



Defence Housing
AUSTRALIA



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15 October 2007

The Hon. Dr Brendan Nelson MP
Minister for Defence
Parliament House
CANBERRA ACT 2600

The Hon. Gary Nairn MP
Special Minister of State
Parliament House
CANBERRA ACT 2600

Dear Ministers

On behalf of Defence Housing Australia (DHA), and in accordance with the *Commonwealth Authorities and Companies Act 1997*, I am pleased to submit to you the Defence Housing Australia 2006–2007 Annual Report.

This report covers DHA's activities in providing high-quality housing and relocation services to Australian Defence Force members and their families during the past financial year.

The 2006–07 financial year has been another successful period for DHA in which we met our key strategic objectives and financial targets. DHA generated strong financial returns during the year, which will result in payment to the Australian Government of an ordinary dividend of \$36.5 million, and tax equivalent payments of \$42 million.

This financial year has seen substantial changes for DHA.

The first is the change of name from Defence Housing Authority to Defence Housing Australia as a result of the amendments to the governing Act.

This name change signals a new era for DHA. In particular we will have an enhanced capacity to compete in the market place for the provision of housing and housing-related services to other Commonwealth Government agencies as approved by the Minister. The change also extends to a smaller, more commercially focused DHA board structure in line with current policy and based on the recommendations of the Uhrig Review.

The second change of note was the appointment of Mr Michael Del Gigante, former Chief Operating Officer, to the role of Managing Director of Defence Housing Australia, which took place in August 2006.

I convey the thanks of the Board and all associated with Defence Housing Australia for your interest in, and support of, the activities of the organisation.

Yours sincerely

A handwritten signature in black ink, appearing to read "Peter V Jones".

The Hon. Peter V Jones AM
Chairman
Defence Housing Australia



THE HON. PETER V JONES AM

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DHA blueprint

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Who we are and what we do

Our Vision

Excellence in Defence housing and relocation services.

Our Mission

To deliver total housing and relocation services that meet Defence operational and client needs through a strong customer and business focus.

Meeting the operational needs of the Australian Defence Force (ADF) requires DHA to provide cost-effective housing and relocation services to ADF members and their families, at a standard that supports the Department of Defence (Defence) in the recruitment, retention and operational effectiveness of highly trained personnel. Considerable flexibility is required to meet the changing housing requirements of Defence in a shifting residential investment market.

Our Strategic Themes

Delight the customer (page 11)

Focusing on serving our customers, by providing housing and related services, and relocations that anticipate and meet customer needs.

Value for money for clients (page 29)

Focusing on meeting the performance requirements of Defence and Customs — cost-effective management of stock within agreed parameters.

Meet shareholder requirements (page 35)

Focusing on meeting the financial requirements of Shareholder Ministers — appropriate financial returns and capital efficiency.

Effective and innovative management (page 43)

Focusing on attracting and retaining lessors; operating commercially, efficiently and innovatively; and attracting, retaining and developing competent, motivated and customer-focused staff.



Who are we?

DHA was established as a statutory authority in 1988 under the *Defence Housing Australia Act 1987*. In 1992 DHA also became a Government Business Enterprise.

Our primary function is to provide high-quality housing and relocation services to members of the ADF and their families in order to meet the operational needs and other requirements of Defence. We also provide housing services to staff of Customs.

DHA sits within the Defence portfolio and is responsible to the Hon. Dr Brendan Nelson MP, Minister for Defence, and the Hon. Peter Lindsay MP, Parliamentary Secretary to the Minister for Defence.

Senator the Hon. Nick Minchin, Minister for Finance and Administration, is a Joint Shareholder Minister of DHA and has delegated management responsibility to the Hon. Gary Nairn MP, Special Minister of State.

What do we do?

DHA executes a comprehensive construction and acquisition program to meet Defence housing requirements, with capital expenditure of approximately \$1,555 million planned over the next three years. More than 1,200 new properties per year are provisioned through construction or acquisition, the majority of which are sold and then leased back.

DHA's \$1.6 billion capital program drives our borrowing requirement. This substantial capital program deals with 6,600 expiring leases, changes in force disposition of the ADF, as well as a ten year plan to transition all DHA leased and owned properties into compliance with Defence minimum amenity standards.

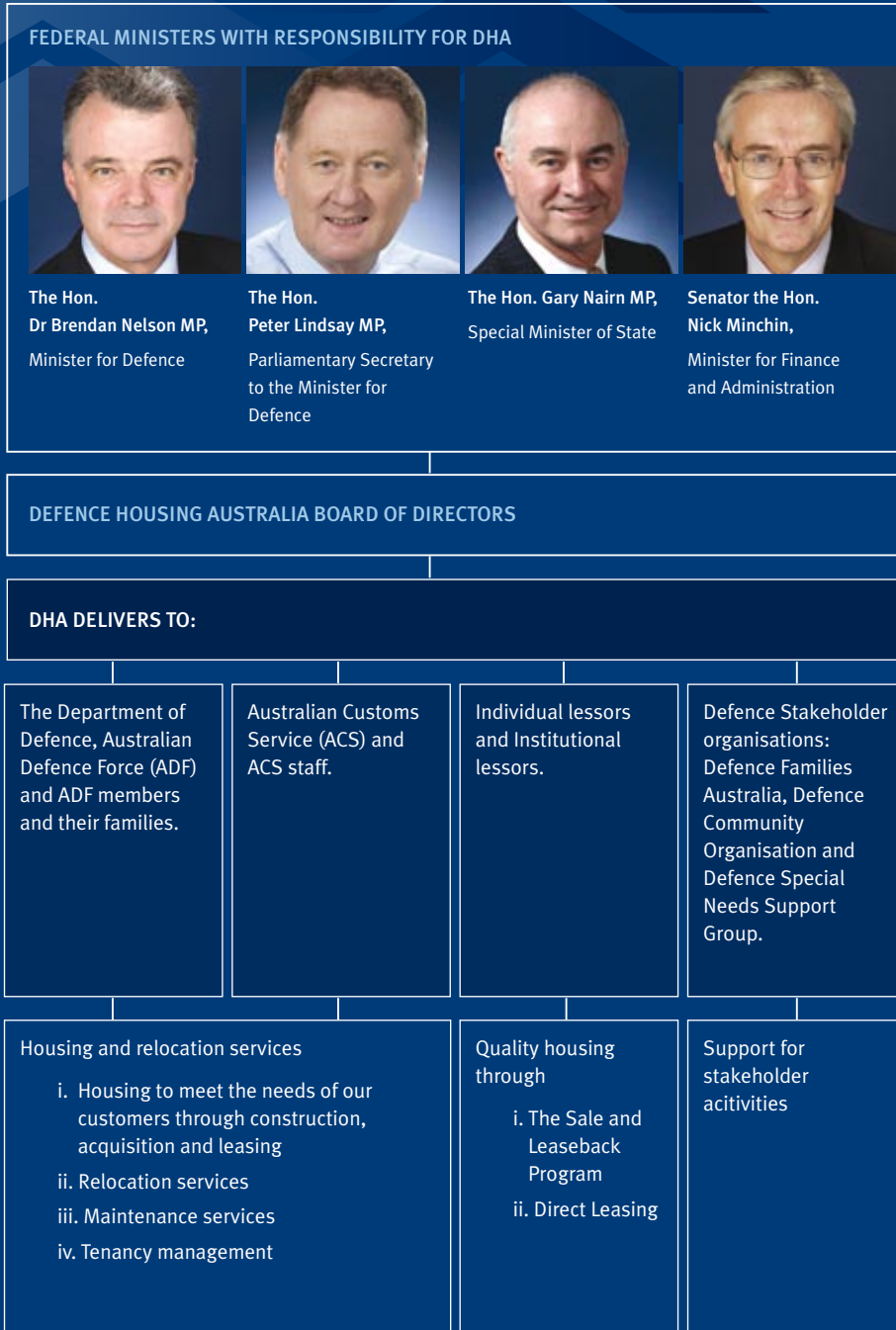
DHA manages approximately 17,000 residences in all states and territories of Australia, representing around \$7.0 billion worth of housing stock. Approximately 62 per cent of these homes are owned by investors and leased back to DHA, primarily through its Sale and Leaseback Program.

DHA provides a full tenancy and maintenance service to all ADF and Customs tenants. It also administers a range of entitlements and allowances paid to ADF members for their housing and relocation requirements.

In 2001, DHA assumed responsibility for ADF member relocations. We organise approximately 30,000 ADF relocations each year for members and their families. DHA employs 696 staff in 32 Housing Management Centres and local offices across Australia. We provide a face-to-face service in the vicinity of most major military establishments around the country.

The 2006-07 financial year was a year of substantial change and challenge for DHA.

Figure 1.1 DHA stakeholders chart





Chairman and Managing Director's report

This financial year has seen a number of changes to DHA. An important change was the name change from Defence Housing Authority to Defence Housing Australia. This signifies a new era for DHA associated with expanded mandate under amendments to the *Defence Housing Australia Act 1987*. The expanded mandate will enable DHA to compete in the market place for the provision of housing and housing-related services to other Australian Government agencies as approved by the Minister.

The changes also include a smaller, more commercially focused DHA Board structure in line with current policy and based on the recommendations of the *Review of the Corporate Governance of Statutory Authorities and Office Holders (Uhrig Review)*. Along with the new name comes a new logo and a new corporate image, but the change is more than aesthetic.

In 2006–07, Defence and DHA operated for the first time under the auspices of the new Services Agreement on Housing and Related Requirements which became effective on 1 July 2006. It has been a successful transition with the obligations of both parties more clearly understood.

DHA established a major project to oversee the implementation of the New Housing Classification Policy (NHCP), which commenced on 1 July 2007. The policy outlines a new system for classifying properties and higher minimum housing standard, which aligns with DHA's goal to provide a more modern, versatile stock portfolio, with even greater appeal to our investors and tenants. The project focused on the changes to DHA information systems required to support the new policy and on understanding the impact of the new classification system on DHA's existing portfolio.

In December 2006, DHA sold \$121.9 million of residential property to Westpac Funds Management Limited (WFML) on a leaseback basis. This is the second landmark transaction involving a large-scale investment in DHA properties by an institutional investor. It follows the initial sale of \$98.2 million to WFML in April 2006. This innovative approach opens up new business opportunities and provides DHA with access to a new segment of the investor market.

Although institutional investment provides an additional source of capital for DHA, the investment opportunities provided to individuals through the Sale and Leaseback Program will continue to be DHA's primary source of capital.

Significant developments throughout the year included the opening of the Clarence Jeffries Estate in Adamstown, New South Wales. The development, which cost \$21.6 million, provides 68 new homes for ADF families in the Hunter Valley region. This was followed up with the opening of the Grace Wilson Estate in Brisbane in June 2007. The estate features 50 new homes at a cost of \$17.5million. DHA also purchased land at Muirhead in Darwin, adjacent to the DHA development at Lyons.



THE HON. PETER V JONES AM

MR MICHAEL DEL GIGANTE

During 2006-07, DHA signed a Memorandum of Understanding (MOU) with the South Australian Land Management Corporation to purchase land for the construction of up to 500 homes in the northern suburbs of Adelaide. DHA will spend an estimated \$150 million on houses and land purchased through the MOU over the next five years. The houses will meet the needs of Defence personnel, including those ADF members relocating to Adelaide with the 7th Battalion, Royal Australian Regiment.

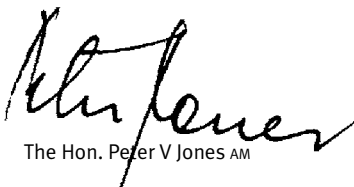
The Darwin singles accommodation trial concluded on 9 May 2007. During the course of the trial more than 100 ADF members participated, some on a shared basis, member satisfaction remained very high.

The financial performance of DHA for 2006-07 was in line with the budget and major targets were achieved. The net operating result after income tax includes one-off taxation adjustments to transition DHA into full income tax paying status from 1 July 2007. These are technical adjustments and do not reflect operating activities for 2006-07.

The 2007-08 financial year will see DHA move into an even more commercial phase, with a continuation of our focus on building our business capabilities. The residential investment market remains to be a major factor for consideration of our business strategy, and we will continue to explore innovative ways to succeed.

The Directors of DHA are pleased to present this Annual Report for the financial year ending 30 June 2007.

The Directors are responsible under section 9 of the *Commonwealth Authorities and Companies Act 1997* for the preparation and content of this report, in accordance with the Finance Minister's Orders. This report is made in accordance with a resolution of the Directors.


The Hon. Peter V Jones AM


Mr Michael Del Gigante

Highlights and events

JULY 2006



Senator Sandy Macdonald welcomes ADF families to the new Clarence Jeffries Estate.

The Clarence Jeffries Estate in Adamstown, New South Wales, is opened by Senator The Hon. Sandy Macdonald, the then Parliamentary Secretary to the Minister for Defence. The development, which cost \$21.6 million, provides 68 new homes for ADF families in the Hunter Valley region.

AUGUST 2006



Senator Sandy Macdonald announces that DHA has purchased land at Muirhead in Darwin.

DHA purchases land at Muirhead in Darwin. The land is purchased to meet the increasing demand for modern housing in Darwin and has the potential to accommodate 800 new homes. This will be a major development, with DHA retaining 500 homes to house the growing ADF presence in Darwin.

The DHA Board appoints Mr Michael Del Gigante as DHA Managing Director. The appointment takes effect from 4 August 2006.

OCTOBER 2006



Member for Blair Cameron Thompson and DHA's chairman Peter V Jones turn the first sod at DHA's development at Fairview Rise in Ipswich.

A 'ground-breaking' ceremony is held to mark the start of construction of a 162-home, \$50.2 million development at Fairview Rise in Ipswich, Queensland. The development, which is close to RAAF Base Amberley, will help meet the future housing needs incorporating the movement of Flight Squadron 9FSB to the area by 2010.

Construction of the first 45 houses started in the new \$76 million Darwin suburb of Lyons. DHA's objective for this development is to deliver an innovative, high-quality and ecologically sustainable urban environment, suitable for Darwin's tropical climate.

NOVEMBER 2006



DHA launches its new logo which features peaks to represent the three services.

Defence Housing Authority is renamed Defence Housing Australia as a result of amendments to the Defence Housing Australia Act 1987. The focus will continue to be the provision of housing and related services to Defence. The expanded mandate enables DHA to compete in the market place to provide these services to other Australian Government agencies as approved by the Minister. The changes also include a smaller, more commercially focused DHA Board structure, in line with current policy and the recommendations of the Uhrig Review.

FEBRUARY 2007



The Hon. Gary Nairn MP and DHA Managing Director Michael Del Gigante go over plans for the planned development in Jerrabomberra.

DHA acquires land in Jerrabomberra, New South Wales, as part of a \$5 million project to build more homes for the next major Defence posting cycle at the end of 2007. Nine lots were purchased at a cost of \$2 million and nine high-quality four-bedroom homes will be built on the land at Cassinia Rise, Jerrabomberra. The homes will help support the planned Headquarters Joint Operations Command (HQJOC) in Bungendore which will be ready for occupation at the end of 2008.

MARCH 2007



The introduction of NHCP will allow DHA to progressively deliver a greater variety of housing choices for ADF members.

The \$84 million (reprogramming and preparation) NHCP is announced. This policy details an improved standard of contemporary housing for ADF Members with Dependents (MWD). The New Housing Classification Policy will enable ADF members to have a greater choice of housing.

APRIL 2007



Chief Executive of LMC Wayne Gibbings signs the MOU as DHA Managing Director Michael Del Gigante watches on.

The Hon. Peter Lindsay MP, Parliamentary Secretary to the Minister for Defence, announces a Memorandum of Understanding between DHA and the South Australian Land Management Corporation.

The Memorandum of Understanding outlines the purchase of land for the construction of up to 500 Defence homes in the northern suburbs of Adelaide.

DHA will spend an estimated \$150 million on houses and land purchased through the Memorandum of Understanding over the next five years. The houses will meet the needs of Defence personnel and their families, including those ADF members relocating to Adelaide with the 7th Battalion of the Royal Australian Regiment.

MAY 2007



The Hon. Peter Lindsay MP hands over the keys to a newly renovated heritage home at HMAS Creswell to Shelby Ward.

DHA holds a key handing-over ceremony to welcome new tenants to the refurbished heritage homes on base at HMAS Creswell, Nowra. DHA refurbished 12 residences at a cost of \$4.5 million. The refurbishment brought the houses up to community standards, while also maintaining heritage listing requirements.

JUNE 2007



The Hon. Peter Lindsay MP welcomes guests to the opening of the Grace Wilson Estate, Brisbane.

DHA holds a key handing-over ceremony at Grace Wilson Estate, in McDowall near Brisbane. The estate, worth \$17.5 million, features 50 new homes. These homes were built to meet the increased number of ADF members in the Brisbane area.



Delight the customer

13 – SERVICES TO CUSTOMERS

20 – HOUSING MANAGEMENT CENTRES





Visit an outback art gallery

relax



Objective

Provide housing, related services and relocations that anticipate and meet customer needs.

KEY PERFORMANCE INDICATOR	2006-07 TARGET	2006-07 ACHIEVEMENT
ADF member satisfaction with house	80 per cent	85 per cent
ADF member satisfaction with maintenance services	80 per cent	94 per cent
ADF member satisfaction with overall DHA relocations services	80 per cent	90 per cent

Major outcomes

1. The provisioning schedule with the Department of Defence was implemented, with adjustments to the methods of provisioning in response to market conditions.
2. An asbestos register and management plan was completed for all houses within an age profile, which will help to ensure our customers' safety.
3. A 24-hour seven-day per week emergency maintenance service and a responsive routine maintenance service were provided to make it easier for customers to access DHA services.
4. The pre-Application for Relocation process continued, improving the visibility of available houses on HomeFind and helping to tailor the relocation process to customers needs.



Services to customers

DHA provides a range of housing and relocation services to our customers – members of the ADF and their families. We aim to delight the customer through:

- the provision of homes that anticipate customers' expectations and are consistent with community standards in quality, amenity and choice;
- the delivery of pro-active and personalised relocation services; and
- tenancy-management services, including responsive maintenance of properties under DHA management, which reflect Defence policy and meet customer needs.

In the year under review, DHA invested further in its membership of the Customer Service Institute of Australia. In particular, DHA conducted a major review of its complaints-handling procedures and implemented significant reforms including the appointment and training of specialist customer relations officers in regional offices and the adoption of a comprehensive reporting regime.

Meeting the housing needs of ADF members

Over the past 19 years, DHA has dramatically increased both the quality and diversity of housing available to ADF members and their families. As well as traditional detached family homes, DHA provides townhouses, apartments and courtyard houses to meet the differing needs of ADF families. Townhouses in a variety of styles have been constructed for ADF members who desire minimal lawn and garden maintenance. Apartments with shared recreational amenities and undercover parking have been made available in choice inner-city locations. Courtyard developments, which are well suited to smaller allotments particularly in inner suburban areas, are also available.

Construction and acquisition of housing

DHA pursues a comprehensive construction and acquisition program to meet the Defence housing requirement, with capital expenditure of approximately \$1,555 million planned over the next three years.

In addition to the construction and development of properties, DHA acquires existing properties from owners and builders to ensure capital program requirements are achieved. All properties acquired must be of a high standard, complying with local community standards and Defence requirements.

In 2006–07, activity could be seen across most parts of Australia, with construction of 482 houses completed on and off ADF bases at a cost of \$193.7 million. DHA also acquired 508 properties at a cost of \$211 million.

Major projects

Grace Wilson Estate, McDowall, Brisbane, Queensland

Construction of the \$17.5 million development in McDowall, Brisbane, was completed in June 2007. The new housing estate was named after Grace Wilson, a distinguished war veteran who lived in Brisbane. Miss Wilson served as a member of the Australian Army Nursing Service, and had the role of principal matron of the 3rd Australian General Hospital during World War I and was posted to the position of Matron in Chief in France. During World War II, she held the position of Matron in Chief for the Australian Imperial Force, before she returned to Australia, due to ill health, and took up the position of executive officer of the Nursing Control Section of the Manpower Directorate for the remainder of the war years.

DHA consulted within the community and worked closely with the Brisbane City Council in designing the 50-house development. The completion of the development marks the end of almost two years' work, which commenced in September 2005 when a 'ground-breaking' ceremony was conducted to mark the start of construction.

Ipswich, Queensland

In June 2006, the construction of 162 houses at Ipswich, Queensland, started at a cost of \$50.7 million. The development will provide much needed high-quality housing for ADF members and their families, and is scheduled for completion progressively through to December 2008. This development is located at Fairview Rise and is a convenient distance to RAAF Base Amberley and the Ipswich city centre.

Lyons, Darwin, Northern Territory

The creation of the new \$76 million Darwin suburb of Lyons is well underway with DHA releasing the first houses for Defence families in August 2007. DHA's objective for this development is to deliver an innovative, high-quality and ecologically sustainable urban environment, suitable for Darwin's tropical climate. A mixture of lot sizes will provide choice, enhance life style and community safety. Aspects such as breezeways and positioning of houses to provide access to winds will be included in the planning.

The Lyons development is a joint venture agreement between DHA and the Canberra Investment Corporation, which will provide 650 fully serviced residential land allotments. Of these, at least 300 blocks, positioned throughout the development, will be available for ADF members and their families. The local economy in Darwin will benefit greatly from this \$76 million development by way of increased employment and DHA's commitment to using local contractors where possible.

Lyons will be a community where, due to planning and design features, residents enjoy the best environmental amenities available, and positively contribute to the reduction of greenhouse gases, biodiversity conservation and water-cycle management.

In recognition of the traditional owners of the land — the Larrakia people — Lyons will feature a centralised recreation reserve to be known as Garanmanuk Park — Larrakia for 'grandmother'. Strategically positioned within Garanmanuk Park will be a neighbourhood centre, which will become the recreation and community hub of Lyons. It will allow for activities such as children's play and will add to the civic identity of the development. Incorporated within this building will be significant pieces of Larrakia art, which is part of the joint venture's commitment to recognise the cultural heritage of the Larrakia people.

Bruce, Canberra, Australian Capital Territory

Construction of the \$27 million development of Fern Hill Estate at Bruce began in April 2007 and is due for completion by November 2007.

The 52 blocks were purchased in June 2006 and are located within a mixed-use, multi-generational private development. The development is part of the land-acquisition program in the Canberra and Queanbeyan region, which includes 350 serviced blocks of land being acquired under a three-year agreement with the ACT Land Development Agency. These land purchases provide the basis of the housing construction program, which is being undertaken to accommodate ADF personnel posted to HQJOC at Bungendore, New South Wales.

Dundas, Sydney, New South Wales

DHA acquired a 1.9-hectare site in the Sydney suburb of Dundas in April 2004, at a cost of \$8 million. Development of the entire site and the construction of 40 new houses are estimated to cost \$13.4 million. Development started in February 2007, with the construction of the first 20 houses scheduled to start in September 2007. The construction of a further 20 houses is scheduled to start in December 2007. This project is scheduled to be completed by December 2008.

Caringbah, Sydney, New South Wales

In May 2007, work commenced on the construction of 22 townhouses at a cost of \$7.3 million on adjoining lots in Caringbah, Sydney acquired by DHA during 2004. Work is expected to be completed by December 2008. Accommodation in this area is particularly attractive to ADF members serving in the Sydney CBD and the eastern suburbs due to good rail and road access. This location is also suitable for members posted to the Holsworthy Army Base.

On-base construction and refurbishment

The construction of 80 new homes at Puckapunyal, Victoria, commenced in August 2005 at an estimated cost of \$19.6 million. All 80 homes were completed by November 2006.

Defence houses at RAAF Base Tindal in the Northern Territory continue to be upgraded as part of an \$18 million major refurbishment program. This program includes the upgrading of amenities to provide additional living/family areas, master bedrooms, new kitchens and internal repainting.

A refurbishment program of homes in the Wattle Grove area, adjoining the Holsworthy Army Base, continues with more than 60 homes being refurbished to date at a cost of \$6.4 million.

Sale of surplus housing

An important element of DHA's asset-management strategy is the sale of surplus properties. This provides valuable revenue to assist in funding the Capital Program. In 2006-07, \$68.4 million in revenue was generated.

Surplus housing stock is identified on the basis that it:

- no longer meets the operational requirements of Defence;
- is positioned in an unsuitable location or does not meet the Defence minimum amenity standards; or
- is at the end of its economic life.

Defence HomeOwner Scheme

The Defence HomeOwner Scheme is a subsidised home loan scheme that provides assistance to serving and former ADF members under the *Defence Force (Home Loans Assistance) Act 1990*.

DHA manages the Scheme on behalf of Defence and its role is to handle enquiries about the benefits of the Scheme, to assess eligibility and entitlement, and to manage the subsidy arrangements.

Accessing the benefits of the Scheme involves a two-stage process:

1. applicants first apply for an Entitlement Certificate that certifies their general eligibility for benefit; and
2. when they wish to take up the loan, they apply for the subsidy payment.

During the year, 1,526 applications for Entitlement Certificates were received and 1,483 were issued. The number of Entitlement Certificates issued was slightly lower than last year. There were 1,017 applications for Payment of Subsidy received, 1,001 of which were approved. There were on average just under 6,700 subsidy recipients each month and for the financial year a total of \$10.6 million had been paid in subsidy payments.

DHA relocation services

DHA assumed responsibility for relocations from Defence in 2001. We currently organise around 30,000 relocations each year for ADF members and their families.

Last year DHA administered 33,073 relocations. These included Defence postings, changes in personal circumstances and DHA-initiated moves. Each move is organised by a DHA Case Manager from a Housing Management Centre. DHA Case Managers ensure that ADF members and their families are efficiently relocated, with a minimum of inconvenience and in accordance with Defence policy.

Our Relocations Survey measures customer satisfaction with the complete relocation process. The positive trend in customer satisfaction since DHA assumed responsibility for the relocation of ADF members has continued throughout 2006–07 with 90 per cent of those who responded to the survey indicating that they were satisfied overall with DHA's relocation services.

Relocation process



HomeFind — selecting a property online

HomeFind is our online housing selection tool. It allows ADF members and their families to search for a suitable DHA home in the location to which they are being posted, in advance of their move.

HomeFind is an interactive website displaying details of all DHA homes available for occupancy in each location. The homes are grouped by ADF member entitlement and the website provides a comprehensive new online presentation of the homes available for selection.

Early selection of a new home increases the opportunity for door-to-door removals, which are less stressful for ADF members and their families, and reduces Defence's temporary accommodation and storage costs. It also allows earlier selection of schools, better opportunities for securing spouse employment, child care and other arrangements that need to be made in the new location.

During 2006–07, 79 per cent of ADF members who moved into a DHA managed home used HomeFind to select their homes before departing their losing locality. This resulted in significant savings to Defence in the cost of house-hunting trips and temporary accommodation costs.

Online Application for Relocation

The electronic Application for Relocation (AFR) was introduced during 2006–07. The AFR is the key document in any relocation. It is the basis for removal, transportation and accommodation planning, and the calculation of entitlements. The online AFR is much more convenient for ADF members to complete.

DHA welcomes ADF families to their new DHA managed home

To help ADF members and their families settle into their new homes, a DHA staff member meets each family at their front doorstep — to welcome them home. The family is given a 'welcome kit' and receive keys to the property.

In recognition of the stresses that frequent moves can place on families, the DHA 'welcome' allows the family to meet a local staff member and to complete the necessary paperwork in the comfort of their new home.

This service is just one more way in which we can make the move a more positive experience for our customers.

During 2006–07, we conducted a national survey of our customers to identify the best features of the welcome kits offered in each region. A standardised kit will be introduced nationally to inform ADF families of the services provided nationally by DHA.

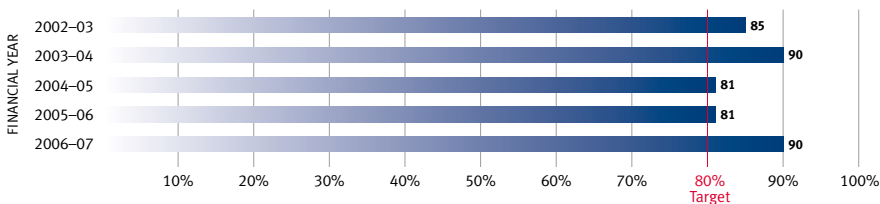
Customer satisfaction

Relocations

Through DHA's quarterly relocations survey, we measure customer satisfaction with the total relocation process, as well as itinerary management, finding, occupation, and vacation of a DHA home.

During the year, 90 per cent of 4,487 respondents indicated that they were satisfied with their total relocation experience. DHA exceeded the target of 80 per cent for customer satisfaction with relocation services.

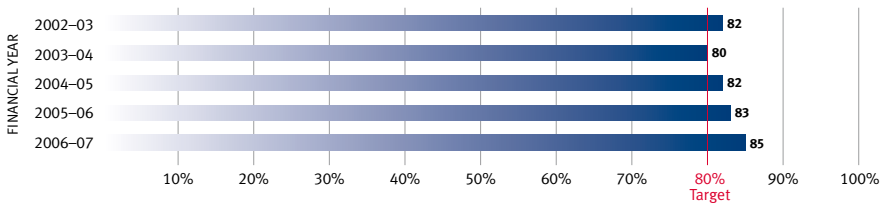
Figure 2.1 Customer satisfaction with total relocation experience, 2002–03 to 2006–07



Current accommodation

DHA's annual tenant survey measures ADF member satisfaction with their current service residence — a DHA-managed home that is provided to ADF members with dependants. In 2006–07, 85 per cent of 2,668 respondents were satisfied with their current accommodation.

Figure 2.2 Customer satisfaction with current DHA accommodation, 2002–03 to 2006–07



Communicating with our customers

DHA communicates with customers in person using a mix of general and targeted approaches. Communication and marketing materials are used to inform ADF members and their families of the range of services available and how to access them.

We maintain a range of hardcopy publications and online information products, designed to assist customers to understand and access housing and relocation services.

Hardcopy publications are distributed via the Housing Management Centres and our stakeholder groups such as the Defence Special Needs Support Group, Defence Families of Australia and Defence Community Organisation. Information products are also available on our website and distributed to our customers via email.

We also interact with our customers:

- face-to-face through DHA representatives at both current and gaining localities; and
- via telephone (with both business and emergency after-hours numbers).

The aim of these services is to make relocation a simpler and less stressful experience for ADF members and their families.

Fast Connect

Fast Connect is a service that DHA provides to ADF members and their families to lessen the burden of relocating. It is a free non-compulsory disconnection and connection service for telephone, electricity and gas. DHA staff arrange this service, at the request of ADF members who are relocating.

ADF members receive a choice of utility providers (if available) and can also elect for connection of internet, pay television and message bank services. The benefits to members of Fast Connect, such as early notification of their new home phone numbers (so they can let their family and friends know their contact details in advance), add value to this service.

Property management

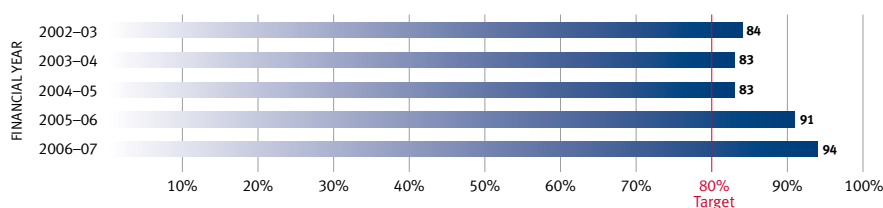
Maintenance

We provide a comprehensive and responsive maintenance service to ADF families living in DHA homes. This includes the provision of a 24-hour telephone emergency maintenance helpline.

ADF member satisfaction maintenance surveys measure customer service, contractor and overall performance. Satisfaction with DHA's maintenance service remains strong, with 94 per cent of 5,705 tenants in service residences nationally being satisfied with the overall service. DHA also continues to deliver excellent customer service with 93 per cent of 5,246 tenants reporting satisfaction with DHA's customer service associated with the maintenance service.

Where possible, DHA uses local contractors to provide repair and maintenance services. Selection of contractors is made on a value-for-money basis, and contractors are sourced primarily from a standing DHA Residential Maintenance Service Panel.

Figure 2.3 Customer satisfaction with DHA's maintenance services, 2002–03 to 2006–07

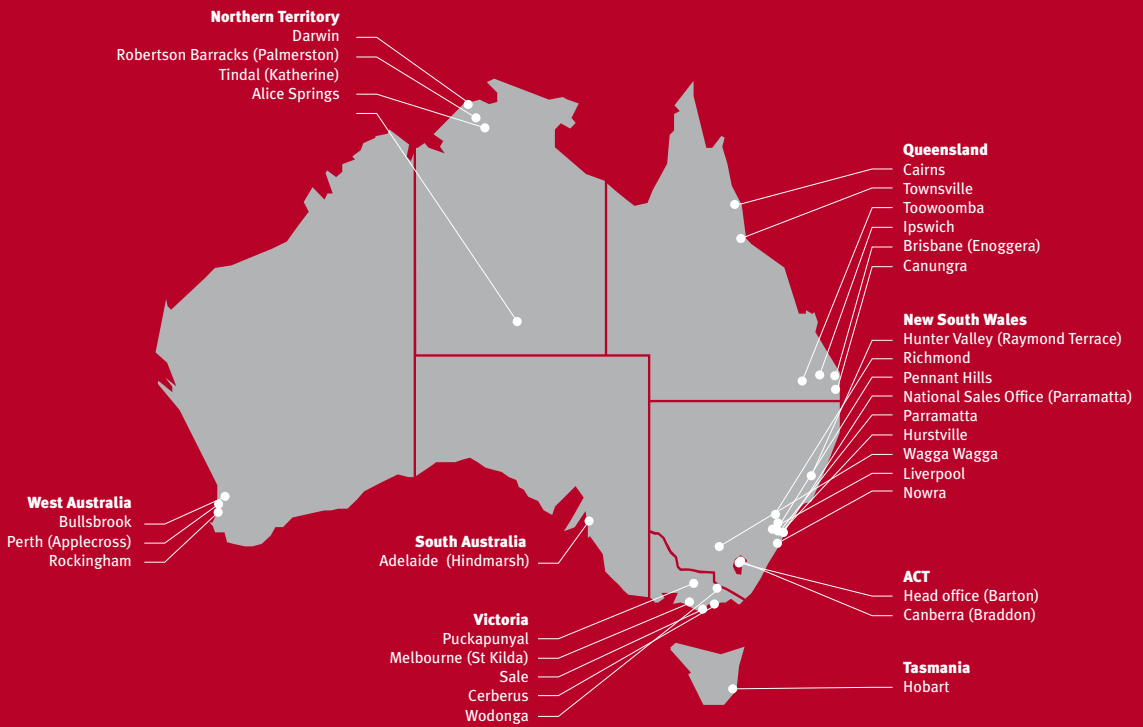


Tenant management

Our Housing Management Centre staff liaise regularly with ADF members and their families on tenancy-related matters. This includes welcoming families to their new DHA homes, helping them to settle into their locality and advising them of tenant responsibilities during occupation of their home and when they are moving.

During 2006–07, emphasis was placed on continuous development of Housing Management Centre operational procedures to improve DHA service to ADF tenants, and enhance the relationship between DHA and its customers. A new policy agreement was developed with Defence on housing management and detailed housing-management instructions. These instructions provide staff with policy guidelines on operational procedures, responsibilities, fees and charges, and the fundamentals of portfolio housing management. This ensures that DHA staff can provide our customers with quick and accurate advice.

Housing Management Centres





Northern Territory Region

DHA currently employs 49 staff in the Northern Territory Region in five locations: Darwin Housing Management Centre, Alice Springs Office, Tindal Housing Management Centre, Francis Bay Office and the Robertson Barracks Office.

DHA manages approximately 2,300 homes on and off-base in the Northern Territory Region.

DHA's housing stock in the Northern Territory consists predominantly of free standing houses, both ground level and elevated with private front and rear gardens. The majority of these homes have carports in preference to garages as these are more suited to the tropical climate.

DHA also provides a number of two-storey townhouses and high-rise apartments, mainly surrounding, or within close proximity to, the Darwin CBD.

Table 2.1 DHA's activities and housing stock in the Northern Territory Region, 2006–07

	DARWIN	TINDAL	TOTAL
Purchases			
Newly acquired houses	45	13	58
Newly constructed houses	12	0	12
Sales			
Sold and leased back (Sale and Leaseback Program)	12	1	13
Disposals (sale of surplus properties)	4	18	22
Leases			
Direct leases	19	0	19
Lease options ¹	116	28	144
Lease conversions ²	18	5	23
Housing stock at 30 June 2007			
DHA owned	215	16	231
Leased from investors	847	135	982
On-base	729	193	922
Defence off-base annuity	11	95	106
Other managed stock (Australian Customs Service)	7	0	7
Operations			
Relocations administration	3,049	376	3,425
Relocations during peak (November–January)	1,125	190	1,315
Housing allocations	1,986	281	2,267
Maintenance orders (tenant initiated) ³	11,524	3,354	14,878

¹ Lease options are when DHA exercises an option to increase the term of a lease.

² Lease conversions are the signing of a new lease with an existing lessor.

³ Maintenance orders raised between 1 July 2006 and 30 June 2007.

North Queensland Region

DHA currently employs 30 staff in the North Queensland Region in two locations: Townsville Housing Management Centre and Cairns Housing Management Centre.

DHA manages approximately 1,800 homes on and off-base in the North Queensland Region. The vast majority of DHA homes in North Queensland are freestanding. The ongoing acquisition of new properties is continuing the process of upgrading the portfolio in the region.

Table 2.2 DHA's activities and housing stock in the North Queensland Region, 2006–07

	CAIRNS	TOWNSVILLE	TOTAL
Purchases			
Newly acquired houses	0	0	0
Newly constructed houses	11	32	43
Sales			
Sold and leased back (Sale and Leaseback Program)	8	41	49
Disposals (sale of surplus properties)	6	69	75
Leases			
Direct leases	0	14	14
Lease options ¹	2	94	96
Lease conversions ²	0	44	44
Housing stock at 30 June 2007			
DHA owned	10	387	397
Leased from investors	225	1,108	1,333
On-base	0	6	6
Defence off-base annuity	8	35	43
Other managed stock (Australian Customs Service)	0	23	23
Operations			
Relocations administration	568	2,924	3,492
Relocations during peak (November–January)	218	1,187	1,405
Housing allocations	394	1,865	2,259
Maintenance orders (tenant initiated) ³	1,324	7,057	8,381

¹ Lease options are when DHA exercises an option to increase the term of a lease.

² Lease conversions are the signing of a new lease with an existing lessor.

³ Maintenance orders raised between 1 July 2006 and 30 June 2007.

South Queensland Region

DHA currently employs 53 staff in the South Queensland Region in four locations: Brisbane Housing Management Centre, Canungra Office, Ipswich Housing Management Centre and Toowoomba Housing Management Centre.

DHA manages approximately 2,100 homes on and off-base in the South Queensland Region.

Homes in Brisbane's newer suburbs tend to feature brick and tile housing similar to other developments found around Australia. DHA also has a range of townhouses in suburbs closer to Brisbane city and apartments on the city fringe.

The majority of houses are off-base, one-storey, freestanding houses with front and backyards.

Table 2.3 DHA's activities and housing stock in the South Queensland Region, 2006–07

	BRISBANE	IPSWICH	TOOWOOMBA	TOTAL
Purchases				
Newly acquired houses	62	47	25	134
Newly constructed houses	64	17	0	81
Sales				
Sold and leased back (Sale and Leaseback Program)	75	59	2	136
Portfolio sale (WFML)	40	3	2	45
Disposals (sale of surplus properties)	6	19	10	35
Leases				
Direct leases	6	7	0	13
Lease options ¹	21	8	16	45
Lease conversions ²	1	0	0	1
Housing stock at 30 June 2007				
DHA owned	316	97	9	422
Leased from investors	803	419	203	1,425
On-base	67	0	6	73
Defence off-base annuity	5	64	52	121
Other managed stock (Australian Customs Service)	0	0	0	0
Operations				
Relocations administration	2,354	1,090	621	4,065
Relocations during peak (November–January)	1,063	505	263	1,831
Housing allocations	1,506	754	393	2,653
Maintenance orders (tenant initiated) ³	3,713	1,309	1,075	6,097

¹ Lease options are when DHA exercises an option to increase the term of a lease.

² Lease conversions are the signing of a new lease with an existing lessor.

³ Maintenance orders raised between 1 July 2006 and 30 June 2007.

New South Wales Region

DHA currently employs 113 staff in the New South Wales Region in seven locations: Sydney Housing Management Centre (Parramatta), Pennant Hills Office, Hurstville Office, Liverpool Office, Richmond Office, Hunter Valley Housing Management Centre and Nowra Housing Management Centre.

DHA manages approximately 5,100 homes on and off-base in the region, of which 3,600 of these homes are in the Sydney district.

In Sydney, the majority of housing is off-base. DHA has been acquiring more medium density-style housing to increase the range of housing choice in Sydney. Freestanding houses in Sydney are mostly located around Richmond and Liverpool.

DHA manages approximately 1,077 properties in the Hunter Valley — an area that has experienced substantial growth in previous years. In Nowra, DHA manages approximately 409 homes — most of which are new stock or purpose built.

Table 2.4 DHA's activities and housing stock in the New South Wales Region, 2006–07

	SYDNEY	HUNTER VALLEY	NOWRA	TOTAL
Purchases				
Newly acquired houses	49	44	5	98
Newly constructed houses	68	49	5	122
Sales				
Sold and leased back (Sale and Leaseback Program)	17	74	10	101
Portfolio sale (WFML)	73	28	16	117
Disposals (sale of surplus properties)	25	14	5	44
Leases				
Direct leases	31	23	1	55
Lease options ¹	190	40	3	233
Lease conversions ²	46	4	0	50
Housing stock at 30 June 2007				
DHA owned	1,209	153	24	1,386
Leased from investors	2,225	803	275	3,303
On-base	27	0	47	74
Defence off-base annuity	11	94	35	140
Other managed stock (Australian Customs Service)	0	0	0	0
Operations				
Relocations administration	6,490	2,027	815	9,332
Relocations during peak (November–January)	2,515	794	274	3,583
Housing allocations	4,736	1,447	472	6,655
Maintenance orders (tenant initiated) ³	11,634	3,366	887	15,887

¹ Lease options are when DHA exercises an option to increase the term of a lease.

² Lease conversions are the signing of a new lease with an existing lessor.

³ Maintenance orders raised between 1 July 2006 and 30 June 2007.

Australian Capital Territory and Riverina Region

DHA currently employs 67 customer-facing staff in the ACT and Riverina Region in three locations: Canberra Housing Management Centre, Wagga Wagga Housing Management Centre and Wodonga Housing Management Centre.

DHA manages approximately 2,400 homes on and off-base in the ACT and Riverina Region.

In Canberra, on-base housing is located at Duntroon and HMAS Harman, with off-base housing spread throughout Canberra and Queanbeyan. There is a predominance of single-storey freestanding dwellings. Inner-city apartments also provide ADF members with choice housing to suit their lifestyle. The development of HQJOC, mid-way between Queanbeyan and Bungendore, NSW, has seen an increase of acquisitions on the eastern side of the city to augment the construction of properties in the newer suburbs of Gungahlin.

DHA manages 349 properties in the Wagga Wagga area. The majority of off-base service residences are located in the suburbs of Glenfield, Bourkelands, Lloyd and Tatton.

DHA manages 306 properties in the Albury–Wodonga region. The vast majority of these are on the Victorian side in Wodonga. Most houses are single-storey freestanding brick dwellings with backyards, but a small number of units are also available.

Table 2.5 DHA's activities and housing stock in the ACT and Riverina Region, 2006–07

	CANBERRA	ALBURY / WODONGA	WAGGA WAGGA	TOTAL
Purchases				
Newly acquired houses	73	25	12	110
Newly constructed houses	96	8	18	122
Sales				
Sold and leased back (Sale and Leaseback Program)	74	34	11	119
Portfolio sale (WFML)	33	5	8	46
Disposals (sale of surplus properties)	7	4	15	26
Leases				
Direct leases	11	4	4	19
Lease options ¹	50	28	1	79
Lease conversions ²	38	0	0	38
Housing stock at 30 June 2007				
DHA owned	277	42	17	336
Leased from investors	1,201	196	175	1,572
On-base	185	35	71	291
Defence off-base annuity	0	28	78	106
Other managed stock (Australian Customs Service)	2	0	0	2
Operations				
Relocations administration	3,134	1,044	1,087	5,265
Relocations during peak (November–January)	1,644	340	404	2,388
Housing allocations	1,944	863	852	3,659
Maintenance orders (tenant initiated) ³	6,677	1,515	1,940	10,132

¹ Lease options are when DHA exercises an option to increase the term of a lease.

² Lease conversions are the signing of a new lease with an existing lessor.

³ Maintenance orders raised between 1 July 2006 and 30 June 2007.

Southeast Australia Region

DHA currently employs 62 staff in the Southeast Australia Region in six locations: Melbourne Housing Management Centre, Adelaide Housing Management Centre, Cerberus Office, Puckapunyal Office, Sale Office and the Tasmania Office. DHA manages approximately 2,300 homes on and off-base in the Southeast Australia Region.

Of the homes, 700 are located in South Australia. Most houses are single-storey freestanding dwellings on small blocks. In addition, there are several inner-city units. DHA's properties are located throughout Adelaide with the majority in the northern region.

Within the Victorian/Tasmanian region, DHA manages over 1,591 properties in Melbourne, Sale, Seymour, Hastings, Bittern and Mornington (Frankston), with some properties located on-base, and more recently, in the inner city.

Houses in Melbourne are a mix of freestanding houses, townhouses, duplexes and units. A mix of on and off-base housing is available in Sale and Puckapunyal. In Tasmania, DHA properties are predominantly in Hobart.

Table 2.6 DHA's activities and housing stock in the Southeast Australia Region, 2006–07

	MELBOURNE	ADELAIDE	TOTAL
Purchases			
Newly acquired houses	28	68	96
Newly constructed houses	71	26	97
Sales			
Sold and leased back (Sale and Leaseback Program)	49	29	78
Portfolio sale (WFML)	39	16	55
Disposals (sale of surplus properties)	31	2	33
Leases			
Direct leases	4	6	10
Lease options ¹	60	44	104
Lease conversions ²	4	5	9
Housing stock at 30 June 2007			
DHA owned	270	166	436
Leased from investors	626	467	1,093
On-base	476	56	532
Defence off-base annuity	169	5	174
Other managed stock (Australian Customs Service)	0	2	2
Operations			
Relocations administration	3,859	1,667	5,526
Relocations during peak (November–January)	1,426	631	2,057
Housing allocations	2,749	1,150	3,899
Maintenance orders (tenant initiated) ³	5,931	2,632	8,563

¹ Lease options are when DHA exercises an option to increase the term of a lease.

² Lease conversions are the signing of a new lease with an existing lessor.

³ Maintenance orders raised between 1 July 2006 and 30 June 2007.

Western Australia Region

DHA currently employs 29 staff in the Western Australia Region in three locations: Perth Housing Management Centre, Bullsbrook Office and Rockingham Office.

DHA manages approximately 930 homes on and off-base in the Western Australia Region.

Table 2.7 DHA's activities and housing stock in the Western Australia Region, 2006–07

	PERTH
Purchases	
Newly acquired houses	12
Newly constructed houses	5
Sales	
Sold and leased back (Sale and Leaseback Program)	2
Disposals (sale of surplus properties)	6
Leases	
Direct leases	10
Lease options ¹	78
Lease conversions ²	2
Housing stock at 30 June 2007	
DHA owned	202
Leased from investors	639
On-base	10
Defence off-base annuity stock	21
Other managed stock (Australian Customs Service)	62
Operations	
Relocations administration	1,968
Relocations during peak (November–January)	712
Housing allocations	1,195
Maintenance orders (tenant initiated) ³	4,279

¹ Lease options are when DHA exercises an option to increase the term of a lease.

² Lease conversions are the signing of a new lease with an existing lessor.

³ Maintenance orders raised between 1 July 2006 and 30 June 2007.



Value for money for clients

31 – SERVICES TO CLIENTS







Objective

To provide value for money for clients.

KEY PERFORMANCE INDICATORS	2006—07 TARGET	2006—07 ACHIEVEMENT
Proportion of personnel with housing entitlement on Rent Allowance	14% ±DHF error	14.37%
Vacancy rate for Defence-owned and annuity houses off-base and available for occupancy	≤5%	4.09%

Major outcomes

1. The new Services Agreement between DHA and Defence was implemented placing the relationship on a more commercial footing and greatly improving management arrangements.
2. Rent movements for DHA's houses under management were well within the market movement, giving DHA a competitive edge in providing greater value for money for clients.
3. Average vacancy rates were below target, reflecting DHA's focus on operational effectiveness.
4. DHA continued to collaborate with Defence on the NHCP which was implemented on 1 July 2007, providing improved choice for ADF members.



Services to clients

DHA continued to provide high-quality and value-for-money services to its two clients — the Department of Defence and the Australian Customs Service.

Department of Defence

Services Agreement on Housing and Related Requirements

In 2006–07, Defence and DHA operated for the first time under the auspices of the new Services Agreement on Housing and Related Requirements signed on 30 June 2006. With greater exposure to the risk of vacant properties, DHA has focused on lifting its performance in this key area, delivering significant benefits to both Defence and DHA. The new agreement has also facilitated improved levels of cooperation between the parties in relation to the housing impacts of major changes to ADF disposition.

Liaison and consultation with the Department of Defence

Under the new Services Agreement, the contract-management function has been reinvigorated. This is a result of the focus on performance management supported by a new regime of key performance indicators and a more relevant set of performance-oriented reports. The main vehicle for these activities remains the monthly operations committee meeting.

The effectiveness of the contract-management function, and Defence relationship broadly, is measured by the annual client survey. In the most recent survey conducted in April 2007, Defence respondents confirmed that the working relationship remains healthy with a satisfaction rating of 93 per cent. Furthermore, 90 per cent of 4,487 respondents considered that DHA's provision of housing and relocation services contributes to the retention of ADF members, and 97 per cent to the mobility of ADF members.

New Housing Classification Policy (NHCP)

In 2006–07, in response to a request from Defence, DHA established a major project to oversee the implementation of the NHCP, which commenced on 1 July 2007. The policy outlines a new system for classifying properties and higher minimum housing standard, which aligns with DHA's goal to provide a more modern, versatile stock portfolio, with even greater appeal to our investors and tenants.

The project focused on the changes to DHA information systems required to support the new policy and on understanding the impact of the new classification system on DHA's existing portfolio. A major effort was put into training DHA front-line staff who will implement the policy; building new systems; reclassifying the entire DHA housing portfolio; and, a significant communication campaign to inform ADF members. Following the successful implementation, initial feedback from ADF members and their families has been very positive.

93%

of Department of Defence respondents were satisfied with the client relationship

Relocations Services Agreement

In 2006–07, Defence and DHA renegotiated the price and performance aspects of the agreement under which DHA provides its relocations services. The revised agreement delivers a better price outcome for DHA and more relevant performance-management data for Defence. The new arrangements were successfully negotiated and came into effect on 1 October 2006.

Working with Defence families

DHA has continued to work closely with the Defence Community Organisation and Defence Families Australia, organisations that provide a forum for ADF families to have input into Defence policy in relation to family issues.

Australian Customs Service

Since 1993, DHA has provided residential property-management services to the Australian Customs Service. The services apply to more than 100 houses, primarily situated in remote locations around Australia. The relationship with Customs is strong and has been effective in shaping DHA's response to a significant increase in demand for housing in remote locations associated with the Australian Government's border security initiatives.





Meet shareholder requirements

37 – FINANCIAL OVERVIEW 2006-07







Objective

Meet agreed shareholder financial requirements.

KEY PERFORMANCE INDICATORS	2006-07 TARGET	2006-07 ACHIEVEMENT
Return on equity	5.3%	5.4%
Operating result before income tax	\$99.2 million	\$100.31 million
Shareholder value added	10.4%	9.6%
Debt: equity ratio (including off-budget balance sheet OBS debt)	57.5%	59.1%
Percentage of DHA ownership	25.2%	24.4%
Annual dividends and tax equivalent dividends	\$72.7 million	\$78.5 million

Major outcome

1. The full-year return on equity, profit before tax, annual dividends and tax equivalent payments met or exceed targets therefore fulfilling shareholder requirements.



Financial overview 2006–07

DHA's operating result before income tax for 2006–07 was \$100.3 million, against a target of \$99.2 million. This result compared with an operating result before income tax of \$100.6 million in 2005–06.

The net operating result after income tax includes one-off taxation adjustments to transition DHA into full income tax paying status from 1 July 2007. These are technical adjustments and do not reflect operating activities for 2006–07.

Return on equity was 5.4 per cent in 2006–07, exceeding DHA's Corporate Plan target of 5.3 per cent. Gearing was 59.1 per cent compared with 60.3 per cent in 2005–06. Interest times cover was 5.7 compared with 5.4 in the previous year.

The shareholder value added return was 9.6 per cent for 2006–07. This was slightly higher than the 8.6 per cent achieved in 2005–06.

DHA's operating result was underpinned by the sale of surplus investment properties. In 2006–07, a net gain of \$26.3 million was generated from these sources, compared to \$44.6 million in 2005–06.

The number of surplus properties due for disposal is diminishing significantly and DHA must seek new sources of revenue to maintain its profitability. DHA has two opportunities to address this issue.

- DHA is negotiating a new agreement with Defence for the accommodation of Singles, and will progressively build up stock to 1,400 apartments over three years. This is a significant new initiative for DHA.
- Recent amendments to the *Defence Housing Australia Act 1987* enable DHA to provide services to Australian Government agencies in addition to Defence. This avenue is being explored for new business.

DHA has operated under Australian-equivalent International Financial Reporting Standards (AeIFRS) for the second year in 2006–07. This allows for easier comparison of financial performance between 2006–07 and 2005–06. Notes to the accounts clearly articulate changes in accounting made in 2006–07.

During 2006–07, DHA prepared for transition into the income tax regime of the Australian Taxation Office from 1 July 2007. Eight Private Tax Rulings were obtained from the Australian Taxation Office. DHA also implemented a new Fixed Assets Register that is tax compliant. Further, DHA prepared for the implementation of tax effect accounting in 2007–08.

Capital planning was also significantly improved during 2006–07. DHA now has an integrated financial-planning tool for preparing and monitoring DHA's capital program. This new tool was used in preparing DHA's 2007–08 to 2009–10 Corporate Plan and the 2007–08 Budget.

Standard & Poor's credit rating of DHA continues to be a stand-alone rating of AA+. This credit rating reflects DHA's financial strength and assists us in obtaining funds at competitive rates to meet DHA's borrowing requirements.



Operating results

DHA's revenue totalled \$837.4 million in 2006-07, compared with \$857.3 million in 2005-06. This decrease was primarily due to:

- fewer sales of inventory properties on a sale and leaseback basis than in the previous year and lower margins. Overall, 761 properties were sold on a leaseback basis during the year, compared with 844 in 2005-06; and
- during the year, the disposal program for surplus properties was reduced for provisioning reasons. Overall, 241 properties were sold during the year, compared with 327 in 2005-06.

Expenses in 2006-07 totalled \$737.1 million, compared with \$756.7 million in 2005-06. The decrease in expenses was primarily due to:

- fewer inventory properties being sold resulting in reduced cost of sales being brought to account; and
- the level of write-down and impairment of assets being lower in 2006-07 than in 2005-06, offset by a substantial increase in rental payments and repairs and maintenance costs.

Under AelFRS, inventories are held at the lower of cost or net realisable value and this is assessed on an individual asset basis, rather than by class.

DHA's inventory properties and land holdings were reviewed by independent property valuers at year end. The DHA Board agreed with the assessment of 'fair value' and consequently wrote down the carrying values of inventories by \$3.4 million. The write-down in 2005-06 of inventory properties, totalled \$16.3 million.

Rental outlays to lessors for residential properties increased by \$18.2 million or 10.2 per cent. The rental outlays increased for three reasons: a general increase in assessed rent; improvement in stock; and, additional leases year on year.

DHA's administrative costs decreased year on year. Employee expenses increased by \$2.5 million, or 5.9 per cent. Total staff at 30 June 2007 numbered 697, only marginally higher than the previous year (689).

761

properties sold on a leaseback basis during the year

697

DHA staff in total as at 30 June 2007

17,005

properties managed by DHA across Australia as at 30 June 2007

Residential investment markets

DHA's financial performance is highly reliant on land development, construction and property sales. The state of the residential property markets — for investors and owner occupiers — is critical to DHA's financial success. The Property Development and Investment Properties business lines are where DHA makes the bulk of its profit each year. The year 2006–07 was no exception.

Prices for residential properties in Australia have either remained steady or fallen over the past three years. The only exceptions are in Perth and Darwin, where prices increased. Over this period, the most difficult markets for DHA have been in Sydney and Canberra.

The softening of these markets has occurred at the same time as DHA has ramped up its capital program to more than \$500 million per annum for at least the next three years. This level of capital program is being driven by:

- replacing the 50 per cent of 6,600 expiring leases over the next three years not being extended; and
- meeting increased housing requirements in Canberra, Adelaide and Townsville.

The DHA Board resolved during 2005–06 to widen its capital-raising options by selling inventory to financial institutions. Following a public tender process, the first sale occurred in April 2006.

DHA sold 178 properties on a sale and leaseback basis to Westpac Funds Management Limited (WFML) at a total price of \$98.2 million. A second tranche of 263 properties was sold to WFML in December 2006 at a total price of \$121.9 million. The majority of leases are 12 years, with up to nine years of options. This new source of capital is a major achievement for DHA, representing a significant widening of the market for inventory property sales.

DHA stock

DHA managed a portfolio of 17,005 properties across Australia as at 30 June 2007. The total 'fair value' of these assets was approximately \$7.0 billion, of which properties worth approximately \$1.6 billion were owned by DHA.

Off-base property ownership between Defence and DHA stood at 24.4 per cent at year end against a Corporate Plan target of 25.2 per cent. Off-base properties include Defence annuity properties (4.2 per cent), DHA investment properties (14.9 per cent) and DHA inventory properties for sale (5.3 per cent).

Since 2005–06, DHA has been progressively increasing its strategic holdings in Investment Properties. During 2006–07, the number of DHA investment properties increased from 2,273 to 2,526 at year end.

Containing costs to the Department of Defence

Total provisioning of housing was 16,321 (including 2,494 ADF members with dependants on rent allowance). This represented a 1.59 per cent variance to the total provisioning target of 16,065 for 2006-07. This was a similar result to that achieved in 2005-06.

The new Services Agreement with Defence became effective on 1 July 2006. The new financial arrangements with Defence transfer certain vacancy risk from Defence to DHA (with a fee paid to DHA to cover the risk). DHA was successful in limiting its own vacancy level to 7.3 per cent. For Defence Owned and Annuity Service Residences Off-base, DHA was able to achieve a 4.1 per cent vacancy level during 2006-07, against a contracted target of 5 per cent.

Returns to shareholders

DHA is required to comply with the Australian Government's competitive neutrality policy. This ensures that DHA is not able to enjoy a commercial advantage resulting from tax exemptions flowing from its status as a government business enterprise.

DHA complies fully with Commonwealth Fringe Benefits Tax and Goods and Services Tax legislation, providing payments to the Australian Taxation Office. DHA currently pays state taxes and federal company tax as tax equivalent dividends to the Australian Government to ensure a 'level playing field' with its private-sector competitors.

Total dividends attributable to the 2006-07 operating result amounts to \$78.5 million — an increase of \$1.7 million or 2.2 per cent over the 2005-06 result.

This comprises tax equivalent dividends totalling \$42.0 million and an ordinary dividend of \$36.5 million.

The recent amendments to the *Defence Housing Australia Act 1987* removed DHA's tax exemption for company tax. As a result, DHA will submit its first company tax return to the Australian Taxation Office for the 2007-08 year. DHA will, however, continue to pay tax equivalent dividends to the Australian Government in respect of state taxes.

Capital structure

As part of the implementation of AelFRS in 2005-06, DHA adopted AASB 140 Investment Property Standard for its investment properties. These properties are now recorded at cost and depreciated accordingly. This is the second significant accounting change made by DHA following implementation of inventory accounting for sale and leaseback properties in 2004-05. Both changes facilitate a better understanding of DHA's property holdings and make the setting of targets and the reporting of achievements more transparent.

DHA will continue its strategy of exploring sales to financial institutions, and will focus on maintaining the attractiveness of the sale and leaseback product to individual investors in the face of difficult market conditions and changes in tax structures for individual investors. The overall sales objective is to achieve a sufficient increase in revenues from sale and leaseback of inventory properties to ensure there is no build up of DHA inventory holdings and that net cash from operating activities becomes positive.

DHA has loan arrangements through the Department of Finance and Administration. However, DHA does not have a commercial overdraft nor does it have access to re-drawable loan facilities. Consequently, DHA continues to hold higher levels of funds to meet its capital program, which is an inefficient way of managing cash.

There were no new borrowings in 2005-06. Borrowings outstanding totalled \$340 million as at 30 June 2007.

Standard & Poor's credit rating

Standard & Poor's credit rating of DHA continues to be a stand-alone rating of AA+. This credit rating assists us in obtaining funds at competitive rates to meet DHA's borrowing requirements.

Table 4.1 Financial summary, 2001-02 to 2006-07

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Shareholder value added	13.7%	15.5%	12.3%	8.7%	8.6%	9.6%
Shareholder value added	\$203.0m	\$225.8m	\$195.4m	\$173.9m	\$101.0m	\$168.2m
Earnings before interest and tax	\$85.6m	\$81.2m	\$74.2m	\$82.3m	\$110.3m	\$108.66m
Annual dividends, including tax paid during the financial year	\$88.6m	\$66.5m	\$80.7m	\$70.7m	\$76.8m	\$78.5m
Special dividends/capital returns	\$250.0m	\$307.0m	\$150.0m	0	0	0
Total managed stock	18,432	17,311	16,756	16,824	16,875	17,005 ¹
Constructions	263	539	489	451	460	482
Acquisitions	120	420	620	520	510	508
Leased or renewed leased stock (not including SLB)	101	230	1,063	515	343	307
Sale of surplus stock	582	573	468	412	327	241
Revenue generated from sale of surplus stock	\$108.3m	\$136.0m	\$111.4m	\$109.3m	\$69.2m	\$68.4m
Sale and Leaseback Program (properties)	749	1,061	891	699	844	761
Revenues generated from Sale and Leaseback Program	\$220m	\$338.3m	\$322.7m	\$246.9m	\$353.6m	\$315.7
Contracted maintenance to DHA houses	\$29m	\$33.6m	\$32.2m	\$29.5m	\$32.0m	\$33.6m
Number of relocations	31,146	32,256	30,378	30,809	32,130	33,073
Peak posting cycle pre-allocation rate	69%	72%	75%	70%	72%	72%
Total staff	658	779	781	687	689	697

1. 17,005 includes 16,451 provisioned for Defence and Customes and 554 for DHA use

Effective and innovative management – lessor management

45 – SERVICES TO LESSORS

48 – EMERGING BUSINESS







Objective

Attract and retain lessors and other investors.

KEY PERFORMANCE INDICATOR	2006--07 TARGET	2006--07 ACHIEVEMENT
Percentage of lessors satisfied	90%	97%

Major outcomes

1. Two institutional sale and leaseback transactions have been completed. This provided an alternative means of accessing capital, supplementing capital-raising through individual sale and leaseback.
2. The individual sale and leaseback offering was adjusted in response to market conditions, providing additional incentives to attract investors.



Services to lessors

DHA's lessors play a vital role in enabling DHA to provide quality housing for ADF members and their families. Leased properties make up close to 62 per cent of DHA's Australia-wide property portfolio. During 2006–07, DHA continued to develop its Direct Leasing, and Sale and Leaseback programs, representing more than 10,700 leased properties.

In 2006–07, DHA leased 140 properties directly from private lessors. During the year DHA exercised options on 779 leases and 167 leases were renewed following the expiry of the original lease agreement, mainly generated from the Sale and Leaseback Program.

Leasing programs

A DHA lease includes a property-management and maintenance service, which relieves lessors from the worry of most day-to-day property-maintenance issues and aims to ensure high standards are maintained for both lessors and Defence tenants.

Key features of a DHA lease are:

- a long-term agreement;
- no loss of rent due to tenant vacancy;
- no re-tenanting costs, and
- the property returned in good condition (subject to normal wear and tear) at the expiry of the lease term.

Leases of six years or longer entered into during 2006–07 included a provision for internal painting at the end of the lease. Leases of nine years or longer also provided for external painting and replacement of floor coverings or repolishing of timber floors at lease end.

Satisfaction with DHA's ongoing management of leased properties is measured by its annual lessor survey. This year's survey achieved record satisfaction levels, with 97 per cent of respondents satisfied with their lease agreement and 97 per cent satisfied with the management of their leased property. These results exceeded DHA's target of 90 per cent. With the exception of satisfaction with the outcome of the annual rent revaluation (79 per cent), satisfaction with individual lease and property-management items all exceeded the 2005–06 measures and equalled or exceeded DHA's target of 80 per cent.

I know the investment
minefield has been cleared
by the professionals



Sale and Leaseback Program

In 2006–07, DHA continued to focus on selling owned and newly constructed properties to private investors under the Sale and Leaseback Program.

Properties are sold with a long-term lease to DHA and are available in locations around Australia where housing is required for ADF members. Lease periods are usually nine or 12 years, with a three-year option to DHA, however shorter leases of six years are offered on some properties to suit Defence operational requirements. All new Sale and Leaseback Program leases also ensure rent cannot fall below the starting rent.

A new advertising campaign was launched in the second half of 2006–07 in line with DHA's refreshed brand. The campaign aims to increase brand awareness and focuses on DHA's link to Defence and the hassle-free nature of a DHA investment.

During 2006–07, DHA conducted seminars for prospective investors in Canberra, Nowra, the Hunter Valley, Sydney, Adelaide and Perth. Remote areas of South Australia and Western Australia, where mining activity is prevalent, were also targeted. DHA participated in property expos in Brisbane, Melbourne, Perth, Newcastle and Sydney.

In 2006–07, the Sale and Leaseback Program delivered \$315.7 million in revenue. The individual Sale and Leaseback program delivered 498 sales generating \$193.8 million in revenue. The institutional Sale and Leaseback Program saw a second institutional portfolio sale of \$121.9 million.

Each year, DHA conducts a residential investment property survey of investors who recently purchased sale and leaseback properties. The *2005–06 Residential Investment Property Survey National Report* was published in December 2006. Of the 683 surveys distributed, 302 or 44 per cent, were returned. Approximately 97 per cent of responding investors were satisfied with the level of service provided by DHA during the sales process.

Nearly all of the investors indicated they would recommend DHA residential investment properties to others.

Direct Leasing Program

Each year, DHA leases housing directly from private lessors. Like all DHA housing, directly leased properties must meet DHA's requirements in terms of location, size, accommodation and Defence requirements, which may include amenities not commonly available in private-market rental properties.

As with the Sale and Leaseback Program, DHA provides property-management and maintenance services to the lessor as part of the lease agreement. In 2006–07, most direct leases were agreed for six or three years and included a further three-year option for DHA to extend the lease.

98% of DHA investors would recommend our investment program to friends¹

The image shows a brochure titled 'Investing in property?' with a background photo of a family on a beach. The main headline is '98% of DHA investors would recommend our investment program to friends¹'. Below this, there are two columns of text. The left column is titled 'Here's a few more facts you might find interesting' and lists several statistics. The right column is titled 'An overview of your investment' and lists key features of the program. At the bottom, there are logos for 'invest' and 'Defence Housing Australia', along with the contact information 'Call 133 DHA' and 'www.invest.dha.gov.au'.

Servicing DHA's lessors and investors

DHA has sales offices in Sydney, Adelaide, Canberra and Perth dedicated to assisting investors seeking DHA investment properties. Late in 2006–07, a national 13 number, dedicated to the sales business, was introduced allowing investors to call DHA free of charge from any location within Australia.

Staff in regional Housing Management Centres around Australia are responsible for day-to-day management of all leased properties. Financial services to lessors and rental revaluations are managed centrally from Canberra. Freecall 1800 numbers are provided to allow lessors to contact these areas.

The 2006–07 DHA lessor Housing survey indicated that nationally, 67 per cent of respondents had contacted DHA within the preceding 12 months.

- Lessors in 2006 were twice as likely to be satisfied with the accessibility of DHA staff as lessors in 2005.
- Lessors in 2006 were twice as likely to be satisfied with the courtesy and helpfulness of DHA staff as in 2005.
- Lessors in 2006 were 1.42 times as likely to state that they were satisfied with the timeliness of responses from DHA staff as they were in 2005.

Lessor websites

DHA hosts two websites providing information on residential investments and property leasing.

Residential investment website (www.invest.dha.gov.au)

This website is dedicated to investment opportunities under DHA's Sale and Leaseback Program. In addition to outlining DHA's leasing arrangements, the website provides property descriptions, photos and floor plans for each property listed for sale across Australia. Investors can register for a property-matching service and use a range of online calculators and tools.

Direct leasing website (www.dha.gov.au)

The DHA website has a dedicated section for private lessors that provides details on DHA's Direct Leasing Program and a link to the residential investment website. The website provides information on DHA's direct leasing arrangements and includes a list of current leasing requirements for each region. Prospective lessors can offer their properties to DHA by completing and submitting an online questionnaire.

Emerging business

Institutional investment

In December 2006, DHA sold \$121.9 million worth of residential property to Westpac Funds Management Limited on a leaseback basis.

This is the second landmark transaction involving a large-scale investment in DHA properties by an institutional investor. This follows an initial sale of \$98.2 million to Westpac Funds Management Limited in April 2006. It is an innovative approach that opens up new business opportunities and provides DHA with access to a new segment of the investor market.





Effective and innovative management – DHA's people

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Objective

Attract, retain and develop competent, motivated and customer-focused staff.

KEY PERFORMANCE INDICATORS	2006-07 TARGET	2006-07 ACHIEVEMENT
Staff satisfied	Top quarter of database of 200 Australian companies	Met

Major outcomes

1. DHA continues to offer Australian Workplace Agreements (AWA) that provide staff with the flexibility to negotiate the terms and conditions of their employment, including their remuneration package.
2. A national recruitment program was conducted to fill a number of management positions within DHA. The program generated a high level of interest from applicants and key positions have been filled.
3. A staff opinion survey was conducted to assess staff perceptions of processes, communication and management.
4. Business Support Workshops were initiated to support managers and staff on human resource, procurement and corporate issues. The workshops have assisted key staff in achieving business objectives.
5. A pilot online training program for maintenance staff was developed and delivered in December 2006. Feedback from the pilot program was positive and as a result, a dedicated online DHA training platform has been launched. This online learning initiative provides staff with the opportunity to increase their skill base and significantly contributes to DHA fulfilling the corporate objective of developing and retaining competent, motivated and customer-focused staff.
6. A number of upgrades to DHA's Human Resource Management information systems were successfully implemented during 2006-07.



DHA people

DHA's commitment to the support and development of its people and culture is reflected in two specific corporate strategies:

- maintain a workplace environment consistent with being an employer of choice; and
- promote and maintain an external and internal customer-focused culture in a commercial environment.

Attracting staff

Staff are employed under competitive pay and employment conditions provided via an individually negotiated AWA or the *DHA Certified Agreement 2004–07 (Certified Agreement)*.

At 30 June 2007, the total number of staff engaged by DHA under the *Public Service Act 1999* was 697 — of these 145 were employed on a non-ongoing basis. DHA staff are selected on the basis of merit and with due regard to the principles of workplace diversity.

Figure 6.1 DHA staff by classification and gender, 30 June 2007 (excluding SES staff)

DHA STAFFING PROFILE	DHA2	DHA3	DHA4	DHA5	DHA6	EXEC1	EXEC2	TOTAL
Male	8	39	24	31	25	32	22	181
Female	52	279	74	47	30	24	7	513

Best practice recruitment program

In 2006–07, DHA further enhanced its Best Practice Recruitment Program with specialist coaching to key managers on selection processes.

Remuneration conditions

As at 30 June 2007, the number of staff employed under an individual AWA was 497. This is an increase of 39 per cent (196) compared to the previous year. Staff members covered by an AWA have access to performance pay and, in some instances, additionally approved special allowances. All staff have access to salary sacrifice arrangements.

The Certified Agreement, under which remuneration comprises salary payments and employer superannuation contributions, covered 200 staff members at 30 June 2007.

Tables 6.1 and 6.2 set out the AWA and Certified Agreement salary ranges from 2004–05 to 2006–07, as applicable to each classification group. DHA's remuneration framework is designed to reinforce DHA's status as an employer of choice.

Table 6.1 DHA Australian Workplace Agreement remuneration ranges — 2004–05 to 2006–07

AUSTRALIAN WORKPLACE AGREEMENT CLASSIFICATION	2004–05		2005–06		2006–07	
	Min. of range	Max. of range	Min. of range	Max. of range	Min. of range	Max. of range
DHA2	\$36,179	\$39,757	\$33,090	\$41,450	\$33,090	\$44,450
DHA3	\$40,748	\$43,708	\$40,900	\$49,990	\$44,000	\$49,990
DHA4	\$45,023	\$48,604	\$48,710	\$59,540	\$48,710	\$59,540
DHA5	\$50,486	\$53,290	\$55,760	\$68,150	\$55,760	\$68,150
DHA6	\$55,450	\$63,350	\$63,890	\$78,090	\$63,890	\$78,090
Executive Level 1	\$70,000	\$77,050	\$72,020	\$88,030	\$72,020	\$88,030
Executive Level 2	\$79,793	\$93,750	\$84,060	\$102,740	\$84,060	\$102,740

Table 6.2 DHA Certified Agreement remuneration ranges — 2004–05 to 2006–07

CERTIFIED AGREEMENT CLASSIFICATION	2004–05		2005–06		2006–07	
	Min. of range	Max. of range	Min. of range	Max. of range	Min. of range	Max. of range
DHA1	\$27,716	\$35,414	\$28,825	\$36,831	\$29,834	\$38,120
DHA2	\$36,179	\$39,757	\$37,626	\$41,347	\$38,943	\$42,794
DHA3	\$40,748	\$43,708	\$42,378	\$45,456	\$43,861	\$47,047
DHA4	\$45,023	\$48,604	\$46,824	\$50,548	\$48,463	\$52,317
DHA5	\$50,486	\$53,290	\$52,505	\$55,421	\$54,343	\$57,361
DHA6	\$53,700	\$61,161	\$55,848	\$63,608	\$57,803	\$65,834

Retaining staff

DHA recognises the value of highly competent employees and, in order to attract and retain skilled and motivated staff, DHA is committed to maintaining its reputation as an employer of choice. It does this through the following initiatives:

Northern Territory retention bonus

A two-year retention bonus initiative was implemented in the Northern Territory in 2005. The incentive bonus is dependent on a staff member's continuing employment with DHA. The retention bonus is having a significant and positive impact on the retention of staff in the Northern Territory and the initiative has been extended until 2009.

Business support workshops

In 2006–07, a new initiative was implemented to provide guidance to DHA business support managers and key administrative staff on a range of human resource, procurement and corporate support issues. Business support workshops have been conducted at Head Office and have assisted all involved in achieving business objectives and providing valuable networking opportunities.

Rewards and Recognition Scheme

The DHA Rewards and Recognition Scheme was reviewed in September 2006 and an expanded series of awards was implemented.

Employee loyalty and commitment to DHA continues to be recognised through Service Awards for staff who have been employed for five, ten or 15 years.

DHA Annual Awards for Excellence, 2006

DHA Employee of the Year	Karin Maddison (Melbourne)
<i>Business Unit Awardees</i>	
Business Solutions and Technology	Mike Hehir
Client Relations	Fil Petriella
Development and Construction	Russell Stephenson
Finance	Luke Tyrrell
Hunter Housing Management Centre	Elise Redman
North Queensland Region (Townsville Housing Management Centre)	Kay Webley
Northern Territory Region (Darwin Housing Management Centre)	Debbie Smith
Operations	Jo Gleeson
People and Corporate Resources	Helene Connor
Perth Housing Management Centre	Yvonne Hayes
Sales and Marketing	Leaha Bainbridge
Southeast Australia Region (Melbourne Housing Management Centre)	Karin Maddison
South Queensland Region (Brisbane Housing Management Centre)	Dan Dickson
Sydney Housing Management Centre	Kelly Brook



Ensuring the health and safety of our staff

DHA is committed to providing a safe and healthy workplace. Our Occupational Health and Safety program includes:

- guidelines on safe working practices;
- the provision of professional, external counselling when required;
- the continuing provision of a safe work environment that satisfies staff needs; and
- employee occupational health and safety awareness.

DHA has implemented a smoke-free environment. A Quit Smoking program has been established and, as part of the program, Quit Smoking seminars were offered and financial support provided to staff who successfully stopped smoking.

In 2006–07, there were 65 occupational health and safety-related incidents reported at DHA. This compares favourably to 2005–06 when there were 71 incidents reported. A total of 20 claims for compensation arising from work-related injuries were made, of which Comcare accepted liability for 16.

No directions or notices under the *Occupational Health and Safety (Commonwealth Employment) Act 1991* were given to DHA, and no occupational health and safety audits or investigations were undertaken in 2006–07.

Security reviews

In 2006–07, a review of all DHA premises was conducted to ensure staff safety and in recognition of the guidelines for security provided by the *Australian Government Protective Security Manual*. The physical security environment policies and procedures were also reviewed for each office. A range of physical security upgrades and procedural changes have been subsequently implemented.

Staff Consultative Group

DHA's Staff Consultative Group promotes a collaborative culture between management and staff in relation to work issues. It is a key communication channel that helps to facilitate feedback from staff particularly in relation to DHA's corporate and workplace relations policies and initiatives.

Developing staff

Learning and development

The focus of DHA's training and development strategy include programs to:

- enhance the technical skills of staff in core operational processes; and
- develop the management and leadership skills of senior staff through tailored coaching and other professional development initiatives.

In 2006-07, DHA invested \$501,523 in staff training. This includes the Studies Assistance Scheme, external training courses, and professional development and coaching programs. This investment represents 1.3 per cent of total salaries.

During 2006-07, DHA delivered a pilot training course for maintenance coordinators using online technology for the first time. The pilot was successful and, as a result, a dedicated online DHA training platform has been developed.

Performance Management Framework

In 2006-07, DHA implemented a new Performance Management Framework. The Framework represents best practice in terms of providing employees with support and the necessary administrative tools to assess, and thereby continually improve, their performance.

Career Planning Framework

DHA recognises that career management and, importantly, personal ownership of career decisions can increase employee motivation, identify competencies for future development, and assist in the retention of valued staff.

Consequently, in 2006-07, a Career Planning Framework was developed and implemented to assist staff in actively managing their own DHA career. The Framework is supported by guidelines and tools for staff.

Staff Opinion Survey

DHA is committed to continuous improvement and in 2006-07 a Staff Opinion Survey was conducted to assess staff perceptions of processes, communication and management. There was an outstanding response rate of 82 per cent from DHA staff, compared to 70 per cent in 2004.

DHA received highly positive results in a number of areas when compared with Australian benchmarks, including: immediate managers; the Rewards and Recognition Scheme; the performance review process; and, internal service quality. One area that was identified where DHA could improve was change management. Consequently, this issue was addressed by the Executive and improvements have already been implemented.

The results of the survey were reported to the Board of Directors, the Executive and managers. In conjunction with staff and the Staff Consultative Group, managers then developed action plans to address local issues.

DHA in the community

DHA operates in every state and territory in Australia. DHA supports the communities of which it is proud to be a member.

DHA sponsorship

Every year DHA provides funding for a community relations sponsorship program. This program allows DHA to support Defence community projects and to build positive relationships with community groups. During 2006–07, DHA lent its support through monetary donations to 13 Defence community initiatives to the value of \$17,300.

Defence Christmas Treat

In December 2006, DHA donated \$5,000 to support an event for ADF children in south-west Sydney. The Defence Christmas Treat is an annual event held at RAAF Base Richmond over two days, providing entertainment such as flying displays by the RAAF Roulettes, circus shows, music, a sideshow alley and lots to eat and drink. Donating to this event gives DHA the opportunity to support ADF families at a time of year when many of them are coping with Christmas without their loved ones.

Construction industry awards

DHA sponsored the 2006 Construction Industry Training Council–NRMA Insurance Graduating Apprentice and Industry Encouragement Awards. DHA Managing Director, Michael Del Gigante presented the award for the Outstanding Woman in Non-traditional Trade category. The Construction Industry Training Council aims to develop and promote a professional construction industry through training excellence.

Belong o6 — Defence Families Picnic

DHA was a major sponsor of this event in Canberra, with a number of our dedicated staff managing a DHA display for the duration of the picnic. Our support also extended to helping out with the Belong o6 registration desk, providing promotional products and contributing funds to the children's entertainment, including jumping castles, a giant slide and face painting. The day was successful with more than 270 Defence families attending.

Red Shield Defence Services

Reflecting our commitment to Australia's servicemen and women and their families, DHA donated \$2,000 to the Salvation Army Red Shield Appeal. The donation focuses on the Salvation Army Red Shield Defence Services, which aims to provide practical support to hundreds of ADF members and their families.

\$17,300
donated to 13 Defence
community initiatives

National Breast Cancer Foundation

The National Breast Cancer Foundation raises awareness of the need for further research into breast cancer by illuminating in pink prominent buildings throughout the world during October every year. DHA contributed \$2,500 to this campaign during 2006–07.

Other activities

During the year, DHA also sponsored the following community activities through monetary and non-monetary donations.

- Legacy Army Concert, Darwin
- Dr Edward Koch Foundation — Koch for Kids Festival, Townsville
- Golden Casket Special Children's Christmas Party, Townsville
- Australian Defence Force Charity Ball, Brisbane
- Defence Services Golf Tournament, Canberra
- Defence Community Organisation fun days in Brisbane, Townsville and Sydney
- Family Information Day, Kokoda Barracks, Brisbane
- Defence Expo, Darwin and Tindal
- Kapooka Public School Easter Raffle, Kapooka Army Base
- Sunset Concert Defence Community Organisation Darwin, Larrakeyah Barracks, Darwin
- Circus Quirkus Show for Special Needs Kids, Wodonga
- Legacy Club of Canberra, Widows and Children of Ex-service Men
- Defence Forces Cup Day, Canberra.

Defence Community Organisation days

The Defence Community Organisation (DCO) provides a broad range of individual and program-related services to the ADF community. Many of these services aim to support ADF members and their families to balance the demands of military service with personal and family commitments. These services and programs are delivered by DCO area teams, located on or near major ADF establishments around Australia.

In particular, DHA supports the DCO family days, in which families are provided the opportunity to relax and enjoy a little down time together. As an active member of the Defence community, DHA participates in these days by holding stalls and providing merchandise for show bags and funding.



Construction

In 2006–07, DHA supported communities around the country by employing local tradespeople to complete work on the many projects DHA is undertaking in their towns and cities. In employing local tradespeople, where possible, DHA injected funds into the communities in which it has developments. In 2006–07, DHA is proud to have worked with the following local organisations.

- Larrakia Homes (Lyons, Northern Territory);
- Shamrock Homes (Lyons, Northern Territory);
- Darwin Constructions (Lyons, Northern Territory); and
- PTM Homes (Lyons, Northern Territory).

Lyons Community Centre

As a part of the development of Lyons in the Northern Territory, DHA has committed to developing a community centre strategically positioned in Garanmanuk (Larrakia for 'grandmother') Park, which will become the recreational and community hub of Lyons. It will allow for activities such as children's play and will add to the civic identity of Lyons. Incorporated within this building will be significant pieces of Larrakia art, which is part of the joint venture's commitment to recognise the cultural heritage of the Larrakia. The building opened in July 2007.

DHA and the environment

Environmentally sustainable development

DHA is committed to living our corporate values: respect, excellence, integrity, enthusiasm and innovation. These values are the foundation of our commitment to sustainability, and how we aim to exist within the environment, rather than trying to build the environment around our projects.

DHA has dedicated time, knowledge and commitment to the demonstration of best practice in environmental sustainability, and aims to build on this further to become a global leader in the building and construction industry.

Beginning at home

The principles of ecologically sustainable development have been incorporated into the decision-making systems and processes of DHA, as required under the *Environmental Protection and Biodiversity Conservation Act 1999*.

DHA has in place paper-recycling arrangements and, where operationally viable, purchases energy-efficient equipment. Energy-efficient practices are encouraged within DHA's premises in order to reduce energy consumption.

DHA uses recycled paper and environmentally friendly materials in our customer relocation packs and other publications.

Development and construction

In acquiring and developing new houses, DHA adopts environmentally sustainable practices. In accordance with the Nationwide House Energy Rating Scheme and Commonwealth Energy Policy, and in line with community standards, DHA's houses are built with a minimum four-star energy rating. This rating system has been designed as the Australian government is concerned by the greenhouse gases being produced by the burning of fossil fuels in electricity generation.

To conserve energy and minimise water usage in our properties, we use triple-A rated fixtures and water-efficient shower roses, dual-flush cisterns where appropriate, water tanks, gas-powered five-star energy-efficient hot-water units and energy-efficient fluorescent lighting.

DHA also seeks to optimise passive solar performance in planning the design and orientation of its houses and landscaping, and through the provision of overhanging eaves and shades that provide maximum protection from the sun. We plant native plants and shrubs with drought-resistant qualities in our landscaping, in an effort to minimise the need for watering.

In accordance with the *Environmental Protection and Biodiversity Conservation Act 1999*, we ensure all newly constructed homes comply with environmental laws and standards. Independent studies are undertaken with DHA's major construction projects to assess the existence of any statutory planning, environmental or heritage issues. Environmental impact assessment processes are conducted by external consultants.

DHA also ensures that energy-efficient measures are included wherever possible in the major upgrade programs of existing stock through the replacement of worn-out appliances, fixtures and fittings with modern energy-efficient appliances and water-saving devices.

Major projects

Fairview Rise, Ipswich

In October 2006, DHA announced plans for a \$50 million development of 162 houses at Fairview Rise in Ipswich, Queensland. Energy conservation will be a design consideration in the Fairview Rise development. Energy conservation principles have been, and will continue to be, applied to a number of aspects of the project, including urban design, engineering and housing design.

The urban design of the project discourages the use of cars and promotes walking and cycling by providing footpath networks, coordinated with those planned for the neighbouring suburb of Flinders View. Public bus routes have been designed into the subdivision layout.

Stormwater engineering and landscaping will be integrated to reduce the quantity, and improve the quality of, stormwater run-off within the development. Run-off will also be minimised by using water-sensitive natural watercourses, to the extent that they are available, in lieu of piped systems.

Lyons, Darwin

The development of the new suburb of Lyons in Darwin aims to deliver an innovative high-quality ecologically sustainable urban environment, suitable for Darwin's tropical climate. A mixture of lot sizes will provide choice, enhance life style and community safety. Aspects such as breezeways and positioning of houses to provide access to winds will be included in the planning.

The development is expected to deliver over 650 fully serviced residential land allotments. Of these, 300 blocks positioned throughout the development will be used to construct new housing for ADF members and their families. The remaining blocks will be available for the community to purchase.

The vision for Lyons directly addresses the primary design principles of building sustainable developments in a humid tropical climate such as the northern coastal location including:

- an innovative and high-quality urban environment that is safe and enjoyable;
- climatically responsive lot layouts and housing design;
- easy to use and comprehensive road and pedestrian/cycle networks;
- open space networks incorporating existing natural systems and vegetation;
- diverse lifestyle opportunities with links to recreation, education and health services;
- housing and lot size choice to enhance diversity, life style and community safety; and
- integration with the existing urban fabric, local facilities and services.

The plan also directly addresses climate-responsive initiatives including:

- road patterns and building orientations that respond to the 30 degree northwest wind direction of the prevailing breezes in order to promote natural ventilation and maximise the cooling effects of breezes;
- provision for extensive open space allowing breeze corridors and passive ventilation throughout the development;
- efficient stormwater management strategies, conserving natural drainage systems;
- provision of shade trees and structures within parks and along pedestrian and cycle corridors; and
- architecture and domestic landscaping appropriate to the climatic conditions of the tropics.

Grace Wilson Estate, McDowall

The \$17.5 million Grace Wilson Estate at McDowall, Brisbane, was opened in late June 2007. Featuring 50 homes, each house has been designed specifically for the Queensland climate. The houses all have four to five-star energy ratings and triple-A rated water fittings.

The design is based on best practice water-sensitive urban design principles. Solar passive design techniques, such as siting blocks appropriately and maximising use of overhanging eaves, have also been incorporated into the design. Landscaping has minimal irrigation requirements therefore reducing water consumption.

DHA has attempted to blend the estate into the environment by planting six different species of trees along streets and in parks. The trees have been chosen for their stability and suitability to the Brisbane environment. Only native landscaping has been used, including indigenous bushland vegetation, to maintain the integrity of the landscape. In addition to this, the planting of appropriate trees on the swales will also provide improved groundwater absorption.

Heritage housing

In 2006–07, DHA continued its Heritage Management Framework with the \$4.5 million upgrade of the heritage precinct at HMAS Creswell at Nowra on the NSW south coast.

Designed by John Smith Murdoch, the architecture mirrors the typical bungalow houses of the federation period. Twelve heritage houses on-base at HMAS Creswell have been refurbished as part of a heritage refurbishment upgrade program. The properties are historically significant due to their association with the early development of the Royal Australian Navy. HMAS Creswell is surrounded by the Booderee National Park and sits on the shores of Jervis Bay. The refurbishments included the enhancement and restoration of characteristic values of the houses, including roof repairs, external lining repairs and decking, which have deteriorated after years of exposure to the saline conditions.

The ongoing management of heritage properties requires the preparation of conservation and heritage management plans to assist Defence and DHA to meet their obligations under the *Environmental Protection and Biodiversity Conservation Act 1999*.

DHA manages more than 70 properties for Defence that are either heritage listed or part of a heritage precinct. DHA has prepared a heritage register that identifies these properties. Together with Defence, DHA has implemented a Heritage Management Framework that enables DHA to care for these properties with due regard to their heritage value.

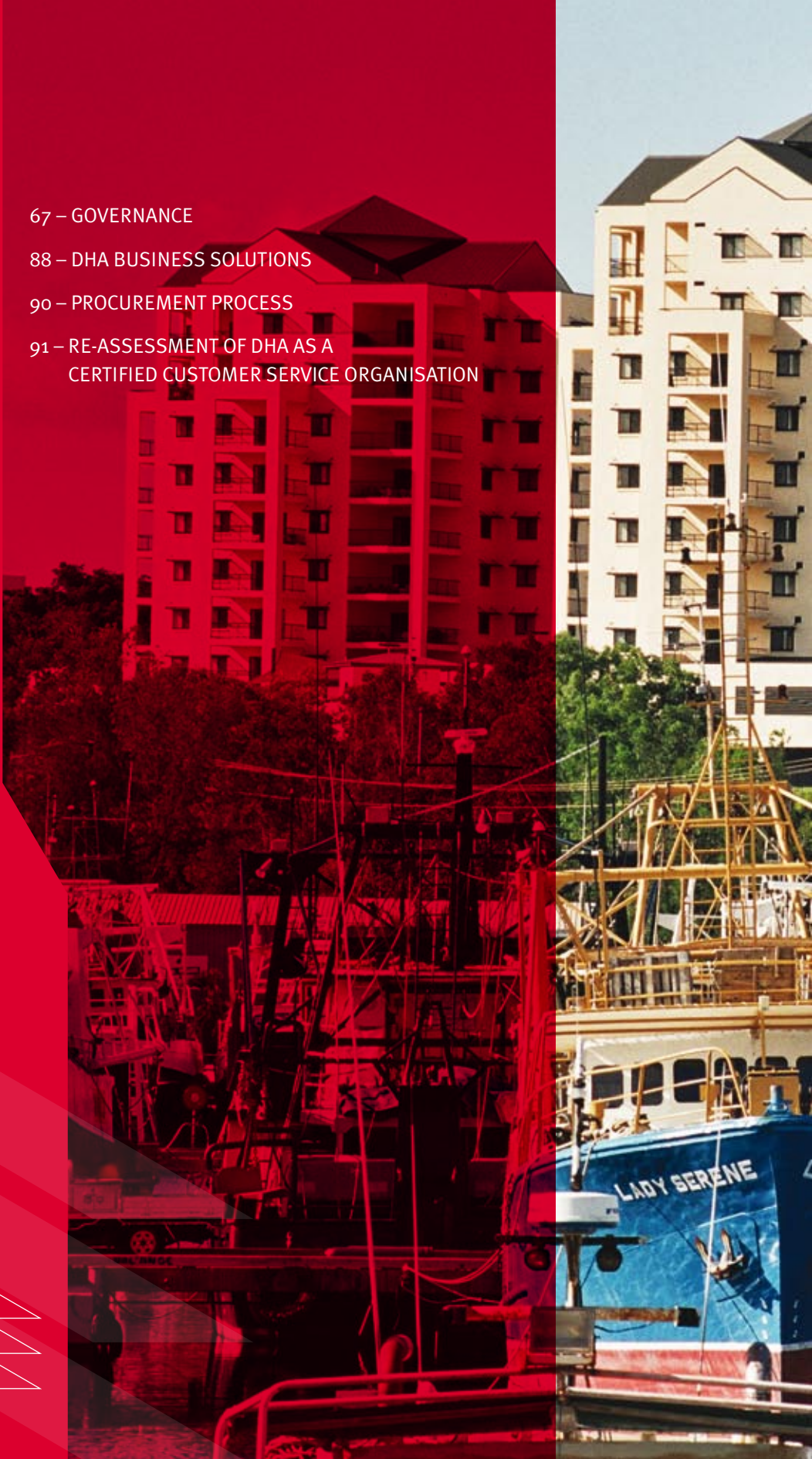
Effective and innovative management – operational excellence

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CERTIFIED CUSTOMER SERVICE ORGANISATION







Objective

Operate commercially, efficiently and innovatively.

KEY PERFORMANCE INDICATORS	2006-07 TARGET	2006-07 ACHIEVEMENT
Good working relationship with clients (Defence only)	Satisfactory assesment assessment in survey	93%
Times interest cover	5.60	5.7
Business line gross margins:		
• Operations	\$25.2m	\$24.2m
• Investment properties	\$51.8m	\$51.4m
• Property development	\$45.8m	\$34.1m
• Financing	\$8.5m	\$10m

Major outcomes

1. DHA has obtained eight private rulings from the ATO for its transition into the full income tax regime. A new fixed asset register was implemented to meet new income tax requirements, which also provides a greater level of internal control over property records.
2. An enterprise-wide business-planning model was introduced that allows for greater value-for-money for customers by collaboratively and systematically coordinating all business activities.
3. A pilot program for the provision of housing for ADF Singles off-base in Darwin continued. The program achieved very high satisfaction levels from this new group, adding support to expand the program into other regions.



Governance

DHA operates within a governance framework designed to ensure accountable business outcomes and enhanced organisational performance. The DHA Board makes important decisions on DHA's direction and formalises the process for holding managers accountable and measuring performance.

Enabling legislation

Defence Housing Australia Act 1987

DHA is established under the *Defence Housing Australia Act 1987* (formerly known as the *Defence Housing Authority Act 1987*), and commenced operations on 1 January 1988. Under this Act, DHA's main function is to provide adequate and suitable housing for:

- members of the ADF and their families; and
- officers and employees of the Department of Defence and their families.

Under recent amendments to the Act (see below), DHA has the additional functions of:

- providing adequate and suitable housing for, and housing-related services to, officers and employees of *Financial Management and Accountability Act 1997* agencies, other than the Department of Defence, and their families and persons contracted to provide goods or services to FMA Act agencies, other than Defence, and their families; and
- providing services ancillary to the services mentioned above.

In May 2006, Federal Parliament passed the *Defence Housing Authority Amendment Bill 2006*, which received Royal Assent on 22 June 2006. The key provisions of the Act commenced on 23 November 2006.

The amending legislation:

- confirms that the primary function of DHA is to provide housing and housing-related services to Defence and its members to meet the operational requirements of the Department of Defence;
- broadens DHA's functions to allow it to provide housing and housing-related services to other Australian Government agencies as defined in the *Financial Management and Accountability Act 1997*;
- broadens DHA's powers to allow it to provide services that are ancillary to housing and housing-related services to the Department of Defence and other Australian Government agencies;
- establishes a smaller, more commercially focused Board with greater freedom to act;
- establishes an advisory committee to assist the DHA Board to better meet the operational requirements of Defence (the Department of Defence and ADF);

- removes DHA's exemption from Commonwealth taxation;
- retains DHA's exemption from state and territory taxation but requires it to make tax equivalent payments to the Commonwealth;
- changes DHA's name to Defence Housing Australia; and
- removes outdated provisions in the Act.

On 9 November 2006, the Minister made the *Defence Housing (Performance of Additional Functions) Determination 2006*, which permitted DHA to provide housing and housing-related services to any *Financial Management and Accountability Act 1997* agencies.

Commonwealth Authorities and Companies Act 1997

DHA also complies with the requirements of the *Commonwealth Authorities and Companies Act 1997* with respect to:

- reporting to Ministers and Parliament;
- contents of the Annual Report;
- audit of DHA's financial statements by the Auditor-General;
- banking and investment powers of authorities;
- general policies of the Australian Government; and
- conduct of directors and officers, including the civil consequences of any breach of their duties by the directors and officers.

Planning Framework

How it is integrated

DHA has a tiered planning framework that cascades organisational plans from the Corporate Plan through to individual performance plans. This framework enables staff to translate high level objectives into operational tasks.

Corporate Plan

DHA has a three year rolling Corporate Plan that is updated annually. The process commences with environmental scanning, including collaboration with key external stakeholders. The Corporate Plan is based on a balanced scorecard in which objectives and strategies are developed within four strategic themes. Key Performance Indicators (KPIs) and targets enable the measurement of achievement against the objectives. The Corporate Plan is approved by the DHA Board and provided to DHA's Shareholder Ministers for noting.

A companion document, the Executive Management Plan, is prepared to set out the activities required to implement the strategies and to allocate responsibilities for the activities and KPIs.

Business Plans

Each Business Unit develops a Business Plan, which incorporates all responsibilities from the Corporate Plan/Executive Management Plan, together with additional activities, measures linked to the budget relevant to that Business Unit. Business Plans are developed annually.

Performance Development Agreements

Every staff member has a Performance Development Agreement (PDA), setting out that individual's responsibilities under the relevant Business Plan. The PDA also sets out training and professional development requirements.

Reporting Framework

How we report what we do

DHA's external and internal reporting is focused on the objectives set out in the Corporate Plan and associated KPIs, targets, budgets and forecast financial statements associated with them. Key initiatives and issues are reported where relevant.

Annual Report

The Annual Report sets out DHA's performance in delivering the objectives (as measured through KPIs) and strategies set out in the Corporate Plan. It provides the annual financial accounts, associated financial information and details of important initiatives undertaken during the year. The content of the Annual Report is compliant with the requirements of the *Commonwealth Authorities and Companies Act 1997* and the *Public Service Act 1999*.

Quarterly Reports to Shareholder Ministers

DHA provides a quarterly report to its Shareholder Ministers, setting out progress for the year to date in delivering the Corporate Plan, together with key initiatives and issues for the organisation.

Reporting to the DHA Board

The DHA Board receives monthly reports on financial and other performance against Corporate Plan targets, together with papers on initiatives and issues as required.

Management reporting

Each Business Unit receives detailed financial and other performance data monthly, with some KPIs reported weekly. Ad hoc reports can be accessed as required.

Each Business Unit reports progress monthly to the Managing Director.

The Executive management team monitors overall performance.

Strategic planning

DHA uses a balanced scorecard approach to develop the Corporate Plan — a three-year plan, updated and rolled forward annually. The Corporate Plan forms the basis of business plans, which are developed annually by each DHA business unit. In turn, the Business Plans are cascaded annually into Performance Development Agreements (PDA's) for staff members.

Through this cascading approach, all staff members document their individual roles in delivering the Corporate Plan. Each staff member's performance is measured against his or her PDA. This approach is effective in focusing staff on DHA's strategic priorities.

DHA's values

In May 2006 DHA launched a new set of values (and indicator behaviours that accompany each of the values) that specifically capture aspects of DHA's business, which are different from other Public Service agencies. The key role of values to DHA is given explicit recognition in DHA's recruitment process.

DHA's values are:

Respect — we collaborate, are ready to listen and learn, and show respect for each other, our customers, stakeholders and the community.

Excellence — our goals are achieved with a commitment to quality and professionalism in all aspects of our work — with a customer and commercial focus.

Integrity — we have moral courage — backed by trust for each other, honesty, responsibility, and accountability for our actions.

Enthusiasm — pride and empowerment come from our passion and commitment.

Innovation — we initiate and embrace new and better ways of working and improving our business.

Staff are encouraged to live these values in order to improve the way in which DHA does its business and contributes to an enjoyable and productive workplace experience for all.

DHA also complies with the *Public Service Act 1999*, upholding and promoting the Australian Public Service Values and Code of Conduct. We are committed to providing a safe workplace, free from discrimination and harassment, and recognising the individual contributions of our staff members. We are also committed to high standards in our contractual relationships with maintenance and other contractors, and private investors for whom we have property-management responsibilities.



THE HON. BRENDAN NELSON MP

THE HON. PETER LINDSAY MP

THE HON. GARY NAIRN MP

SENATOR THE HON. NICK MINCHIN

Shareholder Ministers

DHA is part of the Defence portfolio and is responsible to the Hon. Brendan Nelson MP, the Minister for Defence, as one of two Shareholder Ministers. DHA reports on non-shareholder operational matters to the Hon. Peter Lindsay MP, the Parliamentary Secretary to the Minister for Defence.

Senator the Hon. Nick Minchin, the Minister for Finance and Administration, is a Joint Shareholder Minister and has delegated management responsibility for DHA matters to the Hon. Gary Nairn MP, Special Minister of State.

Prior to Mr Lindsay's appointment on 30 January 2007, Senator the Hon. Sandy Macdonald was Parliamentary Secretary to the Minister for Defence.

Ministerial directions

No ministerial directions were received during the reporting period under the *Commonwealth Authorities and Companies Act 1997* or the *Defence Housing Australia Act 1987*.

DHA Board of Directors

During 2006-07 the DHA Board was restructured in line with the recommendations of the *Urhig Review*. The Board was restructured on 23 November 2006, from 12 directors to a more commercially focused structure comprising nine directors. This included the reappointment of six previous directors and the appointment of three new directors.

The DHA Board met eight times during 2006-07. These meetings were all held in Canberra. In addition, the members of the Board visited Brisbane in October 2006 for briefings and a tour of key DHA development housing sites.

The DHA Board comprises nine directors:

- a Chairman appointed by the Minister, and four directors with expertise in housing property, real estate, building, social planning or finance.
- three directors nominated respectively by the Chief of the Defence Force, and the Secretaries of the Departments of Defence, and Finance and Administration, and
- the Managing Director of DHA (also the Chief Executive Officer) appointed by the Board and who is the only Executive Director.

Figure 7.1 DHA's organisational and reporting structure, at 30 June 2007



DHA Board members as at 30 June 2007

- The Hon. Peter V Jones ^{AM} Chairman (appointed 15 June 2003)
- AVM Gary Beck AO (Rtd.) Director (appointed 23 November 2006)
- Mr William Bowness Director (appointed 13 April 2006)
- Ms Annabelle Chaplain Director (appointed 24 February 2005)
- Mr Michael Del Gigante Managing Director (appointed 1 August 2006)
- The Hon. W Lloyd Lange Director (appointed 13 April 2006)
- Mr Gary Potts Director (appointed 23 November 2006)
- Mr Peter Sharp Director (appointed 23 November 2006)
- Mr Wayne Stokes Director (appointed 25 June 2003)

Directors retired during 2006–2007

The following DHA Board directors completed their terms during 2006–07:

- AVM John Blackburn ^{AM} (Retired 22 November 2006)
- Rear Admiral Russell Crane ^{CSM} (Retired 22 November 2006)
- Major General Mark Evans ^{AM} (Retired 22 November 2006)
- Major General Ian Gordon ^{AM} (Retired 22 November 2006)
- Mrs Maureen Greet (Retired 22 November 2006)
- Dr Ralph Neumann (Retired 22 November 2006).

Directors attendance at Board meetings during 2006–2007

DIRECTORS' ATTENDANCE AT BOARD MEETINGS 2006-07		
DIRECTORS	ELIGIBLE TO ATTEND	ATTENDED
The Hon. Peter V Jones	8	8
AVM Gary Beck (Rtd)	6	6
Mr William Bowness	8	7
Ms Annabelle Chaplain	8	7
Mr Michael Del Gigante	8	8
The Hon. Lloyd Lange	8	8
Mr Gary Potts	6	5
Mr Peter Sharp	6	6
Mr Wayne Stokes	8	8
AVM John Blackburn	2	1
RADM Russell Crane	2	1
MAJGEN Mark Evans	2	2
MAJGEN Ian Gordon	2	2
Ms Maureen Greet	2	2
Dr Ralph Neumann	2	2



THE HON. PETER V JONES

AM FAICD

Chairman of the DHA Board

Mr Jones was appointed Chairman of the DHA Board on 15 June 2003, and was re-appointed on 23 November 2006. He currently sits as Chairman of the Nomination and Remuneration Committee, and as a member of the Property Committee.

Until recently, Mr Jones was Chairman of ARC Energy Limited, AMMTEC Limited, and of the Callaway Foundation for Music Education within the University of Western Australia. He retains several private interests, and has previously served as Chairman or a director of several listed companies associated with mineral and energy exploration and production.

He has been associated with several government-owned trading enterprises, including the Western Australian Water Corporation, of which he was the founding Chairman and served for eight years until retiring in December 2002. Mr Jones was born in Tasmania, where he farmed until 1968 when he moved to Western Australia and continued his farming operations in the Great Southern Region of the state. Between 1974 and 1986, he was a member of the Western Australian Legislative Assembly, and served as a Minister in several portfolios including education, resources development, mines and energy.

MR MICHAEL DEL GIGANTE

BCOM (HON) MCOM MBA

Managing Director

Mr Del Gigante was appointed Managing Director of DHA in August 2006. Previously he was Acting Managing Director.

Mr Del Gigante was appointed DHA's Chief Operating Officer in April 2004. Before joining DHA, he was Chief Executive Officer of TransACT Communications. Mr Del Gigante joined TransACT Communications in 2001 after completing the Advanced Management Program at Harvard Business School in the United States. Prior to this, he was Chief Financial Officer of ActewAGL, a large electricity, water and gas utility company in Canberra.

Mr Del Gigante has held senior positions with the World Bank and the Inter-American Investment Corporation in Washington, DC. He has also held executive positions in a large US telecommunications company, Verizon (previously GTE), both in Europe and the United States, and for the Banco di Santo Spirito in Italy.

His qualifications include an Honours Bachelor degree in Commerce, a Masters Degree in Commerce from the University of New South Wales, and a Master of Business Administration from Boston University. He is a Fellow of CPA Australia and of the Australian Institute of Company Directors. He is also a member of the Advisory Board of the Royal Australian Mint.

THE HON. WILLIAM LLOYD LANGE

CPA

Mr Lange joined the DHA Board on 13 April 2006. He is currently Chairman of the DHA Board Audit Committee and a member of the Nomination and Remuneration Committee.

Mr Lange has had extensive experience in public practice as an auditor and an accountant before entering the NSW Parliament, where he had a successful career spanning 20 years. He served as a Member of the Legislative Council of New South Wales, Shadow Minister for Mineral Resources and Energy, and Delegate to the Australian Constitutional Conventions in Hobart, Perth and Adelaide.

He is also a Director of the Abigroup Risk Management Services Ltd and serves as a Member of Council for the University of New England.



MR WAYNE STOKES

Mr Stokes joined the DHA Board on 25 June 2003. He was appointed Chairman of the Property Committee on 23 November 2006 and sits on the Nomination and Remuneration Committee.

Mr Stokes has more than 40 years experience in the Australian building and development industry, and has been a senior contributor to the industry through national roles with a range of professional bodies and government advisory boards.

Since 1980, Mr Stokes has been Managing Director of privately owned NL Stokes Pty Ltd, a company founded by his father, which has since earned a reputation as a respected developer of quality subdivisions in South Australia and Queensland. He has served the industry as National and State President of the Urban Development Institute of Australia and is a National and State Life Member of that organisation.

Mr Stokes has also served on the Council and Housing Council of the Master Builders Federation of Australia, is a former President of the Master Builders Association of SA Inc. and a former Chairman of the Association's Housing Committee. His service to the Australian Government includes membership of the Board of the National Capital Authority and Chairmanship of the Indicative Planning Council for the Housing Industry (SA Division).

AVM GARY BECK (Rtd)

AO GAICD

AVM Beck (Rtd.) was appointed to the DHA Board on 23 November 2006 following his nomination by the Chief of the Defence Force.

AVM Beck (Rtd.) chairs the legislated DHA Advisory Committee with membership including the Deputy Chiefs of the three Services. He is also an independent member of the Mental Health Council of Australia, and is currently Principal Consultant Executive Search with Hudson Global Resources in Canberra.

AVM Beck (Rtd.) concluded eight years with the Department of Veterans' Affairs (DVA) in a statutory appointment as Director of War Graves. He earlier concluded a 38 year career in the RAAF, with his final posting as Commandant Australian Defence Force Academy. His two prior senior Defence appointments were Air Commander Australia and Chief of Air Force Personnel.

MR WILLIAM BOWNESS

BCOM FCPA FAPI FAICD

Mr Bowness was appointed to the DHA Board in April 2006 and is a member of the Nomination and Remuneration Committee and the Property Committee.

Mr Bowness was the founder, Chairman and Chief Executive Officer of Melbourne-based property developer Wilbow Corporation Pty Ltd. The company was established in 1976 and subsequently opened branch offices in Brisbane, Queensland, Dallas, United States and Auckland, New Zealand. Wilbow Corporation was sold to a major public company in late 2006.

Mr Bowness has made various contributions to the Melbourne community over the past 25 years. In 1998, he was appointed Chairman of the Monash Gallery of Art Committee of Management. In 2007, Mr Bowness was appointed a Director of Melbourne Affordable Housing Ltd.

Board members

**MS ANNABELLE CHAPLAIN**

BA MBA FAICD

Ms Chaplain was appointed to the DHA Board on 24 February 2005 and currently sits on the Board Audit Committee and the Property Committee.

Ms Chaplain is the Chairman of Honeycombes Property Group Pty Ltd, Chairman of South East Queensland Water Corporation Ltd and a non-executive director of National Leisure and Gaming Limited as well as a number of private companies. Previously, she has held directorships with Sunsuper Financial Services Pty Ltd, the Totalisator Board in Queensland, Ports Corporation of Queensland and various other entities, gaining experience as a non-executive director in a range of industry sectors.

Ms Chaplain has more than 20 years' executive experience in investment banking, she was until 2002 Local Managing Director and Head of Public Sector Client Management for ABN AMRO Australia Ltd and served on the Management Committee for Australia and New Zealand. Prior to taking on that role, she established ABN AMRO Australia's successful franchise in Queensland.

MR GARY POTTS

Mr Potts joined the DHA Board on 23 November 2006 and currently sits on the Board Audit Committee and the Nomination and Remuneration Committee.

Mr Potts has more than 30 years' experience in public policy and government operations. He is currently a Commissioner of the Productivity Commission. He is also a Director of the Pooled Development Funds Registration Board and of Tuggeranong Office Park Pty Ltd, as well as a Trustee Director of AGEST, a major government superannuation fund. He is Audit Committee Chairman and a Director of National Parks.

In recent years, Mr Potts has undertaken a number of policy reviews for the Australian Government in areas such as general insurance, superannuation and venture capital. Prior to leaving the Australian Public Service in 2002, he was an Executive Director and Deputy Secretary in the Australian Department of the Treasury.

MR PETER SHARP

Mr Sharp joined the DHA Board on 23 November 2006 and is currently a member of the DHA Board Audit Committee.

Mr Sharp has over 45 years' experience in Defence — in the Australian Army and in the Department. His Army service spanned tours of duty in Vietnam, Malaysia and the United Kingdom. In the Department of Defence, he held senior positions as Inspector General, Head Defence Corporate Support and First Assistant Secretary Personnel. In 2002, he led the Defence Strategic Workforce Planning Review — the first of its type in the Commonwealth. Mr Sharp is the Defence representative on the Australian Bravery Decorations Council.

Board committees

Board Audit Committee

The Board Audit Committee meets quarterly and reports to the full Board on its activities at least twice a year. During 2006–07, four meetings were held in Canberra.

During the reporting year, Committee membership comprised:

- The Hon. William Lloyd Lange (Chairman, appointed 13 April 2006)
- Ms Annabelle Chaplain
- Dr Ralph Neuman (retired 22 November 2006)
- Mr Gary Potts (appointed 23 November 2006)
- Mr Peter Sharp (appointed 23 November 2006).

Objectives

The primary objectives of the Board Audit Committee are directed towards:

- enhancing the management of the internal control framework required to manage DHA's business;
- ensuring DHA has appropriate risk identification and management practices in place;
- improving the objectivity and reliability of significant financial reporting;
- assisting the Board to comply with all governance and other obligations; and
- ensuring DHA has adequate procedures on matters of audit independence.

Attendance at Board Audit Committee meetings during 2006–2007

ATTENDANCE AT AUDIT COMMITTEE MEETINGS 2006-07		
DIRECTORS	ELIGIBLE TO ATTEND	ATTENDED
The Hon. William Lloyd Lange	4	4
Ms Annabelle Chaplain	4	4
Dr Ralph Neumann	2	2
Mr Gary Potts	2	2
Mr Peter Sharp	2	2

Nomination and Remuneration Committee

During 2006–07, the Nomination and Remuneration Committee met once. During the reporting year, Committee membership comprised:

- The Hon. Peter V Jones (Chairman)
- Mr William Bowness
- Ms Annabelle Chaplain (until 22 November 2006)
- The Hon. William Lloyd Lange
- Mr Wayne Stokes

Functions

The functions of the Nomination and Remuneration Committee are to:

- advise Ministers on the skills and experience necessary for new directors;
- oversee and provide advice to the Managing Director on executive remuneration and overall remuneration strategies;
- assist the Board in relation to the review of the Managing Director’s performance and remuneration; and
- ensure the provision of appropriate induction and continuing education programs for directors.

Attendance at Nomination and Remuneration Committee meetings during 2006–2007

ATTENDANCE AT NOMINATION AND REMUNERATION COMMITTEE MEETINGS 2006-07		
DIRECTORS	ELIGIBLE TO ATTEND	ATTENDED
The Hon. Peter V Jones	1	1
Mr William Bowness	1	1
Ms Annabelle Chaplain	1	1
The Hon. William Lloyd Lange	1	1
Mr Wayne Stokes	1	1

Property Committee

The Property Committee was established by the Board in 2003 and meets quarterly and on an ad hoc basis as required. During 2006–07, it met six times.

During the reporting year, Committee membership comprised:

- Mr Wayne Stokes (Chairman)
- Mr William Bowness
- Ms Annabelle Chaplain
- The Hon. Peter V Jones.

Functions

The key function of the Property Committee is to act in an advisory capacity to the Board on major property transactions. The roles of the Committee are to:

- review management proposals in relation to major property transactions;
- review Board submissions to ensure that they contain all necessary information for the Board to make fully informed decisions; and
- assist in developing a standard format for Board reporting.

The Committee also reviews management proposals relating to:

- land purchases or disposals that require Board approval (over \$5 million);
- property projects that are environmentally or politically sensitive or carry a high level of risk; and
- any other property project, if requested to do so by the Board or management.

Attendance at Property Committee meetings during 2006–2007

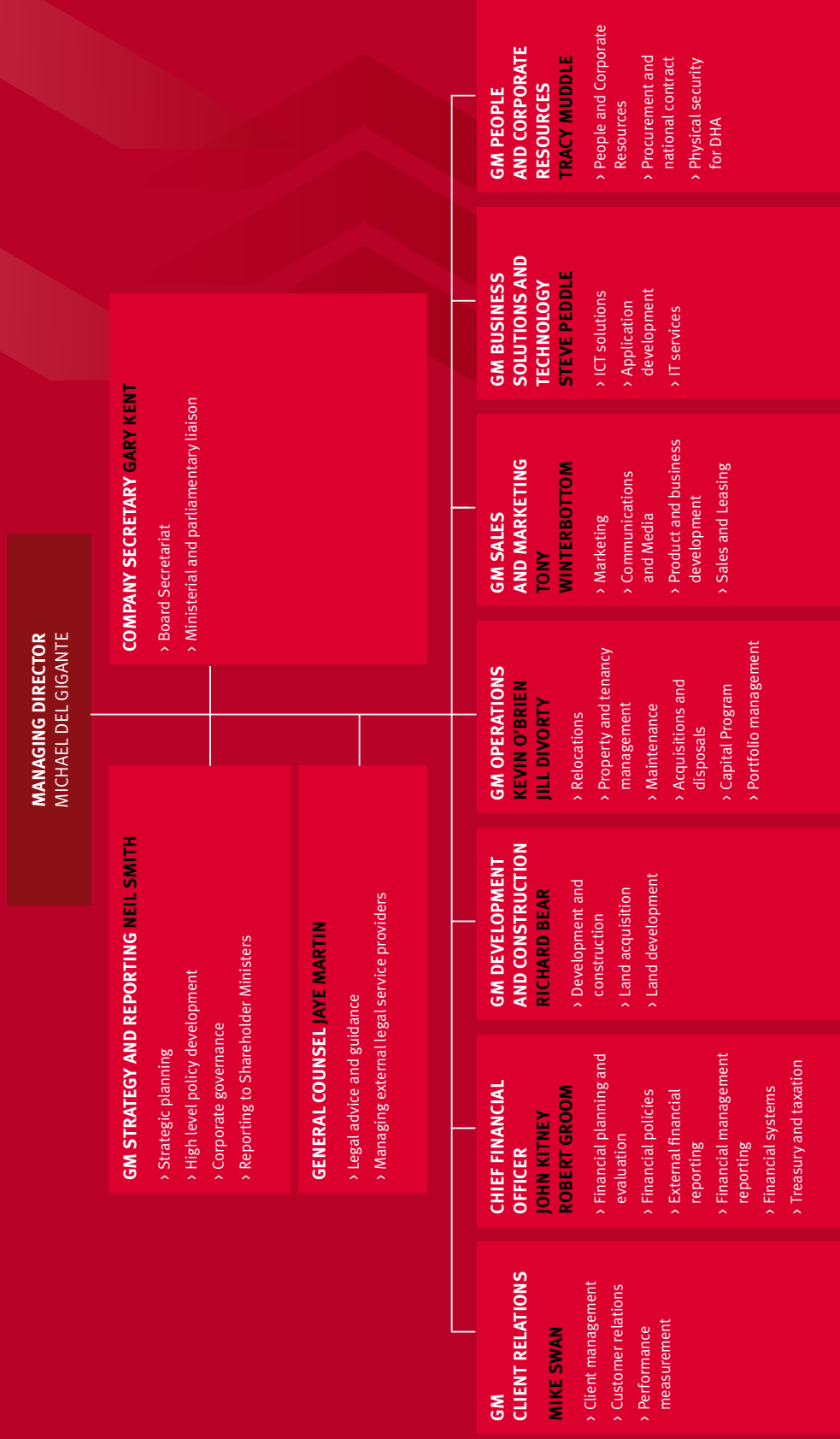
ATTENDANCE AT PROPERTY COMMITTEE MEETINGS 2006-07		
DIRECTORS	ELIGIBLE TO ATTEND	ATTENDED
Mr Wayne Stokes	6	6
Mr William Bowness	6	6
Ms Annabelle Chaplain	4	4
The Hon. Peter V Jones	6	6

Board evaluation and review

The DHA Board has agreed that there should be regular reviews of its performance and processes.

The assessment also provides an independent confirmation that the Board, as a decision-making body, is working within the principles and practices of good governance as detailed in the Charter. A review of the Board will be held in 2007, following the recent legislative and personnel changes in DHA.

Figure 7.2 Executive organisational structure, at 30 June 2007





MR JOHN KITNEY

Chief Financial Officer

Mr Kitney joined DHA in February 2004 as Chief Financial Officer. Prior to DHA, he held the position of General Manager, Finance for the Sydney Water Corporation.

He has held similar positions with the National Rail Corporation Limited, the Maritime Services Board of New South Wales and the University of New South Wales.

Mr Kitney has a Diploma in Commerce from the New South Wales Institute of Technology and a Master of Business Administration degree from the University of Sydney. He is a Fellow of CPA Australia and of the Australian Institute of Company Directors. Mr Kitney is also a director of the Theatre of Image and past director of Company B and of the Australian National Playwrights Centre.

Current responsibilities at DHA:

- Financial planning and evaluation
- Financial policies
- External financial reporting
- Financial management reporting
- Financial systems
- Treasury and taxation

MR RICHARD BEAR

General Manager,
Development and Construction

Mr Bear joined DHA in January 2000 and currently holds the position of General Manager, Development and Construction.

Mr Bear's early career was in the insurance industry, during which time he held various executive positions in Melbourne, New Zealand and the United Kingdom.

In 1981 Mr Bear was appointed Director, Insurance with the Defence Service Homes Organisation. In 1992, he was appointed Assistant Secretary of the Department of Veterans' Affairs and was responsible for the department's financial accounting and management activities. In 1998, he held the position of General Manager of the Child Support Agency. His past experience has included executive responsibility for financial management, information technology and human resource management.

Mr Bear has a Bachelor of Commerce degree with a major in accounting from Otago University, New Zealand.

Current responsibilities at DHA:

- Development and construction
- Land acquisition
- Land development

BRIG KEVIN O'BRIEN CSC (Rtd.)

General Manager,
Operations

BRIG O'Brien (Rtd.) joined DHA in March 2002 and currently holds the position of General Manager, Operations.

BRIG O'Brien (Rtd.) had an Army career spanning 30 years. His senior ADF appointments included Director General of Defence Force Recruiting, Director General of Personnel Policy and Chairman of the Army Health Benefits Society.

In 1997, BRIG O'Brien (Rtd.) was seconded to the Department of Veterans' Affairs to head a project to establish a memorial park in France as Australia's contribution to the eightieth anniversary of the end of World War 1.

BRIG O'Brien (Rtd.) was appointed to the Board of the Sydney Harbour Federation Trust in 1999 and to its Board Audit Committee in 2001.

He is also on the Board of the Kokoda Memorial Walking Track and a Trustee of the Bathurst RSL.

BRIG O'Brien (Rtd.) holds a Bachelor of Arts from the University of New South Wales and is a graduate of the Australian Institute of Company Directors.

Current responsibilities at DHA:

- National management of seven regional offices
- Relocations — allocations and removals
- Property management — maintenance and projects, and tenancy management
- Operations support
- Defence HomeOwner Scheme
- Chair, Occupational Health and Safety Committee

DHA Executive

**MR MIKE SWAN**

General Manager,
Client Management

Mr Swan joined DHA in September 2004 as General Manager Client Relations, following a 35-year career in the Army.

Mr Swan brings to DHA a wide knowledge of the Defence organisation having served mainly on the joint staff and most recently in the Corporate Services and Infrastructure Group.

Particular highlights of his service career include command of the Peace Monitoring Group on Bougainville in 2001 and an extended period as Acting Head of National Operations Division.

Current responsibilities at DHA:

- Client management
- Customer relations
- Performance measurement

**MR TONY WINTERBOTTOM**

General Manager,
Sales and Marketing

Mr Winterbottom joined DHA in February 2006 as General Manager of Sales and Marketing.

Before joining DHA, Mr Winterbottom held senior management positions in marketing, product development and sales with ADI Limited, ActewAGL, TransACT, IBM, Maxwell Technologies and CalComp, a Lockheed Martin company.

Mr Winterbottom has over 18 years' experience in his field, including five years based in southern California as Director, Worldwide Marketing for a global technology manufacturing company. He also managed profit and loss operations throughout the Asia Pacific for the same company and has extensive business experience in Hong Kong, Japan, South Korea, People's Republic of China and Southeast Asia. Directly prior to joining DHA, Mr Winterbottom led marketing for TransACT then managed all product development and residential sales for ActewAGL.

Current responsibilities at DHA:

- Marketing
- Product development and management
- Business development
- Communication and Media
- Sales and Leasing

**MR STEVE PEDDLE**

General Manager,
Business Solutions and Technology

Mr Peddle joined DHA in June 2005 and currently holds the position of General Manager of Business Solutions and Technology.

Just before joining DHA, Mr Peddle held the position of Chief Technology Officer at TransACT Communications. Some of his duties included the management of a 110 channel digital television broadcast centre, the management of 30,000 customer connections as well as the interconnectivity of multiple Internet service providers.

Prior to his position at TransACT, he also held positions at SMS Consulting, PRAXA Limited, Fujitsu Australia/Bell Atlantic and Wang Australia.

Mr Peddle has more than 20 years industry experience and has extensive skills in the management of ICT services including outsourcing, infrastructure, e-business, telecommunications and broadcast video.

Current responsibilities at DHA:

- ICT solutions
- Application Development
- IT services



MR GARY KENT

Company Secretary

Mr Kent was appointed Company Secretary of DHA in 2003. He previously worked in the Australian Public Service before occupying positions as Adviser and Chief of Staff to several federal ministers.

Mr Kent has Bachelor degrees in Commerce and Law from the University of Melbourne and a Graduate Diploma in Public Law from the Australian National University. He is a graduate of the Australian Institute of Company Directors.

Current responsibilities at DHA:

- Board Secretariat
- Ministerial and Parliamentary liaison

MS TRACY MUDDLE

General Manager,
People and Corporate Resources

Ms Muddle joined DHA in September 2004 and currently holds the position of General Manager, People and Corporate Resources.

Ms Muddle commenced and developed her career in the NSW Public Service before transferring to the Australian Government in May 2000 when she joined the Department of Finance and Administration. She held several senior positions within the Department, many in the Ministerial and Parliamentary Services Group. She was also selected to lead the team attached to the Building and Construction Industry Royal Commission in Melbourne as the Director, Corporate Services. Following this, Ms Muddle returned to the Department of Finance and Administration as Branch Manager, Human Resource Services.

Ms Muddle's qualifications include Master of Business Administration, Bachelor of Management in Professional Studies, Graduate Certificate in Management and Diploma of Applied Science.

Current responsibilities at DHA:

- Managing people and corporate resources functions
- Procurement and national contracts
- Physical security for DHA

MR NEIL SMITH

General Manager,
Strategy and Client Management

Air Vice-Marshal Smith retired from the Royal Australian Air Force in January 2001 and joined DHA in the following month.

In an Air Force career that spanned 39 years, he held a wide variety of operational and staff appointments, including Support Commander Air Force, with associated responsibility for the logistic support for all Australian military aircraft, and Officer Commanding RAAF Base Pearce, the country's busiest military flying base.

Air Vice-Marshal Smith has a Bachelor of Aeronautical Engineering from the University of Sydney and is a graduate of RAAF Staff College and the National Defence College of India. He is a member of both the Order of Australia and the Order of the British Empire, and a Fellow of both the Royal Aeronautical Society and the AICD.

Current responsibilities at DHA:

- Strategic planning
- High level policy development
- Corporate governance
- Reporting to Shareholder Ministers



MS JILL DIVORTY

National Portfolio Manager and Deputy General Manager, Operations

Ms Divorty joined DHA in 1990 in the Finance area, and remained there until leaving the organisation in 1994.

She re-joined DHA in 1996, working for Operations and then transferred back to Finance where she held positions including Business Performance Analyst and Manager, Corporate Planning. In 2002, Ms Divorty took on the role of National Manager, Construction and then National Manager, Capital Planning in 2004. Ms Divorty is now the National Portfolio Manager and Deputy General Manager, Operations.

Ms Divorty's qualifications include a degree in Finance and Accounting, associated CPA Australia membership, a Master of Business Administration with a specialisation in strategy and leadership, and she is currently undertaking doctoral-level studies in business.

Current responsibilities at DHA:

- DHA acquisitions and disposals
- Planning the capital program
- Acquisition, leasing and disposals programs
- Property-management business

MR ROBERT GROOM

Commercial Manager, Finance

Mr Groom joined DHA in September 2004 as Commercial Manager, Operations and transferred to Commercial Manager, Finance in 2005.

Before joining DHA, Mr Groom held finance positions with Singtel Optus, TransACT, the Westralia Airports Corporation and the Western Australian Treasury Corporation.

Mr Groom has more than 15 years' experience in his field, including two years with TransACT as Manager, Business Planning and Analysis, and four years with the Westralia Airports Corporation as Senior Financial Analyst. He has extensive experience in financial and management accounting, budgeting and financial forecasting, and investment planning and modelling.

Mr Groom's qualifications include a bachelor degree in Commerce from Curtin University, a Master of Accounting from Curtin University and associated CPA Australia membership.

Current responsibilities at DHA:

- Business performance reporting
- Business planning and analysis
- Investment management
- Financial systems management

MS JAYE MARTIN

General Counsel

Ms Martin joined DHA in 2004 as General Counsel.

Ms Martin's early training was at Freehill Hollingdale and Page, initially in Perth, then in Sydney where her work included commercial property law and land acquisition for the Darling Harbour Authority. She has had extensive commercial and corporate law experience while working in senior legal positions with IBM and as Legal Counsel and part of the management team at Wang (later named Getronics).

Ms Martin's qualifications include a Bachelor of Laws and Bachelor of Commerce from the University of New South Wales. Ms Martin also holds an ACT Practising Certificate under the *Legal Profession Act 2004*.

Current responsibilities at DHA:

- Provision of legal advice and guidance to the Managing Director, Board and Executive
- Legal assistance in relation to transactions, joint ventures and other contractual arrangements
- Managing general external legal service providers

Internal and external review

DHA benefits from internal and external reviews of all processes, ensuring the business is operating in accordance with governing laws and procedures.

Internal audit

KPMG was DHA's internal auditor for 2006–07, conducting internal audits as per the Annual Internal Audit Plan, endorsed by the Board Audit Committee in May 2006. This was the fourth year KPMG has performed this function for DHA. DHA has the option to renew the contract for another year.

During 2006-07 key initiatives within the risk portfolio included a new Risk Policy, revamped Business Continuity Plan and Divisional Risk assessment workshops. DHA's insurance claims record and risk management practices were acknowledged in Comcover's annual Benchmarking Survey, where DHA received a 'comprehensive' rating in implementing an enterprise-wide risk management framework.

Risk management

Enterprise-wide risk management is an integral and integrated element of DHA's business operations. DHA's Strategic Corporate Risk Management Plan is based on the methodology set out in the Australian/New Zealand Standard AS/NZS 4360:2004. It addresses both governance and business risks, is updated annually and is approved by the Board with endorsement by the Board Audit Committee.

Fraud-prevention measures

DHA undertakes a regular Fraud Risk Assessment consistent with the requirements of the Commonwealth Fraud Control Guidelines 2002 and the supporting Better Practice Guide 2004. The Fraud Risk Assessment is a pro-active approach to minimise the potential for instances of fraud within DHA whether by employees or people external to DHA.

The DHA Fraud Control Plan is based on the Fraud Risk Assessment and summarises fraud-control strategies to comply with sound corporate governance, including the Australian Government's requirements for fraud-prevention, detection, investigation, prosecution and civil rights/privacy processes. The Fraud Control Plan also provides guidance to staff on action to take to deter and detect fraud.

The Fraud Risk Assessment and Fraud Control Plan were prepared in accordance with Australian/New Zealand Standard AS/NZS 4360:2004 and are available to managers and staff via DHA's intranet. DHA treats fraud seriously, and has guidelines on acknowledging the significance of 'whistleblowers' in detecting fraud in its Fraud Control Plan. DHA's Risk Manager provides annual updates to the Board Audit Committee on the prevailing internal controls of DHA's systems and on efforts to mitigate exposures to fraud.

Parliamentary committees and government inquiries

During 2006–07, DHA officers met with members of the Joint Standing Committee on Public Works to brief them on current and future DHA activities.

During the year, DHA was not required to provide a submission to the Committee in relation to any of its proposed projects.

Freedom of information

Like all other Australian Government organisations, DHA is required to comply with the *Freedom of Information Act 1982*. During 2006–07, two requests were made for access to certain information under the Act. In one case, after consideration by DHA's Freedom of Information Officer, the requested information was made available to the applicants. In the second case the information was not made available to the applicant as it was exempt.

Requests under the *Freedom of Information Act 1982* for access to information should be made in writing to:

Freedom of Information Officer
Defence Housing Australia
26 Brisbane Avenue
BARTON ACT 2600

Privacy

We take our custodianship of information on our staff and customers very seriously and adhere to the policies and procedures for information release as detailed in the *Privacy Act 1988* and overseen by the Office of the Federal Privacy Commissioner.

Like all Australian Government agencies, DHA lodges an annual Personal Information Digest entry with the Office of the Federal Privacy Commissioner.

Ombudsman

During 2006–07, 36 issues were referred to DHA from the Commonwealth Ombudsman. In most cases, the matter was resolved through informal liaison and consultation with Investigation Officers and the complainants.

The courts and administrative tribunals

During the reporting period, there were no judicial decisions or decisions of administrative tribunals that had a significant impact on the operation of DHA.

Consultancy services

DHA engages the services of a limited number of companies and consultancy services. A summary list of such consultancies is presented to the Board Audit Committee on a six-monthly basis.

Indemnities and insurance

DHA maintains directors' and officers' liability insurance. The insurance covers DHA officers in respect of legal liabilities (including legal expenses) that a director or officer may be legally obliged to pay in certain circumstances. The policy has some exclusions, such as wilful breach of duty, breach of professional duty and any claim arising out of libel, slander or defamation.

Corporate documents

In accordance with the *Commonwealth Authorities and Companies Act 1997* and the *Public Service Act 1999*, DHA is required to prepare an Annual Report, Corporate Plan and Statement of Corporate Intent.

Financial statements prepared by DHA are subject to audit by the Australian National Audit Office.

Categories of documents

DHA holds no registers or similar documents that are open to the public on payment of a fee, nor does DHA hold any documents that are available for purchase.

Access to documents

Copies of the *Defence Housing Australia Act 1987* are available from Canprint Information Services or over the counter from Standards Australia outlets, Information Victoria bookshop or Goprint. For contact details, go to www.publications.gov.au/?legislation.

An online version of the Act can be downloaded from the Attorney-General Department's website at www.ag.gov.au.

DHA's Annual Report is available free of charge. It also available to download from DHA's website at www.dha.gov.au.

DHA also produces and distributes brochures and other promotional material. Requests for copies of DHA publications can be made to:

Communication and Media Manager
Defence Housing Australia
26 Brisbane Avenue
BARTON ACT 2600
Tel: (02) 6217 8444

Commonwealth Disability Strategy

In accordance with the Commonwealth Disability Strategy DHA ensures that, wherever possible, policies, programs and services are as accessible to people with a disability as they are to every other member of the Australian community.

Role as an employer

DHA seeks to have a highly skilled and highly motivated workforce, and ensures that workplace practices support equitable working conditions for all staff. Diversity of staff is a great strength of DHA and we strive to create an inclusive environment that values and utilises the contribution of people with different backgrounds, experiences and perspectives.

DHA is an equal opportunity employer. In recruitment and selection of staff, a fair, merit-based and transparent process ensures that equitable consideration is given to all applicants. Recruitment information is provided in a range of formats to reach the greatest number and type of potential applicants.

Role as a service provider

DHA works with the Defence Community Organisation (DCO) and the Directorate of Entitlements to ensure that ADF members and families with special needs have access to a fair and equitable process for relocation and modification of DHA homes.

Any required modifications are undertaken in consultation with the ADF member and their family to ensure that the home meets their needs. This process is managed by a designated case manager in each region.

DHA collaboratively sought feedback from key stakeholders within Defence and the DCO to ensure that their requirements were being met.

DHA business solutions

During 2006-07 Business Solutions and Technology has sought to support DHA's ongoing business, ensuring systems maintain alignment with contractual agreements with client, Defence policies and business improvement initiatives.

In 2006-07, Defence and DHA operated for the first time under the auspices of the new Services Agreement on Housing and Related Matters, this involved new arrangements for billing, reporting and performance management.

Defence's NHCP, which commenced on 1 July 2007, is a significant change to one of the pillars of Defence personnel policy. This initiative served as a catalyst for DHA to refresh and improve a substantial number of applications both internally, through DHA's Staff Portal, and externally through DHA's Online Services, which are utilised by members. The vast majority of application enhancements focused on overall functionality, usability, performance, process improvements and ensuring consistent branding.

DHA Online Services

DHA has progressed its online strategy, with significant changes being made to the electronic-Application for Relocation (e-AFR) and HomeFind member services. The enhancements include a new look and feel, as well as providing a consistent and improved mechanism for members accessing DHA Online Services.

The e-AFR and pre-AFR application has been extended to allow members to manage multiple relocations, including the ability to view previously submitted AFRs for historical purposes. These applications allow members to manage the collection and input of data required for housing entitlements, removal requirements, temporary accommodation and travel arrangements, as well as any special needs they may have in regards to their accommodation requirements.

Business to business integration

Electronic business integration between Defence and DHA has been a priority for the past year. With the implementation of DHA's newly developed Business to Business (B2B) application, automatic data exchanges occur between the two organisations to manage ADF member housing subsidies. Development of the application uses system automation, sending member contributions through to Defence for processing into the Defence pay systems.

The new application will add significant value to both DHA and Defence in ensuring member contributions are accurately calculated and automatically transmitted to Defence. The reconciliation process will be vastly improved by significantly reducing the manual administration currently required to manage this process.



Telephone

DHA completed a substantial upgrade of DHA's Voice over Internet Protocol (VoIP) telephony system. The upgrade incorporated the release of a consistent National Interactive Voice Recording (IVR) for all DHA offices in conjunction with the successful implementation of call centre functionality including automatic call distribution throughout the DHA office network.

The call centre based telephony system enables more efficient and intelligent routing of customer calls providing significant improvement to the customer experience. The system provides an enhanced level of data collection which in turn is used to analyse and fine tune call flow configurations.

Data network

During 2006-07, DHA completed a significant redesign of DHA's Wide Area Communications Network. The new design provides vastly improved network speed to all DHA offices at a far reduced cost. The advantages of the new network are improved performance for all applications across DHA as well as improvements to the VoIP telephony network, reducing the need to utilise external telephony providers.

Relocations Survey

The relocation survey is now conducted by telephone rather than by post, using an internally developed application; which allows us to reach more people and to be timelier in delivering results. As part of the telephone survey, we have incorporated an automated follow-up system for those respondents who request it. This allows us to shorten our response times when addressing issues affecting our tenants. The relocation survey application provides configurable questions and call scripts as well as detailed reporting and analysis capabilities.

Procurement process

DHA procures a wide range of goods and services to support its operations. During 2006-07 DHA prepared new guidelines for procurement within the Operations division specifically Property and Tenancy management, these guidelines cover internal controls, financial delegations and record keeping.

DHA's objectives are supported through the following core principles, which underpin all procurement activities:

- Value for Money;
- Open and Effective Competition;
- Ethics and Fair Dealing;
- Accountability and Reporting;
- National Competitiveness and Industry Development; and
- Support for Other Commonwealth Policies.

DHA has continued to conduct annual procurement visits to Housing Management Centres during 2006-07. These visits educate and support Housing Management Centre staff regarding best practice procurement methods.

Re-assessment of DHA as a Certified Customer Service Organisation

In the year under review, DHA invested further in its membership of the Customer Service Institute of Australia. In particular, DHA conducted a major review of its complaints-handling procedures and implemented significant reforms including the appointment and training of specialist customer relations officers in regional offices and the adoption of a comprehensive reporting regime.

The Customer Service Institute of Australia performed its second audit of DHA during 2006-07. Overall audit results showed a marked improvement over the results achieved in 2005-06. The auditors reported that there had been a positive approach by the senior management to leading service excellence, and described DHA staff as 'passionate, loyal to the organisation and absolutely committed to the customer'.

Continued engagement with the Customer Service Institute of Australia will provide further opportunities for benchmarking, networking and training to help DHA further enhance its customer service performance.





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INDEPENDENT AUDITOR'S REPORT

To the Minister for Defence and Special Minister for State

Scope

I have audited the accompanying financial statements of Defence Housing Australia for the year ended 30 June 2007, which comprise: a statement by the Directors; income statement; balance sheet; statement of changes in equity; cash flow statement; schedules of commitments and contingencies; a summary of significant accounting policies; and other explanatory notes.

The Responsibility of the Board of Directors for the Financial Statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with the Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997* and the Australian Accounting Standards (including the Australian Accounting Interpretations). This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

My responsibility is to express an opinion on the financial statements based on my audit. My audit has been conducted in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. These Auditing Standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to Defence Housing Australia's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Defence Housing Australia's internal control. An audit also includes evaluating the appropriateness of accounting

policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Independence

In conducting the audit, I have followed the independence requirements of the Australian National Audit Office, which incorporate the ethical requirements of the Australian accounting profession.

Auditor's Opinion

In my opinion, the financial statements of Defence Housing Australia:

- (a) have been prepared in accordance with the Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997*, and the Australian Accounting Standards (including the Australian Accounting Interpretations); and
- (b) give a true and fair view of the matters required by the Finance Minister's Orders including Defence Housing Australia's financial position as at 30 June 2007 and of its financial performance and its cash flows for the year then ended.



Michael White
Executive Director
Delegate of the Auditor-General

Canberra
14 September 2007

DEFENCE HOUSING AUSTRALIA**STATEMENT BY DIRECTORS**

In our opinion, the attached financial statements for the year ended 30 June 2007 are based on properly maintained financial records and give a true and fair view of the matters required by the Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997*.

In our opinion, at the date of this statement, there are reasonable grounds to believe that the Defence Housing Australia will be able to pay its debts as and when they become due and payable.

This statement is made in accordance with a resolution of the Directors of the Defence Housing Australia.



The Hon Peter V Jones AM
Chairman

13 September 2007



Michael Del Gigante
Managing Director

13 September 2007

Income Statement

For the Year Ended 30 June 2007

	Notes	2007 \$'000	2006 \$'000
INCOME			
Revenue			
Housing Services Provided	4	395,688	359,512
Relocation Services Provided	5	83,106	79,792
Sales of Inventories		316,901	358,026
Interest	6	12,696	12,587
Total Revenue		808,391	809,917
Gains			
Net Gain From Disposal of Investment Properties	7	26,344	44,622
Other Income		2,693	2,778
TOTAL INCOME		837,428	857,317
EXPENDITURE			
Employee Expenses	8	46,221	43,649
Housing Services Lease Rentals		196,233	178,002
Rates, Repairs and Maintenance	9	72,810	58,672
Depreciation and Amortisation	10	11,235	11,116
Defence Member Relocation Services		60,423	58,480
Cost of Inventories		305,723	330,921
Borrowing costs	11	21,043	22,332
Write-Down and Impairment of Assets	12	3,429	25,934
Other Expenses		19,999	27,636
Total Expenditure		737,116	756,742
Operating Result Before Income Tax		100,312	100,575
Income Tax Benefit on Removal of Tax Exempt Status	1.23, 13	-	18,329
Income Tax Benefit	13	1,475	-
Net Operating Result After Income Tax		101,787	118,904

Balance Sheet

As At 30 June 2007

	Notes	2007 \$'000	2006 \$'000
ASSETS			
Current Assets			
Cash and Cash Equivalents	14	170,281	209,362
Trade and Other Receivables	15	30,617	35,848
Other Current Assets	16	29,788	26,463
Deferred Tax Asset	17	351	-
Inventories	18	234,120	238,897
Investment Properties for Sale	19	29,104	37,497
Total Current Assets		494,261	548,067
Non-Current Assets			
Inventories	18	333,644	399,191
Other Non-Current Assets	20	127,733	129,989
Deferred Tax Asset	21	19,453	18,329
Plant and Equipment	22	13,494	16,048
Investment Properties	23	592,567	435,798
Total Non-Current Assets		1,086,891	999,355
TOTAL ASSETS		1,581,152	1,547,422
LIABILITIES			
Current Liabilities			
Trade and Other Payables	24	36,483	42,006
Borrowings	25	125,000	70,000
Other Financial Liabilities	26	17,504	4,590
Provisions	27	9,777	9,432
Total Current Liabilities		188,764	126,028
Non-Current Liabilities			
Borrowings	25	215,000	270,000
Other Financial Liabilities	26	12,212	14,250
Provisions	27	66,552	62,711
Total Current Liabilities		293,764	346,961
Total Liabilities		482,528	472,989
NET ASSETS		1,098,624	1,074,433
EQUITY			
Contributed Equity		249,148	249,148
Retained Surpluses		849,476	825,285
TOTAL EQUITY		1,098,624	1,074,433

Statement of Cashflows

For the Year Ended 30 June 2007

	Notes	2007 \$'000	2006 \$'000
Cashflows From Operating Activities			
Cash Received			
Sales of Goods and Services		456,422	399,788
Sales of Inventories		324,783	353,178
Interest		12,187	11,302
Other		2,024	2,797
Total Cash Received		795,416	767,065
Cash Used			
Suppliers		335,082	312,839
Acquisition of Inventories		259,728	413,700
Employees		45,780	41,165
Interest		15,952	22,332
Total Cash Used		656,542	790,036
Net Cash from Operating Activities	28	138,874	(22,971)
Cash Flows from Investing Activities			
Cash Received			
Sales of Investment Properties		50,409	68,563
Defence Annuities - Principal Repayments		11,599	71,701
Total Cash Received		62,008	140,264
Cash Used			
Acquisition of Investment Properties		160,463	8,402
Acquisition of Plant and Equipment		1,901	10,156
Acquisition of Defence Annuity Properties		-	13,159
Total Cash Used		162,364	31,717
Net Cash From Investing Activities		(100,356)	108,547
Cash Flows from Financing Activities			
Cash Received			
Proceeds From Debt		-	-
Total Cash Received		-	-
Cash Used			
Repayment of Debt		-	35,000
Dividends Paid		77,599	68,000
Total Cash Used		77,599	103,000
Net Cash From Financing Activities		(77,599)	(103,000)
Net Increase/(Decrease) in cash Held		(39,081)	(17,424)
Opening Cash Balance		209,362	226,786
Cash as at 30 June 2007	14	170,281	209,362

Statement of Changes in Equity

For the Year Ended 30 June 2007

Notes	Accumulated Results		Contributed Equity/Capital		Total Equity	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Opening Balance						
Balance carried forward from previous period	825,285	774,381	249,148	249,148	1,074,433	1,023,529
Adjustment for Errors	3	-	-	-	3	-
Adjustment for Changes in Accounting Policies	-	-	-	-	-	-
Adjusted Opening Balance	825,288	774,381	249,148	249,148	1,074,436	1,023,529
Income and Expense						
Net Operating Result After Income Tax	101,787	118,904	-	-	101,787	118,904
Total Income and Expense	101,787	118,904	-	-	101,787	118,904
Transactions with Owners						
Returns on Capital	-	-	-	-	-	-
Dividends	(77,599)	(68,000)	-	-	(77,599)	(68,000)
Net Transactions with Owners	(77,599)	(68,000)	-	-	(77,599)	(68,000)
Transfers Between Equity Components						
	-	-	-	-	-	-
Closing Balance as at 30 June	849,476	825,285	249,148	249,148	1,098,624	1,074,433

Schedule of Commitments

As At 30 June 2007

	2007 \$'000	2006 \$'000
BY TYPE		
Commitments Receivable		
Sublease rental income	593	1,719
Total Commitments Receivable	593	1,719
Capital Commitments		
Inventories - Construction Commitments ¹	95,822	48,830
Total Capital Commitments	95,822	48,830
Other Commitments		
Housing Lease Rentals ²	1,503,953	1,192,685
Other	15,691	21,682
Total Other Commitments	1,519,644	1,214,367
Net Commitments By Type	1,614,873	1,261,478
BY MATURITY		
Capital Commitments		
One Year or Less	95,822	37,268
From One to Five Years	-	11,562
Total Capital Commitments	95,822	48,830
Operating lease Commitments ³		
One Year or Less	204,349	188,482
From One to Five Years	752,750	637,269
Over Five Years	562,545	388,616
Total Operating Lease Commitments	1,519,644	1,214,367
Commitments Receivable ⁴	593	1,719
Net Commitments By Maturity	1,614,873	1,261,478

NB: Commitments are GST inclusive where relevant

1. Outstanding contractual payments for building under construction
2. Outstanding payments due on properties leased under sale and leasback program
3. Operating Leases included are effectively non-cancellable and comprise:

Nature of Lease	General Description of Arrangement
Leases for Office Accommodation	Lease payments are subject to annual increase in accordance with upward movements in the consumer price index. Remaining lease terms are between one and seven years plus options to renew where available.
Agreements for the provision of motor vehicles to staff	No contingent rentals exist. There are no renewal or purchase options available to DHA.

4. Amount receivable on sub-let commercial property.

Schedule of Contingencies

As At 30 June 2007

	Guarantees		Total	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Contingent Liabilities				
Opening Balance	795	227	795	227
New	577	795	577	795
Re-measurement	-	-	-	-
Obligations Expired	-	(227)	-	(227)
Total Contingent Liabilities	1,372	795	1,372	795
Net Contingent Liabilities	1,372	795	1,372	795

Details of each class of contingent liabilities and assets, including those not included above because they cannot be quantified or are considered remote, are disclosed in Note 39 Contingent Liabilities.

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1. Summary of Significant Accounting Policies

1.1 Basis of Accounting

The financial statements are required by clause 1(b) of Schedule 1 to the *Commonwealth Authorities and Companies Act 1997* and are a general purpose financial report.

The statements have been prepared in accordance with:

- Finance Minister's Orders (FMOs) (being the Requirements and Guidance for the preparation of financial reports of Australian Government Entities for reporting periods on or after 1 July 2006);
- Australian Accounting Standards and interpretations issued by the Australian Accounting Standards Board that apply for the reporting period.

The financial report has been prepared on an accrual basis and in accordance with historical cost convention, except for certain assets and liabilities, which as noted, are at 'fair value'. Except where stated, no allowance is made for the effect of changing prices on the results or the financial position.

The financial report is presented in Australian dollars and values are rounded to the nearest thousand dollars unless disclosure of the full amount is specifically required.

Unless alternative treatment is specifically required by an accounting standard, assets and liabilities are recognised in the Balance Sheet when and only when it is probable that future economic benefits will flow and the amounts of the assets or liabilities can be reliably measured. However, assets and liabilities arising under agreements equally proportionately unperformed are not recognised unless required by an accounting standard. Liabilities and assets that are unrecognised are reported in the Schedule of Commitments and the Schedule of Contingencies (other than unquantifiable or remote contingencies, which are reported at Note 39.)

Unless alternative treatment is specifically required by an accounting standard, revenues and expenses are recognised in the Income Statement when, and only when, the flow or consumption or loss of economic benefits has occurred and can be reliably measured.

1.2 Significant Accounting Judgements and Estimates

In the process of applying the accounting policies listed in this note, DHA has made the following judgement that has the most significant impact on the amounts recorded in the financial statements:

- The net realisable value of completed inventory properties has been assessed by an independent valuer. Where the assessed value for an individual property is less than its cost, the carrying value of the property is written down to net realisable value.
- An assessment of likely liabilities for "make good" costs that will be incurred at the lease expiry date has determined the amount required to be set aside to meet these obligations.

No accounting assumptions or estimates have been identified that have a significant risk of causing a material adjustment to carrying amounts of assets and liabilities within the next accounting period.

1.3 Statement of Compliance

The financial report complies with Australian Accounting Standards, which include Australian Equivalence to International Financial Reporting Standards (AEIFRS).

Australian Accounting Standards require DHA to disclose Australian Accounting Standards that have not been applied, in respect of standards that have been issued but are not yet effective.

In the current year, DHA has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standard Board (AASB) that are relevant to its operations and effective for the current annual reporting period. The adoption of these new and revised Standards and interpretations has not had any impact in DHA accounting policies or amounts reported in current or prior years.

At the date of authorisation of the financial report, the following Standards and Interpretations and amendments were in issue but not yet effective. The adoption of these new and revised Standards and interpretations is not expected to have any impact in DHA accounting policies or amounts reported in current, prior or future years.

AASB 7 'Financial Instruments: Disclosures and consequential amendments to other accounting standards resulting from its issue'.	Effective for annual reporting periods beginning on or after 1 January 2007
AASB 101 'Presentation of Financial Statements' – revised standard	Effective for annual reporting periods beginning on or after 1 January 2007
Interpretation 10 'Interim Financial Reporting and Impairment'	Effective for annual reporting periods beginning on or after 1 November 2006.
IFRIC 11 'IFRS 2 – Group and Treasury Share Transactions'	Effective for annual reporting periods beginning on or after 1 March 2007
IFRIC 12 'Service Concession Arrangements'	Effective for annual reporting periods beginning on or after 1 January 2008
AASB 2005-10	Effective for annual reporting periods beginning on or after 1 January 2007
AASB 2006-1	Effective for annual reporting periods beginning on or after 31 December 2006
AASB 2006-3	Effective for annual reporting periods beginning on or after 31 December 2006
AASB 2006-4	Effective for annual reporting periods beginning on or after 31 December 2006
AASB 2007-1	Effective for annual reporting periods beginning on or after 1 March 2007
AASB 2007-2	Effective for annual reporting periods beginning on or after 28 February 2007
AASB 2007-3	Effective for annual reporting periods beginning on or after 1 January 2009
AASB 2007-4	Effective for annual reporting periods beginning on or after 1 July 2007
AASB 2007-5	Effective for annual reporting periods beginning on or after 1 July 2007
AASB 2007-6	Effective for annual reporting periods beginning on or after 1 July 2009
AASB 2007-7	Effective for annual reporting periods beginning on or after 1 July 2007
AASB 8 'Operating Segments'	Effective for all periods commencing on or after 1 January 2009
AASB Interpretation 13 'Customer Loyalty Programmes'	Effective for annual reporting periods beginning on or after 1 July 2008
AASB Interpretation 14 AASB 119	Effective for annual reporting periods beginning on or after 1 January 2008
AASB 123 'Borrowing Costs'	Effective for annual reporting periods beginning on or after 1 January 2009

1.4 Revenue

All revenues are accounted for on an accrual basis.

Interest revenue is recognised on an accrual basis taking into account the interest rates applicable to the financial assets.

Profits or losses from the disposal of investment properties and inventories are recognised when all specified conditions relating to the sale are satisfied and there is an unconditional sale. Generally, this is when settlement occurs.

Receivables for goods and services are recognised at the nominal amounts due, less any provision for bad and doubtful debts. Collectability of debts is reviewed at 30 June each year. Provisions are made when collectability of the debt is judged to be less rather than more likely.

1.5 Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- a. where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- b. receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the cash flow statement on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the taxation authority are classified as operating cash flows.

1.6 Employee Benefits

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

Liabilities for 'short-term employee benefits' (as defined in AASB 119 that is, wages and salaries, annual leave etc, expected to be settled within 12 months of the reporting date) and termination benefits due within twelve months are measured at their nominal amounts.

The nominal amount is calculated with regard to the rates expected to be paid on settlement of the liability.

All other employee benefit liabilities are measured as the present value of the estimated future cash outflows to be made in respect of services provided by employees up to the reporting date.

Leave

The liability for employee benefits includes provisions for annual leave and long service leave. No provision has been made for sick leave as all sick leave is non-vesting and the average sick leave taken in future years by employees of DHA is estimated to be less than the annual entitlement for sick leave.

The leave liabilities are calculated on the basis of employees' remuneration, including DHA's employer superannuation contribution rates to the extent that the leave is likely to be taken during service rather than paid out on termination.

The liability for long service leave has been determined by reference to Part E, Chapter 43 of the Finance Minister's Orders 2006–2007. The estimate of the present value of the liability takes into account attrition rates and pay increases through promotion and inflation. The non-current portion of the liability for long service leave in respect of all employees at 30 June 2007, is recognised and measured at the present value of the estimated future cash flows, based on the short hand method provided in Part E, Chapter 43 of the Finance Ministers Orders 2006–2007.

Separation and Redundancy

Provision is made for separation and redundancy benefit payments.

Superannuation

Staff of DHA are members of the Commonwealth Superannuation Scheme (CSS), and the Public Sector Superannuation Scheme (PSS) or the PSS accumulation plan (PSSap).

The CSS and PSS are defined benefit schemes for the Commonwealth. The PSSap is a defined contribution scheme.

The liability for defined benefits is recognised in the financial statements of the Australian Government and is settled by the Australian Government in due course.

DHA makes employer contributions to the Australian Government at rates determined by an actuary to be sufficient to meet the cost to the Government of the superannuation entitlements of the Authority's employees as they fall due.

From 1 July 2005 new employees are eligible to join the new PSSap Scheme, which is a defined contribution scheme.

The liability for superannuation recognised as at 30 June represents outstanding contributions for the final fortnight of the year.

1.7 Leases

A distinction is made between finance leases and operating leases. Finance leases effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of leased non-current assets. Operating leases result in the lessor substantially retaining all such risks and benefits of the asset.

Operating Lease

Operating lease payments are expensed on a straight line basis that is representative of the pattern of benefits derived from the leased assets.

DHA has three categories of operating leases:

- a. residential properties (mostly acquired through the sale and leaseback program) for the housing of Australian Defence Force members, under the Services agreement on Housing and Related Matters (Services Agreement) between the Authority and the Commonwealth Department of Defence (Defence);
- b. commercial property for the administration of the Authority; and
- c. plant and equipment, mainly IT/office equipment.

Finance Lease

DHA does not have any finance leases payable. However, the Authority does finance on-base housing construction and certain off-base properties for Defence, under annuity arrangements provided for in the Services Agreement. Monthly payments are split – principal amounts are credited against the relevant receivable and the interest component is recorded as Other Income under Housing Services Revenue.

1.8 Sale and Leaseback Provision

AASB 117 requires that where a sale and leaseback transaction involves a leaseback, which is classified as an operating lease by the lessee, and the sale price is above 'fair value', the excess of sale price over fair value must be deferred and amortised by the vendor/lessee in proportion to the rental payments over the lease term.

On the basis that it is not possible to reliably estimate the component of the profit from sale and leaseback transactions that is above 'fair value', no part of the profit from the sale is separately identified for deferral in accordance with AASB 117. The DHA records the entire sale proceeds as revenue at the time of settlement.

As outlined in Note 1.7 above, the DHA sells certain properties and leases them back by way of operating lease. The operating lease agreements obligate the DHA to undertake prescribed maintenance (“make good”) at the end of the lease period.

At the time of recording a sale, a provision is raised to recognise the ‘make good’ obligation. This provision is based on an assessment of the present value of the necessary costs to ‘make good’ properties at the end of their lease terms. The estimate includes an inflation factor of 3% (2006: 2.75%) and a discount rate of 6.27% (2006: 5.7%), being the 10 year bond rate as at 30 June.

Actual “make good” expenditure is charged, as incurred against the provision. The estimate of future ‘make good’ maintenance is reviewed annually to ensure that the ‘make good’ provision is adequate to meet the emerging liability.

1.9 Interest Bearing Loans and Borrowings

Borrowings are measured at fair value net of transaction costs. Interest is charged as an expense as it accrues.

1.10 Tax

For the years ended 30 June 2006 and 30 June 2007, DHA was exempt from all taxation except Fringe Benefits Tax and Goods and Services Tax as set out in Note 1.5.

For competitive neutrality reasons, DHA pays a dividend to the Australian Government, in place of income tax. Refer also Note 2.

On 22 May 2006, the *Defence Housing Authority Amendment Act 2006* received Royal Assent. One of the provisions in the amending act removes DHA’s income tax exemption. The effective date of this particular provision is 1 July 2007. DHA has accounted for the resulting temporary differences under the requirements of AASB 112 ‘Income Taxes’.

From 1 July 2007 the charge for current income tax expense will be based on the operating result for the year adjusted for any non-assessable or disallowed items. It will be calculated using the tax rates that have been enacted or are substantially enacted by balance date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future tax profits be available against which deductible temporary difference can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that DHA will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

1.11 Dividends

A provision for dividends is not recognised as a liability unless the dividends are declared, determined or publicly recommended on or before the reporting date. Dividend liability is determined by DHA annually. Refer also Note 2.

1.12 Cash and Cash Equivalents

Cash means notes and coins held and any deposits held at call with a bank or financial institution. Cash is recognised at its nominal amount.

1.13 Software Development

Costs relating to the development of new products are deferred to future periods to the extent that future benefits are expected. The deferred costs are amortised over future periods to match related benefits. The costs are reviewed each year for impairment and, to the extent that they exceed the recoverable amount, are written off.

1.14 Property, Plant and Equipment

Property, plant and equipment are recognised initially at cost in the Balance Sheet, except for purchases costing less than \$1,000, which are expensed in the year of acquisition (other than where they form part of a group of similar items which are significant in total).

Properties vested in the DHA as off-base annuitised houses where a title does not reside with the Authority have been valued using the Present Value of future rent stream method (net cash flow) over the expected useful economic life of these properties. The assumptions used in determining this present value include a useful economic life of 15 years and a discount rate equal to the DHA's weighted average cost of capital of 10.24%.

Properties

During 2004/05 DHA adopted AASB 102 – Inventories, for all properties acquired or constructed with the intention of resale at a profit.

Other Land and Building assets owned by DHA are held for strategic provisioning purposes and are recorded in accordance with AASB 140 – Investment Property. These properties are held for the sustainable and flexible provision of housing to meet Defence requirements.

Depreciation

Depreciable assets are written-off to their estimated residual values over their estimated useful lives using, in all cases, the straight-line method of depreciation. Leasehold improvements are depreciated on a straight-line basis over the lesser of the estimated useful life of the improvements or the unexpired period of the lease.

Depreciation rates (useful lives), residual values and methods are reviewed at each reporting date and necessary adjustments are recognised in the current, or current and future reporting periods, as appropriate.

Depreciation rates applying to each class of depreciable asset are based on the following useful lives:

	2006-07	2005-06
Off-Base Properties	50 years	50 years
Plant, Equipment and Software	3-10 years	3-10 years

While depreciation expense has been charged to the Income Statement, the accumulated provision for depreciation has been written back on assets subject to revaluation in accordance with Australian Accounting Standard AASB 116.

Capital improvements to the DHA owned properties are capitalised and depreciated over the remaining life of the asset.

Impairment

All assets were assessed for impairment on an individual basis as at 30 June. Where indications of impairment exist, the asset's recoverable amount is estimated and an impairment adjustment made if the asset's recoverable amount is less than its carrying amount.

The recoverable amount of an asset is the higher of its 'fair value' less costs to sell and its 'value in use'. Value in use is the present value of the future cash flows expected to be derived from the asset.

1.15 Inventories

Inventories are separated into the following categories:

- a. *Completed properties* – Completed properties held for resale on normal trading cycle.
- b. *Land held for future development*
- c. *Work in progress* – Incomplete construction projects

Inventories are valued at the lower of cost and net realisable value. Costs are assigned to inventory on hand by the method most appropriate to each particular class of inventory, with the majority being assigned costs on an individual basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

1.16 Repairs and Maintenance

Repairs and maintenance costs are expensed in the period in which they are incurred.

1.17 Joint Ventures

Jointly controlled assets and operations

Interests in jointly controlled assets and operations are reported in the financial statements by including the DHA's share of assets employed in the joint ventures, the share of liabilities incurred in relation to the joint ventures and the share of any expenses incurred in relation to the joint ventures in their respective classification categories.

Jointly controlled entities

Interests in jointly controlled entities are accounted for under the equity method in the financial statements.

1.18 Provisions

Provisions are recognised when DHA has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cashflows estimated to settle the present obligation, its carrying amount is the present value of those cashflows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

1.19 Rounding

Amounts have been rounded to the nearest \$1,000 except in relation to the following:

- remuneration of directors
- remuneration of officers (other than directors); and
- remuneration of auditors

1.20 Financial Management Risk

DHA's activities expose it to normal commercial financial risk. As a result of the nature of DHA's business, and internal and Australian Government policies dealing with the management of financial risk, DHA's exposure to market, credit, liquidity and cash flow and 'fair value' interest rate risk is considered to be low.

1.21 Comparative Data

Management has determined that Housing Allocation Fees are more appropriately classified as Relocation Services Provided. These amounts have been reclassified in the current financial year together with the respective comparative amount – refer Note 4 and Note 5.

1.22 Adjustment for Errors

Retained surpluses has been adjusted by \$3,000. This amount is a cumulative rounding adjustment.

1.23 Restatement of Prior Year Balances

On 22 May 2006, the *Defence Housing Authority Amendment Act 2006* received Royal Assent and one of the provisions in the amending act removed DHA's income tax exemption from 1 July 2007. As a result, deferred tax assets and liabilities in relation to temporary differences that existed at 30 June 2006 should have been recognised for the first time in the 30 June 2006 financial report.

The 2006 comparative figures have been restated in this financial report to recognise the temporary tax differences that should have been recorded. The impacts of the restatement are as follows:

	Net Operating Result After Tax \$'000	Deferred Tax Assets \$'000
Balances recorded in the 30 June 2006 financial report	100,575	-
Recognition of temporary tax differences	18,329	18,329
Restated balance at 30 June 2006	118,904	18,329

2. Annual Dividends

The Board has declared a final dividend for the year ending 30 June 2007 of \$58.7 million (2006: \$57.8 million), comprising of the following:

- a profit component of \$36.5 million representing 60% of adjusted net profit after tax equivalents (2006: \$39.9 million); and
- a tax equivalent component of \$22.2 million representing company tax, payroll tax and stamp duty on new constructions as if DHA had been legally liable to these taxes (2006: \$17.9 million)

and these amounts will be paid to the Australian Government in 2007/08, subject to Ministerial approval.

An interim tax equivalent payment of \$19.8 million was paid on 29 June 2007 (2006: \$19 million), arising from the removal of DHA's exemptions from land tax and stamp duty equivalents from 1 July 2003.

The annual dividend declared for 2005/06 of \$57.8 million was paid to the Australian Government in October 2006.

Below is a summary of dividends paid and payable in respect of the year ending 30 June 2007.

	2007 \$'000	2006 \$'000
Final dividend (payable in October 2007)		
– profit component	36,500	39,900
– tax equivalent component	22,200	17,900
Interim tax equivalent dividend (paid June 2007)	19,799	19,000
Total dividends in respect of 2006-2007	78,499	76,800

3. Special Dividends

The Board has not declared a special dividend for the year ending 30 June 2007.

4. Housing Services Provided

	2007 \$'000	2006 \$'000
Defence Rent and Charges	341,908	316,640
Defence Other Charges	17,746	11,260
Lessor Management Fees	27,881	25,681
Other Revenue	8,153	5,931
Total Housing Services Revenue	395,688	359,512

5. Relocation Services Provided

Relocation Administration Fees	15,916	14,350
Defence Housing Allocation Fees	6,767	7,595
Relocation Defence Member Services	60,423	57,847
Total Revenues from Relocation Services Provided	83,106	79,792

6. Interest Received

Deposits	12,696	12,587
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7. Net Gains from Disposal of Investment Properties

Proceeds from Disposals	78,009	97,399
Net Book Value of Assets Disposed	(49,541)	(52,777)
Selling Expenses	(2,124)	-
Net Gain from Disposal of Land and Buildings	26,344	44,622

8. Employee Expenses

Remuneration for Services Provided	46,186	43,616
Separation and Redundancies	35	33
Total Employee Expenses	46,221	43,649

9. Rates, Repairs and Maintenance

Rates & Municipal Charges	6,488	7,736
Repairs and Maintenance	39,452	32,492
Other Property Charges	20,521	18,444
Heritage Upgrades for Defence	6,349	-
Total Rates, Repairs and Maintenance	72,810	58,672

10. Depreciation and Amortisation

Investment Properties	6,952	5,878
Other Infrastructure, Plant and Equipment	4,283	5,238
Total Depreciation	11,235	11,116
Total Depreciation and Amortisation	11,235	11,116

The aggregate amounts of depreciation or amortisation expensed during the reporting period for each class of depreciable assets are as follows:

Investment Properties	6,952	5,878
Other Infrastructure, Plant and Equipment	4,283	5,238

11. Borrowing Costs

	2007 \$'000	2006 \$'000
Loans	21,043	22,332

12. Write-Down and Impairment of Assets

Inventory ¹	3,256	16,269
Impairment of Assets		
Plant and Equipment ²	173	9,665
Total Write Down and Impairment of Assets	3,429	25,934

1. To ensure compliance with AASB 102 – Inventories, an independent assessment of inventory properties was undertaken by registered valuers in June 2007. The carrying value of individual properties, where the cost of the property exceeded the net realisable value, have been written down accordingly. This methodology differs from the prior year when an index was applied to December valuations. Refer also Note 18.
2. The carrying values of plant and equipment were reviewed and adjusted as appropriate to reflect fair value. The carrying amount of the assets were compared to the recoverable amounts or value in use and adjusted where it was considered that these amounts were in excess of the carrying amount.

13. Income Tax

(a) The components of tax expense/(benefit) are:

– current tax	(1,475)	-
– deferred tax recognised on the initial application of AASB 112 ‘Income Taxes’	-	(18,329)
Income tax expenses/(benefit)	(1,475)	(18,329)

As DHA will not become subject to income tax until 1 July 2007, there is no current tax payable. The income tax expense/(benefit) comprises the movement in deductible temporary differences existing at 30 June 2007 that are deductible for income tax purposes from 1 July 2007. Refer also Note 1.23.

Deferred tax assets have been brought to account in the financial statements as the directors believe that recoupment of the benefits in future years is probable.

(b) Deferred tax assets comprises:

Provisions for “make good”	19,068	17,933
Other provisions	736	396
Deferred tax assets	19,804	18,329

(c) Reconciliation

The movement in the deferred tax asset account is as follows:

Opening balance	18,329	-
Initial recognition of deferred tax assets	-	18,329
Movement in Provisions	1,475	-
Closing balance	19,804	18,329

14. Cash and Cash Equivalents

	2007 \$'000	2006 \$'000
Cash at Bank	2,106	829
Cash on Hand	17	18
Short Term Deposits	168,158	208,515
Total Cash and Cash Equivalents	170,281	209,362

15. Trade and Other Receivables

Department of Defence	16,743	17,500
Accrued Income	12,978	11,363
Other Receivables	896	6,985
Total Trade and Other Receivables	30,617	35,848

Debtors have repayment terms between 7 and 30 days. Receivables are aged as follows:

Less than 30 Days	30,139	34,854
30 to 60 Days	26	898
60 to 90 Days	-	44
More than 90 Days	452	52
Total	30,617	35,848

16. Other Current Assets

Prepaid Property Rentals	25,841	23,302
Other Prepayments	158	21
Finance Lease Receivable (Note 20)	3,789	3,140
Total Other Current Assets	29,788	26,463

17. Deferred Tax Asset

Deferred Tax Asset	351	-
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18. Inventories

Completed Properties – At Cost	222,958	235,273
Completed Properties – At Net Realisable Value	133,287	170,643
Work in Progress – At Cost	211,519	232,172
Total Inventories	567,764	638,088

The total fair value of completed inventory properties at 30 June 2007 is \$382,788,000
(2006: \$434,295,000)

Current	234,120	238,897
Non-Current	333,644	399,191
Total Inventories	567,764	638,088

19. Investment Properties for Sale

	2007 \$'000	2006 \$'000
Investment properties at cost	29,104	37,497

This amount represents investment properties that are currently listed for sale.
No other investment properties have been identified for disposal in the next 12 months.

20. Other Non-Current Assets

Finance Lease Receivable (Refer Below)	127,733	129,989
Total Other Non-Current Assets	127,733	129,989
Current finance lease receivables		
Due not later than 1 year	3,789	3,140
Total current finance lease receivables (Note 16)	3,789	3,140
Non-current finance lease receivables		
Due later than 1 year not later than 5 years	18,304	15,195
Due later than 5 years	109,429	114,794
Total non-current finance lease receivables (Note 20)	127,733	129,989
Total finance lease receivables	131,522	133,129
Current		
Total payments receivables	13,431	12,899
Future finance charges	(9,642)	(9,759)
Current finance lease receivables	3,789	3,140
Non Current		
Total payments receivables	193,318	203,359
Future finance charges	(65,585)	(73,370)
Non-Current finance lease receivables	127,733	129,989

DHA finances on-base housing construction and certain off-base properties for Defence, under annuity arrangements provided for in the Services Agreement. Monthly payments are split – principal amounts are credited against the relevant receivable and the interest component is recorded as Other Income under Housing Services Revenue.

21. Deferred Tax Asset

Deferred Tax Asset	19,453	18,329
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22. Plant and Equipment

Plant, equipment and software development	35,276	35,271
Less: Accumulated Depreciation	21,783	19,223
	13,494	16,048

22. Plant and Equipment (continued)

Reconciliation of Opening and Closing Balances of Plant, Equipment & Software development

Item	2007 \$'000	2006 \$'000
As At 1 July		
Gross Book Value	35,271	34,779
Accumulated Depreciation/Amortisation	(19,223)	(13,984)
Opening Net Book Value	16,048	20,795
Additions		
By Purchase	2,582	10,156
Net revaluation increment/(decrement)		
Depreciation/Amortisation Expense	(4,283)	(5,238)
Recoverable Amount write-downs	(681)	-
Impairment Expenses	(173)	(9,665)
Disposals		
Other Disposals/Transfer Assets Held For Sale	(1,723)	-
Depreciation written back on disposal	1,723	-
As At 30 June		
Gross Book Value	35,276	35,271
Accumulated Depreciation/Amortisation/and Write-Down	(21,783)	(19,223)
Closing Net Book Value	13,494	16,048

23. Investment Properties

Investment Properties at Cost	652,134	488,976
Less: Accumulated Depreciation	59,567	53,178
	592,567	435,798

The fair value of the investment portfolio (including investment properties held for sale and disclosed at Note 18) based on an assessment by independent valuers is \$1,224,000,000 (2006: \$915,700,000).

Reconciliation of Opening and Closing Balances of Investment Properties

Item

As at 1 July 2006

Gross Book Value	488,976	421,994
Accumulated Depreciation/Amortisation	(53,178)	(56,693)
Opening Net Book Value	435,798	365,301

Additions

By Purchase	83,745	21,176
By Transfer from Inventory	97,702	94,452
Depreciation/Amortisation Expense	(6,952)	(5,878)
Depreciation written back on disposal	563	-

Disposals

Other Disposals/Transfer Assets Held For Sale	(18,289)	(39,253)
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As At 30 June 2007

Gross Book Value	652,134	488,976
Accumulated Depreciation/Amortisation/and Write-Down	(59,567)	(53,178)
Closing Net Book Value	592,567	435,798

24. Trade and other Payables

	2007 \$'000	2006 \$'000
Trade creditors	17,031	12,274
Accrued expenses	11,239	25,219
Accrued repairs and maintenance	3,122	4,513
Other	5,091	-
Trade creditors and other payables	36,483	42,006

Trade creditors are normally settled on 30 day terms

25. Borrowings

Loans from Government	340,000	340,000
One year or less	125,000	70,000
From one to five years	215,000	235,000
More than five years	-	35,000
	340,000	340,000

26. Other Financial Liabilities

Current

Revenue in advance	17,504	4,590
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Non-current

Revenue in advance	12,212	14,250
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Total	29,716	18,840
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27. Provisions

Current

Employee		
Annual leave	3,633	3,520
Long service leave	2,543	2,416
	6,176	5,936

Other

Other provision	3,601	3,496
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Total Current Provisions	9,777	9,432
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Non-Current

Employee		
Long service leave	1,710	1,614
	1,710	1,614

Other

“Make good” provision	63,560	59,778
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Other	1,282	1,319
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	64,842	61,097
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Total Non-Current Provisions	66,552	62,711
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27. Provisions (continued)

Reconciliation of provision movement	Other General Provisions \$'000	Provision for "make good" \$'000	Total \$'000
Carrying amount at beginning of period	4,815	59,778	64,593
Additional provisions made	2,443	8,501	10,944
Amount expensed	(2,375)	(4,719)	(7,094)
Amount owing at end of period	4,883	63,560	68,443

Other general provisions include amounts set aside for:

- "Make good" on commercial tenancies at the expiration of the lease term;
- Redundancy payments;
- Staff bonus' in accordance with Australian Workplace Agreements in place; and
- Other sundry provisions

Provision for "make good" – where the term of a lease of property is six years or more, DHA undertakes to "make good" the property at the expiration of the lease term and any extension options. The provision for "make good" provides for the cost of refurbishing the leased property as set out in the lease agreement.

28. Cash Flow Reconciliation

Reconciliation of Cash per Income Statement to Statement of Cash Flows

	2007 \$'000	2006 \$'000
Net Operating Result After Tax	101,787	118,904
Depreciation- Investment properties	6,952	5,878
- Plant and equipment	4,283	5,238
Write down and impairment of assets	173	25,934
Gain on disposal of assets	(28,468)	(44,622)
(Increase)/decrease in net receivables	(6,205)	(8,940)
(Increase)/decrease in deferred tax assets	(1,475)	(18,329)
(Increase)/decrease in inventories	53,847	(97,514)
(Increase)/decrease prepayments	(2,676)	(8,514)
Increase/(decrease) in provisions	1,656	6,699
Increase/(decrease) in supplier payables	5,799	3,087
Increase/(decrease) in other liabilities	3,201	(10,792)
Net cash from/ (used by) operating activities	138,874	(22,971)

29. Superannuation

Staff of DHA are employed under the Public Service Act 1999 and are entitled to benefits from the Commonwealth Superannuation Scheme (CSS), the Public Sector Superannuation Scheme (PSS) and the Public Sector Superannuation Accumulation Plan (PSSAP), under the Superannuation (Productivity Benefit) Act 1988. DHA meets its liability for the employer share of benefits payable under the Superannuation Acts by fortnightly payments to the Commonwealth Superannuation Administration (COMSUPER) in accordance with Section 159(2) of the Superannuation Act 1976 and Section 15 of the Superannuation Act 1990, or to other superannuation funds nominated by employees.

29. Superannuation (continued)

The Department of Finance and Administration has advised the Commonwealth Superannuation Administration that for the purpose of actuarial costing of the CSS and PSS, it is essential to be able to identify employer superannuation contributions made under each scheme by the organisation. The separate CSS, PSS and PSSAP employer superannuation contribution rates and contributions paid or payable by DHA for the reporting period are:

- CSS members: Contributions at the rate of 23.9% (2006: 26%) of salary for superannuation purposes, amounting to \$280,000 (2006: \$390,000);
- PSS members: Contributions at the rate of 14.8% (2006: 12.1%) of salary for superannuation purposes, amounting to \$3,160,000 (2006: \$3,310,000);
- PSSAP members: Contributions at the rate of 15.4% (2006: 15.40%) of salary for superannuation purposes, amounting to \$1,420,000 (2006: 560,000).

30. Key Management Personnel Remuneration

The Hon Peter V Jones AM	Chairman
Mr Michael Del Gigante	Managing Director (appointed 1 Aug 2006)
Mr William Bowness	Director
Ms Annabelle Chaplain	Director
The Hon W Lloyd Lange	Director
Mr Wayne Stokes	Director
Air Vice-Marshal Gary Beck AO (Ret'd)	Director (appointed 23 November 2006)
Mr Gary Potts	Director (appointed 23 November 2006)
Mr Peter Sharp	Director (appointed 23 November 2006)
Air Vice-Marshal John Blackburn	(Retired 22 November 2006)
Rear Admiral Russell Crane CSM	(Retired 22 November 2006)
Major General Mark Evans AM	(Retired 22 November 2006)
Major General Ian Gordon AO	(Retired 22 November 2006)
Mrs Maureen Greet	(Retired 22 November 2006)
Dr Ralph Neumann	(Retired 22 November 2006)

The specified Executives of the DHA during the year were:

Michael Del Gigante	Managing Director
Richard Bear	Gen Mgr Development & Construction
Gary Kent	Company Secretary
John Kitney	Chief Financial Officer
Jaye Martin	General Counsel
Tracy Muddle	Gen Mgr People & Corporate Resources
Kevin O'Brien	Gen Mgr Operations
Steve Peddle	Gen Mgr Business Solutions & Technology
Tony Winterbottom	Gen Mgr Sales and Marketing
Robert Groom	Commercial Manager
Jill Divorty	National Mgr Capital and Planning

30. Key Management Personnel Remuneration (continued)

Specified Directors Remuneration

The number of Directors of DHA is shown below in the relevant remuneration bands:

	2007	2006
\$Nil-\$15,000	5	10
\$15,001-\$30,000	2	2
\$30,001-\$45,000	2	1
\$45,001-\$60,000	4	2
\$75,001-\$90,000	1	2
\$250,001-\$265,000	0	1
\$355,001-\$370,000	1	0
Total number of directors of DHA	15	18
Total remuneration received or due and receivable by directors shown above	\$774,764	\$643,639

Five directors (2006: eight) did not receive remuneration from DHA.

Specified Executives Remuneration

The number of executives of the DHA is shown below in the relevant remuneration bands:

\$120,001-\$135,000	0	1
\$135,001-\$150,000	1	0
\$150,001-\$165,000	0	1
\$165,001-\$180,000	0	2
\$180,001-\$195,000	1	2
\$195,001-\$210,000	1	0
\$210,001-\$225,000	3	1
\$225,001-\$240,000	2	1
\$240,001-\$255,000	0	1
\$270,001-\$285,000	0	1
\$285,001-\$300,000	2	0
\$315,001-\$330,000	0	1
\$355,001-\$370,000	1	0
Total number of executives of DHA	11	11
Total aggregate amount of total remuneration of executives shown above	\$2,598,120	\$2,305,323

The Director and Executive compensation includes wages and salaries, leave accruals, performance and other bonuses, superannuation, motor vehicles, any other allowances and fringe benefits included in remuneration agreements. Executive remuneration includes performance pay relating to the prior year.

31. Remuneration of Auditors

Amount received or due and receivable by auditors¹

Australian National Audit Office (ANAO) for the Audit of financial statements²

Deloitte Touche Tohmatsu has been contracted by the ANAO to provide audit services for 2006/07 on the ANAO's behalf. Fees for these services are included above.

DHA's previous auditors, Ernst & Young, have earned the following fees for consulting work where they were separately contracted by DHA.

Audit fees relating to the audit of Lyons joint venture is paid to ANAO. DHA is liable for 50% of these fees.

KPMG has been contracted by the Australian National Audit Office to provide audit services on the ANAO's behalf. This is for the audit of the Sanctuary joint venture 2004-05. DHA is liable for 50% of these fees.

No other benefits were received by the auditors.

1. The amounts are GST inclusive.

2. No other services were provided by the ANAO during the reporting period.

2007	2006
\$	\$
197,399	237,100
0	0
0	73,852
23,000	19,250
0	22,000

32. Related Parties

Directors

The names of each person holding the position of Director of the DHA during the financial year were:

The Hon Peter V Jones AM	Chairman
Mr Michael Del Gigante	Managing Director (appointed 1 Aug 2006)
Mr William Bowness	Director
Ms Annabelle Chaplain	Director
The Hon W Lloyd Lange	Director
Mr Wayne Stokes	Director
Air Vice-Marshal Gary Beck AO (Ret'd)	Director (appointed 23 November 2006)
Mr Gary Potts	Director (appointed 23 November 2006)
Mr Peter Sharp	Director (appointed 23 November 2006)
Air Vice-Marshal John Blackburn	(Retired 22 November 2006)
Rear Admiral Russell Crane CSM	(Retired 22 November 2006)
Major General Mark Evans AM	(Retired 22 November 2006)
Major General Ian Gordon AO	(Retired 22 November 2006)
Mrs Maureen Greet	(Retired 22 November 2006)
Dr Ralph Neumann	(Retired 22 November 2006)

32. Related Parties (continued)

Transactions of Directors and Director-Related Entities

There were no related party transactions other than that listed below:

DHA is part of the Defence portfolio. The Directors listed below held ex officio Director positions in their capacity as employees of the Department of Defence or members of the Australian Defence Force until 22 November, 2006. None of the ex officio directors received remuneration from the DHA.

Air Vice-Marshal John Blackburn
Rear Admiral Russell Crane CSM
Major General Mark Evans AM
Major General Ian Gordon AO
Dr Ralph Neumann

Ms Nicole Quinn is an Australian Defence Force spouse representative and receives remuneration from DHA, as a member of the Defence Housing Australia Advisory Committee.

33. Economic Dependency

DHA depends on the Department of Defence in accordance with the Services Agreement on Housing and Relocation Services Agreement between Defence and the DHA.

34. Segment Reporting

DHA operates in a single segment within Australia providing housing and related services.

35. Interest in Joint Venture Developments

The Sanctuary – Wattle Grove

DHA held a 50% interest in The Sanctuary development (formerly referred to as Wattle Grove Development) near Moorebank in Sydney. The principal activity of the joint venture entity is to develop housing sites for Defence and private sector housing. The development activities of the joint venture ceased in December 2003. DHA's interest in the Joint Venture has been assessed as a jointly controlled asset. Accordingly, DHA's share of assets employed in the joint venture, the share of liabilities incurred in relation to the joint venture and the share of any expenses incurred in relation to the joint venture are disclosed in the respective classification categories.

The disposal of the final parcel of land was completed in December 2005. The joint venture continues pending receipt of final approval of the development from Liverpool City Council and Sydney Water.

The following represents DHA's total interest in the joint venture as at 30 June 2007.

The income statement and balance sheet items have been incorporated in the financial statements under their respective classifications.

	2007 \$'000	2006 \$'000
Income Statement		
Revenues	66	3,765
Expenses	-	(1,196)
Total profit	66	2,569

35. Interest in Joint Venture Developments (continued)

	2007 \$'000	2006 \$'000
Balance sheet		
Current assets		
Cash	56	-
Receivables	-	-
Total current assets	56	-
Current liabilities		
Payables	-	10
Provisions	77	77
Total current liabilities	77	87
Net assets	(21)	(87)
Equity	(21)	(87)

Lyons

In March 2005, DHA entered into a joint venture with a subsidiary of Canberra Investment Corporation (CIC) for the development of land at Lee Point Road in Darwin. DHA's 50% contribution to the joint venture was \$14.25 million. DHA received \$28.5 million from the Joint Venture in exchange for the rights to develop the land at Lee Point Road. The title for the land remains with DHA and is carried in its Balance Sheet at \$7.5 million. CIC's payment of \$14.25 million to DHA for their stake in the development has been accounted for as "Revenue in advance" in DHA's Balance Sheet. As individual lots are developed and sold, this revenue has been recognised in the Income Statement.

DHA's interest in the Joint Venture has been assessed as a jointly controlled asset. Accordingly, DHA's share of assets employed in the Joint Venture, the share of liabilities incurred in relation to the joint venture and the share of any expenses incurred in relation to the joint venture are disclosed in the respective classification categories.

Income Statement		
Revenues	9,002	8
Expenses	(7,138)	(4)
Total profit	1,864	4
Balance sheet		
Current assets		
Cash	1,665	249
Inventories	14,856	4,083
Receivables	551	4,213
Total current assets	17,072	8,545
Non current assets		
Inventories	6,455	12,107
Property Plant and Equipment	5	8
Total non current assets	6,460	12,115
Total assets	23,532	20,660
Current liabilities		
Payables	2,216	808
Provisions	4,341	3,829
Total current liabilities	6,557	4,637
Net assets	16,975	16,023
Equity	16,975	16,203

36. Financial Instruments

Interest Rate Risk

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

Financial Instrument	Note	Floating Interest Rate		Fixed Interest Rate Maturing In				Non-Interest Bearing		Total		Weighted Average Effective Interest Rate			
				1 to 5 Years		> 5 Years									
		2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006		
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	%	%		
Financial Assets															
Cash and short term investments		2,123	847	168,458	208,515					170,281	209,362	6.53	5.54		
Receivables for goods & services (gross)								30,617	35,848	30,617	35,848	-	-		
Finance lease receivables				3,789	3,140	18,304	15,195	109,429	114,794	-	-	131,522	133,129		
Total		2,123	847	174,947	211,655	18,304	15,195	109,429	114,794	30,617	35,848	332,420	378,339	7.54	7.56
Financial Liabilities															
Government loans				125,000	70,000	215,000	235,000		35,000	-	-	340,000	340,000	6.09	5.99
Trade creditors										36,483	42,006	36,483	42,006	-	-
Total				125,000	70,000	215,000	235,000		35,000	36,483	42,006	376,483	382,006		

Credit Risk

Represents the extent of credit related losses that the DHA may be subjected to on amounts to be received from financial assets. These are considered not material.

Loan Agreement with Minister for Finance and Administration

On 31 August 2006, DHA entered into a 10 year Loan Agreement with the Minister for Finance and Administration. The Agreement provides the DHA with a \$550m loan facility which can be drawn down based on fixed or floating interest rates.

Loans

Draw Down Date	Initial Term in Years	Rolled Over in Current Year	Maturity Date	Amount Borrowed \$'000	Interest Rate %
1 June 2002	5	1 June 2007	1 April 2008	35,000	6.464
1 June 2002	7		31 May 2009	30,000	6.115
2 June 2003	5		1 June 2008	35,000	6.365
2 June 2003	7		1 June 2010	30,000	6.565
1 June 2004	3	1 June 2007	1 February 2010	35,000	6.575
1 June 2004	5		31 May 2009	35,000	5.950
1 June 2004	7		31 May 2011	30,000	6.072
5 November 2004	3		4 November 2007	20,000	5.710
5 November 2004	7		4 November 2011	10,000	5.935
5 November 2004	5		4 November 2009	20,000	5.805
18 February 2005	7		31 May 2012	25,000	5.920
1 June 2005	3		1 June 2008	35,000	5.630
Total Outstanding Borrowings				340,000	

Fair values of financial assets and liabilities

	2007		2006	
	Total Carrying Amount \$'000	Aggregate Fair value \$'000	Total Carrying Amount \$'000	Aggregate Fair value \$'000
Financial Assets				
Cash at bank	2,106	2,106	829	829
Cash on hand	17	17	18	18
Short term investments	168,158	168,158	208,515	208,515
Receivables for goods and services (net)	30,617	30,617	35,848	35,848
Other financial assets	157,521	157,521	156,452	156,452
Total Financial Assets	358,419	358,419	401,662	401,662
Financial Liabilities (Recognised)				
Payables	36,483	36,483	42,006	42,006
Other financial liabilities	29,716	29,716	18,840	18,840
Government loans	340,000	335,896	340,000	340,000
Total Financial Liabilities (Recognised)	406,199	402,095	400,846	400,846

37. Staffing Levels

	2007	2006
Staffing levels for DHA as at 30 June 2007	696	689

38. Subsequent Events

There have been no events post 30 June 2007 which would have a material impact on the financial statements or operations of the DHA business.

39. Contingent Liabilities

Quantifiable Contingencies

The Schedule of Contingencies in the financial statements reports a number of contingent liabilities which arise as a result of the DHA's interest in the Lyons Joint Venture, including guarantees made directly to financing organisations and statutory authorities in respect of the joint venture. The amount disclosed represents the aggregate amount of such guarantees. The extent to which an outflow of funds will be required is dependent on the future operation of the joint venture being more or less favourable than currently expected. No financial liabilities are expected to arise from provision of the guarantees.

Remote Contingencies

DHA in April 2006 and December 2006 entered into a contract with a major Australian bank to sell a substantial number of properties and to lease them back for periods ranging from 9 to 12 years, with further extensions available at the option of the DHA. In selling the properties, the DHA has made certain warranties concerning the quality of properties sold. The Directors of the DHA are not aware, as at the date of this report, of any liability to the purchaser in respect of warranties given.

Statutory reporting compliance index

The following table shows compliance with the Commonwealth Authorities and Companies (Report of Operations) Orders 2005 issued by the Minister for Finance and Administration on 30 June 2005.

Commonwealth Authorities and Companies Act 1997 Schedule 1 — reporting requirements

SECTION	REPORTING REQUIREMENT	PAGE REFERENCE
s.1(a)	Report of operations	6-7
s.1(b)	Financial statements	92-127
s.1(c)	Auditor-General's report	94-95
s.2(3)	Directors' resolution on financial statements	96

Commonwealth Authorities and Companies (Report of operations) Orders 2005 Division 2 — General information about operations and activities

SECTION	REPORTING REQUIREMENT	PAGE REFERENCE
Enabling legislation and responsible Minister		
s.8(a)	Enabling legislation	67-68
s.8(b)	Ministerial responsibility	71
Organisational structure		
s.9	Organisational structure	72
s.9	Location of major activities and facilities	20-27 & inside back cover
Review of operations and future prospects		
s.10(1)(a)(i)	Performance measured against statutory objectives	66-70
s.10(1)(a)(ii)	Performance measured against the Corporate Plan	68-69
s.10(1)(a)(iii)	Performance measured against principal outputs and contributions	10-91
s.10(1)(b)	Factors, events or trends, including risks and opportunities	6-91
s.10(c)	Significant events under s.15 of the CAC Act	8-9
s.10(d)(i)	Principal outputs	10-91
s.10(d)(ii)	Major investing and financing activities	34-41, 92-127
s.10(d)(iii)	Key financial and non-financial performance indicators	12, 30, 36, 44, 52, 66,
s.10(e)	Significant changes in state of affairs or principal activities	6-7
s.10(f)(i)(ii)(iii)	Significant developments since the end of the financial year	Nil to report
Judicial decisions and reviews by outside bodies		
s.11(a)	Judicial decisions and administrative tribunal decisions	86 (nil to report)
s.11(b)	Reports on operations by the Auditor-General, a Parliamentary Committee or the Commonwealth Ombudsman.	85-87
s.11(b)	Independent Audit Report	94-95

SECTION	REPORTING REQUIREMENT	PAGE REFERENCE
Effects of Ministerial directions		
s.12(1)(a)(i) (ii)(iii)	Directions issued by the Minister, during or since the end of the financial year, or continuing from previous financial years	71 (<i>nil to report</i>)
s.12(b)(i)(ii)(iii)	Government policies under section 28 of the CAC Act	67-68
Disclosure requirements for Government Business Enterprises		
s.13(1)(a)(i)	Significant changes in overall financial structure and condition	34-41, 92-127
s.13(1)(a)(ii)	Material events causing financial information not to be indicative of future results	<i>Nil to report</i>
s.13(b)	Dividends paid or recommended	40
s.13(c)(i)(ii)	Community service obligations	58-63, 87

Commonwealth Authorities and Companies (Report of operations) Orders 2005 Division 3 – Specific information

SECTION	REPORTING REQUIREMENT	PAGE REFERENCE
Directors		
s.14(1)(a)	Directors details	74-76
s.14(1)(b)	Board meeting attendance	73, 77-79
Statement on governance		
s.15(1)	Governance practices	64-87
s.15(2)	Board committee details	77-79
s.15(3)(b)	Reviewing board performance	79
s.15(3)(d)	Risk management	85
s.15(3)(e)	Ethical standards	70, 85-86
Indemnities and insurance premium officers		
s.16(1)(a)(b)	Indemnity for officers or premiums paid	86

Commonwealth Authorities and Companies (Report of operations) Orders 2005 Division 4 – Miscellaneous

SECTION	REPORTING REQUIREMENT	PAGE REFERENCE
Other statutory requirements		
s.18	Commonwealth Disability Strategy	87
s.74 (<i>Occupational Health and Safety (Commonwealth Employment) Act 1991</i>)	Occupational Health and Safety	56
s.8(1) <i>Freedom of Information Act 1982</i>	Freedom of information	86
s.516A <i>Environment Protection and Biodiversity Conservation Act 1999</i>	Environmental sustainability development	61-63

As a statutory authority, DHA is not required to fulfill the *Requirements for Departmental Annual Reports* approved by the Joint Committee of Public Accounts and Audit under subsections 63(2) and 70(2) of the *Public Service Act 1999*, however in an effort to improve transparency this has also been undertaken.





Acronyms and abbreviations





ADF	Australian Defence Force
AFR	Application For Relocation
ANAO	Australian National Audit Office
APS	Australian Public Service
AWA	Australian Workplace Agreement
BAC	Board Audit Committee
CA	Certified Agreement
COO	Chief Operating Officer
CSIA	Customer Service Institute of Australia
CSIG	Corporate Services Infrastructure Group
Customs	Australian Customs Service
DCO	Defence Community Organisation
DE	Directorate of Entitlements
Defence	Department of Defence
DFA	Defence Families of Australia
DHA	Defence Housing Australia
DPE	Defence Personnel Executive
DSNSG	Defence Special Needs Support Group
EBIT	Earnings Before Interest and Tax
FCP	Fraud Control Plan
FOI	Freedom of Information
FRA	Fraud Risk Assessment
FMOs	Finance Minister's Orders
GBE	Government Business Enterprise
HMC	Housing Management Centre
HMI	Housing Management Instructions
ICT	Information and Communication Technology

IT	Information Technology
ITS	Information Technology Services
KPI	Key Performance Indicator
LIA	Living In Accommodation
L&D	Learning and Development
MWD	Member With Dependants
MWOD	Member Without Dependants
OBS	Off Balance Sheet
OH&S	Occupational Health and Safety
PID	Personal Information Digest
PMS	Property Management System
PP&E	Property Plant and Equipment
PWC	Public Works Committee
RA	Rent Allowance
RAAF	Royal Australian Air Force
ROA	Return On Assets
ROE	Return On Equity
SCG	Staff Consultative Group
SES	Senior Executive Service
SDM	Service Delivery Model
SLB	Sale and Leaseback
SOP	Standard Operating Procedure
SVA	Shareholder Value Added
TER	Tax Equivalent Regime
TMS	Tenant Management System
TPMS	Tenant Property Management System
WFML	Westpac funds Management Ltd.



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