

# **DEFENCE**

## **CHAPTER SEVEN**

### **BUDGETED FINANCIAL STATEMENTS**

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## Methods of Presenting the Defence Budget

There are three main ways of presenting the Defence budget. All three methods are consistent and are used for different purposes. The Defence budget is presented below in each of the three ways.

### METHOD 1: DEFENCE RESOURCING

The Defence resourcing method excludes administered appropriations, which are administered on Defence's behalf by other organisations. This method includes total funding appropriated by the Government to Defence plus net capital receipts and Defence's own-source revenue. It is based on Australian Accounting Standards (accrual basis). Method 1 is used in the Defence Portfolio Budget Statements and also in the Commonwealth Budget Paper 4 (Agency Resourcing).

The Defence resourcing method is derived as follows.

**Table 7.a: Method 1 – Defence Resourcing**

	<b>2007-08 \$'000</b>	<b>Reference</b>
Appropriation from Government for price of outputs	19,170,126	Table 2.1, Serial 1
Appropriation for equity injection	2,062,804	Table 2.1, Serial 2
Own-source revenue	709,226	Table 2.1, Serial 4
Net capital receipts	56,919	Table 2.1, Serial 5
<b>Total Departmental Funding</b>	<b>21,999,075</b>	Table 2.1, Serial 7

Method 1 is commonly used to measure movements in Defence's funding allocations against the previously agreed budget and forward estimates allocations. It is used in presenting the 2000 Defence White Paper commitment, and to compare methods in Defence funding since then.

### METHOD 2: UNDERLYING CASH BALANCE IMPACT

Method 2 is the sum of Defence cash flows from operating activities and net capital investment, including both departmental and administered expenditure, and is used by the Treasury to describe the Defence budget in terms of underlying cash impact. It is a measure of spending rather than resourcing, and is an estimate of the net impact of Defence spending on the whole-of-government cash balance. This number is derived on an Australian Bureau of Statistics government finance statistics cash operating payments basis, adjusted for net proceeds of asset sales returned to the Government.

A figure of \$21,361m is used in the Treasury budget overview and the Treasurer's budget speech and is derived as follows:

**Table 7.b: Method 2 – Underlying Cash Balance Impact**

	2007-08 \$m	Reference
Underlying cash baseline	20,225	Table 2.2
Australian Defence Force Retention and Recruitment - further initiatives	46	Table 2.2
Afghanistan - Australian Defence Force deployments	448	Table 2.2
Afghanistan - Australian Defence Force deployments (reimbursement costs incurred in 2006-07)	32	Table 2.2
Iraq - continued funding for stabilisation and reconstruction activities	302	Table 2.2
East Timor - continued funding to help restore peace and stability	108	Table 2.2
Coastal surveillance continuation	13	Table 2.2
Strengthening National Security - improved Defence Intelligence capability	18	Table 2.2
Strengthening National Security - reducing national e-security risk	7	Table 2.2
Air combat capability - acquisition of Super Hornets	621	Table 2.2
Logistics additional funding	108	Table 2.2
Strengthening National Security - enhanced protective security	33	Table 2.2
Defence housing – supplementation for competitive neutrality policy	87	Table 2.2
Jezzine Barracks - gift to the Townsville City Council	21	Table 2.2
Net Budget Adjustments	-707	Table 2.3
<b>Total Defence Expenditure<sup>(1)</sup></b>	<b>21,361</b>	

**Note**

1. This is an underlying cash figure provided by the Department of Finance and Administration.

The important distinction between methods 1 and 2 is that the latter approach describes estimates of spending in a cash sense, rather than appropriations from the Government which include funding for accrual items such as depreciation.

### METHOD 3: DEFENCE FUNCTION

Method 3 includes only expenses that have a direct impact on the fiscal balance and excludes superannuation, which is recorded in the superannuation function. This method is derived using the Government finance statistics accrual expense approach and is used in Statement 6 of *Commonwealth Budget Paper No. 1*. It also includes investment in specialist military equipment but excludes depreciation of specialist military equipment and intra-government flows such as fringe benefits tax payments to the Australian Taxation Office. It is derived as shown in the following table.

**Table 7.c: Method 3 – Defence Function**

	2007-08 \$m	Reference
Defence AAS expenses <sup>(1)</sup>	20,087	Table 7.1
DMO AAS expenses	9,615	Section 2, Table 6.1
Administered expenses	51	Table 5.7.1, retention benefits + housing subsidies
Investment in specialist military equipment	4,614	Table 7.6
Specialist military equipment depreciation	-2,738	Table 7.6
Intra-government transfers	-11,519	Department of Finance and Administration
Write down of non-financial assets	-230	Table 7.1
<b>Total Defence Function Expense</b>	<b>19,880</b>	<b>Statement 6, Budget Paper No. 1</b>

**Note**

1. Australian Accounting Standards 31 – Financial Reporting by Governments.

**Table 7.1: Budgeted Departmental Income Statement<sup>(1)</sup>**

2006-07 Estimated Actual \$'000	2007-08 Previous Estimate \$'000	2007-08 Budget Estimate \$'000	Var. <sup>(2)</sup> %	2008-09 Forward Estimate \$'000	2009-10 Forward Estimate \$'000	2010-11 Forward Estimate \$'000
<b>INCOME</b>						
<b>Revenue</b>						
17,221,662	17,885,333	19,170,126	7.2	19,065,666	19,286,597	19,707,273
620,182	583,234	643,206	10.3	660,375	661,962	688,868
64,868	66,308	66,020	-0.4	65,775	81,017	75,130
<b>17,906,712</b>	<b>18,534,875</b>	<b>19,879,352</b>	<b>7.3</b>	<b>19,791,816</b>	<b>20,029,576</b>	<b>20,471,271</b>
<b>Gains</b>						
467,350	200,000	200,000	-	100,000	100,000	100,000
-	-	-	-	-	-	-
-	-	-	-	-	-	-
7,700	6,200	7,700	24.2	7,700	7,700	7,700
<b>475,050</b>	<b>206,200</b>	<b>207,700</b>	<b>0.7</b>	<b>107,700</b>	<b>107,700</b>	<b>107,700</b>
<b>18,381,762</b>	<b>18,741,075</b>	<b>20,087,052</b>	<b>7.2</b>	<b>19,899,516</b>	<b>20,137,276</b>	<b>20,578,971</b>
<b>EXPENSES</b>						
6,795,577	6,971,447	7,304,628	4.8	7,655,153	8,110,711	8,665,989
7,789,651	8,103,798	9,111,987	12.4	8,636,861	8,528,011	8,510,571
3,123	3,904	4,395	12.6	1,507	1,507	1,507
3,332,924	3,409,595	3,409,595	0.0	3,435,705	3,316,696	3,219,288
13,850	20,799	25,574	23.0	39,408	49,458	50,704
443,595	230,000	230,000	-	130,000	130,000	130,000
-	-	-	-	-	-	-
-	-	-	-	-	-	-
3,042	1,532	873	-43.0	882	893	912
<b>18,381,762</b>	<b>18,741,075</b>	<b>20,087,052</b>	<b>7.2</b>	<b>19,899,516</b>	<b>20,137,276</b>	<b>20,578,971</b>
<b>Surplus (Deficit) Attributable to the Australian Government</b>						
-	-	-	-	-	-	-
<b>EQUITY INTEREST</b>						
35,625,258	35,736,828	35,736,828	-	35,854,538	35,854,538	35,854,538
35,625,258	35,736,828	35,736,828	-	35,854,538	35,854,538	35,854,538
-	-	-	-	-	-	-
-	-	-	-	-	-	-
111,570	117,710	117,710	-	-	-	-
<b>Accumulated surpluses at 30 June</b>						
<b>35,736,828</b>	<b>35,854,538</b>	<b>35,854,538</b>	<b>-</b>	<b>35,854,538</b>	<b>35,854,538</b>	<b>35,854,538</b>

**Notes**

1. Cross-reference to Table 2.9 in Chapter Two – Resourcing.
2. The difference between the Budget Estimate and the Previous Estimate is shown as a percentage of the Previous Estimate.

**Table 7.2: Budgeted Departmental Balance Sheet<sup>(1)</sup>**

2006-07 Estimated Actual \$'000		2007-08 Previous Estimate \$'000	2007-08 Budget Estimate \$'000	2008-09 Forward Estimate \$'000	2009-10 Forward Estimate \$'000	2010-11 Forward Estimate \$'000
<b>ASSETS</b>						
<b>Financial assets</b>						
36,221	Cash and cash equivalents	36,221	36,221	36,221	36,221	36,221
199,628	Receivables	213,802	213,802	158,802	98,802	33,802
163,479	Other receivables	163,479	163,479	163,479	163,479	163,479
113,268	Other financial assets	49,270	49,270	49,270	49,270	49,270
<b>512,596</b>	<b>Total financial assets</b>	<b>462,772</b>	<b>462,772</b>	<b>407,772</b>	<b>347,772</b>	<b>282,772</b>
<b>Non-financial assets</b>						
11,373,183	Land and buildings	11,446,975	11,579,831	12,613,376	13,455,156	14,121,387
39,504,732	Infrastructure	41,420,555	41,349,798	44,157,914	47,794,903	51,678,516
287,959	Intangibles	284,328	284,509	281,084	277,685	274,332
723,572	Heritage and cultural	723,572	723,572	723,572	723,572	723,572
4,186,641	Inventories	4,483,821	4,286,486	4,435,501	4,572,287	4,846,732
325,061	Assets held for sale	325,061	325,061	325,061	325,061	325,061
216,363	Other	216,363	216,363	216,363	216,363	216,363
<b>56,617,511</b>	<b>Total non-financial assets</b>	<b>58,900,675</b>	<b>58,765,620</b>	<b>62,752,871</b>	<b>67,365,027</b>	<b>72,185,963</b>
<b>57,130,107</b>	<b>Total assets</b>	<b>59,363,447</b>	<b>59,228,392</b>	<b>63,160,643</b>	<b>67,712,799</b>	<b>72,468,735</b>
<b>LIABILITIES</b>						
<b>Payables</b>						
719,941	Suppliers	743,275	743,275	766,609	789,943	813,277
38,420	Other payables	38,420	38,420	38,420	38,420	38,420
<b>758,361</b>	<b>Total Payables</b>	<b>781,695</b>	<b>781,695</b>	<b>805,029</b>	<b>828,363</b>	<b>851,697</b>
<b>Interest bearing liabilities</b>						
308,089	Leases	291,729	291,729	752,355	713,792	674,167
2,404	Other interest bearing liabilities	2,404	2,404	2,404	2,404	2,404
<b>310,493</b>	<b>Total interest bearing liabilities</b>	<b>294,133</b>	<b>294,133</b>	<b>754,759</b>	<b>716,196</b>	<b>676,571</b>
<b>Provisions</b>						
1,599,953	Employees	1,596,780	1,596,780	1,725,132	1,866,204	2,087,781
657,435	Other Provisions	657,435	657,435	657,435	657,435	657,435
<b>2,257,388</b>	<b>Total provisions</b>	<b>2,254,215</b>	<b>2,254,215</b>	<b>2,382,567</b>	<b>2,523,639</b>	<b>2,745,216</b>
<b>3,326,242</b>	<b>Total liabilities</b>	<b>3,330,043</b>	<b>3,330,043</b>	<b>3,942,355</b>	<b>4,068,198</b>	<b>4,273,484</b>
<b>53,803,865</b>	<b>NET ASSETS</b>	<b>56,033,404</b>	<b>55,898,349</b>	<b>59,218,288</b>	<b>63,644,601</b>	<b>68,195,251</b>
<b>EQUITY</b>						
6,909,195	Contributed equity	9,021,025	8,885,969	12,205,908	16,632,221	21,182,871
11,157,842	Reserves	11,157,841	11,157,842	11,157,842	11,157,842	11,157,842
35,736,828	Retained surpluses or accumulated deficits	35,854,538	35,854,538	35,854,538	35,854,538	35,854,538
<b>53,803,865</b>	<b>Total equity</b>	<b>56,033,404</b>	<b>55,898,349</b>	<b>59,218,288</b>	<b>63,644,601</b>	<b>68,195,251</b>
1,805,311	Current assets	1,899,630	1,871,617	1,995,876	2,139,724	2,290,012
55,324,796	Non-current assets	57,463,817	57,356,775	61,164,767	65,573,075	70,178,723
2,255,192	Current liabilities	2,257,769	2,257,769	2,672,917	2,758,238	2,897,422
1,071,050	Non-current liabilities	1,072,274	1,072,274	1,269,438	1,309,960	1,376,062

**Note**

1. Cross-reference to Table 2.10 in Chapter Two - Resourcing

**Table 7.3: Budgeted Departmental Statement of Cash Flows<sup>(1)</sup>**

2006-07 Estimated Actual \$'000		2007-08 Previous Estimate \$'000	2007-08 Budget Estimate \$'000	Var. <sup>(2)</sup> %	2008-09 Forward Estimate \$'000	2009-10 Forward Estimate \$'000	2010-11 Forward Estimate \$'000
	<b>OPERATING ACTIVITIES</b>						
	<b>Cash Received</b>						
620,182	Sales of goods and services	583,234	643,206	10.3	660,375	661,962	688,868
17,601	GST Receipts from Customers <sup>(3)</sup>	18,121	18,121	-	18,656	19,206	19,774
-	Interest	-	-	-	-	-	-
17,157,664	Appropriations	17,885,333	19,170,126	7.2	19,065,666	19,286,597	19,707,273
391,019	GST Received from ATO	404,603	404,602	0.0	418,657	433,201	448,248
64,868	Other Cash Received	64,808	66,020	1.9	65,775	81,017	75,130
167,586	Cash transfer from the Official Public Account (receivables)	50,000	50,243	0.5	55,000	60,000	65,000
<b>18,418,920</b>	<b>Total cash received</b>	<b>19,006,098</b>	<b>20,352,318</b>	<b>7.1</b>	<b>20,284,129</b>	<b>20,541,983</b>	<b>21,004,293</b>
	<b>Cash Used</b>						
6,679,100	Employees	6,856,910	7,190,091	4.9	7,526,801	7,969,639	8,444,412
7,180,823	Suppliers	7,408,978	8,417,167	13.6	8,015,029	7,914,294	8,013,536
13,850	Borrowing Costs	20,799	25,574	23.0	39,408	49,458	50,704
3,123	Grants	3,904	4,395	12.6	1,507	1,507	1,507
3,042	Other Cash Used	1,532	873	-43.0	882	893	912
18,600	Cash transfer to the Official Public Account (receivables)	-	-	-	-	-	-
<b>13,898,538</b>	<b>Total cash used</b>	<b>14,292,123</b>	<b>15,638,100</b>	<b>9.4</b>	<b>15,583,627</b>	<b>15,935,791</b>	<b>16,511,071</b>
	<b>NET CASH FROM/(TO)</b>						
<b>4,520,382</b>	<b>OPERATING ACTIVITIES</b>	<b>4,713,975</b>	<b>4,714,218</b>	<b>0.0</b>	<b>4,700,502</b>	<b>4,606,192</b>	<b>4,493,222</b>
	<b>INVESTING ACTIVITIES</b>						
	<b>Cash Received</b>						
72,603	Proceeds from sales of property, plant and equipment	156,619	79,194	-49.4	140,123	43,694	37,658
-	Other cash received	-	-	-	-	-	-
<b>72,603</b>	<b>Total cash received</b>	<b>156,619</b>	<b>79,194</b>	<b>-49.4</b>	<b>140,123</b>	<b>43,694</b>	<b>37,658</b>
	<b>Cash used</b>						
536,906	Purchase of land and buildings	487,271	602,670	23.7	892,808	1,149,314	983,877
4,471,181	Purchase of specialist military equipment	4,731,076	4,614,166	-2.5	5,736,816	6,434,786	6,592,102
347,185	Purchase of plant and equipment	413,446	350,217	-15.3	316,858	281,660	257,458
1,205,570	Purchase of inventory	1,334,270	1,186,354	-11.1	1,177,126	1,171,876	1,208,468
-	Other cash used	-	-	-	-	-	-
<b>6,560,842</b>	<b>Total cash used</b>	<b>6,966,063</b>	<b>6,753,407</b>	<b>-3.1</b>	<b>8,123,608</b>	<b>9,037,636</b>	<b>9,041,905</b>
<b>-6,488,239</b>	<b>NET CASH FROM/(TO) INVESTING ACTIVITIES</b>	<b>-6,809,444</b>	<b>-6,674,213</b>	<b>-2.0</b>	<b>-7,983,485</b>	<b>-8,993,942</b>	<b>-9,004,247</b>



2006-07 Estimated Actual \$'000		2007-08 Previous Estimate \$'000	2007-08 Budget Estimate \$'000	Var. <sup>(2)</sup> %	2008-09 Forward Estimate \$'000	2009-10 Forward Estimate \$'000	2010-11 Forward Estimate \$'000
	<b>FINANCING ACTIVITIES</b>						
	<b>Cash received</b>						
1,998,277	Appropriations - contributed equity	2,211,529	2,062,804	-6.7	3,403,841	4,430,996	4,550,650
<b>1,998,277</b>	<b>Total cash received</b>	<b>2,211,529</b>	<b>2,062,804</b>	<b>-6.7</b>	<b>3,403,841</b>	<b>4,430,996</b>	<b>4,550,650</b>
	<b>Cash Used</b>						
15,420	Repayment of debt	16,360	16,360	-	36,956	38,563	39,625
15,000	Return of contributed equity	99,700	86,449	-13.3	83,902	4,683	-
<b>30,420</b>	<b>Total cash used</b>	<b>116,060</b>	<b>102,809</b>	<b>-11.4</b>	<b>120,858</b>	<b>43,246</b>	<b>39,625</b>
	<b>NET CASH FROM/(TO) FINANCING ACTIVITIES</b>						
<b>1,967,857</b>		<b>2,095,469</b>	<b>1,959,995</b>	<b>-6.5</b>	<b>3,282,983</b>	<b>4,387,750</b>	<b>4,511,025</b>
	<b>Net increase (decrease) in cash and cash equivalents held</b>						
-		-	-	-	-	-	-
36,221	Cash and cash equivalents at beginning of reporting period	36,221	36,221	-	36,221	36,221	36,221
-	Other movements	-	-	-	-	-	-
36,221	Cash and cash equivalents at end of reporting period	36,221	36,221	-	36,221	36,221	36,221

**Notes**

1. Cross-reference to Table 2.11 in Chapter 2.
2. The difference between the Budget Estimate and the Previous Estimate is shown as a percentage of the Previous Estimate.
3. In the *Portfolio Additional Estimates Statements 2006-07*, this was reported as other cash receipts.

**Table 7.4: Departmental Statement of Changes in Equity - Summary of Movement (Budget Year 2007-08) <sup>(1)</sup>**

	Retained Surpluses	Asset revaluation reserve	Contributed equity / capital	Total Equity
	\$'000	\$'000	\$'000	\$'000
<b>Opening balance as at 1 July 2007</b>				
Balance carried forward from previous period	35,736,828	11,157,842	6,909,195	53,803,865
Adjustment for changes in accounting policy	117,710	-	243	117,953
<b>Adjusted opening balance</b>	<b>35,854,538</b>	<b>11,157,842</b>	<b>6,909,438</b>	<b>53,921,818</b>
<b>Income and expense</b>	-	-	-	-
Income and expenses recognised directly in equity:				
Asset revaluation movements	-	-	-	-
<b>Sub-total income and expense</b>	-	-	-	-
Surplus/(Deficit)	-	-	-	-
<b>Total income and expenses recognised directly in equity</b>	<b>35,854,538</b>	<b>11,157,842</b>	<b>6,909,438</b>	<b>53,921,818</b>
Transactions with owners				
Distribution to owners <sup>(2)</sup>	-	-	-86,273	-86,273
Returns on Equity	-	-	-	-
Dividends	-	-	-	-
Returns of capital:				
Restructuring	-	-	-	-
Other	-	-	-	-
Contribution by owners	-	-	-	-
Appropriation (equity injection) <sup>(3)</sup>	-	-	2,062,804	2,062,804
Other:				
Restructuring	-	-	-	-
<b>Sub-total transaction with owners</b>	-	-	<b>1,976,531</b>	<b>1,976,531</b>
Transfers between equity components	-	-	-	-
<b>Closing balance attributable to the Australian Government</b>	<b>35,854,538</b>	<b>11,157,842</b>	<b>8,885,969</b>	<b>55,898,349</b>

**Notes**

2. Cross-reference to Table 2.10 in Chapter 2.
3. Includes \$64.174m reimbursement of the Appropriation Receivable for Prior Year Outcomes and capital expenditure.
4. Includes \$64.174m for Prior Year Outcomes and capital expenditure.

**Table 7.5: Departmental Capital Budget Statement**

2006-07 Estimated Actual \$'000		2007-08 Previous Estimate \$'000	2007-08 Budget Estimate \$'000	Var. <sup>(1)</sup> %	2008-09 Forward Estimate \$'000	2009-10 Forward Estimate \$'000	2010-11 Forward Estimate \$'000
	<b>CAPITAL EXPENDITURE</b>						
4,471,181	Purchase of specialist military equipment	4,731,076	4,614,166	-2.5	5,736,816	6,434,786	6,592,102
884,091	Purchase of property, plant and equipment	900,717	952,887	5.8	1,209,666	1,430,974	1,241,335
<b>5,355,272</b>	<b>Total capital payments</b>	<b>5,631,793</b>	<b>5,567,053</b>	<b>-1.1</b>	<b>6,946,482</b>	<b>7,865,760</b>	<b>7,833,437</b>
	<b>Funded from:</b>						
1,998,277	Equity injection	2,211,529	1,998,630	-9.6	3,403,841	4,430,996	4,550,650
3,299,392	Operating receipts	3,363,345	3,511,505	4.4	3,486,420	3,395,753	3,245,129
57,603	Net capital receipts	56,919	56,919	-	56,221	39,011	37,658
<b>5,355,272</b>	<b>Total capital funding</b>	<b>5,631,793</b>	<b>5,567,053</b>	<b>-1.1</b>	<b>6,946,482</b>	<b>7,865,760</b>	<b>7,833,437</b>
	<b>CAPITAL RECEIPTS</b>						
72,603	Proceeds from the sale of military equipment						
	Proceeds from the sale of property, plant and equipment	156,619	79,194	-49.4	140,123	43,694	37,658
	Other capital receipts						
-15,000	Less: capital withdrawal	-99,700	-22,275	-77.7	-83,902	-4,683	-
<b>57,603</b>	<b>Net capital receipts</b>	<b>56,919</b>	<b>56,919</b>	<b>-</b>	<b>56,221</b>	<b>39,011</b>	<b>37,658</b>

**Note**

1. The difference between the Budget Estimate and the Previous Estimate is shown as a percentage of the Previous Estimate.

**Table 7.6: Non-Financial Assets - Summary of Movement (Budget Year 2007-08)**

	Land	Buildings	IPE(owned and leased)	Specialist Military Equipment	Software	Other intangibles	Other intangibles - internally developed	Heritage and cultural assets	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
As at 30 June 2007									
Gross book value	3,793,530	8,363,331	6,999,868	62,701,314	378,131	108,590		723,572	83,068,336
Accumulated depreciation as at 30 June 2007		783,678	1,417,559	28,778,891	150,139	48,623			31,178,890
Opening net book balance	3,793,530	7,579,653	5,582,309	33,922,423	227,992	59,967		723,572	51,889,446
<i>Additions:</i>									
by purchase		602,670	348,253	4,614,166		1,964			5,567,053
by finance lease									
from acquisition of entities or operations (including restructuring)									
Revaluations and impairment through equity									
Reclassifications									
Depreciation/amortisation expense		278,922	387,506	2,737,753	3,842	1,572			3,409,595
Write-downs and impairments recognised in operating result				230,000					230,000
<i>Other movements:</i>									
Assets recognised for the first time				200,000					200,000
Change in accounting policy									
Other adjustments									
Transfers in (out)									
Transfers to Assets Held for Sale									
Reversal of previous asset write-down									
<i>Disposals:</i>									
from disposal of entities or other operations (including									

	Land	Buildings	IPE(owned and leased)	Specialist Military Equipment	Software	Other intangibles	Other intangibles - internally developed	Heritage and cultural assets	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
restructuring)									
other disposals		117,100	-37,906						79,194
As at 30 June 2008									
Gross book value	3,793,530	8,848,901	7,386,027	67,285,480	378,131	110,554		723,572	88,526,195
Accumulated depreciation		1,062,600	1,805,065	31,516,644	153,981	50,195			34,588,485
Estimated closing net book value	3,793,530	7,786,301	5,580,962	35,768,836	224,150	60,359		723,572	53,937,710

**Table 7.7: Schedule of Budgeted Income and Expenses Administered on Behalf of Government <sup>(1)</sup>**

2006-07 Estimated Actual \$'000		2007-08 Previous Estimate \$'000	2007-08 Budget Estimate \$'000	Var. <sup>(2)</sup> %	2008-09 Forward Estimate \$'000	2009-10 Forward Estimate \$'000	2010-11 Forward Estimate \$'000
	<b>Income administered on behalf of Government</b>						
4,005	Interest	4,005	80	-98.0	14	14	14
76,400	Dividends	73,500	73,500	-	50,100	49,500	49,500
702,500	Military superannuation contributions	774,000	724,000	-6.5	770,000	800,000	800,000
165	Other	165	788	377.6	4,876	12,940	20,846
<b>783,070</b>	<b>Total Income administered on behalf of Government</b>	<b>851,670</b>	<b>798,368</b>	<b>6.3</b>	<b>824,990</b>	<b>862,454</b>	<b>870,360</b>
	<b>Expenses administered on behalf of Government</b>						
11,000	Subsidies	9,000	9,000	-	52,638	71,664	91,424
44,000	Military retention benefits	42,000	42,000	-	40,000	38,000	36,000
2,610,484	Military superannuation benefits	2,791,000	2,751,468	-1.4	2,843,216	2,933,251	3,032,269
-	Other	-	-	-	-	-	-
<b>2,665,484</b>	<b>Total expenses administered on behalf of Government</b>	<b>2,842,000</b>	<b>2,802,468</b>	<b>-1.4</b>	<b>2,935,854</b>	<b>3,042,915</b>	<b>3,159,693</b>

**Notes**

1. Cross-reference to Table 5.7.1 in Chapter 5 – Outcome Seven.
2. The difference between the Budget Estimate and the Previous Estimate is shown as a percentage of the Previous Estimate.

**Table 7.8: Schedule of Budgeted Assets and Liabilities Administered on Behalf of Government**

2006-07 Estimated Actual \$'000		2007-08 Previous Estimate \$'000	2007-08 Budget Estimate \$'000	Var. <sup>(1)</sup> %	2008-09 Forward Estimate \$'000	2009-10 Forward Estimate \$'000	2010-11 Forward Estimate \$'000
<b>Financial assets</b>							
188	Cash	188	188	-	188	188	188
32,004,430	Appropriation Receivables	33,412,840	33,358,948	-0.2	34,646,120	35,993,183	37,384,936
395	Other Receivable	395	395	-	395	395	395
1,056,104	Investments	1,056,104	1,056,104	-	1,056,104	1,056,104	1,056,104
<b>33,061,117</b>	<b>Total financial assets</b>	<b>34,469,527</b>	<b>34,415,635</b>	<b>-0.2</b>	<b>35,702,807</b>	<b>37,049,870</b>	<b>38,441,623</b>
<b>Non-financial assets</b>							
92,386	Prepayments	92,386	92,386	-	92,386	92,386	92,386
<b>33,153,503</b>	<b>Total assets administered on behalf of Government</b>	<b>34,561,913</b>	<b>34,508,021</b>	<b>-0.2</b>	<b>35,795,193</b>	<b>37,142,256</b>	<b>38,534,009</b>
<b>Liabilities administered on behalf of Government</b>							
<b>Payables</b>							
10,361	Other payables	10,361	10,361	-	10,361	10,361	10,361
<b>10,361</b>	<b>Total payables</b>	<b>10,361</b>	<b>10,361</b>	<b>-</b>	<b>10,361</b>	<b>10,361</b>	<b>10,361</b>
<b>Provisions</b>							
34,375,590	Employees	35,784,000	35,730,108		37,017,280	38,364,343	39,756,096
<b>34,375,590</b>	<b>Total provisions</b>	<b>35,784,000</b>	<b>35,730,108</b>	<b>-0.2</b>	<b>37,017,280</b>	<b>38,364,343</b>	<b>39,756,096</b>
<b>34,385,951</b>	<b>Total liabilities administered on behalf of Government</b>	<b>35,794,361</b>	<b>35,740,469</b>	<b>-0.2</b>	<b>37,027,641</b>	<b>38,374,704</b>	<b>39,766,457</b>
<b>Represented by:</b>							
99,461	Current assets	103,686	103,524	-0.2	107,386	111,427	115,602
33,054,042	Non-current assets	34,458,227	34,404,496	-0.2	35,687,807	37,030,829	38,418,406
1,512,982	Current liabilities	1,574,952	1,572,581	-0.2	1,629,216	1,688,487	1,749,724
32,872,969	Non-current liabilities	34,219,409	34,167,888	-0.2	35,398,424	36,686,217	38,016,732

**Note**

1. The difference between the Budget Estimate and the Previous Estimate is shown as a percentage of the Previous Estimate.

**Table 7.9: Schedule of Budgeted Cash Flows Administered on Behalf of Government**

	2007-08 Previous Estimate \$'000	2007-08 Budget Estimate \$'000	Var. <sup>(1)</sup> %	2008-09 Forward Estimate \$'000	2009-10 Forward Estimate \$'000	2010-11 Forward Estimate \$'000
<b>OPERATING ACTIVITIES</b>						
<b>Cash received:</b>						
Cash from the Official Public Account	1,594,000	1,433,591	-10.1	1,660,619	1,700,759	1,769,114
Interest	4,005	80	-98.0	14	14	14
Dividends	73,500	73,500	-	50,100	49,500	49,500
Military superannuation contributions	774,000	724,000	-6.5	770,000	800,000	800,000
Other	165	788	377.6	4,876	12,940	20,846
<b>Total cash received for operating activities</b>	<b>2,445,670</b>	<b>2,231,959</b>	<b>8.7</b>	<b>2,485,609</b>	<b>2,563,213</b>	<b>2,639,474</b>
<b>Cash used:</b>						
Military benefits	1,585,000	1,424,591	-10.1	1,607,981	1,629,095	1,677,690
Subsidies	9,000	9,000	-	52,638	71,664	91,424
Cash to the Official Public Account	851,670	798,368	-6.3	824,990	862,454	870,360
Other	-	-	-	-	-	-
<b>Total cash used for operating activities</b>	<b>2,445,670</b>	<b>2,231,959</b>	<b>-8.7</b>	<b>2,485,609</b>	<b>2,563,213</b>	<b>2,639,474</b>
<b>Net cash from or (used by) operating activities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

**Note**

1. The difference between the Budget Estimate and the Previous Estimate is shown as a percentage of the Previous Estimate.



# NOTES TO THE BUDGETED FINANCIAL STATEMENTS

## NOTE 1 – KEY ACCOUNTING POLICIES

### 1.1 Budgeted Financial Statements Overview

Budgeted financial statements have been included to show the planned financial performance over the 2007-08 budget year, and each of the following forward years from 2009-10 to 2011-12.

Budgeted income statement, balance sheet and cash flows, and a budgeted capital statement are provided to show the revenues, expenses, assets, liabilities and equity of Defence. These budgeted statements contain estimates prepared in accordance with the requirements of the Government's financial budgeting and reporting framework.

Budgeted financial estimates are provided for both departmental and administered financial items. Departmental, or controlled, financial statements are those statements which include revenues, expenses, assets and liabilities over which Defence has discretion, responsibility and authority. Departmental financial statements represent the financial performance of Defence in delivering its outcomes.

Administered financial estimates include revenues, expenses, assets and liabilities that Defence administers on behalf of the Government, but over which Defence does not have management control. These typically include military superannuation benefits.

### 1.2 Comparative figures and variations

In recognition of the budget development and scrutiny process, variations identified in the budgeted financial statements are between the previous estimate for 2007-08 as provided in the *Portfolio Additional Estimates Statements 2006-07* and the budget estimate for 2007-08, unless otherwise noted. The estimated actual for 2006-07 is also included in these budgeted financial statements for comparative purposes.

### 1.3 Rounding

Unless otherwise stated, the convention used in these budgeted financial statements is to round amounts to the nearest \$'000. Totals are the sum of unrounded figures.

## **1.4 Budgeted Departmental Financial Statements and Schedule of Budgeted Administered Activity**

Note that the term 'budgeted financial statements' and 'statements' are used interchangeably.

Under the Government's accrual-based budgeting framework, and consistent with Australian Accounting Standards, transactions that agencies control (Departmental transactions) are separately budgeted for and reported, compared to transactions that agencies do not have control over (Administered transactions). This ensures that agencies are only held fully accountable for the transactions over which they have control.

- Departmental expenses include employee and supplier expenses and other administrative costs, which are incurred by Defence in providing its goods and services.
- Administered items are revenues, expenses, assets and liabilities that are managed by Defence on behalf of the Government according to set Government directions of which Defence does not have management control. These include military superannuation contributions, payments received from the United Nations and foreign governments, bank interest and dividends paid by the Defence Housing Australia.

## **1.5 Appropriations in the Accrual Budgeting Framework**

Under the Government's accrual budgeting framework, separate annual appropriations are provided for:

- departmental price of outcomes appropriations (representing the Government's funding for outcomes from agencies);
- departmental capital appropriations (representing investments by the Government for either additional equity in or loans to agencies);
- administered expense appropriations (representing estimated administered expenses relating to an existing outcome, a new outcome or a Specific Purpose Payment to the states); and
- administered capital appropriations (represent increases in administered equity through funding non-expense administered payments).

Special appropriations fund the majority of payments from the Consolidated Revenue Fund (especially those that are entitlement driven or involve transfers to state and territory governments).

## **1.6 Basis of Accounting**

The budgeted statements have been prepared in accordance with:

- Finance Minister's Orders, being the Financial Management and Accountability Orders (Financial Statements for reporting periods ending on or after 1 July 2006);
- Applicable Australian Accounting Standards and Accounting Interpretations issued by the Australian Accounting Standards Board (AASB); and
- Consensus Views of the Urgent Issues Group.

The budgeted income statement and balance sheet have been prepared on an accrual basis and are in accordance with the historic cost convention, except for certain assets which, as noted (refer to items 1.15 and 1.16), are at fair value. Except where stated, no allowance is made for the effect of changing prices on the results or financial position.

Revenues and expenses are recognised in the income statement when, and only when, the flow or consumption or loss of economic benefits has occurred and can be reliably measured.

Administered revenues, expenses, assets and liabilities and cash flows reported in the Schedules of Administered Items are accounted for on the same basis and using the same policies as for departmental items, except as otherwise stated.

## **1.7 Revenue**

### **Revenues from the Australian Government**

Departmental outputs appropriation for the year are recognised as revenue, except for certain amounts which relate to activities that are reciprocal in nature, in which case revenue is recognised only when it has been earned.

Defence operates on a just in time draw-down basis that has resulted in undrawn appropriations at year end being reflected as a receivable. This receivable is available for draw-down to meet future obligations.

### **Other Revenue**

Revenue from the sale of goods i.e. recognised upon delivery of the goods to the customer. Revenue is recognised from services at the time the service is provided. Revenue from disposal of non-current assets is recognised when control of the asset has passed to the buyer.

### **Receivables**

Receivables for goods and services expected to be settled within 12 months of the reporting date are recognised at the nominal amounts, less any allowance for doubtful debts. Receivables expected to be settled more than 12 months after the end of the reporting date are measured at their net present value. The collectability of receivables is assessed periodically with provision being made for doubtful debts.

The provision for bad and doubtful debts is based on an analysis of the expected realisation of outstanding debts. Bad debts are written-off as they are identified. No provision is made for the Australian Government or foreign government debtors as they are deemed to be collectable.

## **1.8 Transactions with the Australian Government**

### **Equity Injection**

Equity injection represents an additional contribution to Defence by the Australian Government, which is over and above the revenue from the Government for the price of outcomes. Equity injections are used to fund capital expenditure and are recognised directly into equity in that period.

### **Other Distributions to Owners including Repayments of Appropriations**

The Finance Minister's Orders require that distributions to owners be debited to Equity, unless in the nature of a dividend.

## **1.9 Employee Benefits**

Defence's workforce comprises two employment components: Australian Public Service (APS, i.e. civilians) and Australian Defence Force (ADF, i.e. military) personnel. Employee benefits for each workforce component are based on the relevant employment agreements and legislation.

Liabilities for services rendered by employees are recognised at the reporting date to the extent that they have not been settled.

Liabilities for wages and salaries (including non-monetary benefits) and annual leave expected to be settled within 12 months of the reporting date are measured at their nominal amounts. The nominal amount is calculated with regard to the rates expected to be paid on settlement of the liability. Employee benefits expected to be settled more than 12 months after the end of the reporting date 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.

### **Leave**

The liability for employee benefits includes provision for annual leave and long service leave. No provision has been made for sick leave as all sick leave is non-vesting and the average sick leave taken in future years by employees of 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 rates to the extent that the leave is likely to be taken during service rather than paid out on termination. Where there is a legal obligation to payment of leave within 12 months, even when payment is not expected, the liability is disclosed as current.

The liability for long service leave is determined by reference to the work of the Australian Government Actuary. The estimate of the present value of the liability takes into account attrition rates and pay increases through promotion and inflation.

The liability for annual leave for APS and ADF employees reflects the value of total annual leave entitlements of all such employees and is recognised at the nominal amount or discounted to the present value for amounts not expected to be taken or paid within 12 months.

### **Separation and Redundancy**

Provision is made for separation and redundancy benefit payments when Defence has developed a detailed formal plan for the terminations and has informed those affected that the terminations will be carried out.

### **Superannuation**

Permanently-appointed APS employees and Defence contribute to the Commonwealth Superannuation Scheme (CSS), the Public Sector Superannuation Scheme (PSS), the PSS Accumulation Plan and other superannuation schemes held outside the Commonwealth. The liability for staff CSS, PSS and the PSS Accumulation Plan superannuation benefits is recognised in the financial statements of the Australian Government and is settled by the Australian Government in due course.

Defence makes employer contributions to the Australian Government at rates determined by an actuary to be sufficient to meet the cost to the Government of the superannuation entitlements of the department's employees.

The Defence Force Retirement and Death Benefits Scheme (DFRDB) and the Military Superannuation and Benefits Scheme (MSBS) are defined benefit superannuation plans for ADF members. ADF employer superannuation contributions, pension payments, DFRDB member contributions and the provision for unfunded superannuation are reflected in the Schedule of Administered Items.

Superannuation on-costs have been added to the provisions for annual leave and long-service leave in respect of both APS and ADF employees.

### **1.10 Leases**

A distinction is made between finance leases which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of leased non-current assets and operating leases under which the lessor effectively retains substantially all such risks and benefits.

Where a non-current 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 and

the present value of minimum lease payments at the commencement of the lease term. A liability is recognised at the same time for the same amount.

Non-current assets acquired under a finance lease are depreciated/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. Any contingent rent components of the lease are recognised as an expense in the period in which the amount of the increase/decrease is applied.

Lease incentives taking the form of 'free' leasehold improvements and rent holidays are recognised as liabilities. These liabilities are reduced by allocating lease payments between rental expense and reduction of the liability

### **1.11 Borrowing Costs**

Borrowing costs are expensed as incurred.

### **1.12 Cash and Cash Equivalents**

Cash and Cash Equivalents means notes and coins held, as well as any deposits held at call with a bank or financial institution. Cash and Cash Equivalents are recognised at the nominal amount.

### **1.13 Acquisition of Assets**

Assets are recorded at cost on acquisition except as stated below. The cost of acquisition includes the fair value of assets transferred in exchange and liabilities undertaken. Assets acquired at no cost or for nominal consideration are initially recognised as assets and revenues at their fair value as at the date of acquisition, unless acquired as a consequence of restructuring of administrative arrangements. In the latter case, assets are initially recognised as contributions by owners at the amounts at which they were recognised in the transferor agency's accounts immediately prior to the restructuring.

### **1.14 Property, Plant and Equipment including Land, Buildings and Infrastructure**

#### **Asset Recognition Threshold**

Purchases of property, plant and equipment are recognised initially at cost in the Budgeted Balance Sheet where they meet the capitalisation threshold. The capitalisation thresholds for the classes of assets are detailed in the table below.

**Table 7.10 Capitalisation Threshold for Various Asset Classes**

Asset Class	Capitalisation Threshold (\$)
Land	0.01
Buildings	5,000.00
Specialised military equipment (SME) including - <i>SME in use; and Repairable items</i>	0.01
Infrastructure	5,000.00
Heritage and cultural	5,000.00
Intangibles including – <i>Computer software – Purchased</i> <i>Computer software - Internally generated; and</i> <i>Other intangibles</i>	150,000.00
Other plant and equipment (OP&E)	2,000.00

### Revaluations

Land, buildings, plant and equipment are measured and disclosed at fair value.

The carrying value of non-current assets has been assessed at 30 June 2006 by independent qualified experts or management. The fair value of non-current assets not subject to an external valuation in any given year are reviewed by management and the carrying amounts adjusted where they are materially different from fair value as determined by management.

With the exception of Specialist Military Equipment, Assets Under Construction, and Intangibles, from 1 July 2004 Defence moved to a 5-year external revaluation cycle.

In accordance with the Finance Minister's Orders, Specialist Military Equipment is carried at cost.

Assets Under Construction are not revalued but are carried at cost. In addition to reviewing expenditures from the point of rollout into service, Assets Under Construction expenditures are now also considered on a whole-of-life basis. They are subject to impairment testing prior to being transferred into use.

### Depreciation and Amortisation

Non-current assets having limited useful lives are systematically depreciated/amortised over their estimated useful lives in a manner that reflects the consumption of their service potential on a straight-line basis.

Heritage assets are generally anticipated to have very long and indeterminable useful lives. The service potential of heritage and cultural assets has not in any material sense been consumed during the reporting period.

Depreciation and amortisation rates (useful lives) and methods are reviewed at each reporting date and necessary adjustments are recognised in the current, or current and future reporting periods, as appropriate. Residual values are re-estimated for a change in prices only when assets are revalued.

### **Decontamination and Restoration Costs**

Where a legal or constructive obligation arises on acquisition to restore an asset back to its original condition, the net present value of estimated restoration costs are capitalised and added to the cost of the underlying asset and depreciated over the asset's useful life. As such, a corresponding provision is recognised for the restoration obligation costs. When discounting is used, the carrying amount of the provision is adjusted to reflect the unwinding of the discount and this is recognised as a finance expense.

Where a legal or constructive obligation arises as a result of the operations of Defence (i.e. use of the assets) the asset of restoration is recognised as an expense in the period in which the obligation arises.

Decontamination costs associated with properties listed for disposal are recognised as a provision separate to the valuation of the property. This provision offsets against the overall value of the property. The decontamination costs are determined on the basis of remediation surveys and technical assessments. When decontamination costs are recognised, the corresponding entry is an expense of the period of recognition. The cost of decontamination work carried out is cleared against the provision.

### **Asset Disposals**

The gain or loss on disposal of property, plant and equipment is determined as the difference between the carrying amount of the asset at the time of disposal and the proceeds of disposal.

### **Impairment of Non-Current Assets**

Non-current assets carried at cost or fair value, which are not held to generate net cash inflows, are assessed for indications of impairment. Where indications of impairment exist, the recoverable amount of the asset is estimated and compared to the asset's carrying amount. If the recoverable amount is less than its carrying amount, the carrying amount is reduced to the recoverable amount and the reduction is to be shown as an impairment loss expense.



### **1.15 Inventory**

Defence's inventory is for its own consumption and it does not ordinarily hold inventory for sale. If sales are made they represent disposal of inventory surplus to requirements and minor fuel sales.

Inventory held for distribution is measured at the lower of cost and current replacement cost.

Defence has implemented a policy to identify and provide for potential excess stocks.

Costs incurred in bringing each item of inventory (primarily explosive ordnance and general stores) to its present location and condition that are capable of being allocated on a reasonable basis are assigned on a weighted average cost basis.

Inventories acquired at no or nominal considerations are measured at Corporate Research Centre at the date of acquisition.

### **1.16 Intangibles**

Defence's intangibles primarily comprise externally acquired and internally-developed computer software for internal use. Intangibles with gross values greater than \$150,000 are capitalised.

Acquired intellectual property may form part of the acquisition of particular tangible assets and in such cases is reflected in the value reported for Property, Plant and Equipment in the Budgeted Balance Sheet.

Defence carries intangible assets at cost or, where an active market exists, at fair value.

The service potential of non-current intangible assets is reviewed annually. If an intangible asset is regarded as being impaired, the asset is written down to reflect its remaining service potential. Intangible assets are assessed annually for impairment.

Intangibles are amortised on a straight-line basis over their anticipated useful life.

### **1.17 Investments**

Investments held on behalf of the Australian Government are included as administered assets and are brought to account as the value of the Australian Government's share as at 30 June 1997 of the net assets of the entity, except where there has been a return of equity to the owner (the Government). This is a requirement of the Finance Ministers' Orders. Administered investments in controlled entities are not consolidated because their consolidation is relevant only at the whole-of-government level.

### **1.18 Foreign Currency**

Transactions denominated in a foreign currency are converted at the exchange rate on the date of transaction. Foreign currency receivables and payables are translated at the exchange rate current as at the balance date. Exchange gains and losses are brought to account in determining the operating result for the year.

### **1.19 Taxation**

Defence's activities are exempt from all forms of taxation except fringe benefits tax, the goods and services tax (GST), and certain excise and customs duties.

Revenues, expenses and assets 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 shown inclusive of GST in the Budgeted Income statement).

### **1.20 Insurance**

Defence has insured for key insurable risks, excluding workers compensation, through the Government's insurable risk managed fund, called 'Comcover'. Workers compensation is through Comcare.

### **1.21 Schedule of Budgeted Administered Activities**

Administered revenues, expenses, assets, liabilities and cash flows are disclosed in the Schedules of Administered Items and related notes.

Except where otherwise stated below, administered items are accounted for on the same basis and using the same policies as for departmental items, including the application to the greatest extent possible of Australian Accounting Standards, Accounting Interpretations and Urgent Issues Group Consensus Views.

Revenue collected by Defence, for use by the Australian Government rather than Defence, is Administered Revenue. Collections are transferred to the Official Public Account maintained by the Department of Finance and Administration. Conversely, cash is drawn down from the Official Public Account to make payments under Parliamentary appropriations on behalf of the Australian Government. These transfers to and from the Official Public Account are reported as adjustments to the administered cash held by Defence on behalf of the Government and reported as such in the Budgeted Statement of Cash Flows in the Schedule of Administered Items and in the Administered Reconciliation Table. Thus the Budgeted Schedule of Administered Items largely reflects the

Australian Government's transactions, through Defence, with parties outside the Australian Government.

### **Administered Revenue**

All administered revenues are revenues relating to the core operating activities performed by Defence on behalf of the Australian Government. Administered revenues mainly comprise military superannuation contributions, payments received from the United Nations and foreign governments, bank interest and dividends paid by Defence Housing Australia.

### **Administered Expenses**

All administered expenses are expenses relating to the core operating activities performed by Defence on behalf of the Australian Government. Administered expenses mainly comprise unfunded military superannuation benefits, ADF housing subsidies and ADF retention benefits.

### **Administered Investments**

Defence reports the Australian Government's capital investment in Defence Housing Australia. The investment is classified as 'available for sale' which results in it being measured at fair value. The investment is subject to impairment testing.

### **Military Retention Benefits**

Certain categories of ADF personnel who are members of the Military Superannuation and Benefits Scheme 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 written down over the period of service.

### **Military Superannuation**

The Defence Force Retirement and Death Benefits Scheme (DFRDB) and the Military Superannuation Benefits Scheme (MSBS) are defined benefit superannuation plans for ADF members. ADF employer superannuation contribution revenue, pension and lump sum payments, the provision for unfunded DFRDB and MSBS superannuation and DFRDB member contribution revenue are reflected in the Budgeted Schedules of Administered Items.

The DFRDB is a fully unfunded scheme but the MSBS is a partly-funded scheme. MSBS member contributions are paid into the MSBS fund that is controlled by the MSBS Board and are therefore not reflected in the Budgeted Schedules of Administered Items. The Australian Government on behalf of the MSBS Fund makes funded benefit payments to members of the scheme and the Australian Government is reimbursed by the MSBS fund for these payments.

The Australian Government Actuary estimates the unfunded provisions and expected future cash flows as at 30 June each year. These estimates are reflected in the Budgeted Schedules of Administered Items. The Australian Government Actuary completes a full review of the unfunded liabilities (a long-term cost report) every three years.

## NOTE 2 – SUMMARY OF ESTIMATED SPECIAL ACCOUNT BALANCES

**Table 7.11: Summary of Estimated Special Account Balances** <sup>(1)(2)(3)(4)</sup>

	Opening Balance	Receipts	Payments	Adjustments	Closing Balance
	2007-08	2007-08	2007-08	2007-08	2007-08
	2006-07	2006-07	2006-07	2006-07	2006-07
	\$'000	\$'000	\$'000	\$'000	\$'000
Services for Other Governments and Non-Agency Bodies – Financial Management and Accountability Act 1997 <sup>(5)(6)</sup>	<b>27,292</b> 31,678	<b>28,915</b> 35,325	<b>30,859</b> 39,711	- -	<b>25,348</b> 27,292
Defence Endowments – Financial Management and Accountability Act 1997 <sup>(5)</sup>	<b>301</b> 301	<b>10</b> 36	<b>30</b> 36	- -	<b>281</b> 301
Fedorczenko Legacy Fund – Financial Management and Accountability Act 1997 <sup>(5)</sup>	<b>158</b> 156	<b>9</b> 8	<b>5</b> 6	- -	<b>162</b> 158
Other Trust Monies – Financial Management and Accountability Act 1997 <sup>(5)</sup>	<b>1,513</b> 1,543	<b>3,066</b> 3,308	<b>2,447</b> 3,338	- -	<b>2,132</b> 1,513
Young Endeavour Youth Program – Financial Management and Accountability Act 1997 <sup>(5)</sup>	<b>412</b> 1,476	<b>10</b> 637	- 1,701	- -	<b>422</b> 412
<b>Total Special Accounts</b>	<b>29,676</b> 35,154	<b>32,010</b> 39,314	<b>33,341</b> 44,792	- -	<b>28,345</b> 29,676

### Notes

1. 2007-08 estimates in bold.
2. 2006-07 estimates in italics.
3. The 2006-07 figures above include approximately \$9,000 for interest earned on the OPA.
4. The 2007-08 figures above include approximately \$30,000 for interest earned on the OPA.
5. These are all Special Public Monies.
6. The Services for Other Governments balance includes money relating to Comcare.