

# Statement of Corporate Intent

**2019–20 to 2022–23**

31 August 2019

# Statement of preparation

Defence Housing Australia's Statement of Corporate Intent 2019–20 to 2022–23 was prepared in 2019, and covers the financial years from 2019–20 to 2022–23 in accordance with 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) purpose, strategy, priorities, objectives, and key initiatives for taking DHA forward to ensure we have a sustainable business model which is responsive to market changes for the 2019–20 reporting period in accordance with the *Public Governance Performance and Accountability Act 2013* (PGPA Act).

We have a clear purpose. DHA was established in 1988 following passage of the *Defence Housing Australia Act 1987* (DHA Act) to provide adequate and suitable housing, and housing-related services, to members of the Australian Defence Force (ADF) and their families. The primary purpose has remained unchanged over the last 30 years. However, we continue to adapt and evolve.

DHA has long been recognised for its expertise, flexibility and capacity to adapt and respond to changes in our operating environment. We continue to see rapid change and disruption driven by digital transformation and market conditions as well as economic, demographic, macro-regulatory and policy shifts. The risks and opportunities these may bring over the coming four years have helped to shape this Statement.

We have identified four strategic priorities to provide a framework for setting goals to achieve the outcome mandated by government – housing services that meet Defence operational needs through a strong customer and business focus. We recognise that our customers are central to the success of our business and we are committed to meeting their needs and the needs of the Government as the owner of the business by managing a high quality housing portfolio in a sustainable and fiscally prudent manner.

We are pleased to present our Statement of Corporate Intent 2019–20 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 an organisation that plays such a critical role in supporting Defence capability.

# 2018–19 in review

During 2018–19, we continued to ensure that our purpose — to deliver housing and related services that support the operational, recruitment and retention goals of the Australian Defence Force (ADF) — is at the forefront of everything that we do.

DHA is a complex business, operating in a complex environment. In 2018–19 external factors, over which DHA has little control, continued to challenge our traditional ways of doing business. Falling property markets, evolving housing preferences, and rapid changes in the societal, technological, environmental and economic context compelled us to undertake a number of significant activities to address these challenges and position DHA to continue to meet the housing needs of ADF members in a financially sustainable way.

During 2018–19, DHA continued to support Defence capability, including through:

- ▶ providing high levels of service to ADF members and their families, resulting in customer satisfaction scores consistently above the key performance indicator target of 80 percent
- ▶ providing assistance and support to rehouse ADF members and their families impacted by the Townsville floods
- ▶ renewing our approach to capital planning by incorporating greater detail and segmenting provisioning to reflect regional and Defence Housing Forecast areas by rent band
- ▶ implementation of the new leasing and revenue accounting standards
- ▶ being an official supporter of the 2018 Invictus Games held in Sydney on 20–27 October 2018
- ▶ continuing to focus on sustainability and safety in our housing developments, receiving a number of awards including for Prince's Terrace in Adelaide, the 2018 HIA Australian GreenSmart Award for best Townhouse/Villa and the Urban Development Institute of Australia (South Australia) — Award for environmental excellence and award for small scale development.

Key initiatives to be progressed during 2019–20 include:

- ▶ developing a service whole-of-life delivery model (Strategic Priority 1 – Customers)
- ▶ reviewing investment and inventory property portfolios, setting long-term regional portfolio objectives, and developing a whole-of-life asset delivery model (Strategic Priority 2 – Portfolio)
- ▶ undertaking further reviews of costs and resource commitments and benchmarking (Strategic Priority 3 – Financial)
- ▶ attracting and retaining staff with the skills and experience to implement the new asset and service models, and developing IT architecture to support them (Strategic Priority 4 – Capability).









SECTION 01

# Purpose

Our purpose

Our services

# Our purpose

In accordance with the *Defence Housing Australia Act 1987* (DHA Act), DHA is responsible for providing adequate and suitable housing, and housing-related services, to members of the ADF and their families, and services ancillary to this primary purpose.

The 2019–20 Portfolio Budget Statement outlines DHA's primary outcome is to contribute to Defence outcomes by providing total housing services that meet Defence operational and client needs through a strong customer and business focus.

This outcome is broken down into two key purposes, to:

- provide quality housing and related services, and
- provide value to shareholders.

The Defence Services Agreement (DSA) specifies that DHA will provide an agreed number of suitable houses as per the Defence Housing Forecast. Suitable houses must comply with standards as set out in the agreement and ADF Pay and Conditions Manual (PACMAN).

We are required to operate in accordance with the requirements of the DHA Act and the *Public Governance, Performance and Accountability Act 2013* and associated Rules. As a Government Business Enterprise (GBE), DHA must also operate efficiently and deliver commercial returns to its shareholders — the Ministers for Defence and Finance acting on behalf of the Australian Government.

## One DHA brand values

Everything DHA does frees Defence members, investors and local communities from day-to-day worries and concerns bringing them certainty; letting them look forward to living life today and tomorrow. DHA's brand values are:

**Hassle free:** We help by taking away some of the day-to-day hassle, giving ADF members, investors and communities freedom to live their lives.

**Certainty:** We do everything possible to bring certainty in an uncertain world.

**Human:** We aim to let people focus on what really matters in their lives.



## Organisational structure

### Shareholder Ministers

Two Shareholder Ministers oversee the Australian Government's interests in DHA: The Minister for Defence and the Minister for Finance. As DHA sits within the Defence portfolio of the Australian Government, the Minister for Defence or their delegate is DHA's responsible Minister. The Minister for Finance is responsible for, amongst other things, providing shareholder advice on all Government Business Enterprises, including DHA.

### Board

A Board of Directors is established in accordance with Part III of the DHA Act and is the accountable authority for DHA under the PGPA Act. The Board is responsible for the proper and efficient performance of DHA's functions. The Board makes decisions on organisational direction and strategy, which are articulated through a Corporate Plan.

### Board committees

In accordance with section 64(1)(a) of the DHA Act, the Board has established three committees to assist in the discharge of its duties. Amendments to the DHA Act in 2006 established the DHA Advisory Committee to advise on the performance of DHA's functions (refer to Part III of the Act).

The Board and each of its committees has a charter that sets out its purpose, composition and meeting and administrative arrangements. The Board considers the composition of committees periodically. The committees include:

- › Board Audit Committee (BAC)
- › Board Investment Committee (BIC)
- › Nomination and Remuneration Committee (N&RC)
- › DHA Advisory Committee.

### Managing Director

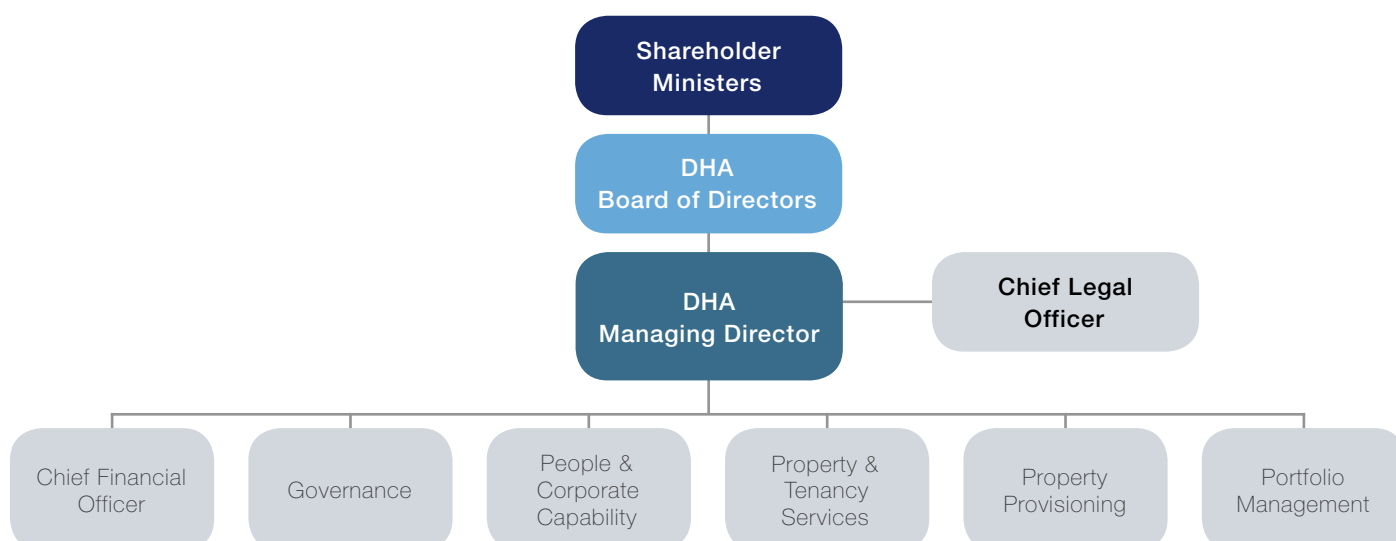
The Managing Director is employed by the Board and is the only executive director of the Board. The Managing Director is responsible for conducting the operational affairs of DHA in accordance with the DHA Act and any policies determined by, and directions given by, the Board. The Managing Director oversees DHA's strategic direction, organisational structure, staff, performance and relationships with key stakeholders.

### Senior Executive Group

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

Figure 1

Organisational structure as at 30 June 2019



## Business groups

### **Chief Financial Officer's Group**

The Chief Financial Officer's Group supports effective decision making, resource allocation and accountability through strategic planning, capital planning and budgeting processes and the delivery of financial management services including performance reporting via the corporate plan, quarterly reports and the annual report. This group is also responsible for the management of the investment book. The core functions of the group include:

- › strategic planning and performance framework
- › budgets and forecasting
- › financial management and reporting services including financial and project accounting, tax, assets, treasury, revenue, financial systems and business support
- › provisioning and managing the investment portfolio
- › research services, horizon scanning and performance measuring
- › valuation services.

### **Governance Group**

The Governance group is responsible for facilitating and administering compliance with DHA's legislative requirements and overarching corporate governance frameworks. The core functions of the group include:

- › company secretariat for the Board and Chairman, Board committees and key executive committees
- › legislative compliance and requirements, including Freedom of Information, Power of Attorney, Privacy, Public Interest Disclosures, DHA Act and PGPA Act
- › internal audit functions to provide independent and objective assurance and advisory services
- › risk, resilience and corporate compliance: oversee enterprise risk management, fraud control and anti-corruption, enterprise resilience, insurance and compliance
- › complaints management.

### **People and Corporate Capability Group**

The People and Corporate Capability group is responsible for delivery of corporate enabling services. The core functions of the group include:

- › business solutions, technology and services
- › commercial office accommodation
- › health, safety, environment and quality
- › people and capability services
- › compensation and early intervention (case management)
- › procurement
- › protective security.

### **Property and Tenancy Services Group**

The Property and Tenancy Services group is the service delivery arm of the organisation, providing housing allocation and tenancy management services to ADF members and their families and property management services to investors in accordance with lease agreements. The core functions of the group include:

- › providing housing allocations
- › property maintenance services
- › portfolio and housing stock management
- › living in accommodation booking services
- › administration of rent allowance
- › leasing.

### **Property Provisioning Group**

The Property Provisioning Group is responsible for developing and implementing an acquisition, development and construction program to support portfolio provisioning and financial objectives. The core functions of the group include:

- › property sourcing, direct leasing and acquisition
- › development and construction including project, financial management and reporting
- › property sales and marketing
- › property quality assurance and upgrades.

### Portfolio Management Group

This group contributes to the organisational value through effective stakeholder engagement and sustainable portfolio management. The core functions of the group include:

- › generate revenue through the property investment program and disposals
- › manage the inventory portfolio
- › strata management
- › oversee and negotiate contractual arrangements with Defence
- › strategic communication and brand stewardship
- › investor relations.

### Our staff and office network

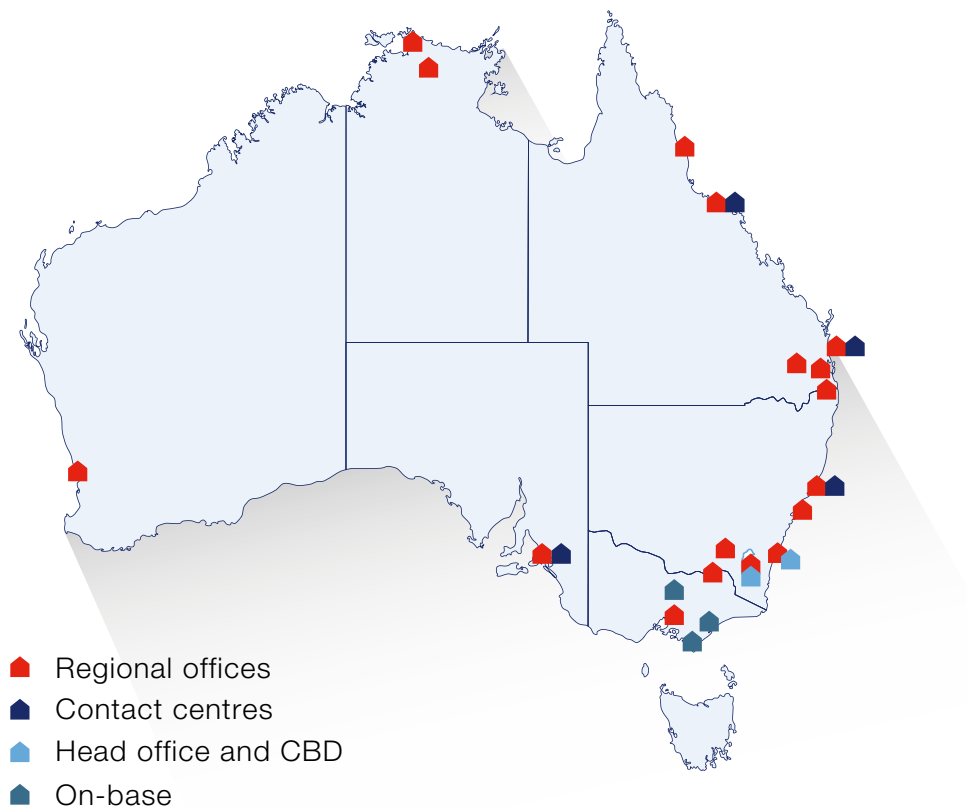
Staff in our regional offices deliver customer facing services to ADF members and their families and investors in capital cities and major regional centres where the ADF has a presence. DHA staff are also located in three on-base locations at Sale, Puckapunyal and Cerberus (Victoria) in accordance with a license agreement with Defence. Regional office staff are supported by staff in four regional contact centres, who are the first point of contact for housing services, maintenance services and the allocation of on-base Living in accommodation (LIA). Our Elizabeth Street office in the

Sydney Central Business District (CBD) is predominately occupied by Property Provisioning and Portfolio Management Group staff. We are currently in the final stages of negotiating lease terms and conditions for a new office space in the CBD and relocating the office at the end of August 2019.

Staff in head office in Canberra are responsible for overseeing strategic development, operational programs, corporate governance and corporate support.

Figure 2

Office network as at 30 June 2019







# Our services

We administer Defence housing policy and provide housing and related services for ADF members and their families in accordance with the service agreements between DHA and Defence. Through our Property Investment Program, we also offer property investment opportunities under sale and leaseback arrangements.

## For Defence members and their families

- › Provision a property portfolio, and manage and maintain housing.
- › Assist in finding a housing solution through our Housing Consultants located around Australia and online services system.
- › Provide a booking and allocation service.
- › Administer the payment of allowances for Defence members occupying rental accommodation.
- › Construct and acquire properties to meet Defence housing demands.
- › Redevelop properties to meet Defence standards.

## For investors and property owners

- › Sale and leaseback of properties through the property investment program.
- › Secure, long-term leasing arrangements for property owners.
- › Property maintenance and tenancy management.





**DHA**

Defence Housing Australia





SECTION 02

# Portfolio, provisioning and planning

Our property portfolio

Provisioning and planning

# Our property portfolio

We manage a diverse portfolio. Our properties are located in capital cities, major regional centres and in remote parts of Australia. Our portfolio includes more than 1,200 houses located on Defence bases and establishments.

We acquire properties through development and construction, purchase and leasing programs, and allocate these in accordance with Defence policy. The majority of the properties we manage are privately owned and leased to DHA by investors.

The majority of our portfolio comprises detached three and four bedroom service residences. These properties are designed for members with dependents and meet the compliance conditions as set out in the Defence Service Agreement and the Defence Pay and Conditions Manual. We also offer Rent Band Choice properties for members with dependents which provide

members with a greater choice in property types and amenity. These townhouses, courtyard-style houses and apartments are being increasingly supplied in selected locations where detached housing is not available. These housing types are suited to Defence members who prefer well-located inner city living over a larger property and garden. We also offer Members Choice Accommodation designed for members without dependents, as an alternative to finding housing through the private rental market.



## Property Investment Program

To meet evolving housing portfolio requirements, we provide a unique investment opportunity for Australian residential property investors. DHA has properties that are categorised as inventory stock to be sold to investors through the Property Investment Program (PIP). These properties are then leased back on a long-term arrangement — usually between nine and 12 years. A number of factors are considered when selecting properties for the PIP. These include:

- › assessment of alignment to strategic provisioning needs
- › current year revenue and profit targets per the Corporate Plan
- › investor demand for properties in each region as well as recent demand for similarly listed stock
- › price point and yield of the specific properties being selected
- › profitability of specific properties being selected
- › consideration of the medium to long-term financial sustainability, when a number of properties are delivered to the portfolio in a given financial year the selection of properties for PIP is managed to spread sales out over a number of years
- › number of properties available for selection in each region.

The optimal outcome is to have a portfolio with properties available for inclusion in the PIP across all regions. This mitigates the risk on a year to year basis of only having properties available for sale in poorly performing markets subsequently increasing the risk of not achieving future Corporate Plan targets.

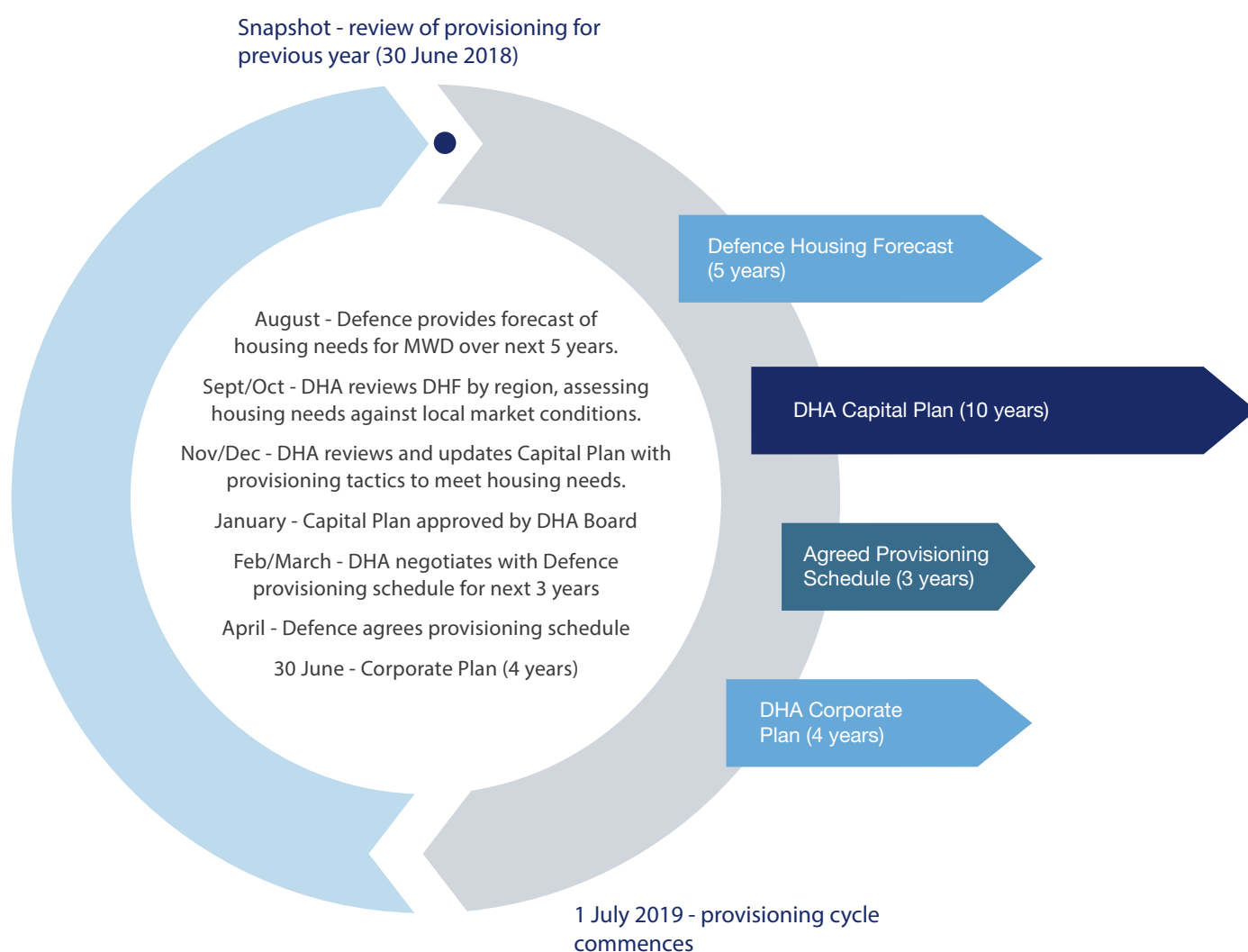
During the 2018–19 financial year, the combination of falling property prices leading to negative market sentiment and stricter lending criteria made it harder for potential buyers to borrow resulting in challenging selling conditions for the PIP. The property market during this period saw low auction clearance rates, lower volumes of sales, higher vendor discounting and properties remaining listed for longer. Despite these challenging conditions, DHA ballot sell through rates were above auction clearance rates indicating that DHA products still appeal to potential investors, reducing the impact of negative external market forces to some degree.

# Provisioning and planning

DHA provisions housing for ADF members and their families based on the five-year forecast of housing requirements provided by the Defence Housing Forecast (DHF). The DHF is updated annually to adjust and confirm requirements for the current year and provide a forecast of housing needs for the following four years. DHA has in place extensive provisioning processes and activities, which occur year round and facilitate a whole of business approach (see figure 3 below).

Figure 3

Annual provisioning planning cycle



This planning process results in an Approved Provisioning Schedule (APS) which sets the targets for the number of service residences and other housing options required for next three years (see table 1).



**Table 1: DHA/Defence Approved Provisioning Schedule of housing for Members with Dependants (April 2019)**

Financial Year	Defence Housing Forecast	Defacto RA*	DHA Target Demand**	DHA Provisioning Target***	Opening balance	Total additions	Total subtractions	Closing balance
2019–20	19,811	2,277	17,534	16,428	16,543	1,631	1,747	16,427
2020–21	20,067	2,277	17,790	16,289	16,427	1,979	2,118	16,288
2021–22	20,196	2,277	17,919	16,283	16,288	2,217	2,225	16,280

\* MWD RA recipients approved on basis of Defence policy that recognises the Member as MWD under Interdependent Partnership (IDP or "defacto") policy

\*\* DHF less RA approved on basis of Interdependent Partnership policy (these members are not included in DHA Target Demand for Service Residences on the assumption they remain housed in RA)

\*\*\* Provisioning target agreed between DHA and Defence through the Approved Provisioning Schedule. Generally calculated as 90% of DHA Target Demand for each rent band in each region unless regional requirements determine a different target. This acknowledges that not all MWD members will be housed in a service residence and may instead be approved for rent allowance.

## Regional provisioning

The Defence Housing Forecast is made up of unique regional areas. Each region is managed to supply housing to ADF members and their families taking into account the different property needs, housing availability and market conditions, within the policy parameters set by the Department of Defence. Major metropolitan areas such as Sydney East, Sydney West, and Melbourne have relatively stable housing requirements. However, the housing portfolios are aging, lease arrangements are coming to an end, there is very limited developable land available in acceptable locations and property prices are relatively high. Even though property prices have declined over the last 12 months, sustained population growth in these cities is likely to drive underlying demand for housing over the longer term. In addition, housing density is rapidly increasing, and new properties that are built privately are unlikely to comply with Defence housing requirements,

especially in terms of external storage and outdoor amenity requirements. Medium sized cities and regional centres such as Adelaide, Ipswich and Newcastle (Hunter) have also seen community standards for housing evolve to a higher density model/design to allow for smaller lot sizes, with the average lot being between 250–300 square metres. Even in these smaller cities, ADF members have a preference for properties closer to the city and in locations that offer a rich lifestyle experience (i.e. close to services, entertainment, schools, public transport, shopping, spouse employment are more desirable). Housing in these locations is increasingly medium density, such as townhouses.

In summary, different ADF families have different needs. Some ADF members seek properties closer to CBDs with access to good transport, options for spouse employment, recreational opportunities and better lifestyle amenity.

For them location is a form of amenity and they are willing to trade off larger homes with backyards, storage and garaging. Other ADF members prefer houses that are larger with greater amenity and are willing to accept a location further away from the CBD. ADF members expect housing choice and options that suit their lifestyle preferences. They desire housing that meets community standards in locations with good infrastructure (schools, shops, etc.), recreational opportunities and with transport that provides access for their spouse to employment opportunities. Current property compliancy rules make this difficult to achieve in many regions while continuing to refresh the portfolio with new high quality houses as leases expire.

DHA works collaboratively with the Department of Defence to provide housing with an increased focus on specific regional requirements, using insights from our customers and underpinned by prudent financial practices.

## Developments

We acquire property sites throughout Australia to develop and construct suitable accommodation to meet ADF requirements. While development projects require long lead times and significant capital expenditure, they provide greater flexibility in meeting ADF housing requirements and generate revenue through the sale of surplus stock.

## Acquisitions

DHA targets financially viable development opportunities in locations where achieving provisioning requirements would otherwise be difficult. Canberra, Sydney, Adelaide and Brisbane have been identified as priority development areas to meet future provisioning requirements.

## Development risk mitigation

The development program manages risk by conducting bi-annual risk assessments that consider a number of typical development risks and potential cost implications. The development model incorporates a contingency allowance to cover the cost of risks identified.

Retail and developable land is in limited supply in the areas that support suitable Defence housing, making it difficult for DHA to purchase properties that meet both provisioning and financial criteria. The mix of provisioning methods available to DHA provides us with the flexibility to adjust programs to respond to changing market conditions and meet Defence housing requirements. A critical risk to the development program is the successful disposal of surplus properties. Revenue projections and sales rates significantly influence DHA's financial position. This risk is mitigated by implementing regular project reviews and updating property valuations. Current valuation figures are used in all projects without projected market movements in growth. Strategic sales and marketing plans are developed and updated to address emerging market conditions.













SECTION 03

# Environment



# Environment

The context within which DHA operates is complex and constantly evolving. Our property portfolio covers every state and territory in Australia. This means that we must be sensitive to both national and regional changes in our operating environment.

## Regulatory factors

In addition to the *Defence Housing Australia Act 1987*, that describes and enables DHA to complete its core objectives, DHA is governed by various Australian Government, state, and territory legislation, including:

- › *Public Governance, Performance and Accountability Act 2013* and associated Rules
- › *Public Service Act 1999*
- › *Archives Act 1983*
- › *Freedom of Information Act 1982*
- › *Privacy Act 1988*
- › *Public Interest Disclosure Act 2013*
- › *Fair Work Act 2009*
- › *Work, Health and Safety Act 2011*.

Our core objective of providing housing services to ADF members and their families is governed by contractual relationships with the Department of Defence for the provision of these services.

## Economic factors

Through our operations in buying and selling property, selling with leaseback arrangements and property development activity, the property market constantly influences DHA activities.

Constrained credit availability has impacted property markets nationally, influencing the capacity for investment in DHA's housing products.

Nationally, the residential property market has seen a decline in capital growth rates over the last few years. This trend has been driven by steep declines in Sydney and Melbourne. Declines in capital value will eventually shift perceptions about affordability. When this point is reached and credit availability picks up, we anticipate that investor activity will increase.

Figure 4

National housing credit growth trends<sup>1</sup>

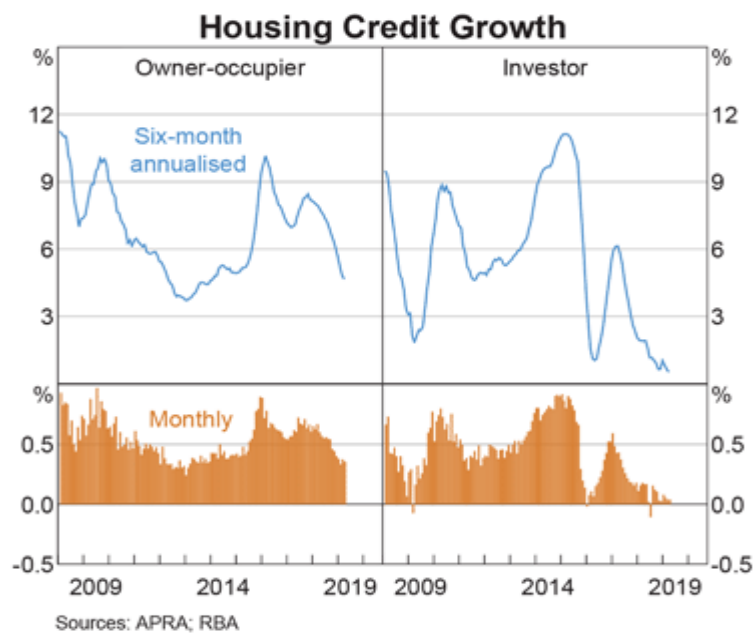
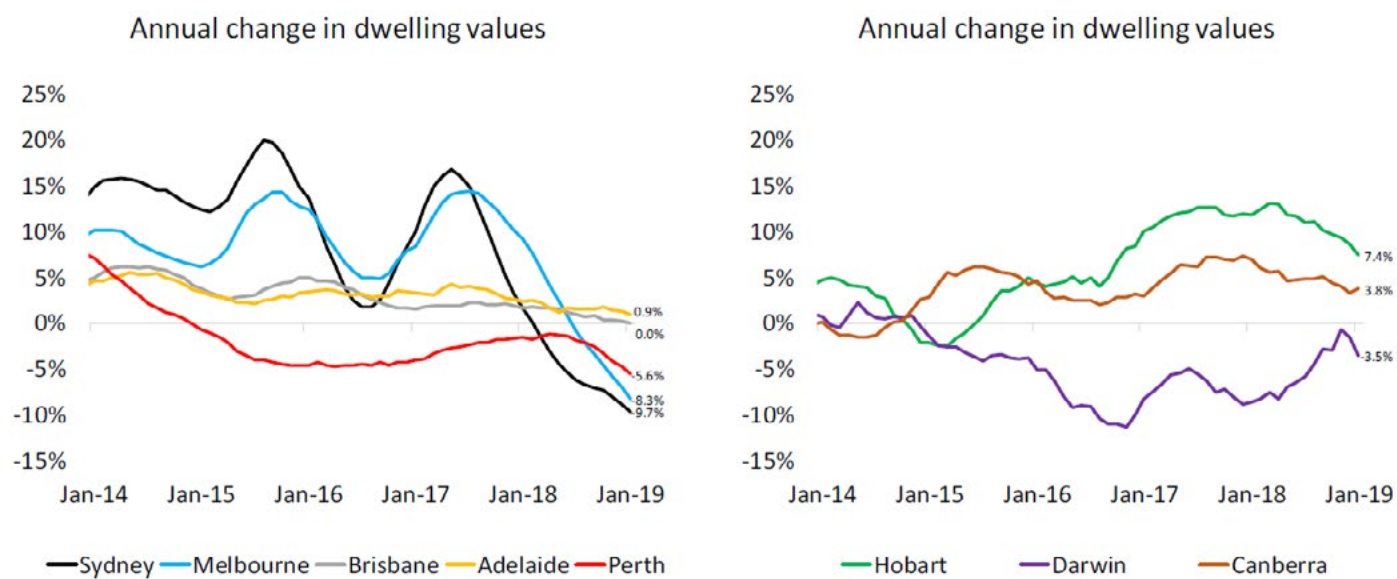


Figure 5

State-level trends in residential property capital growth<sup>2</sup>



<sup>1</sup> Source: RBA 2019

<sup>2</sup> Source: CoreLogic, January 2019

## Demographic and social factors

ABS census data suggests that the types of household found in Australia has changed over time.<sup>3</sup> As the population of Australia grows the relative proportion of people living in family households, has declined. On the other hand, the proportion of people living in couple households or single households has increased. This trend is expected to continue through the next several years, and influences the demand for different types of houses.

Similarly, over time, the needs of ADF members and their families have changed. There are now a mixture of singles, de facto couples, married couples, single income households, double income households and small, large and blended families, in need of accommodation, resulting in a diverse set of housing preferences.

### DHA investors

DHA's investors, as well as our target market of potential investors, typically:

- › have a household income exceeding \$100,000 per annum
- › are aged between 35 and 54
- › live in major cities, and
- › are early adopters of technology.

Relative to the general Australian public, DHA's investors are:

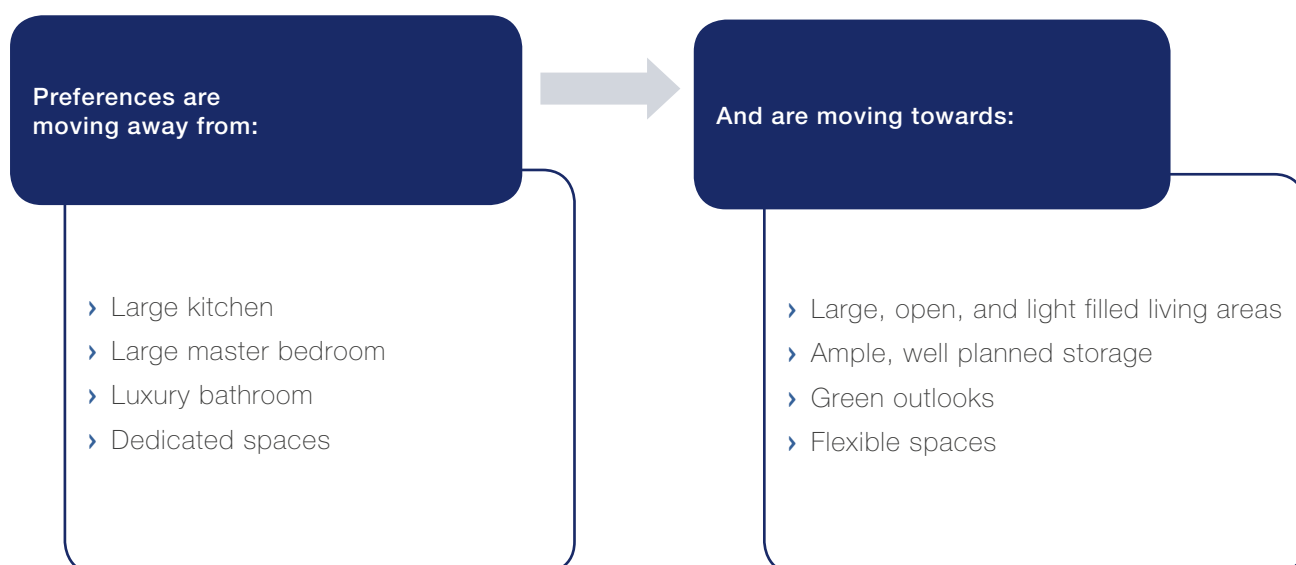
- › more likely to be established or older couples and families, and less likely to be young or maturing couples and families or elderly families, and
- › more likely to live with family or extended family, and less likely to be living in a couple household, or as a single.

## Trends in housing preferences

The housing and amenity preferences of Australian homebuyers, investors, and ADF members form part of the complex environment in which DHA operates. Over the last decade there has been a shift in housing preferences, see Figure 6.

Figure 6

Trends in Australians' housing preferences



<sup>3</sup> Source: ABS (2019) *Household and Family Projections, Australia, 2016 to 2041* (Catalogue no. 3236.0)).

Surveys conducted by DHA have shown that ADF members prioritise choice of properties. Furthermore, the preference for increased choice in housing options includes a willingness to consider housing that does not meet current full compliancy standards in exchange for housing solutions in more desirable locations. ADF member feedback indicates they are highly satisfied living in detached houses, but also that a substantial proportion of members and partners would be satisfied living in townhouses or unit/apartments. This result is strongest in the Sydney East and Canberra regions.

## Technological factors

The world will continue to be increasingly connected. People, businesses and governments are increasingly moving into the virtual world to deliver and access services, obtain information, perform transactions, shop, work and interact with each other. We already offer a range of online services, but anticipate that technological advancements also raise customer expectations for integrated and personalised services that meet their unique needs.

DHA is a data rich organisation, and with data infrastructure and analysis tools continuously improving we are well positioned to enrich the insights that we already produce and share with Defence to inform housing policy.

In late 2018, the NSW Government announced a 'vision' for a high-speed rail along the Australian East coast.<sup>4</sup> Since the federal government has announced the establishment of the National Faster Rail Agency from 1 July 2019 to lead the development and implementation of a 20-year fast rail plan. A high-speed rail along the east coast could reduce travel times by up to 75%, and ultimately impact the locations available for DHA to hold housing stock.

## Environmental factors

Despite Australia's history of extreme weather events, a 2017–18 Senate inquiry found evidence that indicates that Australian buildings are not well equipped for the current climate, let alone a climate further affected by climate change.<sup>5</sup> Heat stress in housing and home occupiers' increasing reliance on air-conditioning in the hotter months of the year both have negative effects on housing stock and power infrastructure. The increased number of extreme weather events predicted by climate change will exacerbate these problems. The Senate inquiry specifically noted house renters as a particularly vulnerable group regarding the impacts of climate change, as they have limited capacity to influence the climate efficiency of housing. ADF members as occupiers of DHA housing have the potential to be similarly affected.

To address the impact of these environmental factors, we are constantly seeking ways to improve the quality and performance of the homes that we provide to Defence members. All of our houses are built to achieve a minimum six-star Energy Efficiency Rating (EER) and are silver status under the Livable Housing Design Guidelines (where possible). We continuously focus on five key areas of sustainability: energy consumption; water consumption; effective waste management; human wellbeing; and biodiversity of local flora and fauna.

4 Source: A Fast Rail Future for NSW, <https://www.nsw.gov.au/improving-nsw/projects-and-initiatives/a-fast-rail-future-for-nsw/>

5 Source: *Current and future impacts of climate change on housing, buildings and infrastructure*, Senate Inquiry, 2018, pg 78.







#### SECTION 04

## Strategic priorities

Achieving our purpose

Strategic Priority 1 – Customers

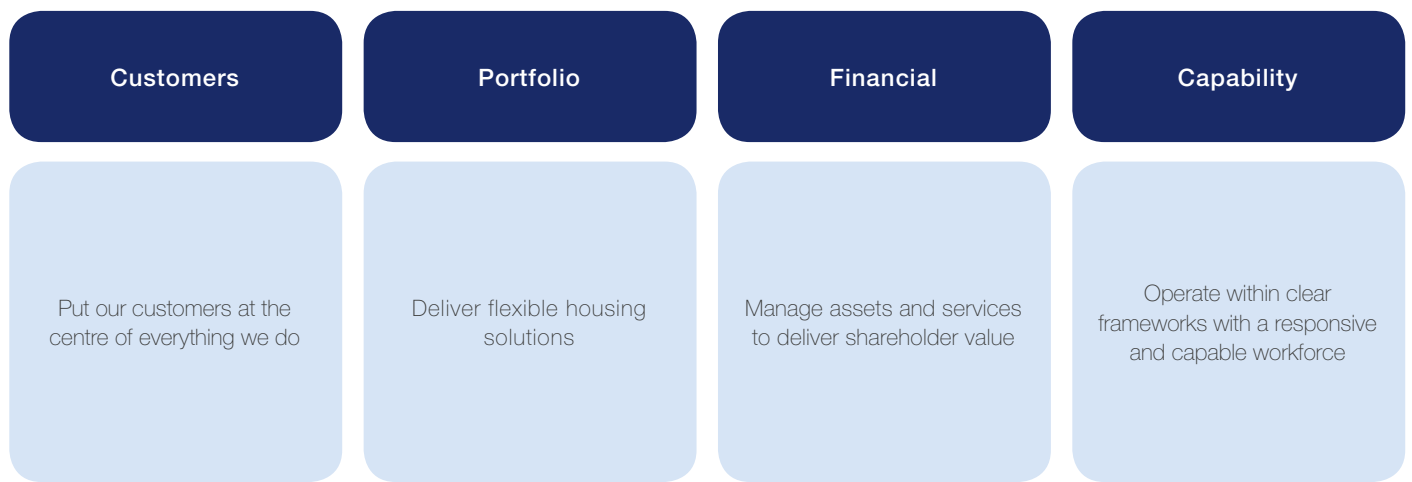
Strategic Priority 2 – Portfolio

Strategic Priority 3 – Financial

Strategic Priority 4 – Capability

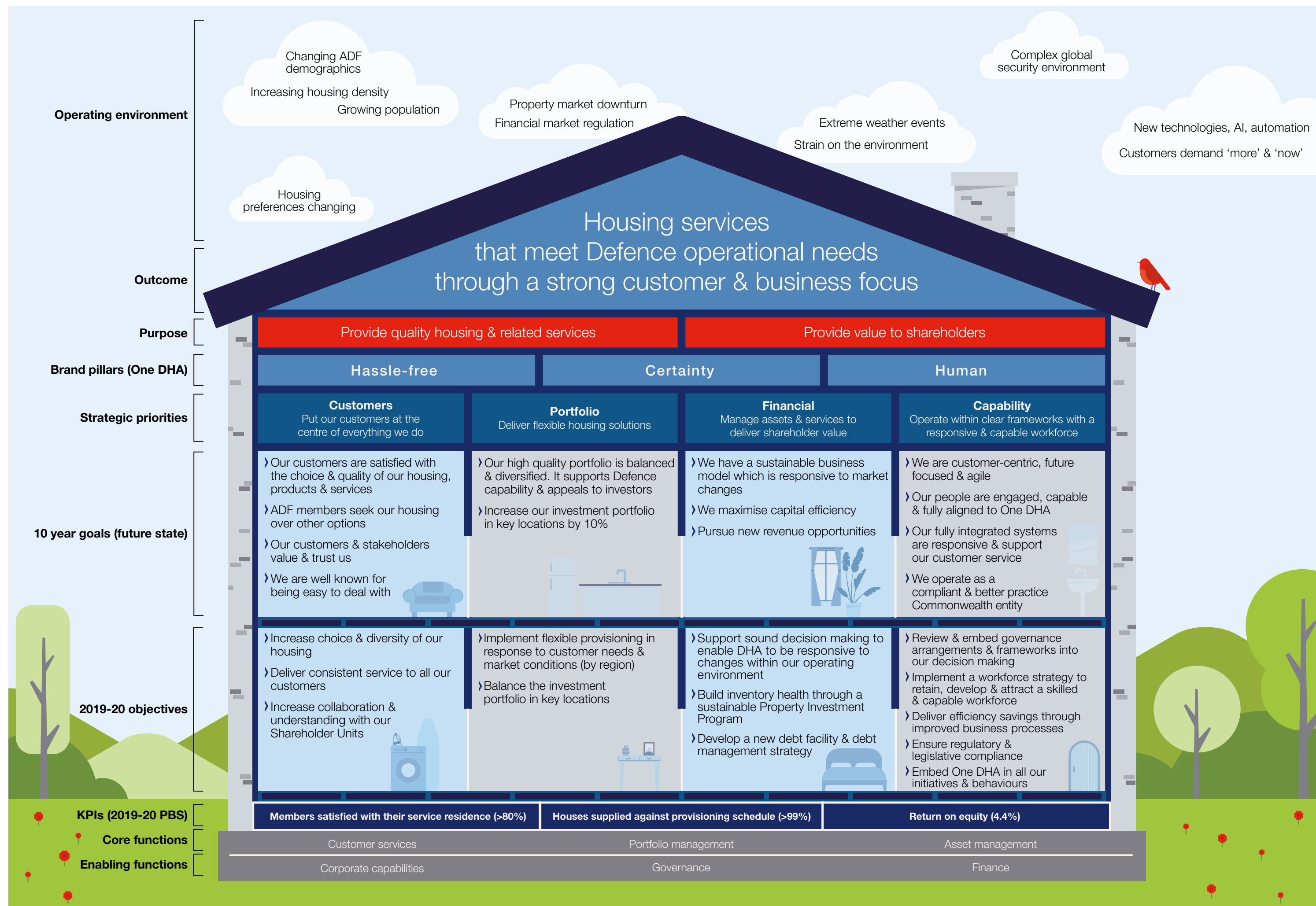
# Achieving our purpose

This statement of corporate intent sets out how DHA achieves the outcome mandated by Government through the following four strategic priorities:



These priorities provide a framework for setting goals to articulate what future success looks like and short-term objectives to be achieved over the next 12 months along with the key initiatives to be delivered, as a step on the way to achieving the longer-term future state. This framework is articulated in the DHA Strategic Canvas (overleaf).







# Strategic Priority 1

## – Customers

Put our customers at the centre of everything we do.

We have the experience, knowledge and expertise to provide quality housing solutions to ADF members and their families whilst meeting the expectations of our investors and shareholders.

Taking a customer centric approach is critical to meeting our service delivery and property management objectives. It is important to recognise that our customers are:

- › ADF members and their families – we provide seamless housing services tailored to member requirements and entitlements.
- › The Minister for Defence and Department of Defence – we support Defence capability by delivering housing when and where it is needed in a responsive and efficient manner.

- › The Minister for Finance – we operate on a commercial basis and provide value to the Australian Government as a Government Business Enterprise.
- › Investors and lessors – we provide quality housing investment options and property management services to ensure ongoing investment in our business so that the housing needs of our members are met.

Customers are central to the success of our entire business, therefore, we need to be flexible, responsive and agile to meet the ongoing and changing needs of our customers. DHA has set four strategic goals that summarise what success looks like for this strategic priority, they are the elements critical for success.

## Strategic goals

- › Our customers are satisfied with the choice and quality of our housing, products and services.
- › ADF members seek our housing over other options.
- › Our customers and stakeholders value and trust us.
- › We are well known for being easy to deal with.

To achieve these strategic goals, DHA will have an increased focus over the next four years on utilisation of customer intelligence and data analytics, innovation and strategies to enhance our service delivery to achieve a consistent and effective approach. We will develop a service whole-of-life delivery model. We will also optimise the investor experience with streamlined and enhanced investor customer services.

Housing solutions have historically been based on a standardised national model, one size fits all approach, without critical analysis of customer intelligence data. Current data shows that this housing model is no longer fully effective, due to different property markets, housing availability, ADF member demographics, and member choice. In particular there has been increased demand for townhouse/apartment style living closer to amenities in a number of locations. In 2019–20 DHA will enhance capability to use insights from customer intelligence data to inform provisioning based on specific regional requirements underpinned by prudent and sustainable financial practices. This capability will also support ongoing evaluation through data analytics and inform housing solutions into the future, as reflected in Strategic Priority 2 – Portfolio. To achieve this a small investment will be required in 2019–20, however this will support a more sustainable business going forward.

These strategies and initiatives will help DHA housing products meet the needs of Defence members so that DHA is the housing service provider of choice and position the business to provide innovative and extended service offerings.

## Measuring our success

Progress on key initiatives will be shared with Shareholders through quarterly reporting and meetings, in-line with GBE reporting requirements.

Performance indicator	Actual	Performance target			
	2018–19	2019–20	2020–21	2021–22	2022–23
Customer satisfaction	N/A	>75%	>75%	>75%	>75%
Member satisfaction with Service Residence	89%	>80%	>80%	>80%	>80%
Investor satisfaction with customer service	94%	>90%	>90%	>90%	>90%

# Strategic Priority 2 – Portfolio

Deliver flexible housing solutions.

DHA provides a range of housing solutions for our customers, including provisioning housing based on the five-year forecast of requirements provided by the Department of Defence in the Defence Housing Forecast (DHF), which is updated annually.

To meet the changing needs of our customers we need to build and maintain a portfolio that delivers flexible housing solutions. DHA has set two strategic goals that summarise what success looks like for this strategic priority, they are the elements critical for success.

## Strategic goals

- › Our high quality portfolio is balanced and diversified.
- › Increase our investment portfolio in key locations by 10%.

To achieve these strategic goals, DHA will be more proactive in ensuring that it has a robust inventory portfolio with the right properties, in the right locations, at the right time, at the right price. This strategy benefits both ADF members and their families, and expands the potential product offering to investors. We will review our investment and inventory property portfolios, setting long-term regional portfolio objectives, and develop a whole-of-life asset delivery model.

We will work with Defence to ensure a contemporary offering to ADF members and their families which reflects the flexibilities they are looking for in housing product and location.

Complementing this strategy, our investment will also be weighted towards holdings that reflect strategic housing products in key locations, including in locations that offer future redevelopment opportunities that supports returns on investment to DHA, meets Defence housing priorities and is underpinned by the needs of our customers. This means the DHA-owned property portfolio is characterised by properties held in the right locations for the right reasons and reflects the need for specific strategies in each location (that one size does not fit all requirements).

Provisioning properties for the portfolio is managed on a region by region basis at each rent band level. Building on that focus, DHA will continue to consider the specific demand in each rent band in each region and taking into account preferred dwelling types, locations, and price point considerations. We will also continue to refine acquisition strategies to leverage our buying power particularly where there are market driven opportunities. This includes strategies such as the use of expressions of interest and bulk purchases trialled through 2018–19. We will retain and refocus development capability to deliver medium density housing

solutions. Newly leased properties, and extensions of existing leased properties, will be targeted based on assessment of property's performance—throughout the life of the lease—taking into account occupation and vacancy, property maintenance performed, local amenities, schools, shops, transport and road access, and property condition.

## Measuring our success

Progress on key initiatives will be shared with Shareholders through quarterly reporting and meetings, in-line with GBE reporting requirements.

Performance indicator	Actual	Performance target			
	2018–19	2019–20	2020–21	2021–22	2022–23
Houses supplied against provisioning schedule	97.4%	>99%	>99%	>99%	>99%



# Strategic Priority 3

## – Financial

Manage assets to deliver shareholder value.

In addition to supporting Defence capability, DHA delivers value to shareholders through:

- › property investment
- › adding value by developing existing land holdings
- › delivering a surplus on service provision.

As a Government Business Enterprise, DHA does not receive funding through the Federal Budget. We fund our operations through the receipt of rent, fees and charges from Defence for our services, and generating revenue from:

- › the disposal of excess land and finished product from our developments
- › the disposal of properties that no longer meet minimum Defence standards or requirements, and
- › selling and leasing back properties through our Property Investment Program.

The current circumstances of widespread challenging property market conditions pose a significant risk to DHA's traditional approach to sourcing capital and ability to generate shareholder returns, which are property market driven. To respond to these factors and ensure we have a sustainable business model which delivers on the housing requirements supporting Defence capability, DHA has set three strategic goals that summarise what success looks like for this strategic priority, they are the elements critical for success.

## Strategic goals

- › We have a sustainable business model which is responsive to market changes.
- › We maximise capital efficiency.
- › Pursue new revenue opportunities.

DHA manages its property portfolio by setting regional targets and enabling flexible responses to market conditions to support optimal portfolio management and inventory turnover.

Consistent with previous years, DHA's planned delivery of housing includes targets for the Property Investment Program that have been set taking into account assessments of the state of the market and future forecasts, estimated profit and diversity of available stock, ballot data for houses and apartments indicating investor demand, auction clearance rates and forecast capital growth.

We are enhancing our approach to provisioning and capital recycling

outcomes. The financial impacts are yet to be determined for the initiatives being developed to promote greater regard to mid-term provisioning requirements and bring together:

- › short-mid-term provisioning needs
- › consideration of sourcing options
- › market-cycle sensitive approaches to capital repatriation, capital accumulation and investment decisions, and
- › expected whole-of-life financial outcomes.

The revisions will lend additional weight and focus to the mid-term financial objectives to be achieved through the delivery of Defence's housing needs and the efficiency of business lines associated with the delivery of DHA services.

DHA intends to further bolster efficiency and financial sustainability by reflecting the findings of operational reviews. DHA will continue its program of operations review through 2019–20 to identify any further efficiencies that can be achieved, including reviewing costs, resource commitments and benchmarking.

# Strategic Priority 4

## – Capability

Operate within clear frameworks with a responsive and capable workforce.

Our organisational capability is the combination of our people, culture, governance principles, processes, systems and knowledge. One of DHA's key strengths is the engagement and commitment of its staff. However, decentralised structure and lack of integrated systems can make it difficult to capitalise on the expertise and skills of staff across the organisation. Additionally, DHA currently has a wealth of information and data available but is currently unable to leverage this

effectively to provide key insights and inform decision making.

For DHA to continue to be agile and able to respond to changing priorities we need to build and maintain a capable workforce, supported by systems, processes and governance frameworks to perform at the highest levels. DHA has set four strategic goals that summarise what success looks like for this strategic priority, they are the elements critical for success.



## Strategic goals

- › We are customer-centric, future focused and agile.
- › Our people are engaged, capable and fully aligned to One DHA.
- › Our fully integrated systems are responsive and support our customer service.
- › We operate as a compliant and better practice Commonwealth entity.

To achieve these strategic goals, DHA is driving leadership capability to embed a strong, connected organisational culture, building the capability of our people to inform innovation and support their wellbeing and professional growth, supporting DHA through effective systems and processes that align with modern, flexible workplace thinking and

managing performance in a data driven approach to inform continuous improvement and strategic business direction. Particular focus will be given to attracting and retaining staff with the skills and experience to implement the new asset and service models and developing the IT architecture to support them. This will be delivered through a single-service delivery model which enable the people, places and processes that support organisational delivery against the corporate plan and supported by strategic communication to all stakeholders to align people with organisational strategy.

## Measuring our success

Progress on key initiatives will be shared with Shareholders through quarterly reporting and meetings, in-line with GBE reporting requirements.

Performance indicator	Actual	Performance target			
	2018–19	2019–20	2020–21	2021–22	2022–23
Staff retention and turnover rate	13.6%	15%	15%	15%	15%
Staff engagement	74%	70%	70%	70%	70%
Total recordable injury frequency rate (TRIFR) and OHS incident rate	7.05%	<7	<7	<7	<7
Wages and expense ratio	8%	7.8%	7.9%	7.3%	7.1%





SECTION 05

# Organisational capability



# Organisational capability

By having strong organisational capabilities, we ensure we can deliver on priorities for the Australian Defence Force and the Government and are prepared for the challenges and opportunities in our environment.

## Leadership and culture

DHA continues to create a culture that encourages inspiring leadership that promotes our strategic direction. We expect our leaders to model our values by being accountable, visible, effective, trusted and make informed evidence-based decisions. We wish to create a workplace where any individual or group feels welcomed, respected and valued to fully participate and contribute.

We are creating a high performance culture by:

- › Improving employee accountability through performance management. In 2019–20 DHA will introduce an online performance management tool. The system will enable employees and managers to understand the duties required of them and the capabilities required to undertake those duties, development of performance measures that are aligned to organisational objectives that the employee's performance will be measured against and better tracking and reporting on performance management outcomes. The online tool will assist in setting organisational expectations and ensure employees understand what they are accountable for. Through implementation of the project, managers will be trained in a structured methodology for managing performance conversations that will improve manager confidence in delivering optimal performance.

- Enhancing our leadership capability. A senior leadership development program is planned to supplement the existing management and leadership training offered to employees. The senior leadership program aims to build a shared understanding of the organisational strategy amongst the senior leadership cohort and provide this group a leadership narrative to clearly communicate the organisational strategies and expectations to employees. It will enhance collaboration and drive better organisational decision making.
- Creating a capable, respectful workplace that reflects the diversity of the community we serve, through implementation of our Diversity and Inclusion strategy, cultural awareness training and affirmative measures.
- In March 2019, DHA launched its inaugural Diversity and Inclusion Strategy that focused on core principles of inclusive leadership, respectful participation and co-operation. This further extends on the initial work that occurred as part of the release of our 'Reflect' Reconciliation Action Plan in 2018. While DHA is progressing on all of our commitments, we have commenced development of our 'Innovate' Reconciliation Action Plan and will be releasing this in the second half of 2019.

## Our workforce

### Developing a strategic workforce plan to align people resources to organisational objectives

Development of a strategic workforce plan will ensure that DHA has a capable workforce that is deployed on activities aligned to our strategic plan when required. Initial work will focus on identifying core job families for the organisation and align with the new capability framework. From this an operational workforce plan will be developed to ensure we are planning for the workforce we need for the next two years. In 2020 we will move to develop a strategic workforce plan that will forecast likely workforce needs of the future and map the activities needed to attract, retain and develop those needs. These activities will provide clarity to employees and managers on capability gaps that need addressing and will support better career development and planning.

This will also include a review during the first half of 2019–20 by the Managing Director and Senior Executive Group as to the overall organisational design of DHA. This will consider areas of delegation, responsibility and consideration to the overall structure of the organisation. A renewed focus will ensure that the capability of the organisation can be fully realised.

### Ensuring our approach to recruitment gives us a competitive edge

To ensure DHA recruitment practices are flexible, agile and industry focussed while retaining accountability and adherence to legislative and Australian Public Service requirements. The implementation of DHA's new capability framework will help managers to recruit based on the capability requirements of each role. There has been early success in attracting new candidates to traditionally hard to fill roles in property development and information technology, through using a more industry focussed approach to the market through new targeted channels that are familiar and used by the candidates we need to source. The next stages of this initiative will focus on building an employer brand to attract the talent the business needs.

## Enhance contract management capability

DHA has a range of contracted relationships to assist in delivering our outcomes. Significant work continues on enhancing our organisational contract management capability, through:

- › embedding the policy and framework that supports contract management delivery
- › undertaking periodic audits against the procurement and contract management policies to manage organisational risks and improve probity outcomes
- › building individual capability, through systems, training and support, to improve delivery of successful contract management outcomes across DHA
- › enhancing the IT functionality to support all contracts being administered through DHA's internal systems.

## Digital strategy

DHA is committed to the Digital Continuity 2020 Policy. Despite ADF members being able to initiate 80% of transactions through our Online Services platform they invariably call through to our Contact Centres. Through a modified customer service strategy, we will create and deliver a new digital strategy that will provide a responsive, cost sustainable solution for both internal and external customers.

## Enterprise resilience

DHA has a long track record of managing various aspects of resilience very effectively, especially those driven by responding to natural disasters and across our operational and service delivery arms. Over the past 24 months, we have shifted enterprise resilience to capture the four disciplines of emergency management, incident management, business continuity and disaster recovery; enhancing what was previously only business continuity. This strategy reflected the need to capture the whole lifecycle and consolidation of resilience to more proactively manage enterprise risks associated across the organisation and the role each sub-discipline plays to this end.

Key insights from the annual business continuity and disaster recovery simulation exercise and the recent flooding event in Townsville reinforced the need for DHA to further strengthen our approach to enterprise resilience. This work is being undertaken through the Governance Reform Program, which will provide foundational elements of critical functions, accountabilities and responsibilities, and its overarching final work stream reviewing all management systems for congruence, of which enterprise resilience is only one system. This work will also assist with secondary activities specific to the discipline and in the progression of business impact analysis required to formulate a fit for purpose approach to enterprise resilience that assists decision makers in aligning this capability to achieving our purpose and the broader performance agenda.













SECTION 06

# Risk management

# Risk management

## Background

DHA manages risk in accordance with our Enterprise Risk Management Framework (ERMF) which has been developed in accordance with the Commonwealth Risk Management Policy (the policy) and the underpinning international standard relating to risk management ISO 31000:2018 (the standard).

Risk is defined by the standard as the effect of uncertainty on objectives, where an effect is a deviation from the expected. The effect can be positive, negative or both, and can address, create or result in opportunities and threats. Risk management is defined as the coordinated activities to direct and control an organisation with regard to risk.

DHA operates in a complex environment and recognises that risk is inherent in all that we do. We proactively identify, engage with and manage risk at all levels and across all facets of our business to create or protect value in support of improving performance, encouraging innovation and supporting the achievement of our purposes, objectives and strategic priorities.

## Our risk philosophy

A key element of our ERMF is ongoing review and continuous improvement to ensure it remains consistent with changes in technologies, the environment, our operating model, broader Government guidance and, more importantly, that it remains fit for purpose to support achievement of our purpose, objectives and strategic priorities.

The current ERMF comprises of a policy, plan and associated procedures that outline the process for managing risks throughout the business. This includes acknowledging that risk management is a dynamic and iterative process (refer Figure 7).

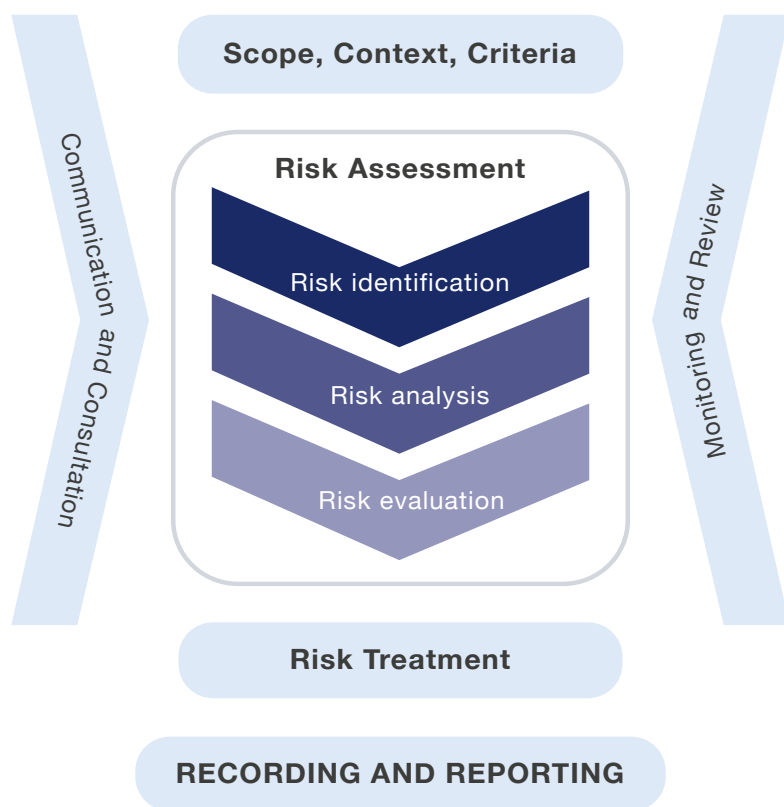
A detailed review and transformation of our ERMF is currently underway. It will result in revision to key elements of our framework, including an update to our risk management policy, with the aim of seeing our people engaging in risks in ways that are consistent with our risk appetite and aligned with our purposes, objectives and strategic priorities.

The ERMF review and transformation is also being undertaken in conjunction with a risk initiated Governance Reform Program which will review all aspects of governance and management systems of control.



Figure 7

Enterprise Risk Management Framework



## Our risk appetite

Risk appetite is the level of risk-taking DHA accepts in the pursuit of its purpose, objectives and strategic priorities.

In previous periods, we have articulated our risk appetite across particular risk classes specific to each value chain area. Our new risk appetite statement consolidates how we articulate our risk appetite, improves the way we aggregate risk and is an important way to define and align our culture to our purpose.

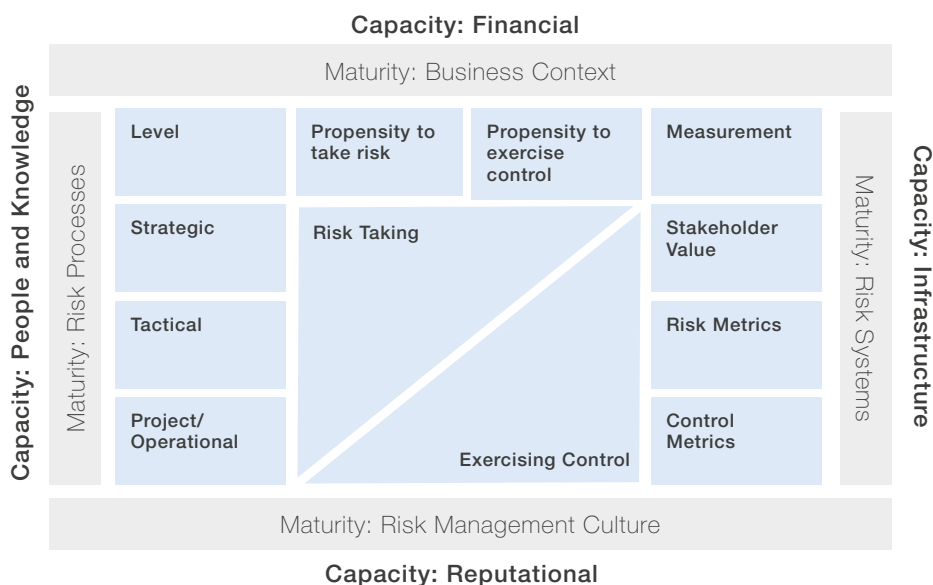
As shown in Figure 8, DHA's risk appetite has been defined by considering our risk bearing capacity, the broader Commonwealth's appetite

for risk and business risk-return trade-off principles. These are then more prescriptively defined by the Managing Director, Senior Executive Group and Chief Risk Officer, and overseen by DHA's Board.

Our risk appetite statement will play a key role in engage with risk, exploring opportunities and guiding day-to-day decisions around risk (i.e. considering both threat and opportunity, if a risk exceeds appetite it is escalated and managed through corrective actions).

Figure 8

Strategic Risk Appetite Statement setting framework



## Governance and oversight

DHA has established formal, fit-for-purpose accountability and responsibility for risk at an enterprise level that is broadly consistent with 'three lines of defence' risk principles.

Group	Description
Board (and Board Audit Committee)	<p>The Board is the accountable authority of DHA.</p> <p>The Board is charged with ensuring effective enterprise risk oversight, management systems and internal controls.</p>
Managing Director and Senior Executive Group (SEG)	<p>The Managing Director and senior executive are responsible for implementing appropriate enterprise risk systems and ensuring resources and capability supports effective risk management and its integration in decision making processes.</p>

Group	Description
Governance, Risk and Compliance (GRC) function (led by the Chief Risk and Fraud Officer)	<p>The GRC function provides independent risk advice and is responsible for practical implementation of enterprise risk management and ensuring risk principles permeate across enterprise culture.</p> <p>They are responsible for supporting the Board, Managing Director, SEG and key line managers to ensure risk management frameworks, artefacts, treatments and controls are fit-for-purpose, effective, relevant and timely.</p> <p>The function is supported by the co-sourced internal audit function that provides independent assurance of the systems of control.</p>
Line managers	<p>Line managers are responsible for day-to-day management of risk and for undertaking effective and timely risk assessments for all key activities (i.e. programs, projects and proposals), ensuring alignment with DHA's risk appetite and tolerances (in the form of both threats and opportunities), and identifying and managing appropriate risk treatments and controls.</p>
All DHA employees	<p>All DHA employees are responsible for managing risk in the course of their day-to-day activities. This includes identifying emerging risks and elevating them in accordance with DHA's risk governance and management structure.</p> <p>Contract managers are responsible for ensuring third parties effectively manage risk in accordance with contractual obligations.</p>
Third parties (engaged by DHA to work on our behalf)	<p>Third parties are expected to manage risk in the course of their day-to-day activities. This includes identifying emerging risks and elevating them to the contract manager.</p>

DHA is continuing to mature our risk philosophy and approach, embedding risk principles into our culture. A key element of this approach is increasing the risk capability at all levels of the organisation. To achieve this, we are educating and empowering our people to have the knowledge, judgment and confidence to make more informed risk-based decisions and are also ensuring that they have the support of their managers.

We are confident that more risk-based decision making will make our business better—more efficient, agile and responsive. However, we also recognise that we need to continuously improve. To this end, we are developing measures to build, test and refine our approach. These measures will complement our integrated business planning and will assist us to better understand how we prioritise our resources.







SECTION 07

# Appendices

Appendix A – Acronyms  
and abbreviations

# Appendix A – Acronyms and abbreviations

AASB	Australian Accounting Standards Board
ADF	Australian Defence Force
ANAO	Australian National Audit Office
APS	Approved Provisioning Schedule
APS	Australian Public Service
BAC	Board Audit Committee
BIC	Board Investment Committee
CBD	Central Business District
CPI	Consumer Price Index
CRFO	Chief Risk and Fraud Officer
Cth	Commonwealth
DEFCUP	Defence Construction Upgrade Program
DHA	Defence Housing Australia
DHF	Defence Housing Forecast
DPS	Defence Provisioning Schedule
Disposal	The sale of property
DSA	Defence Services Agreement
EBIT	Earnings Before Interest and Tax
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
EPC	Executive Property Committee
GBE	Government Business Enterprise
Leased/leasing	Leasing activity comprises direct leasing, renewals, lease options, variations and extensions
LIA	Living in accommodation
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
MCAPP	Member Choice Accommodation provisioning plan

MWD	Member with dependants
MWD(U)	Member with dependants (unaccompanied)
MWOD	Member without dependants
N & R C	Nomination and Remuneration Committee
NPAT	Net profit after tax
OCC	Opportunity and Capability Committee
PACMAN	ADF Pay and Condition Manual
PCG	Property Control Group
PGPA Act	<i>Public Governance, Performance and Accountability Act 2013</i>
POTD	Provisioning over target demand
PIP	Property Investment Program
RA	Rent allowance – an amount paid by Defence to a member to secure a private rental where DHA is unable to provide a suitable service residence and they do not own an own home
RBCH	Rent Band Choice Housing
SEG	Senior Executive Group
SR	Service residence – a Property provisioned for entitled ADF Members which is compliant with Defence Minimum Housing Standards and required capital inclusions
SHEQ	Safety, Health, Environment and Quality Committee
UDIA	Urban Development Institute of Australia

