

Statement of Corporate Intent

2017–18 to 2020-21

28 July 2017

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Acronyms and abbreviations

ACT	Australian Capital Territory	MWD	Member with Dependants
ADF	Australian Defence Force	MWD(U)	Member with Dependants (Unaccompanied)
APS	Australian Public Service	MWOD	Member without Dependants
CSIA	Customer Service Institute of Australia	NPAT	Net Profit After Tax
Defence	Department of Defence	NSW	New South Wales
DHA	Defence Housing Australia	NT	Northern Territory
DHA IML	DHA Investment Management Limited	PGPA Act	Public Governance, Performance and Accountability Act 2013
DHA Act	Defence Housing Australia Act 1987	QLD	Queensland
DHF	Defence Housing Forecast	RA	Rent Allowance
Finance	Department of Finance	RBCH	Rent Band Choice Housing
GBE	Government Business Enterprise	SA	South Australia
GBE Guidelines	Commonwealth Government Business Enterprise and Oversight Guidelines	S&P	Standard & Poor's
Hon	Honourable	SLB	Sale and Leaseback
ISO	International Organization for Standardization	TAS	Tasmania
KPI	Key Performance Indicator	VIC	Victoria
LIA	Living-in Accommodation	WA	Western Australia
MCA	MWOD and MWD(U) Choice Accommodation	WHS	Work Health Safety

About DHA

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 18,100 properties in all states and territories of Australia
- allocate DHA-managed properties to around 7,000 ADF members
- administer Rent Allowance (RA) to around 14,000 ADF members
- manage online booking system for 35,000 rooms on ADF bases.

Vision

Great housing for Defence members and their families in Australia.

Mission

- Quality housing.
- Excellent service.
- Sustainable finances.

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 commercial rent, fees and charges from Defence for our services
- generating revenue from:
 - selling and leasing back properties through our SLB program
 - the disposal of excess land/finished properties from our developments
 - the disposal of properties that no longer meet minimum Defence standards or 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 (S&P) Global Ratings conducts an annual credit rating assessment of DHA, reflective of their assessment of the effect of government ownership and the level of support implied by that ownership.

The S & P report issued on 21 December 2016 confirmed DHA's corporate credit issuer rating of AA+ and stand-alone credit profile rating as BBB+. This credit profile rating is one notch above the target credit rating for GBEs 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 delegated to the Minister for Defence Personnel.

A Board of Directors is the accountable authority for DHA under the PGPA Act. The Board is responsible, through the Shareholder Ministers, for the proper and efficient performance of our functions.

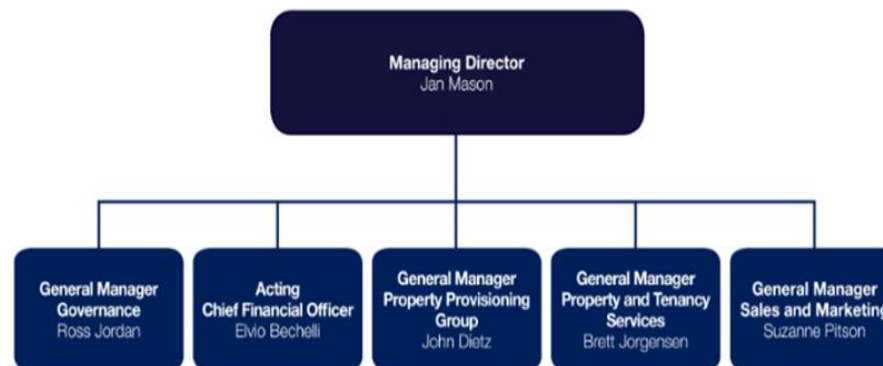
Our Board comprises nine directors:

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

The Board makes decisions on organisational direction and strategy, as outlined in 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 for our activities.

Senior Executive Group as at 1 July 2017



Corporate Intent

Introduction

This SCI sets out our goals, enabling strategies and key performance indications (KPIs) for 2017-18. In line with our role, we will:

- continue to provide Australian Defence Force (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 MWDs in accordance with the Services Agreement and MWOD/MWD(U) in accordance with the MCA Agreement. We also explore and offer additional services to Defence, ADF members and their families to better meet their needs and desires.

2. Sourcing suitable properties

To meet our provisioning obligations to Defence, we develop, or source from other developers, suitable land to construct housing and purchase or lease new and established homes. We also provide on-base regional and remote housing services to Defence through a Defence-funded housing program.

3. Property management and tenancy services

We allocate housing and administer Rent Allowance (RA) for ADF members in accordance with Defence policy. We deliver end-to-end property and tenancy services to our Defence customers throughout the life of their tenancies. We provide transparent and cost effective repairs and maintenance services to investors as part of whole-of-life asset management.

4. Housing portfolio management

We contribute to Defence operational capability by strategically managing a national portfolio of high quality homes. We safeguard and prioritise portfolio attributes that are fundamental to the needs of Defence and ADF members and their families. We achieve this through dynamic and responsive portfolio planning activities combined with operating a portfolio of investment properties in locations of strategic significance to Defence.

5. Investment products and services

We generate capital through our SLB program; where we sell property on long term leaseback arrangements. To best target our sales strategies, we undertake marketing and research to measure satisfaction with the services and products we provide. In addition, funding is also sourced from sales of surplus assets no longer required by DHA. We continue to investigate alternative funding and investment options that may better meet DHA's requirements and offer attractive investment options to a broad range of investors.

6. 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 high quality and secure IT platform, a skilled and productive workforce, and a safe workplace that delivers high quality 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. The DHF is the contractual basis for an agreed provisioning schedule with Defence.

Due to the demographic and operational complexity of the ADF, Defence sometimes changes its geographical provisioning requirements outside the provisioning schedule. These are factors over which we have no control. By working closely with Defence we aim to ensure we are provided with sufficient notice for change within the contractual framework. However, due to operational requirements this is not always possible.

In recent years there has been an increase in numbers of ADF members being recognised as MWD due to de facto relationships. While this prompted a change in housing entitlement for ADF members, Defence does not fund the relocation from RA to a DHA property. Therefore, in many cases, members elect to remain in RA. This has reduced the provisioning requirement for DHA housing in support of the DHF.



Renegotiation of agreements with Defence

A major review of the Services Agreement commenced in July 2016 and is expected to be completed in 2017. This major review has provided an opportunity to address contemporary issues arising from the current Services Agreement so that future arrangements work better for both parties. A review of the MCA Agreement is also scheduled in 2017.

2. Sourcing suitable properties

Development activities

We deliver high quality, well located properties through our development activities. Primary risks associated with property development relate to market conditions and project/contractor management. We have robust and mature risk identification and management processes to assist in the mitigation of these risks.

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

The availability of well-located and affordable property and development opportunities for Defence housing will continue to be a challenge in some regions. Competitive market conditions and short supply of land and suitable properties are a challenge for our business model. We have had success in acquiring development land in some growing Defence locations and will continue to foster relationships with state/territory governments and their responsible agencies, local councils, developers and other industry participants.

3. Property management and tenancy services

Communicating with our customers

We strive to meet the changing needs of ADF members and their families. As technology continues to evolve, we need to understand and meet our customers' desires for preferred communication channels. Based on recent historical events, external factors such as privacy and security will remain forefront of our customers' needs.

Defence policy

The management and administration of Commonwealth funds, specifically member contributions and debts, will remain an aspect to be continually monitored. Changes to Defence policy and systems will also influence DHA's service delivery requirements.

4. Housing portfolio management

Urban growth and densification

Suitable land for Defence housing is becoming increasingly scarce. The sprawling edges of urban growth have meant new development boundaries further away from Defence establishments in some major locations. High house prices and competitive market conditions, particularly in Sydney, will require strategies to overcome current provisioning hurdles. Meanwhile, balancing Defence homes with the trend of urban densification continues to undergo a cultural and lifestyle transition among our client and customers.

New technologies

Rapid advancement in predictive analytics and data modelling technologies will enable us to know our customers better and to deliver dynamic and responsive portfolio planning solutions for the business. Spatial mapping technologies will also assist us with greater portfolio management outcomes.

Changing customer demographics

The changing profile of Defence members' family composition and increasing numbers of recognised de facto relationships need to be a key factor when understanding property provisioning requirements to maximise occupancy levels of DHA properties.

5. Investment products and services

Interest rates and investor demand

Regulatory action around the availability of credit to investors and continued uncertainty with regards to taxation arrangements, in particular the limiting of depreciation claims on certain investment properties as announced in the Federal Budget, may impact our sales programs during the period of this SCI.

We are also operating in an environment where there are potential future interest rate increases and there is risk around possible further lending restrictions imposed by regulators. There is a low growth economic outlook that could impact on both investor confidence and our ability to meet revenue and return targets. These factors are not within our control, however, we have the ability to vary our sales program to respond to changing conditions.

In the year ahead, the SLB program also faces challenges in the housing market. In May 2017, experts in property data analytics Core Logic, commented on the housing markets particularly those in Sydney and Melbourne: *“Importantly, the trend rate of growth shows the pace of capital gains have moderated from recent highs; this slowdown is occurring against a backdrop of rising mortgage rates, softer auction results, rising advertised stock levels, lower housing market sentiment and slowing investment activity”*.

6. Generate shareholder value

Financial returns

The financial returns incorporated within our Corporate Plan are subject to the property market and the general economic environment. Our financial returns are largely impacted by rental growth and 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.

Returns are currently being impacted by historically low rental yields, low or negative rental growth and declining capital values in some regional markets.

Capital management strategy

As identified in our 2016–17 Corporate Plan, 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. Our strategy is to retain control or ownership of a greater portion of our provisioning portfolio in key locations. Key locations will likely require us to access alternative funding arrangements. 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 18,100 properties for ADF members and their families (MWD and MCA)
- acquire, construct and direct lease approximately 3,780 new properties
- continue a program of upgrading and replacing Defence-owned housing
- increase the MCA portfolio (the number of off-base properties available to MWOD and MWD(U) members.

Planned performance indicators related to our purposes are summarised in **Table 1**⁴.

Customer satisfaction levels are derived from surveys we conduct of ADF members and investors.⁵

Table 1: KPI targets 2017-18

	2017-18
Housing solutions for ADF members and their families	
Members satisfied with their service residence (SR)	>80%
Members satisfied with overall customer service	>80%
Sourcing suitable properties	
Property additions (MWD)	1,892
Property additions (MCA) ⁶	163
Property management	
Member satisfaction with maintenance on occupation	>80%
Members satisfied with completed maintenance	>90%
Housing portfolio management	
Properties provisioned for Defence (MWD)	16,440
Properties provisioned for Defence (MCA)	1,319
Investment products and services	
Investors satisfied with overall customer service	>90%
Staff	
Staff turnover rate	<15%
Staff satisfaction	>75%
Total recordable injury frequency rate (TRIFR)	<11
Wages expense ratio	6.6%

4. Financial related KPIs have not been included in the SCI as per advice from the Department of Finance to protect DHA's confidential information.

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

6. Net additions after development disposals removed.

1. Housing solutions for ADF members and their families

KPI	
Members satisfied with their service residence (SR)	>80%
Members satisfied with overall customer service	>80%

Activities

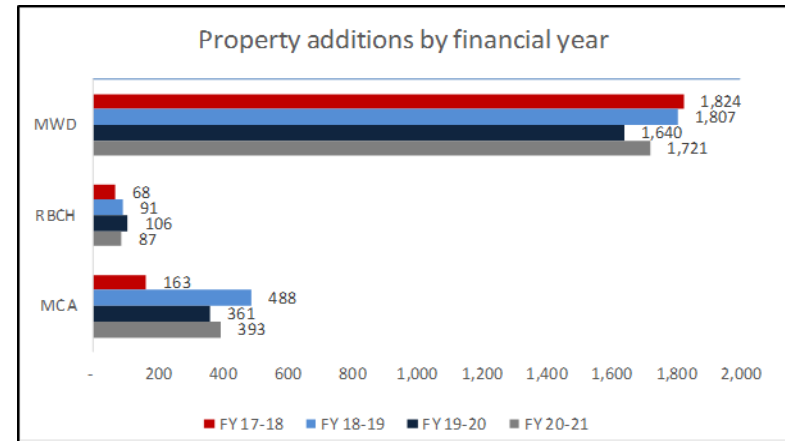
- Deliver adequate and suitable housing solutions to Defence and ADF members
- Provide housing services that support Defence and ADF requirements
- Provide a service to ADF members that assist in the relocation process during the posting cycle

2. Sourcing suitable properties

KPI	
Property additions (MWD)	1,892
Property additions (MCA) ⁶	163

Activities

- Deliver a portfolio of properties that meeting the needs of Defence, ADF members and their families
- Continue to be recognised as an industry leader in innovation, diversity and sustainability



3. Property management and tenancy services

KPI	
Member satisfaction with maintenance on occupation	>80%
Members satisfied with completed maintenance	>90%

Activities

- Provide housing services that support Defence and ADF member requirements
- Continue the growth of the MCA portfolio nationally and ensure Defence satisfaction with MCA and RBCH products
- Strong governance of properties under strata management

6. Net additions after development disposals removed.

4. Housing portfolio management

KPI	
Properties provisioned for Defence (MWD)	16,440
Properties provisioned for Defence (MCA)	1,319

Activities

- Meet our obligations in relation to the Services Agreement and MCA Agreement between DHA and Defence
- Sale of surplus land and properties to general capital for DHA

5. Investment products and services

KPI	
Investors satisfied with overall customer service	>90%

Activities

- Improve investor satisfaction with DHA products and increase repeat sales
- Sale of properties to generate capital for DHA
- DHA brand position aligned across DHA with a common set of expectations, clearly defined and understood by members, current and potential investors and employees
- Support the achievement of annual capital raising target through the sale of properties through the property investment program

6. Generate shareholder value

KPI	
Staff turnover rate	<15%
Staff satisfaction	>75%
Total recordable injury frequency rate (TRIFR)	<11
Wages expense ratio	6.6%

Activities

- Operate the business on a commercially sustainable basis
- Maintain a sustainable financial position
- Maintain and develop a high quality workforce that works in an enjoyable and safe environment
- Operate efficiently, adopt and comply with appropriate policies and operate with sound 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 MCA forecast.

2. Sourcing suitable properties

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

3. Property management and tenancy services

In support of ADF capability and continuous business improvement, our strategic focus is to foster a workforce of engaged people who deliver consistent, contemporary, quality customer service in property and tenancy management. In order to achieve this, we will strive to:

- deliver effective business systems, supported by well-defined policies and processes
- build skills, knowledge and capability within our workforce

- provide consistent and quality services in line with contractual arrangements between Defence and DHA
- maximise revenue and manage budgets whilst preserving property assets

Investors

We seek to strengthen our relationship with investors and provide more comprehensive information on their property investment. We will improve our property management services to investors by:

- reviewing processes and systems to identify areas for improvement
- reviewing investor communication channels and providing timely and transparent information on the management of properties.



4. Housing portfolio management

An integrated planning framework

We will synthesise all planning activities across DHA into an integrated planning framework. Under this framework, portfolio management intents will find direct support through business unit plans and will be represented in future Corporate Plans. We will introduce new KPIs for portfolio outcomes and have these measures cascaded through all tiers of the planning framework.

A futureproof portfolio and capital planning solution

We will design and implement a portfolio planning and analytics solution that integrates with our portfolio operations systems. This solution will be designed taking into consideration our evolving business complexity, and will enhance capital forecasting capability critical to our operations.

Capturing opportunities and building a culture of capability

We will develop a culture across DHA for investing in activities that help the business in building capabilities and capturing opportunities. The Senior Executive Group will lead an enterprise wide approach for evaluating and prioritising business projects which will enable the development of critical capabilities for DHA. A dedicated Project Management Office (PMO) will provide the support for embedding a comprehensive project management framework within the business.

Capital structure and portfolio ownership

We will seek to develop capital management strategies and funding options alternative to retail SLB. These initiatives are aimed to enhance DHA's business model to fund our provisioning activities, and relieve capital constraints in retaining higher portfolio ownership levels in major capital cities such as Sydney.

5. Investment products and services

SLB funding program

The SLB program will be the key funding source to enable delivery of this SCI.

The SLB targets were developed on a location-by-location basis and asset-by-asset basis with the support of an SLB forecasting model.

MCA program

In April 2017, Defence confirmed its continuing support of the MCA program to provide for the ADF as a mobile workforce.

We will continue to discuss how we can assist Defence with accommodation for single members of the ADF in locations where Defence has a requirement to replace aging, poorer quality live in accommodation (LIA).



6. Generate shareholder value

- Deliver solid financial returns.
- Pay dividends based on a payout ratio of 60 per cent of NPAT.
- 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.
- Implement a range of new measures and programs.

Service delivery, governance and people management

We strive to improve our business performance by:

- enhancing staff skills and capability to build a more resilient, agile and capable workforce
- maintaining and developing strong and effective leadership
- developing a people strategy to improve talent management, gender diversity, workforce planning, performance management, recruitment, and learning and development
- maintaining a WHS program that centres on prevention, builds capability and wellbeing, and seeks continual improvement
- working towards a single business management certified system incorporating safety, health and quality and updated standards
- further enhance existing technology systems to provide secure, resilient and reliable platforms for both internal staff and external stakeholders
- further leverage existing technology systems to broaden reach of electronic transactions to DHA stakeholders including Defence members, lessors, repairs and maintenance contractors
- improving business practices, including review/development of processes to ensure best practice and compliance.



Portfolio forecast summary

Table 2 and Table 3 are forecast summary of property additions and subtractions in the period of this SCI and the four years of our Corporate Plan:

Table 2: MWD capital program summary

	2017-18	2018-19	2019-20	2020-21	Total
Opening Balance	16,827	16,440	16,356	16,353	16,827
Acquisitions and constructions (including on-base housing)	596	651	547	535	2,329
Leasing additions	1,296	1,247	1,199	1,273	5,015
⁷Additions	1,892	1,898	1,746	1,808	7,344
Disposals, Defence hand-backs and other movements	257	122	33	59	471
Lease ends	2,022	1,860	1,716	1,891	7,489
⁸Subtractions	2,279	1,982	1,749	1,950	7,960
Closing Balance	16,440	16,356	16,353	16,211	16,211

Table 3: MCA capital program summary

	2017-18	2018-19	2019-20	2020-21	Total
Opening Balance	1,235	1,319	1,569	1,740	1,235
Acquisitions and constructions (including on-base housing)	96	437	231	247	1,011
Leasing additions	67	51	130	146	394
Additions	163	488	361	393	1,405
Disposals, Defence hand-backs and other movements	8	198	54	84	344
Lease ends	71	40	136	159	406
Subtractions	79	238	190	243	750
Closing Balance	1,319	1,569	1,740	1,890	1,890

7. Additions include purchases, constructions and leases, including new leases and lease extensions.

8. Subtractions include lease ends, hand-backs to Defence, disposals of stock no longer required and net difference of transfers in/out.

Risk oversight and management

The DHA Enterprise Risk Management Framework provides the Board and Senior Executives with a methodology for assessing emerging strategic risks with the potential to adversely impact achievement of its vision and purposes. The framework is underpinned by a Risk Management Policy, which has been developed in accordance with the Commonwealth Risk Management Policy and ISO 31000:2009.

The key strategic risk that present risks to the achievement of our vision and purposes during the period of this SCI are:

- Failure to meet contractual requirements of the Agreements with Defence. With particular mention of sourcing cost effective and suitable housing in Sydney
- Risk posed by threats to Cyber and Information security. Also further consideration to risk posed by threats to whole of organisation security framework incorporating people, physical, governance and IT.
- Failure to source cost effective and suitably located land and housing for ADF members that meets Defence's provisioning requirements
- Sustainability of current funding model (sole reliance on the SLB program) and risk to funding into the future.
- Failure to meet financial targets (primarily profitability and Shareholder return), and operate on a commercially sustainable basis

- Risk that DHA does not have the optimum workforce capacity and mix to meet the change in organisational strategy, structure, environment and future direction.
- Risk posed by the new leasing accounting standards (IFRS 16) implementation required by 1 January 2019 and the resulting impacts to DHA.

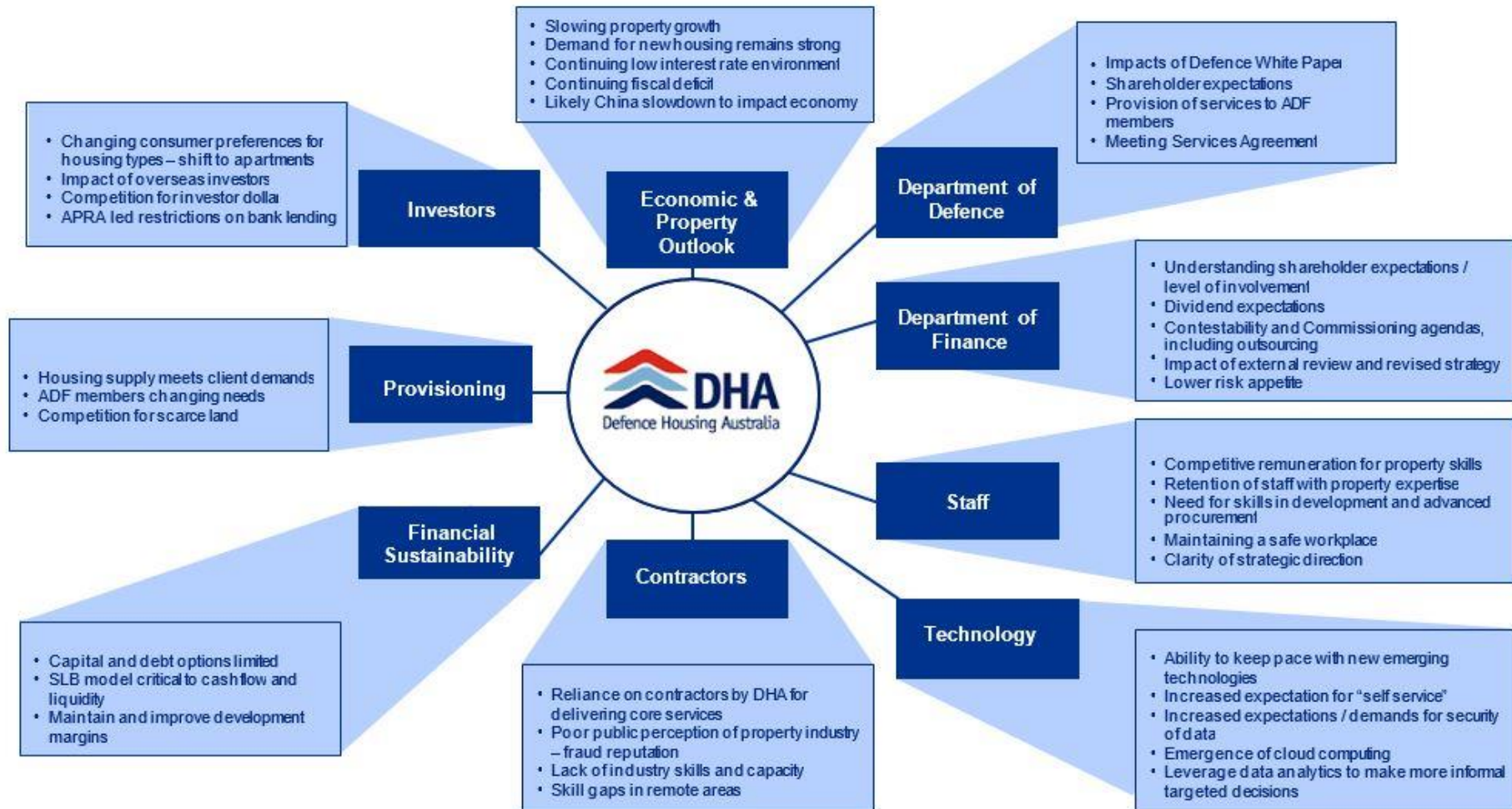
A strategic risk assessment is produced annually and approved by our Board. The report identifies the strategic risks and tactical risks in relation to internal and external pressures and how these are likely to impact DHA. Risk mitigation strategies have also been developed, implemented and are continually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

DHA is working to mature its capacity to understand and manage risk through the development and implementation of a more integrated Enterprise Risk Management approach.

The diagram on **page 21** provides an environmental scan of key stakeholders and perspectives from which key strategic risks to the achievement of DHA's vision and purposes have been identified.

Environmental Scan

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



dha.gov.au