

AUSTRALIA DEFENCE ASSOCIATION

**SENATE FOREIGN AFFAIRS, DEFENCE AND TRADE
REFERENCES COMMITTEE**

INQUIRY INTO THE OPERATIONS OF DEFENCE HOUSING AUSTRALIA

Introduction

1. This submission to the Senate Foreign Affairs, Defence and Trade References Committee by the Australia Defence Association relates to the committee's inquiry into the operations of Defence Housing Australia (DHA). The ADA has long been a strong proponent of the machinery-of-government oversight and accountability mechanisms provided by parliamentary committees and we appreciate the committee's invitation to offer a submission to the inquiry.
2. Why the ADA is making a submission may be found on pages 1-2.
3. A summary of the historical and conceptual background to the establishment of DHA, as a key defence capability enabler, is on pages 3-5.
4. Detailed discussion may be found from page 6 onwards, with our conclusions and recommendations at pages 10-11 and 11-12 respectively.

Relevance of this issue to the ADA

5. DHA is primarily tasked with enhancing and enabling national defence capabilities through the provision of housing for defence force families.
6. The issues addressed in this inquiry therefore naturally fall within the ADA's area of interest as the relevant independent, community-based, non-partisan, national public-interest watchdog organisation for strategic security, defence and wider national security issues. Since our foundation in Perth in 1975 the ADA has long advocated that Australia needs an integrated and whole-of-government approach to our strategic and domestic security.
7. The ADA's public-interest guardianship remit and our accountability-advocacy activities have long primarily focused on the capabilities, tasking and operations of the Australian Defence Force, Australia's six intelligence and security agencies, and the Australian Federal Police in the exercise of the AFP's national security (as opposed to general crime-fighting) responsibilities.
8. We base our public-interest guardianship activities on three key principles concerning Australia's strategic and domestic security:
 - Our strategic security, common defence and sovereign freedom-of-action as a nation-state constitute the first responsibility of every Australian government.

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- Ensuring our external and domestic security is a universal civic responsibility of all Australians. All Australians have reciprocal citizenship obligations and responsibilities to this end. This includes to those fellow Australians our government lawfully deploys overseas, on behalf of us all, for representational, military, law enforcement or other national-strategic purposes.
- National unity, economic strength, free speech, informed and robust public debate – and capable and adaptable defence and other strategic capabilities – are essential and inter-linked components of Australia's national security, liberal-democratic system and whole way of life.

9. To assist informed public debate the ADA maintains a comprehensive website at www.ada.asn.au and publishes discussion papers, study papers and a national bulletin, *Defence Brief*. We regularly contribute to public, academic and professional debates on strategic security, defence and wider national security matters, and are often consulted by the media seeking background information or other sectionally-neutral commentary across the range of such issues.

10. As a community-based, non-partisan, national public-interest watchdog organisation — with an independent and long-term perspective — the ADA therefore seeks the development and implementation of national security structures, processes and policies encompassing:

- a. an accountable, integrated, responsive and flexible structure for making strategic security, defence and wider national security decisions over the long term;
- b. a practical and effective balance between potentially competing needs for civil liberties, community security and short-term budgetary priorities;
- c. intellectually and professionally robust means of continually assessing Australia's strategic and domestic security situations;
- d. the sustained allocation of adequate national resources to all our strategic security, defence and wider national security needs according to such means (rather than tailoring supposed "assessments" to the funding levels, partisan policies or bureaucratic fashions thought to be acceptable politically);
- e. integrated and deterrent national security strategies based on the protection and support of our national sovereignty, strategic freedom of action and enduring national interests;
- f. the development and maintenance of an adequate defence force and other security and intelligence agencies capable of executing such a national strategy across all aspects of national security; and

- g. the development and maintenance of manufacturing and service industries capable of developing and sustaining defence force capabilities and operations.

11. Objectives 9a, 9b, 9d, 9f and 9g concerning national security decision-making, the effective resourcing and maintenance of defence force capabilities, and the prudent and effective management of such matters by any government, all relate directly to the subject of this inquiry.

12. Finally, ensuring Australia's strategic security is not just a Department of Defence or defence force responsibility. As the terms of reference for this inquiry show, maximising our national defence capabilities involves a wide range of operational support functions – including commercially-oriented support such as the operations of Defence Housing Australia.

BACKGROUND

DHA is a key defence capability enabler

13. There is an unfortunate and invalid tendency in Australian public policy-making and public administration to treat defence capability enablers (the various inputs to defence capability) as second or third-order matters, or indeed as administrative rather than operational-support functions.

14. The provision of community-standard housing for the families accompanying defence force personnel is indisputably both a defence capability enabler and an operational-support function. This aspect, however, is often discounted or ignored in party-political and bureaucratic thinking. Especially when short-term governmental priorities, ideological fixations or party-political expediency over-ride the protection of long-term national interests.

15. Maintaining an effective defence force necessarily requires the periodic movement of ADF personnel around Australia. This is needed to meet strategic and operational objectives collectively, and to meet the necessary professional career development requirements of the individuals making up the force.

16. Our defence force is necessarily based across a range of urban centres, regional areas and remote regions. ADF personnel are generally accompanied by their families, especially when based somewhere longer than 12 months. In many, often most, cases the operational and strategic needs of the ADF (as set by government) have a higher priority in determining where people serve than the preference of the family accompanying the Service member. In a nutshell, defence force families often get little or no choice as to where they live.

17. As Australia is a continent as well as a country, many ADF families are located very long distances from extended-family support and related social networks. The climatic range of these locations varies considerably, as do

housing standards and access to community amenities. Most Australians, on the other hand, voluntarily choose where they live, have a much greater choice and range from which to pick the type of housing they prefer or can afford, are generally located much nearer to extended-family support, and live in major urban centres with ready access to a wide range of community facilities.

18. For these reasons, beginning well before Federation, the need to maintain an effective defence force has resulted in governments providing housing to defence force families when they accompany ADF personnel on postings around Australia. Key reasons for this include:

- a. It is unfair to make defence force families pay high rents when they are often unable to move to areas with lower rents. Especially in the case of junior-ranked personnel on lower salary rates.
- b. The local housing market often cannot provide the number or quality of housing needed in regional or remote areas. Nor can it often provide housing at rental rates enjoyed by most Australians.
- c. Equity means that defence force families should not have to live in housing below general community standards just because one or more members of that family is serving in the ADF.
- d. Where the availability or standard of ADF housing, or its locality, falls below community standards and reasonable expectations, this has a major effect on defence force retention rates. Such early and otherwise avoidable losses of trained and experienced personnel has an immediate detriment to defence operational capabilities, and incurs longer-term higher costs in both time and financial terms with the recruiting, training and development of replacement personnel.
- e. Housing for defence force personnel must also be located within reasonable commuting distance of where they are posted to work. For example, until DHA was established some sailors posted to ships based at Fleet Base East on Sydney Harbour were housed in far western Sydney with a two-hour commute each way each day.
- f. Accommodation for ADF members and their families in the Sydney area again presents a particular problem in the current market. Department of Defence policy prescribing the same housing entitlements across Australia can cause unintended inequities. In the case of Sydney, additional hardships for some ADF families occur with both long commutes and having to pay tolls on the logical commuting route (especially when called back to duty with some urgency). A collaborative and innovative solution, between the Department of Defence, the Department of Finance and DHA, is required to overcome such issues.

Why DHA was established

19. DHA was deliberately created in 1988¹ because the poor standard of defence force housing was having such a serious and expensive effect on morale and personnel retention rates. Prior to DHA, many ADF married quarters were poor quality houses leased from state housing commissions and were often located in areas with problematic access to adequate schools and other community facilities. In parts of Sydney, for example, some married quarters in 1987 still had hot water in only one room of the house.

20. Once DHA was established there was much less pressure on ADF personnel, from spouses and other family members, for the Serviceperson to leave the ADF earlier than otherwise intended or planned in order for the family to enjoy living conditions closer to Australian community norms.

21. After nearly 30 years of DHA reversing this situation, and providing such a good service to the ADF, too many of those across government (outside the Department of Defence and the ADF), who should know, better have forgotten or discount the value of DHA as a key national defence capability enabler.

22. This problem also results from so few Australians now having any personal knowledge or experience of military service, even through extended-family ties. Very few Australians now understand defence and related issues that were generally well understood throughout the community up to the mid 1980s.

23. Similarly, throughout federal and state government departments, there is now little or no corporate knowledge how their decisions can affect national defence planning as a long-term and whole-of-government responsibility of any national government.

24. The recent experience of DHA is a good example.² An organisation purpose-designed to provide a key enabling input to national defence capability, and which has performed this function exceptionally well, has had to suffer uninformed, detrimental and even arrogant interference in its purpose, functions and governance. This has come from ministers and senior officials with demonstrably little or no knowledge of, and respect for, the long-term national defence priorities integral to DHA's primary role as a capability enabler.

25. If such interference is based on the invalid assumption that DHA's function merely relates to defence force conditions of service (and these might be otherwise met, say, by privatising DHA), such a failure to recognise that this is instead a defence capability issue surely emphasises the flawed public policy decision-making involved.

1 Originally as the Defence Housing Authority.

2 The recent 99-year lease of Darwin's commercial port to foreign interests by the NT Government, as an act of short-term, local, political expediency – without adequate whole-of-government consultation or consideration of the long-term national security risks incurred – is another good example of this pervasive and growing problem in national governance.

26. Finally, due to party-political expediency and our short electoral cycle, few if any Australian governments are willing to invest in the short-term to save future taxpayers (and governments of any political persuasion) having to spend more over the long run. Keeping DHA as a GBE dedicated to supporting national defence capabilities efficiently over the long term is one way of helping break this habitual political cycle in Australian history.

DETAILED DISCUSSION

Statutory purpose

27. The DHA Act, 1987, rightly prescribes the primary purpose of DHA as the provision of housing and related services to defence force personnel and their families in line with ADF operational requirements. This is logical, appropriate and financially prudent.

28. Whilst the operations of DHA, as a Government Business Enterprise (GBE) must also conform with the Public Governance, Performance and Accountability Act, 2013, (PGPA Act), the primary purpose of DHA should be unaffected.

29. The Australia Defence Association does not believe the DHA Act requires substantial amendment, but DHA's independence must be buttressed to protect long-term national defence interests from the type of ill-thought through interference that has occurred in recent times. This requires the pre-eminence of the DHA Act over the PGPA Act being formally recognised in statute.

General governance

30. The structure and practice of DHA governance remains a matter of considerable concern. The recent, sudden and still mostly unexplained, departure of the highly regarded and highly qualified previous managing director indicates – at the very least potentially – a failure by ministers and departmental officials to take the necessary interest in, and indeed meet their statutory responsibility for, DHA's primary role as a major defence capability enabler. Furthermore, of great concern, the sudden replacement of the previous managing director was apparently done without much, if any, consultation with the Minister for Defence, the CDF and the Secretary of the Department of Defence. This is inexcusable at best.

31. Such unwarranted and detrimental interference in DHA governance has naturally led to informed concern. Chiefly that both the machinery-of-government processes, and the cultural background involved, were unable to prevent the incorrect belief that DHA's capability-enabler function was somehow secondary to other requirements (seemingly of a party-political and/or bureaucratic-intrigue nature). Either that or ideological zealotry and/or

bureaucratic gamesmanship easily won out over proper governance in the national interest.

32. Such a collapse of the corporate governance, and long-term national security safeguards supposedly in place to curb short-term thinking or politically-expedient aberrations from good public policy, is a very serious matter. At the very least it requires a detailed public explanation by the responsible ministers and departmental heads as to how such a situation was allowed to occur.

33. If, as it appears, this breakdown partly occurred due to bureaucratic machinations within the Department of Finance and/or the desire (or even failure) by some ministers to accord DHA's national defence responsibilities their due weight, then this is not just a case of organisational tension between the roles of separate departments of state (Finance and Defence).

34. The same problem also arose with the Commission of Audit's flawed analysis of DHA, which led to the simplistic and empirically unjustified and politically-driven recommendation to privatise it.

35. Similarly, both the Lazard Review of DHA, the apparent continued intention within the Department of Finance to pursue its recommendations regardless of the facts, and the appointment of Korda Mentha to further push this subjective approach, all clearly demonstrate fundamental failures. These failures are not just in understanding national defence requirements but also in the demonstrated significant inability to understand the need for objectivity when analysing major national governance issues beyond one portfolio.

36. The clear failure of DHA's ownership structure being split between two ministers and two departments requires reform. There is clearly an imbalance when the Department of Finance and/or its Minister can so disregard long-term and whole-of-government requirements in their pursuit of what can only be reasonably described as short-term, unduly ideological, objectives. There is no other way to describe the situation where the Minister for Defence, the Secretary of the Department of Defence and the CDF were not consulted before the Minister for Finance and his department acted hastily to force the DHA Board to remove the previous CEO and appoint an acting one. A move apparently taken in part because the previous CEO was so successful at disproving the ideological agenda to privatise or asset-strip it as a GBE.

37. If the PGPA Act means that both the Minister for Finance and the Minister for Defence must continue to be the shareholders formally owning DHA as a GBE, several reforms to reinforce corporate governance safeguards are needed to protect the long-term national interest:

- a. The priority and authority of the DHA Act over the PGPA Act must be formalised.
- b. Each Minister have a veto over the other's actions, with resolution of the issue by the National Security Committee of Cabinet.

- c. As DHA has a proven track record in the property development market it is surely anachronistic and invalid for public servants with no commercial or military experience to tell DHA how to deliver Defence housing. Their ability to do this must be stopped.

Board composition and expertise

38. The DHA board has only one director (Janice Williams) with commercial experience in the housing industry. The acting managing director (a former senior official in the Department of Finance) has some investment banking experience in the private sector. The other members of the current Board comprise two retired senators (both former farmers), a retired navy lawyer (appointed by the CDF), and a retired public servant from the Department of Defence (appointed by its Secretary). Both the latter two appointments appear to lack sufficient private-sector expertise in any industry, and certainly in the housing sector. The same could be said for many appointments to the Board over the years by the Secretary of the Department of Finance.

39. Such a Board composition does not help in contributing to public confidence that governments are taking all their national defence responsibilities seriously. Nor does it reassure the taxpaying public that long-term national defence capability requirements are given adequate priority in the Board's governance of DHA. It also does not reassure defence force personnel and their families that sufficient attention is devoted to protecting key conditions of service designed to compensate ADF members and their families from the exigencies of military service (that the general community do not share).

40. What is clearly needed are directors with a good grasp of the housing industry or the strategic and operational requirements of the defence force, and preferably both. The previous CEO, for example, ably met both criteria. So well, in fact, that he was perhaps replaced so abruptly because he was so able to satisfy both responsibilities so effectively.

41. A very large number of serving or former senior ADF reservists, for example, have extensive experience in the housing, property development or related sectors of the real economy (such as construction or finance). As do some former senior full-time ADF personnel. There are also several leading figures in the property development or housing sectors, with no ADF or Department of Defence connections but with a long-term strong intellectual interest in strategic security and defence issues as individual or corporate citizens.³

3 Just taking the (overall predominantly civilian) membership of the ADA for example, our national president is one such person and our corporate members include one public and one private company specialising in the provision of housing. None of the three have any commercial interactions with the Department of Defence and seek none. This submission was also not influenced in any way by the commercial interests such members might have or be perceived to have.

42. It would therefore not be at all difficult for the CDF and the Secretary of the Department of Defence (and indeed the Secretary of the Department of Finance for his or her nominee) to appoint DHA directors from this pool of highly qualified talent, instead of appointing those apparently lacking the expertise needed.

43. Similarly, while both the two former senators are known as having been among the few parliamentarians genuinely interested in defence issues, the appointment of former parliamentarians as DHA directors should be avoided. It increases the risk that future governments of either political persuasion may treat such appointments as a post-retirement sinecure. It also increases the risk that politically-expedient, or other short-sighted, decisions proposed by governments will not be challenged, as they should be, by a DHA Board truly meeting its corporate governance responsibilities.

44. Moreover, the mooted appointment of a director who served with the current government's commission of audit can only further increase informed concerns, in both the defence force and the wider community, about the Board's ability and intent to meet its responsibilities under the DHA Act in maximising national defence capabilities as its primary priority.

45. The number of directors on the DHA Board with real commercial experience in the housing industry must be increased as a matter of urgency.

The profit issue

46. As DHA annual reports, industry awards and widespread private sector respect for DHA consistently show, this is a very successful GBE. It returns a healthy dividend to its taxpayer owners and pays considerable taxes on its profits and operations. It already maximises leaseback arrangements with private owners, where this is logical, to improve its balance sheet. It has been, up to now, a low-risk but still innovative housing developer and is respected across the housing and property development sectors for this.

47. Its commercial profitability is also impressive. Particularly when you take into account that its defence capability enabler role necessarily involves having to own housing needed to service some bases located in areas that are commercially unattractive for eventual sale. This especially applies in localities that investors in rental housing avoid because they see no effective profit in rental income or eventual capital gain when sold.

48. It is also both strategically logical and financially prudent that DHA's current business model focuses on providing operational support that maximises defence force efficiency over the long term. Including where property development might be wrongly perceived by some as partially subsidising the provision of less profitable housing over the short term, but where this clearly benefits ADF operational efficiency and the welfare of ADF members and their families. This is especially the case in providing housing in urban areas within reasonable commuting times of ADF bases.

49. This mix of profit taking and subsequent partial subsidy of efficiently-located ADF housing should continue, even at the expense of short-term returns to consolidated revenue as the PGPA Act prefers. This DHA emphasis on both long-term ADF and financial efficiency, over potential but often theoretical short-term cost-saving, needs to be made clear in legislation and in the policies of any government genuinely meeting all its national security responsibilities.

The privatisation issue

50. Similarly, asset-stripping DHA by forcing it to sell housing stock that would have a high return, but only in the short term, risks serious long-term consequences. Particularly in the case of long-held housing stock in urban areas located near ADF bases. Disposing of such stock would generally have a direct negative impact on the speedy or reasonable commuting times necessary for both levels of operational preparedness, and for the community-standard benchmarking discussed earlier, respectively.

51. Much of this ideally situated housing for defence purposes has been owned by the Commonwealth since long before DHA was established. However, once sold, much of the nominally high-value DHA-owned housing located within a reasonable distance of urban ADF bases could never be replaced. No future government is likely to be in a position to ever re-enter such a market.

52. One other key issue applies to DHA as a major capability enabler that does not apply to most other major or minor commercial support to the ADF – the ability of civil industry to provide the same service reliably, to a competitive standard, over the long term. If DHA was ever privatised, what commercial competitors would have the many thousands of suitably located houses available each time such commercial-support went back to tender?

53. A once-off privatisation, or indeed significant asset-stripping, of DHA would inevitable create a powerful monopoly supplier. Such a private sector monopoly would have an unassailable advantage over the Commonwealth in any future contract negotiations or re-tendering process.

54. Advocates of privatising or asset-stripping DHA particularly avoid addressing this monopoly creation dilemma.

Conclusions

55. The primary purpose of DHA as a purpose-designed and significant defence capability enabler – not an administrative or run-of-the-mill commercial support function – should be re-emphasised in legislation, in unequivocal public statements by Ministers, and by the curbing of unwarranted bureaucratic interference in its operations.

56. DHA should be retained as a GBE and placed unequivocally under the sole jurisdiction of the Department of Defence. Those claiming that this would reduce financial (or “civil” public sector) oversight obviously have no understanding that the Department of Defence is the only portfolio in the country, at federal or state level, already managed by such diarchic oversight.

57. Privatising DHA would inevitably create a monopoly supplier, to the detriment of both Commonwealth finances over the long term and to the efficiency of national defence capabilities.

58. DHA should not be privatised or otherwise asset-stripped as such measures can only ever achieve short-term financial objectives at best. The long-term costs of such action, in both financial and defence operational efficiency terms, clearly prove this.

59. DHA’s undoubted commercial efficiency, and long track record of success as a dedicated defence capability enabler, has sometimes seemed to occur in spite of, rather than due to, its ministerial and departmental supervision.

60. Governments of both political persuasions have also often treated Board appointments as seemingly a sinecure for retired politicians. Similarly, the nominees of departmental secretaries and CDFs have often not reflected the housing industry expertise really required, even if otherwise meeting a perceived need for bureaucratic or military perspectives on the DHA Board.

61. At the very least, the DHA board should comprise a majority of directors with significant housing industry or directly-related private sector experience.

62. The following recommendations concerning DHA’s capability enabler role are necessary in order to:

- a. ensure national defence capabilities are not undermined;
- b. maintain public confidence that DHA will be allowed to meet its primary purpose in supporting such capabilities; and
- c. restore and maintain defence force morale, and the confidence of defence force families that their right to the standard of housing enjoyed by most other Australians will not be ignored or discounted by any government.

Recommendations

63. The Government, and the Opposition as the alternative government, both publicly state unequivocally that DHA will be retained as a GBE and will not be privatised, in any manner, so it can continue fulfilling its primary purpose as a key national defence capability enabler.

64. The Government, and the Opposition as the alternative government, both publicly state unequivocally that DHA will also not be asset-stripped, or otherwise emasculated in any manner, including the explanation that to do so would be contrary to its primary purpose in serving the long-term national interest of Australia having effective national defence capabilities.

65. The DHA Act be amended to formalise its precedence and authority over the PGPA Act.

66. DHA be wholly administered within the Defence organisation, with the financial responsibilities supervised by the CFO of the Department of Defence and the strategic and operational capability responsibilities supervised by the VCDF.

67. To give appropriate weight to long-term national security requirements, if the Minister for Finance and the Minister for Defence are to be both retained as DHA's formal shareholders, then each is given a veto over the actions of the other. Resolution of such a matter should then be referred to the National Security Committee of the Cabinet to ensure a whole-of-government perspective is applied to the eventual decision.

68. A majority of the DHA Board be required to have housing industry or private-sector property development experience to the standard required for independent directors under the Corporations Act and the professional code of the Australian Institute of Company Directors.

69. Former senators or MHRs no longer be appointed as DHA directors.

70. If former parliamentarians are to continue to be appointed as DHA directors, then this should be no more than two in number and, as a safeguard against party-political expediency, be allocated as one from each side of politics.

71. DHA's practice of providing suitable housing to ADF families continue to reflect wider community standards, rather than supposed minimum standards that a Department of Finance focus on short-term measures seems to prefer.

72. DHA-owned houses, especially those located near ADF bases, not be sold for short-term revenue-raising or other asset-stripping reasons – at the direct cost of long-term operational detriment and a likely return to entrenched personnel retention problems, and to some operational detriment even in the shorter term.

73. DHA's long-term focused business model – incorporating a mix of profit-taking and sometimes a partial subsidy to long-term defence force efficiency – continue, even where this might at times reduce the possibility of additional returns to consolidated revenue in the short term.