2017–18.
5. The Department of Defence was involved in this inquiry during 2016–17 and 2017–18.
6. The Department of Defence was involved in this inquiry during 2016–17 and 2017–18.

House of Representatives committees

Table 6.6 lists Defence's involvement in House of Representatives inquiries from 1 July 2017 to 30 June 2018.

Table 6.6: **Defence's involvement with House of Representatives committees, 2017–18**

House of Representatives Select Committee on Regional Development and Decentralisation
Inquiry into Regional Development and Decentralisation

Senate estimates and questions on notice

Defence attended four estimates hearings of the Senate Standing Committee on Foreign Affairs, Defence and Trade in 2017–18. A total of 469 questions were taken on notice.

In 2017–18, Defence was asked a total of 46 questions in the Senate and House of Representatives. For parliamentary inquiries, Defence was asked a total of 189 questions during 2017–18.

Table 6.7 provides information on Defence's activities in relation to the Senate estimates process from 1 July 2017 to 30 June 2018. Table 6.8 presents a breakdown of the parliamentary questions on notice.

Table 6.7: **Defence's involvement with Senate estimates, 2017–18**

Senate Standing Committee on Foreign Affairs, Defence and Trade	
Supplementary Budget Estimates 2017–18	Defence witnesses appeared at a hearing on 25 October 2017. A total of 144 questions, consisting of 227 parts, were taken on notice from the hearing.
Supplementary Budget Estimates (Spill-Over) 2017–18	Defence witnesses appeared at a hearing on 15 December 2017. A total of 11 questions, consisting of 63 parts, were taken on notice from the hearing.
Additional Estimates 2017–18	Defence witnesses appeared at a hearing on 28 February 2018. A total of 141 questions, consisting of 568 parts, were taken on notice from the hearing.
Budget Estimates 2018–19	Defence witnesses appeared at a hearing on 29–30 May 2018. A total of 173 questions, consisting of 429 parts, were taken on notice from the hearing.

Table 6.8: **Defence's questions on notice, 2014–15 to 2017–18**

Source of questions on notice	2014–15	2015–16	2016–17	2017–18
House of Representatives / Senate notice paper	134	142	37	46
Senate estimates (October, February and May)	359	314	432	469
Parliamentary inquiries	134	80	110	189
Total	627	536	579	704

Judicial and administrative tribunal decisions

In *Gaynor v Chief of the Defence Force* S86/2017, the High Court of Australia dismissed, with costs, the application for special leave to appeal from the whole judgement and order in *Chief of the Defence Force v Gaynor* [2017] FCAFC 41. The significance of the Full Federal Court's decision was that the implied freedom of political communication 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.

In *Secretary, Department of Defence and Thomas (Freedom of Information)* [2018] AATA 604, the Administrative Appeals Tribunal set aside the decision of the Information Commissioner to give Mr Thomas access to certain documents—namely, text messages between the Chief of the Defence Force and Vice Chief of the Defence Force—on the basis that giving access would, on balance, be contrary to the public interest.

In *Rowley v Chief of Army* [2017] FCA 1119, the Federal Court of Australia dismissed the applicant's application for judicial review of sentences of imprisonment imposed on him by a Defence Force Magistrate under the *Defence Force Discipline Act 1982*. The proceeding gave rise to a constitutional challenge to certain military justice

procedures and provisions of the Defence Force Discipline Act. This in turn raised some significant questions (concerning the extent of the defence power in times of peace and the ability of the executive to imprison someone by executive act without judicial oversight of that process). In rejecting the applicant's constitutional arguments that it was not within the defence power to impose a sentence of imprisonment in peacetime and/or without making provision for an appeal to a Chapter III Court, Her Honour concluded that the 'imposition of punishment including deprivation of liberty is within the defence power' and observed that the challenge 'fails to grapple with the fact that a service tribunal does not exercise the judicial power of the Commonwealth but is concerned with the imposition of discipline within the Defence Force'.

The Defence Force Discipline Appeals Tribunal dealt with two appeals during the reporting period. These cases (in order of judgement) were *O'Neill v Chief of Army* [2017] ADFDAT 6 and *Herbert v Chief of Air Force* [2018] ADFDAT 1. The tribunal's judgements may be obtained from its website (www.defenceappeals.gov.au). Notably, in *Herbert v Chief of Air Force*, a Royal Australian Air Force member unsuccessfully appealed against a conviction for obtaining financial advantage. The matter concerned the member's failure to inform Defence Housing Australia that he had another person residing with him. As a result of this failure, he received an overpayment of rental allowance. As a failure to inform is an omission to act, there can be no criminal or disciplinary liability unless there is a legal duty to inform. The central issue was therefore whether a Determination made by the Minister's delegate under section 58B of the *Defence Act 1903* to provide for pay and conditions of service (including rental allowance) was a 'law of the Commonwealth' that imposed legal obligations on members. The Defence Force Discipline Appeals Tribunal decided that the Determination was a Commonwealth law that imposed a legal obligation to inform of changes to residential circumstances. This decision clarifies that the offence of obtaining financial advantage is potentially available where members receive payments they are not eligible for, whether that arises because of an act or a failure to act in accordance with the Determination.

Commonwealth Ombudsman and Defence Force Ombudsman reports

There were no formal reports to the Chief of the Defence Force pursuant to section 15 of the *Ombudsman Act 1976*, and there were no reports raised under section 16, 17 or 19 of the Act relating to the operations of the ADF during the period under review.

Auditor-General's reports

In 2017–18 the Auditor-General published six performance audit reports in relation to Defence and one priority assurance review.

Table 6.9: Auditor-General's performance audit reports on Defence, 2017–18

Report	Date presented to Parliament	Audit objective
ANAO report no 44—Defence's Management of Sustainment Products—Health Materiel and Combat Rations	29 May 2018	To review the effectiveness of Defence's arrangements for delivering selected non-platform sustainment.
ANAO report no 39—Naval Construction Programs—Mobilisation	14 May 2018	To assess the effectiveness to date of Defence's planning for the mobilisation of its continuous shipbuilding programs in Australia.
ANAO report no 34—Defence's Implementation of the First Principles Review	17 April 2018	To assess the effectiveness of Defence's implementation of the First Principles Review.
ANAO report no 28—Defence's Procurement of Fuels, Petroleum, Oils, Lubricants, and Card Services	19 February 2018	To assess whether Defence achieves value for money in the procurement of fuels.
ANAO report no 2—Defence's Management of Materiel Sustainment	11 July 2017	To assess whether Defence has a fit-for-purpose framework for the management of materiel sustainment.

Table 6.10: Auditor-General's cross-portfolio performance audit reports involving Defence, 2017–18

Report	Date presented to Parliament	Audit objective
ANAO report no 38—Mitigating Insider Threats through Personnel Security	11 May 2018	To assess the effectiveness of the Australian Government's personnel security arrangements for mitigating insider threats.

Table 6.11: Auditor-General's priority assurance review involving Defence, 2017–18

Report	Date presented to Parliament	Audit objective
2016–17 Major Projects Report	23 January 2018	To provide the Auditor-General's independent assurance over the status of selected Major Projects.

Organisational capability reviews

The Australian Public Service Commission did not conduct a review of Defence's organisational capability in 2017–18.

Freedom of information

During 2017–18, Defence received 520 requests for information under section 15 of the *Freedom of Information Act 1982*. It finalised 485 requests, including requests carried over from 2016–17. An additional six requests, for amendment or annotation of records of personal information, were managed under section 48 of the Freedom of Information Act.

Defence also received 59 internal reviews of freedom of information decisions. It finalised 64, including cases carried over from the previous financial year. Defence remained fully compliant with the legislative time frames throughout 2017–18.

Defence managed an additional 781 requests for information which did not proceed to a formal Freedom of Information decision. Of these, 288 were requests for access to personnel records. These were processed in accordance with section 15A of the Freedom of Information Act, which provides for access to be given in such cases through established administrative channels. Defence received 57 courtesy consultations from other government agencies in 2017–18.

Defence managed 46 external review cases submitted to the Office of the Australian Information Commissioner. The Office of the Australian Information Commissioner completed 17 reviews, and 29 are awaiting a decision from the Information Commissioner. Defence also managed five cases before the Administrative Appeals Tribunal, of which three were completed.

Additionally, nine external complaints relating to Defence freedom of information cases were submitted to the Office of the Australian Information Commissioner. Five of these were completed and four are awaiting a decision.

Contracts exempt from publication on AusTender

In 2017–18, Defence reported a total of 369 contracts, standing offers or variations, with a total value of \$399,285,654 subject to an exemption under the Freedom of Information Act. These exemptions were generally applied under the national security provisions of the Act.

Information Publication Scheme

Entities subject to the Freedom of Information 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 detailed in Attachment B.

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.

In 2017–18, Defence continued to work closely with the Commonwealth Ombudsman to ensure improvement and consistency with the rest of government in the implementation and operation of the *Public Interest Disclosure Act 2013*.

During 2017–18, Defence received a total of 231 matters reported under the Defence Public Interest Disclosure Scheme. Of these, Defence accepted 156 matters as public interest disclosures and allocated them for investigation.



Sub Lieutenant Lauren Beaufrils stands before a MRH-90 Taipan helicopter on the flight deck of HMAS Adelaide prior to a winch deck transfer to HMAS Darwin, as the Indo-Pacific Endeavour 2017 task group sails off the east coast of Australia.

Indo-Pacific Endeavour 2018

Indo-Pacific Endeavour is one of Defence's most important annual activities. It is a major contribution to regional security and stability and deepens Australia's engagement and partnerships with regional security forces.

The first iteration in 2017 was conducted in South-East Asia. 2018 saw the Indo-Pacific Endeavour Joint Task Group conduct military-to-military engagements and joint training activities in the South-West Pacific. The activities were designed to develop shared understanding, trust and the capacity to jointly respond to events in our region. The activities reinforced Australia's regional relationships and also our security and humanitarian response capabilities.

Conducted from June to September 2018, the Joint Task Group was made up of 1,200 personnel and four of the nation's most capable maritime assets: HMA Ships *Adelaide*, *Melbourne*, *Toowoomba* and *Success*.

The first port of call for *Adelaide* and *Melbourne* was Fiji, while *Toowoomba* and *Success* weighed anchor in Vanuatu.

In Fiji, 700 ADF personnel conducted combined training with the Republic of Fiji Military Forces. Activities included disaster assistance planning and security training as well as community engagement to reaffirm and expand the ability of the ADF and Fiji Military Forces to operate together.

The engagement program with Fiji was designed together and boosted the existing interoperability between the two militaries.

In Port Vila, Vanuatu, the ADF and local security forces worked collaboratively to conduct training and engagement activities with the Vanuatu Police Force, Vanuatu Mobile Force and the people of Vanuatu. Navy engineering specialist sailors also assisted the Vanuatu Police Force Maritime Wing to conduct maintenance work on Pacific Patrol Boat RVS *Tukoro*.

The next port visit for *Adelaide* and *Melbourne* was Nuku'alofa, Tonga, where the ADF conducted a range of activities shoulder-to-shoulder with His Majesty's Armed Forces of Tonga. The most important of these activities were amphibious exercises on nearby Pangaimotu Island, where the two countries were joined by United States Marine Corps and Sri Lankan Navy Marines.

As part of this visit, the then-Minister for Defence, Senator the Hon Marise Payne, gifted five Unimog trucks to His Majesty's Armed Forces of Tonga.

The Joint Task Group also visited Samoa, the Solomon Islands and Papua New Guinea to conduct training and community engagement activities, including women in leadership and medical workshops, and maintenance work to local schools, community facilities, and historic sites.

Additionally, the Joint Task Group conducted commemoration services for the loss of HMAS *AE1*, Australia's first submarine, which sank off the coast of Rabaul in 1914, and the sinking of HMAS *Canberra* during the WWII Pacific campaign.

Australian Army special operations soldiers from the Special Air Service Regiment rehearse parachuting display ahead of the official opening of the new facilities at Campbell Barracks, Swanbourne, Perth, on Friday, 11 May 2018.





STRATEGIC
WORKFORCE
MANAGEMENT

Denisse Valenzuela (APS), Lieutenant Colonel Michael Pearson (Army), Commander Etienne Mulder (Navy) and Wing Commander Kathryn Stein (Air Force).

Workforce summary

Defence continued to build an integrated Australian Defence Force (ADF) and Australian Public Service (APS) workforce with the skills needed to deliver capability, with a particular focus on the intelligence, cyber, and science, technology, engineering and mathematics workforce. A key focus in 2017–18 was implementation of the Defence Strategic Workforce Plan 2016–26 and the ADF Total Workforce Model, along with several reforms to ADF transition services. Two key initiatives used to manage and develop Defence APS employees were the Job Families Renewal Project and a new APS skills framework.

The Defence cultural reform program, Pathway to Change, and reforms under the First Principles Review remained a priority, with an emphasis on behaviour and accountability. On 20 November 2017, the Secretary and Chief of the Defence Force launched *Pathway to Change: Evolving Defence Culture 2017–22*.

Defence has attracted and retained a broader range of talent, with the diversity profile improving for women and Indigenous Australians. Defence continues to implement programs and initiatives that harness the knowledge, skills and attributes of its people, including at the most senior levels.

A summary of key initiatives and achievements is below.

First Principles Review reforms

During 2017–18, Defence implemented a number of initiatives under the Behaviours and Workforce streams of the First Principles Review. This included a new performance management framework for APS employees and improvements to the senior leadership performance processes to enhance accountability and development.

Project SUAKIN (Total Workforce Model)

The ADF Total Workforce Model introduced a contemporary workforce framework for the ADF by offering increased ways to serve that enable new strategic workforce options in delivering capability, while providing flexibility for individuals across their careers.

Job Families Renewal Project

During 2017–18 Defence undertook a Job Families Renewal Project as part of the Defence Strategic Workforce Plan. This project will update existing occupations and more closely align Defence with the updated Australian Public Service Commission's Job Family Model framework, providing a further foundation for APS skilling, recruitment and training.

Recruitment activities

Defence Force Recruiting and the Services implemented a suite of initiatives to improve the recruiting process and to broaden recruiting pools. A Culturally and Linguistically Diverse influencer campaign, entitled 'The ADF Surprised Us', was launched in July 2017. This and the three Service brand campaigns of 'What Will You Bring?' (Navy), 'Discover Your Army' (Army) and 'What Is Up?' (Air Force) all launched in 2016–17, and other niche campaigns continued to be marketed throughout 2017–18.

Remuneration and benefits

In October 2017, the Defence Force Remuneration Tribunal agreed to the 2017–2020 Australian Defence Force Workplace Remuneration Arrangement, which took effect on 2 November 2017. As a result, ADF members received a 6 per cent increase to salary and salary-related allowances over a three-year period with no loss in conditions of service to offset the new arrangement. Increments are paid annually in November in instalments of 2 per cent.

The *Defence Enterprise Agreement 2017–2020* commenced on 16 August 2017 for all Defence non-Senior Executive Service employees, providing a 6 per cent pay increase. The first pay rise of 3 per cent took effect on 24 August 2017.

Support services

Defence capability is enhanced by providing support to ADF members and their families through the Defence Community Organisation. Support services range from crisis and bereavement support and assistance to help families to adjust to some of the challenges of military life through to support to members and their families when members transition to civilian life.

Defence continued to support APS employees through various mechanisms as part of the Employee Assistance Program. These mechanisms include critical incident debriefing and trauma counselling and group awareness sessions to support education and training.

Managing and developing staff

In 2017–18, Defence developed a skills framework to enhance professional development of all employees. In addition, Defence developed learning strategies for key business areas, to grow capability and core skills for specialised functions. These learning strategies include continuing to provide tertiary education assistance, fully funded master's level postgraduate places through the University of New South Wales Canberra, and scholarships through the Chief of the Defence Force for ADF members and Secretary of Defence fellowship for APS employees.

Work health and safety

Health and safety remained a key priority for 2017–18. Key activities were directed towards achieving the objectives of the Defence Work Health and Safety Strategy 2017–2022. The strategy's supporting Implementation Plan is focused on embedding work health and safety practices across all Defence business and management systems.

Cultural reform

In November 2017 the second iteration of Pathway to Change was launched. *Pathway to Change: Evolving Defence Culture 2017–22* includes a refreshed cultural intent statement and six key priorities to drive an inclusive culture and high performance workplace.

Diversity

With a continued focus on broadening diversity to advance capability and performance, Defence implemented a range of initiatives to secure the best possible talent available. In doing so, Defence built diversity in the backgrounds and experiences of its workforce to help enable broader thinking in the development of policy and capability options and conduct of operations.

Defence has fostered a supportive and inclusive work culture through initiatives such as an awareness campaign to normalise flexible working arrangements. Positive changes to the representation of the workforce have been made through considered and targeted attraction, recruitment and retention strategies. Defence further progressed government initiatives such as the whole-of-government Closing the Gap strategy and the commitment to the goal of women holding 50 per cent of government board positions overall.

Complaint handling and resolution

In 2017–18, Defence has focused efforts on reducing the incidence of unacceptable behaviour and implementing improvements to complaint management.

Defence has streamlined and simplified the Defence instructions dealing with complaints to reduce the number of instructions and to ensure the instructions use plain English. Defence has also modernised and strengthened the Mandatory Workplace Behaviour Awareness training to ensure it is aligned with the intent of *Pathway to Change: Evolving Defence Culture 2017–22*.

Defence continued to promote the early use of internal alternative dispute resolution services, such as mediation to assist individuals or groups.

Reports of sexual misconduct

In 2017–18 the demand for the Sexual Misconduct Prevention and Response Office's advice services to Command and Management continued to rise, while demand for support and case management remained consistent with 2016–17. The Sexual Misconduct Prevention and Response Office has delivered face-to-face education on Defence's behaviour expectations, incident management requirements, and the available support services to over 50,000 personnel since 2013. Review of the Sexual Misconduct Prevention and Response Office's education programs began in 2017–18 to align with Defence's primary prevention strategy.

Other key achievements and initiatives

In 2017–18 Defence made a number of other achievements:

- A priority this year was to attract, recruit, develop, motivate and retain a sustainable Defence naval construction workforce. Defence completed a number of people capability activities, including the development of a Naval Construction APS Recruitment Strategy and a new Naval Construction Graduate Program, which will commence in September 2018.
- During the year the Australian Signals Directorate prepared to transition to a statutory agency. The new designation took effect on 1 July 2018. Defence supported the Australian Defence Signals Directorate through:
 - the development of an Australian Signals Directorate Determination for staff
 - the transition of Australian Defence Signals Directorate employees to a statutory agency, employed under the *Intelligence Services Act 2001*.
- Defence implemented new science, technology, engineering and mathematics initiatives set out in the 2016 Defence White Paper.
- The Support for the Wounded, Injured or Ill Program continued to improve information sharing between Defence and the Department of Veterans' Affairs; introduced new support arrangements, including the Veterans' Affairs On-Base Advisory Service and the Defence-hosted 'Engage' website.
- The Defence Family Helpline implemented Skype as a tool to further support ADF members and their families posted overseas or to remote locations within Australia.
- Work commenced on a pilot project of early intervention family engagement with the families of injured and ill serving members.
- The ADF Total Workforce Model introduced a contemporary workforce framework for the ADF by offering increased service options and providing flexibility for individuals across their careers. A new Service Category was introduced to allow permanent ADF members to serve less than full-time on a day-per-fortnight or weeks-per-month pattern. For more information on the Total Workforce Model, see below under 'Workforce planning'.
- Under the ADF Total Workforce Model, in February 2018 the Defence Force Remuneration Tribunal published Determination 1 of 2018 (under section 58H of the *Defence Act 1903*) recognising Permanent/Regular members rendering part-time service under a Flexible Service Determination. The determination enables salary to be pro-rated for a member on a Flexible Service Determination and facilitates access to all patterns of service for permanent ADF members, including months-per-year patterns.

First Principles Review initiatives

The First Principles Review, which commenced implementation in 2015, aims to ensure that Defence will remain fit for purpose and able to promptly respond to future challenges. To implement the recommendations of the First Principles Review, five work streams were created to deliver the 75 recommendations of the review.

During 2017–18, Defence implemented a number of initiatives under the Behaviours and Workforce streams of the First Principles Review.

The initiatives that were introduced during the reporting period focused on supporting Defence's leadership, culture, performance management and workforce planning frameworks. Further details on initiatives are discussed below.

Leadership

A core theme of the First Principles Review was leadership accountability. Accordingly, throughout 2017–18, a key focus for Defence was on enhancing senior leader performance and accountability. Defence implemented role charters, which describe the responsibilities, accountabilities, deliverables and expected behaviours of each senior leadership position. All members (ADF and APS) of the Senior Leadership Group now have a role charter in place.

Changes were made to the Senior Executive performance appraisals, with a greater emphasis on leadership behaviours and a requirement to make a corporate contribution to the broader organisation or public service.

Defence introduced a 360-degree feedback program. All senior leaders are to complete a 360-degree feedback process at least once every three years. The feedback program has been mapped to the One Defence Leadership Behaviours and includes an individual development plan to assist leaders to focus on specific areas requiring development. To date, 288 members of the Senior Leadership Group have completed a 360-degree feedback appraisal.

Performance management

A revised APS Performance Management Framework was implemented to provide a simpler, more streamlined approach to performance management. Its emphasis is on the importance of the performance conversation rather than the process. The new framework incorporates a streamlined performance management template, a greater focus on recognising and rewarding high performance through a dedicated Reward and Recognition Guide, and increased accountability for effective people management.

Cultural change

In November 2017, the Secretary and Chief of the Defence Force launched *Pathway to Change: Evolving Defence Culture 2017–22*. The new strategy builds on the initial five-year implementation strategy.

Pathway to Change: Evolving Defence Culture 2017–22 is underpinned by a refreshed cultural intent statement and key cultural reform priorities. The cultural reform priorities for 2017–22 are:

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

The refreshed cultural intent statement positions Defence to achieve positive, proactive and enduring cultural change with a focus on strengthening our capability.

Workforce planning

Defence continued to implement the Defence Strategic Workforce Plan, which has seen improvements to ADF and APS recruiting and ADF Transition Support Services. ADF recruiting was able to enlist 94 per cent of personnel to Defence requirements. Women represented 30 per cent of enlistments and, combined with retention efforts, this has resulted in 652 more women serving in the ADF (Service Categories 7 and 6) than 12 months ago. Indigenous representation in the ADF also improved, with over 500 Indigenous personnel recruited. Total Indigenous representation is now at 2.6 per cent. Improved APS recruitment processes have reduced the average recruitment time frames by 32 per cent. In relation to transition services, Defence implemented individualised career coaching and mentoring services to ADF personnel who transition from Defence, with the aim of assisting members to achieve employment.

Workforce planning

This section provides information on average workforce strength during 2017–18. Like other APS agencies, Defence uses average workforce strength figures for planning and budgeting purposes.

Staffing levels and statistics

Defence budgets for its ADF workforce on a 'funded strength' basis. It budgets for the APS workforce on a 'full-time equivalent' basis. Defence uses actual full-time equivalent, which is paid strength on a particular date, to provide the most accurate indicator of current staffing levels. By contrast, workforce planning is based on average funded strength and full-time equivalent respectively for the financial year. These averages are suitable for planning and budgeting purposes, but they are lag indicators against the actual end-of-year figures. These indicators are used to plan for an affordable workforce.

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



2018 Future Leaders, Summit

First held in Papua New Guinea in 2016, the biennial Future Leaders' Summit is an initiative of the South Pacific Defence Ministers' Meeting. The summit nurtures our region's future leaders by bringing together young military officers, police and government officials from across the Pacific to strengthen understanding, enhance collaboration and foster interagency cooperation in an effort to advance shared interests toward a secure and prosperous South Pacific region.

The 2018 Future Leaders' Summit was held in Port Moresby, Papua New Guinea from 19–22 March 2018. Australian's then Chief of the Defence Force, Air Chief Marshal Binskin, and his Papua New Guinea counterpart, Brigadier General Toropo, opened the summit. The summit's overarching theme was maritime security, which the Chiefs' emphasised as an issue requiring a collective response from all participating countries.

PNG Minister for Defence and Australia and PNG Chiefs of the Defence Force and Police Commissioners at the Official Dinner for the 2018 Future Leaders' Summit, Port Moresby.

Left to right: Commander Papua New Guinea Defence Force BRIGGEN Gilbert Toropo, AFP Commissioner Andrew Colvin, Royal Papua New Guinea Constabulary Commissioner Gari Baki, PNG Minister for Defence, Hon. Solan Mirisim, Chief of the Defence Force Mark Binskin, AC.

At the summit, young future leaders discussed defence and security issues challenging the region; examined the need to develop whole-of-government Women, Peace and Security, and regional approaches to address these issues; and built people-to-people ties across our region. Australian initiatives, including the Pacific Maritime Security Program, were discussed.

The summit supports Australia's regional security priorities by fostering people-to-people and cultural links across the region, supporting the professionalisation of security forces in the Pacific, and encouraging regional coordination and collaboration on shared security interests. The development of a network of regional future leaders also plays a key role in supporting Defence's efforts to enhance the stability and security of our near region.

Total Workforce Model

In 2016–17 Defence transitioned to the new service continuum under the Total Workforce Model. Notes contained under each workforce table in this section apply the relevant Total Workforce Model explanation.

Table 7.1: Total Workforce Model continuum

Previous description	Total Workforce Model continuum	Additional information
Permanent	Full-time service (Service Category 7)	Reservists on continuous full-time service (Service Option C) are included in permanent force funded strength numbers but not in headcount figures.
	Part-time service (Service Category 6)	
Reserves	Specific pattern of service and number of days served (Service Category 5)	Members of the Reserves who provide a contribution to capability that extends across financial years and who have security of tenure for the duration of their approved commitment to serve. They are liable for a call-out. They can undertake continuous full-time service (Service Option C).
	Available for voluntary service at short notice (Service Category 4)	Members of the Reserves who provide capability on short notice, with their notice to move defined by their Service. They are liable for call-out and available to be 'called for'. They can undertake continuous full-time service (Service Option C).
	Available for service or providing service (Service Category 3)	Members of the Reserves who provide a contingent contribution to capability by indicating their availability to serve or who are rendering service to meet a specified task within a financial year. They are liable for call-out. They can undertake continuous full-time service (Service Option C).
	Not providing service but can be called out in specific circumstances if required (Service Category 2)	Members of the Reserve Forces who do not render service and have no service obligation. They are liable for call-out.
Defence APS employees on deployment	Employees of the Defence APS who are force assigned (Service Category 1)	APS employees of Defence who have been seconded or attached to the ADF and are force assigned on operations.
ADF Gap Year	Full-time service (Service Option G)	

Australian Defence Force staffing

ADF staffing figures for 2016–17 and 2017–18 are shown in Table 7.2.

Table 7.2: Australian Defence Force—staffing figures, 2016–17 and 2017–18

ADF staffing measure	2016–17	2017–18	Variation
For workforce planning purposes			
Actual funded strength (paid strength as at 30 June)	58,612	58,363	–249
Average funded strength (over the financial year)	58,680	58,475	–205
For other statistical data			
Permanent headcount (on duty/leave and paid/unpaid)	58,206	57,957	–252

Notes:

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 457 participants on 30 June 2017 and 527 participants on 30 June 2018.

Funded strength figures do not include the Reserve workforce (Service Categories 5, 4 and 3) other than those on continuous full-time service (Service Option C). Those on Service Option C are paid through the same mechanism as permanent force members (Service Categories 7 and 6). For consistency with other tables in this chapter, the headcount figures do not include Reserve members.

Table 7.3 details ADF permanent force (Service Categories 7 and 6) average funded strength for 2017–18. ADF strength was 58,475 in 2017–18—a decrease of 205 from 2016–17. This includes ADF Reservists on continuous full-time service (Service Option C). Average funded strength for continuous full-time service was 722 (comprising Navy, 274; Army, 382; and Air Force, 66)—a decrease of 101 from 2016–17.

The ADF growth will continue towards the 2016 Defence White Paper allocation of 62,400, transitioning the skills of the current workforce to align with future capabilities delivered through the Integration Investment Plan.

Table 7.3: Australian Defence Force Permanent Force (Service Categories 7 and 6), and Reserves undertaking continuous full-time service (Service Option C), average funded strength

	2016–17 Actual	2017–18 Budget estimate ¹	2017–18 Revised estimate ²	2017–18 Actual	Variation	%
Navy	14,077	14,123	13,807	13,818	11	0.0
Army	30,314	30,672	30,568	30,410	–158	–0.5
Air Force	14,289	14,399	14,310	14,247	–63	–0.4
Total average funded strength	58,680	59,194	58,685	58,475	–210	–0.4

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

1. As published in the *Portfolio Budget Statements 2017–18*.

2. As published in the *Portfolio Additional Estimates Statements 2017–18*.

ADF enlistments and separations

The permanent ADF headcount (Service Categories 7 and 6) decreased by 252 in 2017–18. This reflects the net difference between enlistments and separations.

The ADF enlisted 5,237 permanent members, made up of 3,666 men and 1,571 women, for the 12 months to 30 June 2018. This was 226 fewer enlistments than in 2016–17.

ADF enlistments can be categorised as ab initio (those with no prior military service) or prior service enlistments. Of the 5,237 ADF permanent members enlisted, 1,026 entrants had prior military service in the Reserves (Service Categories 5, 4 and 3), the Gap Year program (Service Option G) or another country, or they had previous permanent force service. There were 4,211 ab initio entrants.

Tables 7.4 and 7.5 provide comparative information about ADF permanent force (Service Categories 7 and 6) separations over the last two years.

Table 7.4: ADF permanent force (Service Categories 7 and 6), 12-month rolling separation rates, as at 30 June 2017 and 30 June 2018

	12-month rolling separation rate (%)	
	30 June 2017	30 June 2018
Navy	9.6	9.3
Army	10.2	10.8
Air Force	6.0	6.7
Total ADF permanent force	9.0	9.4

Notes: For improved accuracy, separation rates are calculated using monthly average headcounts, not end of financial year headcount figures.

Table 7.5: ADF permanent force (Service Categories 7 and 6) separations, 2016–17 and 2017–18

		Voluntary separations ¹	Involuntary separations ²	Age retirement	Trainee separations	Total
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	1,311	805	17	525	2,658
Air Force	Officers	160	52	9	33	254
	Other ranks	380	148	28	46	602
Total ADF permanent force	Officers	529	179	26	191	925
	Other ranks	2,298	1,257	48	741	4,344
	Total	2,827	1,436	74	932	5,269
2017–18						
Navy	Officers	136	22	16	48	222
	Other ranks	648	252	14	132	1,046
Army	Officers	254	97	27	114	492
	Other ranks	1,391	858	21	495	2,765
Air Force	Officers	195	78	17	35	325
	Other ranks	420	159	12	48	639
Total ADF permanent force	Officers	585	197	60	197	1,039
	Other ranks	2,459	1,269	47	675	4,450
	Total	3,044	1,466	107	872	5,489

Notes: Figures in this table show permanent force (Service Categories 7 and 6) substantive headcount numbers. Reserves undertaking continuous full-time service (Service Option C) are not included. Separation groupings are mutually exclusive, and an individual is placed in only one group with age retirement and trainee separations taking precedent over voluntary and involuntary separations. ADF members commencing leave or leave without pay are not included.

Data for 2016–17 does not match the data provided in the *Defence Annual Report 2016–17* due to retrospective transactions.

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'.

ADF Reserves

The number of days each ADF Reserve member (Service Categories 5, 4 and 3) works in a year can vary substantially depending on personal circumstances and organisational need. To reflect this, Table 7.6 shows both the total number of days served by Reserve members in 2017–18 and the number of Reservists who rendered paid service.

In 2017–18 there was a decrease of 1,645 days' service over 2016–17 to a total of 965,418 (Navy, 96,121; Army, 665,774; Air Force, 203,523), while the number of Reservists undertaking service days increased to 20,022 (Navy, 1,642; Army, 15,030; Air Force, 3,350). Pays served by Navy Reserve members was greater than forecast (by 1.2 per cent), while the number of days served by both Army and Air Force Reserve members was less than forecast (by 0.6 per cent and 9.1 per cent respectively).

Table 7.6: **ADF Reserve paid strength (Service Categories 5, 4 and 3), 2016–17 and 2017–18**

	2016–17 Actual: days served (members paid)	2017–18 Budget estimate: ¹ days served (members paid)	2017–18 Revised estimate: ² days served (members paid)	2017–18 Actual: days served (members paid)	Variation: days served (members paid)	Percentage variation days served (members paid)
Navy	104,445 (1,777)	100,000 (1,850)	95,000 (1,750)	96,121 (1,642)	1,121 (–108)	1.2 (–6.1)
Army	653,458 (14,579)	690,000 (14,750)	670,000 (14,750)	665,774 (15,030)	–4,226 (280)	–0.6 (1.9)
Air Force	209,160 (3,278)	224,000 (3,100)	224,000 (3,100)	203,523 (3,350)	–20,477 (250)	–9.1 (8.1)
Total Paid Reserves	967,063 (19,634)	1,014,000 (19,700)	989,000 (19,600)	965,418 (20,022)	–23,582 (422)	–2.4 (2.2)

Notes: 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. This table includes Service Categories 5, 4 and 3. Reservists on continuous full-time service (Service Option C) are not included in this table; they are included in Table 7.3.

1. As published in the *Portfolio Budget Statements 2017–18*.

2. As published in the *Portfolio Additional Estimates Statements 2017–18*.

Australian Public Service workforce

APS staffing figures for 2016–17 and 2017–18 are shown in Table 7.7

Table 7.7: **Australian Public Service—staffing figures, 2016–17 and 2017–18**

APS staffing measure	2016–17	2017–18	Variation
For workforce planning purposes			
Actual full-time equivalent (paid strength as at 30 June)	17,308	17,728	420
Average full-time equivalent (over the financial year)	17,269	17,407	138
For other statistical data			
Headcount figure (on duty/leave, full-time or part-time, paid/unpaid)	18,395	18,784	+389

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

Table 7.8 shows details of the APS average strength, expressed as average full-time equivalent, for 2017–18. APS average strength was 17,407 in 2017–18. This was an increase of 138 from the 2016–17 figure of 17,269. As Table 7.9 shows, the increase in full-time equivalents in 2017–18 was 420, to a total of 17,728.

Defence's workforce numbers are determined through continuing reforms to Defence's business practices. It has 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 7.8: **APS workforce, average full-time equivalent, 2016–17 and 2017–18**

	2016–17 Actual	2017–18 Budget estimate ¹	2017–18 Revised estimate ²	2017–18 Actual	Variation	%
APS	17,269	17,970	17,500	17,407	–93	–0.5

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

1. As published in the *Portfolio Budget Statements 2017–18*.

2. As published in the *Portfolio Additional Estimates Statements 2017–18*.

Table 7.9: APS workforce, end-of-year full-time equivalent, 2016–17 and 2017–18

	2016–17 Actual	2017–18 Budget estimate ¹	2017–18 Revised estimate ²	2017–18 Actual	Variation	%
Total APS	17,308	18,170	17,800	17,728	-72	-0.4

Notes: Figures in this table are actual full-time equivalent for the last payday of 2017–18. Employees on forms of leave without pay are not included. The figures differ from Table 7.8, as that table shows the average full-time equivalent across the full year.

1. As published in the *Portfolio Budget Statements 2017–18*.

2. As published in the *Portfolio Additional Estimates Statements 2017–18*.

APS recruitment and separations

Defence recruited 2,068 APS employees during 2017–18, including 323 as part of the graduate program.

The APS headcount increased by 389, which reflects the net difference between recruitment and separations (Table 7.7). The majority of separations were due to resignation or retirement from Defence (Table 7.10).

Table 7.10: APS separations, 2016–17 and 2017–18

	Voluntary redundancy ¹	Involuntary separations ²	Resignation/ retirement ³	Transfers ⁴	Total
2016–17⁵					
Senior Executive Service	1	–	9	6	16
Executive Levels 1 and 2	50	13	265	58	386
Other levels	127	71	817	132	1,147
Total APS	178	84	1,091	196	1,549
2017–18					
Senior Executive Service	–	–	15	5	20
Executive Levels 1 and 2	56	15	284	62	417
Other levels	192	59	872	119	1,242
Total APS	248	74	1,171	186	1,679

Notes: 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 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 2016–17 figures have been adjusted from those reported in the *Defence Annual Report 2016–17* to account for retrospective transactions.

Actual workforce

This section provides workforce information as at 30 June 2018 and outlines changes in the workforce that occurred during 2017–18. Tables 7.11 to 7.17 include numbers of people, employment categories, locations and gender information. The number of Star-rank and Senior Executive Service officers are also provided at Tables 7.13 and 7.14. The information is based on headcount.

At 30 June 2018, Defence had a permanent workforce of 76,536, comprising 57,957 permanent ADF members (Service Categories 7 and 6) and 18,579 ongoing APS employees. An additional 205 APS employees were employed on a non-ongoing basis (Table 7.11).

The Reserve (Service Categories 5, 4 and 3) headcount increased by 2,675 to 25,770 (including those members on continuous full-time service (Service Option C)). The total ADF workforce was 83,727, and included 16,575 Navy permanent and Reserve members, 47,340 Army permanent and Reserve members, and 19,812 Air Force permanent and Reserve members. At 30 June 2018, 1,209 Reservists were also Defence APS employees.

Table 7.11: Defence workforce headcount as at 30 June 2017 and 30 June 2018

	Navy	Army	Air Force	ADF ¹	APS ²
Headcount 30 June 2017	13,657	30,163	14,389	58,209	18,395
Additions	1,261	3,088	888	5,237	2,068
Separations	1,268	3,257	964	5,489	1,679
Headcount 30 June 2018	13,650	29,994	14,313	57,957	18,784
Change	-7	-169	-76	-252	389

Notes: Figures in this table show substantive headcount numbers.

1. ADF figures are for permanent members (Service Categories 7 and 6) and do not include Reserves (Service Categories 5, 4 and 3), Reservists undertaking continuous full-time service (Service Option C) or ADF Gap Year participants (Service Option G).

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

Table 7.12: Defence workforce by employment location, as at 30 June 2018

	NSW	Vic ¹	Qld	SA	WA	Tas	NT	ACT ²	O/S ³	Total
Permanent force⁴										
Navy	6,449	1,420	802	207	2,273	12	606	1,672	209	13,650
Army	5,119	3,101	12,832	1,932	900	56	2,830	2,918	306	29,994
Air Force	4,539	955	3,070	2,006	320	9	961	2,121	332	14,313
Subtotal	16,107	5,476	16,704	4,145	3,493	77	4,397	6,711	847	57,957
Reserves⁵										
Navy	929	254	361	80	244	75	74	901	7	2,925
Army	4,765	3,107	4,395	1,441	1,722	487	491	925	13	17,346
Air Force	1,385	443	1,526	555	258	65	125	1,142		5,499
Subtotal	7,079	3,804	6,282	2,076	2,224	627	690	2,968	20	25,770
Total ADF	23,186	9,280	22,986	6,221	5,717	704	5,087	9,679	867	83,727
APS⁶										
Total APS	2,618	3,549	1,261	2,035	473	72	249	8,499	28	18,784

Notes: Figures in this table show substantive headcount numbers.

1. Victorian figures include individuals located in Albury, New South Wales.

2. Australian Capital Territory figures include individuals located in Jervis Bay (Commonwealth), Queanbeyan (New South Wales) and Bungendore (New South Wales).

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

4. Permanent Force (Service Categories 7 and 6) does not include ADF Gap Year participants (Service Option G).

5. Reserves include all active members (Service Categories 5, 4 and 3) and Reservists undertaking continuous full-time service (Service Option C).

6. Includes paid and unpaid employees, which covers full-time, part-time, ongoing and non-ongoing employees. The 30 June 2018 figures for the APS include 1,209 APS employees who are also counted as Reserve members.

Table 7.13: Star-ranked officers as at 30 June 2018

	Star-ranked officers ¹			2017–18 promotions ²			2017–18 separations		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Four-star									
Navy	–	–	–	–	–	–	–	–	–
Army	–	–	–	–	–	–	–	–	–
Air Force	1	–	1	–	–	–	–	–	–
Three-star									
Navy	3	–	3	–	–	–	–	–	–
Army	2	–	2	1	–	1	–	–	–
Air Force	2	–	2	1	–	1	–	–	–
Two-star									
Navy	13	–	13	3	–	3	–	–	–
Army	17	1	18	5	–	5	5	1	6
Air Force	9	2	11	1	–	1	3	–	3
One-star									
Navy	34	7	41	7	2	9	3	–	3
Army	52	9	61	16	–	16	6	1	7
Air Force	35	2	37	6	–	6	8	1	9
Total	168	21	189	40	2	42	25	3	28

Notes:

- Figures in this table show members in Service Category 7 and 6 (Permanent Service), at their substantive rank.
- Figures in this table show substantive promotions only.

Table 7.14: APS Senior Executive Service employees as at 30 June 2018

	Total Senior Executive Service ¹			2017–18 engagements ^{2 3}			2017–18 separations ^{2 4}		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Senior Executive									
Secretary	1	–	1	1	–	1	–	–	–
Band 3	7	2	9	3	–	3	3	1	4
Band 2 ⁵	18	5	23	2	–	2	4	1	5
Band 1 ⁶	57	38	95	5	2	7	7	4	11
Chief of Division									
Grade 2	8	3	11	2	1	3	–	–	–
Grade 1	2	–	2	–	–	–	–	–	–
Senior Executive									
Relief staff ⁷	17	12	29						
Total	110	60	170	13	3	16	14	6	20

Notes:

- Figures in this table show actual employee numbers at their substantive level, but not staff on long-term unpaid leave.
- Gains and losses do not reflect movement of officers between levels in each of the Senior Executive Service and Chief of Division streams.
- Engagement figures include new engagements and transfers from other agencies only.
- Separation figures include resignations, retirements, redundancies, and promotions and transfers to other departments.
- Senior Executive Service Band 2 includes Medical Officer Grade 6.
- Senior Executive Service Band 1 includes Medical Officer Grade 5.
- Relief staff indicates non-Senior Executive Service employees on long-term acting arrangements in Senior Executive Service / Chief of Division positions that are vacant, or where the incumbents are taking leave, acting in higher positions or undertaking other duties.

Table 7.15: APS Executive Level employees and below, by gender and classification, as at 30 June 2018

	30 June 2018 headcount			2017–18 engagements			2017–18 separations		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Executive Level									
Executive Level 2	1,276	444	1,720	38	33	71	99	39	138
Executive Level 1	2,474	1,361	3,835	128	110	238	191	88	279
Subtotal	3,750	1,805	5,555	166	143	309	290	127	417
Other staff									
APS Level 6	3,180	2,073	5,253	254	199	453	284	162	446
APS Level 5	1,743	1,331	3,074	203	157	360	173	121	294
APS Level 4	885	1,067	1,952	116	142	258	72	86	158
APS Level 3	491	979	1,470	49	85	134	63	114	177
APS Level 2	495	533	1,028	217	173	390	58	69	127
APS Level 1	178	126	304	82	66	148	23	17	40
Subtotal	6,972	6,109	13,081	921	822	1,743	673	569	1,242
Total APS	10,722	7,914	18,636	1,087	965	2,052	963	696	1,659

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

Table 7.16: APS employees by gender, as at 30 June 2017 and 30 June 2018

	30 June 2017 ¹			30 June 2018		
	Full-time	Part-time ²	Total	Full-time	Part-time ²	Total
Ongoing employees						
Men	10,388	230	10,618	10,458	242	10,700
Women	6,544	1,099	7,643	6,798	1,080	7,878
Unspecified ³	–	1	1	–	1	1
Total ongoing	16,932	1,330	18,262	17,256	1,323	18,579
Non-ongoing employees						
Men	69	9	78	104	15	119
Women	53	2	55	78	8	86
Unspecified ³	–	–	–	–	–	–
Total non-ongoing	122	11	133	182	23	205
Total APS employees						
Men	10,457	239	10,696	10,562	257	10,819
Women	6,597	1,101	7,698	6,876	1,088	7,964
Unspecified ³	–	1	1	–	1	1
Total	17,054	1,341	18,395	17,438	1,346	18,784

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

1. Some 30 June 2017 figures have been adjusted from those reported in the *Defence Annual Report 2016–17* to account for retrospective transactions.

2. Part-time employees are those with weekly hours fewer than the standard hours. It does not relate to employees in part-time positions.

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

Table 7.17: **ADF permanent (Service Categories 7 and 6), Gap Year (Service Option G) and Reserve forces (Service Categories 5, 4 and 3) and APS by gender, as at 30 June 2017 and 30 June 2018**

	30 June 2017 ¹				30 June 2018			
	Men	%	Women	%	Men	%	Women	%
Navy permanent²								
Trained force								
Officers	2,060	15.1	516	3.8	2,050	15.0	527	3.9
Other ranks	7,510	55.0	1,785	13.1	7,331	53.7	1,893	13.9
Training force								
Officers	570	4.2	161	1.2	607	4.4	178	1.3
Other ranks	727	5.3	328	2.4	728	5.3	336	2.5
Total Navy	10,867	79.6	2,790	20.4	10,716	78.5	2,934	21.5
Army permanent²								
Trained force								
Officers	4,551	15.1	849	2.8	4,616	15.4	865	2.9
Other ranks	18,680	61.9	2,383	7.9	18,401	61.4	2,574	8.6
Training force								
Officers	804	2.7	237	0.8	774	2.6	251	0.8
Other ranks	2,146	7.1	511	1.7	1,917	6.4	594	2.0
Total Army	26,181	86.8	3,980	13.2	25,708	85.7	4,284	14.3
Air Force permanent²								
Trained force								
Officers	3,428	23.8	947	6.6	3,390	23.7	989	6.9
Other ranks	7,124	49.5	1,604	11.1	6,920	48.4	1,723	12.0
Training force								
Officers	551	3.8	184	1.3	573	4.0	223	1.6
Other ranks	324	2.3	226	1.6	264	1.8	230	1.6
Total Air Force	11,427	79.4	2,961	20.6	11,147	77.9	3,165	22.1
ADF permanent²								
Trained force								
Officers	10,039	17.2	2,312	4.0	10,056	17.4	2,381	4.1
Other ranks	33,314	57.2	5,772	9.9	32,652	56.3	6,190	10.7
Training force								
Officers	1,925	3.3	582	1.0	1,954	3.4	652	1.1
Other ranks	3,197	5.5	1,065	1.8	2,909	5.0	1,160	2.0
Total ADF permanent	48,475	83.3	9,731	16.7	47,571	82.1	10,383	17.9
ADF Gap Year								
Navy	22	4.8	53	11.6	43	8.2	56	10.7
Army	183	40.0	85	18.6	192	36.6	105	20.0
Air Force	69	15.1	45	9.8	64	12.2	64	12.2
Total ADF Gap Year	274	60.0	183	40.0	299	57.1	225	42.9
Reserves^{2,3}								
Navy	2,162	9.4	655	2.8	2,257	8.8	668	2.6
Army	13,006	56.3	2,228	9.6	14,802	57.4	2,544	9.9
Air Force	4,004	17.3	1,040	4.5	4,372	17.0	1,127	4.4
Total Reserves	19,172	83.0	3,923	17.0	21,431	83.2	4,339	16.8
APS^{2,4}								
Total APS	10,696	58.1	7,698	41.9	10,819	57.6	7,964	42.4

Notes: Figures in this table show substantive headcount numbers. Percentage figures are calculated within each section, so that the subtotal for each section adds to 100 per cent. Percentages may not sum due to rounding.

1. Some 30 June 2017 figures have been adjusted from those reported in the *Defence Annual Report 2017–17* to account for retrospective transactions.
2. Figures exclude employees who do not exclusively identify as either male or female.
3. Reserves include all active members (Service Categories 5, 4 and 3) and Reservists undertaking continuous full-time service (Service Option C).
4. Figures include paid, unpaid, full-time, part-time, ongoing and non-ongoing employees. The 30 June 2018 figures for the APS include 1,209 APS employees who are also counted as Reserve members.

ADF Gap Year program

A total of 495 participants enlisted in the 2017 ADF Gap Year program (Navy, 75; Army, 300; Air Force, 120). A total of 570 participants have enlisted in the 2018 program (Navy, 100; Army, 330; Air Force, 140). As at 30 June 2018, eight members from the 2017 program and 516 members from the 2018 program (a total of 524) were still participating.

Table 7.18: **ADF Gap Year (Service Options G) participants, as at 30 June 2018**

	Navy		Army		Air Force		ADF		Total
	Men	Women	Men	Women	Men	Women	Men	Women	
2017 program									
Participants	21	54	209	91	70	50	300	195	495
Separated or inactive Reserves	6	19	68	13	22	8	96	40	136
Transferred to permanent ADF	15	29	105	55	37	37	157	121	278
Transferred to active Reserves	–	–	35	22	11	5	46	27	73
Still participating in 2017 program	–	6	1	1	–	–	1	7	8
2018 program									
Participants	45	55	216	114	71	69	332	238	570
Separated or inactive Reserves	2	3	25	8	7	5	34	16	50
Transferred to permanent ADF	–	2	–	–	–	–	0	2	2
Transferred to active Reserves	–	–	–	2	–	–	0	2	2
Still participating in 2018 program	43	50	191	104	64	64	298	218	516

ADF Cadets

Throughout 2017–18 Defence continued to deliver and administer several youth development and engagement activities. Foremost among these is the Australian Defence Force Cadets (ADF Cadets) program.

ADF Cadets is a personal development program for young people, supported by the ADF in cooperation with the community. The program benefits the nation by developing the capacity of young Australians to contribute to society. It also fosters an interest in ADF careers and develops ongoing support for Defence.

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

Approximately 24,500 Cadets are currently enrolled in the three Cadet programs; 4,500 officers and instructors of Cadets and 'approved helpers' supervise and support the young people in the programs; and there are 520 ADF Cadets units across all states and territories.

Major influences in 2017–18

Defence has an obligation to implement a robust youth safety framework across both the Defence portfolio and the ADF Cadets program. Defence continued to use a concerted organisational effort to implement the Defence Youth Safety Framework throughout the year.

In August 2017 the Royal Commission into Institutional Responses to Child Sexual Abuse released the *Report of case study No 40: The response of the Australian Defence Force to allegations of child sexual abuse*. Several recommendations of the report pertained specifically to systemic youth safety deficiencies within the ADF Cadets program. Therefore remediation of these deficiencies was afforded a high priority throughout the reporting period.

Defence Youth Safety Framework

The Defence Youth Safety Framework was launched in December 2015. The aim of the framework is to create and maintain a youth safe organisation through the adoption of appropriate and consistent approaches to youth safety and youth safety governance.

During 2017–18 Defence made good progress in implementing the Defence Youth Safety Framework across the three ADF Cadets organisations. The foundation elements of the framework were embedded by September 2017. A subsequent consolidation phase built on the development and implementation actions achieved in earlier phases, with a focus on the continued evolution of youth safety policy and resources. Systemic risk was reduced, and by the end of 2017–18 the ADF Cadets enterprise was progressing towards a proactive, sustained and leading approach to youth safety.

‘One Cadet’ reform program

The ‘One Cadet’ reform program was initiated in October 2016. The program aims to standardise the governance of common elements of the three ADF Cadets organisations’ programs, with an emphasis on youth safety, training coordination, communications and enterprise support.

The governance/administration regime matured in 2017–18, aided by the co-location of the three services’ Cadets headquarters in August 2017.

Throughout 2017–18, Defence continued to standardise appropriate elements of the three Cadet programs. This work is continuing. Defence worked on changes to age brackets for ADF Cadets; development of an updated security policy and procedures as required by Defence’s SAFEBASE Review; health management for ADF Cadets personnel; and an ADF Cadets incident reporting system.

Defence also undertook a review of Cadet Forces Allowance to derive a suitable contemporary form of payment for Officers and Instructors of Cadets that aligns with changes to the *Defence Act 1903*. A working group began implementing the review’s recommendations in November 2017. That work continues.

Australian Navy Cadets

Throughout 2017–18 the Australian Navy Cadets Directorate continued with a range of program-specific initiatives, including a major watercraft replacement project; substantial enhancements to training and development of adult volunteers; increases in national Cadet activities; and replacement of ceremonial firearms throughout the program. The Australian Navy Cadets Directorate also developed and implemented a new strategic plan, *Australian Navy Cadet Strategy to 2021*.

Australian Army Cadets

In 2017–18 the Australian Army Cadets program continued to grow, professionalise and modernise. The Army Cadets is a key part of the Army’s community engagement program. This year 12 new Army Cadets units were raised, mainly in rural and remote communities. Many of the new units have a high representation of Indigenous youth. Four of the 12 new units are all-female school-based Cadet units, which means there has been a 10 per cent increase in female participation in the Army Cadets program. Female membership grew to 21 per cent of the Army Cadets population during the period.

Australian Air Force Cadets

During 2017–18 the Royal Australian Air Force continued to enhance aviation capability within the Australian Air Force Cadets so that Cadets can enjoy the aviation experiences that are fundamental elements of this program. The new capability includes 22 gliders and leased powered aircraft. This allows Cadets to undertake a range of aviation activities, including the opportunity to obtain civil pilot qualifications. Royal Australian Air Force staff also purchased eight modern training aircraft to replace ageing leased aircraft. The new aircraft are scheduled to enter service in 2019.

Project SUAKIN (Total Workforce Model)

To sustain ADF capability, Defence must be able to attract and retain the right people. To support this goal, Project SUAKIN (the Total Workforce Model) is developing patterns of flexible service to better position Defence and the ADF as an employer of choice.

The Total Workforce Model, implemented in 2016, is the framework that Defence is using to modernise its workforce and achieve a balance between capability requirements and individual flexible arrangements.

The model offers increased service options, providing flexibility for individuals across their careers and organisational agility for Defence.

Under the model, Service Categories are used to group the ADF workforce into similar services that share mutual obligations and conditions of service. Members of the permanent ADF now serve in Service Categories 7 and 6. Reservists serve in Service Categories 5, 4 and 3.

On 24 August 2017, Service Category 6 was introduced under an interim arrangement. The category allows permanent ADF members to serve part-time on a days-per-fortnight or weeks-per-month pattern.

Implementation of Service Category 6 will be completed in late 2018. At that time, the interim arrangements will be replaced with a revised military personnel policy and pay and conditions policy that will allow for all patterns of flexible service, including months per year.

Project SUAKIN has continued to support change in culture to improve ADF leaders' and members' understanding of the benefits to capability of a flexible service continuum.

For more information on the new Service Categories, see above under 'Workforce planning'.

Job Families Renewal Project

The Defence APS Job Families framework gives a whole-of-Defence overview of APS capability. Defence job families are aligned to the APS Job Family Model framework and assist with workforce planning, skilling, recruitment, education and training. The Defence Strategic Workforce Plan 2016–2026 used the Job Family framework to identify areas of risk across the Defence workforce. The framework is being reviewed to ensure that it continues to support the changing workforce environment, which will be completed in early 2019.

Workforce plans have been developed for 15 Groups/Divisions and 20 job families. From these workforce plans Defence is implementing initiatives that enable it to develop a skilled and capable workforce that has the agility to meet emerging requirements.

Recruitment activities

The Defence Strategic Workforce Plan 2016–2026 identified the need to improve attraction and recruitment for the military and civilian workforce. The following activities have been progressed in 2017–18:

- ADF medical enlistment standards have been reviewed and are now more closely aligned with serving standards. Additional medical testing (such as vision testing) now occurs in the recruiting centres rather than by referral to outside providers. These initiatives have resulted in a reduction of medical reports requested from 68 per cent to 48 per cent of candidates, which has led to a reduction of time in the recruitment process for selected candidates. These medical initiatives have also resulted in more eligible candidates from the existing pool and have improved the overall efficiency of the recruitment process.
- An ADF online candidate self-service portal has been implemented. The new portal allows candidates to remotely upload documents to support their application.
- For a limited number of ADF categories, psychological assessments are now undertaken before people are enlisted, to prevent the enlistment and training of people who will not meet the requirement for the necessary security clearance.
- Defence has continued to implement the APS Recruiting Strategy with the introduction of a new fast-tracking selection approach that includes online selection tools.
- A dedicated Naval Construction APS graduate entry stream has been introduced.
- Customer Recruitment Account Managers have been introduced to support faster APS recruitment for critical positions.
- Online mechanisms, including an APS Candidate Portal, a temporary employment register and a Naval Construction website, have been further developed.
- The science, technology, engineering and mathematics cadetship program has been expanded and now includes 35 APS cadets within the Defence Science and Technology Group.

As a result of these activities, ADF recruitment achievement for the full-time workforce was 94 per cent of targets set by the Services, and the average time taken to recruit for the APS workforce has reduced by 32 per cent.

Remuneration and benefits

Defence remuneration is a key component of the Defence employment package. It attracts people to join Defence, encourages them to develop personally and professionally and ensures they choose to remain in Defence. The employment offer provides for fair and competitive remuneration, consistent with the parameters laid down by the government.

The diverse remuneration structures of the ADF and APS are explained further in this section.

Australian Defence Force members

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 2017–2020 Australian Defence Force Workplace Remuneration Arrangement is a key component of the ADF remuneration framework. It is part of the ADF remuneration initiative aimed at attracting and retaining military personnel. The arrangement forms a significant part of ADF members' total employment package.

The arrangement increases pay and pay-related allowances by 6 per cent over the life of the arrangement (2 per cent per annum) in return for enhanced Defence capability. Other conditions of service are determined by the Minister for Defence under section 58B of the Defence Act. The current arrangement came into effect on 02 November 2017. Table 7.19 details salary ranges for permanent ADF members as at 30 June 2018.

Table 7.19: Permanent Australian Defence Force salary ranges as at 30 June 2018

Rank	Salary range (\$)	
	Minimum	Maximum
Officer of the permanent force (equivalent)		
General (E) ¹	\$581,700	\$581,700
Lieutenant General (E) ¹	\$397,824	\$410,172
Major General (E) ²	\$235,595	\$287,307
Brigadier (E) ^{2,3}	\$193,291	\$299,920
Colonel (E) ^{2,3,5}	\$147,773	\$250,826
Lieutenant Colonel (E) ^{2,5}	\$125,680	\$238,678
Major (E) ^{2,5}	\$88,039	\$215,008
Captain (E) ^{2,5}	\$68,955	\$204,077
Lieutenant (E) ⁴	\$57,321	\$120,154
2nd Lieutenant (E) ⁴	\$53,555	\$112,168
Other rank of the permanent force (equivalent)		
Warrant Officer Class 1 (E)	\$78,083	\$120,177
Warrant Officer Class 2 (E)	\$71,918	\$111,356
Staff Sergeant (E)	\$69,506	\$107,426
Sergeant (E)	\$62,146	\$102,737
Corporal (E)	\$53,702	\$93,945
Lance Corporal (E)	\$49,399	\$87,319
Private Proficient (E)	\$48,378	\$86,298
Private (E)	\$47,377	\$85,302

Notes: This table lists the Base Salary ranges and does not include allowances or superannuation.

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

Australian Public Service employees

Terms and conditions of employment, including remuneration, performance management and working arrangements for the Defence non-Senior Executive Service workforce are set out in an Enterprise Agreement made under the *FairWork Act 2009*. The agreement is developed through consultation with employees and their representatives and is negotiated consistent with legislation and the Government's bargaining policy.

Table 7.20 shows the types of employment arrangements covering SES and non-SES employees in Defence as at 30 June 2018.

Table 7.20: Number of SES and non-SES employees by employment arrangement, as at 30 June 2018.

Employment arrangement	Non-SES	SES
Enterprise agreement (Defence Enterprise Agreement 2017–2020) ¹	18,636	–
Section 24(1) determination and common law agreement ²	–	140

Notes:

1. Includes 1,112 employees covered by a Building Defence Capability Payment or individual flexibility arrangement that varies the terms of the Defence Enterprise Agreement 2017–2020.
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 7.21 details Defence APS salary rates as at 30 June 2018. The majority of Defence employees receive salaries within the standard ranges. However, the Enterprise Agreement allows for remuneration and other benefits to be varied so that Defence can develop, attract and retain selected employees with the necessary skills and knowledge to deliver capability.

Table 7.21: Australian Public Service salary ranges at 30 June 2018

Classification	Minimum	Maximum	Individual arrangements ¹
Senior Executive Service pay arrangements			
SES Band 3	\$242,829	\$289,321	\$530,553
SES Band 2 ²	\$195,282	\$243,999	\$371,387
SES Band 1 ³	\$160,932	\$205,928	\$207,723
Non-Senior Executive Service pay arrangements⁴			
Executive Level 2	\$114,906	\$137,922	\$184,654 ⁵
Executive Level 1	\$98,967	\$111,633	\$137,922 ⁶
APS Level 6	\$78,304	\$89,449	\$92,147 ⁷
APS Level 5	\$71,477	\$76,561	\$77,151 ⁸
APS Level 4	\$65,133	\$71,109	
APS Level 3	\$57,500	\$63,357	
APS Level 2	\$50,479	\$56,749	\$57,333 ⁹
APS Level 1	\$44,605	\$50,071	

Notes: This table lists the Base Salary ranges and does not include allowances or superannuation.

1. Maximum salary paid under an individual remuneration arrangement shown.
2. Includes rates for Chief of Division Grade 2 and Medical Officer Class 6.
3. Includes rate for Chief of Division Grade 1 and Medical Officer Class 5.
4. Salary ranges provided under the Defence Enterprise Agreement 2017–2020.
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 1–2.
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 employees receive a range of non-salary-related benefits. These include generous leave entitlements and access to flexible working arrangements such as flexitime, part-time work and home-based work. Defence invests heavily in training and development of our staff and has a number of formal and informal schemes to recognise exemplary performance and achievements.

Senior Leadership Group

Australian Defence Force

All ADF senior officers (excluding statutory/public office holders) are remunerated under the 2017–2020 Australian Defence Force Workplace Remuneration Arrangement. 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*.

Australian Public Service

Senior Executive Service remuneration is set by a single determination made under section 24(1) of the *Public Service Act 1999*. The determination covers terms and conditions of employment and is supplemented on an individual basis by a common law agreement covering remuneration.

Performance pay

Non-Senior Executive Service 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.

Senior Executive Service employees may have their salary increased on the outcome of their annual performance appraisal. A Senior Executive Service employee may also 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.

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 7.22: **Employee performance payments, 2017–18**

Classification	Number of employees	Aggregated amount	Average amount
Trainee	12	\$8,700.00	\$725.00
APS Level 1	56	\$40,600.00	\$725.00
APS Level 2	618	\$448,050.00	\$725.00
APS Level 3	1,173	\$850,425.00	\$725.00
APS Level 4	1,243	\$901,175.00	\$725.00
APS Level 5	2,032	\$1,555,638.30	\$765.57
APS Level 6	3,232	\$2,891,045.64	\$894.51
Executive Level 1	2,280	\$2,548,098.60	\$1,117.59
Executive Level 2	919	\$1,267,765.33	\$1,379.51
Science and Technology Level 7	86	\$133,841.80	\$1,556.30
Science and Technology Level 8	23	\$41,627.93	\$1,809.91

Notes:

1. Performance cycle is 1 September – 31 August.
2. There were no performance payments made to Senior Executive Service employees.

Able Seaman Boatswains Mate Kaylin Coleman conducts her role as an upper deck lookout aboard HMAS *Warramunga* as the ship sails back to Australia after completing her deployment to Operation MANITOU in the Middle East region.



HMAS *Warramunga*—Operation MANITOU Rotation 66 deployment

Operation MANITOU is the Australian Government's contribution to international efforts promoting maritime security, stability, and the free flow of legitimate maritime commerce in the Middle East. Since 1990 the Royal Australian Navy has deployed 66 ships to the Middle East region as part of Operation MANITOU.

Between October 2017 and July 2018, HMAS *Warramunga*, the 66th ship to take part in the operation, completed a 274-day operational deployment to the Middle East. *Warramunga* enjoyed unprecedented success in countering narcotics operations and broader maritime security tasks.

During the deployment, *Warramunga* primarily operated in support of Combined Task Force 150—a multinational task force focused on counter-narcotics and maritime security operations in the Arabian Sea. The coalition task force comprises 32 nations, including the United States, France, the United Kingdom, New Zealand and Canada.

During the 217 days that *Warramunga* was on station, the ship recorded the largest ever cumulative total of seized illicit narcotics by a coalition unit. These seizures are critical to interrupting funding flows to regional criminal and terrorist networks.

Warramunga also participated in numerous multinational naval exercises with partner nation ships, submarines and aircraft, including those from the United States, France, the United Kingdom, Seychelles, Mozambique, Tanzania, Kenya and Mauritius. Ten days were also spent providing defensive escort to the Aircraft Carrier USS *Theodore Roosevelt* and the America class amphibious assault ship USS *America*.

Warramunga returned to Fleet Base East on 8 July 2018. By the time it returned to base, *Warramunga* had steamed 43,996 nautical miles (81,483 kilometres), operated with 27 international warships, undertaken 12 port visits, and conducted 32 boardings resulting in the seizure and disposal of 31,851.5 kilograms of hashish and 1,936.3 kilograms of heroin valued at \$2.17 billion.

Support services

Defence provides a range of support for ADF members, their families and Defence APS employees, including:

- family support programs through the Defence Community Organisation
- ADF Transition support for ADF members
- health and wellbeing initiatives
- the Employee Assistance Program.

These support services are discussed further in this section.

ADF members and their families

The Defence Community Organisation supports Defence capability by providing personal support to ADF members and their families. It provides services such as crisis and bereavement support, assists families in adjusting to some of the challenges of military life, and supports members and their families when the member transitions from military to civilian life.

In 2017–18 a new initiative that assists partners of ADF members to acquire skills to help gain employment—the Partner Employment Assistance Program—was implemented. The Partner Employment Assistance Program provides funding to assist partners of ADF members with the immediate difficulties of finding employment when the member is relocated on posting.

In 2017–18 the Defence Community Organisation 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. The Defence Community Organisation organises 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 delivered training and education programs to raise awareness and provide guidance on responding to allegations of family and domestic violence.

The Defence Community Organisation has provided advice, information and resources to help reduce the effects that mobility can have on a child's education. Members who have dependants with special needs have also received assistance.

The Defence Community Organisation also provides childcare support services through the Individual Case Management Service. Since its launch in 2016–17, the Individual Case Management Service has assisted over 542 Defence families to review their childcare requirements or source a childcare centre appropriate to their needs.

The Defence School Transition Aide Program provides funding to minimise the impact of mobility on education and build schools' capability to support Defence students, particularly during transitions into and out of the school and during parental absences. In 2017–18, a total of 230 schools and approximately 12,700 Defence children were provided with support under the program.

The Family Support Funding Program provides grants to community organisations to assist them to deliver support and services of value to Defence families and the community they live in. In 2017–18, 51 not-for-profit community organisations received grant funds of \$1.449 million under the program.

The Community Support Coordinator Program funds Defence community groups to employ a community support coordinator to coordinate the delivery of services and support of value to Defence families in their local community. In 2017–18, 27 paid Defence community support coordinators were supported through the program.

Health and wellbeing of ADF personnel and veterans

Defence continues to deliver services to support the health and wellbeing of ADF personnel and veterans. The services are planned and delivered as a collaborative effort between Joint Health Command, Defence People Group, Navy, Army, Air Force and the Department of Veterans' Affairs.

Health services

In 2017–18, the Services continued to maintain health capabilities, primarily to support their exercises and operations.

The Services also contributed to the delivery of health services by resourcing uniform medical staff for:

- Garrison Health, which delivers and manages health care for ADF personnel within Australia and on non-operational postings overseas
- the Defence Community Organisation
- Combat Health Support, which delivers health care for ADF personnel on military operations.

The Army Support to Wounded, Injured and Ill Program was established in 2008 to meet the needs of wounded, injured and ill soldiers. It coordinates the clinical, rehabilitation and personnel management aspects of a member's recovery. In 2017–18 the Army Support to Wounded, Injured and Ill Program continued to provide valued assistance to the Army's wounded, injured and ill members and their families.

During 2017–18, Defence and the Department of Veterans' Affairs developed the Transition Health Assessment pilot program to establish ADF members' health care and compensation needs and entitlements. The aim is to support members who are transitioning to civilian life, reduce duplication between agencies and reduce the requirement for multiple assessments after the member leaves the service. The Transition Health Assessment pilot program was trialled at Holsworthy Army Barracks from October 2017 to May 2018 and is undergoing an evaluation. The results of the trial will be available by December 2018.

Mental health

Defence has long recognised that the mental health and wellbeing of its workforce is critical to overall Defence capability. We are committed to providing mental health services and support to all ADF members and APS employees, and are focused on making Defence people Fit to Fight, Fit to Work, Fit for Life.

New mental health strategy

In October 2017 Defence launched the Defence Mental Health and Wellbeing Strategy 2018–2023. The strategy incorporates the latest mental health research and implements a whole-of-organisation 'One Defence' approach that better recognises the needs of Defence's integrated workforce.

The strategy builds on the previous 2011 ADF Mental Health and Wellbeing Strategy and the findings of recent reviews of and inquiries into the issues of mental health and suicide prevention among current and former members of the ADF. It also aligns with the Fifth National Mental Health and Suicide Prevention Plan (2017–2022).

Mental health screening

On 12 March 2018 a new Periodic Mental Health Screen for ADF members was implemented. The screen enhances Defence's ability to maintain a fit and resilient workforce through the early identification of and intervention for individuals with mental health concerns.

Project RESTORE

Project RESTORE is a clinical trial of a treatment for post-traumatic stress disorder known as Prolonged Exposure. The trial is being run to determine whether an intensive delivery of Prolonged Exposure therapy will deliver outcomes comparable to the Prolonged Exposure treatment protocol.

Defence has partnered with the Department of Veterans' Affairs, the Veterans and Veterans Families Counselling Service and Phoenix Australia to run the clinical trial.

It is hoped that the trial will lead to improved access to, and availability of, effective evidence-based care for post-traumatic stress disorder for both current and former ADF members.

Wellbeing

During 2017–18, Defence continued to support ADF members and families through successful delivery of family support programs, ADF transition services, bereavement support, resilience programs and pastoral care and spiritual ministry support.

Notably, in July 2017, Defence launched a reformed ADF Transition Support Services process. The new process has moved the focus of the service from administration to coaching and mentoring. The reformed model aims to provide individually tailored transition plans and coaching sessions to better prepare ADF members and their families for the transition to civilian life. The service will now provide greater assistance to members both during transition and for the 12 months after transition.

Transition and Wellbeing Research Program

The Transition and Wellbeing Research Program is the most comprehensive study ever undertaken in Australia of the impact of military service on the mental, physical and social health of current and former serving members and their families. It is jointly funded by Defence and the Department of Veterans' Affairs.

The Transition and Wellbeing Research Program consists of three study components:

- the Mental Health and Wellbeing Transition Study
- the Impact of Combat Study
- the Family Wellbeing Study.

Eight reports are to be published under the program.

On 5 April 2018, the Government released the first two of these eight reports: the *Mental Health Prevalence Report* and the *Pathways to Care Report*. These reports have helped to:

- determine the prevalence of mental disorders among ADF members who transitioned from regular ADF service between 2010 and 2014
- examine the self-reported mental health status of transitioned ADF and the 2015 regular ADF
- assess pathways to care for transitioned ADF and the 2015 regular ADF.

The findings will inform how Defence and the Department of Veterans' Affairs continue to provide relevant, responsive and recovery-focused mental health care initiatives and support during and after transition to civilian life. The initiatives will particularly target those most at risk.

Working closely with the Department of Veterans' Affairs

Defence and the Department of Veterans' Affairs are committed to delivering the best possible health and wellbeing outcomes to current and former members of the ADF and their eligible families.

Defence and the Department of Veterans' Affairs entered into a Memorandum of Understanding for the Cooperative Delivery of Care and Support (updated in 2016,) under which Defence and the Department of Veterans' Affairs work together to deliver care and support to current and former members of the permanent and reserve forces and their families. This cooperation and engagement is particularly important where a member suffers a serious injury or illness or where the member is identified for medical separation from the ADF.

Close cooperation between the Department of Veterans' Affairs and Defence under this Memorandum of Understanding, and ongoing Department of Veterans' Affairs engagement with members throughout their service and during and after their transition to civilian life, results in better outcomes for members and their families.

Support to the Department of Veterans' Affairs Transformation Program

During 2017–18, Defence has actively supported the Department of Veterans' Affairs Veterans' Centric Reform program. Defence's support includes membership of the Department of Veterans' Affairs Veterans' Centric Reform Transformation Program Board, the provision of a Defence Liaison Officer to support day-to-day interactions between the departments and the provision of electronic access to Defence personnel data as part of the development and implementation of the Department of Veterans' Affairs MyService application—a key deliverable under the Veterans' Centric Reform program.

Defence continues to notify the Department of Veterans' Affairs when a member joins or separates from permanent service, is involved in a serious incident or is to transition on medical grounds. Such notifications are the foundation of the Department of Veterans' Affairs Early Engagement Model aimed at establishing a relationship between the Department of Veterans' Affairs and a member as early in their career as practical.

In support of the Transformation Program, Defence has also worked with the Department of Veterans' Affairs and the Commonwealth Superannuation Corporation to pilot a range of initiatives aimed at improving the processes involved in claiming for incapacity or invalidity or transitioning from permanent service.

Defence also extended electronic access to the Defence eHealth System to the Department of Veterans' Affairs and Commonwealth Superannuation Corporation, which has helped expedite consideration of member's claims.

Transition Taskforce

In 2017, at the request of government, a joint Defence, Department of Veterans' Affairs and Commonwealth Superannuation Corporation taskforce (the Transition Taskforce) was established to address barriers that some ADF members face when separating from the regular or permanent forces and embarking on a new life in the civilian community. It was co-chaired by Defence and the Department of Veterans' Affairs.

Safety, Rehabilitation and Compensation (Defence-related Claims) Act 1988

Close collaboration between Defence and the Department of Veterans' Affairs supported legislative reform with the commencement of the *Safety, Rehabilitation and Compensation (Defence-related Claims) Act 1988* on 12 October 2017.

Under the Act, members who suffer injuries and diseases suffered as a result of peacetime and peacekeeping service up to and including 30 June 2004 and operational service between 7 April 1994 and 30 June 2004 are entitled to rehabilitation and compensation similar to that provided under the *Military Rehabilitation and Compensation Act 2004*.

The legislation applies to current and former ADF members who have injuries or illnesses arising from their service before 1 July 2004. It provides the Minister for Veterans' Affairs with responsibility for all rehabilitation and compensation schemes that cover current and former ADF members and their families.

Non-Liability Health Care and White Card on transition

Non-Liability Health Care allows current and former ADF personnel, depending on their eligibility, to receive treatment for certain health conditions.

In 2017–18, the Government announced a key initiative to address mental health issues amongst veterans: all current and former members of the ADF with at least one day of continuous full-time service in the regular or permanent elements of the ADF were granted Non-Liability Health Care for mental health conditions.

In 2018, recognising that some Reservists had service that might have exposed them to incidents, events and environments that might contribute to the development of mental health issues, the Government extended Non-Liability Health Care to Reservists who had such service.

Defence and the Department of Veterans' Affairs have also collaborated to ensure that Defence members who separate from the regular and permanent elements of the ADF will be provided with a Department of Veterans' Affairs health treatment White Card to facilitate access to Non-Liability Health Care.

Transition from the Australian Defence Force

ADF Transition Support Services ensure that members and their families are well informed and assisted when they transition from military to civilian life. The ADF encourages members to access educational, financial and other government services at an early stage to facilitate sound transition planning.

The reform of ADF Transition services commenced in 2016–17 with the reformed 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 pre-transition, during transition and 12 months afterwards (post-transition).

In 2017–18:

- Defence communicated to all ADF members that participating in the transition process is mandatory for all ADF members before they transition to civilian life.
- Defence co-chaired, with the Department of Veterans' Affairs, the Transition Taskforce, which considered the barriers to an effective transition and is implementing a series of actions to address its findings.
- Defence updated the transition clearance process to ensure that all ADF members are able to transition with access to their appropriate documentation, including medical, dental, personnel, educational, and pay and allowance information.
- All ADF Transition service delivery staff worked to complete a Certificate IV in Career Development with additional competencies in coaching and mentoring. New staff will be required to hold a Certificate IV in Career Development or equivalent industry experience.
- The transition coaching model was fully implemented nationally and was embedded as normal practice across all Transition Centres.
- The post-transition survey was fully implemented. The post-transition survey is used to assess the effectiveness of transition programs, capture trends and inform future initiatives.
- A review of the Career Transition Assistance Scheme commenced. The review will ensure that all members can access the Career Transition Assistance Scheme when they are transitioning to civilian life and that the Career Transition Assistance Scheme is fairer and more easily understood.
- Planning for a refresh of ADF Transition seminars commenced. New seminar content and format will be delivered in 2018–19 to assist participation and attendance of ADF members and their families, not only at time of transition but also at any time during the member's career.

The Transition for Employment (T4E) program was developed as part of the wider Defence Transition Transformation program, which is a national program to assist transitioning members with complex medical conditions to establish and maintain meaningful civilian employment. In 2018–19, a pilot of the program will be trialled nationally with a cohort of members from the Navy, Army and Air Force for a period of six to 12 months.

Employee Assistance Program

The Employee Assistance Program assists Defence employees who are experiencing difficulties of a personal or work-related nature. It offers a confidential work-based intervention program designed to enhance emotional, mental and general psychological wellbeing. The program provides short-term preventative and proactive interventions for work and personal issues that may and do adversely affect performance and wellbeing. The program aims for early detection, identification and resolution of work and personal issues.

The program is available to all APS employees (ongoing and non-ongoing), ADF Reservists, ADF Cadets and Officers and Instructors of ADF Cadets. These services also extend to managers/supervisors and immediate family for eligible members within Defence.

Education and training services are also conducted as part of the program. These include group awareness sessions that target common health and wellbeing topics that aim to promote enhanced wellbeing in a work and personal environment.

Other services provided under the Employee Assistance Program include critical incident debriefing and trauma counselling, and pre-deployment and post-deployment assessment and support for APS employees.

The 2017–18 annual utilisation¹ of the Employee Assistance Program by eligible Defence members was 7.3 per cent. This is 1.5 percentage points higher than the public administration / government benchmark of 5.9 per cent.

Managing and developing staff

Defence has achieved, and will continue to achieve, a fundamental change in the performance culture of the organisation through a range of initiatives implemented as part of the First Principles Review.

A core theme of the First Principles Review is leadership accountability. Defence has applied this by embedding the One Defence Leadership Behaviours into the revised performance management approach, leadership development and training programs. The One Defence Leadership Behaviours are the core themes that articulate the leadership and management culture Defence needs to create to ensure that Defence is best positioned to deliver its outcomes. The One Defence Leadership Behaviours are:

- Contributor—I am a leader who is focused on achieving Defence Outcomes and I ensure my team understands how their work contributes to these outcomes.
- Learner—I learn and reflect on my performance and that of my team.
- Accountable—I am accountable for my actions and how I respond to the actions of those around me.
- Risk Manager—I take calculated risks and make judgements about what risks are necessary and acceptable to deliver the outcome.
- Inclusive—I seek out and accept the diverse perspectives of others in exploring opportunities and solving problems; I trust they will offer good ideas and will challenge in a constructive and respectful way.
- Team Builder—I build teams through managing performance honestly and respectfully.
- Innovator—I actively adapt and seek to innovate.

In September 2017 Defence launched the revised APS Performance Management Framework. The new framework provides a simpler, more streamlined approach to performance management, greater support for managing underperformance and a consistent mechanism to identify and develop performance and talent.

Defence has implemented a Leadership Climate Scan for both Senior Executive Service and ADF Star-rank officers to provide them with insights into their work areas and identify areas for improvement.

¹ The 2017–18 annual utilisation rate was calculated for the period 18 October 2017 – 30 June 2018 due to the commencement of a new service provider.

Defence has introduced a 360-degree feedback program. All senior leaders are required to complete a 360-degree feedback process at least once every three years. Defence has continued its 360-degree feedback appraisal for the Senior Leadership Group, with 288 having completed the program to date. These initiatives have provided senior leaders with greater insight into their own performance, have facilitated greater engagement with staff and positioned senior leaders as role models for driving change.

Defence has also implemented role charters, which describe the responsibilities, accountabilities, deliverables and expected behaviours of each senior leadership position. All members of the Senior Leadership Group (both Senior Executive Service and ADF star-rank officers) now have a role charter in place. Changes have been made to the Senior Executive performance appraisals with a greater emphasis on leadership behaviours and corporate contribution.

In 2017, Defence implemented an upward feedback approach for the Senior Executive Service. As part of the approach, senior leaders seek feedback on the performance and people leadership of their direct reports over the performance period from their direct reports, teams. This has provided a valuable tool to support robust performance conversations.

Defence has revised its existing leadership development programs, for both APS and ADF, to reinforce the One Defence Leadership Behaviours and the Pathway to Change cultural reform. For example, the Australian Command and Staff College has incorporated the One Defence Leadership Behaviours as the core criteria contributing to an individual's overall assessment for the year.

For our APS staff, initiatives delivered were focused on strengthening accountability in people management, enhancing APS leadership and developing core skills.

The key changes made to strengthen accountability in APS people management included:

- the introduction of a new APS Performance Management Framework, which focuses on frequent, quality performance conversations, increasing personal accountabilities, including people management, and appropriately rewarding and recognising staff
- Performance and Talent Councils to develop a common understanding of performance standards and improve consistency in performance management
- a continued focus on addressing and managing underperformance by implementing Performance Communities of Practice to build managers' confidence and capabilities in addressing underperformance.

The Defence Leading for Reform program aims to enhance and invigorate the leadership and management skills of executive-level employees. It develops people to lead and implement reform through times of constant change and to act consistently and willingly in accordance with the One Defence Leadership Behaviours. In 2017–18 a further 30 cohorts, comprising 593 individuals, completed the program. Another 15 cohorts commenced, and a further 600 employees participated in the program.

An increased number of personnel have participated in Defence leadership programs such as the Gateway, Catalyst and Impetus programs. In 2017–18, Defence completed 28 Gateway cohorts, with 596 individual completions recorded. For Catalyst, nine cohorts were completed with 156 individual completions recorded.

Program evaluation reports for all leadership development programs indicate a positive impact on the reform efforts of Executive Level staff in Defence, improved leadership capabilities and a cultural shift in behaviours towards the One Defence Leadership Behaviours.

Defence has built a skills framework to enhance professional development of all employees and support additional actions resulting from the Defence Strategic Workforce Plan, including attraction and recruitment, learning and development, career and talent management, and mobility. The framework is built around core skills based on the Australian Public Service Commission Core Skills Strategy 2030 and skills relevant to one or more Defence job families.

In addition, Defence has developed learning strategies for key business areas to grow capability and core skills for specialised functions. In 2017–18 Defence continued a number of key activities to develop personnel:

- Defence continued to offer its tertiary education assistance programs for both APS employees and ADF members. Support is provided in the form of capped reimbursement for approved study expenses and/or work release for study purposes. Over 350 APS employees were funded to study under these programs in 2017–18.
- Fully funded master's level postgraduate places 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. Over 200 APS employees were supported to gain qualifications under this program in 2017–18.
- The Defence and Strategic Studies Course provides advanced policy related skills, high-level corporate leadership and strategic decision-making skills combined with an in-depth knowledge of national and international Defence issues of strategic importance. There are five APS staff participating in this course in 2018.
- The Australian Command and Staff Course provides education in Command, Leadership and Management, Strategic and Australian Defence Studies, Staff Skills and Joint Operations. Four APS staff are completing the program in 2018.
- Participation in the Public Sector Management Program aimed at developing APS 6 – EL 2 staff to better address the changing needs of the public sector. Forty-five APS employees are completing this program in 2018.
- Scholarships are offered annually through the Chief of the Defence Force Fellowships for ADF members, the Secretary of Defence Fellowship for APS employees, the Sir Roland Wilson Foundation PhD Scholarship, and the Women, Peace and Security Fellowship schemes.

Work health and safety

Defence continued to make the health and safety of its people a key priority in 2017–18.

Defence Work Health and Safety Strategy

Defence maintained its focus on strategic work health and safety issues at the enterprise level. This included working towards the strategic objectives of the Defence Work Health and Safety Strategy 2017–2022 through the initiatives, measures, and milestones outlined in the supporting Implementation Plan. The strategy, released in October 2017, and supporting Implementation Plan continue to embed work health and safety thinking and behaviour into all Defence business and management systems.

Emerging hazards

In September 2017, Defence established an Emerging Hazards Capability. The Emerging Hazards Capability consists of occupational health subject-matter experts across Defence.

The focus of this capability is to identify emerging and disruptive technologies that may pose a significant hazard to the occupational health of Defence personnel across the enterprise. Through the dedicated identification and evaluation of emerging hazards, Defence can proactively develop strategies to control the hazards, allowing the safe and beneficial use of these new technologies. The capability uses a collaborative approach to identify emerging hazards through engagement with other areas of government, industry and academia.

Mental Health and Wellbeing Strategy

In 2017–18 Defence launched its Mental Health and Wellbeing Strategy 2018–2023. While Defence had programs and policies in place, this is the first time the mental health and wellbeing actions and priorities have been brought into one coordinated plan for both the ADF and APS workforce.

The strategy has six key strategic objectives primarily focused on decreasing stigma, improving the knowledge and skills of all employees and improving the support services available for those who need it. The release of the strategy has seen the availability of a number of new mental health initiatives, such as:

- the Defence NewAccess Program, which was launched in July 2018. The program provides a stepped care approach for the provision of support for those experiencing a mental health concern. Defence NewAccess is a tailored version of beyondblue's NewAccess Program. Both ADF and APS personnel can access the Defence-only service. NewAccess is provided in addition to the Defence Employee Assistance Program and will enable Defence to give staff access to programs that cater for mental health issues of varying levels of complexity
- the Mental Health Speakers Series, which assists in raising awareness and decreasing the stigma associated with mental health concerns
- mental health training for all levels of the organisation, including all employees, managers and the Senior Leadership Group. This training is designed to raise awareness of mental health within the workplace and provide self-care strategies to individuals.

Work Health and Safety Community of Interest Forum

In 2017–18 Defence established a Work Health and Safety Community of Interest Forum with representatives from Commonwealth and state government departments and key Defence industry partners. The forum meets biannually and enables information sharing, discussion and consultation regarding approaches being taken to manage work health and safety.

Comcare

Defence continues work collaboratively with Comcare. The biannual Defence–Comcare liaison forum and Comcare representation on the Defence Work Health and Safety Committee enable the sharing of information and a better understanding of the priorities of Comcare as a regulator.

In 2017–18, Comcare undertook 264 investigations across Defence, based on known high-risk areas, and issued five notices (Table 7.23).

In addition to partnering with Comcare on investigations, Defence actively investigates safety incidents. In 2017–18 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 7.23: Number of Comcare work health and safety notices, 2015–16 to 2017–18

Type of notice	2015–16	2016–17	2017–18
Improvement notice ¹	3	3	2
Prohibition notice ²	–	1	1
Non-disturbance notice ³	–	–	2

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 or safety of personnel.

Work health and safety audits

In 2017–18, Defence conducted 34 work health and safety audits across Defence. This comprised 13 safety management system and 21 compliance audits in the risk areas of hazardous chemicals and the joint special licence for the operation of plant.

Notifiable incidents

The number of notifiable work health and safety events or incidents continued to decline in 2017–18, as shown in Table 7.24. Figure 7.1 shows the percentage of work health and safety incidents, by severity, in 2017–18.

Figure 7.1: Percentage of work health and safety incidents, by severity, 2017–18

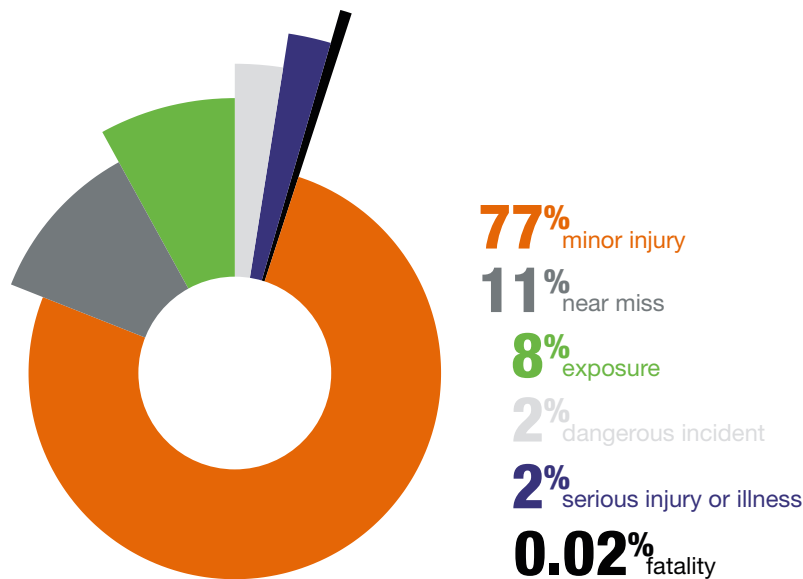


Table 7.24: Number of work health and safety incidents and involved persons, 2015–16 to 2017–18

	2015–16		2016–17		2017–18	
	Number of incidents ²	Number of people involved in an incident	Number of incidents ²	Number of people involved in an incident	Number of incidents ²	Number of people involved in an incident
Fatality ¹	9	9	8	8	3	3
Serious injury or illness ¹	289	330	241	274	261	277
Dangerous incident ¹	219	396	207	382	258	566
Minor injury	10,338	10,406	9,704	9,783	8,800	8,937
Near miss	1,163	1,243	1,092	1,305	1,232	1,745
Exposure	1,008	3,454	869	4,191	905	3,464
Total	13,026	15,838	12,121	15,943	11,459	14,992

Note: Events are recorded on the date of the event. Figures in Table 7.24 can vary from previous Defence annual reports, as reports can be made for incidents occurring in previous years and severity statuses can be updated. Data as at 1 July 2018.

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. A single event can include multiple individuals. 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.

Cultural reform

On 20 November 2017 the Secretary and Chief of the Defence Force launched *Pathway to Change: Evolving Defence Culture 2017–22*. The launch followed a five-year implementation of the initial strategy, which ended in December 2016 with finalisation of all 175 key recommendations and actions.

Development of the strategy was informed by extensive consultation with more than half of the Defence workforce. Feedback received indicated there is agreement that the new strategy has taken Defence forward and clear learning has taken place but that there is more that we can do to strengthen our culture.

Pathway to Change: Evolving Defence Culture 2017–22 builds on our progress with a refreshed cultural intent statement, a supporting narrative recognising our achievements since 2012, and six key priorities to drive an inclusive culture and a high-performance workplace. The six priorities are:

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

The next iteration of cultural reform shifts efforts from implementing key actions and recommendations to an environment where leaders are accountable for creating a more positive culture. This transition to a leader-led approach to culture is linked to, and supported by, the One Defence Leadership Behaviours resulting from the First Principles Review. This diffusion of responsibility for positive cultural reform outcomes has seen the development of a range of tailored cultural reform initiatives across the Groups and Services that reflect the differing needs of areas across Defence.

Defence has begun to implement the strategy, and is conducting a number of in-depth reviews of the six priorities to provide quality assurance, support and guidance for ongoing reform efforts. The first in-depth review focused on Ethics and Workplace Behaviours. To date, the following actions have been taken to embed expected behaviours and support the Ethics and Workplace Behaviours priority:

- Defence's Mandatory Workplace Behaviour Awareness training has been revised to explicitly highlight the impacts of unacceptable behaviour on capability.
- One Defence Leadership Behaviours have been incorporated into leadership training, including Leading for Reform, Defence's key Executive Level leadership program.
- A manager's guide on rewarding and recognising employees for positive behaviours has been released.
- Support material for commanders, managers and other staff has been improved to increase understanding of accepted behaviours and management expectations.
- Efforts are ongoing in support of the Ethics and Workplace Behaviours priority to embed a culture where people feel respected and valued and poor behaviour is called out. Defence is continuing to reinforce respect, responsibility and accountability as the foundations of our workplace through reform initiatives to embed expected behaviours and manage unacceptable behaviour.

During 2017–18, Defence continued its collaboration with the Australian Human Rights Commission. The collaboration has supported Pathway to Change by assessing the acceptance of cultural reform priorities within specific Defence sites and assessment of specific workgroup cultures to determine whether they contain cultural and structural biases that hinder or deter the progression of women and other minority groups.



No. 75 Squadron Aircraft Technician, Aircraftwoman Alicia Brengton, provides information on the operation of the F/A-18 Hornet to Indigenous Youth Programme participants.

Indigenous programs in Defence

Defence is committed to Closing the Gap, the whole-of-Government strategy to reduce Indigenous disadvantage. One of our main contributions is through economic participation by offering a number of employment opportunities and pathways for Indigenous Australians. The number of Indigenous Australians in Defence has been steadily increasing.

The Defence Reconciliation Action Plan provides the overarching strategy for Defence's commitment to increasing Indigenous employment. Under the Plan, Defence Indigenous Champions promote Indigenous employment, and provide representation on whole-of-Government forums influencing Indigenous employment strategies and policies.

In 2017–18, Defence continued the Indigenous Pre-Recruit Program, a tri-service program to prepare Indigenous Australians who have demonstrated potential for general enlistment into the ADF. Over a six-week period at either Wagga Wagga New South Wales, or Batchelor in the Northern Territory, participants were

given an introduction to military lifestyle, physical fitness, leadership, teamwork, character development, and cultural appreciation. Sixty-nine recruits participated in the program in the last 12 months and over 60 per cent go on to Recruit Training.

Defence participates in several cultural immersion programs, including the Jawun program. The program aims to increase cultural awareness among staff and operates across Australia, with secondments in a variety of settings. Since 2012, more than 65 employees have been involved.

The Indigenous Procurement Policy provides employment and training opportunities for Indigenous Australians. In the two years of its operation, Defence has exceeded our targets with a total of 765 contracts, valued at \$251 million. Defence's success has been recognised with the award of the 2017 Supply Nation Diversity Award as Government Member of the year.

Defence, as one of Australia's largest employers and with a national footprint, is proud to contribute to the national effort to increase the economic wellbeing of Aboriginal and Torres Strait Islander peoples and Closing the Gap.

Diversity in Defence

To ensure broader thinking in the development of policy, capability options and in our conduct of operations, Defence is committed to building a workforce comprising teams that are diverse in background and experience.

Developing an inclusive culture that provides the innovation, adaptability and diversity of thought required to solve complex and diverse problems is a priority for Defence. A key focus is the removal of workplace barriers in order to create a more inclusive and capable organisation, where people can contribute and reach their potential.

In late 2017, Defence released an Unconscious Bias Awareness Program. This program focuses on mitigating the impact of unconscious bias in specific areas such as recruitment, selection and development; and in the day-to-day supervisory and leadership capacity of commanders and managers.

Women in Defence

Defence continues to focus its efforts on implementing changes in the workplace to ensure greater representation of women in both the ADF and the APS. Achieving a better gender balance is not just about equality or doing the right thing; it is about building Defence's capability and ensuring our operational effectiveness.

Defence's efforts include development programs to increase representation of women in leadership roles; mentoring, networking and capability development; access to flexible work arrangements; and targeted recruitment to increase the number of women applying for positions.

In line with the Australian Government's gender diversity target for women on boards, Defence has developed a Women on Boards Action Plan. Defence is in the process of implementing a range of strategies such as board readiness training, board shadowing, networking events and one-on-one mentoring.

Women in the Australian Defence Force

Each year, Defence releases a *Women in the ADF Report*, which provides an analysis of the participation and experiences of women in the ADF and, where applicable, compares these to the experiences of men. This is the fifth year that Defence has published the *Women in the ADF 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).

The *Women in the ADF Report 2017–18* shows that, since the commencement of the *Pathway to Change 2012–17*, the ADF has made considerable advancements in growing and advancing the female ADF workforce.

As at 30 June 2018, the participation rate of women in the permanent ADF reached 17.9 per cent—an increase of 1.2 per cent from 16.7 per cent as at 30 June 2017. In the same period, the number of women serving in the ADF increased by 652, with eight more women in senior officer positions.

Each Service has a range of initiatives to provide mentoring, sponsorship and leadership development opportunities for women:

- The Navy Women's Leadership Program provides opportunities for Navy women to participate in leadership development programs, conferences and seminars.
- The Army is working towards increasing female representation in senior leadership positions, with all leadership positions within the Army open to men and women. The removal of gender restrictions provides an opportunity to increase the number of women in senior leadership through the provision of previously unavailable career pathways.
- The Women's Integrated Networking Group is a facilitated program designed to encourage networking between Air Force women of all rank levels and employment skills.

Women in the Australian Public Service

In line with the broader Australian Government Gender Equality Strategy 2016–19, Defence has developed a Defence Gender Action Plan. The plan outlines Defence’s commitment to progress towards sustained gender equality and ensures that best practice inclusion is embedded in our leadership and people management practices.

As at 30 June 2018, the participation rate of women in the APS reached 42.4 per cent—up from 41.9 per cent as at 30 June 2017. In this period, the number of women in Executive Level positions increased by 266. We have implemented a number of gender equality initiatives, including initiating a science, technology, engineering and mathematics working group for cross-agency participation to create mentoring opportunities for women in science, technology, engineering and mathematics roles, and build stronger relationships in their fields of expertise.

Workforce flexibility

The ADF has implemented options for greater flexibility in the Services’ career models to ensure women’s advancement is supported and not adversely affected when they take career breaks or seek location stability.

The ADF Total Workforce Model, introduced in 2016, allows mobility across full-time and part-time service categories to align with individuals’ circumstances. It also enhances Defence capability by allowing the Services to draw on a more diverse pool and foster an environment where valuable skills across Defence and industry can be accessed, built and retained.

Each Service has a target of 2 per cent of the trained workforce accessing formalised flexible work arrangement. These targets have been exceeded in some areas. As at 30 June 2017, the Navy has already exceeded this target for the non-seagoing, trained, permanent and continuous full-time service workforce, with 5.7 per cent; the Army has 1.2 per cent of its workforce under a formal agreement; and the Air Force has 5.8 per cent of its trained workforce on formal, documented flexible work arrangements.

In the APS, Defence has commenced a Flexible Work Awareness Campaign to promote Defence’s commitment to providing flexible work options and identify the barriers and opportunities of working flexibly. We are also reviewing the employment conditions around parental leave and will be developing a Return to Work Framework for parents and carers.

Indigenous participation and engagement

Defence is committed to strengthening the capability and diversity of our workforce by increasing Indigenous representation and supporting Indigenous employees’ career development and progression.

Defence has increased Indigenous representation among ongoing APS employees from 369 on 1 July 2017 to 405 on 1 July 2018. The number of permanent Indigenous ADF members increased from 1,397 on 1 July 2017 to 1,513 on 1 July 2018 (see Table 7.25 and Figure 7.2).

Figure 7.2: Indigenous participation

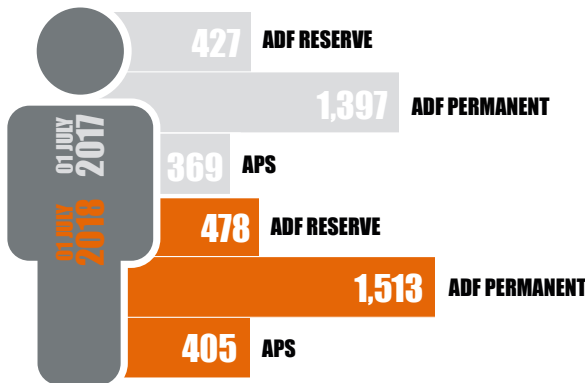


Table 7.25: Indigenous participation

	1 July 2017		1 July 2018	
	Number	% of total	Number	% of total
Navy				
Permanent	405	3.0	440	3.2
Reserves ¹	22	0.8	33	1.1
Army				
Permanent	806	2.7	856	2.9
Reserves ¹	350	2.5	385	2.7
Air Force				
Permanent	186	1.3	217	1.5
Reserves ¹	55	1.1	60	1.1
Total ADF				
Permanent	1,397	2.4	1,513	2.6
Reserves¹	427	2.0	478	2.1
Total APS²	369	2.0	405	2.2

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. Reserves include all active members (Service Categories 5, 4 and 3) and Reservists undertaking continuous full-time service (Service Option C).

2. Figures include paid, unpaid, full-time, part-time, ongoing and non-ongoing employees.

Defence uses a number of methods to attract young Indigenous Australians to a career in Defence, including indirect attraction through community engagement activities, work experience opportunities and partnering with Indigenous organisations that focus on improving future outcomes for Indigenous youth. From 1 July 2017 to 1 July 2018, the Defence Work Experience Program hosted 377 Indigenous students, mostly in Victoria, Western Australia, North Queensland and the Northern Territory.

The ADF provides diverse career pathways for Indigenous Australians. There are a range of strategies in place, including community outreach programs and direct entry recruiting methods. The majority of Indigenous Australians join the ADF through general or direct entry. Additionally, in 2017–18, the Indigenous Pre-Recruit Program and the Navy and Army Indigenous Development Programs provided an opportunity for over 140 Indigenous Australians to improve education, fitness and leadership in preparation for a career in the ADF.

Defence continues to employ Indigenous APS employees through direct recruitment, Affirmative Measures processes, graduate programs, and Indigenous-specific entry-level programs managed by the Department of Human Services and the Department of Jobs and Small Business. Defence employed six graduates and 78 Indigenous entry-level employees in 2017–18.

To support Indigenous APS employees, Defence has established a mentoring framework. Over 80 experienced Indigenous and non-Indigenous Defence personnel mentored Indigenous entry-level employees in 2017–18.

A culturally aware workplace also assists in the retention of Indigenous employees. Defence has incorporated Indigenous awareness sessions into existing leadership development programs to ensure that Defence leaders have the knowledge required for them to contribute to Defence's Indigenous commitment.

The Defence Reconciliation Action Plan outlines Defence's commitment to an inclusive and respectful workplace. The fourth iteration of the plan is under development and will be released in late 2018.

People with culturally and linguistically diverse backgrounds

Defence continues to develop specific initiatives to attract, recruit, develop and retain people with culturally and linguistically diverse backgrounds. For example:

- In July 2017, the Minister for Defence launched a digital, print and radio Culturally and Linguistically Diverse influencer advertising campaign, 'The ADF Surprised Us'. The campaign features ADF members from Chinese, Indian, Arabic, Vietnamese, Malaysian, Indigenous and Caucasian backgrounds.

- Defence appointed three Senior Executive Cultural and Linguistic Diverse Champions to raise the profile for this important diversity focus.

In the 2018 Defence Graduate Program, of the 311 candidates recruited, 139 graduates indicated they either spoke or wrote a second language (other than English). Languages include French, Spanish, German, Russian, Chinese, Mandarin and Cantonese.

Lesbian, gay, bisexual, transgender and intersex people

Defence seeks to create an inclusive workplace by driving long-term awareness and developing support structures for lesbian, gay, bisexual, transgender and intersex people.

Throughout 2017–18 Defence implemented a range of strategies to create a safe and inclusive workforce—one where people feel supported to bring their whole selves to work. For example, we benchmarked ourselves against other organisations through participation in the Australian Workplace Equality Index—Australia’s definitive benchmark on lesbian, gay, bisexual, transgender and intersex workplace inclusion practices and initiatives. Also, in 2015, 2016 and 2017, Defence was recognised as a top public sector organisation for supporting lesbian, gay, bisexual, transgender and intersex people.

People with disability

Defence is a workplace that is accessible, inspires people to succeed and builds meaningful and sustainable employment opportunities for people with disability. Defence actively supports people with disability to maximise their potential and participate as equal employees in the Defence environment.

Defence continues to enhance its capability through the employment of people with a disability. By increasing the representation of people with a disability in its workforce, Defence is able to respond more capably to the needs of the community, positioning Defence as an employer of choice for all Australians. It also allows building a diverse and inclusive workforce for a more integrated service delivery to Defence customers.

Defence continues to invest in creating and sustaining disability employment programs and direct employment pathways by using the Australian Public Service Commissioner’s Directions on affirmative measures. Through the below employment programs, 114 people living with disability have a valued role in Defence:

- The Inclusive Employment Program offers permanent employment at the APS 1 and 2 levels for 22 people with intellectual disability.
- The Defence Administrative Assistance Program offers employment for 83 people, in nine locations across Australia, through a partnership with local Australian Disability Enterprises.
- The Dandelion Program employs nine people with Autism Spectrum Condition under a three-year program. The Dandelion Program delivers multifaceted capabilities to Defence. This initiative has been undertaken in partnership with DXC Technology Australia.
- Defence is implementing an improved, client-centric approach to support people with disability and managers in accessing workplace adjustments and assistive technology to eliminate workplace barriers.

Disability reporting mechanisms

Official Defence data shows the percentage of Defence APS employees who have self-identified as having a disability is 3.5 per cent. However, the 2015 Defence census indicated 20.3 per cent of Defence APS employees have at least one form of disability or chronic medical condition.

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.

Complaint handling and resolution

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

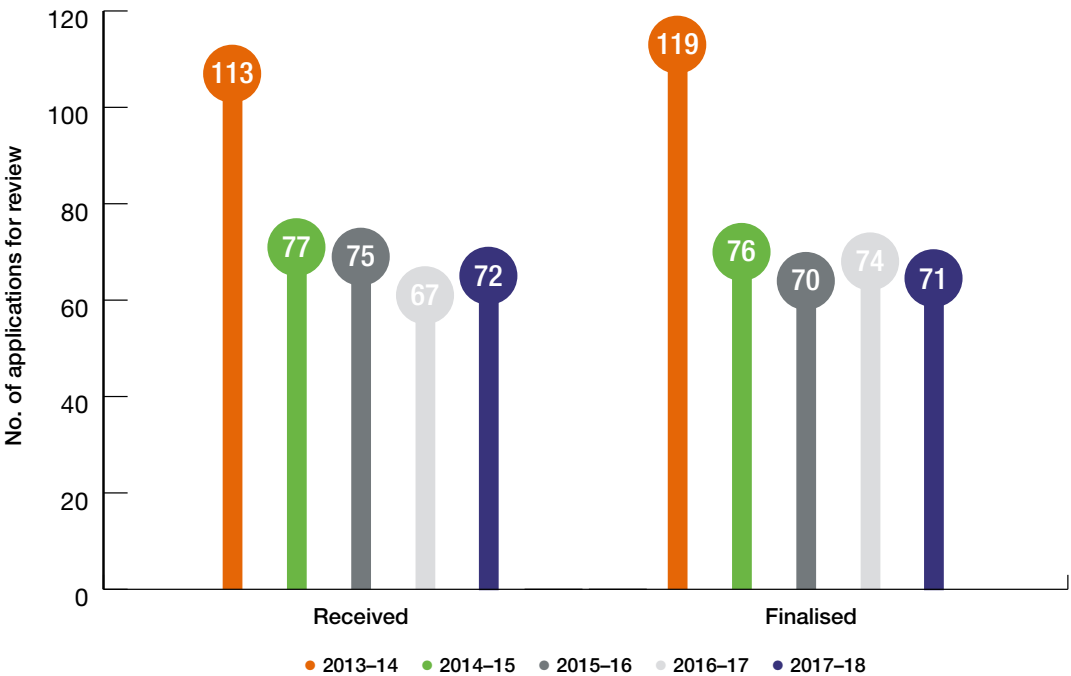
APS review of actions

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.

In 2017–18 Defence received 72 applications for review of actions, which is a small increase from the previous year. The subjects which continued to feature most regularly in the applications for review were:

- 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 7.3: **APS review of actions applications received and finalised, 2013–14 to 2017–18**



Workplace unacceptable behaviour

Defence personnel can make a complaint about any incident of unacceptable behaviour 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.

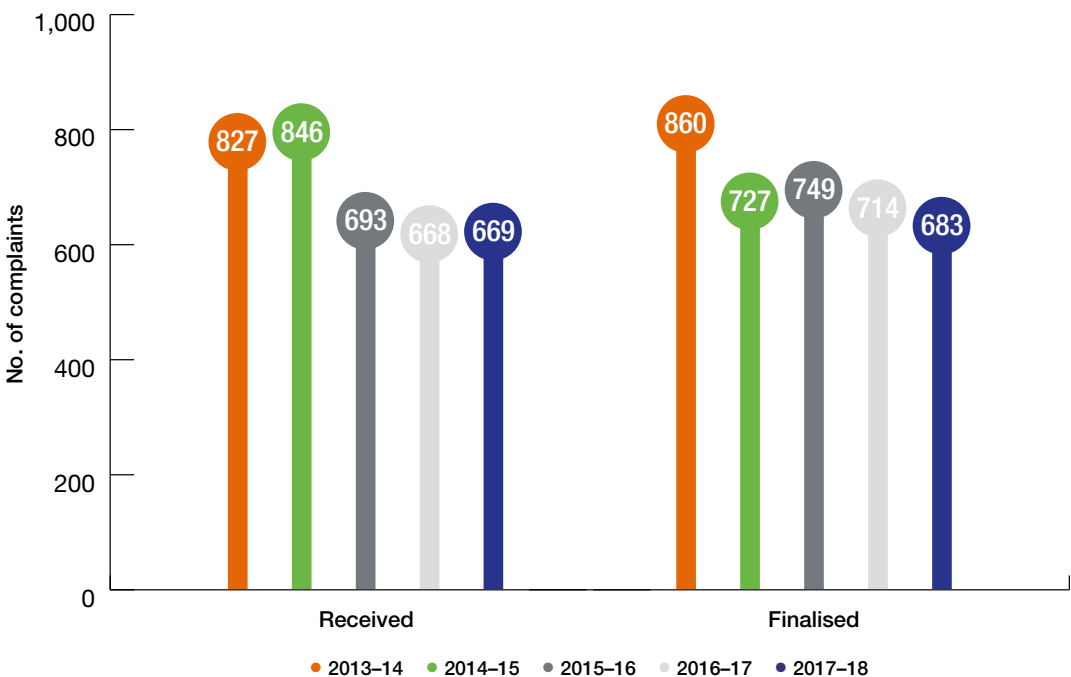
All Defence personnel are required to undertake annual Workplace Behaviour training, which includes information about expected behaviours and guidance on making and managing complaints.

In 2017–18, 669 complaints of unacceptable behaviour were recorded in the Defence Complaints Management, Tracking and Reporting System (ComTrack). This is similar to last financial year. Efforts to reduce the incidence of unacceptable behaviour are ongoing, and Defence is currently conducting a review of complaint management.

Unacceptable behaviour complaints are considered finalised when the matter has been resolved, parties informed and a decision recorded. In 2017–18, 683 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 longer periods, such as when the matter requires further investigation or inquiry.

On average, between 80 to 90 per cent of unacceptable behaviour incidents are of a level where local management is the most appropriate to 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 appropriate level. The numbers of alleged incidents of unacceptable behaviour represents complaints from less than 1 per cent of the Defence workforce.

Figure 7.4: Unacceptable behaviour complaints reported as received and finalised, 2013–14 to 2017–18



Reports of sexual misconduct

Defence's Sexual Misconduct Prevention and Response Office provides confidential support and case management services to Defence personnel directly affected by sexual misconduct, debriefing services for personnel exposed to difficult material at work, advice and assistance with incident management where victim wellbeing is paramount, and educational programs and resources.

The Sexual Misconduct Prevention and Response Office provides a 24/7 telephone response service for those seeking help. The office assisted 473 clients in 2017–18. It provided assistance to 126 new victim support clients impacted by sexual offences, sexual harassment and sex-based discrimination. These interventions assist wellbeing, build resilience and help personnel to develop self-management strategies and skills. Assistance with system navigation and service coordination, resources and referrals, and education for individuals and their families is also provided.

The Sexual Misconduct Prevention and Response Office assisted 255 commanders, managers and colleagues to improve Defence's organisational response to sexual misconduct incident reporting with assistance on applying Defence's policy and legal requirements in a victim-centric way.

In 2017–18 the Sexual Misconduct Prevention and Response Office provided confidential debriefing to 22 clients. This debriefing program is a new initiative designed to prevent psychological injuries arising from workplace exposure to trauma, to normalise reactions to indirect exposure to trauma, and to assist in promoting the emotional stability to provide support to others.

The Sexual Misconduct Prevention and Response Office assisted an additional 61 people with access to training and education products and services. A further nine people were assisted with advice and support in accessing appropriate services related to incidents of non-sexualised unacceptable behaviours.

The office also develops and delivers educational packages and tools that promote cultural change in Defence. The team develop primary prevention learning strategies that provide education on sexual consent, bystander intervention and ethical decision-making in relationships. Of particular importance in the range of educational packages available is the command and management team component, which aims to improve responses to disclosures and reports through incident management training with a victim-centric and trauma-informed focus.

The prevention strategy elements are designed to target different audiences to engender a zero-tolerance culture towards sexual misconduct and create workplaces that uphold Defence and Service values. During 2017–18 the Sexual Misconduct Prevention and Response Office provided education sessions to approximately 12,920 Defence personnel. This represents a reduction on the previous year's total of 29,247. However, the office has been focused on reaching smaller bases that have not been addressed before. As at 1 July 2018 approximately 50,000 Defence personnel held the Sexual Misconduct Prevention and Response proficiency, which means they had undertaken Sexual Misconduct Prevention and Response training within the last three years. A total of 59 per cent of the permanent force now holds the proficiency.

The Bungaree troupe of Indigenous dancers perform at the closing ceremony of the 2017 Sea Power Conference on board HMAS Hobart, Fleet Base East.





ASSET MANAGEMENT,
PURCHASING AND
CAPITAL INVESTMENT

8

Asset management

Defence manages \$100.1 billion of total assets. This includes approximately:

- \$62.0 billion of specialist military equipment
- \$27.1 billion of plant, land, buildings, infrastructure
- \$6.9 billion of inventory
- \$0.5 billion of heritage and cultural assets
- \$3.6 billion of other items, including cash, receivables, prepayments and intangibles.

Defence Groups and Services are accountable for the underlying business transactions and records that substantiate the reported financial balances of assets under their control.

Defence undertakes accounting processes to enable the accurate and timely reporting of asset balances and ensure that they are consistent with the requirements for financial statement reporting defined in the Australian Accounting Standards. Defence conducts an annual fair value assessment of all assets.

Purchasing

Defence discharges its procurement function in accordance with the Commonwealth Procurement Rules and the attendant Procurement Connected Policies and Defence-specific procurement policies. These and other mandatory procurement requirements are expanded, explained and operationalised through the Defence Procurement Policy Manual. Defence officials undertaking procurements must comply with the Defence Procurement Policy Manual. To assist Defence officials to comply, Defence also provides procurement guidance, tools and templates that guide, inform and assure rigour and good governance in Defence procurements.

In accordance with the Commonwealth Procurement Rules, Defence publishes the Defence Annual Procurement Plan on AusTender (www.tenders.gov.au). The Defence Annual Procurement Plan gives notice of proposed Defence procurements and enables industry to prepare for the competitive tendering phase. Defence also publishes all 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.

Defence 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.

In 2017–18, Defence undertook an extensive Commercial Reform Program. The program aims to minimise the cost of tendering and contract administration by reducing the complexity of tender processes, balancing the allocation of commercial risks and enhancing industry engagement. Defence has also established the Defence Support Services Panel, which provides small and medium enterprises with easier and more streamlined access to Defence business opportunities. In addition, Defence is developing a Defence Industry Participation Policy to further facilitate Australian and local industry involvement for Defence procurements of \$4 million and above.

The Centre for Defence Industry Capability and the Defence Innovation Hub advise small businesses and assist them to participate in Defence procurement and research activities.

To ensure that Defence understands the range of issues that small and medium enterprises face in supplying products and services and accessing procurement opportunities, Defence engages with industry through a range of forums, industry working groups and events. Defence will continue to pursue initiatives to engage with industry and assist small businesses to participate in Defence procurement activities.

Able Seaman Marine Technician Jake Daley works on the propulsion systems for the Navy's LHD's (Landing Helicopter Dock) in the dry dock at Garden Island, as part of the Technical Mastery Secondments with Thales, Sydney.



Local industry

Defence is focused on supporting local industry's contribution to the Australian Government's \$200 billion-plus investment in defence capability. In 2017–18, Australian businesses benefited from a range of Defence-led initiatives helping businesses increase their competitiveness and win contracts, both in Australia and overseas.

First trialled in 2007, the Global Supply Chain program helps Australian enterprises build their business and achieve export success by entering the supply chains of global defence primes. In 2017–18, the program awarded over \$1 billion in contracts, benefiting over 170 companies and research institutions. The program continues to grow, with an additional \$3.2 million in funding allocated in 2018–19 set to further enhance and expand its support for local businesses.

In 2017–18, increased participation by Australian businesses at Team Defence Australia trade shows and missions provided Australian businesses with unique opportunities to access new international markets. Delegations attended events across the globe, including the Singapore Air Show, Sea Air

Space in the United States, Defence Services Asia in Malaysia, and Eurosatory in France.

Defence has also increased its support for businesses working domestically. In 2018, the Centre for Defence Industry Capability hosted 'Introduction to the Defence Market' seminars to enable small and medium enterprises to better navigate Australia's defence industry. Seminars were held in 17 locations across Australia, from Perth and Launceston, to Townsville and Melbourne, with content tailored to the needs of each community. Local businesses heard from prime contractors and industry associations, and met Centre for Defence Industry Capability Advisers for one-on-one consultation sessions. The series was a major success, attracting close to 1,000 participants from a diverse range of sectors.

Australian businesses also play a vital role in supporting Defence bases, facilities and training areas. Defence focuses on maximising the opportunities for local businesses to compete for Defence work. In 2017–18, Defence began piloting a new Local Industry Capability Plan that mandates tenderers actively seek out the capacity and capability of local markets.

Australian industry involvement

In 2017–18 Australian industry continued to play a vital role in the acquisition and sustainment of Defence capability to support the Government's \$200 billion investment in renewing and strengthening Australia's defence capabilities.

In 2017–18, Defence continued to roll out a number of initiatives that were announced in the 2016 Defence Industry Policy Statement. It also worked on a number of new policy initiatives to support the recognition of defence industry as a Fundamental Input to Capability as outlined in the 2016 Defence White Paper.

The 2016 Defence Industry Policy Statement set out a new approach to defence industry and innovation. This approach is supported by two broad initiatives, funded at around \$1.6 billion to 2025–26:

- *Centre for Defence Industry Capability:* the Centre for Defence Industry Capability (\$230 million over the decade) will be positioned as the front door to Defence for small to medium enterprises that are seeking to enter the defence market. The Centre for Defence Industry Capability has continued to provide advisory and facilitation services to businesses nationwide, including business improvement, skills development and supply chain facilitation services:
 - In 2017–18, the Centre for Defence Industry Capability approved 254 Advisory and Facilitation Services applications and approved 34 Capability Improvement Grants with a combined value of \$1.16 million (GST exclusive) over the financial year.
- *A new approach to innovation:* Defence will invest in a new approach to innovation that helps to ensure Defence remains resilient to emerging threats, including the possible use of disruptive technologies by adversaries. The Defence Innovation Hub (\$640 million over the decade) has continued to seek to enhance Defence capability through innovation by investing in maturing and further developing technologies. To date it has:
 - awarded 46 innovation contracts, with a total investment of more than \$67.15 million over the financial year
 - managed a portfolio of legacy innovation projects addressing a wide spectrum of innovation development worth approximately \$49.3 million
 - launched its Special Notice service offering which calls for industry to submit proposals in response to specific capability challenges
 - awarded seven Special Notice contracts with a combined contract value of \$4.3 million.

In 2017–18, the Next Generation Technologies Fund entered into more than 40 funding collaborations with 17 companies, 23 universities and two publicly funded research agencies. It has also committed more than \$130 million to research programs in the coming years. This includes the first Grand Challenge and the first Defence Cooperative Research Centre.

In 2017–18, Defence also launched a range of policy and program initiatives to enhance Australia's defence industry to better support Defence capability:

- The release of the Defence Export Strategy to support a strong, resilient and internationally competitive Australian defence industry in January 2018. Key achievements from the strategy included:
 - the release of the 2018 Australian Military Sales Catalogue in March 2018
 - the opening of the Australian Defence Export Office and appointment of the first Australian Defence Export Advocate in April 2018
 - the inaugural meeting of the Defence Export Forum in May 2018.
- The release of the Defence Industrial Capability Plan in April 2018. The plan outlines the Government's vision for Australia's defence industry over the next decade:
 - the plan identified 10 initial Sovereign Industrial Capability Priorities
 - a Sovereign Industrial Capability Assessment Framework was developed to provide a top-down, strategy-led framework which provides a repeatable methodology to identify Sovereign Industrial Capability Priorities.

- The strengthening of the Australian Industry Capability Program, which maximises the involvement of Australian industry in meeting Defence's capability goals, in late 2016:
 - in 2017–18, 21 Australian Industry Capability Public Plans were published on the Defence Australian Industry Capability Program website. They set out the plans and forecast opportunities for Australian industry involvement in major Defence capability projects and sustainment activities.
- The running of the National Defence Industry Skills and Jobs Information Campaign from November 2017 to June 2018 nationwide to promote opportunities for Australian business involvement and employment in Australia's defence industry.

Further information on Defence's industry and innovation programs can be found in the annual *Defence Industry and Innovation Programs Update Report* detailed in Appendix B.

Indigenous procurement policy

Defence remains committed to stimulating Indigenous economic development and growing the Indigenous business sector.

Since the introduction of the Commonwealth Indigenous Procurement Policy, Defence has consistently exceeded the Department of the Prime Minister and Cabinet annual portfolio targets. In 2017–18 the Defence target remained at 3 per cent of eligible domestic contracts, equalling 420 contracts for the Defence portfolio.

Defence's performance against the portfolio's annual targets is published annually on the Department of Prime Minister and Cabinet Indigenous Procurement website listed in Appendix B.

Defence is currently developing an Indigenous Procurement Strategy as a further pathway to delivering Indigenous procurement outcomes. Through strong leadership, an inclusive culture and proactive communication, Defence is well positioned to maximise supplier diversity and specific Indigenous engagement outcomes across our procurement activities.

Capital investment

Defence has continued to deliver the ambitious \$200 billion recapitalisation of the ADF outlined in the 2016 Defence White Paper and associated Integrated Investment Program.

The 2016 Defence White Paper sets out the Government's vision to enhance Australia's defence capability, deepen our international security partnerships and collaborate with defence industry and science and technology research partners in support of our nation's security. The Integrated Investment Program, published along with the white paper, sets out all elements of the Government's defence investment, including new weapons, platforms, systems, and the enabling equipment, facilities, workforce, information and communications technology, and science and technology.

Since the launch of the 2016 Defence White Paper, the Government has approved a number of capability investments across the major equipment, facilities and infrastructure, information and communications technology and science technology to deliver the Government's capability requirements.

During 2017–18, the Government approved 111 capability-related submissions. It gave 21 'First Pass' approvals, 35 'Second Pass' approvals and 55 'Other Pass' approvals. Of the 55 'Other Pass' approvals, 14 were granted for submissions that provided advice to Government on current and future capability, and 35 projects were approved for early access to Integrated Investment Program funding. This early funding is used to complete critical capability development work to ensure that Defence can present comprehensive First and Second Pass proposals to the Government as scheduled.

Significant government announcements in 2017–18 include the following:

- Maritime and anti-submarine warfare:
 - *Future Submarine design and construction*: A \$700 million contract with Lockheed Martin Australia for the Future Submarine Combat System Design, Build and Integration has been approved. This work will include the design of the combat system and procurement activities to select subsystem and component suppliers.
 - *Second Pass approval for the Future Frigates program*: The Government will invest approximately \$35 billion into the Future Frigates, named the Hunter class, to replace the eight Anzac Frigates. This work will commence in the late 2020s.
 - *Second Pass approval for the Multi-mission Unmanned Aircraft System*: The Government will invest approximately \$1.4 billion to acquire the first six MQ-4C Triton remotely piloted aircraft through a cooperative program with the United States Navy to complement the surveillance role of the P-8A Poseidon aircraft.
- Intelligence, surveillance, reconnaissance and electronic warfare, and space and cyber:
 - *Second Pass approval for the Airborne Early Warning and Control Interoperability Compliance Upgrade*: The Government will invest approximately \$580 million to upgrade the E-7A Wedgetail airborne early warning and control aircraft. The aircraft will be upgraded with new and more advanced combat identification sensors, tactical data links and communication and encryption systems.
 - *Other Pass approval for the Civil Military Air Traffic Management System*: The Government will investment approximately \$1.2 billion in the OneSKY project. OneSKY will transform Australia's air traffic management system and national infrastructure in the sky, ensuring that the travelling public arrive at their destination safely. This project will replace the ageing military air traffic management systems, which will ensure the ADF can continue to operate safely in Australia's airspace.
- Land combat and amphibious warfare:
 - *Second Pass approval of the Battlefield Command Systems*: This project will enhance the ADF's land force digital, command, control and communications systems and support hundreds of local jobs. Land combat and amphibious warfare capabilities will be improved by providing fast, accurate information over secure and reliable digital communications.
 - *Second Pass approval for the Chemical, Biological, Radiological and Nuclear Defence*: The Government will invest approximately \$300 million to protect ADF personnel from chemical, biological, radiological and nuclear hazards. Defence will acquire detectors, protective suits, masks, protective shelters, decontamination systems, containers for contaminated equipment, warning and reporting software and simulation systems.
 - *Second Pass approval of Future Artillery Ammunition*: The Government will invest approximately \$100 million to supply 155-millimetre ammunition for the Lightweight Towed Howitzer. This ammunition will replace ageing ammunition stock and will increased range and lethality and a greater range of effects, such as infrared illumination, to enhance the Army's advanced night fighting capability.
- Air and sea lift:
 - The Government has not made any new public announcements on approvals for this stream in 2017–18. However, the Government is continuing to deliver on the commitments made as a part of the 2016 Defence White Paper.
- Strike and air combat:
 - The Government has not made any new public announcements on approvals for this stream in 2017–18. However, the Government is continuing to deliver on the commitments made as a part of the 2016 Defence White Paper.
- Key enablers:
 - *First Pass approval of the Royal Malaysian Air Force Base Butterworth*: The Government will invest approximately \$22 million to upgrade facilities at the Royal Malaysian Air Force Base Butterworth. The ADF uses the air force base as part of our longstanding commitment to regional security.

- *Second Pass approval for Remotely Piloted Unmanned Aircraft Systems MQ-4C Triton:* As part of this program, Defence will invest around \$110 million to upgrade facilities at Royal Australian Air Force Base Tindal.
- *Second Pass approval for Larrakeyah Barracks Redevelopment, Darwin (including Norforce):* Defence will invest approximately \$223 million in base redevelopment. This redevelopment will address the upgrade of critical in-ground infrastructure, support on-base growth over the next 25 years, and improve the working environment for Defence personnel.
- *Second Pass for facilities to Support Naval Operations in the North:* Defence will invest approximately \$272 million in the Facilities to Support Naval Operations in the North project. This will deliver a new outer wharf to support the Royal Australian Navy's major surface combatant ships and submarines.

In 2017–18, 10 major capital facilities and infrastructure projects, valued at a total of \$1.5 billion, were referred to the Parliamentary Standing Committee on Public Works. The committee held public hearings for 11 major capital facilities and infrastructure projects, valued at over \$2 billion. Five medium work projects, valued at \$31.4 million, were notified to the committee. Further information on the Parliamentary Standing Committee on Public Works is in Chapter 6.

Projects of Concern

The Projects of Concern regime is a proven process for managing underperforming capability projects at a senior level. Once a project is listed as a Project of Concern, the primary objective of the regime is to remediate the project 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 regularly to the government.

Table 8.1 provides a list of Projects of Concern as at 30 June 2018. Significant changes in the 2017–18 reporting period were the addition of Civil Military Air Traffic Management System (AIR05431PH3) and Deployable Defence Air Traffic Management and Control System (AIR05431PH1) to the list. Subsequently, Civil Military Air Traffic Management System (AIR05431PH3) was removed from the list after the acquisition and support contracts were signed with the prime contractor. After the successful remediation of the Collins Class Submarines Sustainment (CN10) and Air Warfare Destroyer (SEA04000PH3), the projects were removed from the list.

Table 8.1: Projects of Concern, as at 30 June 2018

Project name	Project number and phase	Date added
Multi-Role Helicopter (MRH-90)	AIR09000PH2, 4 and 6	November 2011
Australian Defence Satellite Communications Capability Terrestrial Enhancement	JNT02008H3F	September 2014
Deployable Defence Air Traffic Management and Control System	AIR05431PH1	August 2017

Defence will continue to actively manage the remaining Projects of Concern in 2018–19, as agreed with the government.

HMAS *Ballarat*'s embarked MH-60R Seahawk helicopter conducts a forward passenger transfer with HMAS *Rankin* inside Cockburn Sound, Western Australia.



An Australian Army soldier with the Amphibious Beach Team prepares to support elements coming ashore at Freshwater Beach in Shoalwater Bay Training Area, during Exercise HAMEL 2018.



ENVIRONMENTAL
PERFORMANCE

9

Environmental performance

The Defence Environmental Policy outlines five strategic aims:

- Defence will deliver a sustainable estate across Defence maritime, land and aerospace areas, activities and operations.
- Defence will understand and manage its environmental impacts.
- Defence will minimise future pollution risks and manage existing contamination risks.
- Defence will improve the efficiency of its resource consumption and strengthen resource security.
- Defence will recognise and manage the Defence estate heritage values.

Land management

Defence works with its Base Services contractors to manage its estate in a way that promotes environmental sustainability and meets legislative environmental obligations.

During 2017–18, Base Services contracts continued to provide an opportunity for an integrated service delivery approach to land management and environmental protection, thereby preventing cumulative adverse impacts on environmental and heritage values. Defence identified a number of environmental activities that would move from unplanned and ad hoc to scheduled and planned approaches, with a focus on bushfire monitoring and management, water management and management of native, domestic, feral and invasive species.

In November 2017 Defence and the New South Wales Rural Fire Service developed a memorandum of understanding to strengthen cooperative arrangements between the agencies and ensure better preparedness for bushfire events affecting Defence properties. In 2018 Defence commenced negotiations with other state and territory bushfire management agencies to replicate the core arrangements of the existing memorandum of understanding. Defence continues to update and develop bushfire management plans under the revised 2018 policy setting.

Defence continues to engage the Australian Wildlife Conservancy to undertake land management at Yampi Sound Training Area in the West Kimberley. This includes monitoring for threatened species, mosaic burning to promote biodiversity and engaging Traditional Owners in land management activities.

In 2018 Defence completed the rollout of the new Garrison Estate Management System. The Garrison Estate Management System is a single integrated system to manage the Defence estate and service delivery and support the Defence Estate Life Cycle. An initial upload of data on the presence of threatened species and biosecurity risks across the Defence estate is being progressively updated and refined.

Waste management

Defence has developed a number of specific waste management targets, including:

- minimising the amount of material from Defence being diverted to landfill
- reducing consumption of natural resources
- reducing waste management and disposal costs through waste streaming.

Defence continues to focus on meeting these targets through waste management service delivery rationalisation. During 2017–18, Defence removed over 45,000 tonnes of waste from the domestic Defence estate. By diverting 25 per cent of its waste away from an Australian landfill, Defence avoided the release of 10,651.25 tonnes of CO₂-e into the atmosphere.

With Australia's recycling industry under significant pressure, Defence continues to work with both Government and industry partners to identify new uses for recyclable materials and to improve the quality of recycled products.

Defence is piloting a waste optimisation program which aims to manage the waste streams coming from the Defence estate. Defence has also signed up to two national product stewardship schemes—the Tyre Stewardship Scheme and the Fluoro Cycle Scheme.

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 and resilience, Defence remains focused on ensuring energy supply effectiveness, infrastructure maintenance and usage management.

In 2016–17² total energy consumption decreased by 13.17 per cent compared with 2015–16. This decrease can be largely attributed to a 16.41 per cent decrease in transport energy usage (operational fuel consumption). Stationary energy consumption (electricity and gas) also decreased by 0.13 per cent. This is attributed to a 0.56 per cent decrease in electricity usage across the estate.

Defence has committed to a 10-year Defence estate renewable energy program to install large-scale solar systems across the Defence estate. The renewable energy program will provide an energy security alternative in conjunction with other security measures, such as central emergency supply power and generators.

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* in 2017–18. No Defence projects were formally assessed under the Act during the period 2017–18.

Defence fuel supply chain reform and initiatives

During 2017–18, the process of hazard identification and risk assessment has continued. Defence stabilised the Fuel Network and closed all but three of the 140 highest risks identified. A further 16 per cent of the remaining risks have been identified as closed, and any priority risks identified through normal business will close (as part of the Defence Fuel Transformation Program Tranche 1) over the next three years.

The optimisation of the network has commenced. A number of sites have outsourced the Operating Agent functions (the Operating Agent is the senior person who knows, understands and operates a Defence Fuel Installation on a day-to-day basis and has direct line supervision of staff in the Defence Fuel Installation). Other sites were closed and made safe. To underpin the transformation of the network, the rollout of the Defence Fuel Management System has commenced. In addition, Defence has developed a new fuel network training regime and has commenced rollout of the first of a number of associated courses.

The Defence Fuel Transformation Program progressed through the Defence and Government approval process during 2017–18. In June 2018 the National Security Committee granted approval for Tranche 1. Defence has also been working over the past year to establish the management structures to commence execution of the program. The primary focus of Tranche 1 is continued reduction of network risk and increase in transformational activities.

Water

Defence spent \$23.6 million (GST inclusive) on water and \$12.6 million on sewage at Defence-owned facilities in 2016–17.³ Defence has installed 387 water meters to monitor water use at major Defence facilities.

² 2017–18 reporting on Defence energy consumption is delayed due to the extensive collation and data analysis required. This reporting is scheduled for completion in early 2019 and will feature in the 2018–19 Defence annual report.

³ 2017–18 reporting on Defence water expenditure is delayed due to the extensive collation and data analysis required. This reporting is scheduled for completion in early 2019 and will feature in the 2018–19 Defence annual report.

Environmental improvement initiatives and review

Exercise TALISMAN SABER

Exercise TALISMAN SABER is a biennial major military exercise that involves Australian and international armed forces operating across various locations throughout Australia. TALISMAN SABER took place from late June 2017. Environmental planning included an environmental assessment and public environment report in order to comply with the *Environment Protection and Biodiversity Conservation Act 1999*. For the next exercise, to be held in July 2019, Defence will conduct environmental assessments and community consultation for all aspects of the exercise. Consultation will include engagement with local, state and Commonwealth governments, property owners, Traditional Owners, community groups and the public through face-to-face meetings and workshops and a range of online platforms. Environmental assessments will consider Defence's obligations under the *Environment Protection and Biodiversity Conservation Act 1999* in addition to relevant state or local laws as appropriate.

Remediation programs

Defence is undertaking ongoing contamination and explosive ordnance waste assessments and remediation across priority areas on the Defence estate. This includes environmental remediation works at Maribyrnong in Victoria and remediation of explosive ordnance waste at multiple Air Weapons Ranges including Salt Ash and Evans Head, New South Wales; and Delamere, 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 and legislative requirements. This has included a refreshed approach aimed at consistency and heritage compliance across the Defence estate.

During 2017–18 Defence worked with government agencies and community groups to provide statutory heritage protection post disposal by the Commonwealth for a range of sites currently in the property disposal planning process, including Bulimba Barracks in Brisbane, Queensland.

In May 2018 Defence provided information to the Department of the Environment and Energy for that department's five-yearly review of the Commonwealth and National Heritage lists, which is required under Commonwealth heritage legislation.

Land Activities Environmental Management Plan

The Land Activities Environmental Management Plan provides environmental guidance for military activities on the Defence estate and non-defence training areas. It also provides environmental guidance for visiting foreign forces and implementation guidance for the mobile data capture tool. It was trialled in the planning and implementation of exercises TALISMAN SABER 17, HAMEL 18 and CHONG JU 18. The plan was finalised in June 2018.

Pollution Prevention Program

In December 2017 Defence published the updated *Pollution Prevention Management Manual*. The new manual includes 11 annexed guidelines for managing high-priority pollutants and polluting activities. Defence is developing a firefighting foam transformation program to address environmental risks associated with current and future use of firefighting foams.

Ecologically sustainable development

In 2017–18 the ecologically sustainable development program delivered energy and water efficiency projects to improve the sustainability of the Defence estate and reduce whole-of-life costs. Projects included installation of rooftop solar photovoltaic systems, lighting upgrades and water-efficient fittings. The total net whole-of-life savings over the past five years of the program is estimated to be \$15 million.

Defence is improving its ability to monitor and report on energy and water consumption and waste disposal. The Resource Data Management System currently collates electricity, water and gas meter data as well as waste volumetric data. The Resource Data Management System assists in the identification of cost-saving opportunities through increased efficiency in electricity, gas and water use. To date, the Resource Data Management System has identified over \$1 million in potential savings.

The *Smart Infrastructure Manual: Design and Construction*, 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.

Climate adaptation

Defence continues to assess future climate risks to the Defence estate and plan appropriate adaptation responses. Defence actively contributes to whole-of-government development of adaptation policy and guidance.

National PFAS Investigation and Management Program

Defence continued to expand the national PFAS (per- and poly-fluorinated alkyl substances) Investigation and Management Program. The program is investigating the extent of contamination from the historical use of firefighting foams containing PFAS. The legacy firefighting foam was used worldwide from the 1970s by both civilian and military authorities to suppress liquid fuel fires.

The program of comprehensive detailed environmental investigations—underway at 23 Defence properties, including Royal Australian Air Force Base Williamtown and Army Aviation Centre Oakey—are undertaken by experienced environmental services providers and are conducted in accordance with the Australian National Environment Protection (Assessment of Site Contamination) Measure.

The investigation process includes a Preliminary Site Investigation, a Detailed Site Investigation, and if required, a Human Health and/or Ecological Risk Assessment. The information associated with all stages of the environmental investigation forms the basis for a site-specific PFAS Management Area Plan.

Defence provided alternative water supplies to those residents who lived near investigation sites who were reliant on bore water for drinking. Defence also began to implement options for the management and remediation of contaminated water and soil. These ranged from clearance of drains and the installation of water treatment plants to exploring emerging scientific and technical approaches for future application.

Defence worked with Commonwealth, state, territory and local authorities, including the Australian Government's PFAS Taskforce and the Commonwealth Department of Health, to communicate details of the investigations and the broader management program to local communities.



Exercise Pacific Protector 2017—Counter-proliferation engagement in our national interests

Australia hosted a regional Proliferation Security Initiative exercise—Pacific Protector—in Cairns, Queensland from 6–9 September 2017. The exercise built networks, tools and capabilities to counter the illicit trade in weapons of mass destruction worldwide and showcased Australia’s counter-proliferation commitment and engagement in the region. It involved approximately 450 delegates from 21 countries.

Pacific Protector comprised academic sessions, a table top exercise, a subject-matter exchange training program between Australia, the United States, the Philippines, and Thailand, live exercises and demonstrations. Highlights included hosting delegates on HMAS *Toowoomba*, two low fly-overs by a Japanese AP-3C Orion aircraft and live boarding party demonstrations conducted by the Royal Australian Navy, the Korean Coast Guard and the United States Coast Guard.

First Assistant Secretary Strategic Policy Division, Department of Defence, Australia Tom Hamilton addresses the audience during the launch of Exercise Pacific Protector, in Cairns on September 7, 2017.

Personnel from the ADF’s Chemical, Biological, Radiological and Nuclear team, the Australian Nuclear Science and Technology Organisation, the Australian Radiation Protection and Nuclear Safety Agency, the Australian Border Force and experts from the United States and Philippines armies conducted a simulated search, seizure, and decontamination display.

These exercises enhance capability and coordination across the region on counter-proliferation. They test scenarios for sharing intelligence, establishing quick national decision-making processes, and deploying capabilities and assets to conduct interdictions of illicit material. They also demonstrate to proliferators that the participating countries are capable of monitoring and responding to proliferation activities and are prepared to take action to stop them.



10

OTHER
MANDATORY
INFORMATION

Grants

Information on grants expenditure awarded by Defence during 2017–18 is available at www.defence.gov.au/disclosures.asp. In 2017–18, Defence paid approved grants with a total value of \$131.7 million—a decrease of \$1.0 million compared with the previous year (Table 10.1).

Table 10.1: Approved grants, 2016–17 and 2017–18

	2016–17 actual value (\$'000)	2017–18 actual value (\$'000)
Grants programs		
Army History Research Grants Scheme	55	65
Family Support Funding Program	1,553	1,422
The ADF Long Tan Youth Leadership and Teamwork Awards	1,602	1,655
Centre for Defence Industry Capability (through DIIS)	–	232
Defence Cooperative Research Centre (through DIIS)	–	4,000
Previous grants programs	2,989	–
Other grants		
AW Bell Pty Ltd	0	402
Alliance 21—University of Sydney	260	780
Army and Air Force Canteen Service	800	400
Australasian Legal Information Institute (AustLII)	–	60
Center for Strategic and International Studies	–	668
Central Bureau Intelligence Corps Associations	–	6
China Matters	–	150
Ferra Engineering Pty Ltd	–	950
Find AE1 Limited	–	500
Heat Treatment Pty Ltd	–	82
Institute of Regional Affairs	–	176
Kokatha Aboriginal Cooperation	–	23
Multinational Force and Observers	870	880
Levett Engineering	–	108
Lintex Pty Ltd	–	144
Lovitt Technologies	–	11
Lowy Institute of International Policy	–	338
Maralinga Tjarutja Grant	–	9
PHM Technology	–	238
Peace Operations Training Institute	–	282
Re-Engineering Australia	–	600
Regional Development Australia	–	700
RUAG Australia Pty	–	950
Royal United Services Institute of Australia	–	61
Stand Tall 4 PTS	220	–
The Arabana Aboriginal Coop	–	23
The Afghan National Army Trust Fund Contribution	105,876	104,452
The Australian Airports Association	720	360
The American Australian Association	–	3,000
The Australian Member Committee of the Council for Security Cooperation in the Asia-Pacific	129	–
The Australian National University	291	430
The Australian Nuclear Science and Technology Organisation	2,000	–
The Australian Peacekeeping Memorial Project	1,100	–
The Salt Ash School	–	44
The Australian Strategic Policy Institute	3,442	3,528

	2016–17 actual value (\$'000)	2017–18 actual value (\$'000)
The Australian Surf Rowers League	200	180
The Australian War Memorial	2,977	250
The Australian Women's Pilot Association	–	29
The Institute for Regional Security (previously Kokoda Foundation)—Young Leaders Strategic programme	176	
The Invictus Games 2018	7,000	–
The National Boer War Memorial Association	500	–
The Research Unit on Military Law & Ethics at the University of Adelaide—Development of a Manual of International Law Applicable to Military uses of Outer Space	36	–
The Sir Richard Williams Foundation	50	50
The United Nations Medical Service	–	377
The University of New South Wales	20	40
The University of Tasmania—Design Hub and Innovation	–	250
Total approved grants paid	132,866	128,905

Notes:

1. Figures are GST exclusive.
2. Discrepancies in tables between totals and sum of components are due to rounding.

Advertising and market research

During 2017–18, Defence conducted advertising for recruitment and other campaigns. Further information on those advertising campaigns is available at www.defence.gov.au 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.

Table 10.2 shows total advertising and market research expenditure by Defence during 2017–18. 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, 2017–18

Type	2017–18 expenditure (\$)
Advertising	15,379,275
Market research	1,490,728
Polling	–
Direct mail	4,620
Media advertising	59,555,818
Total	76,430,441

Note: All figures are GST inclusive.

Table 10.3: Total advertising and market research expenditure, by Service and Group, 2016–17 and 2017–18

Service or Group	2016–17 expenditure (\$)	2017–18 expenditure (\$)
Strategic Policy and Intelligence Group	171,070	17,930,182
Defence Executive Support	–	48,705
Chief Finance Officer Group	–	–
Joint Capabilities Group	48,302	63,409
Navy	48,498	92,455
Army	98,592	620,032
Air Force	277,354	264,787
Australian Defence Force Headquarters	78,915	187,838
Capability Acquisition and Sustainment Group	57,710	121,123
Estate and Infrastructure Group	35,596	159,278
Chief Information Officer Group	315,021	
Defence People Group	64,353,137	56,878,262
Defence Science and Technology Group	76,473	64,370
Total	65,560,668	76,430,441

Note: All figures are GST inclusive.

Table 10.4 provides details of individual payments of more than \$13,200 (GST inclusive) to persons or organisations for advertising campaigns and market research.

Table 10.4: Individual payments of more than \$13 200 to advertising and market research agencies, by Service and Group, 2017–18

Service/Group and agency name	2017–18 expenditure (\$)	Purpose
Strategic Policy and Intelligence Group		
Advertising		
Mitchell & Partners	14,352	Recruitment
Stack Overflow	16,346	Recruitment
Tank Pty Ltd	15,000	Recruitment
Market research		
ORIMA Research Pty Ltd	119,600	Validate the effectiveness of the media advertising (campaign)
Media advertising		
Dentsu X Australia Pty Ltd	15,398,312	Industry information campaign
TBWA Melbourne	2,366,572	Industry information campaign
Defence Executive Support		
Advertising		
Creative Universe Pty Ltd	25,000	Advertising to support Defence's commitment to delivering innovation, best-practice solutions and ideas
The United Services Institute of the Australian Capital Territory	15,000	Sponsorship of the ACT Blamey Oration
Joint Capability Group		
Media advertising		
Dentsu X Australia Pty Ltd	13,763	Public notices to advise the community of upcoming range noise due to military training or explosive ordnance activities
Navy		
Media advertising		
Facebook advertising campaign	20,882	Young Endeavour Voyages Facebook advertising campaigns
Superlunar Pty Ltd	24,257	Young Endeavour Voyages TV advertising campaigns
Army		
Advertising		
Dunham and Company	40,670	Develop brand for Army Chaplaincy
Havas Worldwide Australia Pty Ltd	557,495	ADF recruitment for Army Indigenous Development Program

Service/Group and agency name	2017–18 expenditure (\$)	Purpose
Air Force		
Advertising		
Paula M Promotions	67,256	Merchandise for Exercise Pitch Black, air shows and minor events
Media advertising		
Smooth FM 91.5 Pty Ltd	31,944	Merchandise for Exercise Pitch Black, air shows and minor events
Last Minute Multi Media	48,984	Advertising for visitor attendance at the Royal Australian Air Force Museum
News Corp Australia	14,000	Advertising for visitor attendance at the Royal Australian Air Force Museum
Capability Acquisition and Sustainment Group		
Media advertising		
Dentsu Mitchell Media Pty Ltd	44,245	Multiple public notices
Estate and Infrastructure Group		
Advertising		
Dentsu Mitchell Media Australia Pty Ltd	58,649	Advertising cost for firing ranges
Defence People Group		
Advertising		
Havas Worldwide Australia Pty Ltd	12,666,513	ADF recruitment advertising
Market research		
Chat House Research Pty Ltd	53,372	Qualitative and quantitative research to maximise ADF recruitment targets
GFK Australia Pty Ltd	218,252	Qualitative and quantitative research to maximise ADF recruitment targets
Hall & Partners Open Mind	493,677	Qualitative and quantitative research to maximise ADF recruitment targets
Taylor Nelson Sofres	68,268	Qualitative and quantitative research to maximise ADF recruitment targets
Whereto Research Based	422,733	Qualitative and quantitative research to maximise ADF recruitment targets
Media advertising		
Australian Public Service Commission	210,532	Non-CASG APS Employees—Public Service Gazette
Dentsu Mitchell Media Australia	40,052,336	Planning and placement of campaign advertising
Defence Science and Technology Group		
Media advertising		
Dentsu X Australia Pty Ltd	25,049	Advertising of information sessions to invite participation in the Next Generation Technologies Fund Grand Challenges

Note: All figures are GST inclusive.

Legal expenses

Expenditure on internal and external legal services in 2017–18 is shown in tables 10.5, 10.6 and 10.7. Internal expenses include salaries for military and civilian staff, divisional operating costs and military justice reimbursements. External expenses are professional fees, disbursements and legal assistance at Commonwealth expense. The figures are GST exclusive.

Table 10.5: Estimated expenditure on internal and external legal services, 2016–17 and 2017–18

Type of legal expenditure	2016–17 \$m	2017–18 \$m
Internal	46.92	46.57
External	46.59	49.89
Total	93.51	96.46

Table 10.6: Estimated cost breakdown of internal legal expenses, 2016–17 and 2017–18

Items	2016–17 \$m	2017–18 \$m
Salaries for military lawyers	19.14	18.27
Salaries for civilian staff	14.93	16.41
ADF Reserve legal officers	8.07	7.55
Operating costs of the division	4.43	4.03
Military justice disbursements	0.35	0.31
Total	46.92	46.57

Table 10.7: Estimated cost breakdown of external legal expenses, 2016–17 and 2017–18

Items	2016–17 \$m	2017–18 \$m
Professional fees—Defence legal panel	43.84	46.54
Disbursements	2.38	3.18
Legal assistance at Commonwealth expense	0.37	0.17
Total	46.59	49.89

Omissions and errors in the *Defence Annual Report 2016–17*

The *Defence Annual Report 2016–17* contained the following errors:

Table 7.4: ADF Permanent Force separations, 2015–16 and 2016–17 (page 85)

Data for 2016–17 does not match the data provided in the *Defence Annual Report 2016–17* due to retrospective transactions.

Table 7.18: Permanent ADF salary ranges, as at 30 June 2017 (page 97)

The basis of the salary ranges reported for officers holding the rank of Brigadier (equivalent) and above were different to the salary ranges reported for those at the lower ranks. The data should have stated the maximum salary for a Brigadier (equivalent) was \$281,490, the maximum salary for a Major General (equivalent) was \$299,920, the maximum salary for a Lieutenant General (equivalent) was \$402,130, and the minimum and maximum salary for a General (equivalent) was \$570,290. These errors were due to the application of different definitions of salary and the mistaken exclusion of some legal statutory appointments.

Tactical Payment Scheme (page 144)

The value of tactical payments was incorrectly reported due to the miscoding of a \$67 payment. The correct value for tactical payments in 2016–17 was \$1,963 (reported as \$1,896).

Appendix A: Consultancies and contracts (page 226)

The value and number of consultancy contracts were incorrectly reported. The correct values and numbers were as follows:

In 2016–17, Defence entered into 879 new consultancy contracts (652 with a value greater than \$10,000) involving total actual in-year expenditure of \$45.8 million (GST inclusive). In addition, 873 consultancy contracts remained active, involving total actual in-year expenditure of \$198.9 million (GST inclusive).

Payment of accounts

In 2017–18, Defence met 98.8 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 approximately 80 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, 2015–16 to 2017–18

	2015–16	2016–17	2017–18
Number of accounts paid	2,113,079	2,410,605	2,457,010
Accounts paid by due date	2,101,908	2,386,393	2,426,952
Percentage of accounts paid by due date	99.5	99.0	98.8

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 2017–18, four individual payments totalling \$5,778 were made under the scheme. All payments were a consequence of damage to property from motor vehicles.



ADF frozen blood project

Blood transfusion is a vital component of health care for Defence military personnel. Between 10 and 20 per cent of all military trauma patients will require a blood transfusion. Of those, up to 50 per cent will need a massive transfusion—of over 10 units of blood in 24 hours.

Blood products have a very short shelf life—five days for platelets, 42 days for red blood cells and 12 months for fresh frozen plasma. This presents a logistical challenge in ensuring sufficient blood is available for use in surgery and trauma management while minimising wastage.

The Australian Red Cross Blood Service has collaborated with the Netherlands Military Blood Bank, which pioneered frozen blood technology for use in combat zones, to develop processes that meet Australian operational requirements.

Since 2012, the Australian Red Cross Blood Service has been developing frozen blood products for the

A role player is treated at the Task Group Taji-7 medical facility during a mass casualty exercise at Taji Military Complex, Iraq.

ADF for use in remote and austere environments. The ADF Frozen Blood Project has revolutionised blood management and put Australia at the forefront of frozen blood research and could pave the way to initiating trials for civilian use.

Frozen blood components have a shelf life of up to 10 years for deep-frozen red cells, and currently up to two years for cryopreserved platelets and deep-frozen plasma. For this reason, Defence forces in many countries are now looking at frozen blood components as an option to extend shelf life and overcome these logistical and clinical challenges.

The ADF stockpile currently comprises deep-frozen red cells, plasma and platelets. These are stored at the Australian Red Cross Blood Service facility in Sydney and will be supplied from the Sydney Processing Centre.



FINANCIAL
STATEMENTS



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 2018:

- 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 2018 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 2018 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* (the Code) to the extent that they are not in conflict with the *Auditor-General Act 1997*. 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	How the audit addressed the matter
<p>Valuation of specialist military equipment</p> <p><i>Refer to Note 3.2A 'Reconciliation of the opening and closing balances of property, plant and equipment, and intangibles'</i></p> <p>The Department of Defence (Defence) had a balance of \$62.0 billion in specialist military equipment as at 30 June 2018. Specialist military</p>	<p>I addressed the valuation of specialist military equipment through:</p> <ul style="list-style-type: none"> • assessing whether the selection of the fair value methodology was appropriate for each asset applying either the replacement cost of platforms with similar capabilities, or indexation of historical cost;

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Key audit matter	How the audit addressed the matter
<p>equipment includes platform assets in use and under construction and spare parts for these assets.</p> <p>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 these assets and the judgements required to determine appropriate useful lives and assess the financial impact of indicators of impairment. There is also subjectivity in the valuation assessment due to the difficulty in obtaining the replacement costs of assets with a similar capability in the absence of an active market.</p>	<ul style="list-style-type: none"> • assessing the competency and objectivity of Defence's valuation subject matter experts; • testing the completeness and accuracy of data used in the year-end estimation process; • assessing whether the useful lives applied to specialist military equipment (for the calculation of depreciation) were consistent with other available information such as expected withdrawal dates for these assets; • testing a sample of cost attribution models, approvals of cost allocations and year-end accruals relating to specialist military equipment under construction; • assessing whether the assumptions and judgements used by Defence to determine the impairment of specialist military equipment is consistent with other available information such as changes to planned capability and unscheduled repairs and maintenance; and • inspecting a sample of specialist military equipment for indicators of impairment.
<p>Valuation of general assets</p> <p><i>Refer to Note 3.2A 'Reconciliation of the opening and closing balances of property, plant and equipment, and intangibles'</i></p> <p>Defence had a balance of \$28.3 billion in general assets as at 30 June 2018. General assets include land and buildings, infrastructure, plant and equipment, heritage, cultural and intangible assets.</p> <p>I considered this area a key audit matter due to the high degree of management judgement required in respect of classifying project costs as capital or expense, the assumptions applied to determine appropriate useful lives and in the selection of valuation techniques to measure fair value and assess the financial impact of indicators of impairment.</p>	<p>I addressed the valuation of general assets by:</p> <ul style="list-style-type: none"> • assessing Defence's methodologies and assumptions used in the valuation of general assets; • testing the completeness and accuracy of data used in the year-end estimation process; • assessing whether the useful lives applied to the various asset classes (for the calculation of depreciation) were consistent with Defence's planned usage of these assets; • testing a sample of cost attribution models, approvals of cost allocations and year-end accruals relating to the roll-out of general assets under construction; • assessing the reasonableness and appropriateness of judgements used by Defence to determine the impairment of general assets such as physical obsolescence and whether appropriately applied to similar assets; and • inspecting a sample of general assets for indicators of impairment.
<p>Existence and completeness of inventories</p> <p><i>Refer to Note 3.2B 'Inventories'</i></p> <p>Defence had a balance of \$6.9 billion in inventories as at 30 June 2018 which include general stores inventories, fuel and explosive ordnance.</p> <p>The existence and completeness of inventories were considered a key audit matter due to the</p>	<p>I addressed the existence and completeness of inventories through:</p> <ul style="list-style-type: none"> • observation and re-performance of Defence's stocktaking activities at a selection of locations; • testing key controls that apply to system components, processes and data within the logistics and financial management

Key audit matter	How the audit addressed the matter
variety and number of inventory items which are managed across a large number of geographically dispersed locations.	<p>information systems; and</p> <ul style="list-style-type: none"> substantiation of a sample of transactions processed through Defence's logistics information systems.
<p>Valuation of employee provisions</p> <p><i>Refer to Note 4.4A 'Employee provisions'</i></p> <p>Defence had a balance of \$130.3 billion in administered employee provisions as at 30 June 2018. The department administers four defined benefit plans that entitle Australian Defence Force members to retirement and death benefits based on past service.</p> <p>I focused on this area due to the complexity of the calculation and the significant judgements applied in the selection of long-term assumptions including the discount rate, salary growth rate, pension indexation rate, pension take-up rate and invalidity retirements. In addition, the Australian Accounting Standards include detailed requirements for the presentation and disclosure of defined benefit plans.</p>	<p>I addressed the valuation of administered employee provisions with the assistance of an independent actuary by conducting the following procedures:</p> <ul style="list-style-type: none"> assessing the effectiveness of key controls supporting the processing of membership data for the defined benefit plans; assessing the reasonableness of the methodology and judgements used by Defence in the estimation of the defined benefit provision including comparison against scheme experience and accepted industry benchmarks; assessing the results of the valuation and the sensitivities in the report against the changes in the valuation; and testing the disclosure of judgements and estimates made, including the disclosure of the sensitivity analysis over significant judgements.

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
24 September 2018

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 2018 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

24 September 2018

Signed



Mr. Steven Groves
Chief Finance Officer - Defence

24 September 2018

Department of Defence

Financial Statements

For the period ended 30 June 2018

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Department of Defence

STATEMENT OF COMPREHENSIVE INCOME

For the period ended 30 June 2018

Original
Budget¹

		2018 \$'000	2017 \$'000	Original Budget ¹ \$'000
NET COST OF SERVICES				
	Notes			
EXPENSES				
Employee benefits	1.1A	11,978,885	11,393,321	11,812,863
Suppliers expenses	1.1B	13,313,582	13,352,279	13,834,064
Grants	1.1C	129,805	133,651	127,639
Depreciation and amortisation	3.2A	5,935,531	5,462,402	6,520,805
Finance costs	1.1D	115,225	124,430	182,988
Write-down and impairment of assets	1.1E	906,722	909,831	524,407
Foreign exchange losses	1.1F	11,946	7,826	-
Losses from asset sales		44,073	15,007	-
Other expenses	1.1G	403,999	163,187	33,656
Total Expenses		32,839,768	31,561,934	33,036,422
LESS:				
OWN-SOURCE INCOME				
Own-Source Revenue				
Provision of goods and rendering of services (including cost recovery)	1.2A	454,941	456,853	459,315
Rental income	1.2B	3,698	6,414	5,442
Other revenue	1.2C	57,245	36,954	39,244
Total Own-Source Revenue		515,884	500,221	504,001
Gains				
Gains from asset sales		-	-	37,994
Reversals of previous asset write-downs and impairment	1.2D	82,605	214,703	284,263
Other gains	1.2E	53,596	146,598	4,938
Total Gains		136,201	361,301	327,195
Total own-source income		652,085	861,522	831,196
Net cost of services		32,187,683	30,700,412	32,205,226
Revenue from Government	1.2F	33,040,823	30,914,234	32,205,226
Surplus attributable to the Australian Government		853,140	213,822	-
OTHER COMPREHENSIVE INCOME				
Items not subject to subsequent reclassification to net cost of services				
Changes in asset revaluation reserves	3.2A	1,477,554	492,703	(231,666)
Total other comprehensive income		1,477,554	492,703	(231,666)
Total comprehensive income attributable to the Australian Government		2,330,694	706,525	(231,666)

¹ Defence's original budgeted financial statement that was first presented to Parliament in respect of the reporting period (i.e. from Defence's 2017-18 Portfolio Budget Statements). The budget is not audited.

Department of Defence
STATEMENT OF COMPREHENSIVE INCOME (continued)

as at 30 June 2018

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
Supplier expenses Variance: \$520m; 4%	The variance is driven by: a. \$204m shortfall in expenditure on Defence Operations; and b. The mix of capital and operating expenditure relating to certain projects in the Original Budget was different to the actual mix of expenditure incurred. As a result, less expenditure was operating in nature than anticipated in the Original Budget. Defence spent higher than planned amounts on capital Specialist Military Equipment rather than for supplier expenses.
Depreciation and amortisation Variance: \$585m; 9%	Defence adopts a fair value policy in relation to Specialist Military Equipment. Depreciation is calculated based on the revalued amounts of assets, with the revaluation increments over recent years being volatile. The Original Budget has been developed based on the historical average of revaluation amounts. As such the variance to Budget is due to recent revaluation increments being lower than expected, such that actual depreciation for 2017-18 is calculated on a lower base asset value than was anticipated in the Original Budget.
Finance costs Variance: \$68m; 37%	As a result of earlier than expected payments made in relation to the refinancing of leases, finance costs are less than anticipated in the Original Budget.
Write-down and impairment of assets Variance: \$382m; 73%	Write-down expenses are higher in comparison to the Original Budget due to the unexpected write-off of Specialist Military Equipment in the current period. Due to the nature of write-off expenses, these amounts are difficult to forecast.
Foreign exchange losses Variance: \$12m; 100%	The actual loss has resulted from currency fluctuations against the Australian dollar throughout the period.
Losses from asset sales and Gains from asset sales Variance: \$82m; 216%	Losses from asset sales have been recorded in the current period, whereas gains were anticipated in the Original Budget. Given the nature of asset disposals, these amounts are difficult to forecast.
Other expenses Variance: \$370m; 1,100%	Other expenses incurred are higher than anticipated in the Original Budget due to re-estimates of decommissioning, decontamination, restoration and similar provisions. Re-estimations are based on new information that was not previously available at the time of Budget formulation, and as a result are difficult to forecast.
Rental income Variance: \$2m; 32%	The actual rental of non-housing properties was less than budgeted.
Other revenue Variance: \$18m; 46%	Other revenue incurred is higher than anticipated in comparison to the Original Budget, primarily due to the settlement of damages received in relation to projects undertaken.
Reversals of previous asset write-downs and impairment Variance: \$202m; 71%	Reversals of asset write-downs incurred are lower than anticipated in the Original Budget. The key variance relates to fewer inventory adjustments than anticipated.
Other gains Variance: \$49m; 985%	Other gains are higher than anticipated in the Original Budget due to re-estimates of provisions resulting in reversals and/or write backs of provisions. Re-estimations are based on new information that was not previously available and as a result are difficult to forecast. The decrease is primarily due to adjustments to provisions for decontamination and remediation.
Changes in asset revaluation reserves Variance: \$1,709m; 738%	The changes in asset revaluation reserves recorded higher than anticipated in the Original Budget. Due to the uncertainty of the movement in the fair value of these assets, these amounts are difficult to forecast. The major movements include revaluations of Land (\$599m), Buildings (\$102m) and Specialist Military Equipment (\$970m).

Department of Defence
STATEMENT OF FINANCIAL POSITION

as at 30 June 2018

		2018	2017	Original
		\$'000	\$'000	Budget ¹
	Notes			\$'000
ASSETS				
Financial Assets				
Cash and cash equivalents	3.1A	72,241	88,823	47,597
Trade and other receivables	3.1B	1,141,067	1,005,919	1,342,138
Total financial assets		1,213,308	1,094,742	1,389,735
Non-financial assets				
Land and buildings	3.2A	18,902,425	17,492,218	17,551,132
Specialist military equipment	3.2A	62,018,182	58,572,944	58,045,460
Infrastructure	3.2A	6,042,584	5,874,047	6,516,233
Plant and equipment	3.2A	2,143,543	2,286,663	2,824,718
Heritage and cultural assets	3.2A	484,982	607,285	564,590
Intangibles	3.2A	741,599	749,190	712,816
Inventories	3.2B	6,928,710	6,775,387	6,381,584
Prepayments	3.2C	1,566,150	1,909,787	2,874,690
Total non-financial assets		98,828,175	94,267,521	95,471,223
Assets held for sale	3.2D	47,436	62,436	63,538
Total Assets		100,088,919	95,424,699	96,924,496
LIABILITIES				
Payables				
Suppliers payables	3.3A	2,138,678	2,304,285	2,520,860
Employee payables	3.3B	73,580	54,578	27,776
Other payables	3.3C	244,926	293,267	205,239
Total Payables		2,457,184	2,652,130	2,753,875
Interest bearing liabilities				
Finance leases	3.4A	1,529,424	1,549,237	1,469,184
Total interest bearing liabilities		1,529,424	1,549,237	1,469,184
Provisions				
Employee provisions	3.5A	2,869,016	2,627,662	2,844,517
Restoration, decontamination and decommissioning	3.5B	1,197,914	1,166,051	1,427,537
Other provisions	3.5C	312,565	51,693	29,193
Total provisions		4,379,495	3,845,406	4,301,247
Total Liabilities		8,366,103	8,046,773	8,524,306
NET ASSETS		91,722,816	87,377,926	88,400,190
EQUITY				
Contributed equity		28,450,361	26,519,722	29,239,086
Reserves		26,727,755	25,250,201	24,303,326
Retained surpluses		36,544,700	35,608,003	34,857,777
TOTAL EQUITY		91,722,816	87,377,926	88,400,190

¹ Defence's original budgeted financial statement that was first presented to Parliament in respect of the reporting period (i.e. from Defence's 2017-18 Portfolio Budget Statements). The budget is not audited.

Department of Defence
STATEMENT OF FINANCIAL POSITION (continued)

as at 30 June 2018

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
<i>Cash and cash equivalents</i> Variance: \$25m; 52%	The net cash movement in 2017-18 was a decrease of \$10m. The remainder of the variance to Original Budget is predominantly due to the \$41m higher opening balance of cash at 1 July 2017 compared to the amount anticipated in the Original Budget. The Original Budget was issued prior to the finalisation of the 2016-17 financial statements and it was not anticipated that the cash balance would increase over the final months of 2016-17.
<i>Trade and other receivables</i> Variance: \$201m; 15%	The variance to the Original Budget is predominantly due to the higher opening balance of receivables at 1 July 2016 upon which the Original Budget was formulated. The Original Budget was issued prior to the finalisation of the 2016-17 financial statements and it was not anticipated that the trade and other receivable balance would decrease over the final months of 2016-17.
<i>Plant and equipment</i> Variance: \$681m; 24%	The variance to Original Budget is primarily due to anticipated upward revaluations in the asset base that were not realised in the current period. Due to the uncertainty of the movement in the market of these assets, these amounts are difficult to forecast.
<i>Heritage and cultural assets</i> Variance: \$79m; 14%	The variance to Original Budget is primarily due to anticipated upward revaluations in the asset base that were not realised in the current period. Due to the uncertainty of the movement in the market of these assets, these amounts are difficult to forecast.
<i>Prepayments</i> Variance: \$1,309m; 46%	The variance to Original Budget is primarily attributable to movements in funds held overseas which are controlled by the US Government. These balances have decreased since prior year predominantly due to utilisation of the prepayment for co-operative arrangements. The utilisation of the balance was not anticipated in the Original Budget.
<i>Assets held for sale</i> Variance: \$16m; 25%	The variance is primarily due to a lower number of Defence properties and Specialist Military Equipment assets yet to be disposed at 30 June 2018 than were anticipated at the time of the Original Budget.
<i>Suppliers payable</i> Variance: \$382m; 15%	The variance is due to lower supplier expenses recorded and higher creditor payments made prior to 30 June 2018 than was anticipated in the Original Budget.
<i>Employee payables</i> Variance: \$46m; 165%	The variance arises due to the timing of the last pay run in the year. In 2017-18, three days salaries and wages were accrued, compared to two days in 2016-17, upon which the Original Budget was based.
<i>Other payables</i> Variance: \$40m; 19%	The variance relates to the timing of PAYG and FBT payables. There were greater amounts unpaid at year end than were anticipated in the Original Budget.
<i>Restoration, decontamination and decommissioning</i> Variance: \$230m; 16%	Restoration, decontamination and decommissioning provisions are lower than anticipated in the Original Budget due to re-estimates of provisions in the current period. Re-estimations are based on new information that was not previously available and as a result are difficult to forecast.
<i>Other provisions</i> Variance: \$283m; 971%	The variance is due to additional compensation and similar provisions being required than was anticipated at the time of the Original Budget.
<i>Reserves</i> Variance: \$2,424m; 10%	The changes in asset revaluation reserves recorded were higher than anticipated in the Original Budget. Due to the uncertainty of the movement in the fair value of these assets, these amounts are difficult to forecast. The major movements include revaluations of Land (\$599m), Buildings (\$102m) and Specialist Military Equipment (\$970m). In addition there is a difference (\$715m) in the opening balance of the reserve as the Original Budget is formulated prior to the completion of the 2016-17 financial statements.

Department of Defence
STATEMENT OF CHANGES IN EQUITY

For the period ended 30 June 2018

Original
Budget¹
\$'000

	2018 \$'000	2017 \$'000	Original Budget ¹ \$'000
Notes			
CONTRIBUTED EQUITY			
Opening balance			
Balance carried forward from previous period	<u>26,519,722</u>	<u>25,810,891</u>	<u>26,874,697</u>
Adjusted opening balance	<u>26,519,722</u>	<u>25,810,891</u>	<u>26,874,697</u>
Transactions with owners			
<i>Distribution to owners</i>			
Returns on capital - other	-	-	(919)
<i>Contribution by owners</i>			
Equity injection - Appropriation 5.1A	<u>1,995,519</u>	<u>1,064,704</u>	<u>2,365,307</u>
Transfers from/(to) other entities	<u>(64,880)</u>	<u>(355,873)</u>	<u>-</u>
Total transactions with owners	<u>1,930,639</u>	<u>708,831</u>	<u>2,364,389</u>
Closing balance as at 30 June	<u>28,450,361</u>	<u>26,519,722</u>	<u>29,239,086</u>
RETAINED EARNINGS			
Opening balance			
Balance carried forward from previous period	<u>35,608,003</u>	<u>35,224,224</u>	<u>34,857,777</u>
Adjustment for errors	<u>83,557</u>	<u>169,957</u>	<u>-</u>
Adjusted opening balance	<u>35,691,560</u>	<u>35,394,181</u>	<u>34,857,777</u>
Comprehensive income			
Surplus for the period	<u>853,140</u>	<u>213,822</u>	<u>-</u>
Total comprehensive income	<u>853,140</u>	<u>213,822</u>	<u>-</u>
Closing balance as at 30 June	<u>36,544,700</u>	<u>35,608,003</u>	<u>34,857,777</u>
ASSET REVALUATION RESERVE			
Opening balance			
Balance carried forward from previous period	<u>25,250,201</u>	<u>24,757,498</u>	<u>24,534,992</u>
Adjusted opening balance	<u>25,250,201</u>	<u>24,757,498</u>	<u>24,534,992</u>
Comprehensive income			
Other comprehensive income 3.2A	<u>1,477,554</u>	<u>492,703</u>	<u>(231,666)</u>
Total comprehensive income	<u>1,477,554</u>	<u>492,703</u>	<u>(231,666)</u>
Closing balance as at 30 June	<u>26,727,755</u>	<u>25,250,201</u>	<u>24,303,326</u>

¹ Defence's original budgeted financial statement that was first presented to Parliament in respect of the reporting period (i.e. from Defence's 2017-18 Portfolio Budget Statements). The budget is not audited.

Department of Defence
STATEMENT OF CHANGES IN EQUITY (Continued)

For the period ended 30 June 2018

	2018 \$'000	2017 \$'000	Original Budget ¹ \$'000
Notes			
TOTAL EQUITY			
Opening balance			
Balance carried forward from previous period	87,377,926	85,792,613	86,267,466
Adjustment for errors	83,557	169,957	-
Adjusted opening balance	87,461,483	85,962,570	86,267,466
Comprehensive income			
Surplus for the period	853,140	213,822	-
Other comprehensive income	1,477,554	492,703	(231,666)
Total comprehensive income	2,330,694	706,525	(231,666)
Transactions with owners			
<i>Distribution to owners</i>			
Returns on capital - other	-	-	(919)
<i>Contribution by owners</i>			
Equity injection - Appropriation	1,995,519	1,064,704	2,365,307
Transfers from/(to) other entities	(64,880)	(355,873)	-
Total transactions with owners	1,930,639	708,831	2,364,389
Closing balance as at 30 June	91,722,816	87,377,926	88,400,190

¹ Defence's original budgeted financial statement that was first presented to Parliament in respect of the reporting period (i.e. from Defence's 2017-18 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 material and greater than 10% of the Original Budget for that line item.

Statement of Changes in Equity

Affected line items	Explanation of major variances
<i>Adjustment for errors</i> Variance: \$84m; 100%	Accounting errors are not budgeted for. These errors were identified in 2017-18, but relate to prior periods and as a result have been recorded to equity rather than in the Statement of Comprehensive Income.
<i>Other comprehensive income</i> Variance: \$1,709m; 738%	The changes in asset revaluation reserves recorded higher than anticipated in the Original Budget. Due to the uncertainty of the movement in the fair value of these assets, these amounts are difficult to forecast. The major movements include revaluations of Land (\$599m), Buildings (\$102m) and Specialist Military Equipment (\$970m).
<i>Equity injections - Appropriation</i> Variance: \$370m; 16%	During the year, adjustments were made to equity and appropriations at Budget rounds subsequent to the Original 2017-18 Budget round.
<i>Transfers from/(to) other entities</i> Variance: \$65m; 100%	During 2017-18, the Department of Defence transferred buildings and other assets to the Department of Veterans Affairs in relation to the Sir John Monash Centre. The transfer was not anticipated to occur in this financial period 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.

Department of Defence
CASH FLOW STATEMENT

For the period ended 30 June 2018

Original

Budget¹

2018

2017

\$'000

\$'000

\$'000

Notes

OPERATING ACTIVITIES

Cash received

Appropriations (current year)	32,930,464	30,837,008	32,205,226
Appropriations (prior year)	-	97,000	-
Section 74 receipts from OPA	392,391	438,036	-
Goods and services (including cost recovery)	423,471	451,446	459,303
Interest received	7,068	4,526	-
Net GST received	1,871,015	1,655,319	1,642,976
Cash received from OPA	46,856	-	-
Other	129,575	167,856	44,683
Total cash received	35,800,840	33,651,191	34,352,188

Cash used

Employees	(11,917,601)	(11,312,760)	(11,725,833)
Suppliers	(12,476,937)	(11,595,716)	(12,331,589)
Net GST paid	(1,814,841)	(1,695,179)	(1,642,976)
Grants	(137,706)	(128,960)	(127,639)
Section 74 receipts transferred to OPA	(448,565)	(404,672)	-
Cash returned to OPA	-	(39,861)	(919)
Other	(56,744)	(23,893)	(33,656)
Total cash used	(26,852,394)	(25,201,041)	(25,862,612)

Net cash flows from operating activities

8,948,446	8,450,150	8,489,576
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INVESTING ACTIVITIES

Cash received

Proceeds from sales of land and buildings	21,894	73,670	86,136
Proceeds from sales of specialist military equipment	7,871	17,999	7,549
Proceeds from sales of plant and equipment	29,598	22,142	23,597
Other	704	2,712	-
Total cash received	60,067	116,523	117,282

Cash used

Purchase of land and buildings	(1,360,483)	(1,107,404)	(1,225,924)
Purchase of specialist military equipment	(6,860,235)	(5,992,262)	(6,578,914)
Purchase of infrastructure	(572,594)	(335,398)	(857,173)
Purchase of plant and equipment	(392,552)	(461,903)	(605,642)
Purchase of heritage and cultural assets	(44)	(343)	-
Purchase of intangibles	(37,865)	(49,400)	(89,272)
Purchase of inventory	(1,642,557)	(1,512,076)	(1,458,529)
Selling costs on sale of assets	(7,528)	(6,276)	(13,877)
Finance costs	(100,603)	(90,952)	(110,051)
Total cash used	(10,974,461)	(9,556,014)	(10,939,382)

Net cash flows used by investing activities

(10,914,394)	(9,439,491)	(10,822,100)
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¹ Defence's original budgeted financial statement that was first presented to Parliament in respect of the reporting period (i.e. from Defence's 2017-18 Portfolio Budget Statements). The budget is not audited.

Department of Defence
CASH FLOW STATEMENT (Continued)

For the period ended 30 June 2018

	2018 \$'000	2017 \$'000	Original Budget ¹ \$'000
Notes			
FINANCING ACTIVITIES			
Cash received			
Contributed equity (current year)	1,995,519	1,064,704	2,365,307
Total cash received	1,995,519	1,064,704	2,365,307
Cash used			
Repayments of debt (including finance lease principal)	(39,257)	(30,700)	(32,783)
Total cash used	(39,257)	(30,700)	(32,783)
Net cash from financing activities	1,956,262	1,034,004	2,332,524
Net increase/(decrease) in cash held	(9,686)	44,663	-
Cash and cash equivalents at the beginning of the reporting period	88,823	47,597	47,597
Effect of exchange rate movements on cash and cash equivalents at the beginning of the reporting period	(6,896)	(3,437)	-
Cash and cash equivalents at the end of the reporting period	72,241	88,823	47,597

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 2017-18 Portfolio Budget Statements). The budget is not audited.

Department of Defence

CASH FLOW STATEMENT (continued)

For the period ended 30 June 2018

Budget Variances Commentary

Explanations are only provided where the variance at a financial statement line item level is material and greater than 10% of the Original Budget for that line item.

Cash Flow Statement

Affected line items	Explanation of major variances
Section 74 receipts from OPA; Section 74 receipts transferred to OPA; Cash received from OPA; and Cash returned to OPA Variance: \$8m; 100%	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.
Net GST received Variance: \$228m; 14%	The variance relates to a greater amount of taxable purchases made in the current period, and subsequently recovered, than was anticipated at the time of the Original Budget.
Other cash received from operating activities Variance: \$85m; 190%	During the 2017-18 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.
Net GST paid Variance: \$172m; 10%	The variance relates to a greater amount of taxable purchases made in the current period than was anticipated at the time of the Original Budget.
Other cash used in operating activities Variance: \$23m; 69%	Other cash used in operating activities predominantly relates to cash paid to complete remediation activities. The payment of these amounts was ahead of schedule and unanticipated at the time of the Original Budget.
Proceeds from sales of land and buildings Variance: \$64m; 75%	Fewer properties were sold by Defence in 2017-18 than was anticipated at the time of the Original Budget.
Proceeds from sales of plant and equipment Variance: \$6m; 25%	This relates to proceeds from the sale of a number of plant and equipment assets that were not anticipated to be sold at the time of the Original Budget.
Purchase of property, plant and equipment Variance: \$133m, 1%	The variance predominantly relates to: land and buildings \$135m, infrastructure (\$285m), plant and equipment (\$213m), intangibles (\$51m) and specialist military equipment \$281m. The movements are consistent with the Defence White Paper and Integrated Investment Plan.
Purchase of inventory Variance: \$184m; 13%	The variance in the purchase of inventory is predominantly due to increased volume of purchases made to maintain Defence's level of inventory given the consumption in the current period.
Selling costs on sale of assets Variance: \$6m; 46%	The variance in selling costs of assets predominantly relates to fewer properties and other assets sold than was expected at the time of the Original Budget.
Contributed Equity (Current Year) Variance: \$370m; 16%	During the year, adjustments were made to equity and appropriations at Budget rounds subsequent to the Original 2017-18 Budget round.
Repayments of debt (including finance lease principal) Variance: \$6m; 20%	The variance in repayments of debt relates to greater repayments of the principal component of finance leases than was anticipated at the time of the Original Budget.

Department of Defence

ADMINISTERED SCHEDULE OF COMPREHENSIVE INCOME

For the period ended 30 June 2018

		2018 \$'000	2017 \$'000	Original Budget ¹ \$'000
NET COST OF SERVICES				
	Notes			
EXPENSES				
Employee benefits	2.1A	6,958,360	7,869,872	5,432,743
Subsidies	2.1B	108,178	98,403	117,499
Write-down and impairment of assets	2.1C	44	143	-
Foreign exchange losses	2.1D	-	154	-
Other expenses	2.1E	-	41	-
Total expenses		7,066,582	7,968,613	5,550,242
LESS:				
INCOME				
Revenue				
Non taxation revenue				
Fees and fines	2.2A	15,305	16,871	15,932
Interest	2.2B	25,866	25,866	25,887
Dividends	2.2C	26,555	39,585	44,780
Military superannuation contributions	2.2D	1,444,915	1,462,077	1,352,073
Other revenue	2.2E	50,678	48,655	20,607
Foreign exchange gains	2.2F	176	-	-
Total non-taxation revenue		1,563,495	1,593,054	1,459,279
Total revenue		1,563,495	1,593,054	1,459,279
Net cost of services		5,503,087	6,375,559	4,090,963
Deficit attributable to the Australian Government		(5,503,087)	(6,375,559)	(4,090,963)
OTHER COMPREHENSIVE INCOME				
Items not subject to subsequent reclassification to net cost of services				
Changes in asset revaluation surplus		135,181	98,910	-
Actuarial gains/(losses) on defined benefits plans		(18,902,900)	23,171,300	66,040,110
Total other comprehensive income		(18,767,719)	23,270,210	66,040,110
Total comprehensive income/(loss)		(24,270,806)	16,894,651	61,949,147

¹ Defence's original budgeted financial statement that was first presented to Parliament in respect of the reporting period (i.e. from Defence's 2017-18 Portfolio Budget Statements). The budget is not audited.

Department of Defence

ADMINISTERED SCHEDULE OF COMPREHENSIVE INCOME (continued)

For the period ended 30 June 2018

Budget Variances Commentary

Explanations are only provided where the variance at a financial statement line item level is material and greater than 10% of the Original Budget for that line item.

Administered Schedule of Comprehensive Income

Affected line items	Explanation of major variances
Employee Benefits Variance: \$1,526m; 28%	The variance predominately relates to the differing bases of determining the unfunded superannuation liabilities upon which the superannuation expenses are projected. The 30 June 2018 balance is based on the short-term discount rates and membership data as at 30 June 2018. However, the Original Budget is prepared based on the long term discount rate of 6% and membership data as at time of preparation of the Original Budget.
Dividends Variance: \$18m; 41%	The variance in dividend revenue is due to a decrease in the net profit after tax (NPAT) of Defence Housing Australia (DHA), which was not anticipated at the time of the Original Budget. Dividends of 60% of the NPAT of DHA are received each year.
Other Revenue Variance: \$30m; 146%	The variance predominantly relates to State Tax Equivalency Payments (STEP), receivable from DHA being higher than forecast.
Changes in asset revaluation surplus Variance: \$135m. 100%	The variance 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 of these assets.
Actuarial gains/(losses) on defined benefit plans Variance: \$84,943m; 129%	The variation is due to the Original Budget being developed utilising a discount rate of 6%, membership data as at time of preparation of the Original Budget and demographic assumptions from the 2014 Long Term Cost Report (LTCR). However, the 30 June 2018 balance is based on the short-term discount rates, membership data as at 30 June 2018 and revised demographic assumptions from the 2017 LTCR, particularly invalidity rates.

Department of Defence

ADMINISTERED SCHEDULE OF ASSETS AND LIABILITIES

as at 30 June 2018

		2018 \$'000	2017 \$'000	Original Budget ¹ \$'000
	Notes			
ASSETS				
Financial assets				
Cash and cash equivalents ²	4.1A	109,972	89,329	-
Trade and other receivables	4.1B	554,218	572,385	574,250
Equity accounted investments	4.1C	2,797,854	2,662,673	2,554,363
Total financial assets		3,462,044	3,324,387	3,128,613
Non-financial assets				
Prepayments	4.2A	238,962	240,452	299,608
Total non-financial assets		238,962	240,452	299,608
TOTAL ASSETS ADMINISTERED ON BEHALF OF GOVERNMENT		3,701,006	3,564,839	3,428,221
LIABILITIES				
Payables				
Other payables	4.3A	118,941	95,756	8,262
Total Payables		118,941	95,756	8,262
Provisions				
Employee provisions	4.4A	130,294,201	106,972,301	67,206,953
Total provisions		130,294,201	106,972,301	67,206,953
TOTAL LIABILITIES ADMINISTERED ON BEHALF OF GOVERNMENT		130,413,142	107,068,057	67,215,215
NET LIABILITIES		(126,712,136)	(103,503,218)	(63,786,994)

¹ Defence's original budgeted financial statement that was first presented to Parliament in respect of the reporting period (i.e. from Defence's 2017-18 Portfolio Budget Statements). The budget is not audited.

² In response to the amended PGPA Act Financial Reporting Rule 2015, the cash balance of Special Accounts is recognised in the Schedule of Assets and Liabilities as cash or cash equivalents. This change in disclosure impacts the Schedule of Assets and Liabilities, Administered Reconciliation Schedule and the Administered Cash Flow Statement. The comparative figures for 2016-17 have been re-instated accordingly.

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
Cash and cash equivalents Variance: \$110m; 100%	This balance relates to Special Accounts held by Defence which have been recognised in the Schedule of Assets and Liabilities for the first time. This treatment is due to changes to the PGPA Act Financial Reporting Rule 2015 which were not known at the time of generating the Original Budget.
Equity accounted investments Variance: \$243m; 10%	The variance 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 of these assets.
Prepayments Variance: \$61m; 20%	This balance relates to retention benefits paid to eligible MSBS members. The balance has not changed significantly from prior period due to fewer members accessing the allowance, which was not anticipated in the Original Budget.
Other payables Variance: \$111m; 1340%	This balance primarily relates to the liability associated with the Special Accounts balance (refer above to 'Cash and cash equivalent' commentary). This change in treatment was not known at the time of generating the Original Budget.
Employee provisions Variance: \$63,087m; 94%	The variance is due to the Original Budget for unfunded superannuation liabilities being developed utilising a discount rate of 6%, membership data as at time of preparation of the Original Budget and demographic assumptions from the 2014 Long Term Cost Report (LTCR). However, the 30 June 2018 balance is based on the short-term discount rates, membership data as at 30 June 2018 and revised demographic assumptions per the 2017 LTCR.

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

Department of Defence
ADMINISTERED RECONCILIATION SCHEDULE

as at 30 June 2018

	2018 \$'000	2017 \$'000
Opening assets less liabilities		
as at 1 July	<u>(103,503,218)</u>	<u>(121,380,634)</u>
Adjusted opening assets less liabilities	<u>(103,503,218)</u>	<u>(121,380,634)</u>
Net (cost of)/contribution by services		
Income	1,563,495	1,593,054
Expenses		
Payments to entities other than corporate		
Commonwealth entities	(7,066,582)	(7,968,613)
Other comprehensive income:		
Revaluations taken to/(from) reserves:		
– Defence Housing Australia (DHA)	150,286	99,446
– Small portfolio entities	(15,105)	(536)
Actuarial gains/(losses)	(18,902,900)	23,171,300
Transfers (to)/from Australian Government:		
Appropriation transfers from Official Public Account:		
Special appropriations (unlimited)		
Payments to entities other than corporate		
Commonwealth entities	5.1C 2,564,054	2,471,514
Transfers to Official Public Account	(1,702,609)	(1,713,749)
Funded benefit payments to the members, not drawn		
down from Special Appropriations	200,443	225,000
Closing assets less liabilities		
as at 30 June	<u>(126,712,136)</u>	<u>(103,503,218)</u>

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 2018

	2018 \$'000	2017 \$'000
Notes		
OPERATING ACTIVITIES		
Cash received		
Fees	15,129	14,731
Interest	32,314	19,418
Superannuation contributions	1,564,035	1,566,878
Other	51,546	50,003
Total cash received	1,663,024	1,651,030
Cash used		
Subsidies	(105,660)	(100,238)
Employees	(2,456,651)	(2,371,235)
Section 77 payments	(1,743)	(41)
Total cash used	(2,564,054)	(2,471,514)
Net cash flows used by operating activities	(901,030)	(820,484)
INVESTING ACTIVITIES		
Cash received		
Dividends	39,585	62,719
Total cash received	39,585	62,719
Net cash flows from investing activities	39,585	62,719
Net decrease in cash held	(861,445)	(757,765)
Cash from the Official Public Account for:		
Appropriations	2,564,054	2,471,514
Special Accounts	69,845	54,960
Total cash from the Official Public Account	2,633,899	2,526,474
Cash to the Official Public Account for:		
Appropriations	(1,702,609)	(1,713,749)
Special Accounts	(49,202)	(38,293)
Total cash to the Official Public Account	(1,751,811)	(1,752,042)
Cash and cash equivalents at the end of the reporting period¹	109,972	89,329

¹ In response to the amended *PGPA Act Financial Reporting Rule 2015*, the cash balance of Special Accounts is recognised in the Schedule of Assets and Liabilities as cash or cash equivalents. This change in disclosure impacts the Schedule of Assets and Liabilities, Administered Reconciliation Schedule and the Administered Cash Flow Statement. The comparative figures for 2016-17 have been re-instated accordingly.

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 2018

OVERVIEW

The Basis of Preparation

The financial statements including 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 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 2017; and
- Australian Accounting Standards and Interpretations - Reduced Disclosure Requirements issued by the Australian Accounting Standards Board (AASB) that apply for the reporting period.

The financial statements have been prepared on an accrual basis and 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 are presented in Australian dollars and values are rounded to the nearest thousand dollars unless otherwise specified.

New Accounting Standards

All new accounting standards and interpretations that were issued prior to the sign-off date and are applicable to the current reporting period did not have a material effect on the entity's financial statements.

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

In July 2017, the Government agreed with the recommendations of the Independent Intelligence Review, that the Australian Signals Directorate (ASD) become a separate statutory agency. Following the passage of the enabling legislation through the Parliament on 28 March 2018, the change to ASD's status to become a statutory agency occurred on 1 July 2018.

On 1 July 2018, approximately \$94.4m in net assets, was transferred to the newly created agency from Defence. The future funding of ASD was provided from multiple agencies, including Defence, through a budget measure as part of the 2018-19 Budget. Defence transferred \$794.1m in funding to ASD through the 2018-19 Budget measure adjustment. The 2018-19 budget for total departmental resourcing within ASD is \$827.3 million.

Defence and ASD have entered into a mutual Shared Services Agreement which commenced on 1 July 2018. Under this Agreement, Defence will continue to make available shared corporate services as the organisation did prior to 1 July 2018, and ASD will continue to provide intelligence, offensive cyber, capability development and security services, and shared corporate services in support of Defence's requirements. The shared corporate services to be provided by Defence to ASD include:

- human resource management;
- financial management functions including budgeting and reporting;
- estate planning and management services;
- ICT and information management services; and
- other corporate services including legal, communications and ministerial support.

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 2018

FINANCIAL PERFORMANCE

This section analyses the financial performance of Defence for the year ended 30 June 2018.

1.1: Expenses

	2018	2017
	\$'000	\$'000
1.1A: Employee benefits		
Australian Public Service (APS) employee benefits		
Wages and salaries	1,443,808	1,399,994
Superannuation:		
Defined contribution plans	127,450	115,942
Defined benefit plans	152,991	159,336
Leave and other entitlements	190,356	148,046
Fringe benefits tax	25,206	19,595
Separation and redundancies	16,345	12,039
Other allowances	47,612	42,862
Health expenses	5,575	5,718
Other employee expenses	1,845	1,370
Total APS employee benefits	2,011,188	1,904,902
Australian Defence Force (ADF) employee benefits		
Wages and salaries	5,045,629	4,877,027
Superannuation:		
Defined contribution plans	78,593	29,286
Defined benefit plans	1,633,757	1,653,559
Housing ¹	929,420	870,413
Leave and other entitlements	739,998	454,386
Fringe benefits tax	447,328	512,423
Overseas allowances	163,405	157,165
Separation and redundancies	13,573	11,047
Other allowances	352,585	357,028
Health expenses	432,233	438,444
Other employee expenses	131,176	127,641
Total ADF employee benefits	9,967,697	9,488,419
Total employee benefits	11,978,885	11,393,321

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 \$563.5m (2016-17: \$532.5m).

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 2018

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 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 Retirements Benefits Scheme (DFRB), The Defence Force Retirement and Death Benefits Scheme (DFRDB), the Military Superannuation Benefits Scheme (MSBS) and Australian Defence Force Superannuation (ADF Super), which includes the ADF Cover.

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 commenced on 1 July 2016. ADF Super is a defined contribution scheme. The members of ADF Super are entitled to an insurance cover for death and invalidity benefits under the provisions of the ADF Cover scheme, which is a defined benefit type plan.

The liability for superannuation recognised in the departmental statements as at 30 June represents outstanding contributions yet to be paid. The liabilities for DFRB, DFRDB, MSBS, ADF Cover defined benefit is recognised and reported by the Department of Defence as an administered item.

(e) Paid Parental Leave

Defence provides 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.

Accounting Judgements and Estimates

As required by AASB 119 *Employee Benefits*, the estimate of future cash outflows takes into account estimated attrition, probability factors, future salary rates and ancillary costs. Liabilities for short-term employee benefits expected to be paid within 12 months of the end of reporting period are measured at the one year Commonwealth government bond rate of 1.91 per cent (2017: 1.61 per cent). Liabilities for long term employee benefits are discounted using the 10 year Commonwealth government bond rate of 2.63 per cent (2017: 2.60 per cent).

Department of Defence
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the period ended 30 June 2018

	2018 \$'000	2017 \$'000
1.1B: Suppliers expenses		
Goods and Services		
Inventory consumption	1,022,461	1,259,406
Sustainment (including repair and overhaul)	4,640,846	4,705,151
Garrison support and mess operations	337,927	301,225
Travel	245,653	236,962
Freight, storage and removal	487,553	454,379
Training	478,327	477,108
Communications and information technology	1,381,526	1,503,948
Professional services/technical advice	496,832	406,521
Estate upkeep	1,284,088	987,066
Research and development	269,109	241,668
Utilities	369,647	336,739
Purchase of minor assets	175,255	203,732
Other	1,819,568	1,901,751
Total goods and services	13,008,792	13,015,656
Goods and services are made up of:		
Goods supplied	1,580,576	2,206,807
Services rendered	11,428,216	10,808,849
Total goods and services	13,008,792	13,015,656
Other supplier expenses		
Operating lease rentals	282,794	304,536
Workers compensation premiums	21,996	32,087
Total other supplier expenses	304,790	336,623
Total supplier expenses	13,313,582	13,352,279

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 2018

2018	2017
\$'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	1,216,067	1,048,640
Between 1 to 5 years	4,070,493	3,805,101
More than 5 years	1,869,108	2,654,611
Total operating lease commitments	7,155,668	7,508,352

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	650	7,219
Non-profit organisations	23,163	19,687
Overseas	105,992	106,745
Total grants	129,805	133,651

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	100,679	104,554
Unwinding of discount - restoration, decontamination and decommissioning	14,545	19,869
Bank interest	1	7
Total finance costs	115,225	124,430

1.1E: Write-down and impairment of assets

Impairment of financial instruments	2,328	5,392
Write-down of property, plant and equipment	394,697	348,432
Write-down and impairment of intangible assets	7,574	14,322
Write-down of inventory	502,123	541,685
Total write-down and impairment of assets	906,722	909,831

Department of Defence
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the period ended 30 June 2018

	2018	2017
	\$'000	\$'000
1.1F: Foreign exchange		
Foreign exchange gains		
Non-speculative	52,186	45,116
Foreign exchange losses		
Non-speculative	(64,132)	(52,942)
Total net gain/(loss) foreign exchange	(11,946)	(7,826)

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)	253	520
Tactical Payment Scheme payments	6	2
Defective Administration Scheme payments	1,118	2,623
Restoration, decontamination and decommissioning costs	185,618	153,195
Other	217,004	6,847
Total other expenses	403,999	163,187

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2018

1.2: Own-Source Revenue and gains

Own-Source Revenue	2018 \$'000	2017 \$'000
1.2A: Provision of goods and rendering of services (including cost recovery)		
Provision of goods		
Rations and quarters - cost recovery	67,446	69,373
Provision of fuel - cost recovery	42,032	51,943
Other (including sale of obsolete and surplus inventory)	22,143	15,210
Total provision of goods	131,621	136,526
Rendering of services		
Group rental scheme	206,826	208,135
Logistics support recovery	31,870	23,616
s74 recoveries	39,407	36,875
Other governments/agencies	2,721	-
Other	42,496	51,701
Total rendering of services	323,320	320,327
Total provision of goods and rendering of services (including cost recovery)	454,941	456,853

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	3,698	6,414
Total rental income	3,698	6,414

Commitments for sublease rental income receivable are as follows:

One year or less	19,350	19,362
From one to five years	5,281	5,370
Over five years	5,029	8,137
Total sublease rental income commitments	29,660	32,869

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 income 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 2018

	2018 \$'000	2017 \$'000
1.2C: Other revenue		
Excise refunds	-	4,766
Settlement of damages	27,487	2,378
Foreign military sales refunds	1,289	16,749
Other minor revenues	13,410	9,231
Resources received free of charge:		
Remuneration of auditors	3,800	3,800
Assets received free of charge	11,259	30
Total other revenue	57,245	36,954

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.

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).

1.2D: Reversals of previous asset write-downs and impairment

Land and buildings		1,615	6,724
Specialist military equipment		13,761	10,593
Infrastructure		1,221	7,418
Plant and equipment		17,416	19,825
Heritage and cultural assets		101	3,618
Software and intangibles		-	27
Total property, plant and equipment and intangibles	3.2A	34,114	48,205
Receivables		1,036	452
Inventory		47,455	166,046
Total reversal of previous asset write-downs and impairment		82,605	214,703

1.2E: Other gains

Reversal/write back of provision	53,596	146,598
Total other gains	53,596	146,598

Accounting Policy

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 2018

	2018 \$'000	2017 \$'000
1.2F: Revenue from Government		
Departmental Appropriations:		
Departmental appropriations	33,040,823	30,817,179
Supplementation	-	97,055
Total revenue from Government	33,040,823	30,914,234

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 2018 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 2018

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

		2018 \$'000	2017 \$'000
2.1A: Employee benefits			
Superannuation:			
Defined benefit plans			
Net service cost		3,159,600	4,397,255
Net interest cost		3,710,100	3,394,400
Retention benefits		88,660	78,217
Total employee benefits		6,958,360	7,869,872
2.1B: Subsidies			
Related parties:			
Defence Home Owner Scheme		441	587
Defence Home Ownership Assistance Scheme		107,737	97,816
Total subsidies		108,178	98,403
2.1C: Write-down and impairment of assets			
Impairment of financial instruments	7.3B	44	143
Total write-down and impairment of assets		44	143
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	15,305	16,871
Total fees and fines	15,305	16,871

Accounting Policy

All administered revenues relate to activities performed by Defence on behalf of the Australian Government. As such, administered appropriations are not revenues of the individual entity that oversees distribution or expenditure of the funds as directed. 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.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2018

	2018	2017
	\$'000	\$'000
2.2B: Interest		
Loans to Defence Housing Australia	25,866	25,866
Total interest	<u>25,866</u>	<u>25,866</u>
2.2C: Dividends		
Australian Government Entities - Defence Housing Australia	26,555	39,585
Total dividends	<u>26,555</u>	<u>39,585</u>
2.2D: Military superannuation contributions		
Military Superannuation contributions	1,444,915	1,462,077
Total military superannuation contributions	<u>1,444,915</u>	<u>1,462,077</u>
2.2E: Other revenue		
Competitive Neutrality Revenue - Defence Housing Australia	40,052	42,158
Other	10,626	6,497
Total other revenue	<u>50,678</u>	<u>48,655</u>
2.2F: Foreign exchange gains		
Non-speculative	176	-
Total foreign exchange gains	<u>176</u>	<u>-</u>

Department of Defence
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the period ended 30 June 2018

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

	2018	2017
	\$'000	\$'000

3.1A: Cash and cash equivalents

Cash on hand	3,791	4,563
Cash at bank - at call	68,450	84,260
Total cash and cash equivalents	72,241	88,823

Accounting Policy

Cash and cash equivalents includes notes and coins held, any deposits in bank accounts held at call with a bank, and cash held in special accounts. Cash is measured at its nominal amount. Cash and cash equivalents denominated in a foreign currency is converted at the exchange rate at the balance date.

3.1B: Trade and other receivables

Goods and services receivables

Goods and Services	54,219	45,624
Total goods and services receivables	54,219	45,624

Appropriations receivable

For existing programs	666,947	425,991
Total appropriations receivable	666,947	425,991

Other receivables

GST receivable from the Australian Taxation Office	199,724	234,527
Accrued revenue	40,098	31,264
Other	188,846	276,331
Total other receivables	428,668	542,122
Total trade and other receivables (gross)	1,149,834	1,013,737

Less impairment allowance

Goods and services	(8,767)	(7,818)
Total impairment allowance	(8,767)	(7,818)
Total trade and other receivables (net)	1,141,067	1,005,919

Credit terms for goods and services were within 1-30 days (2016-17: 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 30 days 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 evidence that Defence will not be able to collect the debt. 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 2018*

3.1B: Trade and other receivables (continued)	2018	2017
	\$'000	\$'000
Reconciliation of the impairment allowance:		
Opening balance	(7,818)	(3,203)
Amounts recovered and reversed	1,036	452
(Increase)/decrease recognised in net cost of services	(1,985)	(5,067)
Closing balance	(8,767)	(7,818)

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 2018

3.2: Non-Financial Assets

3.2A: Reconciliation of the opening and closing balances of property, plant and equipment, and intangibles (2017-2018)

Item	Land ¹	Buildings ¹	Specialist Military Equipment	Infra-structure ¹	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 2017											
Gross Book value	5,335,942	12,565,388	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)
Net book value 1 July 2017	5,335,942	12,156,276	58,572,944	5,874,047	2,286,663	607,285	425,864	228,888	88,405	6,033	85,582,347
Additions:											
By purchase	11,833	1,262,277	7,509,893	660,687	216,177	50	32,197	9,531	4,188	125,200	9,832,033
By finance lease	552	39,939	-	-	89,535	-	-	-	-	-	130,026
Adjustments to opening balance	-	(3,681)	105,633	(27,122)	1,258	297	-	-	-	-	76,385
Revaluations/impairments recognised in other comprehensive income	599,362	101,549	969,570	(24,137)	(75,934)	(92,856)	-	-	-	-	1,477,554
Reclassification	-	64,360	(8,400)	(65,078)	6,292	16	(13,939)	16,749	-	-	-
Depreciation/amortisation expense	-	(580,718)	(4,448,198)	(372,496)	(331,045)	(29,131)	(43,594)	(88,073)	(38,968)	(3,308)	(5,935,531)
Revaluations/write-downs and impairment recognised in net cost of services	-	(6,471)	(361,363)	(4,588)	(21,495)	(780)	(1,771)	(3,265)	(2,308)	(230)	(402,271)
Other movements											
Reversal of previous asset write-downs and impairment	37	1,578	13,761	1,221	17,416	101	-	-	-	-	34,114
Transfers in/(out)	-	(60,604)	(306,791)	-	-	-	-	-	-	-	(367,395)
Transfers (to)/from Assets Held for Sale	2,381	(6,005)	3,026	50	9	-	-	-	-	-	(539)
Disposals:											
Other disposals	(9,324)	(6,858)	(31,893)	-	(45,333)	-	-	-	-	-	(93,408)
Net book value 30 June 2018	5,940,783	12,961,642	62,018,182	6,042,584	2,143,543	484,982	398,757	163,830	51,317	127,695	90,333,315
Net book value as at 30 June 2018 represented by:											
Gross book value	5,940,783	13,408,313	63,568,092	6,357,201	2,483,021	561,995	1,103,694	486,897	293,333	146,852	94,350,181
Accumulated depreciation/amortisation and impairment	-	(446,671)	(1,549,910)	(314,617)	(339,478)	(77,013)	(704,937)	(323,067)	(242,016)	(19,157)	(4,016,866)
Closing net book value at 30 June 2018	5,940,783	12,961,642	62,018,182	6,042,584	2,143,543	484,982	398,757	163,830	51,317	127,695	90,333,315

¹ Land, buildings, infrastructure and plant and equipment under finance lease were subject to revaluation. The carrying amounts as at 30 June 2018 were \$70.4m, \$1,063.4m, \$109.1m and \$260.8m respectively, and are included in the valuation figures above.

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 2018

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 ¹	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 and impairment	-	(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)	(7,910)	-	-	(22,957)
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 and impairment	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)	-	22,957	-	-	(420,749)
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	58,572,944	5,874,047	2,286,663	607,285	425,864	228,888	88,405	6,033	85,582,347
Net book value as at 30 June 2017 represented by:											
Gross book value	5,335,942	12,565,388	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	58,572,944	5,874,047	2,286,663	607,285	425,864	228,888	88,405	6,033	85,582,347

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 2018

3.2A: Reconciliation of the opening and closing balances of property, plant and equipment, and intangibles (continued)

	2018 \$'000	2017 \$'000
Commitments payable relating to property, plant and equipment and intangibles		
Land and buildings ¹	1,041,704	1,302,461
Specialist military equipment ²	18,259,156	14,328,701
Infrastructure, plant and equipment ³	1,262,827	1,583,427
Intangibles ⁴	176,744	167,101
Total capital commitments	20,740,431	17,381,690

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 a Defence 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 2018

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.

	2017-18	2016-17
Buildings	2 to 100 years	1 to 100 years
Infrastructure	3 to 99 years	2 to 99 years
Specialist military equipment	1 to 48 years	1 to 48 years
Other plant and equipment	2 to 75 years	1 to 100 years
Assets under finance lease	3 to 48 years	5 to 48 years
Heritage and cultural	10 to Indefinite	10 to Indefinite

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.

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 to 24 years (2016-17: 2 to 24 years) and the useful lives of Defence's other intangibles are 4 to 35 years (2016-17: 4 to 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.

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 2018

	2018 \$'000	2017 \$'000
3.2B: Inventories		
Inventories - General	2,437,685	2,409,183
Inventories - Explosive ordnance	4,416,450	4,299,246
Inventories - Fuel	74,575	66,958
Total inventories	6,928,710	6,775,387

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	1,185,081	1,373,194
Non capital prepayments	381,069	536,593
Total prepayments	1,566,150	1,909,787

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	36,127	32,504
Specialist military equipment	11,018	14,043
Heritage and cultural	-	-
Other infrastructure, plant and equipment	249	308
Inventories	42	15,581
Total assets held for sale	47,436	62,436

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 2018

2018	2017
\$'000	\$'000

3.3: Payables

3.3A: Suppliers payables

Trade creditors and accruals	2,137,396	2,300,716
Operating lease rentals	1,282	3,569
Total suppliers payables	2,138,678	2,304,285

Settlement is usually made within 30 days.

3.3B: Employee payables

Australian Public Service (APS) employee payables

Salaries and wages	12,611	11,929
Superannuation	2,194	2,109

Australian Defence Force (ADF) employee payables

Salaries and wages	43,390	32,051
Superannuation	15,385	8,489
Total employee payables	73,580	54,578

3.3C: Other payables

Statutory payable	162,236	217,064
Other	82,690	76,203
Total other payables	244,926	293,267

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2018

	2018 \$'000	2017 \$'000
3.4: Interest Bearing Liabilities		
3.4A: Finance leases		
Finance leases	<u>1,529,424</u>	<u>1,549,237</u>
Total finance leases	<u>1,529,424</u>	<u>1,549,237</u>
Minimum lease payments expected to be settled		
Within 1 year	52,669	46,557
Between 1 to 5 years	201,036	243,729
More than 5 years	<u>1,275,719</u>	<u>1,258,951</u>
Total finance leases	<u>1,529,424</u>	<u>1,549,237</u>

33 (2016-17: 31) finance leases exist in relation to properties and technology. The leases are non-cancellable and for fixed terms with an average remaining term of 18.76 years (2016-17: 18.06 years). The maximum number of years remaining is 25.58 years (2016-17: 26.58 years) relating to Single LEAP finance 2 leases (2016-17: Single LEAP finance 2 leases). The lease assets secure the lease liabilities. Interest rates applied averaged 6.16% (2016-17: 5.78%).

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 2018

3.5: Provisions	2018	2017
	\$'000	\$'000

3.5A: Employee provisions

Australian Public Service (APS) employee provisions

Leave	694,399	681,827
Total APS employee provisions	694,399	681,827

Australian Defence Force (ADF) employee provisions

Leave	2,164,829	1,931,394
Other provisions	9,788	14,441
Total ADF employee provisions	2,174,617	1,945,835
Total employee provisions	2,869,016	2,627,662

Employee provisions are expected to be settled in:

No more than 12 months	827,758	779,022
More than 12 months	2,041,258	1,848,640
Total employee provisions	2,869,016	2,627,662

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	492,645	533,734
Provision for decontamination	705,269	632,317
Total restoration, decontamination and decommissioning provisions	1,197,914	1,166,051

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.

The entity currently has 155 (2017: 166) agreements for the leasing of premises which have provisions requiring the entity to restore the premises to their original condition at the conclusion of the lease. The entity has made a provision to reflect the present value of this obligation.

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 2018

	2018	2017
	\$'000	\$'000
3.5C: Other provisions		
Other provisions	312,565	51,693
Total other provisions	312,565	51,693

Refer to Note 3.5D for a reconciliation of this balance.

3.5D: Reconciliation of provision balances
Movement in relation to 2018

	Restoration and decommissioning provisions \$'000	Decontamination provisions \$'000	Other provisions \$'000
Carrying amount 1 July 2017	533,734	632,317	51,693
Additional provisions made	63,442	153,948	276,648
Amounts used	-	(35,133)	(15,776)
Amounts reversed	(5,472)	(48,233)	-
Unwinding of discount rate	12,175	2,370	-
Parameter changes	(111,234)	-	-
Closing balance 30 June 2018	492,645	705,269	312,565

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2018

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

	2018 \$'000	2017 \$'000
4.1A: Cash and cash equivalents		
Cash held in the OPA - Special Accounts	109,972	89,329
Total cash and cash equivalents	109,972	89,329
4.1B: Trade and other receivables		
Goods and services:		
In connection with - external parties	12,413	16,882
Total receivables for goods and services	12,413	16,882
Other receivables:		
Accrued superannuation	-	61
Dividends	26,554	39,585
Loans receivable - Defence Housing Australia	509,580	509,580
Competitive neutrality - Defence Housing Australia	6,139	6,706
Total other receivables	542,273	555,932
Total trade and other receivables (gross)	554,686	572,814
Less impairment allowance:		
Goods and services	(468)	(429)
Total impairment allowance	(468)	(429)
Total trade and other receivables (net)	554,218	572,385

Loans to Defence Housing Australia as at 30 June 2018 have a remaining term of up to 8 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	(429)	(289)
Amounts recovered and reversed	8	289
Increase recognised in net cost of service	(47)	(429)
Closing Balance	(468)	(429)

Credit terms for goods and services were within 1-30 days (2016-17: 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.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2018

	2018 \$'000	2017 \$'000
4.1C: Equity accounted investments		
Other investments shares (or equity in) - Defence Housing Australia	2,723,761	2,573,475
Other investments - Small portfolio entities	74,093	89,198
Total equity accounted investments	2,797,854	2,662,673

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.

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 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.

4.2: Administered - Non-Financial Assets

4.2A: Other non-financial assets

Prepayments - retention benefits	238,962	240,452
Total other non-financial assets	238,962	240,452

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	8,969	6,427
Special accounts liability	109,972	89,329
Total other payables	118,941	95,756

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2018

4.4: Administered - Provisions

Overview of Schemes

Permanently appointed ADF employees of Defence are members of the Defence Forces Retirement Benefits Scheme (DFRB), the Defence Force Retirement and Death Benefits Scheme (DFRDB), the Military Superannuation and Benefits Scheme (MSBS) and the Australian Defence Force Superannuation (ADF Super). DFRB and DFRDB are fully unfunded defined benefit plans while MSBS is a partially funded plan. DFRB, DFRDB and MSBS are closed to new members. All new members of the ADF are now eligible to enter ADF Super which is a defined contribution plan fully funded by employer contributions of 16.4% of member's full earnings. The members of ADF Super are entitled to an insurance cover for death and invalidity benefits under the provisions of ADF Cover arrangement. ADF Cover is fully funded by the Australian Government and therefore treated as a defined benefit type plan.

MSBS member contributions are paid into the Military Super and Benefits Fund (MSB Fund) that is controlled by the Commonwealth Superannuation Corporation (CSC) and are therefore not reflected in the administered financial statements of Defence. The Australian Government, on behalf of the MSB Fund, makes funded benefit payments to members of the MSBS and is reimbursed by the MSB Fund for these payments. The funded components of MSBS are reported in the financial statements of this scheme, which form part of CSC's annual report.

Defence makes employer contributions for DFRB, DFRDB and MSBS based on an agreed employer contribution rate that is calculated through an actuarial assessment. The employer contributions assist the Government in meeting the cost of the superannuation entitlements under these defined benefit plans. Defence accounts for these employer contributions as contributions to defined contribution plans in accordance with AASB 119 in its departmental financial statements.

Defence, on behalf of the Australian Government, is responsible for administering the four defined benefit plans relating to DFRB, DFRDB, MSBS and ADF Cover. Defence recognises an administered liability for the present value of the Australian Government's expected future payments arising from the four defined benefit plans. These liabilities are based on an annual actuarial assessment performed by the Australian Government Actuary (AGA). Defence also has the responsibility to record the Australian Government's transactions in relation to the four defined benefit plans.

Accounting Policy and Measurement

In addition to the annual actuarial assessment, the AGA also completes a full review of the unfunded liabilities for the four defined benefit plans every three years and issues a Long Term Cost Report (LTCR). The demographic assumptions underlying the annual actuarial assessment are updated every three years as part of the LTCR. The economic assumptions underlying the actuarial assessment are updated annually. The most recent LTCR was issued for the 30 June 2017 financial year and forms the basis for the assumptions applied in calculation of the net defined benefit liability (unfunded) for DFRB, DFRDB, MSBS and ADF Cover as at 30 June 2018.

Actuarial gains or losses arising from the annual actuarial assessment are recognised in Other Comprehensive Income in equity in the year in which they occur. Current and past service cost; and interest on the net defined benefit liability are recognised in the line item 'employee benefits expense' in the Administered Schedule of Comprehensive Income. The return on fair value of plan assets excluding the amount included in interest income is recognised in equity. The net defined benefit liability is calculated annually as the present value of future obligations less the fair value of plan assets. The net defined benefit liability recognised in the Administered Schedule of Assets and Liabilities under the line item 'employee provisions' represents the actual deficit or surplus in Defence's four defined benefit plans.

Amounts recognised in the Schedule of Assets and Liabilities	2018 \$'000	2017 \$'000
4.4A: Employee provisions		
Superannuation - DFRB	485,600	512,800
Superannuation - DFRDB	46,228,000	42,990,000
Superannuation - MSBS	83,344,000	63,451,000
Insurance cover - ADFC	236,601	18,501
Total employee provisions	130,294,201	106,972,301
Employee provisions are expected to be settled in:		
No more than 12 months	2,394,000	2,324,000
More than 12 months	127,900,201	104,648,301
Total employee provisions	130,294,201	106,972,301

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2018

4.5: Administered - Defined Benefit Superannuation Plans

Scheme Information

Funding Arrangements

The funding arrangements for the various schemes and the ADF Cover arrangement are as follows:

Scheme	Funding
DFRB	Unfunded as employer contributions made to assist the Government in meeting the costs of the scheme are not held by the scheme, but paid directly into consolidated revenue. Benefits are paid from consolidated revenue on an emerging cost (or pay as you go) basis, which results in contributions made into the scheme equalling the benefits paid out from the scheme. This is shown in the reconciliation of the net defined benefit liability and the reconciliation of the present value of the defined benefit obligation in the subsequent sections.
DFRDB	Unfunded as employer contributions and member contributions made to assist the Government in meeting the costs of the scheme are not held by the scheme, but paid directly into consolidated revenue. DFRDB's members contribute 5.5 per cent of the highest incremental salary for rank plus service allowance, which is paid into consolidated revenue. Benefits are paid from consolidated revenue on an emerging cost (or pay as you go) basis, which results in contributions made into the scheme equalling the benefits paid out from the scheme. This is shown within the reconciliation of the net defined benefit liability and the reconciliation of the present value of the defined benefit obligation in the subsequent sections. Employer contributions also include the 3 per cent productivity contributions. Member contributions paid are included within the service cost, rather than employer contributions.
MSBS	Partially funded as member contributions and some employer contributions are paid into the scheme, that is the MSB Fund, while the remaining employer contributions are paid directly into the consolidated revenue. Employer productivity contributions of 3 per cent of superannuation salary, member contributions of 5 per cent of superannuation salary, employee salary sacrifice contributions and Superannuation Guarantee top up payments are paid into the MSB Fund. The balance of superannuation benefits payable, after allowing for any funded part of the benefit, under the <i>Military Superannuation and Benefits Act 1991</i> , are paid from the consolidated revenue fund on an emerging (or pay as you go) basis. Refer to the reconciliation of the net defined benefit liability, the reconciliation of the present value of the defined benefit obligation and the reconciliation of the fair value of plan assets in subsequent sections.
ADF Cover	Unfunded. No employer contributions are made in relation to ADF Cover as this arrangement is only providing death and invalidity benefits as these arise for employees that are members of the ADF Super defined contribution plan. Benefits are paid from consolidated revenue on an emerging cost (or pay as you go) basis, which results in contributions made into the scheme equalling the benefits paid out from the scheme. This is shown within the reconciliation of the net defined benefit liability and the reconciliation of the present value of the defined benefit obligation in the subsequent sections.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2018

4.5: Administered - Defined Benefit Superannuation Plans (continued)

Benefits Paid

The nature of the benefits provided under the schemes are as follows:

Scheme	Funding
DFRB	All remaining DFRB members are in receipt of indexed lifetime pensions.
DFRDB	Length of service is the primary factor that determines benefit entitlement. Members who retire from the Australian Defence Force after twenty years of effective service (or after fifteen years of service at retirement age for rank) are entitled to an indexed lifetime reversionary pension based on a percentage of their annual pay on retirement, some of which can be commuted to a lump sum. Members are entitled to a productivity benefit based on contributions of 3 per cent of pay increased with interest, which is paid as a lump sum in addition to the defined benefits. Most members are currently in receipt of a lifetime pension.
MSBS	Benefits payable comprise a lump sum of accumulated member contributions and an employer financed defined benefit. The employer financed defined benefit is calculated on the basis of the member's final average salary, length of contributory service and includes the 3 per cent of salary productivity component. Benefits arising from member's contributions are determined by the value of contributions and investment returns. The employer financed defined benefits payable may be taken as a lump sum or as an indexed lifetime reversionary pension or as a combination of lump sum and pension. MSBS also has an ancillary accumulation section which can accept other employer contributions and member contributions for the provision of fully funded accumulation lump sum benefits.
ADF Cover	ADF Cover provides death and invalidity benefits for ADF personnel covered by the ADF Super accumulation scheme. A lump sum payment is payable upon the death of a member whilst in service based on prospective future service to age sixty and salary at death. A surviving spouse can opt to receive a pension in lieu of the lump sum death benefit. On an invalidity exit, where the individual is assessed as qualifying for an invalidity pension, a lifetime pension based on prospective future service to age 60 is payable. In addition, a temporary top up pension payable to age sixty based on service to exit and salary at exit is provided.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2018

4.5: Administered - Defined Benefit Superannuation Plans (continued)

Regulatory Framework

The applicable regulatory framework for each scheme and arrangement is as follows:

Scheme	Enabling Act	Period open for new members	Requirement
DFRB	<i>Defence Forces Retirement Benefits Act 1948</i>	From July 1948 to 30 September 1972	Exempt from <i>Superannuation Industry (Supervision) Act 1993</i>
DFRDB	<i>Defence Force Retirement and Death Benefits Act 1973</i> and the <i>Defence Force Act 1903</i>	From 1 October 1972 to 30 September 1991	Exempt from <i>Superannuation Industry (Supervision) Act 1993</i>
MSBS	<i>Military Superannuation and Benefits Act 1973</i>	From 1 October 1991 to 30 June 2016	Compliance with <i>Superannuation Industry (Supervision) Act 1993</i>
ADF Cover	<i>Australian Defence Force Cover Act 2015</i>	From 01 July 2016	Exempt from <i>Superannuation Industry (Supervision) Act 1993</i>

Governance of the defined benefit schemes

CSC was established under the Governance of *Australian Government Superannuation Schemes Act 2011* and is responsible for:

- Providing administration services for each scheme;
- Management and investment of scheme assets;
- Compliance with superannuation taxation and other applicable laws; and
- Compliance with relevant legislation including the *Governance of Australian Government Superannuation Schemes Act 2011*.

CSC is supported by a custodian and other specialist providers. CSC is legally separate from Defence.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2018

4.5: Administered - Defined Benefit Superannuation Plans (continued)

Risks

The scheme specific risks, as detailed below, apply to all four schemes and arrangements, unless specified otherwise.

Risk	Exposure
Interest Rate Risk	The present value of the scheme liability (referred to as the defined benefit obligation) is calculated using a discount rate determined by reference to the government bond rate consistent with the term of the liability for each scheme. This rate has no regard to the actual return on any assets of the scheme. A decrease in the bond rate will increase the defined benefit obligation
Longevity Risk	The present value of the defined benefit obligation is calculated by reference to the best estimate of the mortality of scheme participants and their spouses both during and after their employment. An increase in the life expectancy of the scheme participants and their spouses will increase the defined benefit obligation.
Salary Risk	The present value of the defined benefit obligation is calculated by reference to the future salaries of scheme participants. As such, an increase in the salary of the participants prior to retirement will increase the defined benefit obligation. This risk does not apply to the DFRB and has minimal application to the DFRDB and ADF Cover.
Pension Increase Risk	The present value of the defined benefit obligation is calculated by reference to the level of future pension indexation. For MSBS and ADF Cover pensioners, and DFRB and DFRDB pensioners under age 55, the pensions are linked to increases in the Consumer Price Index (CPI). For DFRB pensioners and DFRDB pensioners aged 55 or more, pension increases are calculated as the greater of CPI and Pensioner and Beneficiary Living Cost Index (PBLCI) and benchmarked against a Male Total Average Weekly Earnings (MTAWE) index.
Invalidity Exit Risk	An increase in invalidity exits will increase the defined benefit obligation for MSBS and ADF Cover schemes only. This risk is not relevant for the DFRB and has minimal application to the DFRDB. Benefits are in the form of an indexed pension payable for life and the benefit formula is based on service to retirement age and level of invalidity suffered by the member. A temporary top up pension to age 60 is also payable for ADF Cover members.
Pension Take-up Risk	This risk is relevant for the MSBS scheme only. For MSBS, retiring members and surviving spouses of members who die in service have the option to receive the employer benefit as a part or full pension, compared to the alternative lump sum. When an individual opts to receive a pension on retirement, the actuarial value of the pension is greater than the value of the lump sum benefit foregone. Higher pension take up rates increase the defined benefit obligation.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2018

4.5: Administered - Defined Benefit Superannuation Plans (continued)

Assumptions

The economic assumptions are significant factors affecting the estimate of the scheme liability. However, the relationship between these assumptions is significant. Changes of equal magnitude in the absolute levels of each of the rates can have a major effect on nominal cash flows but may have only a minor effect on the liability and service cost.

For the defined benefit obligation, assumptions have also been made regarding rates of retirement, death (for active, preserved and pension members), mortality improvements, invalidity, resignation, retrenchment, retention and take up rates of pensions in the schemes. Assumptions have also been made for the ages of spouses and proportions married on death.

Membership data for DFRB, DFRDB, MSBS and ADF Cover as at 30 June 2017 was used to calculate liabilities in the 2017 LTCR. These liabilities were then projected forward to 30 June 2018, allowing for assumptions in accordance with the 2017 Long Term Cost Report. The liabilities were then adjusted for aggregate experience over the year. In particular, actual experience relating to invalidity exits, pension increase rates, general salary increase rates, benefit payments, salaries per payroll data and the MSBS invested fund was incorporated.

The following sections identify and explain the amounts reported in these financial statements for DFRB, DFRDB, MSBS and ADF Cover. The principal actuarial assumptions underpinning each of the four schemes are also detailed, including an analysis of the sensitivity of changes in these assumptions, to the amounts reported in the financial statements.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2018

4.5: Administered - Defined Benefit Superannuation Plans (continued)

The actuarial estimate of the net defined benefit liability for DFRB, DFRDB, MSBS, ADF Cover and in aggregate is presented below. The net defined benefit liability equals the present value of future defined benefit obligation less the fair value of defined benefit plan assets. The most recent actuarial estimates were calculated by the AGA as at 30 June 2018.

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.

The reconciliations included below show movements in the net defined benefit liability, the present value of the defined benefit obligation and the fair value of the defined benefit plan assets. The disclosures below are in line with requirements of AASB 119.

	2018 \$'000	2018 \$'000	2018 \$'000	2018 \$'000	2018 \$'000
	DFRB	DFRDB	MSBS	ADF Cover	Total
The amounts recognised in the Administered Schedule of Assets and Liabilities are as follows:					
Present value of funded obligations	-	-	9,315,000	-	9,315,000
Fair Value of plan assets	-	-	(9,315,000)	-	(9,315,000)
Present value of unfunded obligations	485,600	46,228,000	83,344,000	236,601	130,294,201
Unrecognised past service cost	-	-	-	-	-
Net liability recorded in the Administered Schedule of Assets and Liabilities	485,600	46,228,000	83,344,000	236,601	130,294,201
Amounts recorded in the Administered Schedule of Assets and Liabilities:					
Liabilities	485,600	46,228,000	92,659,000	236,601	139,609,201
Assets	-	-	(9,315,000)	-	(9,315,000)
Net liability recorded in the Administered Schedule of Assets and Liabilities	485,600	46,228,000	83,344,000	236,601	130,294,201
The amount recognised in the Administered Schedule of Comprehensive Income are as follows:					
Current service cost	-	122,000	2,971,000	66,600	3,159,600
Interest on obligation	13,300	1,437,000	2,553,000	1,800	4,005,100
Expected return on plan assets	-	-	(295,000)	-	(295,000)
Losses/(gains) on curtailments and settlements	-	-	-	-	-
Total expense recognised in net cost of services	13,300	1,559,000	5,229,000	68,400	6,869,700
Actuarial losses/(gains) on liabilities recognised in Other Comprehensive Income	600	3,265,000	15,972,000	151,300	19,388,900
Expected return on plan assets	-	-	295,000	-	295,000
Actual return on plan assets (interest income)	-	-	(781,000)	-	(781,000)
Actuarial (gains)/losses on plan assets recognised in other comprehensive income	-	-	(486,000)	-	(486,000)
Components recorded in Other Comprehensive Income	600	3,265,000	15,486,000	151,300	18,902,900

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2018

4.5: Administered - Defined Benefit Superannuation Plans (continued)

	2018 \$'000	2018 \$'000	2018 \$'000	2018 \$'000	2018 \$'000
	DFRB	DFRDB	MSBS	ADF Cover	Total
Reconciliation of the net defined benefit liability					
Opening value at 1 July	512,800	42,990,000	63,451,000	18,501	106,972,301
Current Service cost	-	122,000	2,971,000	66,600	3,159,600
Interest cost	13,300	1,437,000	2,553,000	1,800	4,005,100
Expected return on plan assets (interest income)	-	-	(295,000)	-	(295,000)
Losses/(gains) on curtailments and settlements	-	-	-	-	-
Total expense	13,300	1,559,000	5,229,000	68,400	6,869,700
Actuarial losses/(gains) in plan assets recognised in other comprehensive income	-	-	(486,000)	-	(486,000)
Actuarial losses /(gains) in liabilities recognised in other comprehensive income, arising from:					
Changes in liability experience	(9,400)	(444,000)	2,247,000	38,300	1,831,900
Changes in financial assumptions	-	2,996,000	8,660,000	23,700	11,679,700
Changes in demographic assumptions*	10,000	713,000	5,065,000	89,300	5,877,300
Contributions	(41,100)	(1,586,000)	(822,000)	(1,600)	(2,450,700)
Past service cost	-	-	-	-	-
Closing value of net defined benefit liability at 30 June	485,600	46,228,000	83,344,000	236,601	130,294,201
Reconciliation of the present value of the defined benefit obligation					
Opening present value at 1 July	512,800	42,990,000	71,747,000	18,501	115,268,301
Current Service cost	-	122,000	2,971,000	66,600	3,159,600
Interest cost	13,300	1,437,000	2,553,000	1,800	4,005,100
Losses/(gains) on curtailments and settlements	-	-	-	-	-
Funded contributions by plan participants	-	-	278,000	-	278,000
Actuarial losses /(gains) in liabilities arising from:					
Changes in liability experience	(9,400)	(444,000)	2,247,000	38,300	1,831,900
Changes in financial assumptions	-	2,996,000	8,660,000	23,700	11,679,700
Changes in demographic assumptions*	10,000	713,000	5,065,000	89,300	5,877,300
Benefits paid	(41,100)	(1,586,000)	(862,000)	(1,600)	(2,490,700)
Past service cost	-	-	-	-	-
Closing present value of defined benefit obligation at 30 June	485,600	46,228,000	92,659,000	236,601	139,609,201
Reconciliation of the fair value of plan assets					
Opening fair value at 1 July	-	-	8,296,000	-	8,296,000
Expected return on plan assets (interest income)	-	-	295,000	-	295,000
Experience actuarial gains/(losses) on plan assets recognised in other comprehensive income	-	-	486,000	-	486,000
Contributions	41,100	1,586,000	822,000	1,600	2,450,700
Funded contributions by plan participants	-	-	278,000	-	278,000
Benefits paid	(41,100)	(1,586,000)	(862,000)	(1,600)	(2,490,700)
Closing fair value of plan assets at 30 June	-	-	9,315,000	-	9,315,000

* The demographic assumptions used for the 30 June 2018 actuarial estimate are based on the 30 June 2017 LTCR.

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2018

4.5: Administered - Defined Benefit Superannuation Plans (continued)

	2018 \$'000	2018 \$'000	2018 \$'000	2018 \$'000	2018 \$'000
	DFRB	DFRDB	MSBS	ADF Cover	Total
The major categories of plan assets at the end of the reporting period for each category, as follows:					
Australian equities	-	-	2,235,600	-	2,235,600
Overseas equities	-	-	2,142,450	-	2,142,450
Property and infrastructure	-	-	1,117,800	-	1,117,800
Private equity	-	-	652,050	-	652,050
Cash, debt instruments	-	-	1,676,700	-	1,676,700
Other liabilities	-	-	1,490,400	-	1,490,400
Subtotal	-	-	9,315,000	-	9,315,000

The actual return on plan assets was \$751m (2017: \$689m). The fair value of scheme assets relates to investments in the CSC Pooled Superannuation Trust. These are disclosed as level 2 in the fair value hierarchy, where the net market value is derived from observable inputs (other than quoted prices) such as prices or derived from prices.

	2017 \$'000	2017 \$'000	2017 \$'000	2017 \$'000	2017 \$'000
	DFRB	DFRDB	MSBS	ADF Cover	Total
The amounts recognised in the Administered Schedule of Assets and Liabilities are as follows:					
Present value of funded obligations	-	-	8,296,000	-	8,296,000
Fair Value of plan assets	-	-	(8,296,000)	-	(8,296,000)
Present value of unfunded obligations	512,800	42,990,000	63,451,000	18,501	106,972,301
Unrecognised past service cost	-	-	-	-	-
Net liability recorded in the Administered Schedule of Assets and Liabilities	512,800	42,990,000	63,451,000	18,501	106,972,301

Amounts recorded in the Administered Schedule of Assets and Liabilities :

Liabilities	512,800	42,990,000	71,747,000	18,501	115,268,301
Assets	-	-	(8,296,000)	-	(8,296,000)
Net liability recorded in the Administered Schedule of Assets and Liabilities	512,800	42,990,000	63,451,000	18,501	106,972,301

The amount recognised in the Administered Schedule of Comprehensive Income are as follows:

Current service cost	-	173,000	4,203,000	21,201	4,397,201
Interest on obligation	14,100	1,326,000	2,256,000	300	3,596,400
Expected return on plan assets	-	-	(202,000)	-	(202,000)
Losses/(gains) on curtailments and settlements	-	-	-	-	-
Total expense recognised in net cost of services	14,100	1,499,000	6,257,000	21,501	7,791,601
Actuarial losses/(gains) on liabilities recognised in Other Comprehensive Income	(2,300)	(6,760,000)	(15,919,000)	(3,000)	(22,684,300)
Expected return on plan assets	-	-	202,000	-	202,000
Actual return on plan assets (interest income)	-	-	(689,000)	-	(689,000)
Actuarial (gains)/losses on plan assets recognised in Other Comprehensive Income	-	-	(487,000)	-	(487,000)
Components recorded in Other Comprehensive Income	(2,300)	(6,760,000)	(16,406,000)	(3,000)	(23,171,300)

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2018

4.5: Administered - Defined Benefit Superannuation Plans (continued)

	2017 \$'000	2017 \$'000	2017 \$'000	2017 \$'000	2017 \$'000
	DFRB	DFRDB	MSBS	ADF Cover	Total
Reconciliation of the net defined benefit liability					
Opening value at 1 July	546,700	49,812,000	74,369,000	-	124,727,700
Current Service cost	-	173,000	4,203,000	21,201	4,397,201
Interest cost	14,100	1,326,000	2,256,000	300	3,596,400
Expected return on plan assets (interest income)	-	-	(202,000)	-	(202,000)
Total expense	14,100	1,499,000	6,257,000	21,501	7,791,601
Actuarial losses/(gains) in plan assets recognised in other comprehensive income	-	-	(487,000)	-	(487,000)
Actuarial losses /(gains) in liabilities recognised in other comprehensive income, arising from:					
Changes in liability experience*	(2,300)	(1,028,000)	2,218,000	1,700	1,189,400
Changes in financial assumptions	-	(5,732,000)	(18,137,000)	(4,700)	(23,873,700)
Changes in demographic assumptions*	-	-	-	-	-
Contributions	(45,700)	(1,561,000)	(769,000)	-	(2,375,700)
Past service cost	-	-	-	-	-
Closing value of net defined benefit liability at 30 June	512,800	42,990,000	63,451,000	18,501	106,972,301
Reconciliation of the present value of the defined benefit obligation					
Opening present value at 1 July	546,700	49,812,000	81,689,000	-	132,047,700
Current Service cost	-	173,000	4,203,000	21,201	4,397,201
Interest cost	14,100	1,326,000	2,256,000	300	3,596,400
Losses/(gains) on curtailments and settlements	-	-	-	-	-
Funded contributions by plan participants	-	-	271,000	-	271,000
Actuarial losses /(gains) in liabilities arising from:					
Changes in liability experience*	(2,300)	(1,028,000)	2,218,000	1,700	1,189,400
Changes in financial assumptions	-	(5,732,000)	(18,137,000)	(4,700)	(23,873,700)
Changes in demographic assumptions*	-	-	-	-	-
Benefits paid	(45,700)	(1,561,000)	(753,000)	-	(2,359,700)
Past service cost	-	-	-	-	-
Closing present value of defined benefit obligation at 30 June	512,800	42,990,000	71,747,000	18,501	115,268,301

* The demographic assumptions used for the 30 June 2017 actuarial estimate are based on the 30 June 2014 LTCR. These demographic assumptions were not revised as at 30 June 2017. The actuarial losses resulting from an increase in invalidity exits experienced during 2016-17 for MSBS and ADF Cover are shown as 'changes in liability experience' above.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2018

4.5: Administered - Defined Benefit Superannuation Plans (continued)

	2017 \$'000	2017 \$'000	2017 \$'000	2017 \$'000	2017 \$'000
	DFRB	DFRDB	MSBS	ADF Cover	Total
Reconciliation of the fair value of plan assets					
Opening fair value at 1 July	-	-	7,320,000	-	7,320,000
Expected return on plan assets (interest income)	-	-	202,000	-	202,000
Experience actuarial gains/(losses) on plan assets recognised in other comprehensive income	-	-	487,000	-	487,000
Contributions	45,700	1,561,000	769,000	-	2,375,700
Funded contributions by plan participants	-	-	271,000	-	271,000
Benefits paid	(45,700)	(1,561,000)	(753,000)	-	(2,359,700)
Closing fair value of plan assets at 30 June	<u> </u>	<u> </u>	<u>8,296,000</u>	<u> </u>	<u>8,296,000</u>
The major categories of plan assets at the end of the reporting period for each category, as follows:					
Australian equities	-	-	1,659,200	-	1,659,200
Overseas equities	-	-	1,908,080	-	1,908,080
Property and infrastructure	-	-	1,078,480	-	1,078,480
Private equity	-	-	580,720	-	580,720
Cash, debt instruments	-	-	1,493,280	-	1,493,280
Other liabilities	-	-	1,576,240	-	1,576,240
Subtotal	<u> </u>	<u> </u>	<u>8,296,000</u>	<u> </u>	<u>8,296,000</u>

The actual return on plan assets was \$689m. The fair value of scheme assets relates to investments in the CSC Pooled Superannuation Trust. These are disclosed as level 2 in the fair value hierarchy, where the net market value is derived from observable inputs (other than quoted prices) such as prices or derived from prices.

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2018

4.5: Administered - Defined Benefit Superannuation Plans (continued)

Principal actuarial assumptions for the various schemes are as follows:

The demographic assumptions utilised for the 30 June 2018 actuarial estimate of DFRB, DFRDB, MSBS and ADF Cover are based on the assumptions used in the 30 June 2017 LTCR.

	2018	2017
DFRB		
Discount rate at 30 June	2.7%	2.7%
Expected rate of return on plan assets*	-	-
Expected pension increase rate**	4.0%	4.0%
Expected salary increase rate***	-	-

* Scheme does not hold any plan assets.

** Pension increase rate is determined using the Age Pension methodology.

*** Salary growth rate is nil as members are all pensioners.

DFRDB		
Discount rate at 30 June	3.0%	3.4%
Expected rate of return on plan assets*	-	-
Expected salary increase rate**	4.0%	4.0%
Expected pension increase rate (aged 55 or more)***	4.0%	4.0%
Expected pension increase rate (aged less than 55)***	2.5%	2.5%

* Scheme does not hold any plan assets.

** Separate promotional salary scales are used to allow for promotional salary increase. As at 30 June 2018 and at 30 June 2017, assumed salary growth of 2.0% per annum before reverting to 4.0% from the 2020-21 financial year.

*** For members aged 55 or more, pension increase rate is based on the Age Pension methodology, whereas for members aged under 55, pension increase rate is based on the CPI.

MSBS		
Discount rate at 30 June (active members and pensioners)	3.1%	3.5%
Expected rate of return on plan assets	3.1%	3.5%
Expected salary increase rate*	4.0%	4.0%
Expected pension increase rate	2.5%	2.5%
Invalidity exits - new**	1,000 p.a.	450 p.a.
Invalidity exits - retrospective**	150 p.a.	-
Pension take-up rate for direct retirements (officers/other ranks)***	100%/90%	85%/75%
Pension take-up rate for current preserved members (officers/other ranks)***	85%/65%	85%/75%
Pension take-up rate for current serving members projected to exit with a preserved benefit and retire some time later (officers/other ranks)***	90%/80%	85%/75%

* Separate promotional salary scales are used to allow for promotional salary increase. As at 30 June 2018 and at 30 June 2017, assumed salary growth of 2.0% per annum before reverting to 4.0% from the 2020-21 financial year.

** In the 2017 LTCR, 1,000 ongoing new invalidity pensions have been assumed for 2017-18. In addition, new retrospective invalidity pension commencements have also been included as an assumption, as there is a growing awareness of the ability to make a claim for a possible retrospective invalidity pension. The number of new retrospective invalidity pensions assumed are: 150 for 2017-18 and 2018-19; 110 for 2019-20; 80 for 2020-21; 50 for 2021-22; and 20 for 2022-23.

The Invalidity benefit payable depends on the level of invalidity suffered and invalidity benefit type A pensions are larger and have a higher cost compared to the invalidity benefit types B and C. It has been assumed that 60% - 100% will be invalidity benefit type A; 30% - 59% will be invalidity benefit type B; and less than 30% will be invalidity benefit type C. For MSBS, invalidity benefit type A is calculated as a pension of 76.5% of final salary; invalidity benefit type B is a pension of 38.25% of final salary; and invalidity benefit type C is a lump sum of 1.5 times member contributions.

*** The pension take-up rates for members that exit directly from service are much higher compared to those who exited service, became preserved members and then retired some time later.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2018

4.5: Administered - Defined Benefit Superannuation Plans (continued)

	2018	2017
ADF Cover		
Discount rate at 30 June	3.1%	3.5%
Expected rate of return on plan assets*	-	-
Expected pension increase rate	2.5%	2.5%
Invalidity exits - new**	160 p.a	70 p.a

* Scheme does not hold any plan assets.

** This represents the number of claims that are expected to emerge in respect of incidents that take place each year, based on the same age dependent rates as those used for MSBS and the number of members in ADF Cover as at 30 June 2018. This represents approximately 1.45% of the current membership base of about 11,000.

For ADF Cover, the invalidity benefit type A is calculated based on a lifetime pension of (60 - member's age at invalidity exit) x 2.2% x superannuation salary at exit plus a temporary top up pension payable to age 60 of completed years of service at exit x 2.2% x superannuation salary at exit. For Invalidity B benefits, a percentage of 1.1% is used to calculate benefits. No benefits are payable for invalidity benefit type C.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2018

4.5: Administered - Defined Benefit Superannuation Plans (continued)

Expected Contributions

The expected contributions which are the expected amount of benefit payments under the schemes are as follows:

Scheme	Expected contributions
DFRB	The expected contribution for 2018-19 is \$39m (2017-18 actual: \$41m).
DFRDB	The expected contribution (including 3% productivity contributions) for 2018-19 is \$1,610m (2017-18 actual: \$1,586m). Note that member contributions paid to consolidated revenue would be an offset to this.
MSBS	The expected contribution for 2018-19 is \$915m (2017-18 actual: \$822m). This includes expected employer contributions to meet unfunded benefit payments and funding via the MSB Fund.
ADF Cover	The expected contribution for 2018-19 is \$5m (2017-18 actual: \$1.6m).

Maturity Profile

The maturity profiles of the defined benefit obligation under the schemes are as follows:

Scheme	Maturity profile of defined benefit obligation
DFRB	The interest rate and probability weighted mean term of the liabilities is 9.9 years.
DFRDB	The interest rate and probability weighted mean term of the liabilities is 17.5 years.
MSBS	The interest rate and probability weighted mean term of the liabilities is 28.9 years.
ADF Cover	The interest rate and probability weighted mean term of the liabilities is 27.7 years.

4.5: Administered - Defined Benefit Superannuation Plans (continued)

Sensitivity analysis for significant actuarial assumptions

The impact of a change in the defined benefit obligation reported as at 30 June 2018 under several scenarios is presented below.

	Change in assumption*	Impact on defined benefit obligation	
		Increase \$m	Decrease \$m
DFRB			
Reported	\$485.6m	-	-
Discount rate	0.5%	463.2	510.0
Pension increase rate	0.5%	508.3	463.8
DFRDB			
Reported	\$46,228m	-	-
Discount rate	0.5%	42,500	50,400
Salary and Age Pension methodology	0.5%	50,000	42,700
CPI increase rate (aged under 55)	0.5%	46,400	46,100
MSBS			
Reported	\$92,659m	-	-
Discount rate	0.5%	82,000	105,500
Salary increase rate	0.5%	94,600	90,700
Pension increase rate	0.5%	102,700	84,000
Invalidity exits - new	40.0%	95,400	89,800
Pension take-up rate	10.0%	95,600	89,000
ADF Cover			
Reported	\$236.6m	-	-
Discount rate	0.5%	207	271
Pension increase rate	0.5%	271	207
Invalidity exits	40.0%	302	172

* Change in assumption reflects additive adjustments, except for invalidity exits, which reflect a multiplicative adjustment. The sensitivity analysis is based on the change in a particular assumption, keeping all other assumptions constant. The sensitivity analysis may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation from one another.

The factors used to conduct the sensitivity analysis are based on an expectation of a realistic and potential movement in the defined benefit obligation, based on historical experience. The underlying results of the sensitivity factors used are deemed to be materially accurate as they are in line with historical experience and management's understanding of the underlying defined benefit obligation. There has been no change from previous periods in the methods and assumptions used to prepare the sensitivity analysis for economic assumptions. For demographic assumptions, the methods and assumptions used to undertake the sensitivity analysis are based on the 2017 LTCR.

Sensitivity analysis of economic assumptions of +0.5% and -0.5% for all four schemes is generally based on the methodology used for estimating the reported liability, except where noted below. These economic assumptions include the discount rate, pension increase rate (based on CPI or Salary and Age Pension methodology), CPI increase rate, and salary increase rate.

For ADF Cover, the sensitivity analysis for the discount rate of -0.5% is based on the experience of MSBS. The extrapolation is modelled based on the impact that a lower discount rate had on the MSBS reported liability, compared to the impact of a higher discount rate. This has been applied to extrapolate the -0.5% movement in the discount rate for ADF Cover.

The -0.5% sensitivity assumption used for the DFRB pension increase rate; DFRDB Salary and Age Pension methodology; and DFRDB CPI increase rate are modelled by extrapolation from the +0.5% calculation, assuming that the additive percentage increase in liability due to a higher +0.5% assumption will apply as a percentage decrease due to a lower -0.5% assumption.

4.5: Administered - Defined Benefit Superannuation Plans (continued)

Sensitivity analysis of the invalidity exits assumption for MSBS is based on the sensitivity analysis included in the 2017 LTCR and only focuses on new invalidity pensions. Given the uncertainty in invalidity exits, the sensitivity analysis in the 2017 LTCR allows for the ongoing level of invalidity exits to be 40 per cent higher than the assumed rate of 1,000 p.a for new invalidity pensions. This sensitivity analysis effectively assumes that there would be around 1,400 new invalidity pensions p.a. commencing each year. A sensitivity analysis has not been performed in relation to new retrospective invalidity pensions as these typically represent only about 10 per cent on average of the total invalidity pensions commencing annually over the 2017-18 to 2022-23 financial years.

Sensitivity analysis of the pension take-up rate assumption for MSBS is based on the sensitivity analysis included in the 2017 LTCR which shows the impact of a 100 per cent pension take-up rate. The factor of 100 per cent provides a theoretical upper bound on the cost impact from this process as the actuarial value of the pension is much greater than the value of the lump sum benefit foregone from the member's perspective. In practice, there will be individuals who will prefer the lump sum over the alternative pension. Sensitivity analysis of pension increase rate (based on CPI) and invalidity exits for ADF Cover are based on the assumptions used for MSBS sensitivity analysis, using the ADF Cover member data.

Department of Defence
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the period ended 30 June 2018

FUNDING
This section identifies Defence's funding structure.

5.1: Appropriations

5.1A: Annual appropriations ('Recoverable GST exclusive')

Annual Appropriations for 2017-18

	Annual Appropriation ¹ \$'000	Adjustments to appropriation ² \$'000	Total Appropriation \$'000	Appropriation applied in 2018 (Current and prior years) \$'000	Variance ³ \$'000
DEPARTMENTAL					
Ordinary annual services ⁴	33,172,420	392,391	33,564,811	(33,379,028)	185,783
Capital budget ⁴	-	-	-	-	-
Other services					
Equity injection	2,365,307	-	2,365,307	(1,995,519)	369,788
Total departmental	35,537,727	392,391	35,930,118	(35,374,547)	555,571

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2018

5.1: Appropriations (continued)

5.1A: Annual appropriations ('Recoverable GST exclusive') (continued)

Notes:

1 Details of quarantined appropriations are as follows: \$'000

Quarantined appropriations

2015-16 Act 2 (Equity)	407,411
2015-16 Appropriation Act 3	18,489
2016-17 Appropriation Act 1	35

Amounts withheld under section 51 determinations

2015-16 Appropriation Act 1	94,754
2015-16 Appropriation Act 3	69,948
2016-17 Appropriation Act 1	9,725
2016-17 Appropriation Act 2	1,256,623
2017-18 Appropriation Act 2	369,788
2017-18 Appropriation Act 3	429
2017-18 Appropriation Act 5	571

Total Quarantined

2,227,773

2. Adjustment to appropriations include Advance to the Finance Minister (AFM), PGPA Section 74 receipts and PGPA Act Section 75 transfers.

3. Reasons for material variance:

	Ordinary Annual Service \$'000	Equity \$'000
Undrawn departmental annual appropriations 2017-18	240,956	-
Net GST payments made not yet recovered	(56,173)	-
2017-18 Appropriation Act 2 withheld under Section 51	-	369,788
2017-18 Appropriation Act 3 withheld under Section 51	429	-
2017-18 Appropriation Act 5 withheld under Section 51	571	-
Total	<u><u>185,783</u></u>	<u><u>369,788</u></u>

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 Appropriation Act 1		4
2015/16 Appropriation Act 2 (Equity)		407,411
2015/16 Appropriation Act 3		18,489
2016/17 Appropriation Act 1		87
2017/18 Appropriation Act 3		44,117
2017/18 Appropriation Act 5		196,839
3.1B		<u><u>666,947</u></u>

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2018

5.1: Appropriations (continued)

5.1A: Annual appropriations ('Recoverable GST exclusive') (continued)

Annual Appropriations for 2016-17

	Annual Appropriation ¹ \$'000	Adjustments to appropriation ² \$'000	Total Appropriation \$'000	Appropriation applied in 2017 (Current and prior years) \$'000	Variance ³ \$'000
DEPARTMENTAL					
Ordinary annual services ⁴	30,826,904	438,036	31,264,940	(31,310,029)	(45,089)
Capital Budget ⁴	-	-	-	-	-
Other services					
Equity injection	2,321,327	-	2,321,327	(1,064,704)	1,256,623
Loans	-	-	-	-	-
Total departmental	33,148,231	438,036	33,586,267	(32,374,733)	1,211,534

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2018

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 Appropriation Act 3 (Outputs)	67,349
No Win No Loss - 2013-14 Appropriation Act 1 (Outputs)	97,994
No Win No Loss - 2013-14 Appropriation Act 3 (Outputs)	87,801
No Win No Loss - 2013-14 Appropriation Act 5 (Outputs)	58,495
No Win No Loss - 2013-14 Appropriation Act 6 (Equity)	103,103
2015-16 Appropriation Act 2 (Equity)	407,411

Amounts withheld under section 51 determinations

2014-15 Act 4 Portfolio Additional Estimates adjustment Appropriation Act 2 (Equity)	116,914
No Win No Loss - 2014-15 Appropriation Act 1 (Outputs)	121,512
2014-15 Act 5 Supplementary Portfolio Additional Estimates adjustment Appropriation Act 3 (Outputs)	91,401
No Win No Loss - 2015-16 Appropriation Act 1 (Outputs)	94,754
No Win No Loss - 2015-16 Appropriation Act 3 (Outputs)	69,948
2016-17 Appropriation Act 1	9,725
2016-17 Appropriation Act 2	1,256,623

Total Quarantined

2,583,030

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	<u>(45,089)</u>	<u>1,256,623</u>

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 Appropriation 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	<u>425,991</u>

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2018

5.1B: Unspent annual appropriations ('Recoverable GST exclusive')

Authority	2018 \$'000	2017 \$'000
DEPARTMENTAL		
Operating		
Act 1 2016-17 ¹	49,672	49,672
Act 1 2015-16 ¹	94,758	94,758
Act 1 2014-15 ⁴	-	121,512
Act 1 2013-14 ⁴	-	97,994
Act 1 2012-13 ⁴	-	67,349
Act 3 2017-18 ¹	44,547	-
Act 3 2015-16 ¹	88,437	88,437
Act 3 2014-15 ⁴	-	91,401
Act 3 2013-14 ⁴	-	87,801
Act 5 2017-18 ¹	141,236	-
Act 5 2013-14 ⁴	-	58,495
Total Operating	418,649	757,419
Equity		
Act 2 2017-18 ²	369,788	-
Act 2 2016-17 ²	1,256,623	1,256,623
Act 2 2015-16	407,411	407,411
Act 2 2014-15 ⁴	-	116,914
Act 6 2013-14 ⁴	-	103,103
Total Equity	2,033,822	1,884,051
Total	2,452,471	2,641,470
Cash and cash equivalents	72,241	88,823
Total unspent annual appropriations³	2,524,712	2,730,293

Notes

1. Unspent annual appropriations have been partially extinguished by the Department of Finance. Of the \$418.649m of unspent appropriations, \$175.427m has been formally extinguished, with the remaining \$243.222m being quarantined or available to the Department.

2. Unspent annual appropriations have been formally extinguished by the Department of Finance.

3. The unspent annual appropriations are \$2,524.712m, allocated as follows:

- \$2,227.773m has been formally quarantined and/or extinguished by Department of Finance.
- \$313.253m of unspent annual appropriations (including cash and cash equivalents) available to the Department.
- Unspent annual appropriations relating to GST payments made in 2016-17 of \$39.860m but recovered in later financial periods, offset by \$56.173m of GST receipts recovered in 2017-18 relating to GST payments made in previous financial periods.

4. Appropriation Acts have been repealed in the current period.

Department of Defence
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2018

5.1: Appropriations (continued)

5.1C: Special appropriations ('Recoverable GST exclusive')

Authority	Nature	Type	Purpose	Appropriation Applied	
				2018 \$'000	2017 \$'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.	41,144	45,668
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.	1,560,425	1,535,637
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.	766,098	674,253
Military Superannuation and Benefits Act 1991, Administered	Administered	Unlimited Amount	To make provision for and in relation to retention benefits for ADF personnel.	87,337	115,656
Defence Force (Home Loans Assistance) Act 1990, Administered	Administered	Limited 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.	441	587
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.	105,219	99,651
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.	1,647	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.	1,743	41
Total				2,564,054	2,471,514

(a) Commonwealth Superannuation Corporation draw funds from the CRF on behalf of Defence.

Note

Defence is responsible for the following additional Special Appropriations. No payments have been made from these Special Appropriations for this financial year.

- Defence Forces Retirement Benefits (Pension Increases) Act 1961
- Defence Forces Retirement Benefits (Pension Increases) Act 1967
- Defence Forces Retirement Benefits (Pension Increases) Act 1971
- Defence Forces Retirement Benefits (Pension Increases) Act 1973
- Defence Force Retirement and Death Benefits (Pension Increases) Act 1974
- Defence Force Retirement and Death Benefits (Pension Increases) Act 1976
- War Gratuity Act 1945

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2018

5.1: Appropriations (continued)

5.1D: Disclosure by agent in relation to annual and special appropriations ('Recoverable GST exclusive')

2018	Department of Finance \$'000
Total receipts	-
Total payments	-

2017	Department of Finance ¹ \$'000
Total receipts	-
Total payments	6,079

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 the Department of Finance*).

Department of Defence
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2018

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}	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
Balance brought forward from previous period	86,527	70,953	1,520	1,491	49	48	168	169
Total increases	67,855	53,771	259	65	1	1	3	3
Available for payments	154,382	124,724	1,779	1,556	50	49	171	172
Decreases:								
Departmental								
Total Departmental	-	-	-	-	-	-	-	-
Administered								
Total Administered	(42,863)	(38,197)	(201)	(36)	-	-	(7)	(4)
Total Decreases	(42,863)	(38,197)	(201)	(36)	-	-	(7)	(4)
Total Balance to be carried forward to next period	111,519	86,527	1,578	1,520	50	49	164	168
Balance represented by:								
Cash held in entity bank accounts	-	-	-	-	-	-	-	-
Cash held in the Official Public Account	111,519	86,527	1,578	1,520	50	49	164	168

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 2018

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, Lead-in Fighter, Emerging Technologies, Accommodation Purchases, P303, Paris, Ex Aussing, 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, Comprehensive Strategic Partnership, RSAF Pearce.

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, CJ Toohey Memorial Prize, Ronald Syme Trust Prize, General Bridges Memorial Prize Fund, TJ 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 2018

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. The key management personnel of Defence are considered to be the:

- i) Minister for Defence;
- ii) Minister for Defence Industry;
- iii) Minister for Defence Personnel;
- iv) Chief of the Defence Force (CDF);
- v) Vice Chief of the Defence Force;
- vi) Secretary of the Defence Force;
- vii) Associate Secretary;
- viii) Chief of Navy;
- ix) Chief of Army;
- x) Chief of Air Force;
- xi) Chief of Joint Operations;
- xii) Chief of Joint Capabilities;
- xiii) Chief Finance Officer (CFO);
- xiv) Deputy Secretary Strategic Policy and Intelligence;
- xv) Deputy Secretary Capability Acquisition and Sustainment;
- xvi) Chief Information Officer (CIO);
- xvii) Chief Defence Scientist;
- xviii) Deputy Secretary Estate and Infrastructure;
- xix) Deputy Secretary Defence People; and
- xx) Director-General Australian Signals Directorate.

Key management personnel remuneration is reported in the table below.

	2018 \$	2017 \$
Short-term employee benefits	7,315,667	6,913,570
Post-employment benefits	1,522,169	1,316,081
Long-term benefits	696,076	785,433
Total key management personnel remuneration expenses¹	9,533,912	9,015,084

The total number of key management personnel that are included in the above table are 27 (2016-17: 15).

Notes

1. 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);
- iv) Entities, individually or jointly, controlled by the above individuals; and
- v) Other Australian Government entities.

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 (2016-17: Nil).

Significant transactions with related parties can include:

- i) the payments of grants or loans;
- ii) purchases of goods and services;
- iii) asset purchases, sales transfers or leases;
- iv) debts forgiven; and
- v) guarantees.

Giving consideration to relationships with related entities, and transactions entered into during the reporting period by the entity, it has been determined that there are no related party transactions to be separately disclosed.

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2018

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	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
Contingent Assets				
Balance from previous period	23,170	5,477	23,170	5,477
New	-	2,246	-	2,246
Re-measurement	(10,912)	15,987	(10,912)	15,987
Assets realised	(10,058)	-	(10,058)	-
Rights expired	-	(540)	-	(540)
Total contingent assets	2,200	23,170	2,200	23,170
Contingent Liabilities				
Balance from previous period	53,294	94,939	53,294	94,939
New	-	1,191	-	1,191
Re-measurement	14,541	(37,264)	14,541	(37,264)
Liabilities realised	(14,058)	(5,572)	(14,058)	(5,572)
Obligations expired	-	-	-	-
Total Contingent liabilities	53,777	53,294	53,777	53,294
Net contingent assets (liabilities)	(51,577)	(30,124)	(51,577)	(30,124)

Quantifiable Contingencies

Contingent Assets: At 30 June 2018, the Schedule of Contingencies contains 1 (2016-17: 11) instances of non-remote, quantifiable contingent assets in respect of claims by the Department valued at \$2.2m (2016-17: \$23.2m). 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 2018, the Schedule of Contingencies contains 6 (2016-17: 14) instances of non-remote, quantifiable contingent liabilities in respect of claims on the Department valued at \$53.8m (2016-17: \$53.2m). 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 2018 Defence had 5 (2016-17: 8) instances of unquantifiable non-remote contingent assets.

Contingent Liabilities: At 30 June 2018 Defence had 9 (2016-17: 40) instances of unquantifiable non-remote contingent liabilities.

Land decontamination, site restoration and decommissioning of Defence assets: Defence has made a 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 payments that may eventuate in relation to any such claims.

Quantifiable Remote Contingencies

Remote Contingent Assets: At 30 June 2018 Defence had nil (2016-17: 3) instances of quantifiable remote contingent assets valued at \$nil (2016-17: \$0.79m).

Remote Contingent Liabilities: At 30 June 2018 Defence had 1457 (2016-17: 1,462) instances of quantifiable remote contingent liabilities valued at \$5,364m (2016-17: \$5,269m).

7.1: Contingent Liabilities and Assets (continued)

Unquantifiable Remote Contingencies

Contingent Assets: At 30 June 2018 Defence had 3 instances of unquantifiable remote contingent assets (2016-17: 1).

Contingent Liabilities: At 30 June 2018 Defence had 24 instances of unquantifiable remote contingent liabilities (2016-17: 27).

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 2018

7.2: Financial Instruments

		2018 \$'000	2017 \$'000
7.2A: Categories of financial instruments			
Financial Assets			
Cash and cash equivalents	3.1A	72,241	88,823
Loans and receivables:			
Trade and other receivables		274,396	402,464
Total Financial Assets		346,637	491,287
Carrying amount of financial assets		346,637	491,287
Financial Liabilities			
At amortised cost:			
Suppliers		2,138,678	2,304,285
Other payables		152,563	131,907
Finance leases		1,529,424	1,549,237
Total Financial Liabilities at Amortised Cost		3,820,665	3,985,429
Carrying amount of financial liabilities		3,820,665	3,985,429

Accounting Policy

Financial Assets

Defence classifies its financial assets in the following categories;

- financial assets at fair value through profit or loss;
- held-to-maturity investments;
- available-for-sale financial assets; and
- 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.

7.2: Financial Instruments (continued)

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.

	2018 \$'000	2017 \$'000
7.2B: Net gains or losses on financial assets		
Loans and receivables		
Exchange gains/(loss)	10,347	(3,299)
Impairment reversal/(impairment)	(1,292)	(4,940)
Net gain/(loss) on loans and receivables	9,055	(8,239)
Net gain/(loss) on financial assets	9,055	(8,239)

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)	(22,293)	(4,527)
Interest expense	(100,680)	(104,561)
Net gain/(loss) financial liabilities - at amortised cost	(122,973)	(109,088)
Net gain/(loss) on financial liabilities	(122,973)	(109,088)

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 2018

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.

		2018 \$'000	2017 \$'000
7.3A: Categories of financial instruments			
Financial Assets			
Cash and cash equivalents		109,972	89,329
Loans and receivables:			
Receivables	4.1B	554,218	572,385
Total		664,190	661,714
Available for sale:			
Investment - Defence Housing Australia	4.1C	2,723,761	2,573,475
Investment - Small Portfolio bodies	4.1C	74,093	89,198
Total		2,797,854	2,662,673
Carrying amount of financial assets		3,462,044	3,324,387
Financial Liabilities			
At amortised cost:			
Other payables	4.3A	8,969	6,427
Special accounts	4.3A	109,972	89,329
Total		118,941	95,756
Carrying amount of financial liabilities		118,941	95,756
7.3B: Net gains or losses on financial assets			
Loans and receivables			
Interest revenue		25,866	25,866
Impairment		(44)	(143)
Exchange gains/(loss)		176	(154)
Net gain on loans and receivables		25,998	25,569
Available for sale			
Dividend revenue	4.1B	26,555	39,585
Net gain available for sale		26,555	39,585
Net gain on financial assets		52,553	65,154
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 2018

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 valuations 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

		2018 \$'000	2017 \$'000
7.4A: Fair Value Measurements			
Non-financial assets - Recurring fair value			
Land	3.2A	5,940,783	5,335,942
Buildings	3.2A	12,961,642	12,156,276
Specialist Military Equipment	3.2A	62,018,182	58,572,944
Infrastructure	3.2A	6,042,584	5,874,047
Plant and Equipment	3.2A	2,143,543	2,286,663
Heritage and Cultural	3.2A	484,982	607,285
Total Non-financial assets - Recurring fair value		89,591,716	84,833,157
Assets not measured at fair value in the statement of financial position¹			
Cash and cash equivalents	3.1A	72,241	88,823
Trade and other receivables	3.1B	1,141,067	1,005,919
Inventories	3.2B	6,928,710	6,775,387
Intangibles	3.2A	741,599	749,190
Prepayments	3.2C	1,566,150	1,909,787
Total assets not measured at fair value in the statement of financial position		10,449,767	10,529,106
Liabilities not measured at fair value in the statement of financial position¹			
Other provisions	3.5C	312,565	51,693
Suppliers	3.3A	2,138,678	2,304,285
Other payables and personal benefits	3.3B, 3.3C	318,506	347,845
Finance lease payables	3.4A	1,529,424	1,549,237
Employee provisions	3.5A	2,869,016	2,627,662
Restoration, decontamination and decommissioning	3.5B	1,197,914	1,166,051
Total liabilities not measured at fair value in the statement of financial position		8,366,103	8,046,773

¹ These items carrying amounts equate to their approximate fair values.

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	
		2018 \$'000	2017 \$'000
7.5A: Administered Fair value measurements			
Financial assets			
Administered Investment	4.1C	2,797,854	2,662,673
Total Financial Assets		2,797,854	2,662,673
Non Financial Liabilities measured at fair value in statement of financial position			
Employee provisions	4.4A	130,294,201	106,972,301
Total liabilities measured at fair value in the statement of financial position		130,294,201	106,972,301
Assets not measured at fair value in the statement of financial position¹			
Cash and cash equivalents	4.1A	109,972	89,329
Trade and other receivables	4.1B	554,218	572,385
Prepayments	4.2A	238,962	240,452
Total assets not measured at fair value in the statement of financial position		903,152	902,166
Liabilities not measured at fair value in the statement of financial position¹			
Other payables	4.3A	118,941	95,756
Total liabilities not measured at fair value in the statement of financial position		118,941	95,756

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 2018

OTHER INFORMATION

8.1: Assets Held in Trust

	2018 \$'000	2017 \$'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	1,380	1,360
Other receipts	116	53
Total credits	1,496	1,413
Payment made to suppliers	(1)	(33)
Total debits	(1)	(33)
Total amount held at the end of the reporting period	1,495	1,380
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	4	1
Other receipts	7	6
Total credits	11	7
Payment made to suppliers	(5)	(3)
Total debits	(5)	(3)
Total amount held at the end of the reporting period	6	4
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	168	169
Other receipts	3	3
Total credits	171	172
Payment made to suppliers	(7)	(4)
Total debits	(7)	(4)
Total amount held at the end of the reporting period	164	168

Department of Defence

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period ended 30 June 2018

8.2: 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. 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 2018 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	1	1	1
<i>Defence Home Ownership Assistance Scheme Act 2008</i>	Completed	LP,SM	295	197	188

¹ Legislation

Amounts paid under each legislation are disclosed in Note 5.1C Special Appropriations.

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 2017-18. Business processes are in place to ensure that identified overpayments are recovered. The numbers and amounts represent the overpayments made during 2017-18.



Sea Power Centre—Australia Visiting Naval Fellows Program

The Sea Power Centre—Australia hosts a Visiting Navy Fellows Program, which is a core element of the Royal Australian Navy's, international defence engagement. Since 2013 the Sea Power Centre has hosted officers at the Lieutenant Commander / Commander (E) level from Indonesia, Malaysia, Vietnam, Pakistan, the Philippines, Fiji, and Japan. The Sea Power Centre hosted six Visiting Navy Fellows in 2017–18 and is expected to host similar numbers in 2018–19.

The program fosters relationships and mutual understanding between the Royal Australian Navy and its key Indo-Pacific counterparts. It also contributes to maritime strategy and defence policy debates in Australia and across the region. Visiting Navy Fellows produce 10,000-word policy papers on maritime strategy and defence policy issues of critical importance to their home countries and Australia. Fellows meet with senior Royal Australian Navy officers, Australian policy makers and defence policy experts, and attend academic and policy

One of HMAS *Canberra*'s Landing Craft transports international guests of the Pacific 2017 exhibition to HMAS *Hobart* for the closing ceremony.

conferences and official functions related to the Sea Power Centre's core program of maritime strategy research.

Visiting Navy Fellows present their final research findings at roundtables hosted by the Sea Power Centre. In these forums the Fellows showcase their research to experts in academia and senior Australian policy makers from across government. The Visiting Navy Fellows' research papers are peer reviewed externally and published by the Sea Power Centre. Past research papers are available in electronic format on the Sea Power Centre's website.¹

The Visiting Navy Fellows Program is a valuable tool for building international defence relationships and contributing to knowledge-sharing and interoperability across our region.

¹ <http://www.navy.gov.au/media-room/publications/soundings-papers>



APPENDICES

F/A-18A/B Hornets, flown by No 3 Squadron pilots, form up in the shape of a number 3 to mark the final large formation of the classic jet under the No 3 Squadron colour.

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 2017-18, Defence entered into 164 new consultancy contracts, based on information presented on Austender, involving total actual expenditure of \$32.2 million (including GST). In addition, 182 existing consultancy contracts were active during the reporting year, with total actual expenditure of \$75.8 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 2017-18 (including GST), based on information presented on Austender.

Table A.1: New Consultancy contracts entered into (based on AusTender), by program, 2017-18

Program	Number of new contracts	Total contract value (\$)
Program 2.1 Strategic Policy & Intelligence	20	9,927,243
Program 2.2 Defence Executive Support	14	1,350,014
Program 2.3 Chief Finance Officer	–	–
Program 2.4 Vice Chief of the Defence Force	17	10,078,379
Program 2.5 Navy Capabilities	20	8,823,577
Program 2.6 Army Capabilities	12	2,009,782
Program 2.7 Air Force Capabilities	16	4,484,031
Program 2.8 Joint Operations Command	–	–
Program 2.9 Capability Acquisition and Sustainment	22	4,301,399
Program 2.10 Estate and Infrastructure	28	22,803,032
Program 2.11 Chief Information Officer	4	1,550,979
Program 2.12 Defence People	5	430,486
Program 2.13 Defence Science and Technology	6	386,348
Total	164	66,145,269

Note: Programs 2.4 and 2.8 were changed in PAES 2017-18 to reflect the establishment of the Joint Capabilities Group and the Australian Defence Force Headquarters.

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, 2015-16 to 2017-18

	2015-16 (\$m)	2016-17 (\$m)	2017-18 (\$m)
Defence	90.7	244.7	108.0

Note 1: Figures are GST inclusive.

Note 2: Defence has carried out a number of assurance activities to improve the accuracy of the information reported in relation to consultancy contracts. The assurance activities included a review of information relating to the financial year 2016-17. Refer page 136 for more details of Omissions and errors in the 2016-17 Defence annual report.

Australian National Audit Office access clauses

The Defence contracting templates include standard clauses providing for the Auditor-General access to contractors' and major subcontractors' premises, records and accounts. During 2017–18, Defence had 41 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, 2017–18**

Group and company	Value (\$)	Purpose	Reason for non-inclusion of ANAO access clause
Army			
United States Government	559,156	Technical and engineering services	Foreign military sale
Total for the Army	559,156		
Air Force			
United States Government	522,533	Technical and engineering services	Foreign military sale
Total for the Air Force	522,533		
Strategic Policy and Intelligence Group			
United States Government	985,321	Technical and engineering services	Foreign military sale
Total for Strategic Policy and Intelligence Group	985,321		
Chief Information Officer Group			
United States Government	1,459,149	Equipment and support	Foreign military sale
Total for Chief Information Officer Group	1,459,149		
Capability Acquisition and Sustainment Group			
United States Government	3,733,024.62	Equipment and support	Foreign military sale
United States Government	11,054,268.27	Light weapons and ammunition	Foreign military sale
United States Government	837,195.77	Light weapons and ammunition	Foreign military sale
United States Government	22,995,876.51	Specialist military equipment	Foreign military sale
United States Government	1,356,784.33	Equipment and support	Foreign military sale
United States Government	13,531,604.45	Explosive ordnance	Foreign military sale
United States Government	246,125.16	Light weapons and ammunition	Foreign military sale
United States Government	4,787,649.60	Technical and engineering services	Foreign military sale
United States Government	4,536,215.97	Communication equipment	Foreign military sale
United States Government	943,630.10	Aircraft spare and repair parts	Foreign military sale
United States Government	432,231.25	Technical and engineering services	Foreign military sale
United States Government	100,657.59	Technical and engineering services	Foreign military sale
United States Government	10,796,509.02	Technical and engineering services	Foreign military sale
United States Government	23,690,520.00	Technical and engineering services	Foreign military sale
United States Government	178,135.26	Communication equipment	Foreign military sale
United States Government	1,023,178,451.00	Aircraft modification	Foreign military sale
United States Government	261,230.19	Special military equipment	Foreign military sale
United States Government	524,276,644.99	Aircraft modification	Foreign military sale
United States Government	106,734,623.90	Explosive ordnance	Foreign military sale
United States Government	71,812,013.42	Special military equipment	Foreign military sale
United States Government	4,249,915.32	Light weapons and ammunition	Foreign military sale
United States Government	3,581,247.96	Light weapons and ammunition	Foreign military sale
United States Government	46,131,405.68	Light weapons and ammunition	Foreign military sale
United States Government	81,847,591.85	Light weapons and ammunition	Foreign military sale
United States Government	18,589,453.83	Explosive ordnance	Foreign military sale
United States Government	7,247,086.60	Equipment and support	Foreign military sale
United States Government	3,125,402.15	Technical and engineering services	Foreign military sale

Group and company	Value (\$)	Purpose	Reason for non-inclusion of ANAO access clause
United States Government	37,165,871.97	Technical and engineering services	Foreign military sale
United States Government	1,052,912.00	Communication equipment	Foreign military sale
United States Government	54,539,718.94	Aircraft spare and repair parts	Foreign military sale
United States Government	119,076,809.91	Aircraft spare and repair parts	Foreign military sale
United States Government	1,701,430.66	Communication equipment	Foreign military sale
United States Government	1,243,456.30	Equipment and support	Foreign military sale
United States Government	9,245,245.03	Equipment and support	Foreign military sale
United States Government	199,977,000.00	Equipment and support	MOU shared contribution
United States Government	199,436,000.00	Equipment and support	MOU shared contribution
Total for Capability Acquisition and Sustainment Group	2,613,693,940		
Total for Groups and Services	2,617,220,099		

Note: All figures are GST inclusive.

Defence uses the United States Department of Defense's Foreign Military Sales program, which facilitates sales of United States 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: Online material

The following supplementary performance information is available on the Defence website, unless otherwise indicated.

Table B.1: Additional Online Information

Title	Website
Report of the Inspector-General ADF	http://www.defence.gov.au/mjs/reports.asp
Women in ADF Report	http://www.defence.gov.au/annualreports/17-18/Downloads/WomenInTheADFRReport2017-18.pdf
SeMPRO Report	http://www.defence.gov.au/annualreports/17-18/Downloads/SeMPRO-Report-1718.pdf
2017/18 Defence Industry and Innovation Programs Annual Report	https://www.business.gov.au/centre-for-defence-industry-capability/resources/dii-update-report-2017
Acquisition, sustainment, facilities and infrastructure information	
Top 30 sustainment products by expenditure, 2017–18	Web Table B.1
Top 30 acquisition projects by expenditure, 2017–18	Web Table B.2
Top 30 acquisition projects by expenditure (variations), 2017–18	Web Table B.3
Major acquisition projects closed in 2017–18	Web Table B.4
New major acquisition projects approved by Government in 2017–18	Web Table B.5
Approved facilities and infrastructure projects by state and federal electorate	Web Table B.6
Performance of major capital facilities projects 2017–18	Web Table B.7
Major Defence establishments and bases	Web Table B.8
Status of capital facilities projects for consideration and approval by the Parliamentary Standing Committee on Public Works in 2017–18	Web Table B.9

Table B.2: Referenced websites and supporting documentation

Reference	Website
<i>2017–18 Defence Corporate Plan</i>	http://www.defence.gov.au/publications/corporateplan/
Defence's Information Publication Scheme	http://www.defence.gov.au/ips
Sea Power Centre – Australia website	http://www.navy.gov.au/media-room/publications/soundings-papers
Department of Prime Minister and Cabinet Indigenous Procurement website	https://www.pmc.gov.au/indigenous-affairs/economic-development/indigenous-procurement-policy-ipp

Appendix C: 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
17AJ(c)	Glossary of abbreviations and acronyms	Mandatory	233
17AJ(d)	List of requirements	Mandatory	230
17AJ(e)	Details of contact officer	Mandatory	240
17AJ(f)	Entity's website address	Mandatory	240
17AJ(g)	Electronic address of report	Mandatory	240
17AD(a)	Review by accountable authority		
17AD(a)	A review by the accountable authority of the entity	Mandatory	2
17AD(b)	Overview of the entity		
17AE(1)(a)(i)	A description of the role and functions of the entity	Mandatory	8
17AE(1)(a)(ii)	A description of the organisational structure of the entity	Mandatory	12
17AE(1)(a)(iii)	A description of the outcomes and programs administered by the entity	Mandatory	11
17AE(1)(a)(iv)	A description of the purposes of the entity as included in the corporate plan	Mandatory	8
17AE(1)(b)	An outline of the structure of the portfolio of the entity	Portfolio departments—mandatory	9
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	11
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	20
17AD(c)(ii)	Report on financial performance		
17AF(1)(a)	A discussion and analysis of the entity's financial performance	Mandatory	44
17AF(1)(b)	A table summarising the total resources and total payments of the entity	Mandatory	44
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
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	52

PGPA Rule reference	Description	Requirement	Page number
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	60
External scrutiny			
17AG(3)	Information on the most significant developments in external scrutiny and the entity's response to the scrutiny	Mandatory	64
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	67
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	68
17AG(3)(c)	Information on any capability reviews on the entity that were released during the period	If applicable, mandatory	68
Management of human resources			
17AG(4)(a)	An assessment of the entity's effectiveness in managing and developing employees to achieve entity objectives	Mandatory	102
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	85-87, 110
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	93
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	93
17AG(4)(c)(ii)	The salary ranges available for APS employees by classification level	Mandatory	94
17AG(4)(c)(iii)	A description of non-salary benefits provided to employees	Mandatory	94
17AG(4)(d)(i)	Information on the number of employees at each classification level who received performance pay	If applicable, mandatory	95
17AG(4)(d)(ii)	Information on aggregate amounts of performance pay at each classification level	If applicable, mandatory	95
17AG(4)(d)(iii)	Information on the average amount of performance payment, and range of such payments, at each classification level	If applicable, mandatory	95
17AG(4)(d)(iv)	Information on the aggregate amount of performance payments	If applicable, mandatory	95
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	118
Purchasing			
17AG(6)	An assessment of entity performance against the Commonwealth Procurement Rules	Mandatory	118
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 '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].'	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

PGPA Rule reference	Description	Requirement	Page number
17AG(7)(d)	A statement that '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.'	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	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 Freedom of Information 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	69
Small business			
17AG(10)(a)	A statement that '[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.'	Mandatory	118
17AG(10)(b)	An outline of the ways in which the procurement practices of the entity support small and medium-sized enterprises	Mandatory	118
17AG(10)(c)	If the entity is considered by the department administered by the Finance Minister as material in nature—a statement that '[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.'	If applicable, mandatory	118
Financial statements			
17AD(e)	Inclusion of the annual financial statements in accordance with subsection 43(4) of the PGPA Act	Mandatory	145
17AD(f) Other mandatory information			
17AH(1)(a)(i)	If the entity conducted advertising campaigns, a statement that '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.'	If applicable, mandatory	133
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 'Information on grants awarded by [name of entity] during [reporting period] is available at [address of entity's website].'	If applicable, mandatory	132
17AH(1)(c)	Outline of mechanisms of disability reporting, including reference to website for further information	Mandatory	112
17AH(1)(d)	Website reference to where the entity's Information Publication Scheme statement pursuant to Part II of Freedom of Information Act can be found	Mandatory	229
17AH(1)(e)	Correction of material errors in previous annual report	If applicable, mandatory	136
17AH(2)	Information required by other legislation	Mandatory	89, 105, 127, 134

Abbreviations and acronyms

AATA	Administrative Appeals Tribunal
ADF	Australian Defence Force
ADFDAT	Defence Force Discipline Appeal Tribunal
ANAO	Australian National Audit Office
ANZAC	Australia and New Zealand Army Corps
ANZUS Treaty	The Australia, New Zealand and United States Security Treaty
APS	Australian Public Service
ASEAN	Association of Southeast Asian Nations
CASG	Capability, Acquisition and Sustainment Group
DIIS	Department of Industry, Innovation and Science
EL	Executive Level
FCA	Federal Court of Australia
FCAFC	Federal Court of Australia Full Court
GST	Goods and Services Tax
HMAS	Her Majesty's Australian Ship
HMA Ships	Her Majesty's Australian Ships
MP	Member of Parliament
PAES	Portfolio Additional Estimates Statements
PBS	Portfolio Budget Statements
PFAS	Per- and Poly-Fluoroalkyl Substances
PGPA Act	<i>Public Governance, Performance and Accountability Act 2013</i>
PGPA Rule	<i>Public Governance, Performance and Accountability Rule 2014</i>
RVS	Royal Vanuatu Ship
SES	Senior Executive Service
UAS	Unmanned Aerial System
USS	United States Ship

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