

## **Joint Standing Committees on Public Accounts and Audit**

Inquiry into Governance in the Stewardship of Public Resources based on Auditor-General Reports 11, 31, 39 (2019-20) and 2, 9 (2020-21) – 14 April 2021

### **ANSWER TO QUESTION ON NOTICE**

#### **Defence Housing Australia**

**Topic:** Timetable for Legislative Changes

**Question reference number:** 1

**Senator/Member:**

**Type of question:** Written

**Date set by the committee for the return of answer:** 28 April 2021

#### **Question:**

The audit recommended DHA and Defence align Defence requirements for housing philanthropic and foreign exchange personnel with the DHA Act (Recommendation 1). DHA and Defence note that legislative change is required to resolve the provision of housing to philanthropic and foreign exchange personnel (Submission 3, p. 6). What is the expected timetable for this legislative change?

#### **Answer:**

Subject to approval to proceed, it is expected that a Bill to amend the *Defence Housing Australia Act 1987* will be introduced in 2022.

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### **ANSWER TO QUESTION ON NOTICE**

#### **Defence Housing Australia**

**Topic:** Performance measurement

**Question reference number:** 2

**Senator/Member:**

**Type of question:** Written

**Date set by the committee for the return of answer:** 28 April 2021

#### **Question:**

The audit recommended DHA and Defence agree on KPIs that measure performance against all the objectives of the service agreements (Recommendation 2). DHA and Defence note that objectives and KPI options have been drafted as part of the review of the Defence Services Agreement (DSA), with approvals for an updated DSA to be obtained by 30 June 2021 (*Submission 3*, p. 6). How will the KPIs be revised to measure operational efficiency, cost-effectiveness and value for money, ie what form might the KPIs take and when will they be introduced?

#### **Answer:**

The revised agreement will include a series of KPIs directly linked to the objectives. DHA's performance against the KPI's will be assessed against a series of performance measures including: quality, location of housing, timeliness of services and member satisfaction with services. The results will be reported to the Board and shareholder departments on a regular basis.

The revised performance framework comes into effect when the revised agreement comes into effect on 1 July 2021 (subject to relevant approvals).

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### ANSWER TO QUESTION ON NOTICE

#### Defence Housing Australia

**Topic:** Updated 2012 study

**Question reference number:** 3

**Senator/Member:**

**Type of question:** Written

**Date set by the committee for the return of answer:** 28 April 2021

#### **Question:**

The audit recommended DHA, with Defence, update its 2012 study on the costs to DHA, Defence and ADF members of providing service residences compared to using rent allowance, to assess DHA operating efficiency over time (Recommendation 3). DHA engaged PwC to conduct an updated study of the comparative costs of service residences and rent allowance (*Submission 3*, p. 6). Has the PwC report (due January 2021) now been finalised and, if so, has the study enabled assessment of DHA operating efficiency over time?

#### **Answer:**

The report was finalised in early February 2021. The report found:

- The housing arrangements specified as meeting Defence Service Agreement requirements were superior to those generally offered in residential property markets because:
  - Service residences contain features that are not commonly wholly provided in the residential property market, and
  - some utility costs in service residence arrangements are supported by the Department of Defence.
- On the whole, service residences are of greater cost to Defence than rental assistance arrangements, and rental assistance arrangements were of greater cost to ADF members than service residence arrangements.
- The average cost associated with both service residence and rental assistance arrangements were lower than in the 2012 report due to some costs that could not be quantified, or were not considered appropriate to be included in the 2021 report.

The report exercise repeats the 2012 cost study into the relative costs for different housing solutions. Although useful as a cost study of the alternative housing solutions, the report provides only limited support in the assessment of DHA operating efficiency over time, due to the difference in housing arrangements being compared and factors relating to ADF employment objectives.

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### ANSWER TO QUESTION ON NOTICE

#### Defence Housing Australia

**Topic:** Procurement compliance

**Question reference number:** 4

**Senator/Member:**

**Type of question:** Written

**Date set by the committee for the return of answer:** 28 April 2021

#### **Question:**

DHA compliance checking 'indicates multiple instances of non-compliance with procurement policy' (p. 34),<sup>1</sup> with the audit noting 'a program of regular compliance testing of procurement' was expected to commence before 30 June 2020 (p. 36). Has this testing commenced and, if so, what has been the result? Has there been additional staff training?

#### **Answer:**

In June 2020, DHA's internal audit services provider, Ernst & Young (EY) conducted a compliance review, which included procurement. The review was finalised in July 2020. As part of the review, a sample of 10 procurements undertaken between December 2019 and June 2020 were reviewed against the requirements of DHA's Procurement Policy and associated guidance as documented at the time. Of the 10 procurements sampled, only one appeared to be compliant with the DHA policy. In response to the procurement related findings, EY recommended that DHA provide additional training and information to those undertaking procurement processes to increase their understanding of record keeping and documentation requirements.

Since the review, DHA has been streamlining its procurement policies and procedures. An Accountable Authority Instruction for procurement has been implemented and DHA has chosen to adopt the Commonwealth Procurement Rules as its head of authority for procurement. Other Commonwealth entities' procurement arrangements are being accessed where they represent better value for money, such as the whole of government travel and legal arrangements, and the digital marketplace. In addition, DHA is using the Commonwealth Contracting Suite and Source IT contract templates. The new approach enables consistency of decision making, documentation and compliance with the *Public Governance, Performance and Accountability Act 2013* (PGPA Act).

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<sup>1</sup> Page references refer to Auditor-General Report 31

Procurement policies, procedures, tools and training are currently being developed and will be implemented in the second half of 2021.

In November 2020, as part of DHA's internal audit program, EY completed a performance audit of DHA's procurement processes. The performance audit recommended DHA:

- complete and embed the policy and process improvements underway at the time of the audit;
- develop a governance framework for monitoring and managing procurements; and
- develop key system solutions to enable the procurement process.

DHA is in the process of implementing all three of the recommendations.

DHA regularly reviews its compliance with the PGPA Act, including in relation to procurement. A rolling cycle of compliance audits are included on DHA's annual internal audit program, which periodically cover procurement.

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### ANSWER TO QUESTION ON NOTICE

#### Defence Housing Australia

**Topic:** Board remuneration

**Question reference number:** 5

**Senator/Member:** Mr Julian Hill, MP

**Type of question:** Spoken, Hansard pages 6-7

**Date set by the committee for the return of answer:** 28 April 2021

#### Question:

**Mr HILL:** Could you provide the remuneration details for these board members?

**Mr Jordan:** Certainly. The board members are remunerated in accordance with the relevant job determination from the Remuneration Tribunal. From memory, I think the rate for the chair is about \$114,000 per annum, and members are \$57,000 or so, if they are eligible for remuneration.

...

**Mr HILL:** Could you confirm those numbers.

#### Answer:

DHA Board members are paid in line with the Remuneration Tribunal's *Remuneration Tribunal (Remuneration and Allowances for Holders of Part-time Public Office) Determination 2020*. Under this determination DHA's Chairman is paid \$119,180 per year and Board members, if eligible, are paid \$59,950 per year.

Members of DHA's Board Audit and Risk Committee (Committee) are paid an additional allowance of \$8,160 per year. The Committee Chair is paid an additional allowance of \$16,320 per year.

This is in recognition of the following:

- The Committee is required to exist under section 45 of the *Public Governance, Performance and Accountability Act 2013*.
- Under section 17(2) of the *Public Governance, Performance and Accountability Rule 2014* the Committee must perform certain functions including oversight of the accountable authority's financial reporting, performance reporting, system of risk management and oversight, and system of internal control.

The Remuneration Tribunal has recognised these additional responsibilities of the Committee and determined an additional allowance is appropriate for Committee members and the Committee Chair.

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### ANSWER TO QUESTION ON NOTICE

#### Defence Housing Australia

**Topic:** Board review assessment

**Question reference number:** 6

**Senator/Member:** Mr Julian Hill, MP

**Type of question:** Spoken, Hansard pages 8-9

**Date set by the committee for the return of answer:** 28 April 2021

#### Question:

**Mr HILL:** That's a proper process, and that's good to hear. So the board commissioned that good self-evaluation practice. Have they assessed themselves as individuals against that new capability matrix?

**Mr Jordan:** During the conduct of the board review, the reviewer met, either in person or by telephone, with each director, and there was an assessment. I wasn't privy to those, for obvious reasons.

**Mr HILL:** So that assessment has been made. Can we receive a copy of that assessment?

**Mr Jackson:** We'd have to take that on notice, because, as Mr Jordan, I think, was about to say, the individual directors provided it to Directors Australia on an individual basis.

**Mr HILL:** They're paid by the taxpayer, and Directors Australia were paid by the taxpayer, and it's a multibillion-dollar entity, so—

**Mr Jackson:** I understand that. I just have to check, because they were de-identified as the reports that were put forward. We just have to make sure that we're not breaching anything there.

**Mr HILL:** I respect that. If we could receive a copy of that, that would be good.

#### Answer:

A copy of the DHA Board's composition matrix is provided at [attachment A](#). The matrix was developed to satisfy the requirements of section 2.9(a)(iii) of the *Commonwealth Government Business Enterprises – Governance and Oversight Guidelines*.



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## BOARD COMPOSITION MATRIX FOR DEFENCE HOUSING AUSTRALIA (AS AT JANUARY 2021)

**Purpose** | This board composition matrix outlines the range of knowledge, experience and skills which have been assessed as ideal for the DHA board to hold in order to drive DHA's current strategic direction as well as effectively govern the organisation.

This matrix has been drafted in light of DHA's enabling legislation, the Defence Housing Australia Act 1987 which specifies a number of requirements for appointees to the DHA board, which is to consist of the following people appointed by the Minister:

- a) A Chair
- b) A current or former member of the Defence Force nominated by the Chief of the Defence Force;
- c) A current or former APS employee or Agency Head (within the meaning of the Public Service Act 1999), with a background in Defence nominated by the Secretary of the Department of Defence;
- d) The Managing Director of DHA;
- e) Four commercial members suitably qualified for appointment by virtue of expertise in one or more of the following fields:
  - housing operations;
  - property development or management;
  - business management;
  - real estate management;
  - finance;
  - building or construction management;
  - social planning.

The remaining member of the board is a person nominated by the Secretary of the Department of Finance.

This matrix should assist the board to:

- identify skills gaps to be filled in board vacancies – recognising that it is the two shareholder Ministers and the Government that ultimately appoints people to the board
- inform ways in which skills gaps can be met without additional directors (for example, external advisors as required)
- assist in identifying board professional development requirements, and

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- inform orderly board succession.

This matrix should be regularly reviewed and updated to ensure that directors' professional skills and diversity requirements are aligned with DHA's strategic plan. Regular board performance evaluations should also address board skills, board diversity and personal director attributes.

**Content and format** | This matrix comprises the following parts:

- Part A is an assessment of professional skills and industry-based skills which should be held collectively by the board.<sup>1</sup>
- Part B contains observations regarding collective board diversity and other non-skills-based criteria, and
- Part C is a description of attributes and behaviours that all directors should be expected to possess.

All of these Parts should be taken into account in considering the board's composition and making a board appointment.

**Our observations regarding current skill gaps and priorities** | Our assessment confirms the views of board members that the overall mix of skills, experience and diversity of the board is good, but that there are gaps in relation to finance, accounting and risk management. There could also be greater depth in real estate or property skills and experience.

All directors should meet the personal attributes outlined in Part C.

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<sup>1</sup> Skills required on each of the board committees should be drawn from this matrix.

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**PART A: PROFESSIONAL AND INDUSTRY SKILLS**

Skill area	Essential, desirable and/or purchasable	Assessment
<p><b>Defence</b>                      A person with a background in Defence as a current or former APS employee or Agency Head within the meaning of the Public Service Act 1999.</p>	Essential	Adequately covered
<p><b>Defence Force</b>                      A current or former member of the Defence Force.</p>	Essential	Adequately covered
<p><b>Commercial property, housing and social planning</b>                      Skills, knowledge and experience to assist with the following in urban, regional and remote localities across Australia:</p> <ul style="list-style-type: none"> <li>• the planning and delivery of a diverse range of real estate and housing services</li> <li>• property development and management</li> <li>• residential building and construction projects, and</li> <li>• social planning associated with the provision of housing services for the ADF.</li> </ul>	Desirable	Appears to be covered to some extent
<p><b>Strategy and policy</b>                      Demonstrated ability to:</p> <ul style="list-style-type: none"> <li>• be visionary and forward thinking in pursuit of DHA's objects, purpose and vision</li> <li>• think strategically and identify and critically assess strategic opportunities and threats to DHA</li> <li>• provide constructive insight and input to DHA's strategic direction and planning including through development and delivery of strategic plans,</li> <li>• provide input to developing DHA's business services and products, and new business opportunities such as joint ventures and partnerships, and</li> <li>• identify key issues for DHA and develop appropriate policies to define the parameters within which DHA should operate.</li> </ul>	Essential	Appears to be adequately covered

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Skill area	Essential, desirable and/or purchasable	Assessment
<p><b>Technology and data</b>                      Skills, knowledge and experience in technology and data to enable:</p> <ul style="list-style-type: none"> <li>• understanding of the strategic opportunities regarding technology and data and how they might be exploited strategically for the benefit of DHA</li> <li>• effective use of technology within DHA, and</li> <li>• governance and risk management as it relates to technology and data.</li> </ul>	Desirable / Purchasable	We are unaware that any board member has expertise in this area
<p><b>Finance and audit - advanced</b> <sup>2</sup>                      Ability through skills, knowledge and experience to:</p> <ul style="list-style-type: none"> <li>• contribute to setting, and monitoring performance against, relevant financial metrics for DHA</li> <li>• contribute to DHA's strategic financial planning and funding</li> <li>• contribute to, and critically assess, audit and control process</li> <li>• contribute knowledge regarding emerging opportunities and new financial products to attract investment in projects to meet corporates' Corporate Social Responsibility obligations, and</li> <li>• Chair the Risk and Audit Committee.</li> </ul>	Essential	While the independent members of the Board Audit and Risk Committee (BARC) have qualifications and experience in accounting, we are unaware that any board member has these qualifications and skills
<p><b>Corporate and business governance</b>                      Skills, knowledge and experience in contemporary corporate governance applicable to a Commonwealth GBE entity and an ability to apply those skills, knowledge and experience to:</p> <ul style="list-style-type: none"> <li>• monitor organisational performance including through setting appropriate performance indicators</li> <li>• critically analyse the effectiveness of underlying business performance systems, and</li> <li>• ensure that DHA is well governed given its status as a Commonwealth GBE.</li> </ul>	Essential	Appears to be adequately covered

<sup>2</sup> While all directors are expected to be financially literate, this is a more advanced skill set.

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Skill area	Essential, desirable and/or purchasable	Assessment
<p><b>Risk and compliance management</b></p> <p>Skills, knowledge and experience in risk and compliance management in order to:</p> <ul style="list-style-type: none"> <li>• set and critically assess DHA's risk appetite</li> <li>• oversee DHA's risk and compliance management frameworks, and</li> <li>• monitor effective risk and compliance management in DHA and ensure that appropriate action is taken when risk and compliance issues emerge.</li> </ul>	Essential	Both the independent members of BARC have experience in this area, although we are unaware that any board member has these skills
<p><b>Executive and strategic human resource management</b></p> <p>Experience at an executive management level in commercial organisations of a comparative size to DHA including the ability to:</p> <ul style="list-style-type: none"> <li>• mentor, support and evaluate the performance of the CEO</li> <li>• oversee and provide input to strategic human resource management, and</li> <li>• oversee organisational culture.</li> </ul>	Essential	Appears to be adequately covered
<p><b>Strategic marketing</b></p> <p>Skills, knowledge and demonstrated experience in order to:</p> <ul style="list-style-type: none"> <li>• contribute to the strategic positioning and marketing of DHA, and</li> <li>• assist DHA in high level strategic communications and public relations.</li> </ul>	Desirable / Purchasable	We are unaware that any board member has this experience
<p><b>Stakeholder engagement and advocacy</b></p> <p>Skills, experience and networks in order to:</p> <ul style="list-style-type: none"> <li>• oversee DHA's stakeholder engagement plan, and</li> <li>• actively represent and advocate for DHA externally.</li> </ul> <p>These skills, experience and networks should include an understanding of the political sphere that DHA operates in.</p>	Essential	Appears to be adequately covered

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**PART B: DIVERSITY AND OTHER NON-SKILLS BASED CRITERIA**

While the priority is to meet the essential skills in Part A, collectively the board should seek to have a range of diversity attributes. The following diversity attributes have been assessed as most relevant to DHA.

Diversity criteria	Essential, desirable or not required	Assessment
<p><b>Board experience diversity</b>                      Boards usually seek to collectively have directors with previous experience on a range of boards (eg ASX listed, private companies, government, APRA regulated, NFPs etc).</p>	Essential	Appears to be adequately covered
<p><b>Gender diversity</b>                      The Government is committed to a target of women holding 50 per cent of Government board positions overall, and men and women each holding at least 40 per cent of positions on individual boards</p>	Essential	Appears to be adequately covered
<p><b>Cultural diversity</b>                      Some boards seek cultural diversity to better understand markets in which they operate, or are seeking to operate. Other boards seek to have cultural diversity on the board due to the increasing globalisation of markets, and/or because it is reflective of cultural diversity in the organisation's customer base or community.                      Given DHA's stakeholders include Traditional Owners, ATSI representation might be considered as particularly relevant.</p>	Essential	We are unaware that any board member meets this criterion
<p><b>Age/generational diversity</b>                      Boards often seek age diversity to bring different generational perspectives regarding strategic challenges and opportunities to the board's deliberations.</p>	Desirable	Appears to be adequately covered
<p><b>Geographic diversity</b>                      Boards seek geographic diversity to reflect the geographic area of operation of the organisation, the geographic location of its stakeholders and/or when the organisation is entering new geographic markets.</p>	Essential	Appears to be adequately covered

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**PART C: PERSONAL ATTRIBUTES AND BEHAVIOURS**

All directors are required to have the following personal attributes and behaviours. NB: The Chair should also have the personal attributes to effectively undertake usual Chair functions such as: chairing board meetings; ensuring a constructive and trusting dynamic in the board; developing a constructive relationship with the Managing Director; successfully managing board succession planning and board performance; and representing/being a spokesperson for the DHA.

Attribute	Description
<b>Integrity</b>	A commitment to: understanding and fulfilling the duties and responsibilities of a director, and maintaining knowledge in this regard through professional development; putting the organisation's interests before any personal interests; being transparent and declaring any activities or conduct that might be a potential conflict, and maintaining board confidentiality.
<b>Effective listener and communicator</b>	The ability to: listen to, and constructively and appropriately debate, other people's viewpoints; respect the views of others; develop and deliver cogent arguments, and communicate effectively with a broad range of stakeholders.
<b>Emotional intelligence</b>	The ability to perceive and evaluate own and others' emotions and adapt thinking and actions accordingly.
<b>Constructive questioner</b>	The preparedness to exercise independent judgment and ask questions and challenge management and peer directors in a constructive and appropriate way.
<b>Collaborative</b>	The ability to work as part of a team and demonstrate the passion and time to make a genuine and active contribution to the board and the organisation.
<b>Advocacy and commitment</b>	A visible commitment to the values and principles on which DHA operates and the preparedness to be an advocate for the organisation as part of its on-going success.
<b>Influencer and negotiator</b>	The ability to negotiate outcomes and influence others to agree with those outcomes.
<b>Critical and innovative thinker</b>	The ability to critically analyse complex and detailed information, readily distil key issues and develop innovative approaches and solutions to problems.
<b>Continual improver</b>	A focus on continual improvement through seeking and acting on feedback from others, and proactively engaging in personal self development to ensure currency of knowledge.
<b>Leader</b>	Innate leadership skills including the ability to: appropriately represent DHA; set appropriate board and organisational culture; and make and take responsibility for decisions and actions.

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