

Defence SA

Financial report
for the year
ended 30 June
2021



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To the Chief Executive Defence SA

Opinion

I have audited the financial report of Defence SA for the financial year ended 30 June 2021.

In my opinion, the accompanying financial report gives a true and fair view of the financial position of Defence SA as at 30 June 2021, its financial performance and its cash flows for year then ended in accordance with relevant Treasurer's Instructions issued under the provisions of the *Public Finance and Audit Act 1987* and Australian Accounting Standards.

The financial report comprises:

- a Statement of Comprehensive Income for the year ended 30 June 2021
- a Statement of Financial Position as at 30 June 2021
- a Statement of Changes in Equity for the year ended 30 June 2021
- a Statement of Cash Flows for the year ended 30 June 2021
- notes, comprising significant accounting policies and other explanatory information
- a Certificate from the Chief Executive and the Manager, Finance.

Basis for opinion

I conducted the audit in accordance with the *Public Finance and Audit Act 1987* and Australian Auditing Standards. My responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial report' section of my report. I am independent of Defence SA. The *Public Finance and Audit Act 1987* establishes the independence of the Auditor-General. In conducting the audit, the relevant ethical requirements of APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* have been met.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the Chief Executive for the financial report

The Chief Executive is responsible for the preparation of the financial report that gives a true and fair view in accordance with relevant Treasurer's Instructions issued under the provisions of the *Public Finance and Audit Act 1987* and Australian Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of the financial report that gives a true and fair view and that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Chief Executive is responsible for assessing the entity's ability to continue as a going concern, taking into account any policy or funding decisions the government has made which affect the continued existence of the entity. The Chief Executive is also responsible for disclosing, as applicable, matters related to going concern 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 report

As required by section 31(1)(b) of the *Public Finance and Audit Act 1987*, I have audited the financial report of Defence SA for the financial year ended 30 June 2021.

My objectives are to obtain reasonable assurance about whether the financial report as a whole is 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 Australian 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 this financial report.

As part of an audit in accordance with Australian 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 report, 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 Defence SA's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Chief Executive
- conclude on the appropriateness of the Chief Executive'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 report or, if such disclosures are inadequate, to modify the opinion. My conclusion is based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause an entity to cease to continue as a going concern

- evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

My report refers only to the financial report described above and does not provide assurance over the integrity of electronic publication by the entity on any website nor does it provide an opinion on other information which may have been hyperlinked to/from the report.

I communicate with the Chief Executive about, 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 the audit.




Andrew Richardson
Auditor-General
17 September 2021

DEFENCE SA

Certification of the Financial Statements


We certify that the:

- financial statements for Defence SA:
 - are in accordance with the accounts and records of Defence SA;
 - comply with relevant Treasurer's Instructions;
 - comply with relevant accounting standards; and
 - present a true and fair view of the financial position of Defence SA at the end of the financial year and the result of its operation and cash flows for the financial year.
- internal controls employed by Defence SA for the financial year over its financial reporting and its preparation of financial statements have been effective.



Richard Price
Chief Executive

September 2021



Peter Murdoch
Manager Finance

September 2021

1 About Defence SA

Defence SA is a not-for-profit government agency of the State of South Australia, established pursuant to the *Public Sector Act 2009*. Defence SA is an administrative unit acting on behalf of the Crown.

Defence SA does not control any other entity and has no interests in unconsolidated structured entities.

Defence SA administers the ANZAC Day Commemoration Fund established pursuant to the *ANZAC Day Commemoration Act 2005*. Financial information is presented in note 10.

1.1 Basis of preparation

The financial statements are general purpose financial statements prepared in compliance with:

- section 23 of the *Public Finance and Audit Act 1987*;
- Treasurer's Instructions and Accounting Policy Statements issued by the Treasurer under the *Public Finance and Audit Act 1987*; and
- relevant Australian Accounting Standards with reduced disclosure requirements.

The financial statements have been prepared based on a 12 month reporting period and presented in Australian currency.

The historical cost convention is used unless a different measurement basis is specifically disclosed in the note associated with that item.

Income, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods or services is not recoverable from the Australian Taxation Office (ATO), in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item applicable; and
- receivables and payables, which are stated with the amount of GST included.

Assets and liabilities that are to be sold, consumed or realised as part of the normal operating cycle have been classified as current assets or current liabilities. All other assets and liabilities are classified as non-current.

All amounts in the financial statements and accompanying notes have been rounded to the nearest thousand dollars (\$'000).

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from the investing and financing activities, which is recoverable from, or payable to the ATO is classified as part of operating cash flows.

1.2 Objectives and programs

Defence SA is South Australia's lead government agency for all defence and space related matters. Defence SA's mission is to continue maximising investment and jobs from the Australian Defence Force and space and defence industries. Defence SA is the Government of South Australia's single point of contact for all defence and space stakeholders, streamlining their interaction with the state government. Working closely with the Australian Government and industry, Defence SA targets investment and expansion opportunities, drives and supports the delivery of major projects and facilities, and pursues the location of additional Defence units and defence and space capabilities within the state.

Defence SA plays a key role in supporting the Australian Government's strategic defence policy through increasing local industry participation and ensuring state-of-the-art infrastructure and a highly skilled, industry-ready workforce is in place to underpin defence projects.

Defence SA is working towards capturing further investment opportunities in the shipbuilding, cyber and systems, defence science and research and space domains.

In achieving its objectives Defence SA provides a range of services classified into the following programs:

Program 1 - Defence Industry Development

This program delivers strategy and policy development that provides leadership across government on all defence related matters.

It targets national and international business development opportunities, seeks to maximise local industry participation and ensures that a highly skilled, industry-ready workforce is in place and the necessary infrastructure exists to underpin major Defence projects.

This program seeks to support the growth of Defence and sustainable defence industries in South Australia across shipbuilding, aerospace, information warfare and defence science and research domains.

The program also incorporates the state's initiatives to promote the growth of defence research and development activity in South Australia through the Defence Innovation Partnership established in collaboration with the Australian Government and the three South Australian universities.

The agency's administrative, financial and operational services are also included within this program.

Program 2 - South Australian Space Industry Centre

The South Australian Space Industry Centre (SASIC) provides a whole-of-state-government focal point for both local industry and international companies and organisations. SASIC coordinates and implements industry and workforce development through initiatives, events, scholarships and an incubator program. SASIC's vision is to build a thriving and enduring South Australian space ecosystem, supporting Australia's national space strategy, building on the opportunities of NewSpace.

A four-year, \$4.000 million Space Innovation Fund is responsible for invigorating South Australia's space innovation ecosystem by supporting promising entrepreneurs, new start-ups and early stage businesses to scale-up and activate their ideas.

1.2 Objectives and programs (continued)*Program 3 - Veterans SA*

Veterans SA works with state, national and community partners to support those who are currently serving along with reservists and those who have served, and their families, to live fulfilled lives in South Australia.

As the lead advocate across the Government of South Australia on matters relating to veterans and their families, Veterans SA works with ex service organisations and civic groups who provide support to members of the community when and where it is needed most.

The agency also plays a role in sharing information on services and programs across South Australia available to families and those who have served in the Australian Defence Force. Veterans SA works with the veteran community to ensure commemorative events are supported and occasions of military and historical significance are remembered and preserved.

Veterans SA supports the Veterans' Advisory Council, which provides independent advice to the Premier, on matters of concern to the ex service community in South Australia.

DEFENCE SA

STATEMENT OF COMPREHENSIVE INCOME**for the year ended 30 June 2021**

	Note	2021 \$' 000	2020 \$' 000
Income			
Appropriation	2.1	14,878	20,105
Fees and charges	2.2	405	339
Grants	2.3	7,404	653
Recoveries	2.4	185	841
Resources received free of charge	2.5	65	53
Total income		22,937	21,991
Expenses			
Employee benefits expenses	3.3	4,466	4,224
Supplies and services	4.1	3,114	3,499
Depreciation	4.2	457	272
Grants and subsidies	4.3	9,625	6,859
Interest on leases	4.4	43	28
Resources received free of charge	2.5	65	53
Cash alignment transfers to Consolidated Account		7,064	1,913
Other expenses	4.5	53	435
Total expenses		24,887	17,283
Net result		(1,950)	4,708
Total comprehensive result		(1,950)	4,708

The accompanying notes form part of these financial statements.

The net result and total comprehensive result are attributable to the South Australian Government as owner.

DEFENCE SA

STATEMENT OF FINANCIAL POSITIONas at 30 June 2021

	Note	2021 \$' 000	2020 \$' 000
Current assets			
Cash	6.1	13,129	14,968
Receivables	6.2	427	390
Total current assets		<u>13,556</u>	<u>15,358</u>
Non-current assets			
Property, plant and equipment	5.1	3,070	3,527
Total non-current assets		<u>3,070</u>	<u>3,527</u>
Total assets		<u>16,626</u>	<u>18,885</u>
Current liabilities			
Payables	7.1	2,230	2,213
Lease liabilities	7.2	340	395
Unearned revenue	7.3	361	324
Employee benefits	3.4	697	677
Provisions	7.4	5	4
Total current liabilities		<u>3,633</u>	<u>3,613</u>
Non-current liabilities			
Payables	7.1	12	12
Lease liabilities	7.2	2,831	3,170
Employee benefits	3.4	197	190
Provisions	7.4	11	8
Total non-current liabilities		<u>3,051</u>	<u>3,380</u>
Total liabilities		<u>6,684</u>	<u>6,993</u>
Net assets		<u>9,942</u>	<u>11,892</u>
Equity			
Retained earnings		9,942	11,892
Total equity		<u>9,942</u>	<u>11,892</u>

The accompanying notes form part of these financial statements.

The total equity is attributable to the South Australian Government as owner.

DEFENCE SA

STATEMENT OF CHANGES IN EQUITY**for the year ended 30 June 2021**

	Retained earnings \$' 000	Total equity \$' 000
Balance at 1 July 2019	7,313	7,313
Total comprehensive result for 2019-20	4,708	4,708
Transactions with SA Government as owner		
Net liabilities transferred as a result of an administrative restructure	(129)	(129)
Balance at 30 June 2020	11,892	11,892
Total comprehensive result for 2020-21	(1,950)	(1,950)
Balance at 30 June 2021	9,942	9,942

The accompanying notes form part of these financial statements.

All changes in equity are attributable to the South Australian Government as owner.

DEFENCE SA

STATEMENT OF CASH FLOWSfor the year ended 30 June 2021

	Note	2021 \$' 000	2020 \$' 000
Cash flows from operating activities			
Cash inflows			
Appropriation		14,880	20,105
Fees and charges		490	348
Grants		7,468	674
Recoveries		287	1,097
GST recovered from the ATO		1,117	699
Other receipts		22	14
Cash generated from operations		<u>24,264</u>	<u>22,937</u>
Cash outflows			
Employee benefits payments		(4,439)	(4,318)
Payments for supplies and services		(3,177)	(4,338)
Payments of grants and subsidies		(10,906)	(6,231)
Interest payments on leases		(43)	(28)
Cash alignment transfers to Consolidated Account		(7,064)	(1,913)
Other payments		(25)	(8)
Cash used in operations		<u>(25,654)</u>	<u>(16,836)</u>
Net cash provided by/(used in) operating activities		<u>(1,390)</u>	<u>6,101</u>
Cash flows from financing activities			
Cash outflows			
Payment of principal portion of lease liabilities		(449)	(285)
Cash used in financing activities		<u>(449)</u>	<u>(285)</u>
Net cash used in financing activities		<u>(449)</u>	<u>(285)</u>
Net increase/(decrease) in cash		<u>(1,839)</u>	<u>5,816</u>
Cash at the beginning of the period		14,968	9,152
Cash at the end of the period	6.1	<u>13,129</u>	<u>14,968</u>

The accompanying notes form part of these financial statements.

DEFENCE SA

NOTE INDEX

	Note
About Defence SA	1
Basis of preparation	1.1
Objectives and programs	1.2
Impact of COVID-19 pandemic on Defence SA	1.3
Budget performance	1.4
Income	2
Appropriation	2.1
Fees and charges	2.2
Grants	2.3
Recoveries	2.4
Resources received free of charge	2.5
Advisory Board, Council and employees	3
Key management personnel	3.1
Advisory Board, Council and employees	3.2
Employee benefits expenses	3.3
Employee benefits liability	3.4
Expenses	4
Supplies and services	4.1
Depreciation	4.2
Grants and subsidies	4.3
Interest on leases	4.4
Other expenses	4.5
Property, plant and equipment	5
Property, plant and equipment by asset class	5.1
Property, plant and equipment owned by Defence SA	5.2
Property, plant and equipment leased by Defence SA	5.3
Financial assets	6
Cash	6.1
Receivables	6.2
Liabilities	7
Payables	7.1
Lease liabilities	7.2
Unearned revenue	7.3
Provisions	7.4
Outlook	8
Unrecognised commitments	8.1
Expected rental income	8.2
Contingent assets and contingent liabilities	8.3
COVID-19 pandemic outlook for Defence SA	8.4
Events after the reporting period	8.5
Measurement and Risk	9
Long service leave liability - measurement	9.1
Fair value	9.2
Financial instruments	9.3
Administered Item	10
ANZAC Day Commemoration Fund	10.1

DEFENCE SA

1.2 Objectives and programs (continued)

Expenses and income by program

for the year ended 30 June 2021

	Defence Industry Development		South Australian Space Industry Centre		Veterans SA		Total Defence SA	
	2021 \$' 000	2020 \$' 000	2021 \$' 000	2020 \$' 000	2021 \$' 000	2020 \$' 000	2021 \$' 000	2020 \$' 000
Income								
Appropriation ⁽¹⁾	14,878	20,105	-	-	-	-	14,878	20,105
Fees and charges	127	83	278	256	-	-	405	339
Grants	2,289	517	4,854	-	261	136	7,404	653
Recoveries	79	460	106	381	-	-	185	841
Resources received free of charge	65	53	-	-	-	-	65	53
Total income	17,438	21,218	5,238	637	261	136	22,937	21,991
Expenses								
Employee benefits expenses	3,151	3,084	526	514	789	626	4,466	4,224
Supplies and services	2,014	2,519	736	808	364	172	3,114	3,499
Depreciation	90	66	367	206	-	-	457	272
Grants and subsidies	5,247	5,138	3,840	1,206	538	515	9,625	6,859
Interest on leases	1	1	42	27	-	-	43	28
Resources received free of charge	65	53	-	-	-	-	65	53
Cash alignment transfers to Consolidated Account ⁽¹⁾	7,064	1,913	-	-	-	-	7,064	1,913
Other expenses	53	330	-	-	-	105	53	435
Total expenses	17,685	13,104	5,511	2,761	1,691	1,418	24,887	17,283
Net result	(247)	8,114	(273)	(2,124)	(1,430)	(1,282)	(1,950)	4,708

⁽¹⁾ Appropriation and cash alignment transfer are not allocated between activities.

DEFENCE SA

1.2 Objectives and programs (continued)

Assets and liabilities by program

as at 30 June 2021

	Defence Industry Development		South Australian Space Industry Centre		Veterans SA		Total Defence SA	
	2021 \$' 000	2020 \$' 000	2021 \$' 000	2020 \$' 000	2021 \$' 000	2020 \$' 000	2021 \$' 000	2020 \$' 000
Assets								
Cash ⁽¹⁾	13,129	14,968	-	-	-	-	13,129	14,968
Receivables	238	230	133	128	56	32	427	390
Property, plant and equipment	25	115	3,045	3,412	-	-	3,070	3,527
Total assets	13,392	15,313	3,178	3,540	56	32	16,626	18,885
Liabilities								
Payables	1,144	1,417	934	752	164	56	2,242	2,225
Lease liabilities	26	115	3,145	3,450	-	-	3,171	3,565
Unearned revenue	329	272	32	52	-	-	361	324
Employee benefits	607	584	134	128	153	155	894	867
Provisions	16	12	-	-	-	-	16	12
Total liabilities	2,122	2,400	4,245	4,382	317	211	6,684	6,993
Net assets	11,270	12,913	(1,067)	(842)	(261)	(179)	9,942	11,892

⁽¹⁾ Cash has not been allocated between activities.

DEFENCE SA

1.3 Impact of COVID-19 pandemic on Defence SA

The COVID-19 pandemic has not had a material impact on Defence SA's operations.

1.4 Budget performance

The budget performance table compares Defence SA's outcomes against budget information presented to Parliament (*2020-21 Budget Paper 4*). The budget amounts have not been adjusted to reflect revised budgets or administrative restructures. The budget process is not subject to audit.

Statement of Comprehensive Income	Note	Original budget 2021 \$' 000	Actual 2021 \$' 000	Variance ⁽¹⁾ 2021 \$' 000
Income				
Appropriation		14,880	14,878	(2)
Fees and charges		318	405	87
Grants	(a)	4,698	7,404	2,706
Recoveries		-	185	185
Resources received free of charge		-	65	65
Other income		222	-	(222)
Total income		20,118	22,937	2,819
Expenses				
Employee benefits expenses		4,722	4,466	256
Supplies and services		2,913	3,114	(201)
Depreciation		455	457	(2)
Grants and subsidies	(b)	13,959	9,625	4,334
Interest on leases		43	43	-
Resources received free of charge		-	65	(65)
Cash alignment transfers to Consolidated Account		7,064	7,064	-
Other expenses		96	53	43
Total expenses		29,252	24,887	4,365
Net result		(9,134)	(1,950)	7,184
Total comprehensive result		(9,134)	(1,950)	7,184

⁽¹⁾ The use of brackets identifies an adverse variance

Explanations are provided for variances where the variance exceeds the greater of 10% of the original budgeted amount and 5% of original budgeted total expenses.

- (a) The \$2.706 million grant income variance relates to funding from the Economic Business Growth Fund for the SASAT1 Space Services Mission project and bringing forward funding for milestones achieved earlier than expected for industry assistance programs.
- (b) The \$4.334 million grant expenditure variance is due to delays in achievement of program milestones by the recipients.

DEFENCE SA

2 Income

Defence SA is primarily funded through appropriations received from the South Australian Government. Other income sources include grant funding from other South Australian Government departments and other organisations, event participation revenue, rental income and cost recoveries.

Income is recognised in line with Australian Accounting Standards AASB 15 and AASB 1058 as relevant to the nature of the transaction.

2.1 Appropriation

	2021 \$' 000	2020 \$' 000
Appropriation		
Appropriation from Consolidated Account pursuant to the <i>Appropriation Act 2020</i>	14,878	20,105
Total appropriation	14,878	20,105

Appropriations are recognised on receipt.

2.2 Fees and charges

	2021 \$' 000	2020 \$' 000
Event participation fees	93	125
Rental income	51	28
Service fees	161	55
Event sponsorships	100	131
Total fees and charges	405	339

2.3 Grants

	2021 \$' 000	2020 \$' 000
Grants received from South Australian Government entities	780	378
Contingency funding provided by the Department of Treasury and Finance	-	10
Funding allocated from the Economic Business Growth Fund	6,054	-
Australian Government sourced grants	330	250
Other	240	15
Total grants	7,404	653

2.4 Recoveries

	2021 \$' 000	2020 \$' 000
Defence Innovation Partnership recoveries	60	135
Property recoveries	-	279
Industry assistance grants recovered	19	325
Other recoveries	106	102
Total recoveries	185	841

2.5 Resources received free of charge

	2021 \$' 000	2020 \$' 000
Services received free of charge from Shared Services SA	65	53
Total resources received free of charge	65	53

3 Advisory Board, Council and employees

3.1 Key management personnel

Key management personnel of Defence SA include the Premier, the Chief Executive and members of the Executive Team who have the responsibility for the strategic direction and management of Defence SA.

Total compensation paid by Defence SA for key management personnel was \$1.274 million (\$1.128 million). The compensation disclosed in this note excludes salaries and other benefits the Premier receives. The Premier's remuneration and allowances are set by the *Parliamentary Remuneration Act 1990* and the Remuneration Tribunal of SA respectively and are payable from the Consolidated Account (via the Department of Treasury and Finance) under section 6 of the *Parliamentary Remuneration Act 1990*.

Transactions with key management personnel and other related parties

There were no transactions to disclose between Defence SA and any Key Management Personnel and their related parties.

3.2 Advisory Board, Council members and employees

Defence SA Advisory Board

The Defence SA Advisory Board (Board) plays a key role in guiding the state's defence industry strategy and provides high-level advice to the South Australian Government to promote the growth of the defence industry in South Australia.

The Board has a core skills base made up of strategic defence expertise and networking capability across the full range of defence capabilities and extensive knowledge of the tertiary education and research sector. Defence SA has recruited board members from Defence, defence industry and organisations involved in research providing unique skills and experience to facilitate industry engagement with a view to attracting major Defence projects to the State.

Veterans Advisory Council

The Veterans Advisory Council provides strategic and policy advice to the South Australian Government on behalf of the veteran's community, investigates matters referred by the Premier (who is responsible for Veterans' Affairs) for response on behalf of the veterans community and provides advice to the public on behalf of the Premier on veterans related events, programs, projects and funding opportunities. The Council is also responsible for providing recommendations to the Premier regarding the expenditure of annual grant funding for the Anzac Day Commemoration Fund. Appointments are made by the Premier based on an individual's experience and connection with the community of those who have served and their families.

DEFENCE SA

3.2 Advisory Board and Council members (continued)

Members of the Defence SA Advisory Board during the financial year were:

ACM Sir A Houston AK AFC (Ret'd) (Chair)
Hon S Marshall MP Premier⁽¹⁾
VADM R Crane AO CSM RANR (Ret'd)
S Ludlam FREng
M Davis AM
AVM Alan Clements CSC (commenced 1 September 2020)
R Price⁽²⁾

Members of the Veterans Advisory Council during the financial year were:

COL S Neuhaus AM CSC (Ret'd) (Chair)
COL C Burns CSC (Rsv)
C Cates
CMDR A Cooper ADC RAN ⁽⁴⁾
Dr P Dabovich (retired 31 December 2020)
AIRCDRE M Forster CSM (Rsv)⁽²⁾
J Godwin (Deputy Chair)
LTCOL A Gower (retired 31 December 2020)⁽⁴⁾
J Hanrahan
MAJ S Heidenreich (Rsv)
R Kemp OAM (retired 31 December 2020)
N Klinge
F Lampard OAM⁽³⁾
Dr S Mascall-Dare (retired 31 December 2020)
J Milham
J O'Hanlon (retired 31 December 2020)
AIRCDRE B Rogers CSC CSM (retired 31 December 2020)⁽⁴⁾
M Thiele⁽³⁾
C Tilley⁽²⁾
AIRCDRE R Bender (appointed 5 March 2021)⁽⁴⁾
LTCOL T Orders (appointed 5 March 2021)⁽⁴⁾

⁽¹⁾ The Premier the Hon Stephen Marshall MP did not receive any remuneration for board duties during the period.

⁽²⁾ Pursuant to the Department of the Premier and Cabinet Circular PC016, government employees did not receive any remuneration for board duties during the financial year.

⁽³⁾ Elected not to receive any remuneration for council duties during the financial year.

⁽⁴⁾ Ex-Officio Australian Defence Force members did not receive any remuneration for council duties during the financial year.

Advisory Board and Council remuneration

The number of members whose remuneration received or receivable falls within the following bands is:

	2021	2020
	No.	No.
\$1 to \$19 999	12	20
\$20 000 to \$39 999	4	3
\$60 000 to \$79 999	1	1
Total number of members	17	24

Total remuneration received or receivable, by board and council members was: \$214 000 (;\$198 000).

Remuneration of members includes sitting fees, superannuation contributions, salary sacrifice benefits, fringe benefits and related fringe benefits tax.

DEFENCE SA

3.3 Employee benefits expenses

	2021	2020
	\$' 000	\$' 000
Salaries and wages	3,318	3,239
Targeted Voluntary Separation Packages	37	-
Long service leave	44	(59)
Annual leave	274	251
Skills and experience retention leave	11	12
Employment on-costs - superannuation ⁽¹⁾	362	353
Employment on-costs - other	206	201
Fees paid to Advisory Board and Council members (refer note 3.2)	193	176
Workers compensation	4	(13)
Other employee related expenses	17	64
Total employee benefits expenses	4,466	4,224

⁽¹⁾ The superannuation employment on-cost charge represents Defence SA's contribution to superannuation plans in respect of current services of current employees.

Executive remuneration

	2021	2020
	\$' 000	\$' 000
The number of employees whose remuneration received or receivable falls within the following bands:		
	No	No
\$154 001 to \$174 000	3	-
\$174 001 to \$194 000	1	1
\$194 001 to \$214 000	2	2
\$214 001 to \$234 000	2	-
\$234 001 to \$254 000	1	1
\$274 001 to \$294 000	-	1
\$334 001 to \$354 000	1	1
Total number of employees	10	6

The total remuneration received by those employees for the year was \$2.100 million (\$1.500 million).

The table includes all employees who received remuneration equal to or greater than the base executive remuneration level during the year.

Remuneration of employees reflects all costs of employment including salaries and wages, payments in lieu of leave, superannuation contributions, salary sacrifice benefits and fringe benefits and any fringe benefits tax paid or payable in respect of those benefits as well as any termination benefits for employees who have left Defence SA.

The number of executives receiving remuneration in excess of \$154 000 was significantly lower in 2019-20 than is normal for Defence SA operations due to executives either leaving or commencing with Defence SA during the year and their part year remuneration falling under the reporting threshold.

Targeted voluntary separation packages

The number of employees who received a targeted voluntary separation package during the reporting period was 1 (nil).

	2021	2020
	\$' 000	\$' 000
Amount paid to separated employees:		
Targeted Voluntary Separation Packages	37	-
Leave paid to those employees	12	-
Total Targeted Voluntary Separation Packages	49	-

DEFENCE SA

3.4 Employee benefits liability

	2021	2020
	\$' 000	\$' 000
Current		
Accrued salaries and wages	104	94
Annual leave	240	237
Long service leave	333	325
Skills and experience retention leave	20	21
Total current employee benefits liability	<u>697</u>	<u>677</u>
Non-current		
Long service leave	197	190
Total non-current employee benefits liability	<u>197</u>	<u>190</u>
Total employee benefits liability	<u>894</u>	<u>867</u>

Employee benefits accrue as a result of services provided up to the reporting date that remain unpaid.

Long-term employee benefits are measured at present value and short term employee benefits are measured at nominal amounts.

Salaries and wages, annual leave, skills and experience retention leave and sick leave

The liability for salary and wages is measured as the amount unpaid at the reporting date at remuneration rates current at the reporting date.

The annual leave liability and the skills and experience retention leave liability is expected to be payable within 12 months and is measured at the undiscounted amount expected to be paid.

No provision has been made for sick leave as all sick leave is non-vesting and the average sick leave expected to be taken in future years by employees is estimated to be less than the annual entitlement for sick leave.

Long service leave

The liability for long service leave is measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method.

Details about the measurement of long service leave liability is provided in [note 9.1](#).

DEFENCE SA

4 Expenses

Employee benefits expenses are disclosed in [note 3.3](#).

4.1 Supplies and services

	2021	2020
	\$' 000	\$' 000
Promotion and events	1,266	1,025
Contractors	815	868
Accommodation and service costs	362	336
Property	67	316
Provision of corporate services under Service Level Agreements	224	196
Travel and related expenses	40	168
Consultants	43	136
Legal fees	13	111
Staff safety, development and recruitment	45	63
Service recoveries paid to South Australian Government entities	20	5
Other expenses	219	275
Total supplies and services	3,114	3,499

Accommodation

Defence SA's office accommodation is provided by the Department for Infrastructure and Transport under a Memorandum of Administrative Arrangement (MoAA), issued in accordance with Government-wide accommodation policies. MoAA do not meet the definition of leases set out in AASB 16.

Consultants

The number of consultancies and dollar amount paid/payable that fell within the following bands:

	2021		2020	
	No	\$' 000	No	\$' 000
\$10 000 and above	1	43	1	136
Total paid/payable to the consultants engaged	1	43	1	136

4.2 Depreciation

	2021	2020
	\$' 000	\$' 000
Right of use buildings and improvements	448	262
Right of use vehicles	6	7
Plant and equipment	3	3
Total depreciation	457	272

All non-current assets, with a limited useful life are systematically depreciated/amortised over their useful lives in a manner that reflects the consumption of their service potential.

Useful life

Depreciation/amortisation is calculated on a straight line basis over the estimated useful life of the classes of assets as follows:

Class of asset	Useful life (years)
Right of use buildings and improvements	2 - 10
Right of use vehicles	3
Leasehold improvements	8
Plant and equipment	4

Review of accounting estimates

Assets' residual values, useful lives and depreciation and amortisation methods are reviewed and adjusted if appropriate, on an annual basis.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the time period or method, as appropriate.

DEFENCE SA

4.3 Grants and subsidies

	2021	2020
	\$' 000	\$' 000
Air Warfare Destroyer program	-	1,084
Industry development	1,329	1,550
Industry assistance	3,300	2,572
Research programs	1,617	906
Support for the Veterans community	438	415
Intra-government payments	2,941	332
Total grants and subsidies	9,625	6,859

4.4 Interest on leases

	2021	2020
	\$' 000	\$' 000
Buildings and improvements	43	28
Total interest on leases	43	28

4.5 Other expenses

	2021	2020
	\$' 000	\$' 000
Audit fees - Auditor General	43	41
Internal audit	40	38
Bad debts	69	-
Allowances for doubtful debts (refer note 6.2)	(139)	-
Impairment losses on non-financial assets	-	106
Other ⁽¹⁾	40	250
Total other expenses	53	435

⁽¹⁾During 2019-20 Defence SA reimbursed \$250 000 to Australian Naval Infrastructure Pty Ltd being the purchase price of a parcel of land at Osborne in accordance with the Memorandum of Understanding.

DEFENCE SA

5 Property, plant and equipment

5.1 Property, plant and equipment by asset class

	2021	2020
	\$' 000	\$' 000
Right of use assets		
Right of use buildings and improvements		
Right of use buildings and improvements at cost	3,779	3,779
Accumulated depreciation at the end of the period	<u>(710)</u>	<u>(262)</u>
Total right of use buildings and improvements	<u>3,069</u>	<u>3,517</u>
Right of use vehicles		
Right of use vehicles at cost	14	14
Accumulated depreciation at the end of the period	<u>(13)</u>	<u>(7)</u>
Total right of use vehicles	<u>1</u>	<u>7</u>
Total right of use assets	<u>3,070</u>	<u>3,524</u>
Leasehold improvements		
Leasehold improvements at cost	884	884
Accumulated amortisation at the end of the period	<u>(884)</u>	<u>(884)</u>
Total leasehold improvements	<u>-</u>	<u>-</u>
Plant and equipment		
Plant and equipment at cost	14	14
Accumulated depreciation at the end of the period	<u>(14)</u>	<u>(11)</u>
Total plant and equipment	<u>-</u>	<u>3</u>
Total property, plant and equipment	<u>3,070</u>	<u>3,527</u>
Total property, plant and equipment at cost	4,691	4,691
Total accumulated depreciation/amortisation at the end of the period	<u>(1,621)</u>	<u>(1,164)</u>
Total property, plant and equipment	<u>3,070</u>	<u>3,527</u>

Reconciliation 2020-21

	Right of use	Plant and equipment	Total assets
Carrying amount at 1 July 2020	3,524	3	3,527
Depreciation	<u>(454)</u>	<u>(3)</u>	<u>(457)</u>
Carrying amount at 30 June 2021	<u>3,070</u>	<u>-</u>	<u>3,070</u>

5.2 Property, plant and equipment owned by Defence SA

Property, plant and equipment with a value equal to or in excess of \$10 000 is capitalised, otherwise it is expensed.

Property, plant and equipment is recorded at fair value. Detail about Defence SA's approach to fair value is set out in [note 9.2](#).

Impairment

Property, plant and equipment owned by Defence SA has not been assessed for impairment as they are non-cash generating assets, that are held for continual use of their service capacity.

DEFENCE SA

5.3 Property, plant and equipment leased by Defence SA

Right-of-use assets for property, plant and equipment leased by Defence SA as lessee are measured at cost. Short-term leases of 12 months or less and low value leases where the underlying asset value is less than \$15 000 are not recognised as right-of-use assets. The associated lease payments are recognised as an expense and are disclosed as accommodation costs in [note 4.1](#).

Defence SA has a limited number of leases consisting of:

- One motor vehicle lease with the South Australian Government Financing Authority (SAFA). Motor vehicle leases are non-cancellable, with rental payments monthly in arrears. Motor vehicle lease terms can range from three years (60 000 km) up to five years (100 000 km). No contingent rental provisions exist within these lease agreements and no options exist to renew the lease at the end of the term.
- Office space within Lot Fourteen leased from Renewal SA. This space is utilised by the Space Innovation Precinct and the Defence and Space Landing Pad. The Space Innovation Precinct is occupied by the Australian Space Agency and other key space organisations. The Defence and Space Landing Pad provides a facility for international companies to explore the opportunity to establish operations in South Australia's thriving defence and space sectors.

The lease liabilities related to the right-of-use assets are disclosed in [note 7.2](#). Defence SA's maturity analysis of its lease liabilities is disclosed in [note 9.3](#). Expenses related to leases, including depreciation and interest expenses, are disclosed in [note 4](#).

Impairment

Property, plant and equipment leased by Defence SA has been assessed for impairment. There was no indication of impairment. No impairment loss or reversal of impairment loss was recognised.

6 Financial assets

6.1 Cash

	2021 \$' 000	2020 \$' 000
Deposits with the Treasurer		
Defence SA operating account	9,731	11,570
Accrual Appropriation Excess Funds Account	3,398	3,398
Total deposits with the Treasurer	13,129	14,968

Although Defence SA controls the funds in the Accrual Appropriation Excess Funds Account, its use must be approved by the Treasurer. Defence SA does not earn interest on its deposits with the Treasurer.

6.2 Receivables

	2021 \$' 000	2020 \$' 000
Current		
Trade receivables		
From government entities	34	180
From non-government entities	56	74
Less allowance for impairment loss on receivables	-	(153)
Total trade receivables	90	101
Statutory receivables		
GST recoverable from the ATO	240	218
Total statutory receivables	240	218
Prepayments	97	71
Total current receivables	427	390

Receivables arise in the normal course of business. Receivables are normally settled within 30 days after the issue of an invoice or the goods/services have been provided under a contractual arrangement. Receivables, prepayments and accrued revenues are non-interest bearing.

The movement in allowance for impairment loss on receivables during the period resulted from settlement of the outstanding doubtful debt (refer [note 4.5](#)).

Collectability of receivables is reviewed on an ongoing basis. Bad debts are written off when identified. Refer to [note 9.3](#) for details regarding credit risk and the methodology for determining impairment.

DEFENCE SA

7 Liabilities

Employee benefits liabilities are disclosed in [note 3.4](#).

7.1 Payables

	2021 \$' 000	2020 \$' 000
Current		
Trade creditors and accrued expenses		
From government entities	205	109
From non-government entities	1,905	1,989
Total trade creditors and accrued expenses	<u>2,110</u>	<u>2,098</u>
Statutory payables		
GST payable	17	7
Employment on-costs	101	102
Paid parental leave scheme payable	2	6
Total statutory payables	<u>120</u>	<u>115</u>
Total current payables	<u>2,230</u>	<u>2,213</u>
Non-current		
Statutory payables		
Employment on-costs	12	12
Total statutory payables	<u>12</u>	<u>12</u>
Total non-current payables	<u>12</u>	<u>12</u>
Total payables	<u>2,242</u>	<u>2,225</u>

Payables and accruals are raised for all amounts owing but unpaid. Sundry payables are normally settled within 30 days from the date the invoice is first received. All payables are non-interest bearing. The carrying amount of payables represents fair value due to their short-term nature.

Employment on-costs

Employment on-costs include payroll tax and superannuation contributions.

Defence SA contributes to State Government and externally managed superannuation schemes. These contributions are treated as an expense when they occur. There is no liability for payments to beneficiaries as they have been assumed by the respective superannuation schemes. The only liability outstanding at reporting date relates to any contributions due but not yet paid to these superannuation schemes.

As a result of an actuarial assessment performed by the [Department of Treasury and Finance](#), the proportion of long service leave taken as leave has remained unchanged at [42%](#) (42%) and the average factor for the calculation of employer superannuation cost on-cost has increased to [10.1%](#) (9.8%) as a result of the increase in the mandated employer superannuation contribution rate to [10.0%](#) from [1 July 2021](#).

There is no material financial effect from changes in actuarial assumptions in employment on-costs and employee benefits expense. The impact on future periods is impracticable to estimate as the long service leave liability is calculated using a number of assumptions. A key assumption is the proportion of long service leave taken as leave instead of a lump sum, a result determined by the actuary based on current period data.

DEFENCE SA

7.2 Lease liabilities

	2021 \$' 000	2020 \$' 000
Current		
Buildings and improvements	339	388
Vehicles	1	7
Total current leases	<u>340</u>	<u>395</u>
Non-current		
Buildings and improvements	2,831	3,169
Vehicles	-	1
Total non-current leases	<u>2,831</u>	<u>3,170</u>
Total leases	<u>3,171</u>	<u>3,565</u>
Movements in leases		
Carrying amount at the beginning of the period	3,565	-
Additional leases recognised	-	3,793
Lease repayments	(394)	(228)
Carrying amount at the end of the period	<u>3,171</u>	<u>3,565</u>

7.3 Unearned revenue

	2021 \$' 000	2020 \$' 000
Current		
Unearned revenue	361	324
Total current unearned revenue	<u>361</u>	<u>324</u>
Total unearned revenue	<u>361</u>	<u>324</u>

7.4 Provisions

	2021 \$' 000	2020 \$' 000
Current		
Provision for workers compensation	5	4
Total current provisions	<u>5</u>	<u>4</u>
Non-current		
Provision for workers compensation	11	8
Total non-current provisions	<u>11</u>	<u>8</u>
Total provisions	<u>16</u>	<u>12</u>
Movements in provisions		
Carrying amount at the beginning of the period	12	8
Additional provisions recognised	4	-
Reductions resulting from re-measurement	-	(12)
Veterans SA provisions transferred in	-	16
Carrying amount at the end of the period	<u>16</u>	<u>12</u>

A provision has been reported to reflect potential workers compensation claims.

The workers compensation provision is based on an actuarial assessment of the outstanding liability as at 30 June 2021 provided by a consulting actuary engaged through the Office of the Commissioner for Public Sector Employment. The provision is for the estimated cost for ongoing payments to employees as required under current legislation.

Defence SA is responsible for the payment of workers compensation claims.

8 Outlook

8.1 Unrecognised commitments

Commitments include operating and outsourcing arrangements arising from contractual sources and are disclosed at their nominal value.

Unrecognised commitments are disclosed net of the amount of GST recoverable from, or payable to the ATO. If GST is not payable to, or recoverable from the ATO, the commitments are disclosed on a gross basis.

Expenditure commitments

	2021	2020
	\$' 000	\$' 000
Within one year	11,895	8,612
Later than one year but no longer than five years	10,055	4,139
Later than five years	114	643
Total expenditure commitments	22,064	13,394

Defence SA's operating expenditure commitments are for agreements for:

- MoAA with the Department for Infrastructure and Transport for office accommodation;
- Grant and fee for service contracts for defence and space industry development.

8.2 Expected rental income

Operating lease maturity analysis

	2021	2020
	\$' 000	\$' 000
Within one year	53	51
Later than one year but no longer than five years	229	222
Later than five years	219	279
Total expected rental income	501	552

Defence SA sub-lets a portion of the Space Innovation Precinct to the Australian Space Agency.

The maturity analysis above shows the undiscounted lease income receivable after the reporting date associated with this sub-lease. These amounts are not recognised as assets.

See [note 5.3](#) for information about the right-of-use assets Defence SA leases out under operating lease.

8.3 Contingent assets and contingent liabilities

Contingent assets and contingent liabilities are not recognised in the Statement of Financial Position, but are disclosed by way of a note and, if quantifiable, are measured at nominal value.

Unrecognised contingencies are disclosed net of the amount of GST recoverable from, or payable to the ATO. If GST is not payable to, or recoverable from the ATO, the contingencies are disclosed on a gross basis.

	2021	2020
	\$' 000	\$' 000
Contingent liabilities to which a value can be assigned	-	-
Total contingent liabilities to which a value can be assigned	-	-

Contingent Liabilities to which values cannot be applied

Continuous Naval Shipbuilding

In May 2017 the state signed a Memorandum of Understanding (MoU) to transfer the Techport Australia Common User Facility and associated assets to Australian Naval Infrastructure Pty Ltd (Australian Government entity) during the 2017-18 year.

Under the MoU the state is responsible for construction of overpass(es) to provide pedestrian access to the shipyard. The value cannot be determined until designs are finalised and costing completed.

8.4 COVID-19 pandemic outlook for Defence SA

The COVID-19 pandemic is not expected to have a material impact on Defence SA's operations or financial position in [2021-22](#).

8.5 Events after the reporting period

Adjustments are made to amounts recognised in the financial statements where an event occurs after 30 June and before the date the financial statements are authorised for issue, where the event provides information about conditions that existed at 30 June.

There are no reportable events after the reporting period.

9 Measurement and risk

9.1 Long service leave liability - measurement

AASB 119 *Employee Benefits* describes the calculation methodology for long service leave liability.

The actuarial assessment performed by the Department of Treasury and Finance has provided a basis for the measurement of long service leave and is based on actuarial assumptions on expected future salary and wage levels, experience of employee departures and periods of service. These assumptions are based on employee data over SA Government entities.

AASB 119 *Employee Benefits* requires the use of the yield on long-term Australian Government bonds as the discount rate in the measurement of the long service leave liability. The yield on long-term Australian Government bonds has increased to 1.25% (0.75%).

This increase in the bond yield, which is used as the rate to discount future long service leave cash flows, results in a decrease in the reported long service leave liability.

The net financial effect of the changes to actuarial assumptions in the current financial year is a decrease in the long service leave liability of \$62 000 and employee benefits expense of \$62 000. The impact on future periods is impracticable to estimate as the long service leave liability is calculated using a number of demographical and financial assumptions including the long-term discount rate.

The actuarial assessment performed by the Department of Treasury and Finance maintained the salary inflation rate at 2.5% (2.5%) for long service leave liability. The salary inflation rate therefore had no affect on the long service leave liability.

The unconditional portion of the long service leave provision is classified as current as Defence SA does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. The unconditional portion of long service leave relates to an unconditional legal entitlement to payments arising after 10 years service.

9.2 Fair value

AASB 13 *Fair Value Measurement* defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants, in the principal or most advantageous market, at the measurement date.

Initial recognition

Non-current tangible assets are initially recorded at cost or at the value of any liabilities assumed, plus any incidental cost involved with the acquisition.

Where assets are acquired at no value, or minimal value, they are recorded at fair value in the Statement of Financial Position.

If the assets are acquired at no or nominal value as part of a restructuring of administrative arrangements then the assets are recognised at book value, (i.e. the amount recorded by the transferor public authority immediately prior to the restructure).

Revaluation

Property, plant and equipment, other than right-of-use assets are subsequently measured at fair value less accumulated depreciation.

Assets held by Defence SA have not been revalued as they are either fully written down or are of an immaterial value. The carrying value of these items are deemed to approximate fair value.

Right of use assets are only revalued when there are significant variations to the leases to which they apply.

9.3 Financial instruments

Financial risk management

Risk management is exercised by Defence SA's corporate services section.

Defence SA's risk management policies are in accordance with the *SA Government Risk Management Guide* and the principles established in the *Australian Standard Risk Management Principles and Guidelines*.

Defence SA's exposure to financial risk (liquidity risk, credit risk and market risk) is low due to the nature of financial instruments held.

Impairment of financial assets

The following financial assets of Defence SA are subject to AASB 9's expected credit loss model:

- receivables from provision of goods and services

Categorisation of financial instruments

Details of the significant accounting policies and methods adopted including the criteria for recognition, the basis of measurement, and the basis on which income and expenses are recognised with respect to each class of financial asset, financial liability and equity instrument are disclosed in the respective financial asset / financial liability note.

Classification of financial instruments

Defence SA measures all financial instruments at amortised cost.

Maturity analysis of financial instruments

Category of financial asset and financial liability	2021	2021 Contractual maturities		
	Carrying amount / fair value \$'000	Within 1 year \$'000	1-5 years \$'000	More than 5 years \$'000
Financial assets				
Cash	13,129	n/a	n/a	n/a
Receivables	56	n/a	n/a	n/a
Total financial assets	13,185			
Financial liabilities				
Payables	1,905			
Lease liabilities	3,171	340	1,798	1,033
Total financial liabilities	5,076			
Category of financial asset and financial liability	2020			
	Carrying amount \$'000			
Financial assets				
Cash	14,968			
Receivables	101			
Total financial assets	15,069			
Financial liabilities				
Payables	1,854			
Lease liabilities	3,565			
Total financial liabilities	5,419			

Statutory receivables and payables

The receivable and payable amounts disclosed here exclude amounts relating to statutory receivables and payables. This includes Australian, State and Local Government taxes and equivalents, fees and charges; Auditor General's Department audit fees. This is in addition to employee related payables such as payroll tax, Fringe Benefits Tax, Pay As You Go Withholding and ReturnToWorkSA levies. In government certain rights to receive or pay cash may not be contractual but have their source in legislation and therefore in these situations, the disclosure requirements of AASB 7 will not apply. The standard defines contracts as enforceable by law. All amounts recorded are carried at cost.

The receivables amount disclosed here excludes prepayments as they are not financial assets. Prepayments are disclosed in [note 6.2](#).

DEFENCE SA

10 Administered item**10.1 ANZAC Day Commemoration Fund**

The ANZAC Day Commemoration Fund was established under the *ANZAC Day Commemoration Act 2005*. The object of the Act is to ensure that the contribution of all men and women who have served Australia in time of war or armed conflict, or in international peace-keeping operations, in which Australia has been involved, is recognised and commemorated in this State.

	2021 \$' 000	2020 \$' 000
Income		
Grants	100	100
Other income	2	7
Total income	<u>102</u>	<u>107</u>
Expenses		
Grants and subsidies	100	93
Total expenses	<u>100</u>	<u>93</u>
Net result	<u>2</u>	<u>14</u>
Current assets		
Cash	77	75
Total current assets	<u>77</u>	<u>75</u>
Net assets	<u>77</u>	<u>75</u>
Equity		
Retained earnings	77	75
Total equity	<u>77</u>	<u>75</u>