

# Submission

Senate Foreign Affairs, Defence  
and Trade Committee inquiry into the  
operations of Defence Housing Australia (DHA)

26 February 2016

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## Acronyms

ADF	Australian Defence Force
DHA	Defence Housing Australia
DoD	Department of Defence
DoF	Department of Finance
PGPA	<i>Public Governance, Performance and Accountability Act 2013</i>
SLB	Sale and Leaseback

## Background

On 2 December 2015, the Senate Foreign Affairs, Defence and Trade References Committee was tasked with an inquiry into:

*The operations of Defence Housing Australia (DHA), with particular reference to:*

- a. senior management arrangements and board composition;*
- b. whether the requirements of the Defence Housing Australia Act 1987 have been met;*
- c. how the review announced by the Minister for Finance on 11 May 2015 will affect the accounting, information technology and business reporting systems;*
- d. what role land sales will play in future business planning, and what implications there are for current residents if existing housing stock is sold; and*
- e. any other related matter.*

DHA was invited to make a submission on 18 December 2015.

## Senior management and board composition

### Background

Appointment of DHA's Managing Director and Board of Directors is in accordance with the *Defence Housing Australia Act 1987* (DHA Act).

### Senior management

DHA's Board of Directors appointed Ms Jan Mason as Acting Managing Director on 30 October 2015 from 2 November 2015 to 1 February 2016.

On 1 February 2016, the Board appointed Ms Mason as Acting Managing Director from 2 February 2016 to 1 November 2016.

A recruitment process for the position of substantive Managing Director has commenced, including advertising on the APSjobs website ([apsjobs.gov.au](http://apsjobs.gov.au)) and in the *Australian Financial Review* and *The Australian* newspapers. The closing date for applications is 7 March 2016.

### Managing Director

The (Acting) Managing Director is responsible for conducting the affairs of DHA in accordance with any policies determined by, and any directions given by, the Board.

### Executive Group

An Executive Group, comprised of the most senior staff in the organisation, supports the (Acting) Managing Director in fulfilling DHA's role. The Acting Managing Director is responsible for determining the makeup and reporting structures of the Executive Group.

The Executive Group's broad purpose is to provide leadership, guide performance and ensure accountability for DHA's activities. It meets regularly to discuss corporate and operational issues.

**Appendix A** details DHA's current Executive Group structure.

**Appendix B** provides information about each Executive Group member, their roles and responsibilities.

## Board of Directors

Section 12 of the DHA Act sets out the membership of the Board.

(1) *The Board consists of the following members:*

- (a) *a Chairperson;*
- (b) *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;*
- (c) *a current or former member of the Defence Force, nominated by the Chief of the Defence Force;*
- (d) *a person nominated by Finance Secretary;*
- (e) *the Managing Director; and*
- (f) *4 commercial members.*

As at 26 February 2016, the Board consists of the following members:

Position	Name	Current appointment	Expiry current term
Chairman	Hon J.A.L. (Sandy) Macdonald	12 Jan 2014	11 Jan 2017
Secretary of Defence nominee	Mr Martin Brady AO	7 Jul 2014	6 Jul 2017
Chief of the Defence Force nominee	CDR Vicki McConachie CSC RANR	5 Dec 2013	4 Dec 2016
Secretary of Finance nominee	Ms Janice Williams	12 Dec 2015	11 Mar 2016
Acting Managing Director	Ms Jan Mason	2 Nov 2015	1 Nov 2016
Commercial members	Hon Alan Ferguson Mr Robert Fisher AM Vacant Vacant	12 Feb 2015 4 Feb 2016	11 Feb 2018 3 Feb 2019

**Appendix C** provides information on DHA's Chair and Directors, membership of Board committees (as appropriate) and brief biographies.

## Requirements of the Defence Housing Australia Act 1987

### Main function

Section 5 of the DHA Act defines DHA's main function as:

- (1) *The main function of DHA is to provide adequate and suitable housing for, and housing related services to:*
- (a) *members of the Defence Force and their families; and;*
  - (b) *officers and employees of the Department and their families; and*
  - (c) *persons contracted to provide goods or services to the Defence Force and their families; and*
  - (d) *persons contracted to provide goods or services to the Department and their families;*
- in order to meet the operational needs of the Defence Force and the requirements of the Department.*

DHA considers it demonstrably meets this requirement.

### Governance

DHA is a Corporate Commonwealth Entity in accordance with the *Public Governance, Performance and Accountability Act 2013* (PGPA Act). As the Accountably Authority under the Act, DHA's Board of Directors takes its obligations to meet the requirements of the following legislation seriously:

- The DHA Act.
- The PGPA Framework; and
- The *Public Service Act 1999*.

This includes related government policy and guidelines, such as the *Commonwealth Government Business Enterprise Governance and Oversight Guidelines* (the GBE Guidelines) issued under the PGPA Act.

As an Australian Government employer and GBE, DHA also adheres to the provisions and statutes of various employment and information-based legislation, including the *Work Health and Safety Act 2011*, the *Freedom of Information Act 1982*, the *Archives Act 1983*, the *Privacy Act 1988* and the *Public Interest Disclosure Act 2013*.



## Service Agreements

In August 2000, DHA and the DoD entered into a services agreement to satisfy the operational and business requirements of Defence for housing, accommodation and related services. Both parties have executed various iterations since the original.

Currently, DHA must provide housing solutions to ADF families<sup>1</sup> and single ADF members<sup>2</sup> in accordance with the following service agreements with the DoD:

- **ADF families**  
Services Agreement on Housing and Related Matters (known as the Services Agreement) and the Allocations and Tenancy Management (known as the ATM Agreement).
- **Single ADF members**  
The Agreement on Members Without Dependants Choice Accommodation (known as MCA).

The agreements reflect an ‘arm’s length’ and commercial relationship between DHA and the DoD. They also take account of the commonality of ownership, interests and objectives that exist between the parties.

The agreements require DHA to meet or exceed agreed key performance indicators (KPIs) while delivering the specified services. These are different to DHA’s corporate KPIs, as set out in its Corporate Plan and reported against in its Annual Report (see later in this section).

## Corporate Plan

Each year, DHA prepares a Corporate Plan that sets the strategic direction of the business necessary to meet its main function and its services agreements with DoD. The Plan ensures that DHA focuses on fulfilling its function and delivering the outcomes separately identified by Shareholder Ministers.

The Plan details DHA’s immediate corporate objectives and KPIs for the financial year, and provides a long-term outlook of future priorities and desired performance (for a further three financial years).

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<sup>1</sup> Members with dependants (MWD) as defined by the DoD.

<sup>2</sup> Members without dependants (MWOD) and/or members with dependants – Unaccompanied (MWD(U)) as defined by the DoD.

DHA develops the Plan in consultation with the shareholder oversight units in the Departments of Defence and Finance. The DHA Board approves the Plan in principle before providing it to Shareholder Ministers for their consideration.

Once the Shareholder Ministers have endorsed the Corporate Plan, consistent with the requirements of the PGPA Framework, DHA prepares a high-level Statement of Corporate Intent stating key objectives and priorities for the financial year. It is a legislative requirement that DHA publishes a copy of the Statement on its website for public viewing.

### Performance

DHA has a good record of accomplishment in meeting or exceeding its performance indicators, as well as its contractual agreements with the DoD.

**Appendix D** details DHA's achievement against performance measures in 2014–15 (as reported in its Annual Report). Commentary in the Annual Report details what actions DHA took to ensure it fulfilled its function and contractual agreements with the DoD where performance indicators were not achieved (two of 25 indicators).

**Appendix E** provides an explanation of the ratios DHA uses to measure some of its performance indicators, as well as the formulae used to calculate them.

### Business improvement

DHA is continually seeking to improve the way the business operates. For example, DHA has used the opportunity presented by various scoping studies and reviews—where final recommendations have been available—to examine its business practices and processes.

DHA's internal audit services also give objective and independent assurance to the Managing Director, Executive Group and Board Audit Committee (BAC) that financial and operational controls are operating efficiently, effectively and ethically. DHA currently outsources these services to KPMG.

DHA's internal audit plan provides a systematic and disciplined approach to evaluating and improving the effectiveness and efficiency of risk and financial management, controls and governing processes. It promotes best practice, identifying potential risks that could impede achievement of outcomes and recommending business performance improvements. The BAC monitors the implementation of internal audit recommendations and reports progress to the Board.

## How the forensic review will affect DHA's accounting, information technology and business reporting systems

### Background

In July 2015, the DoF appointed advisory and investment firm, KordaMentha (KM), to conduct a forensic review<sup>3</sup> of DHA's operations.

### Phase 1—Forensic Review

From July to November 2015, KM representatives met and/or interviewed DHA's Board of Directors, Executive Group and officers to facilitate their review. DHA officers also complied with various requests for information and participated in a verification process alongside KM and DoF.

At the time of making this submission, DHA had not received a copy of the final forensic review report or its recommendations.

However, DHA officers stand ready to implement agreed recommendations from the report when it becomes available.

This reform work is likely to be overseen by a Steering Committee comprising senior representatives from DHA, DoD and DoF.

In the meantime, DHA has already started to make business improvements arising from draft material provided to DHA officers for verification as part of the review.

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<sup>3</sup> Approach to Market (ATM) ID FIN15BPAM2971 and Contract Notice ID (CN ID) CN3821813  
<https://www.tenders.gov.au/?event=public.CN.view&CNUUID=9A6131D8-0DE3-9CEB-FC5FB385B1C2CF8A>

## The role of land sales in future business planning and implications for current residents if existing housing stock is sold

### Land sales

DHA manages a comprehensive provisioning program—including acquisition, development and construction of residential properties—to meet its Defence housing requirement.

DHA buys both individual land lots (serviced retail lots from builders/developers) and major land sites for development (typically former Defence land, Greenfield sites or Brownfield sites). DHA then engages the private sector for assistance with construction activities as necessary.

When DHA acquires a major land site for development, it typically retains a portion of allotments to build future housing for ADF families and single ADF members and sells the remaining allotments (those not required to meet Defence's housing requirement) via an appointed licensed agent on the open market (i.e. to the public).

This strategy:

- Assists DHA to ensure it integrates Defence housing within the community (as opposed to it being located in large concentrations or enclaves).
- Enables DHA to better control the quality and timing of property delivered to meet the requirements of Defence and ADF members.
- Provides an additional source of revenue to help fund DHA's operations (\$97.4 million in 2014–15 and \$112.5 million in 2013–14). This is important given that DHA is self-funded and a full tax paying entity (it does not receive funding directly from the Federal Budget).

Following the success of this strategy, DHA's 'Corporate Plan 2015–16 to 2018–19' provides for continued:

1. delivery of housing for ADF families and single ADF members from its pipeline of development projects; and
2. revenue generation through the sale of land that is surplus to requirements.

## Implications for current residents if existing housing stock is sold

For over 20 years, DHA has successfully managed two property sales programs:

### 1. **SLB program<sup>4</sup>**

DHA sells a portion of properties it owns to investors under a leaseback arrangement. This enables DHA to retain use of the property to meet its Defence housing requirements.

### 2. **Disposals program**

DHA sells a portion of properties that are surplus to its requirements on the open market. Reasons for disposal include:

- non-compliance with minimum standards (as set by the DoD); and/or
- surplus housing to DoD's requirements in the region (i.e. by rent band and/or number). This includes both older properties and newly constructed properties where DHA has retained a portion (e.g. apartments at Crimson Hill, Lindfield in Sydney, NSW).

As noted previously, DHA uses the revenue raised from both programs to fund its operations. This includes the provision of new property, upgrade of existing property and/or maintenance of its portfolio to ensure it remains of a high standard.

The implications for ADF members when a property is sold depends on the sales program:

#### • **SLB program**

DHA typically sells properties with an ADF family or single ADF member tenancy agreement in place (in order to minimise vacancy rates). However, the sale of the property does not affect the tenancy agreement.

DHA does not publicly advertise the address of properties or conduct public inspections (i.e. open homes). It requests tenants to provide access to the property for inspections by genuine prospective investors and/or property professionals (e.g. valuers, pest and building inspectors, etc.).

As per the DHA lease, a lessor may choose to sell his or her DHA-managed property at any time and for any reason (e.g. financial or medical hardship, marriage breakdown, etc.).

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<sup>4</sup> The same process applies where properties are sold to institutional investors in a bulk transaction.

However, the lessor may only sell the property to another investor who takes up the balance of the lease term (e.g. if a property is sold six years into a nine-year lease, the new lessor will have a three-year lease with DHA, plus any options or variations to extend included in the contract).

- **Disposals program**

In the majority of cases, disposal properties are either not tenanted when listed for sale or the ADF member's tenancy is about to end (i.e. they are being posted to a new location or are moving to another residence). This gives the appointed licensed real estate agent full access to market and sell the property.

Indirectly, all ADF families and single ADF members benefit because the revenue generated helps DHA to not only meet its ADF tenancy requirements, but to deliver high quality, well-located property.

It also means that DHA can adopt sustainable construction practices that benefit both ADF members and the broader community. For example, all DHA's new dwellings must now achieve a minimum six-star energy efficiency rating<sup>5</sup>. The design, materials used in construction and the fixtures/appliances installed improve the energy efficiency of the property. This can result in lower utility bills for tenants, reducing tenants' living costs.

The Federal Government also benefits as the revenue generated reduces the capital it needs to invest in housing for ADF members, funds DHA's operations and enables DHA to operate profitably and pay its annual dividends and taxes.

### **Future property sales activity**

DHA's approved 'Corporate Plan 2015–16 to 2018–19' provides for it to continue to raise funds through the SLB program and surplus property disposals.

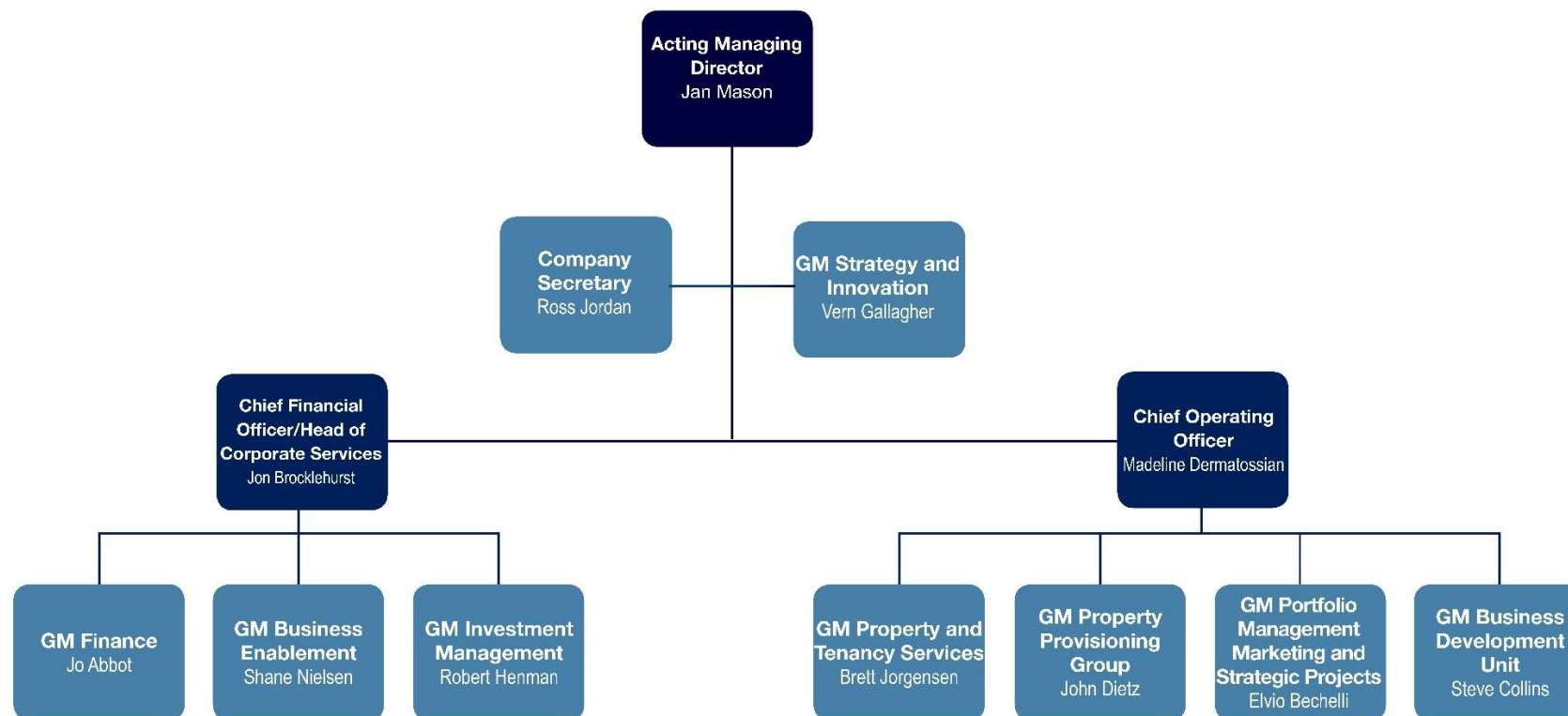
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<sup>5</sup> The energy efficiency rating must be certified by an independent accredited assessor, using AccuRate (NatHERS replacement), other equivalent methods (e.g. state systems such as BERS Pro and BASIC) or, where permitted, BCA Deemed-to-Satisfy Provisions.

## Other matters

There are no other matters DHA wishes to bring to the attention of the Committee.




Executive Group structure








## Appendix B

### Executive Group

	<p><b>Ms Jan Mason</b> BA, BSocSci, Dip Cont. Ed and AMP (Harvard Business School)</p> <p><b>Acting Managing Director</b></p> <p>The Acting Managing Director is responsible for ensuring DHA fulfils its role in line with the <i>Defence Housing Australia Act 1987</i> and conducting DHA's day-to-day business in line with the <i>Public Governance, Performance and Accountability Act 2013</i>, the <i>Public Service Act 1999</i> and other relevant legislation.</p>
	<p><b>Ms Madeline Dermatossian</b> Dip Law, MAICD and FCIS</p> <p><b>Chief Operating Officer</b></p> <p>The Chief Operating Officer (COO) is responsible for the delivery of operational programs and projects across the organisation. This includes property provisioning (land acquisition and property construction, development, acquisition, leasing and upgrades); property and tenancy management; sale and leaseback and surplus property sales; and strategic projects such as housing services for single ADF members.</p>
	<p><b>Mr Jon Brocklehurst</b> BSc (Economics and Accounting) and CA</p> <p><b>Chief Financial Officer/Head of Corporate Services</b></p> <p>The Chief Financial Officer (CFO)/Head of Corporate Services is responsible for the delivery of corporate services across the organisation (e.g. finance, human resources and information technology), as well as ensuring sound organisational corporate governance and effective risk management. He is also accountable for ensuring responsible fiscal management, capital planning and investment management of the organisation's strategic property portfolio.</p>




## Appendix B

### Executive Group

	<p><b>Mr Ross Jordan</b> BA, LLB, MSocSc and GAICD</p> <p><b>Company Secretary</b></p> <p>The Company Secretary works closely with the Chairman, Board of Directors and the Managing Director. They are responsible for Board secretariat duties; parliamentary liaison, shareholder liaison; corporate governance practices and reporting (including compliance with our legislative framework and public sector reporting requirements), as well as privacy and requests for information.</p>
	<p><b>Mr Elvio Bechelli</b> BBus and CPA</p> <p><b>General Manager, Portfolio Management, Marketing and Strategic Projects</b></p> <p>The General Manager Portfolio Management, Marketing and Strategic Projects is responsible for the management of our SLB program, including all sales and marketing activities. They also have oversight of strategic projects and programs, including expansion of our apartment portfolio, research services, and providing support to the COO in relation to financial management and sourcing alternate funding methods.</p>
	<p><b>Mr Brett Jorgensen</b> MBus, BEng (Honours), AdvDipBus, DipREM and DipCMgt</p> <p><b>General Manager, Property and Tenancy Services</b></p> <p>The General Manager, Property and Tenancy Services is responsible for meeting business objectives related to the delivery of housing and related services to ADF members and their families. This includes property and tenancy management services; housing allocation and maintenance services; customer service; accommodation booking services; and the administration of Defence-paid allowances, The division is responsible for maintaining and enhancing our relationship with the DoD.</p>




## Appendix B

### Executive Group

	<p><b>Mr John Dietz</b> BEc, BSc and MPRM (in progress)</p> <p><b>General Manager, Property Provisioning Group</b></p> <p>The General Manager, Property Provisioning Group is responsible for managing residential development, retail construction and upgrades programs that support organisational provisioning targets and business objectives. The division is responsible for design and construction specifications; tendering; contract management; project management; development marketing and industry certification and/or recognition.</p>
	<p><b>Mr Shane Nielsen</b> BASC (Computer Science)</p> <p><b>General Manager, Business Enablement</b></p> <p>The General Manager, Business Enablement is responsible for the delivery of business-as-usual corporate services, including information communication technology and infrastructure; telephony; human resource management; and corporate shared services. The division is responsible for information technology initiatives that provide organisational efficiency and improve customer service. They also support organisational project management; business contract fulfilment; learning and development; and work health and safety.</p>
	<p><b>Mr Vern Gallagher</b> BSc (Physics), GradDipMgt and GradDipHRM</p> <p><b>General Manager, Strategy and Innovation</b></p> <p>The General Manager, Strategy and Innovation is responsible for developing and maintaining major stakeholder relationships, including the DoD, all levels of government, and private sector housing bodies, The division is responsible for innovation in housing design and delivery; research and development; corporate communication; ADF member and family communication; and media management.</p>



## Appendix B

### Executive Group

	<p><b>Mr Robert Henman</b> CSc (Economics and Accounting) and CA</p> <p><b>General Manager, Investment Management</b></p> <p>The General Manager, Investment Management is primarily responsible for the investment property portfolio, including overseeing DHA IML activity; treasury (e.g. cash flow, managing investments and borrowings, and liquidity management); managing organisational risk, including development of an annual risk management plan; business continuity; fraud prevention; and insurances.</p>
	<p><b>Mrs Jo Abbot</b> BCom and CA</p> <p><b>General Manager, Finance</b></p> <p>The General Manager, Finance has strategic oversight of DHA's fiscal management and is responsible for ensuring regulatory compliance in relation to financial and taxation matters. The division is responsible for budgeting, related systems and reporting; providing financial and taxation advice to support the broader business and optimising financial returns to shareholders in line with our Corporate Plan objectives.</p>
	<p><b>Mr Steve Collins</b> BBus, CPA and Certificate of Registration (Property)</p> <p><b>General Manager, Business Development Unit</b></p> <p>The General Manager, Business Development Unit is responsible for business development, including acquisition of undeveloped land; retail (serviced) land lots; house and land packages; and completed dwellings in line with organisational provisioning targets and Corporate Plan objectives. The division is also responsible for directly leasing properties from owners and negotiating lease extensions and renewals with existing lessors for whom we manage property.</p>

## Appendix C

### Board of Directors

	<p><b>The Hon J.A.L. (Sandy) Macdonald</b> LLB</p> <p><b>Chairman from 12 February 2015</b></p> <p>Appointed: July 2008 Reappointed: October 2011 and January 2014 Acting Chairman: From November 2014</p> <p>Committees: BPC and N&amp;RC</p> <p>Mr Macdonald was elected to the Australian Senate in 1993. He served multiple terms—including a period as Parliamentary Secretary to the Minister of Defence—until retiring in 2008.</p> <p>He was a member of the Anzac Centenary Advisory Board until it disbanded and served as a non-executive Director of Incremental Oil &amp; Gas Ltd from 2010 to 2014.</p> <p>He has considerable private company and industry experience, and is a wool and beef producer.</p>
	<p><b>Ms Jan Mason</b> BA, BSocSci, Dip Cont. Ed and AMP (Harvard Business School)</p> <p><b>Acting Managing Director</b></p> <p>Appointed: November 2015</p> <p>Before joining DHA, Ms Mason was a former Deputy Secretary at the Department of Finance. She was responsible for a range of major areas such as taxpayers' multibillion-dollar investments in government businesses, including DHA; oversight of major government construction projects, technology and procurement; and reform of the Air Warfare Destroyer Program.</p> <p>Ms Mason has private sector experience and she was also the ACT Winner (Community and Government category) and a National Finalist in the 2014 Telstra Business Women's Awards.</p>

#### Abbreviations

**BAC:** Board Audit Committee

**BPC:** Board Property Committee



**N&RC:** Nomination and Remuneration Committee

**DHA AC:** DHA Advisory Committee



## Appendix C

### Board of Directors

	<p><b>Mr Martin Brady AO</b></p> <p><b>Director</b></p> <p>Appointed: July 2014</p> <p>Committees: BPC, BAC and N&amp;RC</p> <p>Mr Brady had a distinguished 28-year career in the Australian Government, including roles as Director of the Defence Signals Directorate and Chairman of the Defence Intelligence Board.</p> <p>Since then he has undertaken reviews and consultancy projects in Australia and overseas.</p> <p>In 2000, he was made an Officer of the Order of Australia (AO) for his services to the development of Australian strategic policy formulation.</p>
	<p><b>The Hon Alan Ferguson</b></p> <p><b>Director</b></p> <p>Appointed: February 2015</p> <p>Committees: BPC</p> <p>Mr Ferguson was elected to the Australian Senate in 1992. He served 19 years, including eight as Chairman of the Joint Committee on Foreign Affairs, Defence and Trade. He also served as President of the Senate before retiring in 2011.</p> <p>He is currently Chair of the Australian Political Exchange Council. He has been a member of Rotary International for approximately 40 years and is involved with the National Trust.</p> <p>Before entering politics, he was a farmer and was self-employed.</p>

#### Abbreviations

**BAC:** Board Audit Committee



**N&RC:** Nomination and Remuneration Committee

**BPC:** Board Property Committee

**DHA AC:** DHA Advisory Committee

## Appendix C

### Board of Directors

	<p><b>Commodore Vicki McConachie CSC RANR</b> BA/LLB, LLM, and GAICD</p> <p><b>Director</b></p> <p>Appointed: December 2013</p> <p>Committees: DHA AC (Chair) and BAC</p> <p>Commodore McConachie had a distinguished career in the Royal Australian Navy (RAN).</p> <p>She received the Conspicuous Service Cross for her work as Fleet Legal Officer and the US Meritorious Service Medal for her service as Deputy Staff Judge Advocate and Chief of International Law in the Headquarters of Multi National Force Iraq.</p> <p>She is currently heading an Australian Government legal division and is a reserve member of the RAN.</p>
	<p><b>Ms Janice Williams</b> BSW (first class honours) and MAICD</p> <p><b>Director</b></p> <p>Appointed: December 2012 Reappointed: December 2015 (three months)</p> <p>Committees: BPC (Chair), BAC and N&amp;RC</p> <p>Ms Williams has been CEO of the UDIA Queensland and nationally, has consulted to the property industry, and undertaken property development as Director of Jardine Developments.</p> <p>She was a Director of the Brisbane Housing Company for 10 years and chaired its Property Committee for six years. She has held many executive roles, including Head of Community Services Development for the Queensland Government, and significant roles in the Brisbane City Council.</p> <p>She is currently Director of the Residential Tenancies Authority and a member of its Audit and Risk Committee.</p>

#### Abbreviations

**BAC:** Board Audit Committee


**N&RC:** Nomination and Remuneration Committee

**BPC:** Board Property Committee

**DHA AC:** DHA Advisory Committee

## Appendix C

### Board of Directors

	<p><b>Mr Robert Fisher AM</b> BA and BEd</p> <p><b>Director</b></p> <p>Appointed: February 2016</p> <p>Mr Fisher had a distinguished 40-year career in the Commonwealth and Western Australia (WA) public services, including appointments as Chief Executive Officer and Director General of various WA government departments.</p> <p>He was one of five Commissioners on the Australian Government's National Commission of Audit in 2013–14. His previous Board appointments include Chairman of the WA Forest Products Commission and the Aquatic Advisory Committee.</p> <p>In 2003, he was made a Member of the Order of Australia (AM) for service to the public sector in WA, particularly trade, industry, children and family services, and the community.</p>
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#### Abbreviations

**BAC:** Board Audit Committee

**N&RC:** Nomination and Remuneration Committee

**BPC:** Board Property Committee

**DHA AC:** DHA Advisory Committee



## Appendix D

### Achievement against 2014–15 performance measures<sup>6</sup>

Key Performance Indicator	Target	Achievement	Outcome
<b>Housing supply</b>			
<b>Provisioning for ADF families</b>			
Properties supplied against the approved Provisioning Schedule	99.0%	99.0%	✓
Properties acquired or constructed against the Corporate Plan	951	951	✓
Properties leased against the Corporate Plan <sup>7</sup>	1,540	1,684	✓
<b>Provisioning for single ADF members</b>			
Properties supplied against the Corporate Plan	99.0%	105.0%	✓
Properties acquired against the Corporate Plan	216	203	x
Properties leased against the Corporate Plan <sup>2</sup>	35	63	✓

Key Performance Indicator	Target	Achievement	Outcome
<b>Customer service</b>			
Members satisfied with their SR	>80.0%	87.0%	✓
Members satisfied with overall customer service	>80.0%	93.0%	✓
Members satisfied with completed maintenance	>80.0%	96.0%	✓
Lessors satisfied with overall customer service	>90.0%	95.0%	✓

Key Performance Indicator	Target	Achievement	Outcome
<b>Staff</b>			
Staff retention and turnover rate	>85.0%	85.5%	✓
Total recordable injury frequency rate	<15.5	10.0	✓
Percentage of salaries spent on training staff	>1.5%	2.3%	✓
Wages expense ratio	6.0%	5.9%	✓

<sup>6</sup> As reported in the *Defence Housing Australia Annual Report 2014–15*.

<sup>7</sup> Achievement includes leases extended by agreement with lessors. We do not capture these in the original target.

## Appendix D

### Achievement against 2014–15 performance measures<sup>8</sup>

Key Performance Indicator	Target	Achievement	Outcome
<b>Financial performance<sup>9</sup></b>			
Total shareholder return	8.0%	7.9%	×
Dividend payout ratio	60.0%	60.0%	✓
Dividend yield	2.0%	2.1%	✓
Return on equity	5.8%	6.3%	✓
Net profit after tax	\$83.5m	\$91.1m	✓
Return on capital employed	7.6%	8.4%	✓
Inventory (SLB) turnover (years)	<1.7	1.5	✓
Gearing ratio	34.5%	34.8%	✓
Interest cover	5.3	5.8	✓
Liquidity ratio <sup>10</sup>	1.3	4.0	✓
Current ratio	2.7	3.1	✓

<sup>8</sup> As reported in the *Defence Housing Australia Annual Report 2014–15*.

<sup>9</sup> Ratio definitions and formulae is at **Attachment E**.

<sup>10</sup> Excludes current borrowings as we roll borrowing terms on maturity and do not consider this a risk.

## Appendix E

### KPI ratio explanation

Key Performance Indicator	Explanation of ratio/purpose	Ratio formula
Total shareholder return (TSR) Note: Calculated annually	The full returns by an investment over the period of ownership. In essence, TSR is the internal rate of return of all cash flows paid to shareholders during the year.	Total Shareholder Return = (EBIT – Disposal Margin + Depreciation + Contingency + Capital Growth of Investment Properties) / Average (Net Assets at Market Value + Borrowings – Current Assets)
Dividend payout ratio	The set return paid to shareholders (as 60% of NPAT).	Dividend Payout Ratio = Dividends / NPAT
Dividend yield	The amount paid out in dividends each year relative to its commercial value.	Dividend Yield = Dividend Paid / Average (Net Assets at Market Value + Borrowings – Current Assets)
Return on equity (ROE)	The amount of net income returned as a percentage of shareholder equity.	ROE = Annualised NPAT / Average Equity
Net profit after tax (NPAT)	The net amount earned after deduction of all taxation, interest and depreciation expenses.	NPAT = Revenues – Expenses – Depreciation + Interest Revenue – Interest Expense – Income Taxation
Return on capital employed (ROCE)	DHA's profitability and the efficiency with which it employs its capital.	ROCE = Annualised EBIT / (Average Borrowings + Average Net Assets – Average Cash Assets)

## Appendix E

### KPI ratio explanation

Key Performance Indicator	Explanation of ratio/purpose	Ratio formula
Inventory (SLB) Turnover (in years)	Inventory levels held to meet future SLB revenue targets.	$\text{SLB Turnover} = \frac{\text{Total Inventory Properties at Fair Value} + \text{Total Current Investment Properties at Fair Value}}{\text{Current Year SLB Revenue Budget}}$
Gearing ratio	Compares shareholder equity in DHA to borrowed funds (demonstrating the degree to funding of DHA's activities is by equity as against borrowings).	$\text{Gearing} = \frac{\text{Borrowings}}{\text{Total Equity} + \text{Borrowings}}$
Interest cover	DHA's ability to pay interest on outstanding debt.	$\text{Interest Cover} = \frac{\text{Annualised EBITDA}}{\text{Annualised Interest Expense}}$