

## **Management of Defence Housing Australia**

Defence Housing Australia

Department of Defence

Department of Finance

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Canberra ACT

9 April 2020

Dear Mr President  
Dear Mr Speaker

In accordance with the authority contained in the *Auditor-General Act 1997*, I have undertaken an independent performance audit in Defence Housing Australia, the Department of Defence and the Department of Finance. The report is titled *Management of Defence Housing Australia*. Pursuant to Senate Standing Order 166 relating to the presentation of documents when the Senate is not sitting, I present the report of this audit to the Parliament.

Following its presentation and receipt, the report will be placed on the Australian National Audit Office's website — <http://www.anao.gov.au>.

Yours sincerely



Grant Hehir  
Auditor-General

The Honourable the President of the Senate  
The Honourable the Speaker of the House of Representatives  
Parliament House  
Canberra ACT

## **AUDITING FOR AUSTRALIA**

The Auditor-General is head of the Australian National Audit Office (ANAO). The ANAO assists the Auditor-General to carry out his duties under the *Auditor-General Act 1997* to undertake performance audits, financial statement audits and assurance reviews of Commonwealth public sector bodies and to provide independent reports and advice for the Parliament, the Australian Government and the community. The aim is to improve Commonwealth public sector administration and accountability.

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# Audit snapshot

## Auditor-General Report No.31 2019–20 *Management of Defence Housing Australia*



### Why did we do this audit?

- ▶ Providing adequate and suitable housing for members of the Australian Defence Force is regarded as essential to meeting Defence's operational needs.
- ▶ When Defence Housing Australia was established in 1988 its provision of adequate and suitable housing to Australian Defence Force members was expected to have a positive effect on retention rates in Defence.
- ▶ Parliament's Joint Committee of Public Accounts and Audit asked the Auditor-General to consider conducting a performance audit of Defence Housing Australia.



### What did we find?

- ▶ DHA has reported to Defence and shareholder ministers that it is both efficient and effective in the provision of housing to Defence.
- ▶ DHA has not benchmarked the efficiency of its main function.
- ▶ DHA has not established whether it has been effective in improving Australian Defence Force retention rates.
- ▶ The DHA Board, which is DHA's accountable authority, has not addressed specific enterprise-level risks in a timely manner.
- ▶ DHA finalised a new business model in November 2019, addressing business sustainability risks that had been identified in 2015.



### Key facts

- ▶ DHA is a Government Business Enterprise operating under its own legislation, the *Defence Housing Australia Act 1987*.
- ▶ DHA's main function is to provide adequate and suitable housing for, and housing-related services to members of the Defence force and their families.
- ▶ DHA was subject to two major reviews in 2015 and 2016 which found its business model was unsustainable.



### What did we recommend?

- ▶ The Auditor-General made four recommendations relating to governance, contract management, performance measurement and procurement.
- ▶ All four recommendations were agreed to.

\$11.2 billion

Defence Housing Australia's estimate of the value of the property portfolio it manages

17,800

Approximate number of properties Defence Housing Australia has under management

\$24.5 million

DHA's dividend payment to the Commonwealth in 2018–19

# Summary and recommendations

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## Background

1. Defence Housing Australia (DHA) is a Government Business Enterprise (GBE) established under the *Defence Housing Australia Act 1987* (DHA Act) with a main function of providing housing and housing-related services to members of the Australian Defence Force (ADF) and their families. As a GBE, DHA is expected to operate as a commercial organisation and deliver financial returns to the Commonwealth. As of 30 June 2019, DHA had 17,948 properties under management, a property portfolio valued at \$11.2 billion, and housed around 15,800 ADF members in DHA-supplied housing. The DHA Board is the governing body and accountable authority under the *Public Governance, Performance and Accountability Act 2013*.

## Rationale for undertaking the audit

2. The provision of adequate and suitable housing and related services for members of the ADF is regarded as essential to meet the operational needs and requirements of the Department of Defence (Defence). When DHA was established, it was expected that its provision of adequate and suitable housing to ADF members would have a positive effect on retention rates in Defence.

3. The Australian National Audit Office (ANAO) has not previously undertaken a performance audit of DHA. On 22 October 2018, the Joint Committee of Public Accounts and Audit requested, under subsection 17(2) of the *Auditor-General Act 1997*, that the Auditor-General consider conducting a performance audit of DHA. The audit was foreshadowed in the Auditor-General's *Annual Audit Work Program 2018–19*.

## Audit objective and criteria

4. The objective of the audit was to assess whether DHA administers its functions efficiently and effectively, and in accordance with the Government Business Enterprise guidelines. To form a conclusion against the objective, the ANAO adopted the following high-level audit criteria:

- Have DHA and Defence established a fit-for-purpose services agreement?
- Has DHA entered into value-for-money purchasing arrangements?
- Does DHA provide services to Defence personnel effectively?
- Does DHA provide services to Defence personnel efficiently?
- Has DHA established effective governance arrangements to support the provision of housing and housing-related services to ADF members and their families?

## Conclusion

5. While DHA has reported to Defence and shareholder ministers that it is both efficient and effective in the provision of housing to Defence, DHA has not established whether it has been effective in improving ADF member retention or benchmarked the efficiency of its main function. The DHA Board has not addressed specific enterprise-level risks in a timely manner.

6. DHA and Defence have established long-standing service agreements for the provision of Defence housing but they are not wholly fit-for-purpose. Defence requirements may exceed what

DHA can provide under its legislation. While there are agreed performance measures, these are indicators of activity and do not provide an adequate basis for assessing whether DHA's delivery of housing services has met the agreements' objectives.

7. DHA has appropriate processes in place to assure itself that it achieves value for money in property acquisitions. The assurance provided to the accountable authority regarding value for money in purchasing arrangements more generally would be enhanced by improved management of financial delegations and powers of attorney.

8. DHA has been largely effective in the delivery of the services it provides under the DHA Act and in returning a dividend to the Commonwealth. While DHA's performance in delivering services is monitored and reported on regularly, no work has been done to assess the effect of DHA's services on ADF member retention, which was a major reason for creating DHA.

9. While DHA has reduced the rate of growth of its operational expenditure in recent years it does not have established measures for assessing its operating efficiency nor has it benchmarked its main function.

10. The DHA Board has not established effective governance arrangements to support the provision of housing and housing-related services to ADF members and their families. In regards to specific enterprise-level risks examined by the ANAO, the DHA Board:

- took until November 2019 to finalise a new business model addressing risks to business sustainability identified in 2015 — a matter that was resolved only after ministers intervened and set a deadline;
- only recently refocused its attention on risks relating to DHA's scope of power, which were originally identified over a decade ago; and
- had not sought assurance from DHA management regarding compliance with state and territory residential tenancy legislation.

11. Further, with one exception, there is no evidence that key policies were endorsed by or issued with the authority of the Board. The approval of key policies and frameworks, and the strategic oversight of non-financial risks such as those relating to scope of powers and legal compliance, are key responsibilities of the Board as the accountable authority.

## Supporting findings

### Service agreements

12. The agreements DHA and Defence have established — the Defence Services Agreement (DSA) and Agreement on Members Without Dependents Choice Accommodation (MCA) — are current and are to remain in force until 2023 and 2022 respectively. DHA has not clearly established whether some of the persons to whom it provides housing to satisfy Defence requirements under the DSA and MCA, such as single ADF members, philanthropic organisations and military exchange personnel, are encompassed by the DHA Act.

13. While Defence policy underpinning the agreements focuses on the provision of traditional housing for ADF families, Defence and DHA are taking steps to accommodate changes in the expectations of Defence's workforce.



14. Defence monitors DHA service delivery using DHA reports against key performance indicators set out in the DSA and MCA agreements. These indicators focus on DHA activity and do not provide an adequate basis for assessing whether the agreements' objectives have been met.

15. Both agreements provide for review at five-year intervals. Defence undertook a performance review of DHA in 2012 to inform the first review of the DSA in 2013. The performance review's emphasis was on the effectiveness of DHA's delivery and did not consider the cost to Defence or opportunities to improve DHA efficiency. Defence advised that it had commenced a subsequent review of the DSA in 2017–18 but the review had not been completed. DHA advised that the MCA was last reviewed in 2016.

### **Value for money in purchasing arrangements**

16. DHA management has established a single, organisation-wide procurement model with policies, procedures and an electronic workflow system. There is scope to improve the controls underpinning the current authorised procurement policy and the selection of an approver in the electronic workflow used for procurement. Compliance checking conducted by DHA indicates multiple instances of non-compliance with procurement policy, including non-compliance with delegations.

17. DHA has conflict of interest policies for its board and staff. The staff policy requires annually updated declarations, with about one-in-five staff failing to complete this declaration as of April 2019. DHA did not retain records for the completion of declarations for the 13 Senior Executive Service officers employed. In March 2020, DHA advised that it had improved the completion rate for conflict of interest declarations by staff across all classifications except DHA Level 5.

18. A 2019 DHA internal audit identified weaknesses in the governance framework for delegations and a risk that powers of attorney were not being used in accordance with their legal basis. DHA has advised the ANAO that it is reforming the delegations framework and the use of powers of attorney.

19. DHA management assures itself that its property and land acquisition processes provide value for money by having independent valuations conducted for each land or property purchase, completing due diligence checks prior to committing to purchase, and having higher value purchases approved by senior staff. In terms of the valuations obtained, prices paid for:

- five of the seven property transactions examined by the ANAO were equal to or less than the valuation estimate; and
- thirteen of the 18 retail acquisitions examined by the ANAO were below the valuation estimate and equal to the valuation estimate in five cases.

### **Effectiveness of service delivery**

20. DHA has measures of effectiveness in place to assess its provision of housing for members of the Defence Force and their families. Although a major reason for creating DHA was to improve the standard of Defence housing so as to address low ADF member retention rates, there has been no work done to assess the effect of DHA's services on retention rates.

21. Internal reporting indicates that DHA delivers the services required under its service agreements with Defence, consistent with its main function under the DHA Act. This performance is reported and monitored regularly.

22. DHA has paid nearly \$2 billion in dividends to the Commonwealth over the last two decades. DHA paid over half of this (\$1.1 billion) before 2004–05 as special dividends. Since then, the mean dividend payment has been about \$44.2 million. In the last few years, profitability of the enterprise and hence, dividends have been declining. In 2018–19, DHA paid a dividend of \$24.5 million.

### **Efficiency of service delivery**

23. DHA has three measures to assess its performance in terms of business efficiency, as required by the GBE Guidelines, and it reports publicly on these. One of these measures, return on capital employed, has fallen each year since 2015–16.

24. DHA has not developed a performance measure of its operating efficiency and cannot report on how much it costs on average to produce the services it delivers to Defence. DHA advised the ANAO that it has recently developed a model to identify and allocate corporate costs across its business activities.

25. DHA data indicates that it has controlled its operating expenditure since 2015–16. DHA has not yet made the savings identified by its Project Symphony in late 2018 but has developed savings initiatives to be implemented over the next 18 months as part of a revised business model agreed by shareholder ministers in December 2019.

26. DHA has not benchmarked its internal processes by direct comparison with other organisations providing comparable services. However, it has undertaken regular comparative analyses of the property management fees that it charges to its sale and leaseback investors, which were found to be higher than industry standards. It has also examined its customer service standards and reported high performance. In 2012, DHA analysed the costs of DHA Service Residences compared with the use of Rent Allowance. This study indicated that Defence received better value from Service Residences. This work has not been updated.

### **Governance and management of entity-level risks**

27. DHA has developed a new business model that will involve reducing planned acquisitions and developments and increasing the number of leases from the market to align with DHA's operational requirements. The new model, which will take 18 months to implement, was finalised some four years after DHA had been warned that its former business model was not sustainable, and after the DHA Board had received a specific request and deadline from ministers.

28. The DHA accountable authority — the DHA Board — has not issued accountable authority instructions (AAIs) or similar under the PGPA Act. With one exception, there is no evidence that key DHA policies have been endorsed by or issued with the authority of the Board.

29. The DHA Board was advised over a decade ago (2008) of a risk of DHA exceeding its statutory powers in developing land, particularly where the greater proportion is intended for sale and not for housing ADF members. The Board has not acted to control this risk and has not ensured that DHA has operated only within its authority. As a statutory body with specific powers conferred by the Parliament, it is necessary that DHA maintain a focus on operating within the

limits of its enabling legislation and Commonwealth power. DHA advised the ANAO in August 2019 that it had not informed responsible ministers of the advice about these legal issues.

30. DHA received legal advice in 2013 that, under the DHA Act, it can maintain civilian tenancies properly only in narrow circumstances for short-term vacancies. A legal risk arises as DHA maintains some civilian tenancies in circumstances which it identifies as permanent.

31. DHA was unable to provide evidence that the DHA Board had endorsed a long-standing DHA policy of providing a discount to ADF members who purchase a residence from DHA under its sale and leaseback arrangement. The application of this policy cost DHA \$1.5 million (over 13 years). Defence was unaware of the policy. DHA advised the ANAO that DHA management had decided in September 2019 to discontinue the policy and had revised DHA's incentives approval policy. These changes had been noted by the Board.

32. In 2016 DHA identified that, in a number of state and territory jurisdictions, its standard lease agreement with sale and lease back investors was not in the form prescribed by legislation in those jurisdictions. As of late 2019, efforts to resolve these issues were underway but not yet complete. There is no evidence that, subsequent to the matter being drawn to its attention, the DHA Board sought assurance from management regarding compliance with state and territory residential tenancy legislation, or considered the risks of non-compliance.

## Recommendations

**Recommendation no.1**  
**Paragraph 2.22** DHA and Defence align Defence requirements for housing philanthropic organisations assisting the ADF, and foreign exchange and visiting military personnel, with the DHA Act.

**Defence Housing Australia response:** *Agreed.*

**Department of Defence response:** *Agreed.*

**Recommendation no.2**  
**Paragraph 2.45** DHA and Defence agree key performance indicators that relate to and support the measurement of performance against all the objectives of the service agreements.

**Defence Housing Australia response:** *Agreed.*

**Department of Defence response:** *Agreed.*

**Recommendation no.3**  
**Paragraph 5.34** DHA, with Defence, update its 2012 study on the comparative costs to DHA, Defence and ADF members of provision of a Service Residence and use of Rent Allowance.

**Defence Housing Australia response:** *Agreed.*

**Department of Defence response:** *Agreed.*

**Recommendation  
no.4**

**Paragraph 6.44**

DHA follow the procedural advice it has received on decision-making on land development proposals and civilian tenancy to ensure that its activities remain within its statutory powers and within Commonwealth constitutional power, and record its deliberations on such decisions.

**Defence Housing Australia response:** *Agreed.*

## Summary of entity responses

33. DHA and Defence's summary responses are provided below. A summary response was not provided by the Department of Finance. Full responses from DHA, Defence and Finance can be found at Appendix 1.

### Defence Housing Australia

Defence Housing Australia (DHA) welcomes the ANAO's audit report into the Management of Defence Housing Australia.

As DHA's Accountable Authority, the Board agrees with the four recommendations of the report and is committed to their implementation. The Board is pleased to advise steps have already been taken to address the recommendations and findings in the report.

DHA understands there are opportunities for improvement in some governance arrangements.

### Department of Defence

Defence acknowledges the findings contained in the audit report on the Management of Defence Housing Australia (DHA) and agrees to the recommendations.

Defence agrees that DHA has been largely effective in the delivery of services provided under the DHA Act, whilst also returning a financial dividend to the Commonwealth.

Defence research undertaken by the Directorate of People Intelligence and Research continues to identify 'family and home benefits' as one of the top five elements of its 'Employment Package.' Accordingly, Defence will continue to work with DHA to ensure it continues to provide adequate and suitable housing for and housing related services to Defence Force members and their families.

While Defence is satisfied that the current Key Performance Indicators (KPIs) in the Service Agreement and Members Choice Accommodation Agreement allow DHA's service delivery to be effectively monitored and financially controlled, it recognises the need to regularly review these KPIs to ensure they remain contemporary and relevant.

## Key messages from this audit for all Australian Government entities

34. Below is a summary of key messages, including instances of good practice, which have been identified in this audit that may be relevant for the operations of other Australian Government entities.

### Contract management

- Entities whose function is set out in legislation need to ensure, when making an agreement for the provision of services under that legislation to particular groups, that servicing those groups is included in the scope of their enabling legislation.

**Performance measurement**

- Where an entity agrees a set of objectives in a contract involving the execution of its main function, it should seek to measure and record its performance against those objectives. In particular, it would be useful for an entity to assess its own operating efficiency (cost/unit of output) and, where practicable, benchmark its processes against comparable functions carried out by other organisations.

**Procurement**

- Entities involved in procurement should implement processes that provide assurance of a high degree of staff adherence to conflict-of-interest policy and procedure and should ensure that financial delegations and related powers are in good order and complied with.

**Governance**

- An accountable authority needs to pay careful attention to the scope and limits of the powers provided under the legislation that governs their entity's activities, including any risk that their activities may take the entity outside the constitutional limits to Commonwealth power. This should be a key focus of the accountable authority.



## **Audit findings**

# 1. Background

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## Introduction

1.1 Defence Housing Australia (DHA) is established under the *Defence Housing Australia Act 1987* (the DHA Act). Under section 5 of the Act, the main function of DHA is to provide adequate and suitable housing for, and housing-related services to:

- (a) members of the Defence Force and their families; and
  - (b) officers and employees of the Department [of Defence] and their families; and
  - (c) persons contracted to provide goods or services to the Defence Force, and their families; and
  - (d) persons contracted to provide goods or services to the Department, and their families;
- in order to meet the operational needs of the Defence Force and the requirements of the Department.

1.2 In addition, section 5 of the DHA Act states that:

DHA shall provide such housing and housing-related services as the Minister, by notice in writing given to DHA, directs is necessary for DHA to provide in order to meet the operational needs of the Defence Force and the requirements of the Department.<sup>1</sup>

1.3 Under changes introduced in 2006, section 6 of the DHA Act provides additional functions to DHA, including to provide adequate and suitable housing for, and housing-related services to officials of a non-corporate Commonwealth entity, subject to certain limits specified in the DHA Act.<sup>2</sup>

1.4 Large-scale provision by the Australian Government of housing for Australia's full-time Defence personnel began in the post-war period. Under the *Housing Agreement Act 1956* the states used a proportion of money provided by the Commonwealth to construct, allocate and maintain dwellings for serving members of the Australian Defence Force (ADF).<sup>3</sup>

1.5 Establishing DHA in 1988 was a 'crucial part of the Government's strategies to overcome the long-standing deficiencies in the quality and standards of Defence housing'.<sup>4</sup> Upon establishment, DHA (then the 'Defence Housing Authority') inherited some 23,000 houses, of which some 17,000 were assessed by DHA to be in poor condition. At that time, there was concern that a primary reason for ADF members leaving the services was that the housing provided to them was below

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- 1 Two such directions have been given: to provide services for the provision, management and maintenance of Members without Dependents Choice Accommodation (16 June 2008), and to provide housing allocations and tenancy management services to Members with Dependents (28 July 2008). See Chapter 2.
  - 2 Delivery of services under section 6 of the DHA Act is subject to a ministerial determination under that section and limited in scope by the DHA Act.
  - 3 *Housing Agreement Act 1956*, section 13.
  - 4 Minister for Defence, Defence Housing Authority Bill, second reading speech, 18 March 1987. DHA's original housing stock had been transferred to it from state and territory governments. See Auditor-General Report No.13 1994–95, *Australian Defence Force Housing Assistance*, pp. 4–7.



community standard.<sup>5</sup> By 2009, DHA claimed that housing was a ‘headline attraction in Defence recruitment’.<sup>6</sup>

1.6 The ADF requires its members to move from location to location for a variety of reasons, including postings. Because of the disruption that postings impose on the lives of members and their families, the ADF wishes its members to be assured of the availability of an appropriate standard of accommodation at the posting destination.

1.7 As of 30 June 2019, DHA had 17,948 properties under management, a property portfolio valued at \$11.2 billion, and housed around 15,800 ADF members in DHA-supplied housing.

## Housing and housing services provided by DHA

1.8 DHA has been engaged by Defence to:

- *provide Service Residences for ADF Members with Dependants.*<sup>7</sup> Each year, Defence provides DHA with a forecast, known as the ‘Defence Housing Forecast’, which details the number of Members with Dependants requiring housing for the next five years by location. DHA provides Service Residences to members according to a member’s rank. Defence policy identifies five market-rent based ranges, called ‘rent bands’. Each rent band specifies a price range and varies with posting location<sup>8</sup>;
- *provide housing for single ADF members living off-base;*
- *administer Rent Allowance paid by Defence for ADF families and singles living in private accommodation.* Where a DHA Service Residence is not available at the ADF member’s rent band, or suitable DHA accommodation is not available for another reason, an ADF member may rent through the private market. In these cases, the ADF member finds their own accommodation (subject to DHA approval).<sup>9</sup> DHA then administers the payment of Defence-funded Rent Allowance; and
- *allocate all on-base single ADF member accommodation (short and long-term).*<sup>10</sup>

## Governance

1.9 As well as its own Act, DHA is subject to the *Public Governance, Performance and Accountability Act 2013* (PGPA Act). A board of nine directors is DHA’s governing body and its accountable authority under the PGPA Act. A function of the DHA Board under the DHA Act is to

5 See, for example, Joint Committee on Foreign Affairs, Defence and Trade, *Personnel Wastage in the Australian Defence Force*, November 1988, p. 307. Numerous reviews since the 1970s forward discerned a causal link between the housing provided and ADF member retention rates: see the Garland Review (1970); Monaghan Review (1985); Hamilton Review (1986); Cross Review (1988) and Glenn Report (1995). See also Church, N. (2017), *Defence housing—key issues and impacts*, Parliamentary Library, 17 January 2017.

6 DHA, *Annual Report 2008–09*, p. 5.

7 Service Residences (formerly ‘married quarters’) are homes supplied by DHA to meet Defence’s requirements for accommodating ADF members. ‘Dependants’ includes certain persons who normally live with a member, including the member’s spouse or partner, and a child or children of the member, as specified in section 1.3.83 of the Defence *Conditions of Service* document ‘PACMAN’ (‘Pay and Conditions Manual’).

8 Rent Bands are specified in PACMAN, Annex 7.B.

9 DHA approval is provided under delegation set out in PACMAN, section 7.8.

10 The amount and types of accommodation provided by DHA as at June 2019 are set out in Appendix 2.

ensure DHA's proper and efficient performance of its functions.<sup>11</sup> In addition the PGPA Act establishes general duties of the accountable authority, which include that the Board promote the proper use and management of public resources and promote the financial sustainability of the entity.<sup>12</sup> DHA staff (around 650 in number) are engaged under the *Public Service Act 1999* and are located in 22 offices around Australia.<sup>13</sup>

1.10 DHA is prescribed as a Government Business Enterprise (GBE) in the PGPA Rule 2014.<sup>14</sup> There is no requirement under the DHA Act for DHA to make a profit or a return. However, as a GBE, DHA is expected to operate as a commercial organisation and deliver financial returns to the Commonwealth, which it began to do in 1996–97.<sup>15</sup> DHA has two 'shareholder ministers': in the Defence portfolio, the Minister for Defence and, in the Finance portfolio, the Minister for Finance.<sup>16</sup> As DHA sits within the Defence portfolio, the former is also DHA's responsible Minister.<sup>17</sup>

1.11 In 2018–19, DHA services attracted payment from Defence of about \$573.2 million, of which \$474 million comprises rent.<sup>18</sup> DHA also obtains income from selling property: from land and property development (income of \$140.1 million in 2018–19); its Sale and Leaseback program (now called the 'Property Investment Program', \$156.6 million in 2018–19); and disposal of property DHA no longer requires (\$35.4 million in 2018–19). DHA is exempt from state and territory taxation, and pays tax equivalent payments to the Commonwealth under competitive neutrality arrangements.<sup>19</sup> DHA has a formal loan agreement with the Commonwealth (as represented by the Minister for Finance), with fixed borrowing limits.<sup>20</sup>

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11 DHA Act, section 11B.

12 PGPA Act section 15. The duties and roles of the governing board (accountable authority) of a corporate Commonwealth entity such as DHA are outlined in Auditor-General Report No. 34 2018–19, *Effectiveness of Board Governance at Old Parliament House*, pp.14–15, available at <https://www.anao.gov.au/work/performance-audit/effectiveness-board-governance-old-parliament-house>.

13 The *DHA Annual Report 2018–19* (pp. 181–2) states that DHA had 577 ongoing and 69 non-ongoing staff as at 30 June 2019.

14 DHA became a GBE in 1992. A GBE is a Commonwealth entity or Commonwealth company that is prescribed by the rules (section 8 of the PGPA Act). Section 5 of the PGPA Rule prescribes nine GBEs: two corporate Commonwealth entities, of which DHA is one; and seven Commonwealth companies. See Department of Finance, *Commonwealth Government Business Enterprises—Governance and Oversight Guidelines* (Resource Management Guide No. 126), January 2018.

15 DHA and Australia Post are the two GBEs that are not a company nor subject to the *Corporations Act 2001*.

16 The GBE Guidelines refer to 'Shareholder Ministers'. However, this term is used in a policy, not legal sense. The DHA Act establishes DHA without providing for any minister to have a shareholding.

17 On 3 October 2019, DHA was advised that the Minister for Veterans and Defence Personnel was authorised by charter letter to carry out portfolio responsibilities within the Defence portfolio for DHA.

18 This cost to Defence is offset by funds it gathers from members (in effect, contributions towards rent), amounting to \$205.2 million in 2018–19. Defence's payment of rent to DHA operates independently of any obligation the ADF member has to contribute to that cost to Defence.

19 As part of the 1995 Competition Principles Agreement, Commonwealth, state and territory governments agreed that 'The objective of competitive neutrality policy is the elimination of resource allocation distortions arising out of the public ownership of entities engaged in significant business activities: Government businesses should not enjoy any net competitive advantage simply as a result of their public sector ownership'. The application of competitive neutrality principles to DHA is set out in Australian Government, *2015–16 Heads of Treasuries Competitive Neutrality Matrix*, February 2017.

20 The borrowing limit is set by the money appropriated by the Parliament for the purpose of lending money to DHA.

1.12 Historically, DHA has adopted a business model in which it has been a property developer. DHA considered that 'new-build' provided the best value for money to meet Defence needs. Under this model, DHA has built dwellings for Defence use on some of the property it has developed and has sold the remaining developed lots to the public. DHA has sold its newly-constructed dwellings for Defence use to small-scale ('mum and dad') investors and leases back the same property for a term, typically of six-to-twelve years, for the use of Defence members. Sale and leaseback has been a primary source of capital for DHA since about 2000. As of July 2019, there were about 16,000 investors in DHA properties.<sup>21</sup>

## Reviews of DHA

1.13 Since 2015, the Department of Finance (Finance) has undertaken two reviews of DHA:

- The *Defence Housing Australia Scoping Study* (April 2015) was undertaken to assist government considerations over ownership options for DHA.<sup>22</sup> The Study found that DHA's operating and funding model required change as it was not sustainable in future because:
  - services were currently subsidised by the ownership and development of land and housing, and development required an increasingly large amount of capital to be held by DHA;
  - services had been funded by a reduction in the properties owned by DHA, and through an increasing amount of development activity;
  - each year DHA has to develop land and housing on an increasingly large scale, among other things, to meet its obligations to provision homes for ADF Members in accordance with the provisioning schedule agreed with Defence; and
  - the expansion in scale of DHA's activities ultimately meant DHA was increasingly competing with the private sector.
- The *Forensic Review of Defence Housing Australia* (February 2016) reported on DHA's strategy and structure, historical performance, financial position and forecast financial performance. The Review found that:
  - DHA's business model was no longer viable and that DHA was likely to experience a capital shortfall in the short to medium term; and
  - to ensure that DHA remained able to meet Defence provisioning requirements it was necessary for all stakeholders to reconsider DHA's current mix of acquisition, development and construction and funding sources.

1.14 Since 2016, DHA has been reviewing its work with a view to reshaping its activities. In April 2018, DHA began Project Symphony, an internal project intended to identify an optimal

21 A profile of DHA investors is set out at Appendix 3. Of the \$11.2bn of property DHA has under management, private (sale and leaseback) investors own about \$8.1bn, DHA owns about \$2.1bn and Defence owns about \$1bn.

22 This followed a recommendation in the National Commission of Audit (2013) that DHA be privatised. On 11 May 2015, the Government announced that it would retain ownership of DHA. See Minister for Finance, Media Release 20/15, at <https://www.financeminister.gov.au/media-release/2015/05/11/smaller-government-transforming-public-sector> (viewed 20 January 2020).

business model for DHA in an environment that has been disrupted by changes in the property market, a need to meet new accounting standards and changes in Defence member demographics and housing preferences.<sup>23</sup> This project included a major study of DHA, its 'Current State Assessment', completed in November 2018 and intended to determine how the organisation satisfies its obligations and realises its purpose under the DHA Act.

1.15 In December 2019, DHA management advised the ANAO that its Board had approved a new operating model in November 2019, then expected to take up to 18 months to be implemented.<sup>24</sup>

## Rationale for undertaking the audit

1.16 The provision of adequate and suitable housing and related services for members of the ADF is regarded as essential to meet Defence's operational needs and requirements. When DHA was established, it was expected that its provision of adequate and suitable housing to ADF members would have a positive effect on retention rates in Defence.

1.17 The ANAO has not previously conducted a performance audit of DHA.<sup>25</sup> On 22 October 2018, the Joint Committee of Public Accounts and Audit requested, under subsection 17(2) of the *Auditor-General Act 1997*, that the Auditor-General consider conducting a performance audit of DHA. The audit was foreshadowed in the Auditor-General's *Annual Audit Work Program 2018–19*.

## Audit approach

### Audit objective, criteria and scope

1.18 The objective of the audit was to assess whether DHA administers its functions efficiently and effectively, and in accordance with the Government Business Enterprise Guidelines. To form a conclusion against the objective, the ANAO adopted the following high-level audit criteria:

- Have DHA and Defence established a fit-for-purpose services agreement?
- Has DHA entered into value-for-money purchasing arrangements?
- Does DHA provide services to Defence personnel effectively?
- Does DHA provide services to Defence personnel efficiently?
- Has DHA established effective governance arrangements to support the provision of housing and housing-related services to ADF members and their families?

1.19 The audit examined whether DHA is effective and efficient in performing its functions under the DHA Act. Primarily, this means providing adequate and suitable housing and housing-related services to members of the Defence Force and their families.

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23 The two new accounting standards which affect DHA are: AASB 15 *Revenue from Contracts from Customers*, which DHA applied from 1 July 2018 and AASB 16 *Leases* which DHA will apply from the initial date of application of 1 July 2019.

24 DHA advice to the ANAO, December 2019.

25 Two previous Auditor-General Reports of Defence have encompassed DHA's activities:

- Auditor-General Report No.13 1994–95, *Australian Defence Force Housing Assistance*; and
- Auditor-General Report No.51 2002–03, *Defence Housing and Relocation Services*.

1.20 The audit did not examine:

- the assessment of entitlement to Rent Allowance to ADF members, which is administered by DHA for Defence; or
- relocation services (that is, moving Defence members and their families from one location to another), which are undertaken by Defence.

### **Audit methodology**

1.21 The ANAO methodology included:

- examination of DHA records, including email records, electronic and hard copy documentation;
- review of DHA performance reports, including to address GBE requirements;
- review of information from the departments of Defence and Finance;
- discussions with relevant staff of DHA, Defence and Finance;
- a visit to DHA's Brisbane Office to interview staff performing a variety of DHA functions and observe house inspections in the field near Defence's Gallipoli Barracks at Enoggera, Queensland.

1.22 The audit was conducted in accordance with the ANAO auditing standards at a cost to the ANAO of \$540,000.

1.23 The team members for this audit were David Rowlands, Jordan Bastoni and Sally Ramsey.

## 2. Service agreements

### Areas examined

This chapter examines whether DHA and Defence have established fit-for-purpose service agreements.

### Conclusion

DHA and Defence have established long-standing service agreements for the provision of Defence housing but they are not wholly fit-for-purpose. Defence requirements may exceed what DHA can provide under its legislation. While there are agreed performance measures, these are indicators of activity and do not provide an adequate basis for assessing whether DHA's delivery of housing services has met the agreements' objectives.

### Areas for improvement

The ANAO has made two recommendations aimed at aligning Defence requirements with DHA's legislation and identifying a more complete set of performance indicators in its service agreements.

2.1 To form a conclusion on whether DHA and Defence have established fit-for-purpose service agreements, the following matters were examined:

- whether DHA and Defence have established agreements that are current and consistent with the DHA Act;
- whether the agreements allow DHA to provide Defence members with suitable housing; and
- whether the agreements provide for the monitoring and evaluation of DHA's performance in delivering the required services.

### Have DHA and Defence established current agreements that are consistent with the DHA Act?

The agreements DHA and Defence have established — the Defence Services Agreement (DSA) and Agreement on Members Without Dependents Choice Accommodation (MCA) — are current and are to remain in force until 2023 and 2022 respectively. DHA has not clearly established whether some of the persons to whom it provides housing to satisfy Defence requirements under the DSA and MCA, such as single ADF members, philanthropic organisations and military exchange personnel, are encompassed by the DHA Act.

### Agreements between DHA and Defence

2.2 DHA's services to Defence under the DHA Act are provided through two agreements between the entities, being:

- the *Defence Services Agreement* (DSA) and its addenda — directed at providing housing for ADF Members with Dependents, allocation and tenancy management, and living-in

accommodation. Most of the work undertaken by DHA to provide housing for Defence members and their families is performed under the DSA<sup>26</sup>; and

- the *Agreement on Members Without Dependants Choice Accommodation* (usually referred to as the 'Member's Choice Agreement' or 'MCA') — directed at ADF Members without Dependants.<sup>27</sup>

2.3 The agreements specify: the obligations of both parties; Defence's expectations of the housing and housing services DHA is to deliver; the fees Defence must pay DHA for providing those services; and the allocation of risks.

### *Extending the services provided by DHA*

2.4 Ministers have given two directions under subsection 5(2) of the DHA Act.<sup>28</sup> These have extended the services to be provided by DHA to Defence:

- On 16 June 2008, the Minister directed DHA to provide services for the provision, management and maintenance of Members without Dependants Choice Accommodation (in essence, extending DHA services to single ADF members). This gave rise to the MCA (see the discussion below from paragraph 2.25 forward).
- On 28 July 2008, the Minister directed DHA to provide housing allocation and tenancy management services to Members with Dependants.<sup>29</sup>

2.5 In 2012–13, Defence invited DHA to submit a proposal to provide booking and allocation services for all its Living-In Accommodation (LIA, being single accommodation on Defence bases). Defence accepted the proposal.<sup>30</sup> An addendum to the DSA ('the LIA Addendum') now specifies the booking and allocation services DHA provides to Defence members requiring LIA.<sup>31</sup> DHA agreed a five-year extension of the LIA Addendum with Defence in June 2019. The extended agreement now expires on 30 June 2024.

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26 For the purposes of implementing AASB 16 *Leases*, DHA has identified that the DSA constitutes a lease agreement between DHA and the Department of Defence. At the time of the 2018–19 financial statement audit the ANAO formed the view that in the absence of further clarification to the agreements, the DSA did not meet the requirements under AASB 16 to be identified as the lease. DHA has undertaken to progress amendments to the DSA with the Department of Defence in the 2019–20 financial year to clarify the arrangements between the parties.

27 *Agreement on Members without Dependants Choice Accommodation*, January 2013.

28 Subsection 5(2) of the DHA Act enables the Minister to direct DHA to provide such housing and housing-related services as the Minister, by notice in writing given to DHA, directs is necessary for DHA to provide in order to meet the operational needs of the Defence Force and the requirements of the Department.

29 DHA manages the allocation of Service Residences or other suitable accommodation, and provides tenancy management services for DHA-managed properties. At the outset, DHA provided allocation and tenancy management services under a separate agreement with Defence. This is now incorporated into the DSA.

30 In 2012, Defence informed DHA of the separation of its Accommodation Management Services from Defence's Base Services contracts. (These contracts were examined in Auditor-General Report No. 29 2016–17, *Design and Implementation of Defence's Base Services Contracts*). DHA then developed the online Booking and Allocation Service (BAS). DHA fully rolled-out the BAS to participating defence bases from 1 July 2014. DHA established its LIA Contact Centre in Brisbane to manage the booking and allocation services.

31 'Living-in' means occupying Defence-owned accommodation on Defence bases. This may be short-term to attend training courses or, in the case of single members, longer-term following a posting.

## Defence Services Agreement

2.6 Defence and DHA first signed a services agreement in 2000.<sup>32</sup> The current agreement took effect on 1 July 2006 with an initial period of 12 years, and was extended in May 2013 from 1 July 2018 until 30 June 2023, with the possibility of further five-year extensions to 2033. The agreement refers to DHA's obligations under the *Commonwealth Authorities and Companies Act 1997*, which was replaced by the PGPA Act in mid-2014. The agreement has not been updated to reflect this change.

2.7 The DSA states that its five primary objectives are to:

- (i) enable the Services to be provided in an efficient and cost-effective manner;
- (ii) enable Defence to receive best value for money for the provision of the Services;
- (iii) improve the quality, effectiveness and efficiency of the Services and their provision;
- (iv) minimise any adverse impact of the provision of the Services on Members; and
- (v) facilitate the achievement by DHA of positive results for Shareholder Ministers and Defence as customer.<sup>33</sup>

2.8 Defence's requirements in the DSA are intended to reflect relevant provisions in Defence policy.<sup>34</sup> DHA interprets the DSA as requiring DHA to comply with relevant Defence policy and associated guidance in fulfilling DHA's obligations. The policy articulates an expectation that DHA will make a 'suitable offer' or a 'reasonable offer' of a Service Residence to an ADF member.<sup>35</sup>

## Parties to be provided with housing under the DSA

2.9 The current DSA encompasses 'Defence tenants'. It defines a 'Defence tenant' as a:

- (a) Member;
- (b) Member's spouse in the case of a Member's death or marriage breakdown;
- (c) civilian employee or other civilian nominated by Defence; or
- (d) foreign exchange personnel or foreign students who are required to relocate during their tour in Australia.

2.10 This definition includes parties that are not encompassed by the DHA Act. The following discussion considers the housing DHA has been providing to people other than ADF members and their families, including tenancies under clauses (c) and (d).

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32 This followed an Auditor-General report in December 1994 which had recommended the development of an agreement to specify the services DHA was to provide for Defence. See Auditor-General Report No.13 1994–95, *Australian Defence Force Housing Assistance*, Recommendation 11.

33 Services Agreement, Section 4.2, Objectives.

34 This policy is set out in Defence Determination 2016/19, *Conditions of Service*, a formal determination in four volumes made under section 58B of the *Defence Act 1903*. The *Conditions of Service* document is known within Defence as 'PACMAN' ('Pay and Conditions Manual'). Policy relating to housing is set out in Chapter 7, Volume 2.

35 PACMAN, section 7.6.33. The term generally used by DHA is a 'suitable offer', which is regarded as equivalent. In November 2019, DHA flagged an intention to seek to negotiate a range of 'Policy and Service Agreement Improvements' in connection with its new business model implementation.



### *Housing provided for other Commonwealth entities*

2.11 DHA's authority to provide housing and housing-related services to officials of non-corporate Commonwealth entities other than Defence commenced under changes to the DHA Act introduced in 2006 (see paragraph 1.3 of this audit report).<sup>36</sup> This additional function required a ministerial determination, which the Minister for Defence made in 2006 following the amendment to the DHA Act.<sup>37</sup>

2.12 DHA has provided housing services to other Commonwealth entities including the:

- Australian Customs Service (Customs), which it had been doing from 1993, though its legal authority to do so had previously been unclear;
- Australian Quarantine Inspection Service;
- Australian Maritime Safety Authority (AMSA) from 2009 to 2016. DHA management subsequently obtained legal advice that providing services to AMSA was not within its statutory functions because AMSA was a corporate Commonwealth entity<sup>38</sup>;
- Australian Signals Directorate (ASD). Although DHA had advised the ANAO that it has 'no current agreements to provide housing services to a non-corporate Commonwealth entity' other than Defence<sup>39</sup>, in fact, this is the only such arrangement that continues. DHA had previously provided services under section 5 of the DHA Act during ASD's earlier existence as the Defence Signals Directorate, a part of the Department of Defence. ASD became a separate statutory agency within the Defence portfolio on 1 July 2018 and DHA housing-related services are now provided to ASD under section 6 of the DHA Act.

### *Housing provided for philanthropic and military exchange personnel*

2.13 On the provision of housing to philanthropic representatives and foreign exchange personnel, DHA advised the ANAO that:

If Defence has relevant policies or agreements in place, it can include the housing requirement in the DHF [Defence Housing Forecast]. It is DHA's view that provisioning in accordance with the DHF (under the [DSA]) is consistent with s5 of the DHA Act.<sup>40</sup>

2.14 DHA advised the ANAO in May 2019 that DHA is 'instructed by Defence through the Directorate of Relocations and Housing by the Services Agreement and Housing Management Instructions on what level of benefit these individuals receive'. The Housing Management Instructions (a manual developed and agreed between Defence and DHA) states:

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36 In a letter dated 27 September 2006, the Chair of the DHA Board had advised the Minister for Defence that DHA was assessing the possibility of service arrangements on a relatively small scale with other Commonwealth agencies.

37 The *Defence Housing (Performance of Additional Functions) Determination 2006* applies to 'officers and employees of an Agency (within the meaning of the *Financial Management and Accountability Act 1997*) other than the Department [of Defence], and their families, and contractors to the agency, and their families.

38 A corporate Commonwealth entity is a Commonwealth entity that is a body corporate (that is, has a separate legal personality from the Commonwealth of Australia, enabling it to enter into contracts in its own name, sue and be sued, and acquire property). DHA reported this matter to ministers and disclosed that it had exceeded its functions under the Act in the *DHA Annual Report 2015–16*, p. 100.

39 DHA advice to the ANAO, 8 May 2019.

40 DHA advice to the ANAO, 1 July 2019.

**4.8 Non-ADF Tenant.** Eligible Defence APS employees, Philanthropic and Foreign Exchange Officers (FEO), and Defence Cooperation Program officers (DCP) have an entitlement to an SR [Service Residence] in accordance with the agreements each party has in place with Defence ...

2.15 Defence advised the ANAO that Defence policy includes housing assistance as set out in the Defence Philanthropic Manual (PHILOMAN).<sup>41</sup>

2.16 DHA advised the ANAO in July 2019 that its position is that it should provide housing for parties encompassed by Defence policy and included in the Defence Housing Forecast and the DSA. DHA has been providing housing for philanthropic representatives and military exchange personnel since its establishment in 1988. As of August 2019, it provided 15 houses for philanthropic representatives and around 157 houses for military exchange personnel under the DSA.<sup>42</sup>

2.17 DHA subsequently confirmed with Defence Legal that there is no contract in place between Defence and the Salvation Army or between Defence and Everyman's Welfare Service. These entities are not Commonwealth entities. Further:

- DHA does not currently have a Ministerial Direction that would direct DHA to provide these services.
- The DHA Act does not encompass the provision of housing to entities or arrangements which do not fall within the DHA Act such as the arrangements Defence has with the Salvation Army and Everyman.
- DHA cannot locate any record of legal advice being sought after the provision of housing to these entities began.<sup>43</sup>

2.18 In relation to the hosting of non-Australian Defence personnel, DHA advised the ANAO that Defence had confirmed that Defence agrees with foreign states to facilitate the exchange of foreign defence personnel, which may lead to a housing need for those personnel. Further, DHA advised that the DHA Act does not encompass a situation where such agreements can facilitate DHA providing housing and housing-related services to foreign defence personnel.<sup>44</sup>

2.19 DHA also advised the ANAO that where DHA has provided housing or housing related services to the ADF for the purposes of housing foreign military exchange members, DHA has done so under the auspices of the DSA with Defence. DHA has been seeking to satisfy Defence's requirements and could be seen as acting 'in good faith'.

2.20 DHA management sought legal advice in October 2013 on whether it could provide housing for foreign military personnel and was told that it could not. Available evidence indicates that DHA had considered the use of a ministerial direction under the DHA Act to provide authority. DHA advised the ANAO that it is exploring options to address the points set out above with respect to philanthropic representatives and military exchange personnel. DHA further advised that Defence

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41 Defence's Philanthropic Manual specifies that full-time philanthropic representatives may be provided housing assistance similar to ADF members under PACMAN. The organisations involved are *Red Shield Defence Services* (RSDS), a division of the Salvation Army and *Everyman's Welfare Service* (EWS). Military exchange personnel, who may also be provided with housing assistance, include UK and USA personnel and foreign military officers attending the Defence College (Weston Creek).

42 DHA advice to the ANAO, 14 August 2019.

43 DHA advice to the ANAO, 14 August 2019.

44 DHA advice to the ANAO, 14 August 2019.

was separately investigating the ADF status of foreign military personnel on exchange.<sup>45</sup> There is no evidence that these matters have been considered by the DHA Board.

2.21 A consistent aspect of DHA's provision of housing and housing-related services to non-ADF personnel in the foregoing examples, including in respect to philanthropic personnel and military exchange personnel, is that it has proceeded without establishing that the DHA Act under which it operates provides the DHA Board with the authority for the action it wishes to take. In several cases, DHA management has taken, as its point of reference, the DSA with Defence and Defence's 'instructions' without enquiry as to whether DHA has statutory authority.

### Recommendation no.1

2.22 DHA and Defence align Defence requirements for housing philanthropic organisations assisting the ADF, and foreign exchange and visiting military personnel, with the DHA Act.

**Defence Housing Australia response:** *Agreed.*

2.23 *DHA will work with Defence in examining options clarifying the position with the DHA Act, for housing philanthropic organisations assisting the ADF, and foreign exchange and visiting military personnel.*

**Department of Defence response:** *Agreed.*

2.24 *Defence agrees to the recommendation and will work with DHA to ensure an appropriate solution to this issue.*

### Members' Choice Agreement (MCA)

2.25 Formerly, single ADF members were accommodated by the ADF on-base in 'living-in' accommodation (LIA) or in private residences supported by Rent Allowance paid by Defence. By 2000 DHA was providing some single ADF members with housing not needed by couples and, in 2005, DHA proposed to provide accommodation for single and unaccompanied members.<sup>46</sup> This included off-base accommodation (apartments, townhouses and houses) as alternatives to Rent Allowance. At that time DHA stated it could provide accommodation that delivered high levels of member satisfaction at a reduced cost when compared with Rent Allowance costs. DHA would accept all risks associated with the proposal (capital, vacancy, repair and maintenance).

2.26 Following an 18-month trial (from November 2005) a ministerial direction formalised the matter in 2008 (see paragraph 2.4 above). In December 2008, the Agreement on Members Without Dependents Choice Accommodation ('MCA') agreement was signed. In 2011, the areas covered were expanded to include Brisbane and Canberra and expanded again in 2012 to cover the whole of Australia. The MCA could be extended by five-year increments to 24 years duration in total. DHA provided services under the MCA from April 2011. DHA continued to bear the risks under the revised agreement (see paragraph 2.52 below) until this was amended by a contract change in November 2017.

<sup>45</sup> DHA advised the ANAO in December 2019 that this matter is under consideration by Defence and DHA.

<sup>46</sup> Single members are usually termed 'Members without Dependents'. Unaccompanied members (that is, members whose families are located elsewhere) are referred to as 'Members with Dependents (Unaccompanied)'.

## *Objectives of the MCA*

2.27 The MCA, like the DSA, makes no specific reference to the DHA Act other than that Act being the basis of DHA's establishment. It does not mention the ministerial direction given in 2008 which authorises the MCA work under the Act and requires the standard of accommodation delivered under the MCA to be in line with the conditions in PACMAN.

2.28 The MCA states (clause 3.2) that its objectives are to:

- (i) implement a formal commercial arrangement between the parties for the provision of the Services;
- (ii) enable the Services to be provided in an efficient and cost-effective manner;
- (iii) enable Defence to receive best value for money for the provision of the Services; and
- (iv) minimise any adverse impact of the provision of the Services on Members (collectively Objectives).

## *DHA provision of housing to single ADF members*

2.29 In 2013, Defence advised DHA management that Defence was proposing to clarify the intent of section 5 of the DHA Act by seeking the advice of the Australian Government Solicitor on whether the section:

requires the specified person(s) to have a (dependant) family as the principle determining factor or does it refer to any specified person(s) irrespective of their family situation but would also cover family members where they exist.<sup>47</sup>

2.30 The question was whether the DHA Act encompassed only Members with Dependants or whether it extended to single members. DHA's main function was to provide housing for 'members of the Defence Force and their families' ('married quarters'). The second reading speech had defined DHA's scope as follows: 'the Defence Housing Authority is to be responsible for provision of housing for families of the Defence Force and, where essential, Defence civilian personnel'.<sup>48</sup>

2.31 Defence was seeking assurance on the interpretation of that section of the DHA Act. Defence consulted DHA management, which expressed its disagreement with Defence's intention to seek the legal advice. The ANAO found no record of the matter being resolved. For the avoidance of doubt, DHA and Defence should verify that the provision of DHA services to single ADF members is encompassed by the DHA Act and, if necessary, address any deficiency.

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<sup>47</sup> Message from Defence CFO Group to DHA, 19 June 2013.

<sup>48</sup> Minister for Defence, Defence Housing Authority Bill, Second Reading, 18 March 1987. Although a direction exists under section 5(2) to extend DHA services to single ADF members (see paragraph 2.4) that section of the DHA Act is concerned with directions as to the nature of the housing and housing-related services that DHA provides.

## Do the agreements allow DHA to provide Defence members with suitable housing?

While Defence policy underpinning the agreements focuses on the provision of traditional housing for ADF families, Defence and DHA are taking steps to accommodate changes in the expectations of Defence's workforce.

2.32 The DSA is about providing housing for ADF families. Providing suitable housing generally requires a Service Residence which meets the minimum standards in *Defence Determination 2016/19 – Conditions of Service* as amended (reproduced in PACMAN; see Appendix 4).<sup>49</sup> The Agreement determines the capital inclusions to be provided according to the location and classification of a Service Residence.<sup>50</sup> DHA has consistently achieved high levels of satisfaction in surveys of ADF members that use DHA housing.<sup>51</sup>

2.33 From an analysis of its demographic data, DHA has identified a trend for ADF members, particularly those posted to Sydney, to forgo the standards required of DHA service residences by PACMAN. For example, DHA has used the locations that members choose when they rent private accommodation as an indicator for locality preference.<sup>52</sup> These are not places where most current DHA stock lies.

2.34 DHA also advised the ANAO that:

In circumstances where DHA is able to construct new dwellings it is relatively straightforward to meet Defence housing standards. However, when DHA seeks to add to its portfolio through acquisitions or direct leasing, we are constrained by the product that is available in that market. This creates a challenge for DHA—particularly in areas where the average housing amenity is moving away from Defence's minimum housing standard.<sup>53</sup>

2.35 In circumstances where DHA is unable to provide compliant Service Residences in major metropolitan areas, DHA data suggests that when members are approved for Rent Allowance they are choosing location over amenity. DHA further advised the ANAO that based on its geo-location data, it appears that in some places proximity to base is less important than proximity to the central business district for spouse employment. Some 75 per cent of Members with Dependents in DHA

49 Service Residences comprise the DHA-provided housing that meets the minimum standard specified in PACMAN. DHA also provides 'Rent Band Choice' accommodation, a small number of residences (capped at 500 in Sydney and five per cent nationally) that do not meet that standard but which may be in a location attractive to an ADF member and may be offered to them under Defence policy (PACMAN, Division 5). DHA advised that in 2007, Defence introduced the New Housing Classification Policy (NHCP) which changed the method for classifying Service Residences from an amenity-based classification to a market-based classification. The NHCP was the first step in addressing the minimum standard by providing greater choice of amenity and location of stock within a short distance of the central business districts of Australia's major cities. The NHCP delivered a new minimum standard.

50 See PACMAN, section 7.6.4.

51 ADF member levels of satisfaction with DHA services are reported in DHA annual reports. See, for example, *DHA Annual Report 2018–19*, p. 51. The mean value for 'Members satisfied with their service residence' reported in DHA annual reports over the last ten years exceeds 88 per cent.

52 Defence advised the ANAO (12 March 2020) that, in its view, a variety of factors, including the location of suitable properties and broader market conditions influence where members on Rent Allowance live.

53 DHA advice to the ANAO, 1 May 2019.

housing had a spouse or partner in employment. DHA data also shows that 57 per cent of Members with Dependants in its tenancy database have no children.<sup>54</sup>

2.36 Shareholder ministers wrote to DHA in August 2019, stating that:

DHA is encouraged to work with the Department of Defence as both the policy owner and customer, to maximise flexibility within its existing contractual frameworks, and on any necessary policy reforms to ensure that the housing needs of the Australian Defence Force personnel and their families continue to be met.<sup>55</sup>

## Does Defence monitor and evaluate DHA service delivery?

Defence monitors DHA service delivery using DHA reports against key performance indicators set out in the DSA and MCA agreements. These indicators focus on DHA activity and do not provide an adequate basis for assessing whether the agreements' objectives have been met.

Both agreements provide for review at five-year intervals. Defence undertook a performance review of DHA in 2012 to inform the first review of the DSA in 2013. The performance review's emphasis was on the effectiveness of DHA's delivery and did not consider the cost to Defence or opportunities to improve DHA efficiency. Defence advised that it had commenced a subsequent review of the DSA in 2017–18 but the review had not been completed. DHA advised that the MCA was last reviewed in 2016.

### Key Performance Indicators in the Defence Services Agreement (DSA)

2.37 The DSA includes a set of ten key performance indicators (KPIs).<sup>56</sup> These KPIs are intended to record DHA performance in terms of:

- providing the right number of service residences in the 'right locations', at the 'right level', at the 'right time';
- ADF member satisfaction with a type of DHA housing called 'Rent Band Choice' housing;
- maintenance performance and member satisfaction with its quality;
- vacancy rates for Defence-owned off-base housing; and
- the proportion of members receiving Rent Allowance.

2.38 The Agreement sets out how each indicator is to be measured, with a target value and reporting frequency. Further, the Agreement states that the purpose of these indicators is to provide DHA with focus on the areas which are important to Defence and to specify target minimum performance standards required by Defence which, if not achieved, 'may result in a reduction in the operational capability of the Australian Defence Force'.<sup>57</sup>

2.39 The Agreement requires DHA to meet or exceed the indicators. No penalties (such as fee reductions) are specified for below-target performance nor is there any penalty for late payment of

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54 Note that a dependant includes, for example, an elderly parent. DHA data does not include this detail.

55 Letter to DHA from the Minister for Finance and the Minister for Veterans and Defence Personnel, 30 August 2019

56 These KPIs are set out in Appendix 5.

57 DSA, Section 7.1.

invoices by Defence (such as interest on overdue amounts). Performance against the indicators is reported by DHA to Defence and forms the basis of discussion at the monthly joint DHA–Defence Domiciliary Operations Committee.<sup>58</sup>

2.40 The Allocation and Tenancy Management and Living-In Accommodation (LIA) addenda to the DSA each include their own separate measures of performance in terms of timeliness and ADF member satisfaction.

*The Key Performance Indicators in the current DSA are incomplete*

2.41 The current KPIs provide a basis for measuring and monitoring some aspects of the five DSA objectives (see paragraph 2.7). They provide insight into quality and effectiveness, incorporating targets. DHA measures them regularly, allowing it to observe and quantify changes to these aspects of DHA service delivery.<sup>59</sup>

2.42 None of the existing KPIs helps to gauge the stated objectives of achieving operational efficiency or value for money.<sup>60</sup> Further, measuring the cost-effectiveness of the arrangement would require some comparator (such as the cost of providing Rent Allowance to a similar cohort), but none is provided nor referred to. Measuring performance against the objective of minimising any adverse impact of the provision of the services on members would need a broader assessment of performance, as would ‘facilitating the achievement by DHA of positive results for Shareholder Ministers and Defence as a customer’. There are no KPIs or measures for these objectives.

*Members Choice Agreement performance indicators are also incomplete*

2.43 The MCA requires DHA to ‘meet or exceed the Key Performance Indicators (KPIs)’ (Clause 5.1(a)). As with the DSA, neither DHA nor Defence measure performance against all the stated objectives of the agreement (set out at paragraph 2.28). The three KPIs set out in Schedule 4 of the MCA measure performance in terms of proportion provided of required residences, member satisfaction, and timeliness of residence availability (see Appendix 5).

2.44 The current KPIs have similar characteristics to those of the DSA: they provide a basis for measuring and monitoring one of the agreement’s objectives, the effectiveness of DHA’s performance. They shed no light on efficiency, cost-effectiveness or value for money.

## Recommendation no.2

2.45 DHA and Defence agree key performance indicators that relate to and support the measurement of performance against all the objectives of the service agreements.

**Defence Housing Australia response:** *Agreed.*

2.46 *While DHA believes the current key performance indicators and other contract related reviews are appropriate and in line with measuring the outcomes in the service agreement, DHA acknowledges the intent of the recommendation. DHA agrees to work with Defence to review the key performance indicators as part of the next revision of the Services Agreement.*

58 This committee is chaired by DHA and includes relevant DHA and Defence representatives.

59 The performance data is set out in regular reports to the joint Defence–DHA Domiciliary Operations Committee.

60 There is a KPI entitled ‘Costs’ (KPI 8): this measures vacancy rates for Defence-owned off-base housing.

**Department of Defence response: Agreed.**

*2.47 Defence agrees to the recommendation and will work with DHA as part of the business model review work to address this recommendation. Defence notes that whilst key performance indicators are one of the main ways Defence and DHA measure the outcomes in the service agreement, there are a number of complementary mechanisms (eg. Annual independent market rent reviews, housing forecasting and provisioning processes and other reviews) that also directly support the outcomes in the Service Agreement and the value and cost effectiveness proposition.*

## **Reviews of the service agreements**

### *Review of the DSA (2011)*

2.48 The DSA specifies the timing and scope of reviews, including a major review at five-year intervals. The first such review took place in 2011 and included an 'Independent Performance Review' undertaken in 2012 by Defence. Defence concluded that:

The 'bottom line' is that DHA is providing value for money to Defence in delivering the required outcomes for the SA [services agreement]. By this, it is meant that DHA is using its resources in an efficient, effective, accountable and ethical manner and is making decisions in an accountable and transparent manner. This is clear from the communications between Defence and DHA highlighted in the action register, by the surveys conducted and by the self-assessment of the KPIs.<sup>61</sup>

2.49 The report based this view on an analysis of DHA's own reports of its performance against the KPIs and interviews with stakeholder representatives. In reaching its value-for-money conclusion it did not consider whether the KPIs were appropriate nor examine costs against any comparator or in trend terms. No cost figures appear in the report.

2.50 Defence decided in 2013 to extend the DSA from 2018 to 2023, based partly on the Review's analysis of performance information for the period 2008–11. In notifying its agreement to the extension, it stated that 'Defence's decision to extend DHA's contract took into account the outcome of the major review of the [DSA] and an assessment that DHA is providing value for money in its management and delivery of housing and related services'.<sup>62</sup>

2.51 In its May 2019 advice to the ANAO, Defence referred to a further 'major review' of the DSA beginning in 2016. In March 2020, Defence advised that it had commenced a further major review of the DSA in 2017–18 but that review had not yet been completed.<sup>63</sup> Nevertheless, the parties have proposed or recommended that:

- the extension of the DSA from 1 July 2023 to 30 June 2028. Although both parties wish to proceed, DHA's corporate plan must first be finalised and agreed by ministers; and
- the integration of the First Addendum (Allocation and Tenancy Management Services) within the Services Agreement.

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61 Defence, Report on DHA Contract Performance Review and Procurement Assurance, August 2012, p. 3.

62 Letter of 17 May 2013 from Defence to DHA.

63 Defence advice to the ANAO, 12 March 2020.



## Review of the MCA

2.52 The *Forensic Review of Defence Housing Australia* (February 2016) found that DHA's MCA program was 'a significant drain on DHA's capital resources in an asset class that was well supplied by the private sector in many locations'. It characterised the MCA program as a 'non-core program ... designed to directly compete with the private market to attract single or unaccompanied ADF members renting in the private market and receiving a Rent Allowance'.<sup>64</sup> DHA, it stated, bore significant financial risks for uncertain benefits. The Forensic Review's first recommendation was that there be a comprehensive review of the future of the MCA program including an assessment of the financial and operational impacts of reducing or ceasing the provision of MCA services.

2.53 DHA conducted a review and, with Defence, considered three options:

- Option 1: DHA ceasing MCA provisioning and ADF members sourcing their own accommodation requirements through the private rental markets.
- Option 2: DHA providing MCA accommodation to Defence as a separate category of property to the MWD Service Residences through the DSA under similar terms, conditions and charges that apply to Rent Band Choice properties.
- Option 3: DHA acting effectively as a contract manager only and procuring MCA properties on behalf of Defence under bulk leasing arrangements from private developers.

2.54 Defence did not wish to abolish MCA (Option 1) and did not support Option 3. The parties entered negotiations to restructure aspects of the agreement and, in November 2017, settled on a range of fees and charges to apply in priority and non-priority areas.<sup>65</sup> It is not clear to what extent these changes address the concerns raised by the Forensic Review. In response, DHA advised the ANAO that:

The inclusion of fees and charges need to be considered in conjunction with the revised Capital Plan and other measures adopted by DHA in the interim to address the concerns raised in the Forensic Review, namely the drain on capital resources.<sup>66</sup>

2.55 DHA did not specify the measures it refers to here, nor provide any quantification of the outcome.

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64 Forensic Review, February 2016, p. 12.

65 DHA advice to the ANAO, May 2019.

66 DHA advice to the ANAO, December 2019.

### 3. Value for money in purchasing arrangements

#### Areas examined

This chapter considers DHA's procurement framework, management of conflicts of interest in procurement, the framework for delegations and exercising powers of attorney, and DHA's arrangements for obtaining assurance on the value for money of its property purchases.

#### Conclusion

DHA has appropriate processes in place to assure itself that it achieves value for money in property acquisitions. The assurance provided to the accountable authority regarding value for money in purchasing arrangements more generally would be enhanced by improved management of financial delegations and powers of attorney.

#### Areas for improvement

The ANAO identified two areas for improvement. The first is that DHA's version controls across procurement policy documents do not provide assurance to the accountable authority that only authorised versions of policy documents are being used. The second is a weakness in the controls set in the electronic workflow used during procurement which allows DHA staff to select an approver who does not have the appropriate financial delegation to approve the procurement.

3.1 DHA purchases a range of goods (such as property and land) and services (such as plumbing services, building services, valuation advice and legal expertise) in the delivery of its functions. To form a conclusion on whether DHA obtains value for money in its procurement activities and property acquisition, the following matters were examined:

- whether DHA has established a proper procurement framework;
- whether DHA manages conflicts of interest and receipt of gifts and benefits effectively;
- whether DHA manages the use of financial delegations and powers of attorney properly; and
- whether DHA assures itself that it obtains value for money.

#### Has DHA established a proper procurement framework?

DHA management has established a single, organisation-wide procurement model with policies, procedures and an electronic workflow system. There is scope to improve the controls underpinning the current authorised procurement policy and the selection of an approver in the electronic workflow used for procurement. Compliance checking conducted by DHA indicates multiple instances of non-compliance with procurement policy, including non-compliance with delegations.

#### Policies, procedures and systems for managing procurement

3.2 In 2016, the Forensic Review found that DHA had two separate but similar procurement processes:

- *operational procurement*: the procurement of housing and related services to fulfil DHA's main function; and

- *corporate procurement*: obtaining the goods and services required to operate DHA.

3.3 The Forensic Review observed inconsistencies between the two processes, including in the establishment and operation of procurement panels and in contract management. To streamline procurement, the Forensic Review recommended that DHA review all procurement policies and procedures with a view to achieving a single set of guidelines, including contract management, that is capable of consistent application throughout the organisation.

3.4 In its *Annual Report 2016–17*, DHA reported that this recommendation was complete as at 30 June 2016. To assess whether DHA has established a proper procurement framework that addresses the review findings, the following areas were reviewed by the ANAO:

- procurement policy;
- standard operating procedures; and
- the procurement electronic workflow system.

### **Procurement policy**

3.5 DHA has published its procurement policy on its intranet as a webpage. It is unclear from DHA documentation when the policy was issued or whether it was approved by the accountable authority. It was last modified in October 2018.

3.6 The policy prescribes a single, whole of DHA process for procurements. The ANAO observed that procurement policy documents posted to DHA's intranet lacked authorised version control information. This presents the risk to DHA that key policies may be amended without authorisation of the Board and is an area for improvement.

3.7 While DHA is not required to adhere to the Commonwealth Procurement Rules (CPRs), it stated in its *Annual Report 2018–19* (p. 96) that its 'approach to procuring goods and services, including consultancies, reflects the core policies and principles of the CPRs'. DHA's procurement policy uses the definition of procurement from the CPRs and incorporates five key procurement principles that align with the CPRs. The principles are: obtain value for money; encourage competition among suppliers; ensure risks are assessed and acceptable; ensure the efficient, effective, economical and ethical use of resources; and maintain accountability and transparency in decision making.

### **Standard operating procedures**

3.8 DHA management has developed, or is updating, standard operating procedures for procurement development acquisitions, retail acquisitions, construction and the disposal of excess properties. The procedures step DHA staff through the procurement: including consultation with the procurement team; the use of panel providers; securing delegate approval; the creation and execution of contracts; and the use of DHA's electronic workflow system.

### **Procurement electronic workflow system**

3.9 DHA staff use DHA's electronic workflow system to keep a record of all procurements. A DHA internal audit has identified a weakness in the controls set in the workflow system which allows DHA staff to select the approver for the procurement.<sup>67</sup> While the procurement policy requires staff

67 DHA, Internal Audit – Delegations and Powers of Attorney, June 2019.

to obtain approval from the appropriate financial delegate before approaching the market, the workflow system does not have staff delegations built into user profiles and staff are able to select who they determine the appropriate approver to be, rather than this being a control built into the workflow system.

3.10 Between September 2016 and April 2019, DHA checked completed procurements to assess their compliance with procurement policies, using a checklist of 42 criteria. The ANAO reviewed all ten completed checks undertaken between January and April 2019.<sup>68</sup> The review found that, of the total of 265 criteria required to be met across all of these procurements, 48 (18 per cent) had not been satisfied.<sup>69</sup> A range of issues were observed:

- In six cases, there was non-compliance with delegations, including:
  - approval to proceed being actioned by a staff member other than the delegate;
  - the wrong person being listed as the financial delegate; or
  - the financial delegate being a member of the tender evaluation committee.
- In three instances, the procurement (business) case was created late:
  - one procurement case was created after the approach to market;
  - one procurement case was created after the quote was received; and
  - one procurement case was created after the contract had been executed.
- In two cases, the incorrect tender methodology was used, with one procurement being conducted as a direct source procurement when it should have gone to tender, and another procurement seeking only two tenders when its value required three.
- In seven cases, information had not been entered into the procurement case to demonstrate whether the procurement had been considered as one that could engage with indigenous businesses, as required by DHA's Indigenous Procurement Strategy.
- In two cases, work health and safety assessments were not completed before the contracts were executed.

3.11 DHA no longer performs these checks. However, DHA stated that a program of regular compliance testing of procurements was being considered by the DHA Board Audit Committee at its March 2020 meeting as part of a broader compliance testing program, with testing expected to commence before 30 June 2020.<sup>70</sup> DHA reports its compliance with the Commonwealth Resource Management framework as part of biannual finance law compliance reporting (see paragraphs 3.30 – 3.31, below).

3.12 The non-compliances identified by DHA's review process indicate the need for further training and guidance of staff engaged in procurement, and to improve the controls in the electronic workflow system. In December 2019, DHA advised the ANAO that:

DHA is considering its approach to upskilling staff in relation to procurement and will utilise whole of government resources as appropriate.

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68 The ANAO sample comprised the ten most recent checks, out of the 101 completed to date from September 2016, as these checks are most current.

69 Not all 42 criteria were applicable to each procurement.

70 DHA advice to the ANAO, 17 March 2020.

DHA is currently reviewing its approach to its second line of defence compliance review of procurements, and inclusion of audits in the internal audit program.

## Does DHA manage conflicts of interest properly?

DHA has conflict of interest policies for its board and staff. The staff policy requires annually updated declarations, with about one-in-five staff failing to complete this declaration as of April 2019. DHA did not retain records for the completion of declarations for the 13 Senior Executive Service officers employed. In March 2020, DHA advised that it had improved the completion rate for conflict of interest declarations by staff across all classifications except DHA Level 5.

3.13 As a Government Business Enterprise that engages in regular procurement and contracting, DHA advised the ANAO that it is alert to its exposure to probity-related risks to meet expectations for ethical behaviour. At the time of the audit, DHA had two policies on conflict of interest: one for the DHA Board, oriented to the duties of directors, and the other for DHA staff. The DHA Board approved the former on 15 November 2018 and the Managing Director approved the latter on 28 February 2017.

### *DHA Board Conflict of Interest policy*

3.14 The DHA Board conflict of interest policy applies to Board members; members of Board committees; and observers when making contributions of substance to issues under Board consideration. The policy requires: disclosing any interest or duty that may, or may be perceived to, conflict with the member's functions or duties at DHA; disclosing direct and indirect interests and holdings, whether or not they constitute conflicts; and taking all reasonable steps to avoid any conflicts of interest or duty.

3.15 A review of the minutes of the DHA Board show that, for each of the meetings since the introduction of the Board conflict of interest policy, Board member conflict of interest updates have been a standing item on the meeting agenda. The Board minutes also show that declarations are made by Board members in relation to conflicts of interest. DHA advised the ANAO that that no current Board members have declared a current or previous interest in a DHA development project or property.

### *DHA staff conflict of interest policy*

3.16 DHA's procurement policy requires staff to adhere to probity principles throughout a procurement. It requires staff to behave in an ethical manner, to recognise and deal with conflicts of interest and to carefully consider the use of public resources.

3.17 The DHA staff conflict of interest policy requires each staff member to complete a conflict of interest declaration: on engagement with DHA, and then make a new declaration annually; or when their work or personal circumstances change; when they are about to participate in a recruitment or procurement where a private interest or relationship may result in a conflict; or at any other time they become aware that they have a conflict.

3.18 DHA records from April 2019 indicate that about one-fifth of non-Senior Executive Service (SES) DHA staff had not completed conflict of interest declarations at that time (Table 3.1).<sup>71</sup> This had reduced to one-tenth by March 2020.

**Table 3.1: Conflict of interest declaration completion rate by employee level, April 2019 and March 2020**

Current classification	Completion rate (%)	
	April 2019	March 2020
DHA Level 1	[No data]	100.0
DHA Level 3	90.1	94.3
DHA Level 4	77.3	79.4
DHA Level 5	84.7	75.9
DHA Level 6	77.1	80.0
Executive Level 1	78.1	96.4
Executive Level 2	78.8	90.6
Senior Executive Service	[No data]	100.0
<b>Total</b>	<b>79.9</b>	<b>89.6</b>

Source: April 2019 data retrieved from DHA records; March 2020 data provided by DHA.

#### *Gifts, benefits and hospitality policy*

3.19 DHA's gifts, benefits and hospitality policy states that 'DHA staff are not permitted to solicit or accept gifts or benefits related to the performance of their official duties, from an external or unofficial source, without prior DHA approval.' The policy states that:

DHA staff must never accept:

- gifts of money or pecuniary equivalents ...
- a gift or benefit that is more than a token gesture, or that could be reasonably perceived as undermining the impartiality of DHA ...
- any gift, benefit or hospitality from people or organisations about whom they are likely to make decisions regarding tender processes, procurement, enforcement, regulation; or
- any gift or benefit that is given with the intention to cajole or influence a DHA staff member to act in a particular manner towards an existing or potential supplier or commercial partner, or could be interpreted as doing so ...

3.20 The policy requires that consideration of the creation of conflicts of interest, both actual and perceived, is required in accepting a gift. The policy also details a framework under which managers can approve a gift or benefit being accepted by a staff member. Acceptance of gifts valued below \$150 requires the staff member to obtain approval from their immediate manager. For gifts valued

<sup>71</sup> DHA advised the ANAO that about six per cent of its employees were non-operational (on long term leave, temporarily transferred out of DHA, and so on). However, DHA was unable to clarify what effect this may have had on the proportion of completed conflict of interest declarations as at April 2019.

above \$150, approval by the relevant general manager (SES level) is required and this is only to be given in exceptional circumstances.

3.21 DHA's gifts and benefits register as at August 2019 showed that 126 declarations had been made between October 2016 and August 2019.<sup>72</sup> Among these, in 12 cases the declarer had either declined or was proposing to decline the offer. Where the gift was accepted, the most common practices were either to donate the gift to be raffled at a social club function, which occurred on 45 occasions, or to share the gift amongst the team or local office of the recipient (28 occasions).

3.22 As at January 2020, DHA did not conform to current best practice advice for public service entities by publishing its gifts and benefits register on its website.<sup>73</sup>

*Tension between the conflict of interest policy and the gifts, benefits and hospitality policy*

3.23 There is a tension between DHA's staff conflict of interest policy and the gifts, benefits and hospitality policy. Whereas the latter outlines a framework under which a gift or benefit can be accepted by a DHA staff member, provided a number of conditions are met, the conflict of interest policy is unambiguous, stating that:

DHA is committed to ensuring that conflicts of interest are identified and managed so that they do not affect public confidence in the integrity of DHA and the APS. As such, DHA employees are not to derive any pecuniary or non-pecuniary benefit from their professional dealings with organisations or individuals as a result of their employment with DHA, outside their normal wages and conditions.

3.24 On its face, the staff conflict of interest policy precludes DHA staff from accepting gifts and benefits in any circumstances. DHA should consider the interaction of the two policies.

3.25 In March 2020, DHA advised the ANAO that it would amend the relevant policies to ensure clarification.

## Does DHA properly manage financial delegations and powers of attorney?

A 2019 DHA internal audit identified weaknesses in the governance framework for delegations and a risk that powers of attorney were not being used in accordance with their legal basis. DHA has advised the ANAO that it is reforming the delegations framework and the use of powers of attorney.

3.26 Section 65 of the DHA Act provides that the Managing Director may delegate to a staff member, in writing, any of their powers under the DHA Act. Through this mechanism, financial approval powers are delegated to DHA staff under an instrument of financial delegation. Delegations are assigned to staff based on the specific requirements and responsibilities that they

<sup>72</sup> The average declared value of the gifts was about \$80.

<sup>73</sup> DHA staff are employed under the *Public Service Act 1999*. The Australian Public Service Commission provides guidance which requires public service agency heads to publish a register of gifts and benefits they accept on their departmental or agency website on a quarterly basis. The Guidance states: 'As a matter of best practice, there is a strong expectation that agency heads will also publish gifts and benefits received by staff in their agency that exceed the threshold of \$AUD100.00 (excluding GST)'. In addition, it states 'To ensure consistency and transparency across the Commonwealth, statutory office holders and heads of Commonwealth entities and companies are strongly encouraged to adopt this guidance, and mirror these arrangements, as best practice'.

exercise and approval is required from a staff member's General Manager or Regional Director before the delegation can be given.

3.27 An internal audit of DHA's system of delegations was conducted in 2019. The audit made findings relating to:

- the process by which powers are delegated — Internal Audit was unable to obtain evidence of these approvals for a sample of delegations tested;
- the way the delegation instruments are drafted; and
- the linkages of delegations to specific powers granted under legislation.

3.28 The audit also identified weakness in the governance framework for delegations, finding a need to improve procedures to notify the Governance team when a breach is identified.

3.29 In response to the internal audit, DHA noted that DHA's delegations framework was being reviewed as part of an internal Governance Reform Program. DHA further stated that:

Based on the work completed as part of the [Governance Reform Program], management will consider and develop appropriate compliance reviews and checks, and formalise a compliance reporting framework to the Board.

### *Breaches of financial delegations*

3.30 Under the PGPA Act framework, the accountable authority of DHA (the Board) must report significant non-compliance with the finance law to DHA's ministers. DHA's Audit Committee is briefed on breaches of the finance law twice-yearly, and provides advice to the Board on whether these breaches constitute significant non-compliance.

3.31 DHA has reported a total of six instances of significant non-compliance with the finance law across 2016–17, 2017–18 and 2018–19. Of these six instances, four related to procurement and property acquisition:

- there were two instances of approval and payment of contractor invoices either before the relevant work had been completed or without reasonable steps being taken to ensure the works had actually been completed; and
- there were two instances of non-compliance with DHA's financial delegations.

### *Power of attorney*

3.32 DHA management has provided power of attorney to staff members to allow them to sign documents on behalf of DHA, such as contracts for land sales, acquisitions and leases. Before August 2019, DHA powers of attorney had no linkage to a staff member's level of financial delegation and were considered to be an administrative function. A June 2019 DHA internal audit of DHA's use of powers of attorney identified several deficiencies:

- the standard form used to confer powers of attorney had fallen out of alignment with certain state legislation;
- power of attorney is conferred upon individual staff members, not the position they hold, with some staff retaining power of attorney after moving to a position that no longer required it; and
- DHA does not provide formal training on use of powers of attorney to staff members to whom these powers are given.



3.33 The internal audit stated that the issues identified ‘present a risk that POA [power of attorney] may not be exercised in accordance with their legal basis, placing DHA at legal and financial risk, or impacting the validity of contracts executed under a POA.’

3.34 In March 2020, DHA advised the ANAO that:

Advice was sought from the AGS with regard to the form and validity of DHA’s POA instruments. With the assistance of the AGS, DHA confirmed that the General POAs registered in each jurisdiction continue to be valid and will remain so unless DHA decides to revoke them. Legal advice confirms that DHA is able to make POA appointments to a position or to an individual. As better practice is to appoint POA to a position, DHA executed an instrument under the DHA Act, which revoked all POA appointments to individuals and appointed POA to seven Senior Executive Group positions.

The POA appointments to the positions of this small cohort of DHA’s senior leadership group is to provide DHA with contingency in the unlikely event that a document is required to be executed using POA. It is anticipated that on the rare occasion when a document is proposed to be executed under POA that DHA’s legal team will provide advice on the execution requirement, thus eliminating the need for training for POA holders. As noted above, with the assistance of the AGS, DHA confirmed that the General POAs registered in each jurisdiction continue to be valid and will remain so unless DHA decides to revoke them.

## Does DHA assure itself that it obtains value for money?

DHA management assures itself that its property and land acquisition processes provide value for money by having independent valuations conducted for each land or property purchase, completing due diligence checks prior to committing to purchase, and having higher value purchases approved by senior staff. In terms of the valuations obtained, prices paid for:

- five of the seven property transactions examined by the ANAO were equal to or less than the valuation estimate; and
- thirteen of the 18 retail acquisitions examined by the ANAO were below the valuation estimate and equal to the valuation estimate in five cases.

## Value for money of DHA’s acquisition of property and sites for development

3.35 In 2016, the Forensic Review found that DHA had paid a ‘significant premium’ above market value for certain acquisitions between 2010 and 2015. The review further noted several instances where premiums above market value had not been disclosed to the DHA Board or ministers, and that submissions provided to them could actually ‘be construed to imply that the independent valuations were supportive of the proposed contract price.’

3.36 The ANAO has examined:

- the prices paid versus valuation estimates received for all seven development acquisitions made by DHA since its implementation of the 2016 Forensic Review recommendations; and
- a random sample of 18 (of the 78) retail acquisitions made by DHA in 2018–19.

3.37 In five of the seven development acquisitions, DHA has paid below the valuation estimate. In one instance, it has paid three per cent above the valuation estimate and in another

instance, 12 per cent above the valuation estimate. Table 3.2 summarises the outcomes of the ANAO's review.

**Table 3.2: DHA's development projects — price paid against valuation**

Development project	Date approved	Highest valuation estimate (\$)	Approved purchase price (\$)	Purchase price as a percentage of highest valuation estimate
Wardell Street, Enoggera QLD	November 2016	2,300,000	2,360,000	103
Mooroobool QLD	November 2016	1,300,000	1,285,000	99
Aulds Road, Ripley QLD	March 2017	5,000,000	4,950,000	99
Park Way, Mawson Lakes SA	May 2017	1,800,000	1,726,000	96
Southern Cross Avenue, Middleton Grange NSW	September 2017	10,670,000	10,550,000	99
Trafford Street, Angle Park SA	December 2017	13,530,000	12,050,000	89
Maundrell Terrace, Aspley QLD	March 2018	4,025,000	4,500,000	112

Source: ANAO analysis of DHA data.

3.38 In regards to the sample of 18 retail acquisitions examined by the ANAO, DHA purchased the property below the valuation estimate in 13 cases and for the valuation estimate in five cases. For both the development acquisitions and the retail acquisitions reviewed by the ANAO, the valuations were completed by professional valuation firms. In six of the seven development projects and in 17 of the 18 retail acquisitions examined, the required due diligence reports were filed in DHA records.<sup>74</sup>

### *Executive oversight of property acquisition and development*

3.39 Given the centrality of land and property acquisition and development to DHA's business model, it is important that it have oversight from DHA's senior leadership and Board. The ANAO examined the activity of the DHA committees that provide dedicated approval and oversight for DHA's developments and acquisitions, the DHA Board, the Board Investment Committee and the Executive Property Committee. There was evidence of active consideration of land and property acquisition and development proposals by the board and these committees.

<sup>74</sup> For the Mooroobool development project, DHA advised the ANAO that from DHA's perspective, the project was a unique acquisition as technically it was a retail construction acquisition. The lots obtained were from an existing and established subdivision, the lots were already titled and serviced and therefore no due diligence was required to be completed.

## 4. Effectiveness of service delivery

### Areas examined

This chapter considers the effectiveness of DHA's delivery of services to Defence personnel under the DHA Act.

### Conclusion

DHA has been largely effective in the delivery of the services it provides under the DHA Act and in returning a dividend to the Commonwealth. While DHA's performance in delivering services is monitored and reported on regularly, no work has been done to assess the effect of DHA's services on ADF member retention, which was a major reason for creating DHA.

### Area for improvement

The ANAO has suggested that DHA and Defence examine whether there is scope to investigate if DHA's performance yields savings to Defence in reduced recruitment and training costs.

4.1 To form a conclusion on the effectiveness of DHA's delivery of services under the DHA Act the following matters were examined:

- whether DHA has measures of effectiveness in place to assess its performance in providing adequate and suitable housing for members of the Defence Force and their families;
- whether DHA delivers the services required under the service agreements; and
- whether DHA has returned dividends to the Commonwealth.

### Has DHA measures of effectiveness in place to assess its performance?

DHA has measures of effectiveness in place to assess its provision of housing for members of the Defence Force and their families. Although a major reason for creating DHA was to improve the standard of Defence housing so as to address low ADF member retention rates, there has been no work done to assess the effect of DHA's services on retention rates.

4.2 To assess whether DHA has developed measures of effectiveness to assess its performance under the DHA Act, the following areas were considered:

- DHA's formal purposes set out in its Corporate Plan and key performance indicators; and
- whether there is a measure of the effect of DHA housing provision on ADF retention rates.

### DHA's purposes and key performance indicators

4.3 DHA prepares a corporate plan each year which includes its purposes under the PGPA Act.<sup>75</sup> For its *Corporate Plan 2018–19 to 2021–22*<sup>76</sup>, DHA identified two purposes:

- Purpose 1: Provide quality housing and related services; and

<sup>75</sup> The PGPA Act defines the 'purpose' of a Commonwealth entity as including 'the objectives, functions or role of the entity'. The Act requires the Accountable Authority of the entity to govern it in a way that promotes the achievement of the purposes of the entity.

<sup>76</sup> DHA regards its corporate plan as commercially sensitive and does not release it to the public. Instead, it releases a 'Statement of Corporate Intent'.

- Purpose 2: Provide value to DHA shareholders.

4.4 Purpose 1 reflects the main function conferred on DHA under section 5 of the DHA Act and Purpose 2 reflects the government's expectations of DHA as a GBE.

4.5 DHA's 2018–19 Corporate Plan identified a set of key performance indicators (KPIs) and the DHA 2018–19 Annual Report attributes these to the two purposes listed above and reports performance against them. DHA also reports its performance each quarter to its ministers against those KPIs. For each KPI, DHA provides numerical targets and reports its performance against those targets, with commentary to provide some insight where, for example, performance differs from plans or expectations.<sup>77</sup>

4.6 The indicators used for Purpose 1 are similar to those set out in DHA's service agreements with Defence (see Chapter 2). These indicators relate to the number of properties provided, constructed or purchased for Defence, member satisfaction with their residence, with maintenance and with DHA customer service. They also include one KPI to assess '[sale and leaseback] investor satisfaction with customer service'. Purpose 2 is mainly financial in nature and reflects the requirements specified as 'minimum Key Performance Indicators for Corporate Plans' in the GBE Guidelines.<sup>78</sup> (Some of these KPIs relate to business efficiency and are considered in Chapter 5.)

4.7 DHA's quarterly reports to its ministers incorporate performance information, including on performance against the Corporate Plan KPIs, for the relevant quarter and for the whole financial year. Defence and Finance monitor these reports, as shown by ministers' responses to DHA, sometimes asking that the reports be modified to include particular performance information.<sup>79</sup>

### **Assessing the effect of DHA's work on ADF retention rates**

4.8 A major reason for creating DHA was to address low ADF member retention rates.<sup>80</sup> Neither Defence nor DHA have assessed the extent to which DHA contributes to the improvement or maintenance of ADF retention rates.

4.9 DHA advised the ANAO that retention was a factor in Defence introducing its New Housing Classification Policy (2007), which set a new minimum housing standard.<sup>81</sup> In 2019, the DHA managing director referred to its purpose as 'to deliver housing and related services that support the operational, recruitment and *retention* goals of the Australian Defence Force (ADF)' [emphasis added].<sup>82</sup>

<sup>77</sup> See, for example, the DHA Annual Report 2018–19, pp. 43–65.

<sup>78</sup> Finance, *Commonwealth Government Business Enterprises – Governance and Oversight Guidelines* (Resource Management Guide No. 126), Table 4, pp. 19–20.

<sup>79</sup> For example, in January 2019, ministers responded to the report for the September 2018 quarter requesting greater visibility of 'the underlying drivers of performance and early warnings of underperformance, including where underperformance in one area is offset by better performance in another area'. Source: Letter from the Minister for Finance and the Public Service and the Minister for Defence Personnel to DHA, 15 January 2019.

<sup>80</sup> DHA has stated that, when it was established, 'the standard of Defence housing was so poor that it caused the ADF retention problems' (DHA Annual Report 2002–03, p. 2) and, in 2018, 'Housing was listed as the number one reason for the exit of ADF members from service' (DHA, Defence Housing Issues Paper, July 2018).

<sup>81</sup> DHA advice to the ANAO, 1 May 2019.

<sup>82</sup> DHA Annual Report 2018–19, p.4.

#### 4.10 Defence put a similar view to a Senate committee in 2016:

There is a significant risk that changes, or disruption, to the provision of housing services is likely to have a direct and negative impact on ADF members and their families and, in turn, impact capability and retention in the ADF ...

The provision of quality housing and related services is a significant component of the ADF employment offer that can directly affect retention rates in the ADF.<sup>83</sup>

4.11 Defence could not provide any metrics or data that indicate the effect of housing adequacy on member retention or separation.<sup>84</sup> When researching the matter in March 2019, DHA found that neither it nor Defence could provide an estimate of the costs of replacing a member nor of savings from reduced turnover. Defence advised the ANAO that the outcomes of a recent internal report (the 2019 Optimising Defence Employment Package Report) had highlighted that 'family and home related benefits' were ranked equal fourth out of 16 elements of the employment package by permanent ADF members'.<sup>85</sup> Defence's view was that this result 'when combined with the Member satisfaction KPI results, indicate that DHA does make a valuable contribution to member retention'.

### Does DHA deliver the services required under the agreements?

Internal reporting indicates that DHA delivers the services required under its service agreements with Defence, consistent with its main function under the DHA Act. This performance is reported and monitored regularly.

4.12 To examine whether DHA is delivering the services required under the service agreements (broadly equivalent to DHA's Purpose 1), the following aspects were examined by the ANAO:

- the proportion of the ADF using DHA housing and housing-related services;
- the scope of the term 'effectiveness' in the context of the Defence Services Agreement (DSA) and the performance actually reported; and
- the monitoring of DHA service delivery.

### Proportion of the ADF using DHA housing and housing-related services

4.13 In August 2018, DHA's Current State Assessment project calculated the distribution of housing types among ADF members. This project indicated that 30 per cent of all ADF members occupied a Service Residence and slightly more (32 per cent, mainly Members without Dependants)

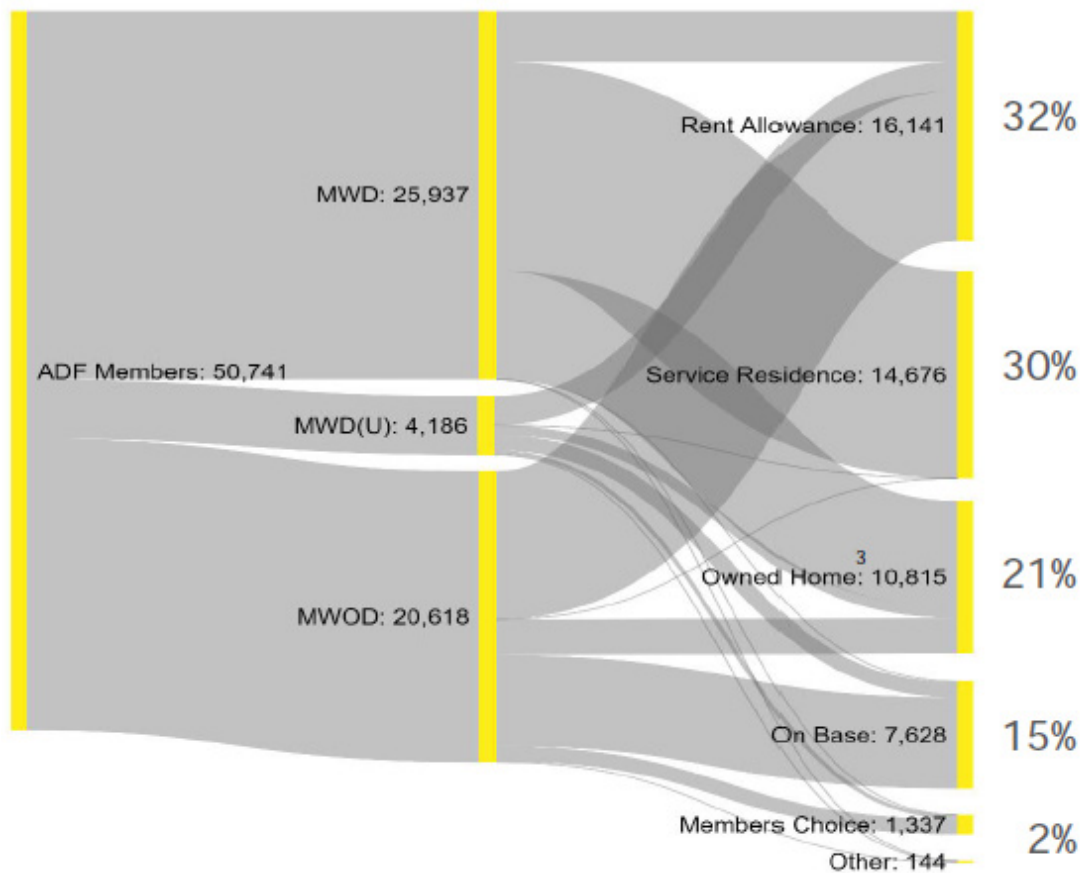
83 Defence, Submission to the Senate Foreign Affairs, Defence and Trade References Committee Inquiry into Defence Housing Australia Operations, 26 February 2016.

84 Adequacy of housing is one of several factors that could influence separation of members from the ADF. Other factors include remuneration, children's education, and partner employment. These factors and others have long been recognised. See, for example, Auditor-General Report No. 35 1999–2000, *Retention of Military Personnel*, p. 44, which draws on information in a Defence evaluation report of the time.

85 Defence advice and evidence to the ANAO, 12 March 2020. To support its advice, Defence provided an undated and unsigned document titled 'Rankings of elements of the employment package'. The document sets out the overall rankings given to six financial and ten non-financial elements of the employment package based on responses from permanent members of the ADF. Commentary provided on 'family and home related benefits' did not discuss the provision of services by DHA and its contribution to that ranking. The report did note that 27.1 per cent of permanent members of the ADF that had responded had indicated that they were privately renting with the assistance of Defence's Rent Allowance Scheme.

rented privately. Substantial proportions of members either occupied their own home (21 per cent) or were living on base (15 per cent). MCA and 'other' accounted for only 2 per cent (Figure 4.1).

**Figure 4.1: ADF member housing solutions: a 'snapshot' at 23 August 2018**



Key: MWD: Member with dependants  
MWD(U): Member with dependants, unaccompanied.  
MWOD: Member without dependants.

Source: DHA, Current State Assessment, November 2018, p. 20.

4.14 Noting the proportion (21 per cent) of ADF members who occupy their own home, the main alternative source of accommodation for ADF members is the private rental market (with some 32 per cent of all ADF members renting privately). Private rental is partly paid for by Defence through Rent Allowance, which is defined in the DSA as 'an amount paid by Defence to a Member where DHA is unable to provide a suitable Service Residence of the Classification required by the Member'.<sup>86</sup>

4.15 The DSA requires that the proportion of Members with Dependants receiving Rent Allowance as a proportion of the total number either in a Service Residence or on Rent Allowance is to be reported to the Domiciliary Operations Committee. The proportion is currently about 25 per cent. The KPI target is for this rate to be below 15 per cent, with an incentive that Defence will pay an amount to DHA if DHA achieves the target rate. This amount has never been paid.

<sup>86</sup> Defence also recovers from ADF members a contribution to offset the cost of the rent it pays to DHA for the housing DHA provides to members.

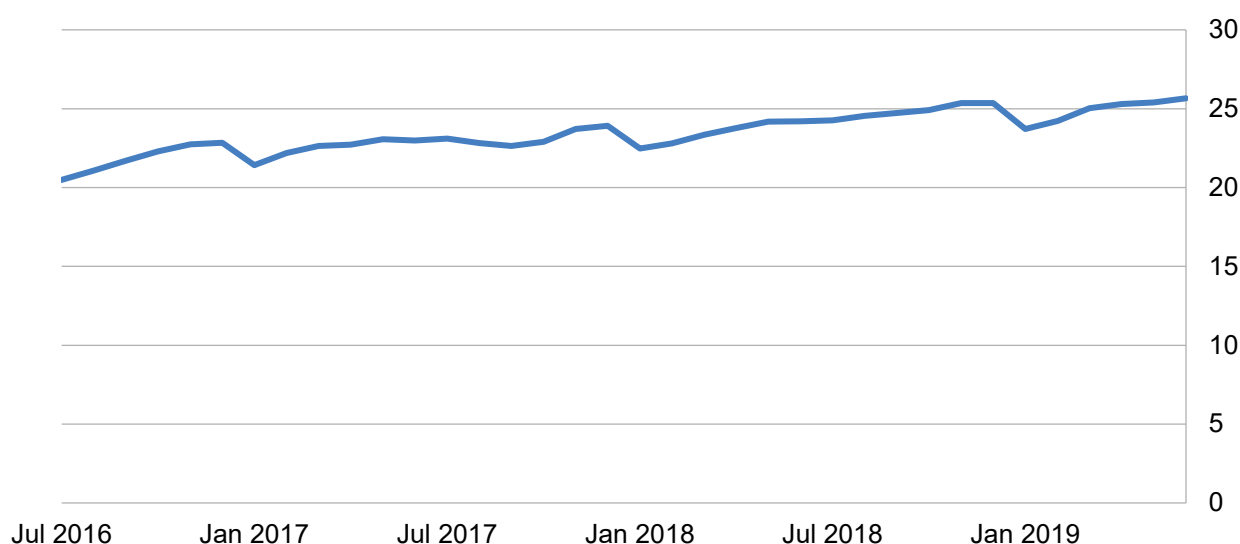
4.16 The target of ‘no more than 15 per cent’ of ADF Members with Dependants on Rent Allowance provides flexibility in providing housing. That is, DHA and Defence both expect private rental to accommodate those for whom DHA cannot offer a suitable Service Residence. DHA advised the ANAO in December 2019 that the factors providing an incentive to Defence to seek to minimise the numbers of members housed using Rent Allowance Rate include:

- the uncertainty of supply of private rental accommodation;
- the uncertainty of ongoing access to a rental property once rented (that is, ongoing rental agreements longer than one year) and the related cost of relocation where the property owner ceases the rental agreement; and
- disruption to ADF service activities where members find their own private rental accommodation, and related costs.

4.17 Analysis done by DHA in 2012 also indicates that providing Rent Allowance is more expensive for Defence than providing a Service Residence at all ranks except Rank Group 2.<sup>87</sup> On the other hand, the same 2012 study indicated that providing a Service Residence is more expensive for DHA than administering Rent Allowance on Defence’s behalf.

4.18 In practice, the proportion of Members with Dependants using Rent Allowance has risen incrementally for over a decade (Figure 4.2). In June 2009–10 the reported rate was 16.4 per cent, rising to 18.7 per cent by 2013–14 and 25.7 per cent in June 2019.

**Figure 4.2: Percentage of Members with Dependants housed with Rent Allowance, July 2016 to June 2019**



Note: Calculated as the proportion of Members with Dependants attracting Rent Allowance as a proportion of the Members with Dependants housed either in a DHA Service Residence or with Rent Allowance.

Source: DHA, Domiciliary Operations Committee papers.

4.19 A seasonal pattern is apparent, possibly flowing from posting cycles, but a rising trend continues.<sup>88</sup>

<sup>87</sup> DHA, Cost Comparison between Service Residence and Rent Allowance, May 2012, p. 23.

<sup>88</sup> DHA attributes some of this increase to single members forming couple relationships and remaining in their Rental Allowance accommodation.

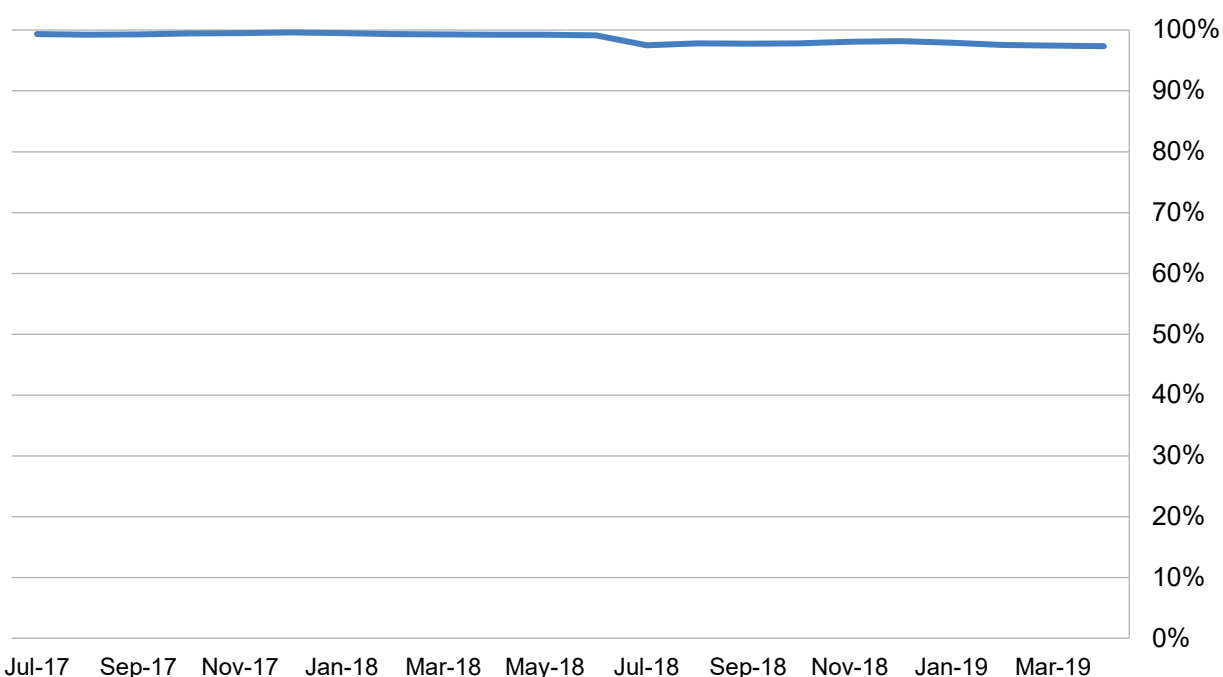
## The scope of the term ‘effectiveness’ in the context of the DSA

4.20 DHA’s main function is not stated in the Act as only the provision of housing for the ADF: rather, it is the provision of housing so as to meet the operational needs of the Defence Force and the requirements of the Department. The DHA Act does not elaborate on the meaning of ‘meeting the operational needs of the Defence Force and the requirements of the Department’.

4.21 These needs and requirements are articulated in the DSA through indicators for the provision of the ‘right number of houses’ in the ‘right locations’ at the ‘right level’ and at the ‘right time’ (see paragraph 2.37 above).<sup>89</sup> These requirements are all captured in the first three KPIs for the DSA, which thereby provide a basis for assessing DHA’s effectiveness in providing housing for ADF members in accordance with the Act. DHA performance information provided to the Domiciliary Operations Committee indicates that this function is performed effectively.

4.22 Under the DSA, KPI 1 (the number of houses provided against the Agreed Provisioning Schedule), is reported by DHA to the Domiciliary Operations Committee by region, by rent band and as a time series by month, allowing trends and any anomalies to be identified (Figure 4.3).

**Figure 4.3: Proportion of houses provided against agreed provisioning schedule**



Source: DHA, Domiciliary Operations Committee papers, KPI Scorecard, 29 July 2019.

4.23 The provisioning target is 99 per cent. DHA’s capacity to meet this target will depend in part on the accuracy of the Defence provisioning plan, as updated each year. Volatility at any particular location at short notice is difficult for DHA to address. Nevertheless, DHA met the target, overall, through 2017–18, with a decreasing trend after mid-2018. The DHA report to the Domiciliary Operations Committee does not explain this trend.

4.24 A measure that helps to assess the effectiveness of DHA’s provision of ‘adequate and suitable’ housing is the satisfaction of ADF members with aspects of the service provided by DHA.

<sup>89</sup> See Appendix 5.



The DSA includes some KPIs relating to member satisfaction with services (see Appendix 5) but more complete reporting is provided against four KPIs under the Corporate Plan.

4.25 DHA's reported performance exceeds its targets for the four KPIs in the Corporate Plan (Table 4.1).<sup>90</sup> DHA reporting indicates that it has generally exceeded these targets for some years.

**Table 4.1: ADF member satisfaction performance data against Corporate Plan KPIs**

Key performance indicator	Quarter 4 2018–19 actual	2018–19 actual	2018–19 Corporate Plan target	2018–19 variance
Members satisfied with their service residence	89%	89%	>80%	9%
Members satisfied with overall customer service	95%	95%	>80%	15%
Members satisfied with maintenance on occupation	99%	98%	>80%	18%
Members satisfied with completed maintenance	97%	97%	>90%	7%

Source: DHA, Quarterly Report, 1 April 2019 – 30 June 2019; abbreviated from 'Part C – Analysis of Performance'.

### DHA service delivery performance is regularly monitored

4.26 As mentioned above (paragraph 2.39), Defence monitors DHA performance through the Domiciliary Operations Committee, which meets monthly. DHA provides detailed reports to these meetings and the records reviewed by the ANAO indicate regular discussion of performance.

4.27 DHA presents a report on its performance to this committee. The report includes data on each services agreement KPI, with a high level of detail and time series data that allows trends to be identified. Supplementary reports provide the number and proportion of members receiving Rent Allowance, the cumulative rent bill, and numbers of work health and safety incidents. DHA also provides a similar report on its performance on each MCA agreement performance indicator, Allocation and Tenancy Management agreement indicator and Living-In Accommodation agreement indicator.

### Has DHA returned dividends to the Commonwealth?

DHA has paid nearly \$2 billion in dividends to the Commonwealth over the last two decades. DHA paid over half of this (\$1.1 billion) before 2004–05 as special dividends. Since then, the mean dividend payment has been about \$44.2 million. In the last few years, profitability of the enterprise and, hence, dividends have been declining. In 2018–19, DHA paid a dividend of \$24.5 million.

4.28 To examine further DHA's performance against its Purpose 2 (provide value to DHA shareholders) the ANAO considered the dividends reported as paid to the Commonwealth over the last 20 years.<sup>91</sup>

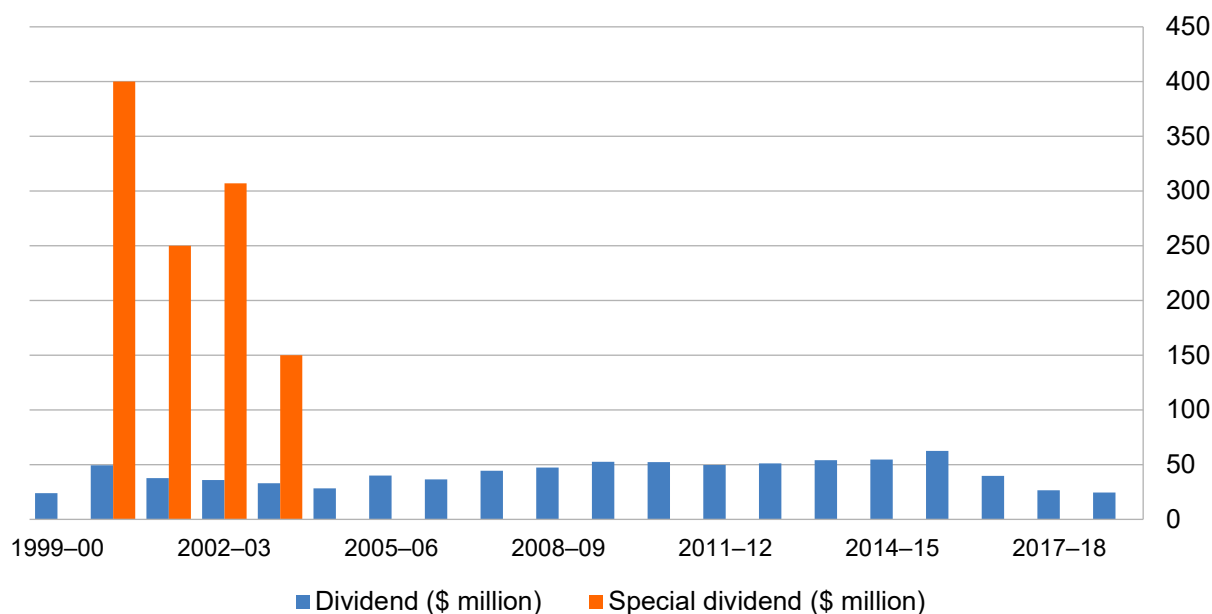
<sup>90</sup> DHA's Business Planning and Research Services team conducts research to assess preferences, experience and satisfaction with the services provided by DHA, including the specific KPIs set out in the Services Agreement. Surveys are conducted either through telephone calls, online or with questionnaires.

<sup>91</sup> Return on capital, which is another measure of return to shareholders, is discussed at paragraph 5.4 of this audit report.

4.29 Under the GBE Guidelines, a GBE's dividend policy is to be agreed in advance with shareholder ministers. DHA pays 60 per cent of its net profit after tax (NPAT) as a commercial return to the Commonwealth. DHA reports that this proportion has been agreed as a target dividend with DHA's shareholder ministers.<sup>92</sup>

4.30 The amounts DHA has reported as paid in ordinary and special dividends annually from 1999–2000 to 2018–19 are set out in Figure 4.4.<sup>93</sup> The amount of the (ordinary) dividend has trended down recently and, in 2018–19, was \$24.5 million, the smallest since 1999–2000.

**Figure 4.4: Dividends paid by DHA to the Commonwealth, 1999–2000 to 2018–19**



Note: The ordinary dividend amounts stated in DHA annual reports 1999–2000 to 2007–08 included tax-equivalent payments made by DHA and required by competitive neutrality policy. The amounts in this graph have been amended to remove that element, which is separate from the ordinary dividend.

Source: DHA advice to the ANAO and DHA annual reports.

### The special dividend

4.31 DHA has stated that it has returned almost \$2 billion in dividends over the last 20 years. The data shows that between 1999–2000 and 2018–19, DHA paid some \$844.2 million in ordinary dividends and \$1,107 million in special dividends, a total of \$1951.2 million.

4.32 In April 2004, DHA wrote to ministers advising them of a reduction in the special dividend it could pay that year and in subsequent years. DHA explained that its cash flows were insufficient for it to pay the forecast special dividend of \$270 million for 2003–04. DHA paid a reduced amount of \$150 million in 2003–04, and neither of the special dividends of \$100 million planned for the following two years. DHA also advised ministers that ‘the Board will continue to closely monitor its cash position and will reassess its capacity to make special dividends annually.’ No special dividends have been paid after 2003–04.

<sup>92</sup> See, for example, *DHA Annual Report 2017–18*, p. 30.

<sup>93</sup> DHA has advised that between 2000–01 and 2003–04, it paid ‘special dividends’ or capital returns to government to reduce the amount of government equity invested in Defence housing (that is, reduce the overall cost of capital employed in the business).

## 5. Efficiency of service delivery

### Areas examined

This chapter considers measures adopted to assess DHA's efficiency, operating expenses and benchmark performance.

### Conclusion

While DHA has reduced the rate of growth of its operational expenditure in recent years it does not have established measures for assessing its operating efficiency nor has it benchmarked its main function.

### Areas for improvement

The ANAO has made one recommendation aimed at DHA, with Defence, updating and maintaining an analysis of the comparative costs of Service Residences and private rental.

5.1 To form a conclusion on the efficiency of DHA's delivery of services under the DHA Act the following matters were examined by the ANAO:

- whether DHA has developed measures to assess the efficiency of its performance;
- whether DHA has controlled its operating expenditure; and
- whether DHA has benchmarked its service delivery performance.

### Has DHA developed measures to assess its efficiency?

DHA has three measures to assess its performance in terms of business efficiency, as required by the GBE Guidelines, and it reports publicly on these. One of these measures, return on capital employed, has fallen each year since 2015–16.

DHA has not developed a performance measure of its operating efficiency and cannot report on how much it costs on average to produce the services it delivers to Defence. DHA advised the ANAO that it has recently developed a model to identify and allocate corporate costs across its business activities.

### Approaches to assessing efficiency

5.2 The ANAO considered three aspects of efficiency in relation to DHA:

- business efficiency (measured as prescribed by the GBE guidelines);
- operating efficiency (outputs/inputs, or output per dollar); and
- pricing efficiency (setting prices according to demand and the entity's costs).

5.3 There are other measures that can be proxy measures for the efficiency of use of resources, for example, vacancy rates in DHA-supplied accommodation. This was a measure which, in early 2019, ministers specifically asked DHA to include in future quarterly reports (see paragraph 4.7 above). DHA has complied.

### *Business efficiency*

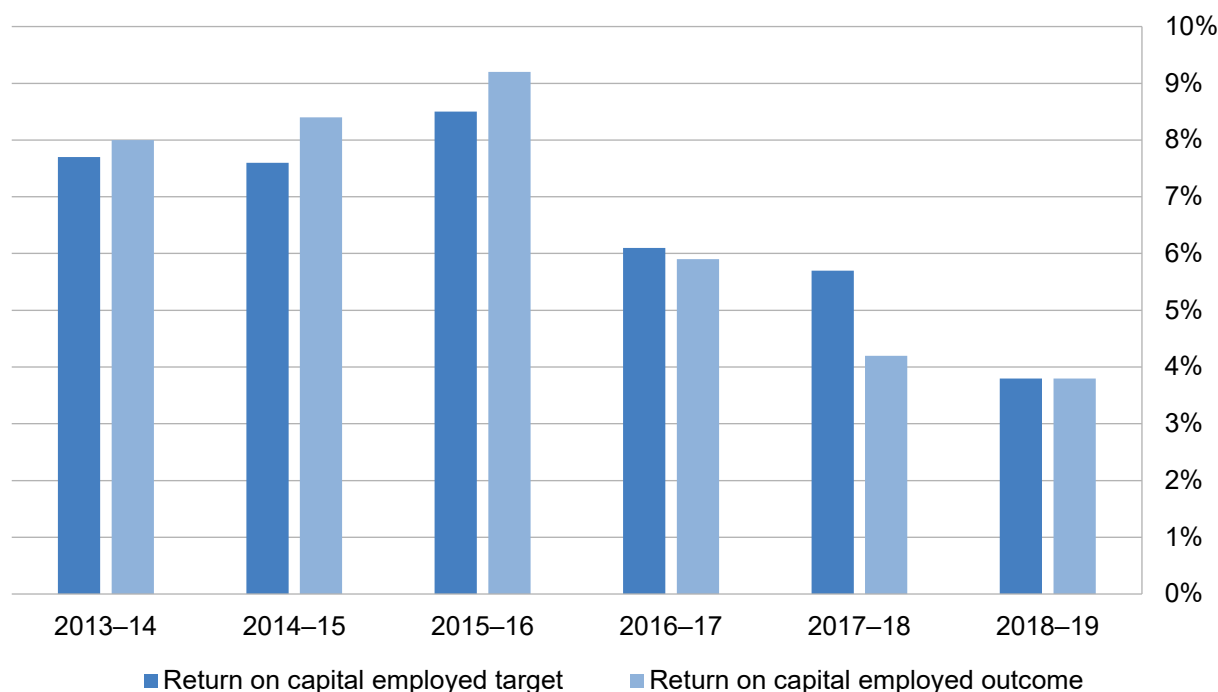
5.4 The GBE guidelines specify, among a set of minimum KPIs, a measure called 'Business Efficiency', for which there are three prescribed KPIs. DHA reports on these KPIs in its quarterly

reports to ministers and in its Annual Report 2018–19. The KPIs, reported results and corporate plan targets for 2018–19 are as follows:

- operating margin (reported result, 12.4 per cent; target 9.9 per cent);<sup>94</sup>
- return on capital employed (reported result 3.8 per cent; target 3.8 per cent); and
- debtors' age (days) (reported result 6.8; target 12.85).<sup>95</sup>

5.5 Return on capital employed has trended down in recent years (Figure 5.1).

**Figure 5.1: DHA business efficiency: return on capital employed, 2013–14 to 2018–19**



Source: DHA Annual Report 2017–18, p. 185 and DHA Quarterly Report, 1 April 2019 – 30 June 2019, p. 11.

### Operating efficiency

5.6 A principal objective for each GBE is that it adds to its shareholder value.<sup>96</sup> To achieve this, the GBE is expected to operate efficiently, that is, at minimum cost for a given scale and quality of outputs. A measure of efficiency over time could take the form of a time series showing ratios of output to input: that is, data on the quantity of services produced for each dollar spent, with trends over time. DHA has no such measure nor is any required in its service agreements or reported in its annual reports, quarterly reports to ministers or in papers provided to its Board.

94 Operating margin is defined in the Guidelines (p.19) as earnings before interest, taxation, depreciation and amortisation (EBITDA) divided by the operating revenue. Return on capital employed is defined as earnings before interest and taxation (EBIT) adjusted for AASB fair value movements (net of tax)/average capital employed. Capital employed is defined as total assets less current liabilities.

95 DHA has reported its return on capital employed in annual reports for at least a decade. It has reported its operating margin in the last three annual reports (2016–17 to 2018–19). It reported its debtors' age for the first time in its 2018–19 annual report.

96 Department of Finance, *Commonwealth Government Business Enterprises – Governance and Oversight Guidelines* (Resource Management Guide No. 126).

5.7 Under the DHA Act, the functions of the DHA Board are to ensure the proper and efficient performance of the functions of DHA and to determine the policy of DHA on any matter. For the Board to understand the efficiency of DHA's performance, it needs a measure by which to assess it.

5.8 A report to DHA in 2012 assessed the costs to Defence, DHA and ADF members of the provision of a Service Residence compared with private rental, but this has not been updated (see paragraph 5.30 below). Updates to that model could provide insight into DHA operating efficiency over time.

### *Pricing efficiency*

5.9 Under the GBE guidelines, DHA is expected to price efficiently. That is, the price paid to DHA by purchasers should take account of DHA costs in producing the services it supplies at that price. If DHA wishes some of its services to subsidise others, to do so transparently DHA first needs to have developed measures of the cost of each of its services.

5.10 Two areas identified in the 2015 Scoping Study as loss-making were DHA's annuity arrangements with Defence and DHA's Property and Tenancy Services. The 2016 Forensic Review also pointed out the problem with the annuity arrangements:

DHA incurs upfront capital costs on behalf of Defence for the development of residential accommodation for Defence under the 'annuity program', which Defence repays over a protracted period. This program is forecast to incur cash outflows to DHA of \$130 million over the four year outlook. ... With DHA having relatively limited access to capital, the capital costs of the annuity program may be more appropriately funded upfront by Defence.<sup>97</sup>

5.11 The Forensic Review recommended that this be addressed with high priority. DHA advised the ANAO that Defence had agreed to discontinue the annuity arrangement 'to be replaced by an agreed 'staged' cash drawdown model for future Defence housing projects'.<sup>98</sup> As at 1 July 2019, 481 annuity properties available to ADF members remained in DHA's portfolio.

5.12 In the case of Property and Tenancy Services, in 2017–18, DHA received from Defence a payment of \$11.3 million for maintenance of Service Residences. The Defence Services Agreement (DSA) identifies this payment as the 'Quality Management Charge'. In the same year, DHA's 'Repairs and Maintenance' expenditure for Service Residences amounted to \$46 million.<sup>99</sup> A DHA internal audit (April 2016) found that this charge had not been reviewed routinely and that much work was needed to identify repair and maintenance expenditure associated with the charge to work out the charge's sufficiency.

5.13 DHA's Current State Assessment<sup>100</sup> (CSA, a major component of DHA's Project Symphony) highlighted a similar problem in that there was inherent cross-funding for payments received by DHA from Defence. For example, for repairs and maintenance the same fixed amounts (on a per occupied house per week basis) are received with no allowances for age or location of houses. It

97 Department of Finance, DHA Forensic Review Report, February 2016, p. 8.

98 DHA advice to the ANAO, 7 August 2019; letter from the Deputy Secretary, Estate and Infrastructure, Defence, to DHA, 30 May 2016. DHA advised the ANAO (17 March 2020) that 'The annuity uses a model to calculate regular (consistent) payments across a period of time. The staged approach described in the letter from Defence dated 30 May 2016 relates to a quarterly invoice based on actual expenditure.'

99 DHA advised the ANAO that revenue to DHA from lessors should be taken into account with QMC in making a comparison with the costs of repairs and maintenance. However, it was not yet able to quantify that revenue.

100 See paragraph 1.14.

found that DHA also had no clear view on how to allocate overhead costs (governance, finance and so on).

5.14 In December 2019, DHA advised the ANAO that it had developed a detailed costs allocation model to identify and allocate costs across its business activities, and that it continues to refine that model. It also advised that reports based on the model are provided to the DHA Board.

### Has DHA controlled its operating expenditure?

DHA data indicates that it has controlled its operating expenditure since 2015–16. DHA has not yet made the savings identified by its Project Symphony in late 2018 but has developed savings initiatives to be implemented over the next 18 months as part of a revised business model agreed by shareholder ministers in December 2019.

5.15 On the basis that controlling operating costs is a key means of improving DHA efficiency, the ANAO considered:

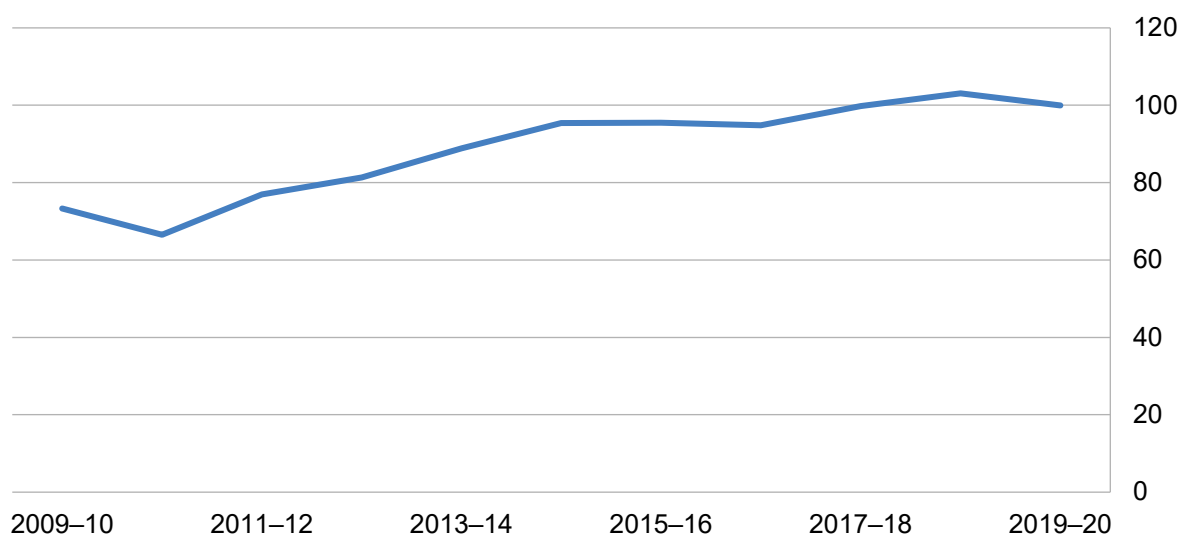
- the trend in DHA operating expenditure; and
- opportunities for efficiency gains identified in DHA’s Project Symphony.

### DHA operating expenditure

5.16 The Forensic Review (February 2016) did not make an assessment of the efficiency of DHA. Nevertheless, it did focus on operating costs and pointed out opportunities to reduce them, particularly personnel costs and made a recommendation to review costs.

5.17 DHA provided the ANAO with operating expenditure data for the ten years from 2009–10 forward, which allows actual costs to be compared with the management forecast during the Forensic Review, which reported in 2015–16 (Figure 5.2).

**Figure 5.2: DHA reported annual operating expenditure, 2009–10 to 2019–20 (\$m)**



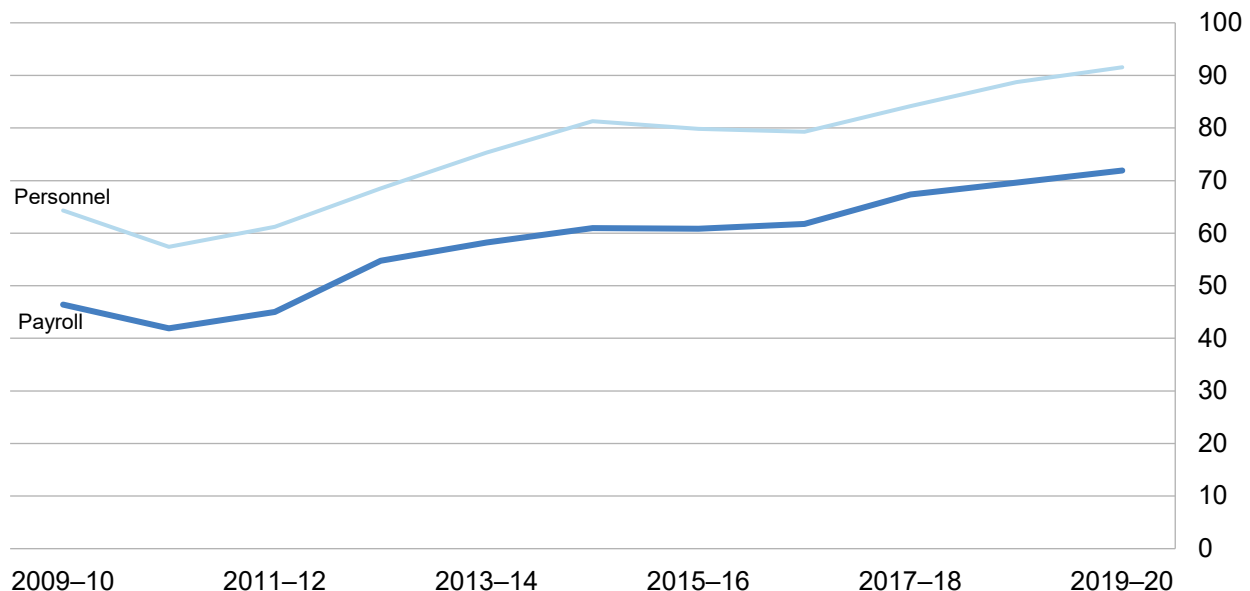
Note: Budgeted expenditure reported for 2019–20; actual expenditure for all other years.

Source: DHA advice.

5.18 Growth in DHA's total operating expenditure has slowed from the 8.2 per cent a year observed by the Forensic Review. The review stated that DHA management's forecast for the period 2014–15 to 2018–19 was an increase of 4.5 per cent a year. Actual growth has been 2.0 per cent a year (compounding, over the four years).

5.19 Personnel costs have risen at about 2.2 per cent a year (compounding, over the four years) from 2014–15 to 2018–19 (Figure 5.3).

**Figure 5.3: DHA annual personnel and payroll expenses, 2009–10 to 2019–20 (\$m)**



Notes: Budgeted expenditure for 2019–20; actual expenditure for all other years.

Personnel costs include payroll expenses, contractor expenses, and Board expenses.

Source: DHA advice.

### **Project Symphony: opportunities for efficiency gains**

5.20 DHA's CSA found, in November 2018, that 'Undertaking steps to unlock and improve operating efficiency will also be critical if DHA is to demonstrate it is being efficient ...'. The CSA also identified a range of potential efficiency gains in the range of \$10 million to \$30 million. As these were based on 'an initial, high level assessment ... against industry benchmarks' it recommended that DHA undertake more detailed analysis.<sup>101</sup> The three areas identified by the CSA for gaining operating efficiencies were:

- managing the procurement spend (\$8 million to \$10 million a year). This was the single largest opportunity given the volume of key spend categories including repairs and maintenance and construction;
- recovery of bad debts and removing rental floors (\$10 million to \$12 million a year); and
- operational improvements (\$10 million plus a year).

<sup>101</sup> DHA, Project Symphony: Current State Assessment, p. iv.

5.21 The CSA report stated that each of these required validation by DHA. On its progress with this work, DHA advised the ANAO, in summary, that:

- on the procurement spend, as existing panel arrangements expire, DHA would consider alternative strategies to approach the market to realise efficiencies;
- bad debts were not material to DHA and, as rental floors are contractually fixed, there was less opportunity to realise savings, reducing the range to 'slightly negative to \$20 million' overall;
- on operational improvements DHA mentioned a range of new systems and automation opportunities.

5.22 The DHA Corporate Plan for 2019–20 to 2022–23 identified 'opportunities for near and mid-term efficiencies in corporate costs, involving net expenditure reductions in excess of \$2 million annually, while also incorporating an allowance for additional investment in ICT capability ...' DHA further advised that its ICT budget had been increased from \$5 million in 2018–19 to \$10 million in 2019–20 and that future benefits over \$13 million were identified over the four-year corporate plan period.

5.23 In November 2019, DHA provided Shareholder Ministers with a strategy for delivering a revised business model. The Shareholder Ministers responded in December 2019, expressing their support for the new model. Some of the initiatives identified as part of the CSA (for example, savings in procurement and operational improvements) have been reflected in the eight key initiatives that are the focus of DHA's implementation plan to deliver the revised business model, to be implemented over the next 18 months.

## Has DHA benchmarked its service delivery performance?

DHA has not benchmarked its internal processes by direct comparison with other organisations providing comparable services. However, it has undertaken regular comparative analyses of the property management fees that it charges to sale and leaseback investors, which were found to be higher than industry standards. It has also examined its customer service standards and reported high performance. In 2012, DHA analysed the costs of DHA Service Residences compared with the use of Rent Allowance. This study indicated that Defence received better value from Service Residences. This work has not been updated.

5.24 Benchmarking is the practice of comparing business processes and performance measures to those of other organisations to identify best practice and improve performance. 'Benchmarking' can refer to a comparison of performance outcomes alone or to the comparative analysis of internal processes and techniques with other organisations doing similar work.

### Benchmarking property management fees

5.25 The 2015 Scoping Study suggested that, although there was no truly comparable business, DHA was a suitable candidate for benchmarking. There were businesses that perform functions similar to those which DHA provides to Defence. It found that DHA is a competitor with businesses that operate in the residential property market, and could be benchmarked against them.



5.26 DHA nominated nine pieces of work since 2007 as its benchmarking activities.<sup>102</sup> Two relate to customer service (see paragraph 5.28, below) but most (seven items) compare the property management fees that DHA charges to sale and leaseback investors with the fees charged by real estate agents for comparable services. The latest update was completed in 2017.

### *Current State Assessment*

5.27 More recently, DHA's CSA report (November 2018) compared DHA's performance with industry, leading it to identify potential efficiency improvements (see paragraph 5.22, above).<sup>103</sup> In addition, it found DHA's fees and charges for property management services to be higher than the industry standard. The CSA compared DHA fees and services as a percentage of rent revenue with an industry benchmark (12.5 per cent of rent received), finding that DHA fees and charges, paid by the property owner, were 20 per cent of rent received, yet DHA was not covering its property management expenses. The report concluded that DHA property management operated inefficiently (including in respect to repairs and maintenance).

### **Benchmarking customer service**

5.28 DHA advised the ANAO that from 2006–07 to 2017–18 inclusive, it had sought 'independent certification against the International Customer Service Standard (ICSS)' through a private contractor concerned with customer service.<sup>104</sup> This had returned a score indicating high performance. Although DHA represented it as an instance of benchmarking, the latest such report (an update entitled 'health check assessment') contained no data comparing DHA performance with other organisations or with DHA itself at different times.

5.29 The latest report was based on a one-day series of interviews with DHA management and staff at its head office in Canberra. The report did not indicate whether the contractor had independently canvassed the views of customers on the services they had received, or sought views from other relevant organisations, such as Defence Families Australia or Defence itself.

### **Comparison with Rent Allowance**

5.30 In 2012, DHA undertook a systematic analysis of the costs of providing Rent Allowance against DHA provision of a Service Residence. This work developed a model drawing on all identifiable cost elements through the housing cycle from announcement of a posting to departure from a property. It estimated separately the costs to Defence, ADF members and DHA at each point. It also took account of varying costs for the different ADF member ranks.

5.31 The work concluded that 'the cost of [Rent Allowance] exceeds the cost of [Service Residences] from a Defence perspective across most rank groups'. However, for some specific localities, the work found that the more expensive housing option for Defence varied with rank group. The differences are marginal, sensitive to location, and may vary with different input assumptions. The study also found that DHA incurred lower costs where members use Rent Allowance. The differences in costs between a Service Residence and Rent Allowance were greater

102 DHA advised the ANAO in August 2019 that the list it provided reflected current knowledge and might not be exhaustive.

103 DHA, Current State Assessment, p. 122.

104 DHA advice to the ANAO, 7 August 2018.

for ADF members than they were for DHA or Defence. For ADF members, Service Residences were consistently the less costly option (see Appendix 6).

5.32 Later, Defence undertook a 'Comparison of service residency and rental allowance costs' using April 2014 data. This comparison found that, overall, '[Rent Allowance] was slightly more expensive than [a Service Residence] though the difference is minimal. On average, over the five Rent Bands, [Rent Allowance] costs \$626 per week compared to \$597 [for a Service Residence]. The Scoping Study (2015) reviewed these analyses and noted that they may not fully reflect the actual cost of providing Service Residences.

5.33 There would be benefit in updating the 2012 study on the comparative costs of providing Rent Allowance against DHA provision of a Service Residence.

### **Recommendation no.3**

5.34 DHA, with Defence, update its 2012 study on the comparative costs to DHA, Defence and ADF members of provision of a Service Residence and use of Rent Allowance.

**Defence Housing Australia response:** *Agreed.*

5.35 *In conjunction with Defence, DHA will update the 2012 study on the comparative costs to DHA, Defence and ADF members of provision of a Service Residence and use of Rent Allowance.*

**Department of Defence response:** *Agreed.*

5.36 *Defence agrees to the recommendation and will work with DHA to undertake an updated comparative assessment.*

## 6. Governance and management of enterprise-level risks

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### Areas examined

This chapter examines aspects of DHA's governance relating to its management of key enterprise-level risks, including business sustainability, DHA's scope of authority and other identified legal risks.

### Conclusion

The DHA Board has not established effective governance arrangements to support the provision of housing and housing-related services to ADF members and their families. In regards to specific enterprise-level risks examined by the ANAO, the DHA Board:

- took until November 2019 to finalise a new business model addressing risks to business sustainability identified in 2015 — a matter that was resolved only after ministers intervened and set a deadline;
- only recently refocused its attention on risks relating to DHA's scope of power, which were originally identified over a decade ago; and
- had not sought assurance from DHA management regarding compliance with state and territory residential tenancy legislation.

Further, with one exception, there is no evidence that key policies were endorsed by or issued with the authority of the Board. The approval of key policies and frameworks, and the strategic oversight of non-financial risks such as those relating to scope of powers and legal compliance, are key responsibilities of the Board as the accountable authority.

### Areas for improvement

The ANAO has made a recommendation aimed at DHA maintaining a focus on operating within the limits of its enabling legislation and Commonwealth power.

6.1 To form a conclusion on the effectiveness of DHA's governance arrangements to support the provision of housing and housing-related services to ADF members and their families, the following matters were examined by the ANAO:

- has DHA developed a sustainable business model and strategy?
- has DHA issued Accountable Authority Instructions?
- has DHA been operating within its powers?
- has DHA properly managed discounts, incentive payments and commissions associated with property transactions; and
- has DHA addressed risks associated with its lease arrangements?

6.2 In reviewing DHA's management of these matters, which include key entity-level risks, the ANAO considered the roles of DHA management and the DHA Board. Under the *Public Governance*,

*Performance and Accountability Act 2013* (PGPA Act) the board is DHA's accountable authority<sup>105</sup> and section 11B(1) of the *Defence Housing Australia Act 1987* provides that:

The functions of the Board are to ensure the proper and efficient performance of the functions of DHA and, subject to the [ministerial direction] provisions mentioned in subsection (2), to determine the policy of DHA with respect to any matter.

## Has DHA developed a sustainable business model and strategy?

DHA has developed a new business model that will involve reducing planned acquisitions and developments and increasing the number of leases from the market to align with DHA's operational requirements. The new model, which will take 18 months to implement, was finalised some four years after DHA had been warned that its former business model was not sustainable, and after the DHA Board had received a specific request and deadline from ministers.

### Business model

6.3 As discussed in paragraph 1.13, since 2015 DHA has been subject to several reviews which examined its business model and concluded that it was not sustainable. In summary, these reviews found that DHA services were subsidised by the ownership and development of land and housing, and funded by a reduction in the properties owned by DHA and increased development activity. Each year, DHA had to develop on an increasingly large scale. Until 2015–16, this approach yielded a return of around nine per cent on capital employed (see Figure 5.1, Chapter 5). However, DHA's financial position was highly sensitive to cash receipts generated by its Sale and Leaseback program which then faced a downturn in light of changes in the property market. The Forensic Review concluded that, for DHA to continue meeting Defence provisioning requirements there was a need to reconsider DHA's mix of acquisition, development and construction and funding sources.

6.4 DHA advised the ANAO that it has undertaken a range of activities to reform its business model, for example, in light of emerging risks to its funding base, in 2018 it undertook a review of its capital structure. More particularly, DHA's Project Symphony (launched in April 2018) was the overarching project to identify a financially viable business model (see paragraph 1.14). DHA's 'Current State Assessment' (CSA), completed in November 2018, was a major component of the project (see paragraph 5.20).

6.5 In August 2019, the shareholder ministers wrote to the DHA Board about this work. The letter noted that the Forensic Review, finalised in February 2016, had identified issues with the financial sustainability of DHA's operating model and that these challenges had been highlighted again in March 2018 when Project Symphony had been instigated. The letter stated:

We ask that the Board prioritise finalisation of a future business model and provide this to us for review, including updated financial projections, by 18 November 2019. This will facilitate further

105 DHA's governance is discussed in paragraphs 1.9 and 1.10 of this audit report. The duties and roles of the governing board of a corporate Commonwealth entity such as DHA are outlined in Auditor-General Report No. 34 of 2018–19 *Effectiveness of Board Governance at Old Parliament House*, pp.14–15, available at <https://www.anao.gov.au/work/performance-audit/effectiveness-board-governance-old-parliament-house>.

actions and inform the Government's consideration of future arrangements for the business, including capital structure and debt facilities.<sup>106</sup>

6.6 DHA advised the ANAO in December 2019 that it had completed development of a new business model, in close consultation with the Departments of Finance and Defence. The Board had written to ministers on 14 November 2019, advising of the new model. A central feature of the model is that DHA will seek to increase its direct leases from the private rental market and maximise lease extensions and renewals while reducing the number of properties that DHA will build, or purchase, to satisfy its functions under the DHA Act. This is intended to reduce DHA's exposure to construction and development risks.

6.7 DHA has advised the ANAO that it has commenced implementation and expects to 'deliver on the commitments of the strategy by 2021'.<sup>107</sup> Shareholder ministers responded in December 2019, stating that they are 'supportive of the revised business model'. They have asked DHA to fully scope the costs, benefits and associated risks for transitioning to the revised business model' in preparing its next corporate plan.

## Has DHA issued Accountable Authority Instructions?

The DHA accountable authority — the DHA Board — has not issued accountable authority instructions (AAIs) or similar under the PGPA Act. With one exception, there is no evidence that key DHA policies have been endorsed by or issued with the authority of the Board.

6.8 The DHA Board, as the accountable authority for DHA, has a duty to establish and maintain an appropriate system of risk oversight and management and a system of internal control.<sup>108</sup> The accountable authority cannot delegate the duty to govern the entity nor the duty to establish and maintain systems relating to risk and control. In addition, under the DHA Act, determining DHA policy with respect to any matter is a function of the DHA Board.

6.9 An accountable authority may give written instructions (usually referred to as 'accountable authority instructions' (AAIs)) to officials in their entities on any matter necessary or convenient for carrying out or giving effect to the PGPA Act or the associated rules.<sup>109</sup> AAIs are binding on officials because they are an instrument made under authority provided by the PGPA Act and form part of the finance law. AAIs enable the accountable authority to meet their general duties by setting out controls and directions for officials.

6.10 AAIs are not a requirement of the PGPA Act. An entity may have a suite of policies that serve the same purpose.<sup>110</sup> However, the Department of Finance points out that it is important to

106 Letter of 30 August 2019 from the Minister for Finance and the Minister for Veterans and Defence Personnel to the chair, DHA.

107 DHA advice to the ANAO, 17 March 2020.

108 PGPA Act, section 16, 'Duty to establish and maintain systems relating to risk and control.'

109 See Department of Finance, *Resource Management Guide 206*. In May 2014, Finance issued a copy of model AAIs to corporate Commonwealth entities, including DHA, as a reference tool to help their transition to the PGPA Act and Rules, which came into effect on 1 July 2014.

110 Section 20A of the PGPA Act states that the accountable authority of a Commonwealth entity *may*, by written instrument, give instructions to an official of the entity about any matter relating to the finance law. That is, the issue of AAIs is enabled by the PGPA Act but is not a requirement of that Act.

distinguish between instructions issued under section 20A of the PGPA Act and other internal guidelines issued within an entity.

## **PGPA Act implementation**

6.11 DHA is subject to the PGPA Act but it has never had AAls. DHA advised the ANAO that there is no evidence of the Board having considered making (or not making) AAls under the PGPA Act. DHA also advised the ANAO that it has found no evidence of AAls for DHA being discussed at Board level or with representatives of Finance or Defence. The introduction of a new resource management framework in 2014, which replaced the framework introduced in 1987 was an appropriate time for the Board to actively review DHA's internal arrangements.

6.12 The DHA Board received a number of presentations with advice on the implications of the introduction of the PGPA Act between 2013 and 2016. An Australian Government Solicitor presentation to the DHA Board in August 2014 specifically mentioned section 20A, under which AAls are made. A month later, DHA sought from Finance a copy of the model AAls for corporate entities. DHA records indicate that there was, at the time, an intention among senior DHA officials to consider whether AAls should be introduced and work led by DHA's governance area continued.

6.13 DHA considered relevant policies when conducting an internal audit of its implementation of the PGPA Act in early 2015. That audit did not test whether DHA policies comprised an equivalent to AAls. Rather, it reported the DHA General Manager Finance's advice that:

DHA has determined that there were no key areas lacking or requiring further work due to the introduction of the Accountable Authority Instructions (AAls) and concluded that current policies and procedures reflect the PGPA Act requirements. Internal Audit notes that DHA has taken the posture not to update the Standard Operating Procedures or develop [AAls].<sup>111</sup>

6.14 This management posture does not appear to reflect any decision of the accountable authority (the DHA Board) itself. The Board considered the audit report on PGPA Act implementation on 21 May 2015 and noted the report with no other discussion recorded.

6.15 In March 2019, the Senior Executive Group considered a paper recommending the introduction of AAls in DHA. The paper stated that 'due to the upcoming ANAO review, DHA may want to consider developing its own AAls'.<sup>112</sup> The Group deferred a decision. DHA advised the ANAO that it has not further considered the potential development of AAls as it is part of a governance reform program which DHA commenced during the course of this audit.

6.16 In May 2019, in the course of the audit, DHA provided the ANAO with a schedule of 30 documents representing DHA policies with references to corresponding items in the model AAls. Five of the documents had been approved by the Managing Director and some others by lower level managers. However, there is no evidence that any of these policies has been endorsed by or issued with the authority of the Board. DHA did not provide evidence that the Board was aware of their existence or content, with the exception of a new (May 2019) policy on Board members' access to corporate credit cards and credit vouchers.<sup>113</sup>

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111 DHA, PGPA Act Implementation, Internal Audit 2014/15 #07. DHA was not able to locate relevant analysis that led DHA management to the conclusion that no additional work was required to ensure adherence to the PGPA Act.

112 This is taken to be a reference to this performance audit.

113 The DHA Board endorsed the new policy in May 2019.

6.17 Board approval of key policies and frameworks can assist board members to gain assurance that they are effectively discharging their duties as the accountable authority, by setting the framework for compliance with relevant legislation. Having the board approve key policies also enables boards to influence behaviour and can be an important mechanism in communicating the desired culture within the entity. Recent reviews such as the 2018 APRA Prudential Review of the Commonwealth Bank and the 2019 Hayne Royal Commission have highlighted that governance boards need to be cognisant of how incentives and controls in organisations can drive behaviours and culture. Monitoring when policies are due for review, such as through the audit committee, can assist this process.<sup>114</sup>

## Has DHA been operating within its statutory powers?

The DHA Board was advised over a decade ago (2008) of a risk of DHA exceeding its statutory powers in developing land, particularly where the greater proportion is intended for sale and not for housing ADF members. The Board has not acted to control this risk and has not ensured that DHA has operated only within its authority. As a statutory body with specific powers conferred by the Parliament, it is necessary that DHA maintain a focus on operating within the limits of its enabling legislation and Commonwealth power. DHA advised the ANAO in August 2019 that it had not informed responsible ministers of the advice about these legal issues.

DHA received legal advice in 2013 that, under the DHA Act, it can maintain civilian tenancies properly only in narrow circumstances for short-term vacancies. A legal risk arises as DHA maintains some civilian tenancies in circumstances which it identifies as permanent.

## Legal limits issues relating to DHA's power to develop land

6.18 Defence was provided with legal advice by the Australian Government Solicitor in 2005 that there are limits on DHA's power to develop land. This flows from the Australian Constitution, under which the functions and powers conferred on the DHA under the DHA Act represent an exercise of the constitutional powers conferred on the Commonwealth in relation to defence. Specifically, Defence was advised that the Commonwealth does not have power to establish an authority to carry on generally the business of a land developer. This limit on power is relevant to DHA land development projects where it sells most of the developed land and retains a smaller fraction for Defence housing. The advice indicated that the legal test was determined by the facts and circumstances of the case. This legal advice was provided at the time to the DHA managing director.

6.19 Over subsequent years, one of DHA's principal means of providing housing for ADF members has been by buying vacant land and developing it. DHA has then retained a proportion of this land to build housing for Defence members. DHA has then sold the remaining developed blocks and the revenue obtained forms a substantial source of capital for DHA's ongoing operations.

114 Insights from a recent series of ANAO audits of board governance are available at <https://www.anao.gov.au/work/audit-insights/board-governance>. A key audit insight was to approve and periodically review key policies and frameworks particularly those that relate to the duties of an accountable authority.

6.20 As of 20 August 2019, DHA had 46 development programs underway. Of these 46, four sites had not yet had decisions made regarding the percentage to be retained for Defence housing. The percentages retained for Defence housing (the 'DHA takeout') for the remaining sites ranged from zero to 100 per cent. On average, DHA has retained about 30 per cent of the developed blocks in recent years. Examples of current major DHA developments are in Table 6.1.<sup>115</sup>

**Table 6.1: Examples of current major DHA developments and development proposals**

Development	Number of lots (total)	DHA takeout (number)	DHA takeout (percentage)
Bluewattle (Rasmussen, Townsville, Queensland)	1,201	400	33.3
Breezes Muirhead (Darwin, Northern Territory)	1,184	163	24.0
Schofields (western Sydney, New South Wales)	1,152	200	17.4
Lee Point (Darwin, Northern Territory)	778	194	25
Thornton (Raymond Terrace, New South Wales)	472	250	48.0
Warner (Brisbane, Queensland)	471	142	30.1
Mount Lofty (Toowoomba, Queensland)	344	16	4.7
Crimson Hill (Lindfield, New South Wales)	333	69	20.7
Deebing Heights (Toowoomba, Queensland)	295	41	13.9
Fern Bay (Newcastle, New South Wales)	294	125	42.5

Note: Some of these development proposals have been modified since this data was provided. For example, DHA gave evidence at a Senate Estimates hearing on 4 March 2020 concerning changes to its proposed development at Mount Lofty, Toowoomba.

Source: DHA spreadsheet provided to the ANAO, 20 August 2019.

6.21 DHA advised the ANAO that the development program provides two substantial benefits to DHA and its shareholders compared to other provisioning methods:

medium to long term certainty of provisioning via complete control over the product being delivered in regards to its appropriateness for Defence members and the timing of its delivery. Developments also provide a higher return on investment than the other provisioning methods, without relying upon capital growth.<sup>116</sup>

6.22 In light of the 2005 advice, it would have been prudent for the Board to assure itself that specific developments remained within DHA's statutory powers.

#### *DHA land developments and Defence needs*

6.23 The DHA Board conducted a planning day in February 2008 to inform the development of a draft corporate plan 2008–11.<sup>117</sup> Among the growth opportunities on the agenda was a proposal that DHA become involved in development and construction projects beyond Defence's

<sup>115</sup> ANAO analysis of a spreadsheet of development project data supplied by DHA, 20 August 2019. This document indicates that DHA proposes to retain some 2,520 lots (29.6 per cent) of the total of 8,514 it is developing across all sites.

<sup>116</sup> DHA advice to the ANAO, 13 May 2019.

<sup>117</sup> The planning day was held on 6 February 2008 with guest speakers from Defence and Finance.



short-to-medium term requirements.<sup>118</sup> The previous approach, it was stated, ‘has not maximised DHA’s financial outcomes in terms of revenue, cash and profit generation’. The rationale for the proposed change was primarily financial:

Expanding DHA’s development and construction activities beyond Defence related requirements should increase DHA’s profitability and operating cash flows as well as providing further integration of Defence housing with the general community.<sup>119</sup>

6.24 The Board decided that:

Pending legal advice, the Board resolves that subject to profitability analysis, DHA can pursue development initiatives with supply greater than Defence’s requirements as sole developer or as joint venture.<sup>120</sup>

6.25 DHA officers advised the Board that:

... the risk of a development being outside power is likely to increase with the non-Defence Force component of the particular proposal. It is not possible to establish fixed ‘rules’ such as a percentage of allowable commercial mix, as this will be a question of fact and degree and what is justified by the circumstances of a particular case.<sup>121</sup>

In borderline cases or where there is doubt as to whether the proposal is within power, DHA would be advised to obtain external legal advice specific to that case. All proposed DHA developments will be reviewed by the [DHA] General Counsel in light of the principle outlined above.<sup>122</sup>

6.26 These records indicate that the DHA Board intended to have DHA internally review and seek legal advice for the Board as necessary for development initiatives.<sup>123</sup> There is no evidence that the Board did so.

### *Recent consideration of the development powers issue*

6.27 The issue of DHA’s development powers arose once more in July 2018 in internal discussion within DHA. DHA received draft updated legal advice from the Australian Government Solicitor (AGS) in December 2018. This was consistent with the earlier advice. The DHA Board was not provided with the advice and was advised in January 2019 by the managing director that ‘this body of work [further or finalised legal advice] would not be further pursued’.<sup>124</sup>

6.28 In the event, further updates and elaborations to the legal advice were obtained by DHA through June to December 2019, all of which maintained a consistent view on the limits to DHA development powers. The DHA Board was briefed at its meeting of 18 July 2019. The draft advice obtained included a practical decision-making guide that DHA could use to ensure that decisions concerning the operation of DHA are consistent with its statutory powers and functions.

6.29 Following its discussion of these matters at its August 2019 meeting, the Board ‘reaffirmed that provisioning for Defence purposes has been the heart of DHA’s purpose and decision-making

118 DHA, Board Planning Day Paper, ‘Development Opportunities’, Attachment 2, 30 January 2008.

119 Ibid.

120 DHA, Resolutions from the Board Planning Day, 6 February 2008.

121 DHA, Board Paper, ‘Actions from DHA’s 2008 Board Planning Day’, 12 March 2008.

122 DHA, Board Briefing on DHA Powers, 17 April 2008.

123 DHA, Board Paper, ‘Actions from DHA’s 2008 Board Planning Day’, 16 April 2008.

124 DHA, Managing Director’s report to the DHA Board, 23 January 2019.

and continues to be'. An analysis of DHA's decisions shows this intention has not always been apparent. In relation to the land development proposals approved from 2006 to 2018 (Appendix 7) a review of the papers put to the Board for approval indicates that in about 30 out of 41 cases, the expected financial outcome ('gross margin' or 'development margin') has been foremost in the written record of Board approval. In these cases, the financial outcome is presented in the documents on which decisions were taken as the 'approval criterion'.<sup>125</sup> For the remaining proposals, Defence provisioning featured more strongly in the written record of decision-making.

6.30 A statement on DHA's public website (viewed in November 2019) also suggests that DHA saw its function more broadly than providing housing for Defence:

We are an award-winning developer – committed to creating healthy, vibrant, sustainable communities. Born more than 25 years ago out of a need to create a better lifestyle for Defence families, today we have evolved and build communities for all Australians.<sup>126</sup>

6.31 During the course of the audit, DHA modified this statement to read:

Born out of a need to create a better lifestyle for Defence families, DHA has been providing quality homes for Defence families for over 30 years.

6.32 In August 2019, DHA advised the ANAO that it had not informed shareholder ministers of the draft advice. DHA advised the ANAO that:

The Board considered the draft AGS advice at the December 2019 meeting, agreed with the advice and delegated to the Managing Director the power to finalise the advice.<sup>127</sup>

6.33 In December 2019, DHA received final advice from its legal advisers. That advice confirmed that DHA can acquire and develop land in circumstances where the provision of housing to the ADF is the specific and genuine purpose of the development. The advice outlined practical issues for DHA to consider including a need to have regard to section 15 of the PGPA Act and the responsibility of the Board for ensuring that DHA has an appropriate system of risk oversight and management and internal controls. The advice also provided guidance for development activities, stepping the DHA Board through a number of matters it should take into consideration when making decisions to exercise its statutory powers.

## **Provision of housing outside the DHA Act**

6.34 In December 2013, DHA sought urgent legal advice on whether the DHA Act provided the 'flexibility' for DHA to lease its properties on the private market.<sup>128</sup> DHA stated in its request:

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125 Proposals for approval have followed a template which, after about 2011, has generally included a heading 'Approval Criteria'. The material addressed under this heading is whether the expected margin on the development exceeds the Board-approved benchmark.

126 See <https://www.dha.gov.au/development>, viewed 5 November 2019. Viewed again 13 January 2020, with modified content. A similar statement to that viewed in November 2019 appears in the *DHA Annual Report 2017–18*, p. 81.

127 DHA advice to the ANAO, 17 March 2020.

128 The request was stimulated by a media enquiry regarding properties owned by DHA in Townsville being managed by a private real estate agent and rented to members of the public. An article had appeared in an on-line newsletter citing a legal expert stating that 'the Commonwealth has no power to manage properties in the states for the general rental market'. See Tim Oliver, 'Strict Defence: is DHA allowed to lease property to the public?', *crikey.com.au*, 6 December 2013.

On occasions, DHA will rent surplus Service Residences on the private market for a short term period. Providing a property to the private rental market may occur if there is only a short period of time left before handing the leased property back to the owner. DHA will sign the property over to a real estate [agent] for private rental, this is to avoid any disruption in tenancy to a Defence family and to meet our obligations [in] the lease with the owners of the property.<sup>129</sup>

6.35 Where there is no Defence tenant to occupy a property under lease to DHA, DHA must continue paying rent to the lessor while it is vacant. Leasing to the public would help DHA defray these costs. The Managing Director at the time indicated that the issue would escalate as DHA bought more apartments.

6.36 The initial legal advice received by DHA did not consider that the DHA Act provided DHA with the power to lease properties to members of the public who do not fall within sections 5 and 6 of the Act. Further, the advice stated that if DHA wished to be able to lease properties on the private market generally, it should consider seeking an amendment to the Act to give it the legislative authority to do so.

6.37 A few days later, DHA put a request in similar terms to different legal advisers.<sup>130</sup> On this occasion, the advice was that, in the narrow circumstances described in the request, the DHA Act would generally authorise DHA to rent out its properties on the private market for a short period. The narrow circumstances were 'a short term lease arrangement [which could] in truth be characterised as an incidental activity, subsidiary to DHA's procurement of accommodation for Defence persons under s 5(1) of the DHA Act'.<sup>131</sup>

#### *DHA's position on civilian tenancy in 2019*

6.38 In September 2019, DHA obtained updated legal advice from the AGS on the use of civilian tenancies. This stated that there may be circumstances in which leasing a vacant property to a civilian is necessary or convenient for the performance of DHA's functions and that one such circumstance is short-term leasing of 6 to 12 month vacancies. DHA provided data to the ANAO showing some 553 properties currently under civilian tenancy with some 280 listed by DHA as 'permanent lease-out'.

6.39 DHA advised the ANAO that it uses civilian tenancy for vacancy management of DHA-managed properties that are surplus to requirements. DHA further advised that it is approached from time-to-time to provide short-term housing for particular groups, including those affected by misfortune.<sup>132</sup> Where it has unoccupied property that it wishes to make available for civilian tenancy, that property is made available through real estate agents at market rent.

6.40 DHA's standard operating procedure for civilian tenancies states that:

Civilian Tenancies are properties placed by DHA on the private market to be occupied by civilians and managed by Real Estate Agents.

<sup>129</sup> DHA brief for advice from a private legal firm, 4 December 2013.

<sup>130</sup> DHA has, on at least one other occasion, sought external legal advice from two sources simultaneously on the grounds that two sets of draft advice were required.

<sup>131</sup> Advice to DHA, 19 December 2013.

<sup>132</sup> For example, DHA was approached for housing assistance in Newcastle in September 2018, when three boarding houses were closed because of a perceived fire risk.

This occurs when DHA identifies that a property in its portfolio is surplus to Defence requirements but needs to be retained under DHA management due to:

- commercial or market reasons;
- lease obligation; or
- awaiting the next posting cycle.

The objective of Civilian Tenancies is to minimise loss of rent to DHA.

Civilian Tenancy may be a permanent or temporary management strategy.<sup>133</sup>

6.41 These statements indicate that DHA sometimes retains, for commercial or market reasons, property that is surplus to Defence requirements. Its objective is to minimise rent loss and, in some cases, the civilian tenancy is classified by DHA as 'permanent'. While this approach reflects an effort to effectively manage public resources, a permanent arrangement goes beyond the short term leasing arrangements discussed in paragraph 6.37 above.

6.42 On 18 December 2019 DHA received updated legal advice incorporating a procedural guide to help it decide whether it can reasonably lease a DHA house to members of the public, according to the circumstances of each case.

6.43 As a statutory body with specific powers conferred by the Parliament, it is necessary that DHA, and in particular, the Board as the accountable authority, maintain a focus on operating within the limits of its enabling legislation and Commonwealth power. Obtaining assurance from entity management regarding compliance with legislation can assist a board directly, or through its audit committee, to gain assurance of compliance.<sup>134</sup>

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133 DHA, 'Civilian Tenancy SOP', p. 1. This standard operating procedure is 'owned by the Property and Tenancy Service Strategy Team'. No specific authorisation or date of effect is evident from the document.

134 As discussed in paragraph 6.17 and footnote 114, insights from a recent series of ANAO audits of board governance are available at <https://www.anao.gov.au/work/audit-insights/board-governance>. Paragraphs 1.7 to 1.13 of that audit series observed that the oversight of risk by governance boards has featured prominently in key governance reviews, including the 2019 Hayne Royal Commission, which highlighted the importance of strategic oversight of non-financial risks such as compliance risk, conduct risk and regulatory risk.

## Recommendation no.4

6.44 DHA follow the procedural advice it has received on decision-making on land development proposals and civilian tenancy to ensure that its activities remain within its statutory powers and within Commonwealth constitutional power, and record its deliberations on such decisions.

**Defence Housing Australia response:** *Agreed.*

6.45 *DHA is committed to following the procedural advice received and continue to conduct its activities in accordance with its statutory powers, for the principal purpose of providing adequate and suitable housing.*

6.46 *DHA also notes that during the course of the audit the AGS confirmed that DHA had acted in accordance with its statutory powers in all case studies raised by the ANAO.*<sup>135</sup>

## Has DHA properly managed discounts and other incentive payments?

DHA was unable to provide evidence that the DHA Board had endorsed a long-standing DHA policy of providing a discount to ADF members who purchase a residence from DHA under its sale and leaseback arrangement. The application of this policy cost DHA \$1.5 million (over 13 years). Defence was unaware of the policy. DHA advised the ANAO that DHA management had decided in September 2019 to discontinue the policy and had revised DHA's incentives approval policy. These changes had been noted by the Board.

### Discounts for ADF members

6.47 For many years, DHA has been providing a \$2,500 discount to Defence members who purchase property from DHA under its sale and leaseback arrangements. DHA has a policy on this discount but it is not evident from the document who approved it or when it came into effect.<sup>136</sup> DHA cannot identify when the policy commenced.<sup>137</sup> Participation has declined in recent years.

135 ANAO comment: During the course of the audit, DHA sought advice from AGS regarding four development projects. Three project case studies were considered by AGS in terms of the takeout rate and whether the DHA Act precluded DHA from developing land dependent on its takeout rate for the development. AGS advice (5 September 2019) was that the takeout rate was an important factor but was not the sole determinant of the question. AGS advised DHA that the purpose of the development was a key consideration. AGS' advice did not outline a view based on an examination of DHA's purpose for undertaking these developments.

This advice was also referred to in the context of a discussion held on 10 September 2019 between ANAO, AGS and DHA for the purposes of the ANAO's audit of DHA's 2018–19 financial statements. Records of the discussion (the ANAO meeting record was agreed by AGS) noted 'the DHA development projects that AGS has specifically advised about are within DHA's statutory powers'. The meeting record states that AGS 'can't give complete comfort, but even if DHA did act outside its powers, it is unlikely that this will create any risk to DHA's financial position'. During that discussion, a fourth case study was referred to (with separate AGS advice to DHA dated 9 September 2019). For that case study, AGS indicated that the development was within power at the time the decision was made and a subsequent failure to achieve the defence housing purpose would not undermine the validity of that decision.

136 DHA records indicate that the policy document was last modified on 7 August 2019. This policy is not among those that DHA provided to the ANAO as the suite it regards as equivalent to AAls.

137 DHA advises that the sale and leaseback program commenced in the mid-1990s and some long-standing DHA staff members believe that the ADF member discount policy dates from that time.

6.48 DHA advised the ANAO that the policy's objective was 'to generate sales, increase advocates of the SLB [sale and leaseback] product, increase the number of tenants who are investors and who understand the role of the SLB product'.<sup>138</sup> Over the period 1 July 2006 to 31 October 2019, DHA has recorded the total cost of its discounts to ADF members as \$1.465 million from 566 sales.<sup>139</sup>

6.49 The policy has applied to each transaction as a reduction in sales price at settlement.<sup>140</sup> The discount could be obtained multiple times by the one ADF member should they buy a series of properties, either at one time or in succession, through the program. DHA stated that the discount was paid retrospectively on one occasion in 2011 to a member buying their third DHA property.

6.50 From July to December 2014 DHA undertook a trial, increasing the discount to \$5,000 contingent on a defined settlement date. This did not materially increase sales and the discount returned to \$2,500 at the trial's completion.

6.51 DHA has made no systematic evaluation of the policy. DHA advised the ANAO that it was 'management's view that the Board is aware of [the policy]'.<sup>141</sup> The DHA Board has not specifically endorsed the discount policy though there is evidence that the policy has been mentioned in information papers to the Board Investment Committee. Defence advised the ANAO that it was unaware of the discount until contacted by DHA during the course of this performance audit and has no record of being formally advised of the arrangement.<sup>142</sup>

6.52 In September 2019 DHA management decided to discontinue the Defence member discount with effect from 31 October 2019.

## **Other incentive payments**

### *Payments when DHA is buying property*

6.53 In early 2016, the DHA Board Property Committee asked DHA management to develop a policy on the payment of commissions when acquiring development sites. This would include paying a commission to an agent engaged by DHA specifically to identify property for DHA to purchase.

6.54 In December 2016, the Managing Director advised the Board that it had been DHA policy not to pay commissions when sourcing property and land. The Managing Director also acknowledged that such payments were common in the property industry in which DHA competes and suggested that DHA amend its policy as there was no prohibition and in the interests of remaining competitive in sourcing property and land.

6.55 The DHA Board finalised its policy on paying commissions on 8 December 2016.<sup>143</sup> The policy states that it is DHA's preferred position that commission is not payable when acquiring property

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138 DHA advice to the ANAO, 23 August 2019.

139 This discount was associated with gross revenue of \$248.2 million.

140 DHA applies this policy only to active members of the ADF, including reservists. DHA advised that it had not considered providing a discount to persons other than ADF members who may also attract services under the DHA Act (such as civilian Defence employees and contractors to Defence). DHA states that it did consider a discount on sale and leaseback property purchases for DHA staff in 2014. This did not proceed because of Fringe Benefits Tax considerations.

141 DHA advice to the ANAO of 22 October 2019. The discount was mentioned to the Board in a brief on Sale and Leaseback marketing in March 2012.

142 Defence advised that its Military Conditions and Housing Policy section was not aware of this discount.

143 This policy is not among the suite of policies identified by DHA and provided to the ANAO as DHA's equivalent to Accountable Authority Instructions.

but it acknowledges that paying a commission may increase DHA's competitiveness. Ultimately, the policy authorises the payment of commissions in certain circumstances and requires that DHA maintain a register of such payments and transaction details.

6.56 DHA advised the ANAO in September 2019 that it had not paid any commissions since the policy was released and that, therefore, there was no register.

*Payments when DHA is selling property*

6.57 DHA obtained legal advice in July 2008 on the payment of 'spotter fees' or commissions to an adviser where that person's 'lead' results in DHA successfully achieving a sale of property. DHA's concern at the time was that it did not wish to breach secret commissions legislation or real estate legislation in any of the states or territories. DHA obtained legal advice that it could avoid a breach if it required the adviser to disclose — to the prospective buyer before any contractual obligation arises — the nature and value of the benefit the adviser could receive. DHA also received a range of advice to ensure neither it nor the adviser breached relevant legislation.

6.58 DHA advised the ANAO that it had paid commissions and offered incentives over the years. These incentives were viewed as a 'cost of sales'. The payments have included:

- *Sale and Leaseback (Property Investment) Program:*
  - 'Virgin Velocity' points issued to investors buying less desirable properties;
  - market rent advancement (offering ongoing above-market rent to investors buying difficult-to-sell property conditional on settlement by a specified date);
  - a \$5000 rebate for early settlement;
  - Defence member discount (discussed above at paragraph 6.47 forward); and
  - commissions to contract sales consultants (licensed real estate agents) and other third parties.
- *Development sales:* Incentives have been offered in respect to major DHA developments. These have included payments for landscaping, acoustic treatment and fencing, deposit reductions, furniture vouchers, and gym and pool membership.

6.59 DHA advised the ANAO that it had made no incentive payments to its staff for these purposes. DHA also advised the ANAO that its Senior Executive Group (SEG) had discussed discounts and incentives at its meeting of 30 September 2019, in the course of this audit, and had agreed:

- to discontinue the Defence member discount (discussed above);
- to discontinue the Virgin Velocity points initiative;
- to continue with the current Development Sales program initiatives;
- to revise DHA's incentives approval policy; and
- to prepare a paper for planned meetings of the Board Investment Committee (4 December 2019) and the Board (5 December 2019).

6.60 DHA further advised the ANAO that the Board had noted and endorsed the paper prepared on sales incentives at its December 2019 meeting. DHA management also advised the ANAO that the matter was sent to the Board for 'noting', as it was DHA's view that such decisions are within the authority of senior management.

## Has DHA addressed risks associated with its leasing arrangements?

In 2016 DHA identified that, in a number of state and territory jurisdictions, its standard lease agreement with sale and lease back investors was not in the form prescribed by legislation in those jurisdictions. As of late 2019, efforts to resolve these issues were underway but not yet complete. There is no evidence that, subsequent to the matter being drawn to its attention, the DHA board sought assurance from management regarding compliance with state and territory residential tenancy legislation, or considered the risks of non-compliance.

### Compliance with state and territory residential tenancy legislation

6.61 DHA management has identified risks associated with compliance of DHA leases with the relevant state and territory residential tenancy legislation.

6.62 DHA has used a standard form of residential tenancy lease agreement ('landlord lease') with sale and leaseback investors who own property which DHA then makes available for Defence members to occupy. DHA has around 13,000 such leases of various ages across most states and territories. DHA had operated on the basis that DHA was the tenant and engaged with the owners of the property as tenant. DHA has provided the owners of the property with a range of services including maintenance and management of the occupier.

6.63 The DHA lease was last revised substantially in 2009. DHA advised the ANAO that, at that time, the new form of lease did not present any significant difficulties under the various state and territory residential tenancy regimes, though DHA was aware that there were some 'inconsistencies'.<sup>144</sup> DHA further advised that until 2017, it had always managed landlord disputes so that the DHA lease did not go before a court or tribunal.<sup>145</sup> According to DHA, there have been extensive subsequent changes to residential tenancy laws in Australia.

6.64 In 2016, DHA sought legal advice on the state and territory residential tenancies legislation and the state of compliance of DHA landlord leases with each state or territory act, and the implications of any inconsistency. This advice concluded that there were at least two jurisdictions in which DHA officers could potentially commit an offence if a residential tenancy agreement is not in the prescribed form or does not include standard terms. DHA obtained more comprehensive advice in 2017, seeking to identify whether DHA leases comply with state and territory requirements, the consequences of any non-compliance and steps DHA could take to deal with non-compliance. The advice found that the DHA lease agreement would probably breach requirements in New South Wales (NSW), Western Australia and Queensland. DHA management advised the Board of 'major legal and reputational risks for the organisation' in this area in November 2017.

6.65 A 'Leasing Legal Risk' project was established in late 2017 to consider and provide advice to DHA's senior executive group and the Board on how to manage the risk posed by the variances between landlord leases and state and territory standard form leases. The issues were brought to

<sup>144</sup> Residential tenancies are governed by state and territory legislation. According to early DHA Lease Guidelines: 'The DHA lease has been drafted to avoid conflict with this legislation as far as possible. However, given the differences among the states and territory acts it is not possible to draft a single lease that offers uniform provisions to DHA Lessors and is consistent with all aspects of state and territory legislation. Therefore some provisions in DHA's lease may be inconsistent with some state and territory legislation.'

<sup>145</sup> It is not clear what techniques were adopted nor the cost-effectiveness of DHA's approach.



the attention of the DHA managing director in January 2018, DHA's senior executive group in March 2018, and the DHA Board in May 2018.

6.66 DHA has engaged property law experts to help it meet the current NSW leasing obligations, balancing the needs of the lessors and DHA without raising constitutional law issues in the event of a dispute.

6.67 In late 2019 DHA advised the ANAO that legal drafting of the NSW lease and draft property care contract was complete and was considered compliant with state legislation. DHA further advised that it was preparing an implementation plan relating to NSW. Work remains to be completed in respect to other jurisdictions. DHA has not indicated how long it expects this to take.

6.68 There is no evidence that the DHA board has sought assurance from management regarding compliance with state and territory residential tenancy legislation, or considered the risks of non-compliance. As discussed in paragraph 6.43, the strategic oversight of non-financial risks such as compliance and regulatory risk is a key responsibility of a governance board. Obtaining assurance from entity management regarding compliance with relevant legislation can assist a board directly, or through its audit committee, to gain assurance of legal compliance.

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Grant Hehir  
Auditor-General

Canberra ACT  
9 April 2020



## **Appendices**

## Appendix 1 Entity responses

Chairman



Mr Grant Hehir  
Auditor-General  
Australian National Audit Office  
GPO Box 707  
Canberra ACT 2601

Dear Mr Hehir

Thank you for providing Defence Housing Australia (DHA) the opportunity to comment on the Australian National Audit Office's proposed report on the 'Management of Defence Housing Australia.'

As DHA's Accountable Authority, the Board has regarded this audit as an invaluable learning opportunity. DHA agrees with the four recommendations of the report. The Board takes its governance responsibilities very seriously and we will ensure that the recommendations are met.

DHA's purpose, of course, remains to provide adequate and suitable housing to members of the Australian Defence Force (ADF) and their families. Your report provides the opportunity to refocus and refine our efforts to continue to meet our purpose.

I am pleased to advise that the Board, with management's assistance, has already taken steps to address the report's findings. Furthermore, DHA finalised a new business model with the agreement of our Shareholder Ministers in November 2019. This has been a process in train for some time. It will provide a refocused strategic direction.

I acknowledge that the report identifies opportunities for DHA to improve. Accordingly, DHA will strengthen some governance arrangements, particularly in relation to the consideration of enterprise level risks. This work has commenced with DHA's Governance Reform Program. We will continue to operate within DHA's statutory remit.<sup>6</sup>

DHA will develop a forward work plan to address the report's findings. DHA will continue to work closely with our colleagues in the Department of Defence particularly to meet the recommendations regarding: housing philanthropic organisations; addressing key performance indicators; and the study of comparative costs of a Service residence and Rent Allowance. Further, DHA will work to identify DHA's role in ADF retention rates.

On DHA's behalf, I would like to take the opportunity to thank your officers for their professional and cooperative conduct of the audit.

Yours sincerely

Hon J.A.L. Macdonald  
Chairman

17 March 2020

26 Brisbane Ave Barton ACT 2600  
dha.gov.au  
ABN 72 968 504 934



### ANAO comment on Defence Housing Australia response

- (a) Refer to footnote 135 in the body of the report.



**Australian Government**

**Department of Defence**

PO Box 7900 CANBERRA BC ACT 2610

**Mr Grant Hehir**  
Auditor-General  
PO BOX 707  
CANBERRA ACT 2601

Dear Mr Hehir

*Dear Grant*

**Australian National Audit Office Section 19 Proposed Report: Management of Defence Housing Australia**

Thank you for your correspondence of 18 February 2020, which contained the Proposed Report for the ANAO performance audit – *Management of Defence Housing Australia*.

Defence appreciates the opportunity to review and comment on the Proposed Report.

Defence acknowledges the findings contained in the Proposed Report and agrees that Defence Housing Australia (DHA) has been largely effective in the delivery of services provided under the DHA Act, whilst also returning a financial dividend to the Commonwealth. Defence also agrees with the three recommendations jointly directed at both Defence and DHA.

Defence research undertaken by the Directorate of People Intelligence and Research continues to identify “family and home benefits” as one of the top five elements of its “Employment Package.” Accordingly, Defence will continue to work with DHA to ensure it continues to provide adequate and suitable housing for and housing related services to Defence Force members and their families.

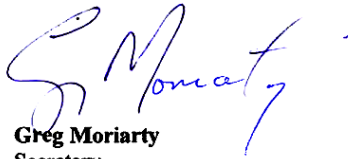
While Defence is satisfied that the current Key Performance Indicators (KPIs) in the Defence Service Agreement and Members Choice Accommodation agreement allow DHA’s service delivery to be effectively monitored and financially controlled, it recognises the need to regularly review these KPIs to ensure they remain contemporary and relevant.

Attached to this letter are Defence’s Proposed Amendments, Editorials and Comments (**Annex A**), Defence’s Response to the Proposed Recommendation (**Annex B**), and the Defence Summary Response (**Annex C**). These constitute Defence’s formal response to the Proposed Report.

Our point of contact is ANAO Liaison Officer, Nicole Fry who can be contacted by telephone on 02 6266 3103 or email: [nicole.fry@defence.gov.au](mailto:nicole.fry@defence.gov.au).


Defence remains committed to assisting you with the successful completion of this audit. We look forward to the upcoming tabling of the Final Report.

Yours sincerely



**Greg Moriarty**  
Secretary

12 March 2020



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

12 March 2020

**Annexes:**

- A) Defence's Proposed Amendments, Editorials and Comments
- B) Defence's Response to the Proposed Recommendation
- C) Defence's Summary Response



**Australian Government**  
**Department of Finance**

**Rosemary Huxtable PSM**  
**Secretary**

Our Ref: EC20-000110

Mr Grant Hehir  
Auditor-General  
Australian National Audit Office  
GPO Box 707  
CANBERRA ACT 2601

Dear Mr Hehir

I refer to your correspondence of 18 February 2020, providing the proposed performance audit report '*Management of Defence Housing Australia*' (the Report) and seeking a response from the Department of Finance (Finance).

Thank you for the opportunity to respond to the matters raised in the proposed report. Finance's summary response to the Report is:

Finance supports the recommendations and findings of the Report. Finance will provide key learnings to Government Business Enterprises (GBEs) related to good practice governance, performance measurement, procurement and contract management.

Finance will continue to work collaboratively with the Department of Defence and Defence Housing Australia (DHA) on the implementation of the revised business model. This will support DHA to continue to provide housing and related services to members of the Australian Defence Force and their families in a financially sustainable way.

Finance will consider the findings of the Report when it reviews *Resource Management Guide No. 126: Commonwealth Government Business Enterprise – Governance and Oversight Guidelines* (the GBE Guidelines) later this year.

Yours sincerely

Rosemary Huxtable  
Secretary

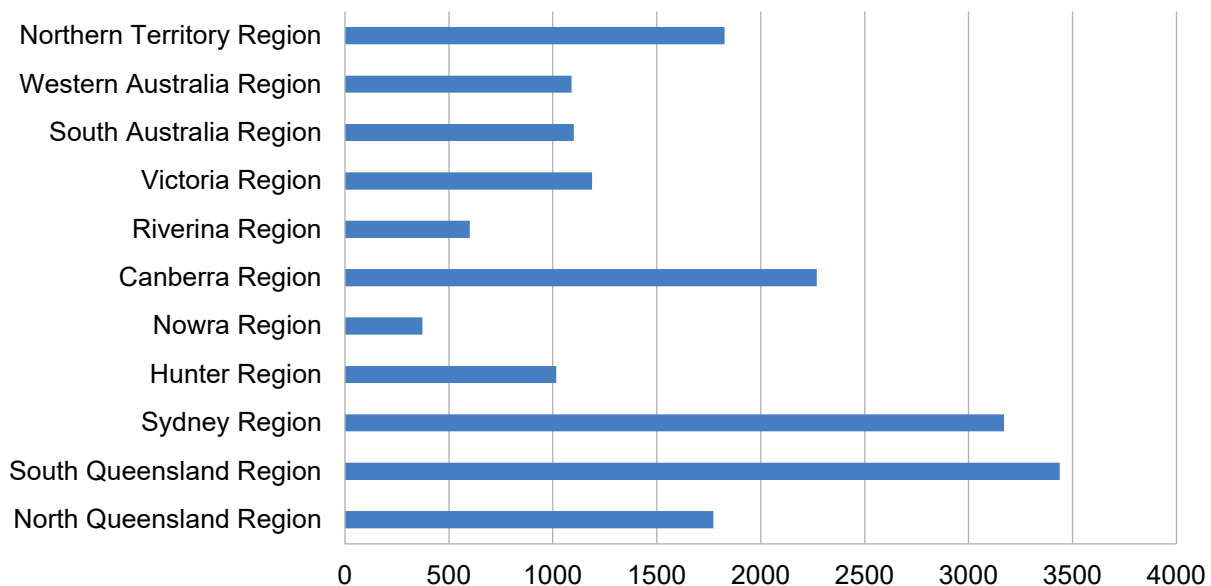
16 March 2020

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## Appendix 2 DHA's housing portfolio

1. This Appendix sets out some facts and figures about properties DHA had under management as at 5 June 2019, including their distribution (Figure A.1) and type (Figure A.2), the numbers of DHA strata properties by ownership type, and heritage properties.
2. In addition to providing these properties for the use of ADF members, DHA administers the on-line booking system for about 41,200 Defence-owned and maintained beds across 52 Defence bases. This is known as 'living-in accommodation' and provides for ADF members who need long-term, transit, temporary and training course accommodation.
3. As at 5 June 2019 DHA had 17,846 properties under management. Of these, it owned 3387 (19 per cent), Defence owned 1242 (7 per cent), DHA leased 12,891 (72 per cent) and managed 326 'annuity' properties (2 per cent).<sup>146</sup> These are distributed over all states and territories with the exception of Tasmania.

**Figure A.1: Number of properties under DHA management, by region, June 2019**



Note: DHA also has two properties in the Cocos Islands. DHA advised the ANAO that the titles remain with DHA and Defence is continuing to manage and maintain the properties. DHA does not receive any rent in relation to these properties. It remains DHA's intention to engage further with Defence with respect to transferring title to Defence.<sup>147</sup>

Source: DHA.

4. DHA advised the ANAO that, of its current housing portfolio, DHA has acquired 54 per cent by construction, 34 per cent in the market, and 12 per cent through direct leasing. DHA stated that this outcome was the result of the market not having housing available of the standard required by Defence since 2007 (the 'New Housing Classification Policy') leading to DHA having to construct the majority of properties to meet the new standard, which was required to be met by 2017.

<sup>146</sup> 'Annuity' arrangements are discussed at paragraph 5.10.

<sup>147</sup> DHA advice to the ANAO, 20 December 2019.



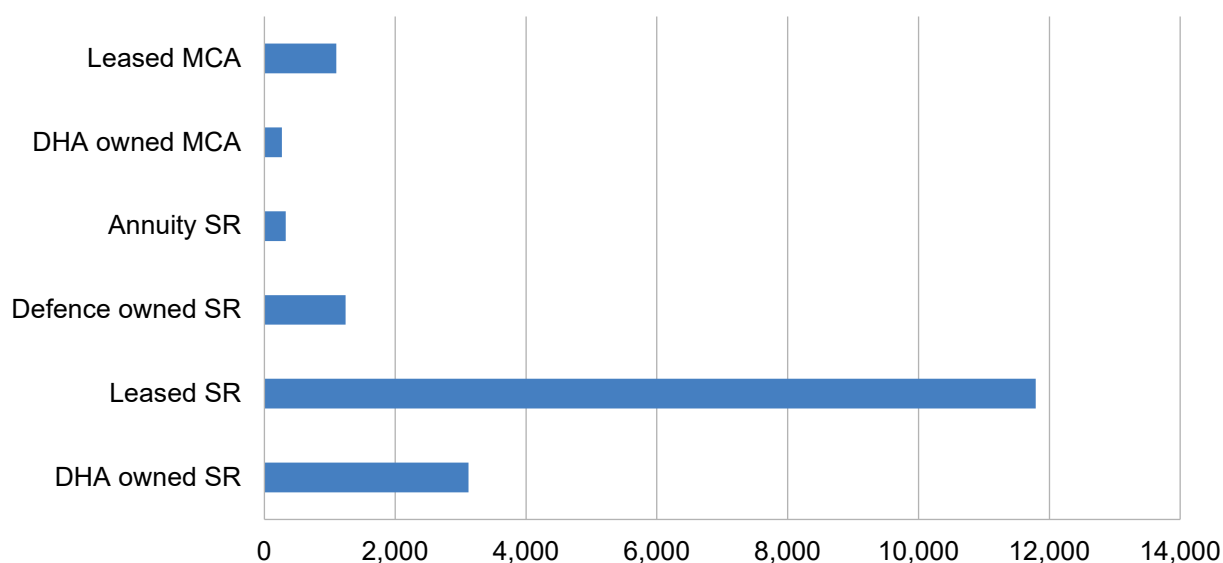
5. DHA stated that its Property Provisioning Group:

brings approximately 2000 new properties into the housing portfolio every year, using four provisioning options:

- Development projects where it typically retains approximately 30 per cent of the project's yield to construct housing for Defence and sells the remaining property to the public. DHA may retain 100 per cent of the developed dwellings on smaller developments, selling off a portion of the land to the public for larger projects ensures that Defence members are dispersed throughout the community, rather than creating enclaves of Defence members.
- Retail construction projects wherein it buys already developed land and constructs housing inventory.
- Direct acquisitions of already existing housing or house and land packages from other builders or developers.
- Direct leasing of housing, including lease renewals and extensions.<sup>148</sup>

6. The outcome of DHA's business strategy of development followed by sale and leaseback over many years is evident in Figure A.2, which shows that most property under DHA management is leased by DHA.

**Figure A.2: Number of properties under DHA management, by type, June 2019**



Key: MCA: Member's Choice Accommodation (for Members without Dependants).

SR: Service Residence (for Members with Dependants)

Source: DHA.

<sup>148</sup> DHA advice, 13 May 2019.

**Table A.1: Numbers of DHA strata properties by ownership type**

	DHA own and self-manage (solely/jointly)	DHA own and strata manager appointed	DHA leases (incl. strata manager appointed or owner managed)	Annuities/ other	Total
No. of properties <sup>a</sup>	175	1,130 <sup>d</sup>	2,933	29	4,267
No. of strata plans <sup>b</sup>	32	286	856	13	1,052 <sup>f</sup>
No. of strata companies appointed to manage strata plans <sup>c</sup>	0 <sup>e</sup>	110	307	5	422

Note a: The total number of properties represents the individual lots that form part of the DHA strata portfolio.

Note b: The total number of strata plans refers to the number of schemes that the individual lots sit within.

Note c: The total number of strata companies that have been appointed to manage the strata plans on the owners' behalf refers to licenced strata management companies.

Note d: Includes investment and inventory stock.

Note e: All are self-managed either solely or jointly with other owners in the scheme and do not engage a licenced strata management company.

Note f: The numbers in this row do not sum due to shared arrangements across ownership types.

Source: DHA advice to the ANAO, 23 September 2019.

## DHA maintains Defence heritage properties

7. DHA maintains 73 heritage properties of which 61 are Defence-owned residences. These are managed by DHA as Service Residences under Schedule 4 of the DSA. Not all heritage properties are occupied. DHA advised that, in September 2019, nine were vacant<sup>149</sup>:

- In the ACT, four were vacant and undergoing works (two at Duntroon, two at Jervis Bay). Some Duntroon houses present challenges for modern living, such as restrictions on communications access (Internet and Wi-Fi) in old buildings of heavy masonry construction.
- In New South Wales, five were vacant. Two are at Garden Island where extensive upgrade works at the wharf were generating noise levels that prohibited use of the residences. One was vacant at HMAS Watson. One was vacant in Richmond for renovation. Finally, the Commander's residence on Spectacle Island, Sydney Harbour, was vacant. This is in the middle of Sydney Harbour and accessible only by boat.

8. DHA advised that the management of heritage properties uses the same systems as non-heritage properties. However, the availability of the property is limited to the class of rank or the specific role, as advised by Defence. Generally, Defence controls allocation of heritage properties. They are not available for occupancy by general allocation.

9. DHA refurbishes heritage properties with the approval of Defence's Directorate of Relocations and Housing. DHA's costs for refurbishment are reimbursed by Defence with a 5 per cent management fee charged by DHA. Heritage properties are included among service residences.

<sup>149</sup> DHA Advice to the ANAO, September 2019.

## Appendix 3 Profile of Defence Housing Australia investors

1. DHA provided data on how many properties its investors have an interest in and the location of those investors. This data provides a measure of the concentration of ownership and how much DHA property is owned by overseas-based investors. It indicates as follows:
2. Ownership is dispersed, with 97 per cent of DHA's 16,231 investors having an interest in only one or two properties. Only 27 investors have six or more properties and the investor with the most properties has 26. DHA identifies certain investors as 'VIP investors'. These investors have purchased three or more properties from DHA.
3. Table A.2 shows, for all investors, how many DHA properties they have an interest in. DHA advises that this data does not differentiate between properties that were direct leased versus those that were sold through DHA's property investment program.

**Table A.2: Distribution of ownership of DHA properties, by number of properties/investor**

Number of properties	Number of investors with this number of properties	Proportion of investors with this number of properties
1	13,935	85.9%
2	1,806	11.1%
3	330	2.0%
>3	160	1.0%
<b>Total</b>	<b>16,231</b>	<b>100%</b>

Source: Base data provided by DHA, 24 July 2019

4. Most DHA investors (99 per cent) are Australia-based, with the highest number located in New South Wales (7088, comprising 44 per cent). The jurisdiction with fewest is Tasmania (83, comprising half of one per cent).
5. Only around one per cent of investors are located overseas. The countries with the highest numbers of investors are the United Kingdom (29), the United States, China and Hong Kong (26 each), New Zealand (17) and Singapore (15).

## Appendix 4 Minimum standard for a market-rent-based classification

1. A Service residence is only to be given a market-rent-based classification<sup>150</sup> if it meets at least the minimum housing standard, which includes all of the following amenities.

- Three bedrooms
- Lounge
- Dining area
- Kitchen
- Laundry
- Bathroom
- Toilet
- Ensuite bathroom
- Single lock-up garage

**Exception:** For Service residences in Darwin the minimum standard is a carport.

- Storage
- Security features

**Exception:** Back-to-base security system.

**Example:** Deadlocks on external doors.

- Covered outdoor entertaining area

**Exception:** Residences acquired by DHA Australia before 1 July 2007 are exempt.

- A yard, that has a minimum size in accordance with the following table

**Exception:** Residences acquired by DHA before 1 July 2007 are exempt.

**Table A.3: Minimum yard size**

Item	Location	Minimum yard size
1	Greater Sydney area	25 square metres
2	All other locations	35 square metres

Note: Under the Services Agreement certain additional elements are required: no shower over bath, climate control, security variations, clothesline length, laundry cupboard details and other items as detailed in Capital Inclusions and Housing Management Instructions.

Source: Defence Determination 2016/19, Conditions of Service (PACMAN). p. 648.

<sup>150</sup> Under the Defence determination, service residences may also be amenity-based (that is, classified according to features). Market-based classification has been the primary method for some years.

## Appendix 5 Key performance indicators in DHA's Defence Services and MCA Agreements

**Table A.4: Defence Services Agreement**

Key performance indicator	Performance indicator (Regional KPI reports provided separately)	Target	Reporting frequency	Measure	Comment
1. Provisioning – provide right number of SRs in right location	Number of houses provided against the Agreed Provisioning Schedule (APS)			<ul style="list-style-type: none"> <li>Number of houses provisioned in each DHF Region capped at the level of the APS</li> <li>Capped results for each DHF Region added and expressed as a percentage of the overall provisioning requirement of the APS</li> </ul>	Result for each DHF Region Capped at 100%
	Annual Target	<ul style="list-style-type: none"> <li>98% for 2012–13</li> <li>98.5% for 2013–14</li> <li>99% for 2014–15</li> </ul> Australia-wide at end of Financial Year	Annual	<ul style="list-style-type: none"> <li>As at June 30 each year</li> </ul> Formula: $\text{KPI result} = \frac{\text{Na}}{\text{Np}} \times \frac{100}{1}$	<ul style="list-style-type: none"> <li>Example 1 Na = 1950 Np = 2000 Then Na is 1950</li> <li>Example 2 Na = 1800 Np = 1700 Then Na is 1700</li> </ul>
	Monthly (reporting only)	96% in each Region	Monthly	Na = Number of SR Provisioned in each region to a maximum of 100% of Regional PS Np = Number of SRs in Provisioning Schedule <ul style="list-style-type: none"> <li>Number of houses provisioned in each DHF Region against Regional APS expressed as a percentage</li> </ul>	Tracking to be reported monthly at the DOC meeting

2. Provisioning – provide right no. of SRs in right location at the right level	Number of mismatches (by Classification) against Provisioning Schedule	<= 5%	Monthly	Formula: $\frac{Na \times 100}{Np}$ Np = Number of SRs approved in the Agreed Provisioning Schedule in each Classification Na = Actual number of SRs provided in each Classification	Calculated on the last day of the month
3. Provisioning – provide right no. of SRs in right location at the right time	Number of Services Residences for occupation on Confirmed Delivery Date	>=95%	Monthly	Formula: $\frac{\text{Dwellings ready for occupancy on Confirmed Delivery Date} \times 100}{\text{Total new occupancies}}$	Calculated on the last day of the month
4. Provisioning – Rent Band Choice Housing	Satisfaction with Rent Band Choice Housing	>=90%	Annually	Formula: Total respondents who rate their satisfaction with Rent Band Choice Housing as, moderately satisfied, satisfied, or extremely satisfied in DHA's <u>Tenant Survey</u> x 100 The total number of respondent's occupying DCH	
5. Maintenance – Provision of Emergency Maintenance to Services Residences.	Percentage of Emergency Maintenance Requests completed within 24 hours	>= 90%	Monthly	Formula: $\frac{\text{Number of Emergency Maintenance requests completed within 24 hours} \times 100}{\text{Total number of Emergency Maintenance requests}}$	These are the total numbers of Emergency Maintenance Requests for the month
6. Maintenance – Provision of Routine Maintenance to Services Residences	Percentage of Routine Maintenance requests completed within 28 Days	>= 90%	Monthly	Formula: $\frac{\text{Number of Routine Maintenance requests completed within 28 Days} \times 100}{\text{Total number of Routine Maintenance requests}}$	These are the total number of Routine Maintenance Requests for the month

7. Maintenance – Quality of Maintenance Services provided	Satisfaction with quality of Housing Maintenance Services	$\geq 90\%$	Quarterly	Formula: Total respondents who rate their satisfaction with the quality of Maintenance as moderately satisfied, satisfied, or extremely satisfied in DHA's Maintenance Surveys x 100 Total respondents	
8. Costs	Vacancy rates for Defence-owned Off-Base Housing	$\leq 5\%$	Monthly	Formula: Number of 'Vacant available for occupancy' Defence-owned Off-base Housing on the last Business Day of the period x 100 Total number of Defence-owned Off-Base Houses on the last Business Day of the period <ul style="list-style-type: none"><li>Vacant available for occupancy excludes: handback stock, disposal stock, SRs offline for major maintenance, SRs offline for midlife upgrades, and allocated stock.</li></ul>	Calculated on the last day of the month
9. RA Rate (for reporting monthly to DOC Meeting only)	Number of Members on Rent Allowance against the Provisioning Schedule	$< 15\%$	Monthly	Formula: $\frac{\text{Total number of Members on Rent Allowance} \times 100}{\text{Sum total Members on Rent Allowance} + \text{Members in a Service Residence}}$	This is a reporting measure against Contract Price Incentive as specified in Schedule 8 Part D Para 15, and is not a KPI as defined under Part 1, Clause 7.1
10. Provisioning – provide right number of SRs in right location in the right condition	Satisfaction with condition of Service Residence on occupation (Condition includes cleanliness of the Service Residence, up-keep of the gardens and outdoor areas and Maintenance of the Service Residence)	$\geq 90\%$	Quarterly	Formula: Total respondents who rate their satisfaction with the condition of Service Residences as, moderately satisfied, satisfied, or extremely satisfied in DHA's Relocation Survey x 100 The total number of respondents	Held in abeyance while ATM arrangements are in place

Note: An additional KPI was added in July 2015. 'Complaints acknowledged within 2 days (Target: 95%) and 'Complaints resolved within 21 days (Target: 80%).

Source: DHA, Defence Services Agreement, Schedule 7.

**Table A.5: MCA Agreement**

Key performance indicator	Target	Reporting frequency	Measure	Comment
1. Number of MCA provided in each MCAF Area against start and end of year minimum number in the approved MCAPS by MCAF Area The numbers of MCA will be by agreement as per Schedule 1, Clause 1.1 pending the 18 month review	>100% of start minimum number or start minimum for the following year	Quarterly	Formula: $\frac{\text{Total number of MCA by MCAF Area} \times 100}{\text{Minimum number of MCA approved in MCAPS by MCAF Area at Start of Year}}$	Calculated on the last day of the Financial Year
2. Satisfaction with MCA, condition and maintenance Satisfaction Questions: 1. How satisfied are you with the MCA property you occupy? Satisfied, Very Satisfied, Dissatisfied, Very Dissatisfied. 2. How satisfied are you with the condition of your property you occupy? Satisfied, Very Satisfied, Dissatisfied, Very Dissatisfied.	$\geq 85\%^a$	Quarterly	Formula: 1. Total respondents who answer satisfied or very satisfied to <u>the satisfaction question for this KPI</u> x 100 The total number of respondents  2. Total respondents who answer satisfied or very satisfied to <u>the satisfaction question for this KPI</u> x 100 The total number of respondents	20 per cent of members in MCA to be polled each quarter. Polling is to be stratified by region
3. Number of MCA ready for occupation on Confirmed Delivery Date	$\geq 95\%$	Monthly	Formula: $\frac{\text{Total number of MCA ready for occupancy on Confirmed Delivery Date} \times 100}{\text{Total new MCA occupancies}}$	Calculated on the last day of the month

Note a: To ensure KPI 2 is based on valid data, the target for the measurement of satisfaction will commence at 80% after a total of 400 properties are on the Rent Bill

Source: DHA, MCA Agreement, Schedule 4.



## Appendix 6 Comparative Costs of Rent Allowance and Service Residences

**Table A.6: Costs as modelled in a 2012 study for DHA**

	Rank group of ADF member	Service residence	Rent allowance	Difference
Costs to DHA	1	1,654	-21	-1,675
	2	1,847	-21	-1,868
	3	2,081	-21	-2,102
	4	2,298	-21	-2,319
Costs to the ADF member	1	33,030	36,467	3,437
	2	38,896	45,118	6,221
	3	45,859	50,228	4,369
	4	55,264	65,498	10,234
Costs to Defence	1	82,270	87,124	4,854
	2	89,404	87,976	-1,428
	3	98,345	101,887	3,541
	4	100,990	102,895	1,905

Note: Figures are in 2011 dollars. The SR and RA measures are the total of the present value of 4 years of activity in each modelling stage, as incurred by Defence, DHA or the ADF. The difference is the level of RA less the level of SR.

Source: 'Table 9' from DHA, Cost Comparison between Service Residence and Rent Allowance, Report for Defence Housing Australia, May 2012.

## Appendix 7 DHA major development projects

**Table A.7: List of DHA major development projects, total lots and DHA ‘take-out’<sup>a</sup>**

Program	State	Total lots or total dwellings	DHA dwellings	DHA takeout (%)	Date
Muirhead (Breezes)	NT	1184	284	24	April 2006
Linfield (Crimson Hill)	NSW	333	69	21	October 2010
Rasmussen (Bluewattle)	QLD	1201	400	33	October 2010
Kellyville (Richmond)	NSW	67	38	57	February 2011
Warner	QLD	471	142	30	September 2011
McDowall	QLD	26	26	100	February 2012
Glenroy	VIC	60	28	47	November 2012
Thornton (Wirraway)	NSW	472	250	53	July 2013
Edmondson Park	NSW	68	25	37	October 2013
Middleton Grange	NSW	50	26	52	December 2013
Lee Point (2CRU MHN)	NT	778	194	25	December 2013
Raceview (Ipswich)	QLD	80	74	93	February 2014
Enoggera (Brisbane)	QLD	55	55	100	March 2014
Rockingham (Palm Beach Caravan Park)	WA	-	-	-	March 2014
Fremantle (Liv apartments)	WA	175	27	15	May 2014
Alexandria (Arkadia)	NSW	152	83	55	July 2014
Fern Bay (Stockton Rifle Range)	NSW	294	125	43	November 2014
Stockton (Fort Wallace)	NSW	65	35	54	November 2014
Dundas	NSW	21	21	100	November 2014
Edmondson Park	NSW	37	21	57	January 2015
Schofields	NSW	1152	163	14	January 2015
Waterloo	NSW	-	-	-	January 2015
Sale (Woondella)	VIC	47	24	51	May 2015
Baldivis	WA	31	8	26	May 2015
Coombs	ACT	83	32	39	June 2015
Middleton Grange	NSW	44	13	30	June 2015
Mount Lofty	QLD	344	16	5	June 2015
Lawson	ACT	182	48	26	June 2015
Bowden (Prince’s Foundation)	SA	12	12	100	July 2015
Hastings (Henderson Grove)	VIC	70	22	31	January 2016

Program	State	Total lots or total dwellings	DHA dwellings	DHA takeout (%)	Date
Yamanto (Ipswich)	QLD	34	30	88	April 2016
Wattle Grove (Sydney)	NSW	5	5	100	April 2016
Deebing Heights	QLD	295	41	14	June 2016
Campbell	ACT	40	40	100	October 2016
Enoggera (Brisbane)	QLD	15	15	100	November 2016
Ripley	QLD	203	40	20	March 2017
Mawson Lakes	SA	30	12	40	April 2017
Middleton Grange	NSW	46	15	33	September 2017
Angle Park (Adelaide)	SA	184	26	14	December 2017
Aspley (Brisbane)	QLD	39	18	46	March 2018
Halpine Parade (Stage 8)	QLD	43	15	35	November 2018

Note a: DHA take-out represents the proportion of the properties which DHA develops and retains for ADF use. This proportion at the point of decision to proceed with a development may differ from the current value indicated in this table.

Source: DHA advice, 20 August 2019.