

Statement of Corporate Intent

2018 - 19 to 2021 - 22

31 August 2018



Statement of preparation

Defence Housing Australia's Statement of Corporate Intent 2018 – 19 was prepared in 2018 and covers the periods 2018 – 2022, as required under paragraph 35(1)(b) of the Public Governance, Performance and Accountability Act 2013 (PGPA Act).

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Introduction

This Statement of Corporate Intent sets out Defence Housing Australia's (DHA) functions and corporate objectives, referred to as purposes in the *Public Governance Performance and Accountability Act 2013* (PGPA Act), for the 2018-19 reporting period. It sets the strategy for taking the business forward to ensure its ongoing sustainability and outlines how DHA will measure its performance and mitigate risks to achieve them.

DHA's vision is to provide quality housing for Australian Defence Force (ADF) members and their families. In this Statement of Corporate Intent, DHA has consolidated its functions and objectives into two purposes, which reflect its statutory role under the *Defence Housing Australia Act 1987* (DHA Act) and commercial obligations as a Government Business Enterprise (GBE):

1. Provide quality housing and related services; and
2. Provide a commercial rate of return to our shareholders.

It does the above to support the operational, recruitment and retention goals of the Department of Defence and as a GBE to contribute to the Australian economy by supporting productivity, job creation and Government policy objectives.

DHA is a unique business with a very different risk profile compared with other government entities. Its operations and success are affected by complex environmental and operational factors over which DHA has limited or no control. These include, but are not limited to, Department of Defence policy and forecasting, residential property market conditions, property development and construction approval processes and delivery schedules, and macroeconomic factors.

This Statement of Corporate Intent reflects continued focus on business improvement and risk management in relation to:

- › the provisioning of quality, well located accommodation for ADF members and their families in accordance with service agreements with Defence, especially in challenging markets such as Sydney (NSW);
- › the delivery of attractive property investment programs and improved services to investors to ensure that DHA can meet its future funding requirements;
- › revised funding arrangements with Defence in relation to selected provisioning, construction and upgrade activities to ensure DHA does not bear unsuitable financial risk;
- › continued review and improvement of DHA's governance arrangements and internal processes to ensure our operations are ethical, efficient and effective.

We are pleased to present our Statement of Corporate Intent 2018-19 and are committed to evolving the business to meet the future needs of our clients and the Government as owner of the business. We are proud to be leading an organisation that plays such a critical role in supporting Defence capability.

2017-18 in review - positioning DHA for the future

In 2017-18 DHA initiated a range of activities to improve its performance and mitigate strategic and operational risk, including:

- › assessing the impact of new accounting standards;
- › revising its capital management plan and provisioning approach;
- › reviewing its major development projects;
- › altering its approach to management of the property investment program;
- › reviewing the property investment program; and
- › commencing a holistic review of personnel and operating expenditure.

DHA will continue to work through the above initiatives in 2018-19. Key priorities identified to date include:

- › continuing to deliver strongly against the Approved Provisioning Schedule;
- › maintaining high customer satisfaction ratings amongst ADF members;
- › implementing new accounting standards for revenue and leasing;
- › acquiring development sites suitable for future provisioning activities;
- › maintaining awareness of prevailing property market conditions; and
- › ensuring that the customer experience for investors is positive to assist in alleviating any negative investor sentiment.

About DHA

Role and function

In accordance with the DHA Act 1987, DHA's main purpose is to provide adequate and suitable housing, and housing related services to members of the Australian Defence Force (ADF) and their families and services ancillary to this primary purpose.

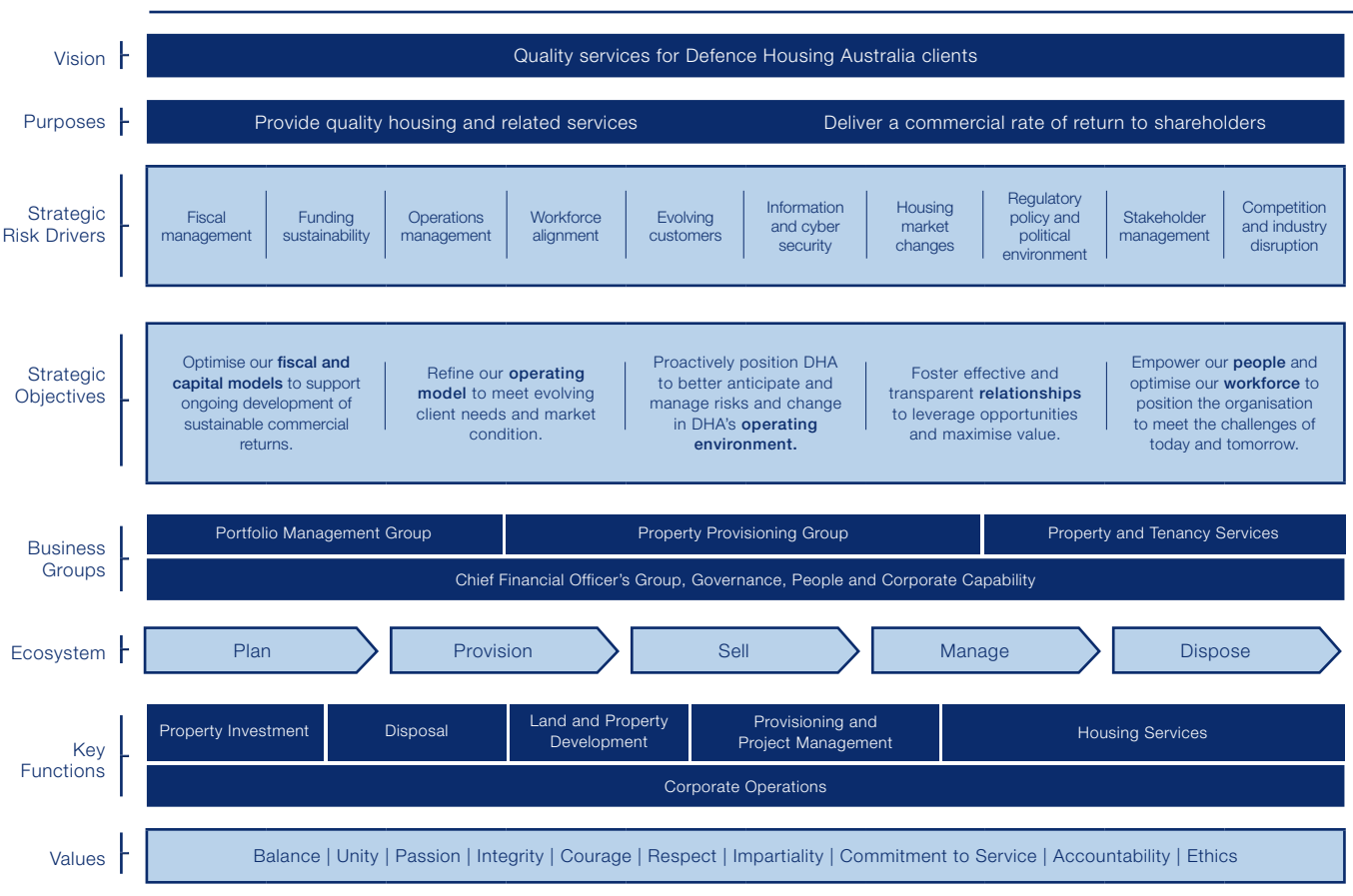
As a Government Business Enterprise (GBE), DHA must also operate commercially and deliver commercial returns to its shareholders – the Ministers of Defence and Finance acting on behalf of the Australian Government.

The 2018-19 period sees DHA's purposes revised to two focusing on the core outcomes it delivers to its primary customer, the Australian Defence Force and DHA's Shareholder Ministers:

- › provide quality housing and related services; and
- › provide a commercial rate of return to its shareholders.

DHA's Strategic Canvas provides a high-level, holistic overview of DHA's business and visually displays how DHA works to deliver on its vision and purposes. This year DHA's approach to planning began with consideration of the strategic risk drivers in delivering on its purposes and this has guided its organisational strategy and direction. Further to this, the infographic below displays vertically how DHA's strategy and operations have been derived from its vision and purposes all the way through to key functions that can be directly traced through to DHA's financial statements.

DHA strategic canvas

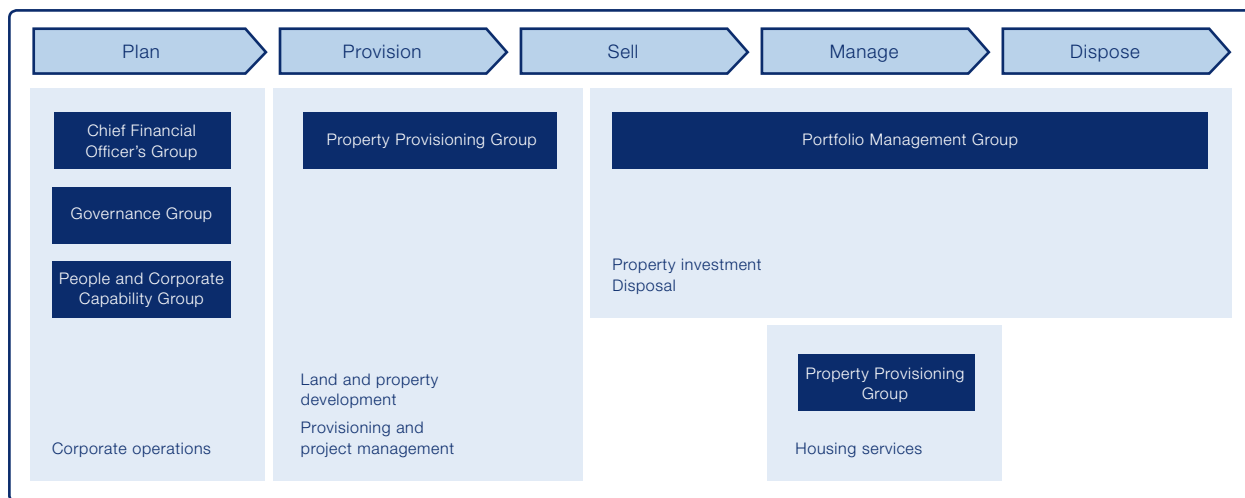


DHA is divided into four core areas responsible for delivery of its key functions within the DHA ecosystem as follows:

- The Chief Financial Officer's Group, the Governance Group, the People and Corporate Capability Group and parts of the Portfolio Management Group deliver DHA's **corporate operations** function and work primarily within the **'plan'** component of the ecosystem.
- The Portfolio Management Group primarily delivers the **property investment** and **disposals** functions and works within the **'sell'**, **'dispose'** and parts of the **'manage'** components of the ecosystem.
- The Property Provisioning Group delivers both the land and property development function and the provisioning and project management function. They work within the **'provision'** as well as part of the **'sell'** components of the ecosystem.
- The Property and Tenancy Services Group provides the housing services function and works within the **'manage'** component of the ecosystem.

The following diagram illustrates the relationships between the business groups and the ecosystem.

Ecosystem Relationships



Through delivery of its key functions, DHA provides housing and administers policy in accordance with service agreements with Defence, including:

- providing housing for members with dependants in accordance with the Services Agreement, known as the Members with Dependants (MWD) program;
- providing housing for members without dependants and unaccompanied members with dependants in accordance with the MCA (Member Choice Accommodation) Agreement, known as the MCA program;
- allocating MWD and MCA housing and delivering end-to-end property and tenancy services to ADF members throughout the life of their tenancies in accordance with Defence policy;
- administering rental allowances for ADF members renting private accommodation in accordance with Defence policy; and
- managing a booking and allocation service for on-base accommodation, known as Living-in Accommodation (LIA).

To meet DHA's Defence provisioning obligations, it develops, or sources from other developers, suitable land to construct housing as well as purchases or leases new and established properties. DHA also provides on-base and regional and/or remote housing services to Defence through a Defence-funded housing program.

DHA's key functions also include servicing its investors as they are a key source of funding that support the achievement of DHA's purposes by maintaining a high quality, well located and compliant property portfolio.

Further details on DHA's activities are provided in the Performance and Capability section for each DHA function.

Financial structure

DHA does not receive funding directly from the Federal Budget. DHA funds its operations through:

- › the receipt of commercial rent, fees and charges from Defence for services provided; and
- › generating revenue from:
 - › selling and leasing back properties through its property investment program;
 - › the disposal of excess land and completed properties from its development projects; and
 - › the disposal of properties that no longer meet minimum Defence standards or provisioning requirements.

DHA continue to investigate alternative funding and investment options that better meet its requirements and offer attractive investment options to a broad range of investors.

DHA is a full tax-paying entity in relation to federal taxes. DHA also pays state and territory-based taxes or an equivalent in accordance with competitive neutrality requirements.

DHA has returned significant financial returns to shareholders over the last 30 years using its long-term sale and leaseback arrangements for its property provisioning and funding needs. The model has allowed the business to provide a high level of financial return to its shareholders while delivering high quality housing to the ADF.

From 2019-20, DHA must comply with new accounting standards that, due to the large number of leases managed will have a far greater impact on operations than any other public sector or corporate organisation. The financial impact of the new accounting standards is likely to be material and ongoing over future periods. External factors will have a more amplified and material impact on our financial performance. DHA is in a fortunate position due to having an early understanding of disruptors and likely financial impacts and is able to work towards evolving its business model to help ensure the organisation has continued financial sustainability in the new operating environment.

DHA Subsidiary – Investment Management Limited (IML)

Following the recommendations from the Capital Structure Review, the Board made a decision to surrender the Australia Financial Services Licence (AFSL) for the DHA IML fund and deregister the corporate entity.

On 19 July 2018, the Australian Securities and Investments Commission (ASIC) confirmed cancellation of the AFSL, and now DHA IML management is in the process of dissolving the corporate entity, and expect deregistration paperwork to be lodged with ASIC in September 2018. ASIC will then gazette the deregistration and, after a two month notice period, it can confirm the closure of the entity.

Operational

In 2017-18, DHA continued its contribution to corporate social responsibility through:

- › improved gender balance at senior levels;
- › introducing more flexible working arrangements for staff to assist in attracting and retaining talent;
- › introducing new wellbeing programs for staff, including mental health training, workplace giving and shared benefits; and
- › the launch of its Reconciliation Action Plan.

The above initiatives will be further advanced throughout 2018-19.

Key priorities for 2018-19 will focus on ensuring the ongoing financial sustainability of the business and include:

- › developing a new funding strategy;
- › developing a robust capital management plan that optimises use of working capital in support of a revised funding model;
- › evolving technology to meet changing business and customer needs;
- › improving the investor experience through delivering a high standard of seamless service; and
- › transitioning to an evolved business model, which complies with new accounting standards and is flexible enough to meet variable market conditions and changing demographics.

Governance

DHA's Board, senior management and employees are committed to effective corporate governance and to observing the highest standards of behaviour and conduct. In 2017-18, DHA:

- › strengthened its legal capability through the appointment of its Special Counsel;
- › adopted a whole of business approach to management and decision making; and
- › reset its culture, seeking to embody the best features of the public and private sectors, including good governance practices, high levels of accountability, greater agility and more commercial discipline in decision-making.

In 2018-19, DHA will revise its existing governance committees, charters and responsibilities in response to the disruptions faced by the business.

Environment

Financial environment

To meet its purpose, DHA is involved in the development, ownership and management of properties across Australia. Over the four year period, DHA is forecasting revenues across the following business segments:

Item	Description
Provisioning Housing services	<ul style="list-style-type: none">› DHA generates earnings from the provision of housing solutions to Defence, comprising:<ul style="list-style-type: none">› rental returns and vacancy charges received from Defence; and› property management charges received from DHA allocation administration (i.e. facilitating allocation of properties to ADF members) fees from Defence.› DHA generates property management fees from the property investment program.› DHA guarantees rental returns from properties rented out to non-ADF, civilian tenants.
Project management services	<ul style="list-style-type: none">› DHA generates earnings relating to construction and upgrade work conducted on behalf of Defence.
Property investment	<ul style="list-style-type: none">› DHA realises the gain/(loss) on sales of properties to retail investors through the property investment program.
Disposals	<ul style="list-style-type: none">› DHA realises the gain/(loss) on sales of existing properties that no longer meet Defence standards or provisioning requirements.
Land and property development	<ul style="list-style-type: none">› DHA realises the gain/(loss) on sales of excess land from completed development projects, net of any related selling expenses.› DHA realises the gain/(loss) on sales of excess properties from complete projects.

Funding

DHA's primary funding source is currently its property investment program. While it has successfully operated on this capital light model and delivered extensive returns to Government, reliance on this funding channel poses significant risk to the ongoing sustainability of the business. The property investment program is challenged by the following:

- › Defence provisioning requirements (MWD service residence specifications, including locations within 30 kilometres each way by road from the ADF base or establishment) result in higher price points that are affordable by a declining number of retail investors.
- › Lease terms of 15 years were created to suit investor preferences but limit provisioning flexibility.
- › Prevailing property market conditions.
- › Declining markets in more locations.
- › Investor sentiment, which can be significantly impacted by the tightening of prudential regulations, potential negative gearing changes and overall market certainty.

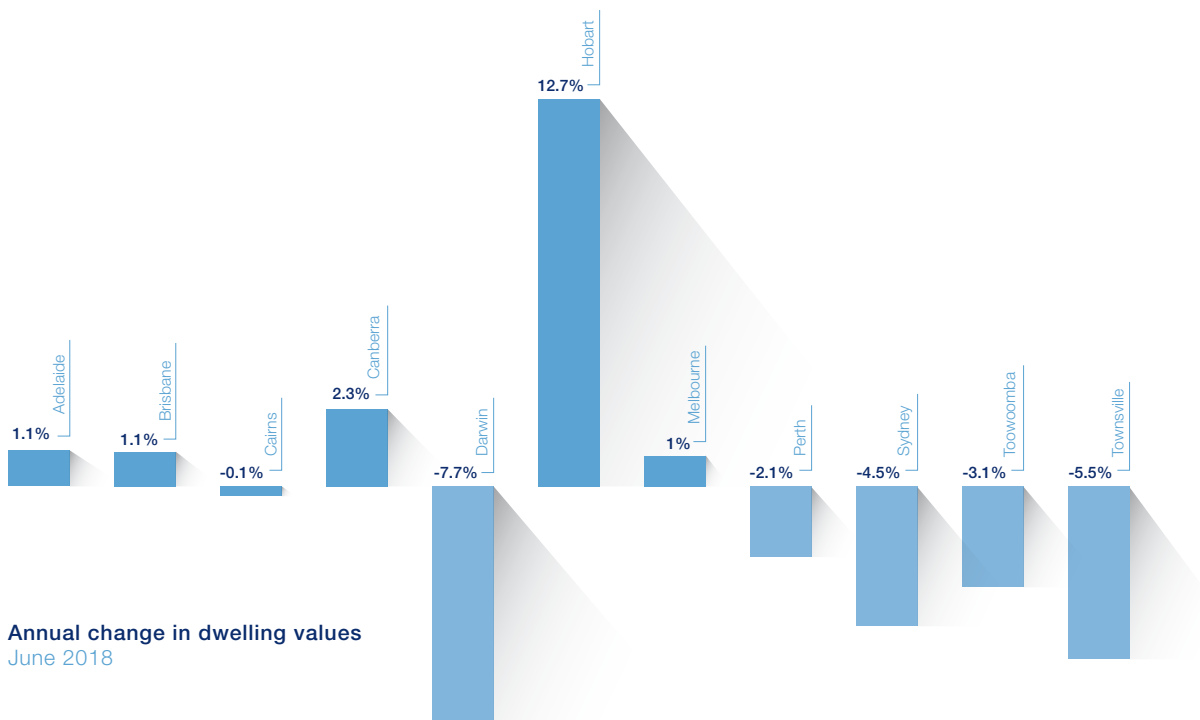
The risk attached to primary reliance on the property investment program was identified as part of the 2016 Forensic Reform Review. DHA is working with its shareholders to build a sustainable funding pathway. This aims to complement broader Government funding strategies and works within DHA's mandated credit rating limits; provides DHA with the flexibility and funding surety to continue to deliver housing to the ADF, whilst taking into consideration the impacts on the business, and in particular the property investment program, of the new accounting standards.

Australian housing market overview

The Defence Housing Forecast (DHF) drives the areas in which DHA provisions. Its business continues to be affected by the property markets in areas of key stock holding. Housing affordability concerns in Sydney and Melbourne have affected DHA's ability to source suitable housing to meet Defence's requirements. Challenging property market conditions, particularly in markets such as Darwin, Townsville and Perth, have affected DHA's:

- › property investment program;
- › disposal targets;
- › asset impairment; and
- › timing of land sales.

The below graph shows the annual change in dwelling values in areas of key DHA stock holdings to 30 June 2018:



Source: CoreLogic June 2018 Market Update

During the same period, nationally, weekly rents experienced modest rises except in Darwin and Perth, where prices dropped, and Hobart where prices rose for houses.

Provisioning

DHA provides quality housing and related services to ADF members and their families based on four-year forecast requirements provided by Defence in the DHF. The below table summarises the current DHF:

Financial Year	Dwellings required
2018 - 2019	19,774
2019 - 2020	19,812
2020 - 2021	19,913
2021 - 2022	19,949

NOTE: DHFs are met through a combination of DHA provided service residences and Defence funded rent allowance.

In light of DHA's fiscal constraints, it has reviewed its capital structure and capital planning processes to ensure a financially sustainable level of provisioning, which continues to meet contractual requirements with Defence. The capital plan review was conducted from a whole of business perspective. It also took into account local level expertise, knowledge of market trends and demand from Defence members.

The objectives of the capital plan review were to:

- › ensure contractual obligations to Defence continue to be met;
- › ensure service delivery to Defence members and their families were not compromised;
- › examine provisioning by region and by rent band to ensure alignment with the Services Agreement; and
- › identify areas of over and under performance against provisioning contractual requirements.

Benchmarking data

Employee Engagement

According to the 2018 APS Census, DHA's employee engagement score was 74%, which is in line with the broader Australian Public Service's employee engagement score of 74%.

It is critical that DHA attracts and retains talented staff to ensure it can effectively compete and deliver on its strategy and objectives. A strong employment engagement score reflects that employees consider that DHA has a positive and attractive work environment.

Performance and capability - corporate operations

Description and positioning

Sub-function descriptions		Responsible division	Ecosystem positioning	Related corporate objectives
Finance				
<ul style="list-style-type: none"> › Management of asset portfolio › Corporate accounting › Treasury › Budget and forecasting › Taxation 	<ul style="list-style-type: none"> › Investment management › Insurance › Strategic and capital planning › Valuation services › Research services 	Chief Financial Officer's Group	Plan	<ul style="list-style-type: none"> › Optimise DHA's fiscal and capital models to support ongoing development of sustainable commercial returns. › Refine DHA's operating model to meet evolving client needs and market conditions.
Governance and Risk				
<ul style="list-style-type: none"> › Company secretariat duties › Governance and legislative compliance › Legal counsel 	<ul style="list-style-type: none"> › Customer relations › Internal audit › Risk, fraud and business continuity 	Governance Group	Plan	<ul style="list-style-type: none"> › Proactively position DHA to better anticipate and manage risks and change in DHA's operating environment. › Foster effective and transparent relationships to leverage opportunities and maximise value.
Portfolio Management				
<ul style="list-style-type: none"> › Feasibility and portfolio planning › Strata management › Investment marketing › Corporate branding 	<ul style="list-style-type: none"> › Defence relationship management › Communication and client relations › Reporting and business analytics 	Portfolio Management Group	Plan Manage	<ul style="list-style-type: none"> › Refine the operating model to meet evolving client needs and market conditions. › Foster effective and transparent relationships to leverage opportunities and maximise value.
Human Resources and Corporate Services				
<ul style="list-style-type: none"> › People capability › Safety, health, environment and quality › Business solutions and technology › Corporate shared services 	<ul style="list-style-type: none"> › Corporate project management office › Corporate procurement › Change management 	People and Corporate Capability Group	Plan	<ul style="list-style-type: none"> › Refine the operating model to meet evolving client needs and market conditions. › Empower DHA's people and optimise its workforce to position the organisation to meet the challenges of today and tomorrow.

Key activities, risks and strategies

Activities	Key risks and potential impacts	Management strategies
Finance		
<ul style="list-style-type: none"> › Develop funding pathway for DHA to ensure ongoing financial sustainability. › Develop capital management plans to support ongoing financial sustainability and optimal use of limited capital. › Implement new accounting standards to effectively and proactively manage future financial forecasts. › Develop and maintain CFO group as business enablers through effective staff management and business engagement. 	<ul style="list-style-type: none"> › Growing volatility in cash flows and other financial management areas due to key operational risks. › Government policy and macro regulatory shifts (accounting standard changes). › Complexity of compliance requirements or failure to fully understand the impacts for corporate Commonwealth entities by regulators and key central policy agencies. › Lack of capability and capacity to support financial advisory and implementation programs. 	<ul style="list-style-type: none"> › Defined funding pathway approved by Board and supported by Shareholder unit groups with key inputs well advanced at time of writing. › Capital management plans developed which focus on 'right-sizing' of the portfolio and delivering to minimum Defence requirement. Provisioning strategy being developed to further enhance capital management plans. › Accounting standard implementation project team established, comprising internal subject matter experts and external accounting support. Close engagement with Finance, Defence and the ANAO in implementation to ensure consistency across government and leveraging of DHA's early assessment and knowledge. › Focus on building core CFO group capability through role evaluations and targeted recruitment as and when opportunities arise; education offering to the business on CFO group priorities and support capabilities; knowledge sharing with other key agencies to encourage and foster capability development.
Governance and Risk		
<ul style="list-style-type: none"> › Continuous improvement in our corporate governance culture and practices. › Build resilient relationships with relevant Ministers and their offices. › Build organisational capability in risk management. › Provide comprehensive and timely support to the Board and its Committees to assist them to meet their legislated responsibilities. 	<ul style="list-style-type: none"> › Need to balance government entity governance expectations with acting commercially in a competitive environment. › Complexity of stakeholder relationships. 	<ul style="list-style-type: none"> › Greater alignment of organisational communications ensuring a top down strategy that centres on ensuring effective expectation management of external stakeholders: <ul style="list-style-type: none"> › that also covers the restrictions on DHA in terms of what outcomes are realistically possible given these parameters; › provides clarity to shareholders and ensures that effective controls and measures are implemented to ensure appropriate confidentiality between customer and shareholder; and › to ensure DHA has formal clarity of shareholder guidance that are aligned at all levels of shareholder departments. › Increase awareness, reduce red tape and stringent governance reporting and monitoring that was put in place originally while systems and controls were being established.

Portfolio Management		
<ul style="list-style-type: none"> › Optimise portfolio metrics through enhanced financial analysis. › Improve/upgrade internal systems for strata governance, sales and investor management. › Deliver annual marketing and advertising program for demand generation and investor engagement. › Develop coordinated Defence and external relations communications strategy. 	<ul style="list-style-type: none"> › Complexity of a vertically integrated business with numerous inputs and the biases that prevent holistic organisational benefit. › KPIs across the ecosystem that do not flex to take into account current operating environment. › Funding to support continued development of marketing and advertising programs. › Complexity of stakeholder relationships given current need to balance shareholder/customer and shareholder interests. › Existing bespoke infrastructure. 	<ul style="list-style-type: none"> › Review sharing of financial insights and develop a regular reporting schedule to all relevant internal stakeholders. › Review regular financial analysis to ensure adequacy to drive portfolio improvement. › Strata project work streams to continue with a focus on efficiency. › Continue ongoing investor relations improvement initiatives with a priority focus on the investor experience.
Human Resources and Corporate Services		
<ul style="list-style-type: none"> › Create organisational capability in predictive analytics. › Embed self-supported dispute resolution processes. › Develop rapid platform provisioning. › Develop organisational customer service strategy and digital strategy. › Align workforce planning strategies with our operating model. 	<ul style="list-style-type: none"> › Lack of adequate funding to support the program due to contractionary fiscal strategy. › Lack of capability and capacity to support improved capability development due to Government restrictions. › KPIs across the ecosystem that don't flex to take into account current operating environment. 	<ul style="list-style-type: none"> › Creation of holistic 3-year People and Corporate Capability (P&CC) strategy incorporating deeper 3 year strategies specifically for People & Capability; Information Communication and Technology; Procurement; Safety Health, Environment and Quality. › Agreement will be sought as to funding levels through the use of the Opportunity and Capability Committee identifying the services required to be delivered by P&CC to the various business units.

Key performance indicators

	Actual 2017 - 2018	Target			
		2018 - 2019	2019 - 2020	2020 - 2021	2021 - 2022
Staff					
Staff retention and turnover rate	13%	<15%	<15%	<15%	<15%
Staff engagement	74%	>75%	>80%	>80%	>80%
¹ Total recordable injury frequency rate (TFIFR) and OHS incident rate	5.49	<7	<7	<7	<7
Wages and expense ratio	6.9%	7.1%	6.1%	6.5%	6.8%

¹Total recordable injury frequency rates (TFIFR) has been used instead of Lost time injury frequency rate (LTIFR) as it more descriptive and has greater business meaning.

Performance and capability - property investment

Description and positioning

Function description	
<ul style="list-style-type: none"> › The property investment program (formerly known as the Sale and Leaseback Program) is a key source of revenue for our organisation, enabling DHA to provide quality housing to Defence members and their families. › Through structured internal processes, properties coming into the portfolio are allocated to either the investment or inventory portfolio. Properties allocated to the inventory portfolio are available for the property investment program while investment stock is retained as a strategic asset for the primary purpose of long term provisioning. › The ultimate goal of the program is to sustainably optimise revenue and profit. › A key component underpinning the program is the generation of investor interest. Engagement with potential investors is required to improve their understanding of the property investment program, build relationships and ultimately create a sale. 	
Responsible division	Portfolio Management Group
Ecosystem positioning	Sell, manage
Related corporate objectives	
<ul style="list-style-type: none"> › Refine our operating model to meet evolving client needs and market conditions. › Foster effective and transparent relationships to leverage opportunities and maximise value. 	

Key activities, risks and strategies

Activities	Key risks and potential impacts	Management strategies
<p>Provide funding for the organisation through the property investment program by:</p> <ul style="list-style-type: none"> › Strategically determining the ownership of properties through the Property Ownership Committee. › Implementing systems to enable DHA to determine financially sustainable revenue targets. › Maximise profit through effective asset and portfolio management by: <ul style="list-style-type: none"> › developing strategies that balance the property portfolio to maximise profit; and › implementing limitations on the stock that can be sold based on key financial metrics. 	<ul style="list-style-type: none"> › Limitations in bespoke business systems. › Lack of available and market demanded stock due to: <ul style="list-style-type: none"> › provisioning channels not delivering stock as forecasted; › market downturn and continued volatility; › required margin and profit thresholds; › need to balance foreseeable funding need now versus optimum inventory management; and › greater competition from commercial equivalents and alternative investment products. › Pressure to balance stock that has been sourced to meet Defence provisioning needs that may not be commercially viable - especially with regard to profitability due to location, compliance requirements or costs. › Pressure on the program as the primary funding source due to lack of diversified funding options. › Need to balance funding need versus optimum inventory management. › KPIs across the ecosystem that do not flex to consider current operating environment. 	<ul style="list-style-type: none"> › Ensure diverse sustainable supply cognisant of this year and future year targets. › Improve measurement and reporting of sale team performance. › Collaborate with Property Provisioning Group on new additions to the portfolio. › Initiatives to improve investor experience including new welcome experience. › Set pricing via market conditions, ballot results, state of the portfolio and progress towards annual revenue targets. › Ensure diverse sustainable supply cognisant of this year and future year targets.

Performance and capability - disposals

Description and positioning

Function description	
<ul style="list-style-type: none"> Disposal properties are selected from stock surplus to Defence housing requirements with consideration given to the property age, end of life provisions and profitability. Disposal stock is identified by DHA's regional offices, and approved and priced in consultation with our Investment Management and Funding Delivery team. Disposal sales includes the sale of DHA-owned stock and Defence annuities. 	
Responsible division	Portfolio Management Group
Ecosystem positioning	Dispose
Related corporate objectives	
Refine DHA's operating model to meet evolving client needs and market conditions.	

Key risks, strategies and initiatives

Activities	Key risks and potential impacts	Management strategies
<p>Maximise revenue by:</p> <ul style="list-style-type: none"> being proactive and closely managing key financial metrics; and developing strategies to maximise sales revenue working with a real estate panel to maximise sale prices. 	<ul style="list-style-type: none"> Lack of available stock due to: <ul style="list-style-type: none"> required margin and profit thresholds; need to balance funding need versus future need in terms of optimum inventory management; and need to balance future provisioning need versus current funding need. Lack of demanded stock due to: <ul style="list-style-type: none"> market preferences; market downturn and continued volatility; market over supply of homogenous property in markets where DHA has a majority holding; greater competition from commercial equivalents and alternative investment products; and unattractiveness of location of DHA stock due to need to meet Defence provisioning needs, compliance requirements or costs. Sustained downturn in housing market. Pressure on the program due to lack of funding diversification. Lack of capability and capacity of real estate panel to support the program due to regions DHA operates within. 	<ul style="list-style-type: none"> Regular engagement with Regional Directors on optimum availability of properties. Ongoing escalation to Executive Property Committee of properties submitted for disposals less than 10 years old. Ongoing monitoring and reporting of panel agent performance.

Performance and capability - land and property development

Description and positioning

Function description	
<ul style="list-style-type: none"> Acquisition and development of land supports DHA's provisioning requirements and sustainable operations. The limited supply of suitable properties and competitive residential property market conditions are a challenge for DHA and its ability to meet provisioning requirements. For these reasons, it undertakes a limited number of development projects to support provisioning of new dwellings into the portfolio. DHA has strong governance and approval parameters for potential development projects, dependant on the value and duration of the proposed project. New acquisitions of land for development require endorsement from the appropriate internal committee and approval from the delegate, the Board or Minister for Defence. 	
Responsible division	Property Provisioning Group
Ecosystem positioning	Provision, sell
Related corporate objectives	
<ul style="list-style-type: none"> Optimise our fiscal and capital models to support ongoing development of sustainable commercial returns. Refine our operating model to meet evolving client needs and market conditions. Proactively position DHA to better anticipate and manage risks and changes in DHA's operating environment. 	

Key risks, strategies and initiatives

Activities	Key risks and potential impacts	Management strategies
<ul style="list-style-type: none"> Purchase development land that meets commercial returns, supports provisioning, and supports a sustainable business. In general, 30% take out for Defence to support integration of Defence members in the community. Review all development projects in 2018-19 with the objective of improving development margins across the development program while continuing to meet provisioning requirements. 	<ul style="list-style-type: none"> Complexity and pressure of needing to balance Defence provisioning needs against commercial returns which may not be commercially viable. Lack of available land due to: <ul style="list-style-type: none"> required margin and profit thresholds; greater competition from commercial equivalents; restrictions of being a Government entity comparative to commercial equivalents; scarcity of land in areas identified by defence provisioning requirements; and nationally mandated margin and profitability thresholds despite significant variance in regional markets. KPIs across the ecosystem that do not flex to take into account current operating environment. Lack of adequate funding to support land and development program due to contractionary fiscal strategy. 	<ul style="list-style-type: none"> Comprehensive due diligence and financial assessment before commitment to purchase. Feasibility advice for various provisioning levels to determine optimal mix of Defence provisioning and commercial sales. Robust project planning, comprehensive master planning and strong governance processes are embedded in the development division. Dedicated resources with appropriate skill and experience allocated to finding and negotiating favourable land purchases and undertaking the various stages of development. Acquisitions strategy aimed at targeting suitable markets with appropriate returns while supporting provisioning requirements. Provisioning requirements not met by development activities will be met through other provisioning methods such as retail acquisitions. Support integration of Defence stock within developments with the remainder of stock sold to the open market to optimise development return.

Performance and capability - provisioning and project management

Description and positioning

Function description	
<p>Provisioning</p> <p>DHA provisions in accordance with the Services Agreement and MCA Agreement it holds with the Department of Defence.</p> <p>Provisioning requirements are met through the following programs:</p> <ul style="list-style-type: none">› Leasing program - includes sourcing and managing properties to meet the capital plan requirement by a direct leasing and lease end management program resulting in the disposal or retention of current leased stock.› Acquisitions program - includes acquisition of retail land, house and land packages and spot purchases of dwellings.› Retail construction and upgrades program - includes the construction of houses on retail land purchased from other developers as well as a small number of upgrades made to DHA owned stock.› Construction on development sites and apartment program - includes the acquisition and development of land on which detached and integrated dwellings are built. Excess retail lots or dwellings are sold to the public.	
<p>Project management</p> <p>DHA's project management services encompass the management and delivery of all Defence-funded projects, including:</p> <ul style="list-style-type: none">› development/redevelopment of on-base and off-base projects;› upgrades of on-base and off-base dwellings; and› upgrades and maintenance of heritage portfolio dwellings.	
Responsible division	Property Provisioning Group
Ecosystem positioning	Provision
Related corporate objectives	
Refine DHA's operating model to meet evolving client needs and market conditions.	

Key activities, risk and management strategies

Activities	Key risks and potential impacts	Management strategies
<p>Provisioning</p> <ul style="list-style-type: none"> › Leasing program: <ul style="list-style-type: none"> › Provision new leased properties in the right location in line with the capital plan. › Meet capital plan lease renewal and lease option rates while supporting sound property portfolio decisions. › Provide high levels of customer service for investors at lease end. › Acquisitions program: <ul style="list-style-type: none"> › Meet capital plan and financial targets through diligent property acquisitions. › Engage with internal stakeholders to understand preferred product requirements and locational needs. › Retail construction and upgrades program: <ul style="list-style-type: none"> › Construct properties and manage upgrade projects in line with Capital Plan requirements and financial targets. › Seek to build new properties within financial constraints while meeting business quality standards. › Engage with internal stakeholders to understand preferred product requirements and locational needs. › Construction on development sites and apartment program: <ul style="list-style-type: none"> › Deliver high quality products in line with the capital plan that meet Defence and DHA requirements including financial hurdle rates. › Engage with internal stakeholders to understand preferred product requirements and locational needs. › Ensure project risks are managed. 	<ul style="list-style-type: none"> › The complexity and pressure of needing to balance Defence provisioning needs against commercial returns which may not be commercially viable especially with regard to profitability due to location, compliance requirements or costs. › Lack of available land, property or lessors due to: <ul style="list-style-type: none"> › required margin and profit thresholds; › greater competition from commercial equivalents; › restrictive compliance requirements that do not mirror community expectations and the majority of the market; › restrictions of being a Government entity comparative to commercial equivalents; › scarcity of land, property or lessors with compliant properties in areas identified by defence provisioning requirements; and › nationally mandated margin and profitability thresholds despite significant variance in regional markets. › Cost base pressures due to increasing input costs in key markets or due to higher costs of provisioning in remote regions. › KPIs across the ecosystem that don't flex to consider current operating environment. › Lack of adequate funding to support provisioning programs due to contractionary fiscal strategy. › Unforeseen adverse weather conditions. 	<ul style="list-style-type: none"> › Leasing, acquisition and retail constructions used to meet the balance of provisioning not covered by development projects. › Streamline the direct lease process through more targeted acquisition strategies. › Acquisitions and retail constructions must meet approved financial hurdle rates. › Dedicated resources with appropriate skill and experience allocated to finding and negotiating the purchase or lease of suitable sites. › Strong construction management resources to manage external contractors and monitor progress. › Strong engagement with industry to maximise the value of construction activities and costs. › Reduce construction costs through better and innovative procurement processes. › Acquisitions strategy aimed at broadening engagement with sellers.

<p>Project management</p> <ul style="list-style-type: none"> › Establish development project teams to deliver on-base and off-base projects in accordance with the agreed program. › Establish project teams to deliver upgrades and maintenance of the heritage properties in accordance with the Heritage Strategy Framework and heritage management plans. 	<ul style="list-style-type: none"> › Cost base pressures due to increasing input costs in key markets or due to higher costs of provisioning in remote regions. › Lack of capability and capacity to support the program due to Government restrictions, the regions that DHA is required to work within or due to skills shortage in current market. › Lack of adequate funding to support project management program due to contractionary fiscal strategy. › Unforeseen adverse weather conditions. 	<ul style="list-style-type: none"> › Actively engage with local contractors to maximise the value of construction activities and costs. › Dedicated resources with appropriate skills and experience to manage external contractors and monitor progress and costs. › Within fiscal restraints, ensure project management team is matched with scale and geographic locations of projects. › Reduce construction costs through better and innovative procurement processes.
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Key performance indicators

	Actual 2017 - 2018	Target			
		2018 - 2019	2019 - 2020	2020 - 2021	2021 - 2022
Properties provisioned for Defence (MWD)	16,735	16,775	16,510	16,304	16,326
Properties provisioned for Defence (MCA)	1,281	1,537	1,631	1,784	1,880
Properties constructed or purchased (MWD)	506	507	498	500	535
Properties constructed or purchased (MCA)	61	390	175	312	128

Provisioning program summary

MWD capital program

DHA will provide MWD properties in 33 metropolitan regional and remote locations to meet Defence's core housing demand in line with the DHF. This assumes that the majority of ADF members receiving de facto RA are living in suitable housing and do not require a service residence.

MWD capital program summary ¹	Actual 2017-18	Target ³ 2018-19
Opening balance ²	16,900	16,744
Acquisitions and constructions	504	507
Direct leasing, lease renewals and options	1,374	1,309
Additions	1,914	1,816
Disposals, Defence handbacks and other movements	118	81
Lease ends	1,994	1,704
Subtractions	2,112	1,785
Closing balance ²	16,702	16,775

MCA capital program

DHA will provide MCA properties in 13 metropolitan and regional areas across Australia.

MWD capital program summary ¹	Actual 2017-18	Target ³ 2018-19
Opening balance ²	1,217	1,300
Acquisitions and constructions	67	393
Direct leasing, lease renewals and options	72	65
Transfers	5	-
Additions	144	458
Disposals, Defence handbacks and other movements	3	183
Lease ends	69	51
Subtractions	72	234
Closing balance ²	1,289	1,524

Notes

1. Additions includes purchases, constructions and leases, including new leases and lease extensions. Disposals includes disposal of surplus properties, Defence handbacks and other movements including the disposals of DHA owned investment properties, disposal of Defence owned off-base properties, handing back the management of surplus on-base properties to Defence and transferring properties in and out of the portfolio for upgrade, refurbishment or redevelopment.
2. The variance in between the 2017-18 closing balance and 2018-19 opening balance is due to the opening balance numbers being forecast prior to 30 June 2017.
3. Target is the approved FY18-19 Corporate Plan target.

Performance and capability - housing services

Description and positioning

Function description	
<ul style="list-style-type: none">› Housing allocation for ADF members and families in accordance with the Services Agreement and Defence policy.› End-to-end property management and tenancy services to ADF members throughout the life of their tenancies in accordance with Defence policy.› RA administration for ADF members.› Booking and allocation services for on-base Living-in Accommodation (LIA).› Property care services for investors in accordance with lease agreements, including transparent and cost effective repairs and maintenance services and whole-of-life asset management.	
Responsible division	Property and Tenancy services
Ecosystem positioning	Manage
Related corporate objectives	
<ul style="list-style-type: none">› Refine DHA's operating model to meet evolving client needs and market conditions.› Empower DHA's people and optimise its workforce to position the organisation to meet the challenges of today and tomorrow.	

Key activities, risk and management strategies

Activities	Key risks and potential impacts	Management strategies
<p>Provide consistent and quality services in line with the Services Agreement by:</p> <ul style="list-style-type: none"> › delivering core business within contractually defined service level standards; › delivering nationally consistent, quality services that meet customer needs; › creating a unified, seamless and consistent contact centre network including process automation to simplify processes and systems for staff; and › delivering and maintaining repairs and maintenance contractor panels to support agreed service levels; and › implementing the standard operating procedures and systems to support consistency. 	<ul style="list-style-type: none"> › Legacy contract and service agreement complexities. › Lack of capability and capacity to deliver consistent and quality property and tenancy services to customers particularly in regional areas. › Lack of products and stock that satisfy customer demographics and preferences around location or quality. › Lack of capability and capacity of contractors to support agreed service levels particularly in regional areas. › Lack of continuous improvement and capability to support automation and streamlining of procedures and systems in a geographically dispersed business environment. 	<ul style="list-style-type: none"> › Through active management of the relationship with Defence at all levels, legacy contract and services agreement complexities are addressed. › Continue to deliver quality property management services directly, supplemented by trusted real estate contractors in remote locations. › Continued focus on national contact centre network delivery to ensure consistency in housing services to customers regardless of location. › The annual national capital plan takes into consideration a number of factors in determining regional requirements including the requirement for quality stock in desirable locations. › Implementation of a robust contractor management framework with a strong emphasis on continuous improvement and regional contractor engagement.
<p>Maximise revenue and control costs through effective asset and portfolio management by:</p> <ul style="list-style-type: none"> › managing the repairs and maintenance budget through simplified contractor panel management; › optimising the national capital planning strategy; › minimising vacancy; and › maximising rental revenue through effective portfolio planning and management; and › following the successful 'Living In Accommodation (LIA) additional services trial', implement the whole-of-service model. 	<ul style="list-style-type: none"> › Lack of adequate funding to support housing services program due to contractionary fiscal strategy. › Legacy contract and service agreement complexities and compliance requirements that may not be commercially viable especially with regard to profitability due to location, compliance requirements or growing costs. › Volatility around Defence housing requirements and significant policy shifts. › Ability to compete effectively in open market due to government regulation. › Regional market and business versus central control complexities. 	<ul style="list-style-type: none"> › DHA works within the constraints of the contractionary fiscal strategy by remaining flexible and responsive to changing environmental factors. › Proactively maximise allocations to manage vacancy risk and increase rental revenue through active singles and civilian tenancy as well as closely adhering to the capital planning strategy. › Contractual and service agreement requirements are managed through robust and collaborative relationships with Defence at all levels.

Key performance indicators

	Actual 2017 - 2018	Target			
		2018 - 2019	2019 - 2020	2020 - 2021	2021 - 2022
Members satisfied with their service residence	90%	>80%	>80%	>80%	>80%
Members satisfied with overall customer service	94%	>80%	>80%	>80%	>80%
Member satisfaction with maintenance on occupation	98%	>80%	>80%	>80%	>80%
Members satisfied with completed maintenance	96%	>90%	>90%	>90%	>90%

Risk oversight and management

DHA's enterprise risk management framework provides the Board and Executive with a methodology for assessing emerging strategic risks that have the potential to adversely impact achievement of DHA's vision and purposes.

A strategic risk assessment is produced annually and approved by the Board. Risk mitigation strategies are also developed and implemented annually. They are continually evaluated and revised as necessary. The following strategic risks are being managed during the period of this Statement of Corporate Intent:

- › reduced ability to source cost effective and suitably located land and housing for ADF members that meets Defence's provisioning requirements;
- › sustainability of its current funding model and risk to funding into the future;
- › implementation of new leasing and revenue standards (IFRS 15 and 16);
- › cyber and information security; and
- › not having the optimum workforce capacity and mix to meet changes in organisational strategy, structure environment and future direction.

In the period of this Statement of Corporate Intent DHA is also working to mature its capacity to understand and manage risk through the development and implementation of a more integrated enterprise risk management approach.

Acronyms and abbreviations

ADF	Australian Defence Force
APS	Approved Provisioning Schedule
DHA	Defence Housing Australia
DHF	Defence Housing Forecast
DPS	Defence Provisioning Schedule
Disposal	The sale of Property
Leased/leasing	Leasing activity comprises Direct, Renewals, Lease Options, Variations and Extensions
Inventory	A property that has been identified as having a strategic intention to be disposed
Investment	A property that is held as a strategic asset for the primary purpose of long term provisioning
KPI	Key performance indicator
MCA	Member Choice Accommodation
MWD	Member with dependants (compliant properties)
MWD(U)	Member with dependants (unaccompanied)
MWOD	Member without dependants
Property Investment Program	Formerly the Sale and Leaseback program
RA	Rent Allowance
RBCH	Rent Band Choice Housing
Service residence (SR)	A Property provisioned for entitled ADF Members which is compliant with Defence Minimum Housing Standards and required capital inclusions