



Statement of Corporate Intent

2016–17

12 August 2016





Further information please contact:

Company Secretary

26 Brisbane Avenue

Barton ACT 2600

T: 02 6217 8444



Contents

- About DHA..... 5
- Corporate intent..... 8
- Environment 9
- Performance 11
- Capability 14
- Primary activities 15
- Risk oversight and management..... 16
- Abbreviations and acronyms..... 18



This page intentionally left blank

About DHA

Mission and vision

We will strive for excellence in the provision of housing and related services to members of the Australian Defence Force (ADF) and their families by:

- supplying quality, integrated and community housing
- achieving an exceptional degree of client and customer satisfaction
- providing quality, environmentally sound and economic housing that fits community needs
- achieving financial results that meet or exceed shareholder and investor expectations.

Role and responsibilities

Our primary purpose is to provide housing and related services to ADF members and their families in accordance with the *Defence Housing Australia Act 1987* (DHA Act) and service agreements with the Department of Defence (Defence). In doing so, we:

- manage approximately 19,000 properties in all states and territories of Australia
- allocate DHA-managed properties to around 16,500 ADF members
- administer Rent Allowance (RA) to around 14,000 ADF members
- allocate on-base accommodation for around 11,000 ADF members (31,000 rooms/40,000 beds).

Our portfolio comprises modern freestanding houses, townhouses and apartments in selected locations. The majority are located off-base, integrated throughout the local community, in close proximity to Defence bases and establishments, as well as a range of amenities and services.

We maintain the currency of our portfolio by upgrading existing properties (on and off-base), sourcing new properties through a variety of construction activities, acquiring properties through traditional real estate markets and directly sourcing and leasing properties from private owners.



Governance

The legislative framework we operate in largely informs our governance structure. The most influential pieces of legislation are the DHA Act and the *Public Governance Performance and Accountability Act 2013* (PGPA Act).

DHA Act

The DHA Act established DHA as a statutory authority¹ and sets out our functions, powers, corporate structure and delegations.

PGPA Act

Under the PGPA Act, DHA is both a corporate Commonwealth entity² and Government Business Enterprise (GBE)³. This Act sets the standards of governance, performance and accountability for all GBEs and imposes specific duties on our Board of Directors and Executive Group relating to the use and management of resources.

The *Commonwealth Government Business Enterprise and Oversight Guidelines* (GBE Guidelines) provide additional guidance on board and corporate governance, financial governance, planning and reporting.

A principal objective is that we add to shareholder value by making commercial returns and paying commercial dividends. We must deliver on this requirement whilst also fulfilling our functions under the DHA Act.

¹ A body created by the Parliament for a public purpose.

² A corporate body, established by a law of the Commonwealth but legally separated from it. Corporate Commonwealth entities can act in their own right and exercise certain legal rights such as entering into contracts and owning property.

³ A body created when government wishes to conduct some form of commercial enterprise at arm's length from usual departmental structures and processes.

Financial management

We do not receive funding directly from the Federal Budget. We fund our operations through:

- the receipt of fees and charges from Defence for our services
- generating revenue from:
 - selling and leasing back properties through our Sale and Leaseback (SLB) program
 - the disposal of excess land and finished product from our developments
 - the disposal of properties that no longer meet minimum Defence standards or requirements.

We are a full tax paying entity in relation to federal taxes (e.g. corporate income tax, goods and services tax and fringe benefit tax). We also pay state and territory based taxes (e.g. stamp duty and land tax) or an equivalent in accordance with competitive neutrality requirements.

We are required to maintain a strong financial position and to meet shareholder return obligations, including the payment of dividends to Government based on 60 per cent of Net Profit After Tax (NPAT).

Standard & Poor's Rating Services conduct an annual credit rating assessment of DHA. Our most recent corporate credit rating was AA+/Negative/A-1+ (from stable) after a similar action on the Commonwealth of Australia. Our stand-alone credit profile is BBB+ (one notch above the BBB level specified in the GBE Guidelines).

Organisational structure

We sit within the Defence portfolio and report to the Minister for Defence and the Minister for Finance as Shareholder Ministers. Responsibility for operational matters is typically delegated to an Assistant Minister.

A Board of Directors is accountable, through our Shareholder Ministers, for the proper and efficient performance of our functions.

Our Board comprises nine directors:

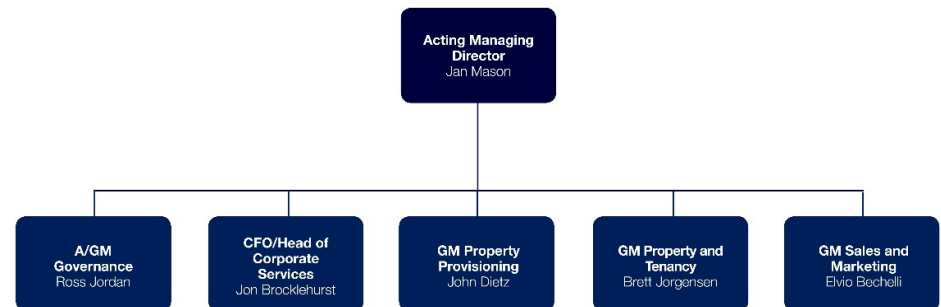
- a Chairman appointed by the Shareholder Ministers
- a director nominated by the Chief of the Defence Force
- a director nominated by the Secretary of Defence
- a director nominated by the Secretary of Finance
- four commercial directors with expertise in residential property, real estate, building, social planning or finance
- the Managing Director appointed by the Board (the only Executive Director).

The Board makes decisions on organisational direction and strategy, largely through our Corporate Plan which is updated annually to set priorities for the next four years.

An Executive Group, comprising the most senior staff in the organisation, supports the Managing Director in fulfilling our role. The Group's broad purpose is to provide leadership, guide performance, implement and deliver against the Corporate Plan and ensure accountability of our activities.

As recommended by the Forensic Review of DHA's operations, the structure has been independently reviewed and is likely to change during the period of this Statement of Corporate Intent (SCI) to flatten our organisational structure and increase the number of direct reports to the Managing Director.

Top level organisational structure (as at 12 August 2016)



Corporate intent

Introduction

This SCI sets out our goals, enabling strategies and key performance indicators (KPIs) for 2016–17. In line with our role, we will:

- continue to provide ADF members and their families with quality properties in close proximity to Defence establishments and excellent customer service
- maintain a robust financial position through increased focus on business efficiency, thus enabling us to add to shareholder value and deliver a solid return to Government.

Purposes

Our primary functions and responsibilities are:

1. Housing solutions for ADF members and their families

We provide housing solutions to ADF members and their families in accordance with contractual arrangements with Defence, including the Services Agreement for Members With Dependents (MWD) or Defence families, the Members Without Dependents (MWOD) Choice Accommodation (MCA) Agreement for MWODs/singles and the Living-in Accommodation program.

2. Property, tenancy and lessor management

We provide housing allocation and tenancy management services to ADF members and their families, and property management services to lessors. We establish leases through the SLB program, extend existing leases and, where required, negotiate new leases to meet provisioning requirements.

3. Property sourcing

We buy land to meet our provisioning obligations to Defence, construct and, as required, purchase and/or lease new and established houses. We also provide on-base and regional and/or remote housing services to Defence.

4. Portfolio management

We generate capital through our SLB program where we sell property on long term leaseback arrangements. In addition, we sell excess land and surplus properties that no longer meet Defence minimum standards or requirements. We also retain ownership of and manage a portfolio of housing in strategic locations around Australia.

5. Generate shareholder value

We deliver value-for-money services to Defence and seek to generate sufficient revenue to enable us to continue achieving our mandated role on a commercially sustainable basis. We do this while continuing to maintain an operational service delivery model, sound governance practices, a skilled and productive workforce, and a safe workplace that delivers high quality and professional outcomes.

Environment

Outlined below are key external and internal environmental factors that will affect or influence our performance during the period of this SCI.

They are considered further in the risk section of this SCI.

1. Housing solutions for ADF members and their families

Defence housing forecast (DHF)

The DHF outlines the Defence housing requirement in the four-year period of our Corporate Plan on which this SCI is based. After we negotiate with Defence, the DHF becomes the basis for an agreed provisioning schedule.

However, Defence sometimes changes its geographical provisioning requirements outside the provisioning schedule due to operational reasons or the demographic composition of the ADF. These are factors over which we have no control. We engage closely with Defence to ensure adequate warning and forecasts are given but due to operational imperatives this is not always possible.

Renegotiation of agreements with Defence

A major review of the Services Agreement commenced in July 2016. This represents an important opportunity to address practical issues arising from the current Agreement so that future arrangements work better for both parties. Defence has also confirmed its willingness to review the MCA Agreement as part of a scheduled review in 2017. The outcome of these negotiations is partly within our control.

2. Property, tenancy and lessor management

Defence housing policy

Changes to Defence housing policy may have significant ramifications for DHA and the way we manage properties and tenancies. These are only partially within our control. Through close engagement, we seek to assist Defence in its considerations to achieve the best outcomes for Defence, ADF members and DHA.

3. Property sourcing

Development activities

We source high quality, well located properties through our development activities. Primary risks associated with property development relate to the approvals process, project/contractor management and market conditions. These risks are partially within our control and we have robust and mature risk identification and management processes. The extent of reliance on development activities in this SCI is reduced relative to the previous SCI.

Availability of land and properties suitable for acquisition and/or direct leasing

The availability of well-located and affordable land and property for Defence housing continues to be an ongoing challenge in particular regions. We have acquired and hold land in strategic locations and continue to foster relationships with state/territory governments and their responsible agencies, local councils and developers. More detail about how we mitigate this is detailed in the risk section of this SCI.

4. Portfolio management

Interest rates and investor demand

Despite historically low and stable interest rates, investor demand has been impacted by property market conditions and availability of credit to investors. This impacted our SLB program unfavourably in 2015–16 and may continue to impact the program during the period of this SCI subject to the broader economic environment. These factors are beyond our control although we have the ability to vary our sales program to respond to changing conditions.

Portfolio ownership strategies

It may be beneficial for the longer term security of provisioning to Defence for DHA to retain ownership of a greater portion of the portfolio in Sydney and, to some degree, potentially other locations such as Canberra and Brisbane.

We have identified a number of strategies within our control that may enable some increase. Further review of our capital management strategy may also assist.

5. Generate shareholder value

Financial returns

Our financial returns are largely impacted by rental yields, sales prices and development margins. These are not within our control, however, we have the ability to vary or scale programs to respond to changing conditions.

Capital management strategy

Alternative funding options may support our business model and should be considered further. Property ownership issues are closely linked to our capital funding strategy and funding options. For example, a substantial increase in the proportion of ownership in the Sydney area will likely require us to access alternative funding arrangements. These are partially within our control and further review and analysis of available options will be undertaken throughout the period of this SCI.

Attracting and retaining skilled personnel

Attracting and retaining residential property industry professionals is fundamental to our success and a factor that we have only partial control of within the public sector context. Our staff are employed under the *Public Service Act 1999*.



Performance

In the period of this SCI, we will:

- continue to manage a portfolio of approximately 19,000 properties for ADF members and their families (MWDs and MWODs/singles)
- acquire, construct and direct lease 1,057 new properties
- continue a program of upgrading and replacing Defence-owned housing
- increase the number of off-base properties available to MWOD and single ADF members.

Customer satisfaction levels are derived from surveys we conduct of ADF members and lessors.⁴

We will also meet our community service objective of supporting 10 Defence-related community programs per financial year of this Plan.⁵

We will achieve our purposes through a number of activities outlined on **pages 12 and 13**.



⁴ ADF member satisfaction KPIs may differ from the more detailed KPIs contained in the Services Agreement and MCA Agreement.

⁵ Board approved obligation that departs from commercial decisions in support of Defence-related organisations and activities.

1. Housing solutions for ADF members and their families

KPI measures

Properties provisioned for Defence (MWD)

Properties provisioned for Defence (MCA)

Members satisfied with their service residence

Members satisfied with overall customer service

Activities

- Meet our obligations in relation to the Services Agreement and MCA Agreement between DHA and Defence.
- Deliver adequate and suitable housing to Defence and ADF members.
- Improve efficiency and effectiveness of business practices and service delivery.
- Provide a service to ADF members which assists in the relocation process during the posting cycle.

2. Property, tenancy and lessor management

KPI measures

Members satisfied with completed maintenance

Lessors satisfied with overall customer service

Activities

- Provide housing services that support Defence and ADF member requirements.
- Provide housing services that support lessor requirements.

3. Property sourcing

KPI measures

New properties constructed, purchased or leased (MWD)

New properties constructed, purchased or leased (MCA)

Activities

- Provide a portfolio of properties that meets the needs of ADF members.
- Continue to be recognised as an industry leader in innovation, diversity and sustainability.

4. Portfolio management

KPI measures

Revenue from the Sale and Leaseback (SLB) program

Revenue from the disposal of surplus properties

Revenue from the sale of surplus development land and property

Activities

- Sale of surplus land and properties to generate capital for DHA.
- Retention and management of the investment portfolio of housing in strategic locations.

5. Generate shareholder value

KPI measures

Financial performance

Total shareholder return

Dividend yield

Dividend payout ratio

Earnings before interest and tax

Earnings before interest, tax and depreciation

Return on equity

Net profit after tax

KPI measures

Business efficiency

Operating margin

Return on capital employed

Leverage/solvency

Gearing ratio

Interest cover

Current ratio

Liquidity ratio

Staff

Staff retention and turnover rate

Staff satisfaction

Total recordable injury frequency rate

Wages expense ratio

Activities

- Operate the business on a commercially sustainable basis.
- Maintain a sustainable financial position.
- Maintain and develop a high quality workforce who work in an enjoyable and safe environment.
- Operate efficiently, adopt and comply with appropriate policies and operate with strong corporate governance arrangements.

Capability

We will implement the following key strategies and plans during the period of this SCI to achieve our purpose.

1. Housing solutions for ADF members and their families

- Provide a portfolio of properties to meet Defence's housing requirement for MWDs.
- Provide a portfolio of properties to meet Defence's housing requirement for MWODs/singles.
- Provide housing in response to Defence requirements advised annually in the DHF and the MCA forecast.
- Refurbish/upgrade the houses at Seaward Village (WA) in accordance with the Government's decision.
- Continue an upgrade/construction program of Defence-owned housing to meet Defence's new classification standards by mid-2017.

2. Property, lessor and tenancy management

- Generate revenue from property rental revenues.
- Receive property management fee revenues from Defence and lessors.
- Make rental payments to investors in line with market rent.
- Undertake repairs and maintenance on DHA-managed properties.

3. Property sourcing

- Meet the provisioning schedules agreed with Defence.
- Continue a program of investment in Defence-owned housing.⁶
- Continue a program of innovation in the housing product we provide to Defence.

4. Portfolio management

- Generate revenue from the SLB program.
- Generate revenue from the disposal of properties that are surplus to requirements.
- Generate revenue from excess development land and apartment sales.
- Identify locations where there are critical housing issues for ADF members and their families and retain them as investment stock where possible.

5. Generate shareholder value

- Deliver solid financial returns.
- Provide dividends based on a payout ratio of 60 per cent of NPAT.
- Provide a Shareholder Value Added measure (that incorporates the capital growth on our portfolio based on market values).
- Continue to provide a number of programs and practices that contribute to successful delivery of our performance and improve service delivery, governance and people management.

⁶ An ongoing priority is the Northern Territory, which is home to more than half of all Defence-owned properties. Major projects continue at RAAF Base Darwin and RAAF Base Tindal.

Primary activities

We have identified the following primary activities for 2016–17:

1. Provide a portfolio of 17,269 properties for ADF members and their families (including DHA-owned properties, leased properties and Defence on-base and off-base dwellings).
2. Provide a portfolio of 1,280 off-base properties for MWOD/single ADF members.
3. Construct or acquire 810 new properties for MWDs.
4. Construct or acquire 247 new properties for MWODs/singles.
5. Manage development projects valued in excess of \$1 billion.
6. Refurbish/upgrade the houses at Seaward Village (Swanbourne, WA).
7. Continue to achieve and/or exceed all KPIs.
8. Implement new technology systems and processes to deliver improved services.
9. Provide high quality services that support DHA's lessors.
10. Continue to negotiate the purchase of surplus Defence land likely to be suitable for future ADF member housing.
11. Strengthen and broaden relationships with non-government entities and state/territory and local governments in order to provide housing in close proximity to Defence bases for ADF members and their families.
12. Preserve balance sheet strength by meeting key financial targets.
13. Meet our SLB program revenue targets.
14. Deliver and maintain a harmonious workplace culture where staff feel engaged, valued, skilled and capable.
15. Continue to develop a high performance management team with strong and effective leadership.
16. Maintain a work health and safety program that centres on prevention and seeks continual improvement.
17. Continue to maintain a service delivery culture with an internal and external focus.

Risk oversight and management

The most significant risks to DHA achieving our purposes and performance during the period of this SCI are:

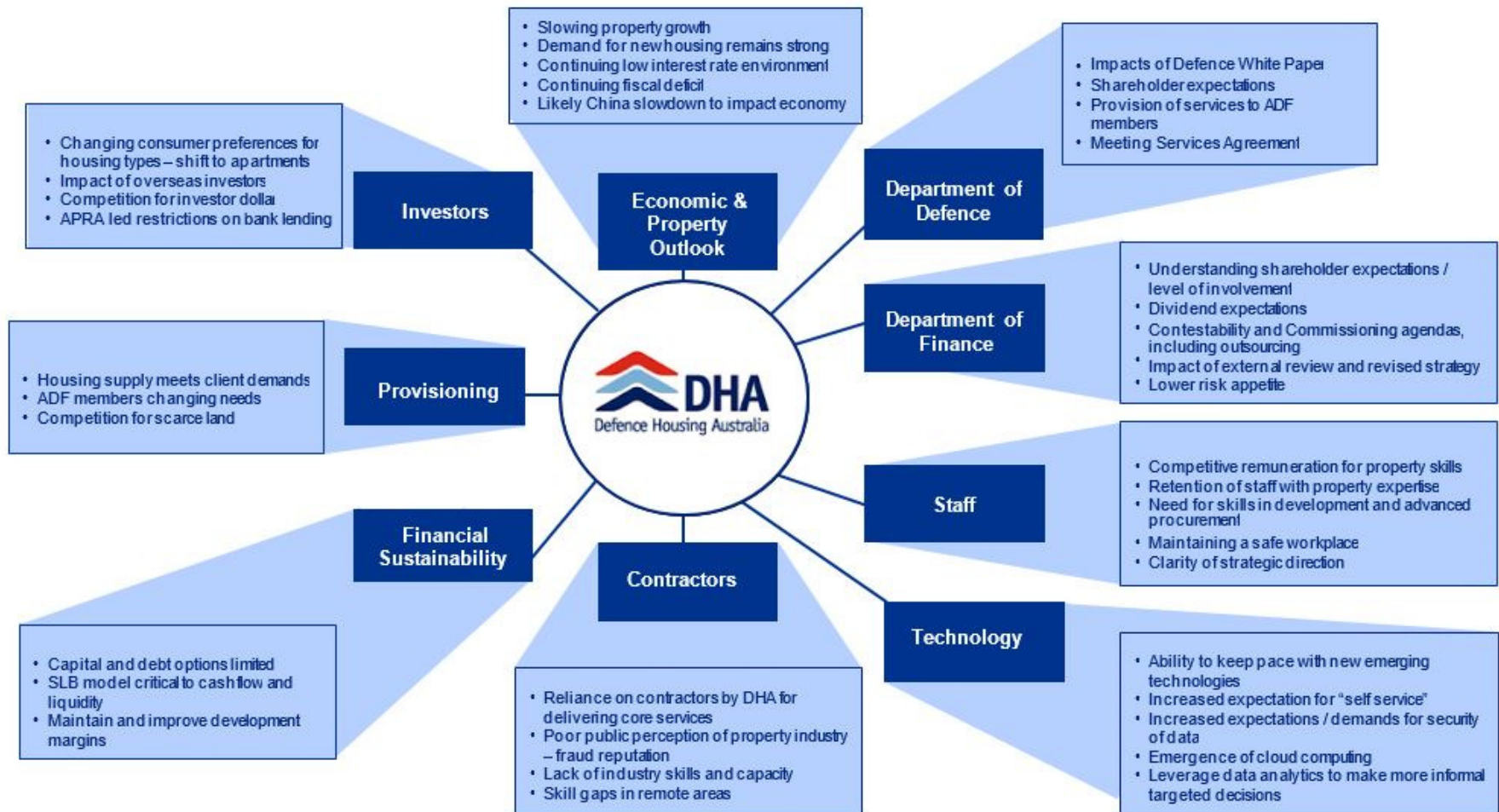
- meeting contractual requirements of the Services Agreement and the MCA Agreement, in particular, suitable housing in Sydney
- proactively managing relationships with key stakeholders, ADF members and lessors
- sourcing cost effective and suitably located land and housing for ADF members that meets Defence's provisioning requirements
- reliance on the SLB program to fund our ongoing operations
- achieving financial targets (profitability and Shareholder return), and operate on a commercially sustainable basis.

A strategic risk assessment is produced annually and approved by our Board of Directors. The report identifies the risks in relation to internal and external pressures and how these are likely to impact DHA. Risk mitigation strategies have also been developed, implemented and are continually reviewed.

The diagram on **page 17** provides an environmental scan of key stakeholders and perspectives from which key risks to business performance have been identified.



The diagram below provides an environmental scan of key stakeholders and perspectives from which key risks to business performance have been identified.



Abbreviations and acronyms

ADF	Australian Defence Force
DHA	Defence Housing Australia
DHF	Defence Housing Forecast
Defence	Department of Defence
Finance	Department of Finance
KPI	Key performance indicator
MCA	Member without Dependents Choice Accommodation
MWD	Member with Dependents
MWOD	Member without Dependents
NPAT	Net Profit After Tax
PGPA	<i>Public Governance, Performance and Accountability Act 2013</i>
RA	Rent Allowance
SCI	Statement of Corporate Intent
Singles	Member without Dependents or Member with Dependents - Unaccompanied
SLB	Sale and Leaseback

The background is a solid blue color with several large, overlapping, wavy shapes in a lighter shade of blue, creating a sense of movement and depth. The shapes are reminiscent of waves or stylized hills.

dha.gov.au