

Joint Submission: Defence Housing Australia and the Department of Defence

Joint Committee of Public Accounts and Audit

*Governance in the stewardship of public resources:
Inquiry into Auditor-General's Reports 11, 31, 39
(2019–20) and 2 and 9 (2020–21)*

January 2021

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Background

On 22 October 2018, the Joint Committee of Public Accounts and Audit requested, under subsection 17(2) of the *Auditor-General Act 1997*, that the Auditor-General consider conducting a performance audit of Defence Housing Australia (DHA). DHA had not been the subject of a performance audit by the Australian National Audit Office (ANAO). The audit was included in the Auditor-General's Audit Work Program 2018–19.

The ANAO wrote to DHA's Chairman, the Hon J.A.L. (Sandy) Macdonald, on 27 March 2019 confirming the Auditor-General would conduct a performance audit of the management of DHA. The objective of the audit was to assess whether DHA administers its functions efficiently and effectively, and in accordance with the Government Business Enterprise guidelines.

To form a conclusion against the objective, the ANAO adopted the following high-level audit criteria:

- Have DHA and Defence established a fit-for-purpose services agreement?
- Has DHA entered into value-for-money purchasing arrangements?
- Does DHA provide services to Defence personnel effectively?
- Does DHA provide services to Defence personnel efficiently?
- Has DHA established effective governance arrangements to support the provision of housing and housing-related services to Australian Defence Force (ADF) members and their families?

The ANAO included the Department of Defence (Defence) in the audit because of the department's responsibility in supporting the Minister for Defence Personnel, as one of DHA's shareholder ministers, and as DHA's key institutional client.

Similarly, the ANAO included the Department of Finance (Finance) in the audit because of the department's responsibility in supporting the Minister for Finance, as DHA's other shareholder minister.

The ANAO provided its final proposed audit report to DHA, Defence and Finance on 18 February 2020 for comment. The proposed report made four recommendations (details provided at page 5).

DHA's Chairman responded to the ANAO on 17 March 2020 agreeing to all four recommendations. Defence responded to the ANAO on 12 March 2020 confirming its agreement to recommendations 1–3.

The final report titled *Management of Defence Housing Australia* was tabled in the Parliament on 9 April 2020.

ANAO report: *Management of Defence Housing Australia*

Recommendations

In its final report, the ANAO made four recommendations:

1. DHA and Defence align Defence requirements for housing philanthropic organisations assisting the ADF, and foreign exchange and visiting military personnel, with the DHA Act [*Defence Housing Australia Act 1987*].
2. DHA and Defence agree key performance indicators that relate to and support the measurement of performance against all the objectives of the service agreements.
3. DHA, with Defence, update its 2012 study on the comparative cost to DHA, Defence and ADF members of provision of a Service Residence and use of Rent Allowance.
4. DHA follow the procedural advice it has received on decision-making on land development proposals and civilian tenancy to ensure that its activities remain within its statutory powers and within Commonwealth constitutional power, and record its deliberations on such decisions.

Progress on implementation of recommendations

DHA and Defence are working collaboratively to implement the recommendations, as appropriate.

The following provides an update of the status of each recommendation as at January 2021:

1. *Housing philanthropic organisations and foreign military personnel*

DHA and Defence have adopted Australia Government Solicitor (AGS) advice in determining the approach to resolving this recommendation.

Defence has implemented changes to its agreements with philanthropic organisations to enable eligible philanthropic personnel to be housed by DHA under subsections 5(1)(c) and (d) of the *Defence Housing Australia Act 1987* (DHA Act) on the basis that DHA is able to provide housing to 'persons contracted to provide goods and services' to the ADF, Defence and their families.

While a similar approach was proposed for foreign military personnel, Defence has determined that the potential for unintended, adverse consequences that

may flow from such a change outweigh any benefit from implementing this interim arrangement.

In exploring options to resolve this issue, it is apparent that legislative change is required in order to properly resolve the provision of housing to both philanthropic and foreign military personnel.

Defence is currently undertaking a review of the *Defence Act 1903*. The Defence Act review team undertook scoping and consultation throughout 2020 and is due to present implementation options to the Defence Executive in 2021.

Noting a date for this to be considered by Parliament is yet to be determined, it may be possible for legislative changes to be made earlier. However, if this option is not feasible, then it is proposed that the required changes will be included in the Defence Act review.

2. *Key performance indicators (KPIs) to measure performance against all objectives of service agreements*

DHA and Defence have commenced a review of the existing service agreements with the aim of creating a single agreement to cover all services provided by DHA to Defence.

The working group established to review the Defence Services Agreement (DSA) has drafted an outcome statement, objectives and KPI options for consideration in the context of the DSA review. The intent is to ensure greater clarity and transparency in relation to the services DHA provides Defence while also ensuring the services represent value for money for the Commonwealth. These are currently being negotiated between DHA and Defence.

The KPIs are dependent on the DSA review and will be refined as the review progresses. It is envisaged that relevant approvals for an updated DSA will be obtained by 30 June 2021.

Defence has engaged Galent Management Consulting (Galent) to assist in conducting the review. Defence and DHA meet with Galent regularly to monitor progress.

3. *Update the 2012 study on the comparative cost to DHA, Defence and ADF members of provision of a Service Residence and use of Rent Allowance*

DHA engaged PwC to conduct an updated study of the comparative costs of Service Residences and Rent Allowance based on the methodology applied in 2012, and using data from DHA and Defence.

DHA reviewed and provided PwC feedback on a draft report in December 2020. The report is due to be finalised in January 2021. Following finalisation of the report, DHA will consult with Defence and Finance.

4. *Decision-making on land development proposals and civilian tenancy*

DHA is committed to continuing to conduct its activities in accordance with its statutory powers, for the principal purpose of providing adequate and suitable housing to members of the ADF, Defence and their families. The ANAO nor AGS found any circumstances where DHA or its Board had exceeded its authority.

DHA is undertaking a review of its use of civilian tenancies following receipt of procedural advice from AGS and changes in provisioning strategy. DHA suspended entering into new civilian tenancies in September 2020 while the review occurs.

DHA's Board Audit and Risk Committee continues to monitor implementation of these recommendations on behalf of DHA's Board.

Additional findings

In its final report, the ANAO made the following additional findings:

1. Although a major reason for creating DHA was to improve the standard of Defence housing so as to address low ADF member retention rates, there has been no work done to assess the effect of DHA's services on retention rates.
2. DHA has not developed a performance measure of its operating efficiency and cannot report on how much it costs on average to produce the services it delivers to Defence.

Progress against additional findings

DHA and Defence are working collaboratively to address the ANAO's additional findings.

1. *Effectiveness of service delivery*

The provision of housing is a substantial element of the ADF employment offer. While it is difficult to isolate DHA's provision of housing and housing related services in determining retention rates, Defence considers it to be an important retention lever.

'Family and home benefits' were ranked by ADF members as one of the top five most important elements of the 16 elements of the employment package in the 2019 Optimising the Defence Employment Package survey. Family and

home benefits were more important amongst those with dependants but ranked consistently high across all cohorts. Defence is investigating options (such as survey adjustments) with a view to providing more detailed insight in future into the retention impacts of ADF housing benefits.

In October 2019, the Chief of the Defence Force (CDF) wrote to the ADF workforce seeking feedback on the current employment offer and suggestions for making ADF pay and conditions more contemporary. In response to that letter, housing emerged as the primary theme, with over half of respondents providing feedback in relation to housing.

The majority of ADF members have indicated a preference for DHA as their landlord. However, feedback received by Defence in response to the CDF's letter indicates a growing preference for greater choice and flexibility in relation to the type and location of accommodation options. Defence is working closely with DHA in examining existing housing policy with a view to modernising policy, while continuing to meet ADF capability requirements.

Defence has developed a number of initiatives, some of which commenced in 2020. An example of this was the removal of rent band choice¹ caps which will enable DHA, through future acquisitions, to provide increased options to ADF members for townhouse and apartment style residences available in major metropolitan areas. Defence continues to work with DHA to develop appropriate ways to address member preferences. Further changes will be implemented going forward as changes to Defence policy allow.

Defence has advised the next Defence Census is to be conducted in 2023 and will include a set of survey questions related to housing that can support a better assessment of the role the services DHA provide impacts on ADF retention.

Separately, DHA has started analysing the data from the 2019 Defence Census in relation to housing with a more detailed analysis, including demographic data, to be conducted in 2021.

2. *Efficiency of service delivery*

Work being undertaken to review the DSA (under recommendation 2) encompasses reviewing and revising KPIs. Defence and DHA are currently considering the introduction of a KPI to measure operational efficiency.

¹ Rent band choice allows an ADF member to choose a residence that does not meet Defence's minimum standard for a Service Residence but is in a location which better suits their lifestyle. These properties are generally inner city apartments and townhouses.

Revised DHA operating model

Forensic Review of DHA's operations

In May 2015, following completion of an independent scoping study undertaken by Lazard Pty Ltd, the Australian Government announced it would retain ownership of DHA rather than privatising it. At the same time, it announced a reform project to:

*"... review DHA's accounting, information technology and business reporting systems to improve transparency of the cost of providing DHA's services, as well as a review of DHA's business plans to support the sustainable delivery of quality and accessible housing and accommodation services."*²

Finance engaged KordaMentha to conduct a Forensic Review of DHA's operations from July 2015. In its final report, provided to DHA in April 2016, KordaMentha made 34 recommendations, forming 60 distinct items with many interdependencies. Key topics included, but were not limited to, DHA's financial stability, housing stock, operations, governance and reporting.

DHA worked collaboratively with Defence, Finance and KordaMentha to implement the recommendations. This work contributed to DHA, Defence and Finance considering a range of issues affecting DHA's longer term business operations. Subsequently, all parties concluded DHA's operating model was no longer fit for purpose and a strategy to deliver a revised model was developed.

Revised DHA operating model

In November 2019, DHA sought and received support from its shareholder ministers to implement a revised operating model (the revised model) which refocuses DHA on its core purpose—providing adequate and suitable housing, and housing-related services, to members of the ADF, Defence and their families, to meet the operational needs of the Defence Force.

DHA is working closely with Defence and Finance, and is taking a phased approach to implement the revised model to minimise any potential impact on services to ADF members and their families.

DHA has successfully undergone significant transformation since the launch of the revised model in February 2020. DHA is moving closer to a purpose-led service delivery organisation where service delivery is more aligned with contractual requirements, without reducing services to ADF members.

² *Budget papers 2015–16*—Part 2: Expense Matters Finance

Key achievements as at January 2021 include:

- simplified operations and streamlined organisational strategies
- realised efficiencies by leveraging synergies and/or reducing duplication
- revised provisioning to match supply and demand
- reduced exposure to fluctuations in the property market
- disposed or repurposed underperforming assets
- developed a contemporary information and communications technology (ICT) strategy
- rolled out a technology program with a number of new self-serve functionalities, enabling ADF members to do more online (e.g. welcome visits and lodgement of enquiries).

The success of the change program has been due to the commitment of the organisation (from the Board to frontline staff) and the open and transparent approach, through which staff have been informed and included.

The impact of COVID-19

DHA has made good progress in implementing its revised model despite the challenges of the COVID-19 global pandemic. While the revised model had DHA on the path to becoming better connected in the delivery of its services, the pandemic gave DHA an opportunity to accelerate some deliverables to make significant progress against key initiatives in a short period of time.

Within days of the Australian Public Service Commission directing public servants to work from home where possible, DHA had developed an interim COVID-19 home based work policy and had transitioned 90 per cent of its workforce to home based work. This was supported by cyber security awareness resources, video conferencing solutions, additional network capacity, a suite of customer-centric technology system changes to enable increased digital customer engagement, enhanced self-service options for ADF members and property inspections conducted by phone and online.

Many of these changes simplified DHA's operations and interactions with ADF members and are now business as usual processes. They have been welcomed by both employees and ADF members. On the whole, DHA's service to Defence, ADF members and investors has not been unduly affected by the pandemic.

Further business improvements

In addition to the work being undertaken to implement the revised operating model DHA has implemented a number of business improvements which address matters identified in the ANAO report.

Accountable Authority Instructions

DHA has continued to strengthen its governance arrangements. In June 2020, the DHA Board approved Accountable Authority Instructions (AAIs).

The AAIs are issued under section 20A of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act). The AAIs have been developed to instruct DHA Officials on compliance with finance law, being the PGPA Act and the *Public Governance Performance and Accountability Rule 2014*, any instrument made under the PGPA Act, or an Appropriation Act.

The AAIs are designed to assist the DHA Board meet its duties under the PGPA Act by creating an environment that supports the proper use and management of public resources, while applying risk-based controls in order for DHA to achieve its objectives.

Delegations

In March 2020, DHA's Human Resources (HR) Delegations Instrument was revised. In July 2020, DHA's Section 65 Financial Delegations Instrument was refreshed. Work is progressing to finalise DHA's Administrative Delegations Instrument.

System controls

Additional systems controls, supporting the AAIs and revised delegations, have been implemented across DHA's financial management system and workflow management system.

Corporate policy framework

In issuing the AAIs, the DHA Board instructed the Managing Director to approve DHA policies and internal directives—which are integrated with the Managing Director's power of delegation under section 65 of the DHA Act.

To give effect to this, DHA has developed a new corporate Policy Development and Review framework (PDR framework) which provides the structure for developing, approving and maintaining DHA policies, standard operating procedures, internal guidelines and working instructions.