


Statement of Corporate Intent

2017–18

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Introduction

This Statement of Corporate Intent (SCI) sets out DHA's functions and objectives, referred to as purposes in the *Public Governance Performance and Accountability Act 2013* (PGPA Act), for the 2017–18 reporting period and describes how we will measure our 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 SCI, DHA has consolidated its functions and objectives into three purposes which reflect our statutory role under the *Defence Housing Australia Act 1987* (DHA Act) and commercial obligations as a Government Business Enterprise (GBE):

1. Provide housing solutions for ADF members and their families to meet Defence operational requirements
2. Provide housing related services and excellent customer service to ADF members and investors
3. Maintain a robust financial position to deliver commercial returns to the Australian Government.

DHA is a unique business with a very different risk profile compared with other government entities. Our operations and success are affected by complex environmental and operational factors over which we have limited or no control. These include, but are not limited to, Department of Defence (Defence) policy and forecasting, residential property market conditions, property development and construction approval processes and delivery schedules, and macroeconomic factors. This SCI assumes that we have appropriate controls and strategies in place to mitigate them.

This SCI 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.

Consistent with recommendations of a Forensic Review into DHA's operations and as was identified in our SCI 2016–17, we are undertaking a review of our capital management structure to assess the business, environment, current funding model and identify alternative funding solutions. Subject to the recommendations of the review, we may seek Shareholder Minister approval to access and implement alternative funding arrangements. The future of our subsidiary company, DHA Investment Management Limited (DHA IML), is subject to the outcome of this review.

Role and function

In accordance with the DHA Act, DHA's main function is to provide adequate and suitable housing for, and housing related services to, ADF members and their families. As a GBE, DHA must operate commercially and deliver commercial returns to the Australian Government based on 60 per cent of Net Profit After Tax (NPAT).

Service delivery

Services to Defence

Defence is responsible for determining ADF member pay and conditions, including their entitlement to subsidised housing. We provide housing and administer policy in accordance with service agreements with Defence, including:

- providing housing for Members with Dependents (MWD) in accordance with the Services Agreement
- providing housing for Members without Dependents (MWOD) and Members with Dependents (Unaccompanied) (MWD(U)) in accordance with the MCA Agreement
- 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 Rent Allowance (RA) for ADF members renting private accommodation in accordance with Defence policy
- managing a booking and allocation service for on-base Living-in Accommodation (41,200 Defence-owned and maintained beds across 54 Defence bases and establishments).

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

Services to investors

Investors are important to us as they help us sustain a quality, well-located property portfolio and a healthy long term financial structure. As at 30 September 2017, approximately 72.5 per cent of our property portfolio was owned by investors. We sell and lease back properties through our property investment program, directly lease properties from private owners and negotiate with existing investors to renew or extend leases. We also provide transparent and cost effective repairs and maintenance services to investors as part of whole-of-life asset management.

Financial structure

DHA does 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 property investment program
 - the disposal of excess land and completed properties from our development projects
 - the disposal of properties that no longer meet minimum Defence standards or provisioning requirements.

We have a loan agreement with the Commonwealth. The total value of the loan facility is \$635 million. We had loans totalling \$509.6 million as at 30 June 2017. We continue to investigate alternative funding and investment options that better meet our requirements and offer attractive investment options to a broad range of investors.

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

Standard and Poor's conduct an annual credit rating assessment of DHA. In December 2016, they confirmed a corporate credit issuer rating of AA+ and a standalone credit profile rating of BBB+. The credit profile is one rating above the target for GBEs specified by the Australian Government.

Purpose 1: Provide housing solutions for ADF members to meet Defence operational requirements

Purpose description

We construct, acquire, lease and manage a portfolio of properties for ADF members and their families to meet Defence operational requirements.

Key activities, environmental factors and capability strategies

The Defence Housing Forecast (DHF) outlines Defence's MWD provisioning requirement for the period of this SCI. We use the DHF to develop a draft provisioning schedule (DPS). Once approved by Defence each financial year, it becomes the approved provisioning schedule (APS) and forms the basis of our contractual KPI with Defence for MWD provisioning. With MCA provisioning, Defence nominates minimum requirements in priority locations each financial year that we provision against. Provisioning in non-priority locations is at our discretion.

Activity	Environmental factors	Capability and performance strategies
<ul style="list-style-type: none"> • Deliver a quality portfolio of properties in accordance with Defence provisioning requirements. • Be the supplier of choice for Defence and ADF members. • Manage the portfolio to ensure acceptable levels of vacancy. 	<ul style="list-style-type: none"> • The demographic and operational complexity of the ADF means Defence sometimes changes its geographical provisioning requirements outside of the provisioning schedule. • DHA receives fees and charges from Defence for its services but bears some financial risk, particularly for vacancy. MWD and MCA properties are not interchangeable. • In the first half of 2016–17, we recognised that de facto RA¹ was distorting Defence's forecast of MWD demand for service residences and was contributing to us having higher than desirable vacancy rates in some locations. We presented this information to Defence as part of our draft provisioning schedule in December 2016. Following further analysis and discussion, both parties agreed to apply a discount to the housing demand advised in the DHF. As part of this discount, we removed a substantial portion of the housing requirement for members receiving de facto RA as they were already considered suitably housed. MWD provisioning targets were reduced and formed the basis of this SCI. • A review of the Services Agreement (MWD contract) is underway and will be completed in 2018. • A review of the MCA Agreement is underway in two phases. A revised fees and charges structure has been agreed and a contract change is imminent. A review of the full agreement, including its term, risks and return, will commence in 2018. 	<ul style="list-style-type: none"> • Focus on core business in order to meet the requirements of the Services Agreement and MCA Agreement. • Work closely with Defence to ensure we are provided with sufficient notice of provisioning changes within the contractual framework. Due to operational requirements this is not always possible. • Continue demographic profiling of ADF members and families to better understand provisioning requirements and maximise occupancy levels of our properties. • Implement an integrated planning framework that unites our current and future strategic, operational and contractual requirements. • Progressively reduce the size of the MWD housing portfolio (down to 16,211 properties by 2020–21) to account for de facto RA. • Continue to increase the size of the MCA portfolio in Defence priority locations (up to 1,890 properties by 2020–21) but with reduced growth compared with previous years. • Provision MCA properties in non-priority locations at our discretion.

¹ In accordance with Defence policy, when a MWD recognises an interdependent partnership (de facto) their categorisation changes to MWD and they become eligible for a service residence. We found that many of these members were choosing to remain in private rental accommodation and receive RA (i.e. referred to as de facto RA). This may be due to a range of factors, but most likely because they are not entitled to a Commonwealth-funded move. Under our contract with Defence, we have limited ability to make members occupy a vacant service residence.

Purpose 1: Provide housing solutions for ADF members to meet Defence operational requirements

Activity	Environmental factors	Capability and performance strategies
<ul style="list-style-type: none"> • Deliver a diverse portfolio of properties that meet the needs of Defence, ADF members and their families. • Meet Defence's future provisioning requirements through large scale development projects. • Continue to be recognised as an industry leader in innovation, diversity and sustainability. 	<ul style="list-style-type: none"> • Increasing levels of RA in some areas indicates there is a disconnect between the housing preferences of ADF members and families, and the housing DHA is delivering in accordance with Defence policy. • Competitive residential property market conditions and the limited supply of properties that meet Defence's minimum requirements in terms of location, amenity and rent band classification or rent ceiling. • Urban growth and densification and competition among developers contributing to the limited supply of land suitable for future Defence housing. • Rapid advancement in predictive analytics and data modelling technologies for demographic profiling of customers. • Spatial mapping technologies available to assist with greater portfolio management outcomes. • Development risk from large scale developments, including market conditions and project and contractor management. • Balancing Defence provisioning need, community need and DHA's revenue objectives and portfolio management flexibility through large scale developments. 	<ul style="list-style-type: none"> • Deliver on the agreed capital program via a combination of development, construction, upgrades, acquisition and leasing, including investment in Defence-owned housing. • Continue to foster relationships with Defence representative groups, such as Defence Families of Australia, and use demographic profiling technology to better understand ADF member and family housing preferences. • Continue to foster relationships with state/territory governments and their responsible agencies, local councils, developers and other industry partners to identify land/development opportunities. • Robust risk identification and project management processes to control/mitigate risk associated with development activities. • Continue a program of innovation with a robust process for introducing, trialling and accepting or rejecting innovative products to ensure our portfolio meets all stakeholders' expectations. • Maximise financial benefits of development projects through research and development tax offsets.

Performance measures

The following performance measures are reviewed and reforecast on a quarterly basis to reflect the impact of environmental and operational factors, as well as changes in Defence's forecasting to meet operational requirements. Provisioning targets are formally agreed by Defence in March 2018. These are the true basis for measuring our performance rather than the corporate plan targets.

Key performance indicator	Actual	Target
	2016-17	2017-18
Properties provisioned for Defence (MWD)	16,900	16,440
Properties provisioned for Defence (MCA)	1,217	1,319
Properties constructed or purchased (MWD)	727	1,892
Properties constructed or purchased (MCA)	213	163

Purpose 1: Provide housing solutions for ADF members to meet Defence operational requirements

Provisioning program summary

MWD capital program

DHA will provide MWD properties in 33 metropolitan regional and remote locations to meet approximately 94 per cent of Defence's core housing demand as per 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	Target
	2016–17	2017–18
Opening balance	17,121	16,827 ²
Acquisitions and constructions (including on-base housing)	727	596
Direct leasing, lease renewals and options	1,117	1,296
Additions	1,844	1,892
Disposals, Defence handbacks and other movements	253	257
Lease ends	1,812	2,022
Subtractions	2,065	2,279
Closing balance	16,900	16,440

MCA capital program

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

MCA capital program summary ¹	Actual	Target
	2016–17	2017–18
Opening balance	970	1,235 ²
Acquisitions and constructions (including on-base housing)	213	96
Direct leasing, lease renewals and options	61	67
Transfers	18	0
Additions	292	163
Disposals, Defence handbacks and other movements	5	8
Lease ends	40	71
Subtractions	45	79
Closing balance	1,217	1,319

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 2016–17 closing balance and 2017–18 opening balance is due to the opening balance numbers being forecast prior to 30 June 2017.

Purpose 2: Provide housing related services and excellent customer service to ADF members and investors

Purpose description

We provide housing allocation and tenancy management services to ADF members and their families in accordance with Defence policy. We provide property care services to investors in accordance with lease agreements. We provide excellent, consistent customer service nationally in accordance with our service charter.

Key activities, environmental factors and capability strategies

Activity	Environmental factors	Capability and performance strategies
<ul style="list-style-type: none"> Provide housing related services to MWD in accordance with the Services Agreement and to MWOD and MWD(U) in accordance with the MCA Agreement. Be the supplier of choice for Defence and ADF members. Allocate housing and administer the payment of RA to ADF members in line with Defence policy. Deliver high quality, consistent and contemporary end-to-end property and tenancy services, including a service that assists the relocation process during the posting cycle. Provide transparent and cost effective repairs and maintenance services (whole-of-life asset management). Provide excellent customer service in accordance with our service charter. 	<ul style="list-style-type: none"> Evolving technology is creating new communication expectations in our customer base. Changes to Defence policy and systems. Increased focus on the management and administration of Commonwealth funds. A review of the Services Agreement (MWD contract) is underway and will be completed in 2018. A review of the MCA Agreement is underway in two phases. A revised fees and charges structure has been agreed and a contract change is imminent. A review of the full agreement, including its term, risks and return, will commence in 2018. 	<ul style="list-style-type: none"> Continue to focus on core business to ensure contractual KPIs for housing related services and customer service are met. Evolve our customer engagement and communications model. Increase the use of data to identify trends and to improve service delivery and increase customer satisfaction. Continue a program of in-house research (i.e. surveys) to measure customer satisfaction and identify opportunities for product and service improvement. Continue to support the implementation of Defence One (Defence's project to implement a new payroll system for ADF members) and work with Defence to ensure effective management of member contributions and debts. Robust risk identification and processes to control/mitigate risk associated with privacy and security. Continued focus on stronger governance of properties under strata management. Implement a strategic workforce and development program to maximise customer service.

Performance measures

Preliminary data for the member satisfaction targets is reviewed quarterly, but the target is formally measured annually. The investor satisfaction target is only measured annually.

Key performance indicator	Actual	Target
	2016–17	2017–18
Members satisfied with their service residence	87.3%	≥80%
Members satisfied with overall customer service	93.3%	≥80%
Members satisfaction with maintenance on occupation	n/a	≥80%
Members satisfied with completed maintenance	95.9%	≥90%
Investors satisfied with overall customer service	94.6%	≥90%

Purpose 3: Maintain a robust financial position to deliver commercial returns to the Australian Government

Purpose description

We self-fund our operations through the receipt of commercial rent, fees and charges from Defence for our services and revenue generated from our property investment and sales programs. We add to shareholder value and deliver quality and professional outcomes by maintaining a robust financial position, sound governance practices, a skilled and productive workforce and a safe workplace.

Key activities, environmental factors and capability strategies

Activity	Environmental factors	Capability and performance strategies
<ul style="list-style-type: none"> Continue to generate sufficient capital funding to support current and future business operations. Deliver value for money services to Defence. Pay dividends based on a payout ratio of 60 per cent of Net Profit After Tax (NPAT). 	<ul style="list-style-type: none"> Macro-regulatory and fiscal environment, including changes in taxation, lending constraints, interest rates and property markets. Increasing number of competing investment products. High levels of household debt means property investment and ownership is increasingly unachievable. Changes in investor demand, including property types, location, price points and yield. Changes to rental growth and yields effecting our sales prices and margins, particularly development margins. 	<ul style="list-style-type: none"> Continue to self-fund our operations through the property investment program and the sale of surplus assets. Continue to investigate alternative funding and investment options. Strengthen our relationship with investors by providing more timely and comprehensive information on their property investment. Improve investor satisfaction with DHA investment products to increase repeat sales.
<ul style="list-style-type: none"> Continue to comply with ministerial directions, legislative requirements and changes to industry standards relevant to our operations. 	<ul style="list-style-type: none"> The Australian Accounting Standards Board (AASB) issued AASB 16: Leases on 16 February 2016. The standard is applicable to annual reporting requirements beginning on or after 1 January 2019. 	<ul style="list-style-type: none"> We are working to fully assess the impact of and develop a response to the new leasing standards.
<ul style="list-style-type: none"> Continue to improve internal governance and business practices. 	<ul style="list-style-type: none"> Ability to attract and retain staff with relevant property experience and remunerate them within the Australian Public Service framework. 	<ul style="list-style-type: none"> Implement compliant, best practice and sustainable governance, financial, human resources, technology and Work Health and Safety practices and processes.

Performance measures

Due to commercial sensitivities, we do not publish our financial-related performance targets. In the period of this SCI we will work to achieve the below staff-related performance indicators which are measured annually.

Key performance indicator	Actual	Target
	2016–17	2017–18
Staff turnover rate	13.8%	≤15%
Staff engagement	85%	≥75%
Total recordable injury frequency rate (TRIFR)	5.9	≤11
Wages expense ratio	6.1%	≤6.6%

Risk oversight and management

Our approach to 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 our 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 to ensure we achieve our vision and purposes during the period of this SCI:

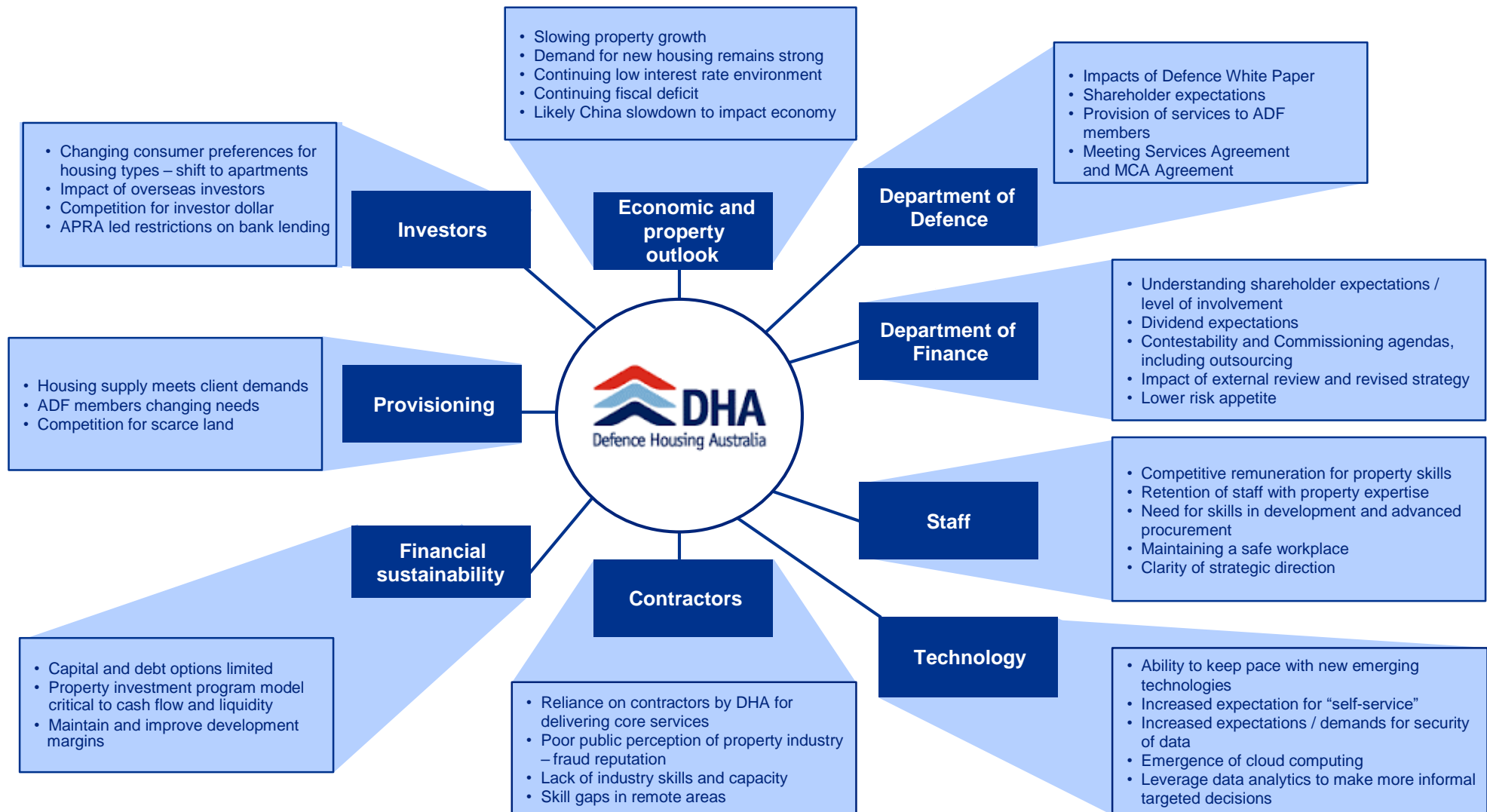
- reduced ability to source cost effective and suitably located land and housing for ADF members that meets Defence's provisioning requirements
- sustainability of our current funding model and risk to funding into the future
- implementation of new leasing and revenue standards (IFRS 15 and 16)
- cyber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

The diagram over the page provides an environmental scan of key stakeholders and perspectives from which key strategic risks to the achievement of our vision and purposes have been identified.

In the period of this SCI we are also working to mature our capacity to understand and manage risk through the development and implementation of a more integrated enterprise risk management approach.

Risk oversight and management

Environmental scan



Acronyms and abbreviations

AASB	Australian Accounting Standards Board
ACT	Australian Capital Territory
ADF	Australian Defence Force
APS	Australian Public Service or Approved Provisioning Schedule
CRO	Chief Risk Officer
Defence	Department of Defence
DHA	Defence Housing Australia
DHA Act	<u>Defence Housing Australia Act 1988</u>
DHA IML	DHA Investment Management Limited
DHF	Defence Housing Forecast
DPS	Draft Provisioning Schedule
GBE	Government Business Enterprise
KPI	Key Performance Indicator
MCA	Member Choice Accommodation
MCA Agreement	MWOD and MWD(U) Choice Accommodation Agreement
MWD	Member with Dependants
MWD(U)	Member with Dependants (Unaccompanied)
MWOD	Member without Dependants
NPAT	Net Profit After Tax
NSW	New South Wales
NT	Northern Territory
PGPA Act	<u>Public Governance, Performance and Accountability Act 2013</u>
QLD	Queensland
RA	Rent Allowance
SA	South Australia
SCI	Statement of Corporate Intent
Services Agreement	Services Agreement on Housing and Related Matters
TAS	Tasmania
TRIFR	Total Recordable Injury Frequency Rate
VIC	Victoria
WA	Western Australia
WHS	Work Health Safety