

Audit Report No. 51, 2002–03

Defence Housing and Relocation Services

Introduction

Background

- 3.1 The Department of Defence (Defence) has long provided housing assistance for members of the Australian Defence Force (ADF) and their families. The Defence Housing Authority (DHA) was established in 1988 to provide suitable housing to meet operational needs of Defence. DHA became a Government Business Enterprise (GBE) in 1992. In response to the Government's desire that DHA operate more commercially, provision of housing was formalised in 2000, when Defence and DHA signed a Services Agreement. Defence remains responsible for setting housing standards and for overall management of housing and relocations assistance for ADF.
- 3.2 The Government considers that providing high-quality accommodation is essential if ADF is to retain members. DHA has done much to improve housing for members and their families. DHA surveys of ADF tenants indicate a high degree of customer satisfaction with their housing.¹

¹ Australian National Audit Office (ANAO), Report No. 51, 2002–03, *Defence Housing and Relocation Services*, p. 11.

- 3.3 During 2000 and 2001 DHA began providing Defence with housing related services. These were formalised in the Relocations Service Agreement; a second agreement signed in 2002. Services provided by DHA include:
- arranging housing allocation and relocation;
 - arranging for Defence to make payment of Rent Allowance to members to use private houses;
 - arranging payment of relocation and temporary accommodation allowances (on a reimbursement basis); and
 - arranging end-of-tenancy cleaning of service residences.

The Audit

- 3.4 The ANAO audit began in July 2002. It assessed whether Defence's management of its housing and relocation service provided for ADF members meets specified requirements; and made practical recommendations for more efficient, effective and economical use of public resources provided for this purpose.
- 3.5 A focus of the audit was on Defence's preparation for, and management of, the \$3.5 billion 10-year Services Agreement between Defence and DHA, which was signed in 2000. It is one of Defence's largest service delivery arrangements.

Audit Findings

- 3.6 ADF members and their families acknowledge the quality of the housing they receive under Defence housing arrangements. Defence aims to maintain a high satisfaction rate among members and their families in respect of those arrangements. However, the audit report noted that Defence should also aim to monitor and contain the associated costs. With a focus on member satisfaction, the standard of housing provided exceeds Defence's specified requirement. Defence has largely accepted this outcome, in spite of rising cost of housing and related services, which in 2001-02 amounted to some \$594 million.
- 3.7 ANAO was critical of the 2000 Services Agreement between Defence and DHA. ANAO considered that it would have been preferable had Defence properly constructed the commercial contract and acted on legal advice that the Agreement would not adequately protect Defence's interests. ANAO believed that Defence did not sufficiently appreciate that DHA was not a part of the Department of Defence, but rather was a GBE that

provided housing services on a commercial basis and as an entirely separate and independent entity.

- 3.8 This underlined a need for Defence to manage arrangements strategically and ensure that services met requirements and provided value for money. Defence also needed to implement the Service Agreement's provisions for programs of continuous improvement and cost control.
- 3.9 ANAO detailed its concerns in the following areas:
- the need to formalise the service arrangements;
 - the requirement for more effective strategic and operational management of the services;
 - the need to clarify and finalise several outstanding issues with the performance management of the services; and
 - the need to develop a more proactive approach to the financial management of the services.
- 3.10 The audit report made five recommendations to Defence. These included considering a review of the provision in the *Defence Housing Authority Act 1987* (DHA Act) for Defence officers to be appointed to the DHA board, and working to complete action on significant transitional issues. Other recommendations addressed the Defence annual housing forecast, visibility of housing assistance financial decisions and the payment process for DHA invoices. Defence agreed to four Recommendations without qualification and one Recommendation with qualifications.

The Committee's Review

- 3.11 On 15 September 2003 the Committee held a public hearing to review the progress made against the audit's recommendations. The public hearing was attended by:
- Australian National Audit Office;
 - Department of Defence; and
 - Defence Housing Authority.

3.12 The Committee took evidence on the following issues:

- the Service Agreement;
- composition of the DHA board;
- vacant housing;
- the quality maintenance fee; and
- outstanding issues.

The Service Agreement

3.13 DHA's duty to provide housing services to Defence is set out in a Service Agreement titled *Services Agreement for Housing and Related Requirements*. This Service Agreement was signed in August 2000, and was developed in response to a recommendation of ANAO's Audit Report No. 13, 1994-95, *Australian Defence Force Housing Assistance*.²

The nature of the Service Agreement

3.14 Concerns were expressed by ANAO over the non-businesslike manner in which the Service Agreement was struck.³

3.15 The DHA shareholder Ministers⁴ requested in 1999 that the Service Agreement cover the allocation of risk associated with commercial and service delivery operations.⁵ In April 2000, the shareholder Ministers stated that this should be achieved by creating a Service Agreement that was a commercial contract. In a letter sent to DHA, the Ministers stated:

...the Agreement must be a properly constructed commercial contract, reflecting in an unambiguous manner the risks and obligations of each party.⁶

3.16 DHA, however, felt that a commercial contract was unnecessary to achieve the proper allocation of risks, as the DHA Act obliges DHA to operate with a commercial allocation of risks.⁷

2 ANAO, Report No. 51, 2002-03, *Defence Housing and Relocation Services*, p. 30.

3 ANAO, Report No. 51, 2002-03, *Defence Housing and Relocation Services*, pp. 37-8.

4 The Defence Housing Authority (DHA) is responsible to two shareholder Ministers: the Minister for Defence and the Minister for Finance and Administration.

5 ANAO, Report No. 51, 2002-03, *Defence Housing and Relocation Services*, pp. 30-1.

6 ANAO, Report No. 51, 2002-03, *Defence Housing and Relocation Services*, p. 32.

7 ANAO, Report No. 51, 2002-03, *Defence Housing and Relocation Services*, p. 32.

- 3.17 In May 2000, Defence indicated its acceptance of DHA's view that a commercial contract was not required. Defence stated that an agreement that was not a commercial contract would be sufficient to satisfy the shareholder Ministers' requirements for the allocation of risks.⁸
- 3.18 The Service Agreement, in this form, was approved by the shareholder Ministers on the understanding that appropriate measures were in place to deal with the business and other risk issues.⁹
- 3.19 DHA told the Committee a commercial contract was not the primary goal of the shareholder Ministers.
- ...the requests from ministers were wider than just a commercial agreement. ... DHA was created in 1998 and it operated until... 2000 without a formal agreement between [Defence] and the organisation. Secondly, what ministers were on about was an agreement that specified risk-sharing. They wanted the arrangement to be transparent so that there were the right price signals.¹⁰
- 3.20 Defence advised the Committee that, in its view, it was unnecessary for the Service Agreement to be a commercial contract. It reasoned that such a contract would never be disputed in court because both Defence and DHA are owned by the Commonwealth. Instead, any disputes would be resolved by ministerial negotiation.
- [I]s this a real contract? For example, would these two parties ever end up in a court of law? Well, I would have the thought the answer to that is probably no—because, in the finish, ministers would pull us into line.¹¹
- 3.21 ANAO noted that DHA was required by the DHA Act to operate commercially, but that Defence had a responsibility to act in a business-like manner also. ANAO suggested that Defence should have done more to apply the principles of “value for money” and “open and effective competition” in its dealings with DHA. This would have involved Defence analysing the proposed DHA charges and comparing them with those that another provider might charge in similar circumstances.¹²

8 ANAO, Report No. 51, 2002–03, *Defence Housing and Relocation Services*, p. 32.

9 ANAO, Report No. 51, 2002–03, *Defence Housing and Relocation Services*, pp. 36-7.

10 DHA, *Transcript*, 15 September 2003, p. 7.

11 Department of Defence (Defence), *Transcript*, 15 September 2003, p. 4.

12 ANAO, Report No. 51, 2002–03, *Defence Housing and Relocation Services*, p. 33.

- 3.22 ANAO deemed these comments sufficient and did not make a recommendation on the nature of the Service Agreement.

Committee comment

- 3.23 The Committee concedes that a strictly commercial contract is not necessary to ensure that risks and obligations are properly distributed. The Committee believes, however, that Defence has a responsibility to act in a business-like manner in its dealings with DHA to ensure that Defence receives value for money and protects its own interests.

Legal advice

- 3.24 During the drafting of the Service Agreement, Defence sought legal advice on the termination clause. In June 2000 Defence was advised of significant legal and practical concerns with the clause that could lead to long-term detriment to the Commonwealth. Of greatest concern was that Defence seemed to have no ability to terminate the Service Agreement for default by DHA.¹³
- 3.25 Defence did not act on the legal advice. The termination clause in the draft Service Agreement was not amended and no other clause was inserted to address these concerns.¹⁴
- 3.26 Defence told ANAO that the legal advice was not applicable to the relationship between DHA and Defence. It stated that the absence of a contractual termination for default provision was not critical because of protection provided by the DHA Act. The DHA Act obliges DHA to provide Defence with adequate housing and holds it subject to the direction of the Minister. Further, the Agreement includes a dispute mechanism which provides for binding arbitration. These protections meant that it was not necessary, in the view of Defence, to alter the termination clause of the Agreement.¹⁵
- 3.27 The legal advice was received by a senior Defence officer acting as contract authority, who did not pass it on to the Secretary of Defence or the shareholder Ministers. The contract authority informed the Secretary of some aspects of legal advice, but did not include the advice that the

13 ANAO, Report No. 51, 2002–03, *Defence Housing and Relocation Services*, p. 34.

14 ANAO, Report No. 51, 2002–03, *Defence Housing and Relocation Services*, p. 34.

15 ANAO, Report No. 51, 2002–03, *Defence Housing and Relocation Services*, p. 34.

Agreement would not adequately protect Defence's interests and would involve serious risks for Defence.¹⁶

- 3.28 Defence told the Committee that the Secretary was given a summary of the legal advice, but was not given details for reasons of brevity.

The concerns about the nature of the contract were drawn to the attention of the Secretary of the department. I would have to say that, if the details of legal opinions on every contract—albeit a very important contract—that the department signs were provided to the Secretary, his in-tray would become even more overloaded than it is at present. ... So the concerns were summarised in the advice that went to the Secretary.¹⁷

- 3.29 Defence also told the Committee that the Secretary did not seek further advice on the basis of the information presented to him.¹⁸

- 3.30 ANAO stated that the contract authority should have better informed the Secretary of Defence and shareholder Ministers of the extent of the legal advice so that they could also apply their experience and judgment to the issues presented in order to better protect the Commonwealth's interests at the time.¹⁹

Committee comment

- 3.31 The Committee believes that the Secretary and shareholder Ministers should have been better informed about the legal advice expressing concerns that the agreement might not safeguard Defence objectives, especially given that the legal advice has not been followed. While the relationship between DHA and Defence might ultimately be governed by the DHA Act, the Service Agreement should still be as robust and comprehensive as possible while being consistent with the DHA Act. For this reason, the termination clause in the Service Agreement should be legally sound and unambiguous.

Conflicting objectives

- 3.32 The Committee is concerned that the commercial nature of the Service Agreement has led to a conflict of objectives between Defence and DHA. Defence requires high-quality, cost-effective housing for its members

16 ANAO, Report No. 51, 2002–03, *Defence Housing and Relocation Services*, pp. 35, 38.

17 Defence, *Transcript*, 15 September 2003, p. 3.

18 Defence, *Transcript*, 15 September 2003, pp. 3-4.

19 ANAO, Report No. 51, 2002–03, *Defence Housing and Relocation Services*, p. 38.

while DHA is required to increase its rate of return. These objectives encourage DHA to supply higher-quality housing than is required by Defence.

- 3.33 Defence requirements specify that all service residences have basic amenities, plus additional amenities according to the rank of the resident. Service residences are divided into six classifications (A, B1, B2, C, D and E) according to how many additional amenities they have.²⁰ The higher the grade, the higher the cost to Defence. The greatest numerical need is for Grade A housing, which are two bedroom houses with no additional amenities.²¹
- 3.34 DHA is a commercial agency, and must be cost-effective in its provision of housing. The most cost-effective way to obtain housing is to lease it from private investors. The private investor market supplies relatively few two bedroom houses. Most private investor houses have four bedrooms.
- ...the typical house in the market that we can put on the sale-and-leaseback program because of the prospects of capital growth for the investor tends to be about a four-bedroom house. That is typically what you will see if you go into any housing development.
- If we come to the point in relation to... [Group A] houses, they are houses that do not have en suites or family rooms. The markets stopped producing those sorts of houses quite some time ago.²²
- 3.35 ADF personnel may be allocated housing that is one grade above their entitlement if no housing of the entitled grade is available. In this case, they pay rent according to their entitled grade and Defence makes up the difference.²³ Therefore, it costs Defence more if DHA is unable to provide housing in the required grades.
- 3.36 The audit report stated that DHA was reducing its stock of Group A houses and replacing them with higher classification houses. This is increasing Defence costs when DHA is unable to provide Defence with the required number of Group A houses.²⁴

20 ANAO, Report No. 51, 2002–03, *Defence Housing and Relocation Services*, p. 22.

21 ANAO, Report No. 51, 2002–03, *Defence Housing and Relocation Services*, p. 74.

22 DHA, *Transcript*, 15 September 2003, p. 5.

23 ANAO, Report No. 51, 2002–03, *Defence Housing and Relocation Services*, p. 77.

24 ANAO, Report No. 51, 2002–03, *Defence Housing and Relocation Services*, pp. 75-6.

- 3.37 ANAO agreed with the Committee's observation that this situation indicates a conflict of objectives.²⁵
- 3.38 Both Defence and DHA said that they believed that their aim was to provide satisfactory or better housing, and this was best achieved by operating DHA on a commercial basis.²⁶
- 3.39 Defence advised the Committee that it considered this situation to be acceptable because it is only temporary. Defence said it was in the process of developing a new housing classification to suit the current housing market and occupant expectations. This will mean that DHA can cost-effectively provide more housing in the lowest grade, and more ADF personnel can be allocated housing of the correct grade. The new classification will change the type of housing required by Defence, but will not affect its objectives of providing satisfactory, low-cost housing.²⁷
- 3.40 Defence also told the Committee that the situation was a compromise between cost and personnel retention. It costs more to provide better than satisfactory housing, but this encourages ADF personnel to stay in the Australian Defence Force.

I mean, if you doubled my salary, I might be more likely to stay on until I am 65. If you doubled the size of all houses and the salaries for the ADF, you would retain a higher proportion of them. We have to make judgments. If houses are not consistent with, or within cooee of, community standards, that will be an issue in terms of retention. So there has to be a trade-off here. I would not call it a conflict.²⁸

Committee comment

- 3.41 The Committee acknowledges that Defence and DHA both have interests in providing satisfactory, cost-effective housing to ADF personnel.
- 3.42 The Committee understands that the current Defence requirement for Grade A housing is a product of its housing classification, and is not fundamental to its objectives of providing satisfactory, cost-effective housing. The Committee recognises that there may be no cost-effective way to provide Defence with sufficient Grade A housing as it is currently defined.

25 ANAO, *Transcript, 15 September 2003*, p. 5.

26 Defence, *Transcript, 15 September 2003*, p. 4; DHA, *Transcript, 15 September 2003*, p. 4.

27 ANAO, Report No. 51, 2002–03, *Defence Housing and Relocation Services*, p. 79; Defence, *Transcript, 15 September 2003*, p. 18.

28 Defence, *Transcript, 15 September 2003*, p. 6.

- 3.43 The Committee expects that Defence's new housing classification should reduce defence housing costs by reducing the number of personnel placed in housing rated above their respective entitlements. However, while the new housing classification may reflect the current housing market supply, the housing market supply may still change again in the future. The Committee encourages Defence to implement more flexible housing classifications that can match economically the changing nature of the housing market and occupant expectations.

Composition of the DHA board

- 3.44 Under the DHA Act, the DHA board has 12 members; three of which are ADF members.²⁹ Currently the board includes four ADF members and one civilian Defence official.³⁰
- 3.45 The audit report pointed out that because DHA is now a GBE, the presence of Defence officers on the DHA board creates a potential conflict of interest. The board must take business decisions in the interests of DHA and also take a commercial approach to Defence. Accordingly, ANAO recommended that Defence review the provisions in the DHA Act for Defence officers to be appointed to the DHA board. Defence has agreed to this recommendation, but DHA disputes the assertion that there is a potential conflict of interest.³¹
- 3.46 DHA told the Committee that, even before it became a GBE, there had been potential for conflicts of interest. This was because the board also included commercial directors, and arrangements existed to deal with conflicts of interest.³² The DHA Act requires board members to disclose their interests in matters being considered by DHA.³³
- 3.47 DHA explained to the Committee that the DHA board believes that having Defence officers among its members helps ensure the provision of quality housing services. Defence was an important stakeholder in DHA operations, and it was important that its requirements be known to the DHA board. If Defence officers were removed from the DHA board, then

29 *Defence Housing Authority Act 1987*, Section 12 (1).

30 ANAO, Report No. 51, 2002–03, *Defence Housing and Relocation Services*, p. 25.

31 ANAO, Report No. 51, 2002–03, *Defence Housing and Relocation Services*, pp. 49–50.

32 DHA, *Transcript*, 15 September 2003, p. 14.

33 *Defence Housing Authority Act 1987*, Section 20.

the board would recommend the implementation a formal advisory arrangement to represent Defence interests.³⁴

- 3.48 The audit report states that DHA has other means of learning of Defence requirements, including representation on two bodies established by the Service Agreement. The Defence Domiciliary Group (DDG), a high level strategic management body, monitors and reviews the Service Agreement and sets terms of reference for that monitoring. The Domiciliary Operations Committee (DOC) supervises the operations of the Service Agreement at a national level.³⁵

Committee comment

- 3.49 Good corporate governance requires that boards have in place arrangements to avoid even the perception that their members may face regular conflicts of organisational influence. The *Commonwealth Authorities and Companies Act 1997* (CAC Act) requires directors of a CAC authority board to make business judgements in the best interests of the authority.³⁶ DHA is a CAC authority, and ADF members of its board may face a potential conflict of interest if the board discusses commercial decisions that are in the interests of DHA but not in the interests of Defence.
- 3.50 ANAO has recommended that Defence consider reviewing and providing advice to the Government on the provision in the DHA Act for Defence officers to be appointed to the DHA board.³⁷ The Committee wishes to go one step further and recommends that the provision for ADF members to be appointed to the DHA board be removed from the DHA Act.
- 3.51 At the same time, the Committee acknowledges the importance of the advice that ADF members can give the DHA board. For this reason, the Committee believes that this amendment to the DHA Act be accompanied by changes to the Service Agreement to strengthen the advisory role of DDG.

34 DHA, *Transcript*, 15 September 2003, pp. 14-5.

35 ANAO, Report No. 51, 2002-03, *Defence Housing and Relocation Services*, pp. 50-1.

36 *Commonwealth Authorities and Companies Act 1997*, Section 22.

37 ANAO, Report No. 51, 2002-03, *Defence Housing and Relocation Services*, p. 50.

Recommendation 2

- 3.52 **Section 12 (1) of the *Defence Housing Authority Act 1987* be amended to remove the provision that the Defence Housing Authority include three members of the Australian Defence Force.**

The *Services Agreement for Housing and Related Requirements* be amended to allow for a formal consultative process, possibly including the Defence Domiciliary Group, to enable the Department of Defence to advise Defence Housing Authority of Australian Defence Force housing requirements.

Vacant housing

- 3.53 Defence and DHA pay rent on unoccupied defence housing. Under the Service Agreement, Defence was responsible for pre-disposal vacancy charges for housing that it decided was no longer required, and DHA was responsible for inter-tenant vacancies.³⁸
- 3.54 In practice, Defence is responsible for the cost of the first three months of inter-tenant vacancies, and DHA for the cost after three months.³⁹
- 3.55 DHA told the Committee that some vacancies were unavoidable because it needed to ensure that houses were available for the peak posting period.⁴⁰
- 3.56 The number of housing vacancies had been exacerbated by a large reduction in the housing requirement since 1999.⁴¹
- 3.57 DHA told the Committee that ADF personnel could vacate Defence housing on short notice, and that this was responsible for some of the vacant housing, but that a policy was in place to deal with this situation.

We are operating in an environment where [ADF personell]... can buy their own house and move out with almost no notice at all.

We have this policy of either disposing of the stock or putting civilian tenants in it as quickly as possible. Indeed, we have

38 ANAO, Report No. 51, 2002–03, *Defence Housing and Relocation Services*, p. 79.

39 ANAO, Report No. 51, 2002–03, *Defence Housing and Relocation Services*, pp. 79-80; DHA, *Submission No. 3*, p. 2.

40 DHA, *Transcript, 15 September 2003*, p. 16.

41 DHA, *Submission No. 3*, p. 13; ANAO, Report No. 51, 2002–03, *Defence Housing and Relocation Services*, p. 14.

substantial numbers of civilian tenants now in our stock as a means to deal with vacancies.⁴²

- 3.58 DHA also noted that the average turnover, between one tenant moving out and another moving in, was about thirty days.⁴³
- 3.59 DHA has made some progress in reducing the number of vacant houses. Since 1999, when it assumed responsibility for housing allocation, the percentage of DHA houses that were vacant fell from 9.5% to 8.6%. The elimination of over 500 vacant houses has resulted in annual savings of approximately \$7 million.⁴⁴
- 3.60 DHA told the Committee that it has implemented a system to reduce the cost of inter-tenant vacancy by reducing the requirement for temporary accommodation. The HomeFind tool helps ADF personnel to choose a property in their new posting location in advance, allowing them to relocate from door to door. This has resulted in substantial savings.⁴⁵
- 3.61 DHA also advised the Committee that it was not feasible to reduce inter-tenant vacancy costs by passing them on to the housing market. A typical DHA property lease has a nine year term, but Defence required that ADF personnel be able to terminate a housing contract with ten days notice. Inter-vacancy costs could be reduced by negotiating leases on the same terms, but these terms would be unacceptable to private housing investors.⁴⁶
- 3.62 Defence also informed the Committee that it was willing to negotiate with DHA to create a formal cost reduction program.⁴⁷

Committee comment

- 3.63 The Committee is pleased to note DHA's efforts to reduce the cost of housing vacancies, both to itself and to Defence, and will follow with interest the efforts of Defence and DHA to create a formal cost reduction program.

42 DHA, *Transcript, 15 September 2003*, pp. 16-7.

43 DHA, *Transcript, 15 September 2003*, p. 17; DHA, *Submission No. 3*, p. 13.

44 DHA, *Submission No. 3*, pp. 10, 13.

45 DHA, *Transcript, 15 September 2003*, p. 17; DHA, *Submission No. 3*, p. 13.

46 DHA, *Transcript, 15 September 2003*, p. 8.

47 Defence, *Transcript, 15 September 2003*, pp. 17-8.

The quality maintenance fee

- 3.64 The Committee examined several aspects of the costs that DHA incurs of Defence. The most significant of these was the quality maintenance fee.
- 3.65 DHA charges Defence a quality maintenance fee on Defence housing. The audit report stated that Defence was being charged twice for a service that was already covered by rental fees. ANAO estimated that as a result, Defence paid an additional \$1.7 million in 2001–02 and a similar amount in 2000–01. However, this issue was not considered when the Service Agreement was negotiated.⁴⁸
- 3.66 DHA told the Committee that the quality maintenance fee was not a double charge. DHA provides ADF personnel with a maintenance service that was superior to that offered by the private housing market, including a 24-hour helpline and providing for the booking of contractors to turn up at agreed times. This higher level of service incurred a higher cost and necessitated the quality maintenance fee.⁴⁹

Committee comment

- 3.67 The Committee accepts that the quality maintenance fee is not a double charge, and that it is necessary to provide such a high level of service.
- 3.68 However, the quality maintenance fee may be a potential source of savings, and Defence and DHA should consider the level of maintenance service that balances the expectations of ADF tenants and the cost to Defence.

Outstanding issues

- 3.69 The audit report stated that a list of ten outstanding issues between Defence and DHA had been brought to the attention of the DHA board before the signing of the Service Agreement. Eight of these issues were to be resolved within three months of the signing of the Service Agreement. At the time of the audit, more than two years later, four of these issues had not been resolved.⁵⁰

48 ANAO, Report No. 51, 2002–03, *Defence Housing and Relocation Services*, p. 86.

49 DHA, *Transcript*, 15 September 2003, p. 20.

50 ANAO, Report No. 51, 2002–03, *Defence Housing and Relocation Services*, pp. 59-60.

- 3.70 Defence told the Committee that these delays were not acceptable, and that Defence was making progress against these issues by reviewing the management framework of the Service Agreement. The audit report revealed deficiencies in this framework. Once these deficiencies were rectified, Defence indicated that it would work with DHA to address the outstanding issues.⁵¹
- 3.71 Defence told the Committee of its progress against the following outstanding issues:
- Continuous Improvement Program;
 - Key Performance Indicators;
 - Property register; and
 - Review of deemed effective markets.
- 3.72 The Service Agreement provided for DHA to develop a **Continuous Improvement Program** in order to reduce the cost of the Defence rent bill. Defence records indicated that DHA was developing such a program in August 2000 to target the areas of “dead rent”, temporary accommodation, storage, travel costs, mismatches and ADF retention. There has been no progress on these issues, and there was no evidence of a Continuous Improvement Program. Defence told the Committee that it has not yet conferred with DHA on how to reduce Defence housing costs.⁵²
- 3.73 The Service Agreement provides for **Key Performance Indicators** that measure:
- the general satisfaction of Defence families;
 - the overall cost to Defence;
 - the meeting of specifications in terms of services and accommodation;
 - the administration of payments; and
 - the sharing of risks.⁵³
- 3.74 Detailed Key Performance Indicators were proposed in December 2000, but there was no evidence that they were finalised and implemented.

51 Defence, *Transcript, 15 September 2003*, p. 9.

52 ANAO, Report No. 51, 2002–03, *Defence Housing and Relocation Services*, pp. 62-4; Defence, *Transcript, 15 September 2003*, p. 9.

53 ANAO, Report No. 51, 2002–03, *Defence Housing and Relocation Services*, p. 64.

Defence told the Committee that a set of indicators proposed by DHA was currently going through the Defence committee process.⁵⁴

- 3.75 ANAO could not determine whether the DHA **property register** for July 2000 was checked for accuracy by Defence. Defence records noted that the initial register, detailing classifications for all stock, to be agreed by both parties by 30 June 2000, “did not occur”. Defence told the Committee that DHA was now providing Defence with an updated property register every six months.⁵⁵
- 3.76 The Service Agreement states that Defence and DHA will review, “by 28 February 2001”, the classification of **deemed effective markets**.⁵⁶ This review has not taken place. Defence pays DHA an annual premium for the properties in this “market”. This premium was to be transitional and not to extend beyond the first year if agreement was reached. Current effective markets, where Defence pays this premium, include Canberra, Brisbane and Adelaide. Defence told the Committee that it intended to engage an independent authority to review these markets.⁵⁷
- 3.77 The audit report noted that the outstanding issue of Housing Management Instructions was still in draft form, but was operational.⁵⁸ Defence explained to the Committee that Housing Management Instructions are a set of agreed definitions and responsibilities that allow it to know the full cost of the rent bill. Defence considers Housing Management Instructions to be the best way of defining responsibilities and liabilities under the Service Agreement.⁵⁹

Committee comment

- 3.78 The Committee notes the progress against the outstanding issues identified in the audit report, but is concerned at the amount of time required by Defence to come this far.

54 ANAO, Report No. 51, 2002–03, *Defence Housing and Relocation Services*, p. 64; Defence, *Transcript, 15 September 2003*, p. 9.

55 ANAO, Report No. 51, 2002–03, *Defence Housing and Relocation Services*, p. 60; Defence, *Transcript, 15 September 2003*, p. 9.

56 An **effective market** is one where charges to Defence are primarily based on local market rental values. The alternative is a **limited market**, where charges to Defence are formulated to recoup the capital value of the property and generate a commercial rate of return for DHA. All on-base houses are treated as a limited market.

57 ANAO, Report No. 51, 2002–03, *Defence Housing and Relocation Services*, p. 60; Defence, *Transcript, 15 September 2003*, p. 9.

58 ANAO, Report No. 51, 2002–03, *Defence Housing and Relocation Services*, p. 60.

59 Defence, *Transcript, 15 September 2003*, p. 10.

Recommendation 3

- 3.79 **The Department of Defence report within six months to the Joint Committee of Public Accounts and Audit on its progress towards addressing the outstanding issues listed in Paragraph 4.6 of the Australian National Audit Office Audit Report No. 51, 2002–03, *Defence Housing and Relocation Services*.**

