

2015-16

Annual Report

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Information about this report is available from:

The Annual Report coordinator

Defence Housing Australia

26 Brisbane Ave

Barton ACT 2600

T. 02 6217 8444

E. communications@dha.gov.au

30 September 2016

Senator the Hon Marise Payne
Minister for Defence
Parliament House
Canberra ACT 2600



Senator the Hon Mathias Cormann
Minister for Finance
Parliament House
Canberra ACT 2600

Dear Ministers

On behalf of the Board of Directors, the accountable authority of Defence Housing Australia (DHA), I am pleased to present our Annual Report for the financial year ending 30 June 2016.

DHA continues to deliver housing and related services to Australian Defence Force members and their families in accordance with the *Defence Housing Australia Act 1987*, and our obligations under service agreements with the Department of Defence.

This report details DHA's performance against strategic objectives and performance indicators set out in our Corporate Plan 2015–16 to 2018–19. In the Board's opinion, it is based on properly maintained records, is an accurate reflection of DHA's performance in 2015–16 and has been prepared in accordance with all legislative requirements, including the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) and *PGPA Rule 2014*.

The Board is satisfied that DHA has prepared a fraud risk assessment and fraud control plan, and has appropriate fraud prevention, detection, investigation, reporting and data collection procedures in place that comply with the *Australian Government Fraud Control Guidelines*.

DHA's Board endorsed this report in accordance with a resolution on 11 August 2016.

I commend this report to you as a record of DHA's achievements and compliance, and request that you present it to the Parliament.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Sandy Macdonald', is written over a light blue horizontal line.

Hon J.A.L. (Sandy) Macdonald

Chairman

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Guide to this report

This report outlines our performance against stated objectives and performance measures set out in our Corporate Plan 2015–16 to 2018–19.

It has been prepared in accordance with Australian Government and legislative requirements, including the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) and the Commonwealth Government Business Enterprise Governance and Oversight Guidelines (GBE guidelines).

We trust that while it is primarily a mechanism of accountability to the Australian Government, it will also be a valuable resource for our clients, customers, government at all levels, industry and the general community.

Figures and percentages are generally quoted to one decimal place and may be rounded in some instances.

Section 1: Overview

Includes a foreword by our Chairman, a review of the year by our Acting Managing Director, a summary of significant achievements, and an outline of our role, responsibilities, structure and property portfolio.

Section 2: Report on performance

Reports on our performance against stated outcomes and measures from our Corporate Plan and provides analysis of the results.

Section 3: Management and accountability

Details our governance arrangements, management practices and provides information about our subsidiary company, DHA Investment Management Limited (DHA IML).

Section 4: Financial statements

Provides our audited financial statements for 2015–16.

Section 5: Appendices and reference information

The appendices include supplementary information on specific areas of business, including workforce demographics, work, health and safety (WHS), market research and advertising.

Reference information includes a list of acronyms and abbreviations, a compliance index, an alphabetical index and a directory of our services and offices.

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Agency overview

Chairman's foreword

Acting Managing Director's review • About us



Chairman's foreword



It gives me great pleasure to introduce DHA's Annual Report 2015–16.

DHA achieved a great deal in the past year, including meeting or exceeding almost all performance measures and implementing the recommendations of an independent Forensic Review in less than eight weeks.

I am proud to say, as promised, the quality of service that we provided our customers, clients and stakeholders in 2015–16 was unwavering. This is evidenced by:

- > achieving consistently high customer satisfaction results
- > improving our Customer Service Institute of Australia (CSIA) certification result from 7.7 in 2014 to 8.1 in 2015, which is an outstanding rating as only a few organisations achieve a score greater than 8.0
- > winning two national CSIA service excellence awards and four ACT division CSIA service excellence awards for our exceptional ability to keep the customer at the centre of focus at all times.

Our support of government

DHA continued to play a vital role in supporting the Australian Government by delivering effective and efficient housing and related services to Australian Defence Force (ADF) members and their families. We also provided financial support through an annual dividend of \$62.7 million.

I would like to thank Senator the Hon Marise Payne, Senator the Hon Mathias Cormann, the Hon Michael McCormack MP, and all other Shareholder Ministers who served throughout 2015–16, for your continued support of DHA and our activities.



His Royal Highness the Prince of Wales turns the first sod at our Prince's Terraces Adelaide development in SA.

Our support of the Defence community

DHA has a proud history of supporting the broader Defence community. In 2015–16, we contributed over \$135,000 and donated goods in kind to various Defence community groups and not-for-profit organisations. Notable activities included:

- > providing financial support to 38 Defence family and community centres across Australia so that they could undertake upgrade and maintenance works
- > attending 23 Defence Community Organisation (DCO) welcome days to support newly posted ADF members and families
- > supporting various Soldier On activities, including donating surplus furniture for their new office in Canberra
- > supporting Legacy, including hosting the 2016 Anzac Lunch for Legacy in Sydney which raised more than \$34,000 from auctions and raffles
- > providing financial support and donating goods in kind to the Returned & Services League (RSL) LifeCare sleep out, the Army Art exhibition in WA and the Australian Military Women's Choir.

I was also honoured to officiate at numerous DHA events, including turning the first sod with His Royal Highness the Prince of Wales at our Prince's Terraces Adelaide development (SA) and the official opening of restored heritage properties and newly constructed properties at our Gunners' Cottages development (Fremantle, WA).



Mr John Bale, CEO of Soldier On, presents our Chairman, the Hon Sandy Macdonald and Acting Managing Director, Ms Jan Mason, with a plaque for DHA's support of the official opening of the Robert Poate Reintegration and Recovery Centre in Canberra, ACT.

Our support of the broader community

DHA actively engages local business and tradespeople to help us deliver high-quality housing and related services in all locations where the ADF has a presence. This includes our development pipeline of approximately \$2.5 billion.

We support local real estate and financial industries through our property acquisition, leasing and sales activities. We also created a mid-lease sales program to enable lessors to sell their DHA-leased property through a local real estate agent who is familiar with the terms and conditions of our leasing program.

When building new housing communities, we look beyond bricks and mortar. We not only build community parks, playgrounds and community centres, but ensure they are completed early in the development and construction program to benefit new residents and the broader community.

In doing all of these activities, we not only financially support local communities, but contribute to their wellbeing.

Acknowledgements

I was delighted to welcome Mr Robert Fisher AM, a former member of the National Commission of Audit, to the Board in February 2016 and to see Ms Janice Williams, Chair of our Property Committee, reappointed to the Board in April 2016 for another three years.

I would like to acknowledge and thank former Board Director, Ms Carol Holley, and former Managing Director, Mr Peter Howman, who left DHA in 2015. Ms Holley brought considerable public company Board experience and a robust range of accounting skills to the Board. Mr Howman was energetic and forward thinking, and made a long-term contribution to DHA as CEO and Managing Director.

Lastly, I especially thank my fellow Board Directors, particularly Acting Managing Director Ms Jan Mason, as well as the Executive Group and all DHA staff for their capability, effort and achievement in 2015–16. Their dedication, from top to bottom, has been extraordinary.

I look forward to another exciting and transformational year ahead.



Hon J.A.L. (Sandy) Macdonald

Chairman

Acting Managing Director's review



I have often been asked why I came out of retirement in November 2015 to take the position of DHA's Acting Managing Director. My answer is simple—I had the opportunity to directly contribute to the wellbeing of ADF members and their families, and help shape the direction of one of Australia's most successful Government Business Enterprises (GBE). It also allowed me to build on my previous experience in the Department of Finance overseeing DHA and other GBEs.

Since commencing, I have enjoyed the opportunity to meet with staff and Defence-related stakeholders around the country, to discuss how DHA delivers quality outcomes for ADF members and how we can further improve our performance. I explain my role as having two main areas of focus:

1. To ensure sustainable government ownership for the long-term following confirmation in May 2016 that DHA would not be privatised
2. To help rebuild DHA's foundation stones to ensure that, as a government-owned business, it operates commercially.

I am very pleased with the progress we have made to date, and to provide this review of DHA's performance in 2015–16.



Acting Managing Director, Ms Jan Mason, Chief of the Defence Force, Air Chief Marshal Mark Binskin AC, and our Chairman, the Hon Sandy Macdonald.

Our performance

Reflecting on the year, it was a challenging period but there is much to be proud of. We achieved or exceeded most corporate objectives and key performance indicators (KPIs) and successfully implemented mitigation strategies where targets could not be met. This ensured that our service delivery was not affected. A summary of significant achievements is as follows:

Provide housing and related services that meet stakeholder needs

We continued to provide excellent customer service to ADF members, their families and our lessors. This was evidenced by our customer satisfaction results remaining very positive, with most KPIs being met or exceeded. Likewise, our relationships with stakeholders, including the Department of Defence (Defence) and Department of Finance (Finance) are strong following implementation of recommendations from a Forensic Review of DHA's operations. We were also recognised by the CSIA for our customer service focus by being recertified against international standards for the sixth consecutive year and awarded multiple national and ACT division awards for service excellence.

Provide a housing portfolio that will meet stakeholder needs now and through to 2025–26

At 30 June 2016, we managed 18,767 properties Australia-wide for ADF members and their families. We continued to diversify our portfolio through a \$2.5 billion development pipeline and property construction, acquisition, leasing and upgrade activities. Our commitment to building sustainable communities was evidenced by our Breezes Muirhead (Darwin, NT) development winning an Urban Development Institute of Australia (UDIA) award for environmental excellence and continuing to showcase innovation through solar energy and 'off the grid' construction. We are also proud to be part of the Prince's Terraces Adelaide development (SA) which was the first residential project in Australia to receive the Green Building Council of Australia's 6 Star Green Star design rating.

Develop our people, business model and system delivery

Our staff are critical to the organisation's success. Our achievement of almost all Corporate Plan objectives in challenging market conditions provides evidence of the calibre of our staff and the strength of our service culture. By finalising and implementing a new enterprise agreement, our staff will continue to enjoy competitive remuneration and attractive working conditions. We are also well-placed to develop the skills of our staff—helping them to be the best they can be—through improved succession planning and by better embracing gender diversity and flexible working arrangements at all levels of the business.

I have been very encouraged by the positive attitude demonstrated by staff in relation to business changes during 2015–16. The Forensic Review recommendations and subsequent business transformation program expedited refinement of our business processes to ensure better alignment with whole-of-government and commercial best practice. The Review also contributed to the development of more sophisticated modelling, forecasting and reporting tools, which has resulted in more robust corporate planning and budgeting, and improved our transparency with shareholders.

Meet agreed shareholder financial requirements, operate commercially, efficiently and sustainably

Our financial results were generally strong in the reporting period, despite tight borrowing conditions and weaker property market conditions negatively impacting our revenue streams. Earnings before interest and tax (EBIT) and net profit after tax (NPAT) were both above the Corporate Plan targets, contributing to a dividend payment of \$62.7 million. Through increased business efficiency, we continued to achieve cost savings that strengthen our financial sustainability and add to shareholder value.

Our priorities for the year ahead

Relative to 2015–16, our 2016–17 Corporate Plan reflects a substantial reduction in our business risk profile and associated profits as a result of:

- > contracted growth of the Member Choice Accommodation (MCA) program¹
- > reduced exposure to large-scale apartment developments
- > revised Sale and Leaseback (SLB) targets, relative to levels achieved in previous years
- > implementation of improved internal processes and governance arrangements.

We will press ahead to deliver the additional program of work we elected to pursue beyond the Forensic Review recommendations. By taking a whole-of-business approach and staff continuing to deliver against their own areas of responsibility, we will further improve our operational and personal effectiveness, mature our business model and continue to meet the needs of our shareholders and customers.

I look forward to working with my fellow Board Directors and staff to deliver quality outcomes for our customers, clients, investors and shareholders in the year ahead.



Ms Jan Mason

Acting Managing Director

¹ Housing provided for members without dependants (MWOD) and members with dependants (unaccompanied) [MWD(U)].

Our significant achievements

Housing supply



18,767 properties under management worth \$10.6 billion



834 new properties acquired or constructed

1,364 leased properties added

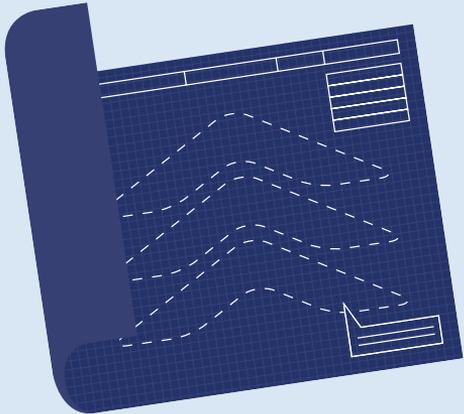
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106 retail land lots acquired worth \$33.0 million for future housing

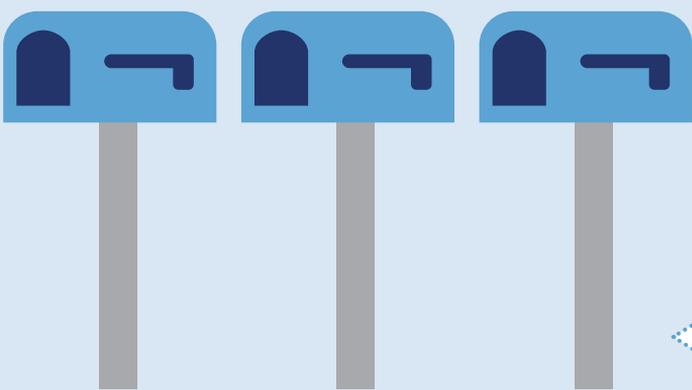
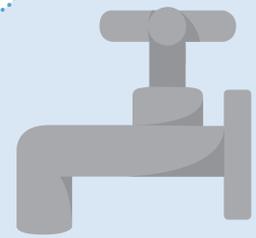
7 large-scale land sites acquired worth \$34.7 million for future housing



136 Defence-owned properties upgraded



Property, tenancy and lessor management



Customer service



86.2% of members satisfied with their DHA-managed property

95.8% of members satisfied with completed property maintenance



92.7% of members satisfied with overall customer service



94.0% of lessors satisfied with overall customer service

Staffing



598 staff employed across Australia

63.7% female staff versus 36.3% male staff



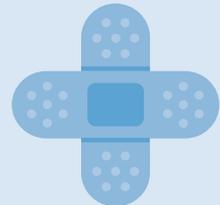
86.9% staff retention and turnover rate

10 recordable injuries per million work hours

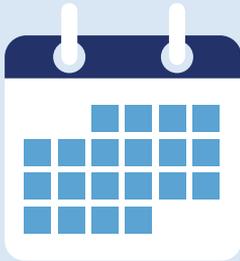
1.6% of salaries spent on staff training



90.9% of staff employed full-time



Financial management



\$62.7 million annual dividend payment



\$428.8 million revenue from the SLB program



\$104.6 million net profit after tax



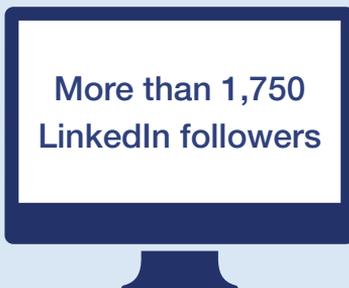
\$320.5 million cash balance

Information technology and digital communication



More than 5,500 likes on Facebook reaching 15,000 people through liking, sharing and commenting on posts

Almost 2,000 Twitter followers



More than 1,750 LinkedIn followers

Ranked sixth out of 165 agencies in the National Archives of Australia's Check-up Digital survey



Industry awards



Customer service

CSIA 2015 Australian Service Excellence Awards

Categories: Service Excellence in a Business Unit: DHA Operations
Customer Service, CEO of the Year: Mr Peter Howman
State or Federal Government: DHA
Service Excellence in a Contact Centre [< 100 employees]: LIA



Training

AITD Excellence Awards 2015

Category: Best use of technology for learning



Reporting

IPAA ACT Division Annual Report Awards 2016

Category: Large PGPA Entities: Gold award

Australasian Reporting Awards 2016

Category: ARA Criteria: Silver award



Construction and development

UDIA NT Awards for Excellence 2015

Categories: Masterplanned development: Breezes Muirhead
Environmental excellence: Breezes Muirhead

MBA NT, Excellence in Building and Construction Awards

PTM Group for DHA

Categories: Medium-density over five (5) dwellings:
Breezes Muirhead

Greenspace Homes for DHA

Category: Best alternation or renovation \$350,000–\$500,000:
Larrakeyah Barracks

About us

DHA is a statutory authority, established under the *Defence Housing Australia Act 1987* (DHA Act), and is one of Australia's most successful GBEs.

Mission and vision

We strive for excellence in the provision of housing and related services to members of the ADF and their families by:

- > supplying quality, integrated and community housing
- > achieving an exceptional degree of client and customer satisfaction
- > providing quality, environmentally sound and economic housing that fits community needs
- > achieving financial results that meet or exceed shareholder and investor expectations.



Role and functions

Our primary functions and responsibilities are as follows:

Housing solutions for ADF members and their families

We provide housing solutions to ADF members and their families in accordance with service agreements with Defence.

Property, tenancy and lessor management

We provide housing allocations and tenancy management services to ADF members and their families, and property management services to lessors. We establish leases through our SLB and direct leasing programs, and negotiate to extend existing leases to meet provisioning requirements.

Property sourcing

We manage a multi-billion dollar, rolling capital program to meet our provisioning obligations to Defence and maintain the currency and quality of our property portfolio. We buy land, construct houses and, as required, purchase and lease new and established houses. We also provide on-base, regional and remote housing services to Defence.

Portfolio management

We generate capital through our SLB program, where we sell property on long-term leaseback arrangements. In addition, we sell excess land and completed properties from our developments and surplus properties that no longer meet Defence minimum standards or requirements. We also retain ownership of and manage a portfolio of housing in strategic locations around Australia.

Generate shareholder value

We deliver value-for-money services to Defence and aim to generate sufficient revenue to enable us to continue achieving our mandated role on a commercially sustainable basis. We pay dividends to the Australian Government (based on 60 per cent of NPAT) in accordance with the GBE guidelines. We maintain an operational service delivery model, sound governance practices, a skilled and productive workforce, and a safe workplace that delivers high-quality professional outcomes.

Our organisational structure

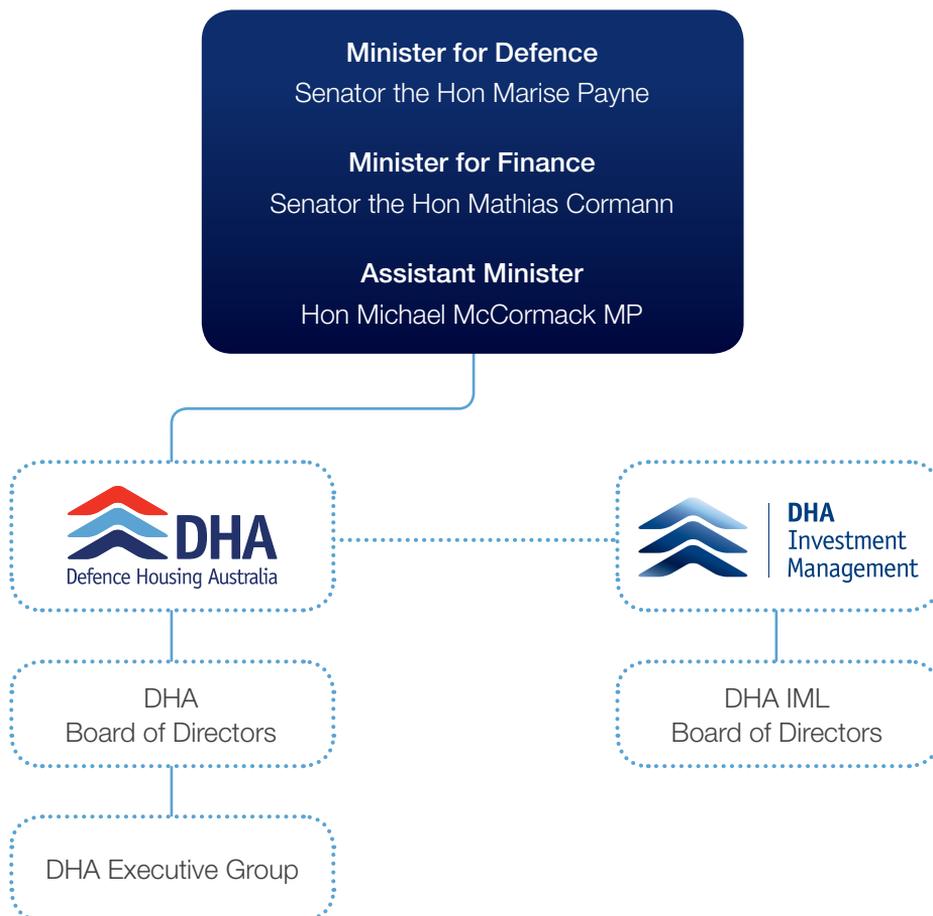
Shareholder Ministers

DHA sits within the Defence portfolio and, through our Board of Directors, reports to the Minister for Defence and the Minister for Finance as Shareholder Ministers. In 2015–16, the Minister for Defence delegated responsibility for operational matters to the Assistant Minister for Defence.

Figure 1 shows our governance structure, including our links to the Australian Government, as at 30 June 2016.

More information about our Board, committees and the Directors is provided in **Section 3** of this report.

Figure 1: Our governance structure, 30 June 2016



Board of Directors

A Board of Directors is the accountable authority for DHA under the PGPA Act and is responsible for the proper and efficient performance of our functions.

Executive Group

An Executive Group comprising the most senior staff in the organisation, supports the Managing Director in fulfilling our role.

Figure 2 shows our executive structure as at 30 June 2016.

More information about Executive Group members is provided in **Section 3** of this report.

Our staff

As at 30 June 2016, we employed 598 staff across Australia. The majority of staff (90.9 per cent) were employed on a full-time basis. The gender balance was 63.7 per cent female and 36.3 per cent male.

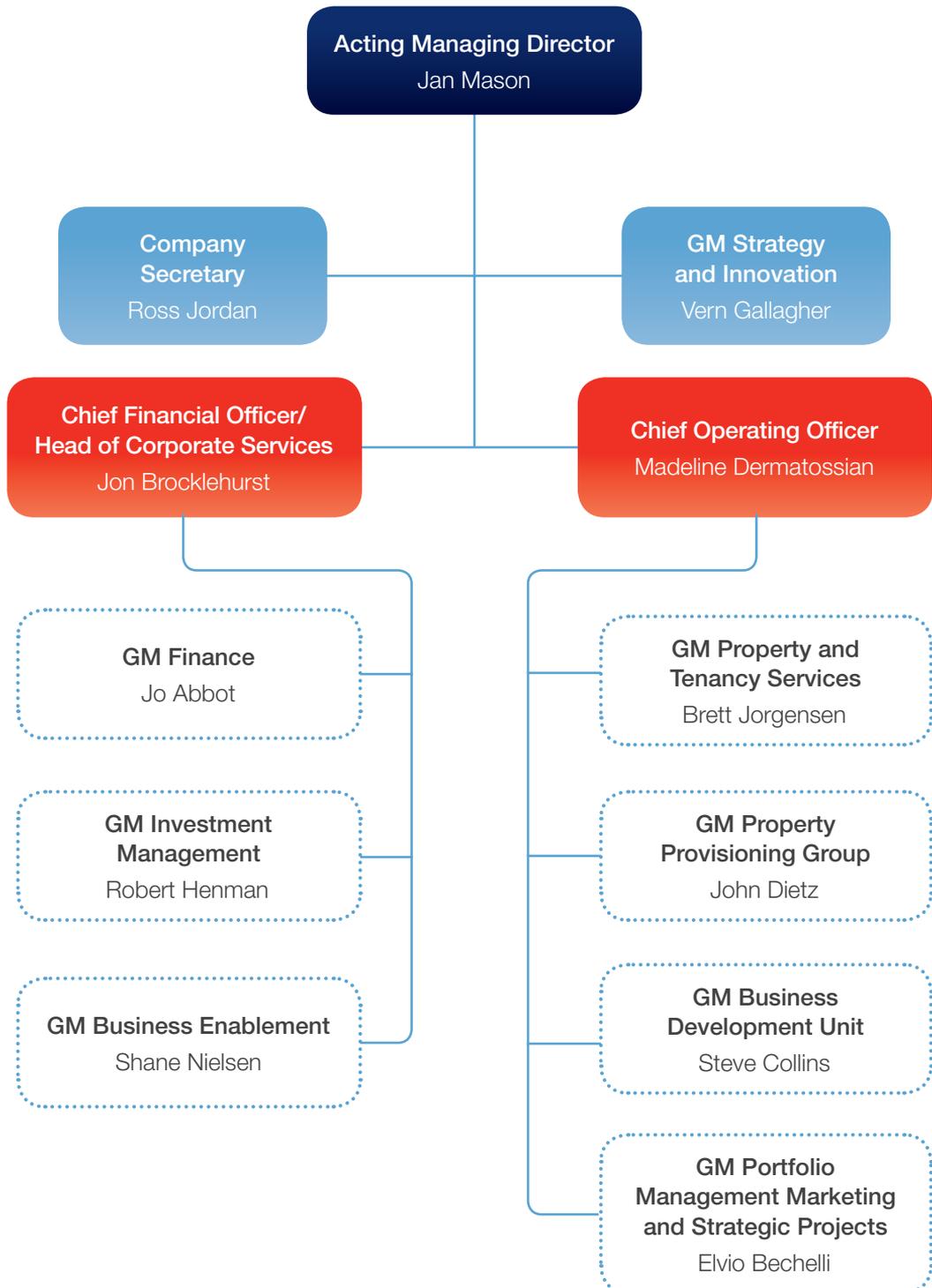
More information about our staff profile is provided in **Purpose 3** in **Section 2** and **Appendix C** of this report.

Our subsidiary

DHA Investment Management Limited (DHA IML) was established as a wholly owned subsidiary of DHA in 2012 and holds an Australian Financial Services Licence to conduct a financial services business.

More information about DHA IML, including a high-level summary of its performance in 2015–16, is provided in **Section 3** of this report.

Figure 2: Our executive structure, 30 June 2016



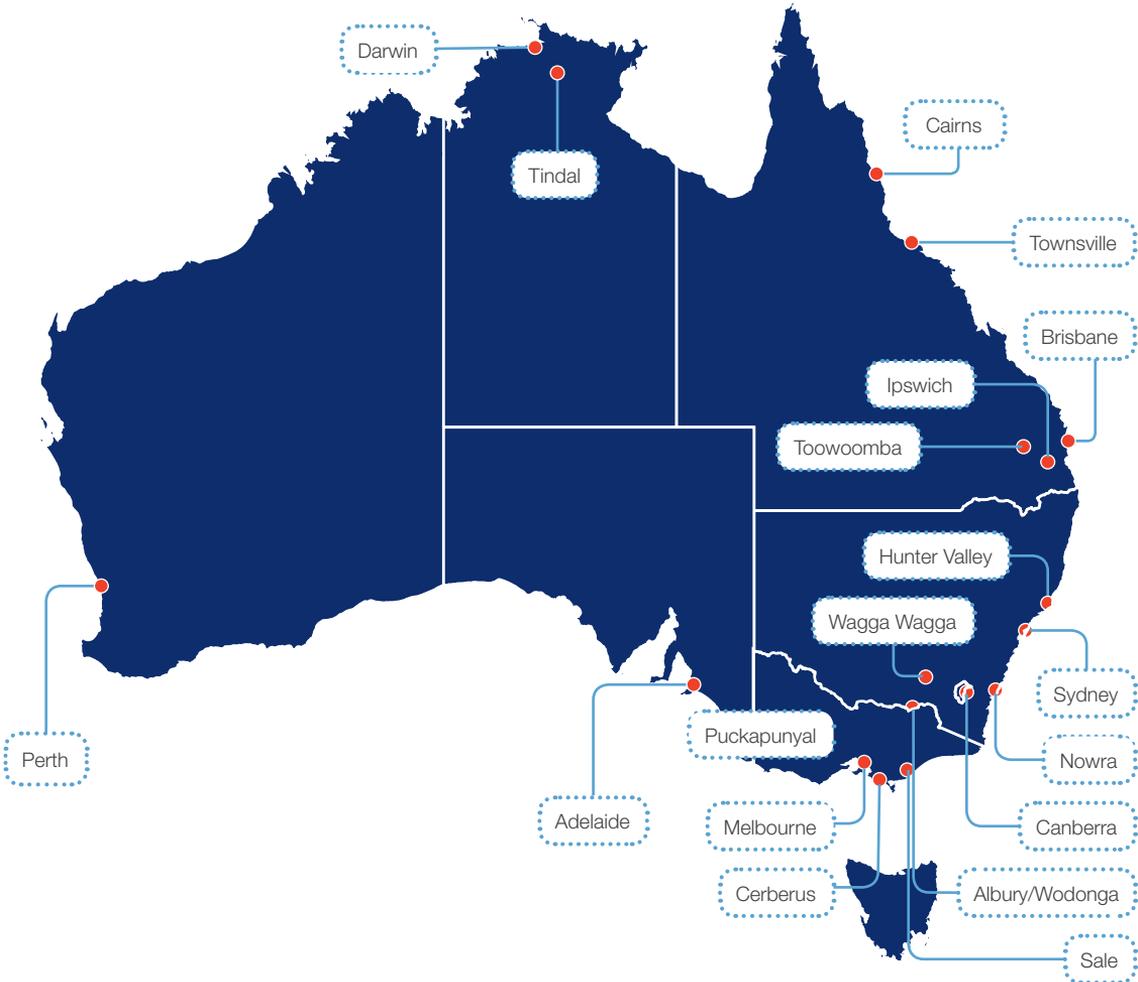
Our network

Staff in 19 offices, located in capital cities, major regional centres and on some ADF bases and establishments, play a vital role in the delivery of customer-facing service delivery.

They are supported by staff in four contact centres, who are the first point-of-contact for housing and maintenance services, and the allocation of on-base Living-in Accommodation (LIA).

Staff in our head office in Canberra are responsible for overseeing strategic development, operational programs, corporate support (e.g. information technology, finance, human resources, communication and marketing), corporate governance and reporting.

Figure 3: Our office network, 30 June 2016



Our services to Defence

The ADF is our primary customer. We provide housing solutions for members with dependants (MWD) in accordance with the Services Agreement on Housing and Related Matters (Services Agreement) and housing solutions for MWOD and MWD(U) in accordance with the MCA Agreement. In doing so, we contribute to ADF recruitment, retention and operational goals.

Housing solutions

Defence determines ADF member housing entitlements. The current system uses the ADF member's rank and their family composition to determine their eligibility for properties within rent band classifications. Individual properties are segmented into rent bands based on their geographic location and market rent. Defence reviews the rent bands and ADF member entitlements annually. We are responsible for administering any changes.

Each year, Defence provides us with a forecast detailing ADF member housing requirements by location and rent band classification. We use this information to determine the proportion of housing we can supply, taking into account properties we own, lease, manage on behalf of Defence, intend to add to our portfolio and intend to dispose of.

Where DHA-managed housing is not available at the appropriate classification, or if the home and grounds are not suitable for pets, an ADF member and their family may choose to rent through the private market. ADF members are responsible for finding the accommodation but must engage us to seek approval. We then administer payment of their Defence-paid rent allowance (RA).

We also manage the booking and allocation of on-base LIA for ADF members in transit, temporary, permanent and course accommodation at most ADF bases. This equates to approximately 32,500 rooms and 45,000 beds Australia-wide.

Online Services, our web-based system, provides ADF members and their dependants with self-service capability to view properties within their entitlement, lock down a property prior to posting to a new location and complete various tasks, such as view their DHA-managed property's condition report, view the status of maintenance requests or update their dependant information.

More information about our housing portfolio is provided later in **Section 1, Purpose 2** in **Section 2** and **Appendix A** of this report.

More information about how we manage RA and LIA is provided in **Purpose 1** in **Section 2** of this report.

Property and tenancy management

Where an ADF member or family chooses to live in a DHA-managed property, we are responsible for property allocation and the resulting tenancy. This includes undertaking a welcome visit when the ADF member or family first tenants the property, conducting routine inspections and providing general support throughout the posting.

We are also responsible for coordinating repairs and maintenance of properties we manage, including property-related damage, defects and deterioration. To deliver these services, we have a panel of contracted maintenance providers comprising over 850 businesses across Australia.

More information about property and tenancy management and our repairs and maintenance service is provided in **Purpose 1** in **Section 2** of this report.

Property upgrades

We coordinate upgrades of Defence-owned properties on-base and in regional and remote areas. Modernising the properties provides a better standard of living to ADF members and their families who tenant the properties, and extends the life span of the properties by 10–15 years.

We also manage 71 Commonwealth Heritage Listed (CHL) properties Australia-wide and coordinate related maintenance and refurbishment. More information about this program is provided in **Purpose 2** in **Section 2** of this report.



We contract over 850 businesses Australia-wide to help us maintain the quality of our property portfolio.

Our housing portfolio

At 30 June 2016, we managed 18,767 properties worth \$10.6 billion in all capital cities, major regional centres and some remote locations of Australia where the ADF has a presence.

The majority of properties are integrated throughout the community, close to ADF bases and establishments, and close to a range of amenities and services, such as transport, shopping facilities and schools.



Newly-constructed properties from our Wirraway development in the lower Hunter Valley (NSW).

Type and amenity

Our MWD portfolio mostly comprises modern, freestanding three- and four-bedroom houses, as well as some courtyard-style houses, townhouses and apartments.

Our MCA portfolio mostly consists of two-bedroom apartments.

All new MWD properties must comply with Defence specifications in terms of location, size, amenity and market rent. Where constructed, they must achieve a minimum six-star energy efficiency rating (EER).²

We are working to ensure existing properties meet Defence's minimum standards, as set out in their New Housing Classification policy, by 1 July 2017. We will achieve this through a combination of property upgrades and disposals.

Figure 4 provides details of our national housing portfolio as at 30 June 2016.

Further information is provided in **Purpose 2** in **Section 2** and **Appendix A** of this report.

² EER must be certified by an independent accredited assessor, using AccuRate (NatHERS replacement), other equivalent methods (e.g. state systems such as BERS Pro and BASIX) or, where permitted, BCA Deemed-to-Satisfy provisions.

Figure 4: Our MWD and MCA portfolio by location, 30 June 2016

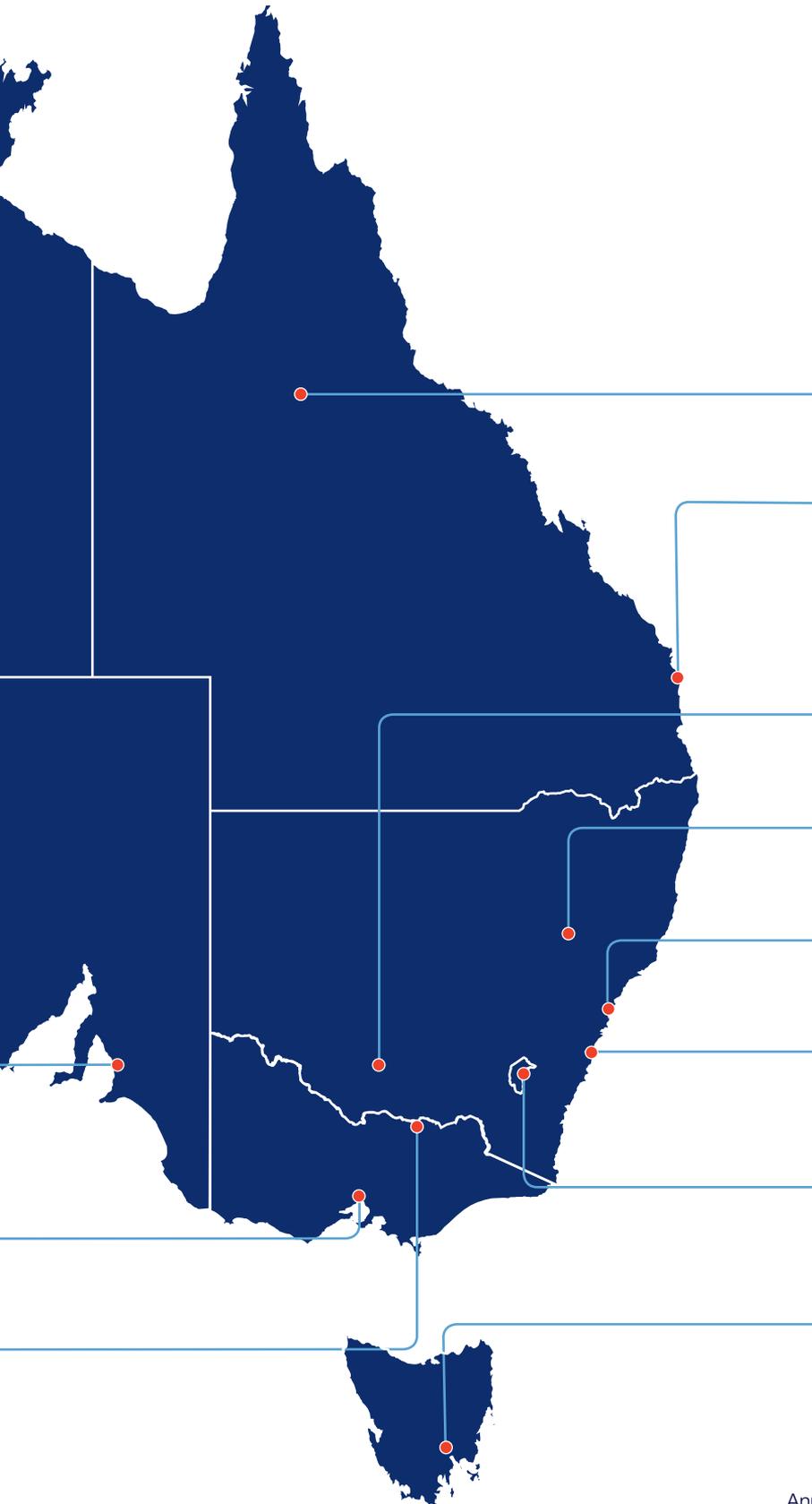
National	
MWD	17,121
MCA	970
Other	676
Total	18,767

Northern Territory	
Darwin	
MWD	1,485
MCA	210
Tindal/Alice Springs	
MWD	355
MCA	0

Western Australia	
Perth region	
MWD	1,060
MCA	98
Regional WA	
MWD	64
MCA	0

South Australia	
MWD	880
MCA	56

Victoria	
Melbourne region	
MWD	1,225
MCA	14
Wodonga	
MWD	333
MCA	0



Queensland	
Northern region	
MWD	1,847
MCA	87
Southern region	
MWD	3,183
MCA	177

New South Wales	
Wagga Wagga	
MWD	321
MCA	0
Hunter region	
MWD	1,053
MCA	10
Sydney	
MWD	3,049
MCA	93
Nowra	
MWD	346
MCA	0

Australian Capital Territory	
MWD	1,866
MCA	225

Tasmania	
MWD	54
MCA	0

Our financial structure

We are required to maintain a strong financial position and to meet shareholder return obligations, including the payment of dividends to the Australian Government (based on 60 per cent of NPAT).

Our funding model

We do not receive funding directly from the Federal Budget. We have access to a government-provided debt facility and fund our operations through:

- > the receipt of fees and charges from Defence for our services
- > generating revenue from:
 - > selling and leasing back properties through our SLB program
 - > the disposal of excess land and completed properties from our developments
 - > the disposal of properties that no longer meet minimum Defence standards or requirements.

We are a full tax-paying entity in relation to federal taxes (e.g. corporate income tax, goods and services tax [GST] and fringe benefit tax [FBT]). We also pay state- and territory-based taxes (e.g. stamp duty and land tax) or an equivalent in accordance with competitive neutrality requirements.

Our credit rating

Standard & Poor's Rating Services conducts an annual credit rating assessment of DHA.

Their report issued on 17 December 2015, confirmed a corporate credit rating for DHA of AA+/Stable/A-1+. This rating is reflective of their assessment of the effect of government ownership and the level of support implied by that ownership.

Standard & Poor's also provided a stand-alone credit profile of DHA as BBB+. The rating is one notch above the BBB target credit rating for GBEs specified in the GBE guidelines.

2

Performance reporting

Performance at a glance

Purpose 1 • Purpose 2 • Purpose 3 • Purpose 4



Performance at a glance

This section outlines our performance against stated objectives and measures set out in our Corporate Plan 2015–16 as required under paragraph 39(1)(a) of the PGPA Act. The results are based on properly maintained records, accurately reflect our performance and comply with subsection 39(2) of the PGPA Act.

Table 1: Performance against the Corporate Plan, 2015–16

Key performance indicator (KPI)		Corporate Achievement	Plan target
Customer service	Members satisfied with their DHA-managed property	> 80.0%	86.2%
	Members satisfied with overall customer service	> 80.0%	92.7%
	Members satisfied with completed maintenance	> 90.0%	95.8%
	Lessors satisfied with overall customer service	> 90.0%	94.0%
Housing portfolio	Houses supplied against provisioning schedule	> 99.0%	98.7%
	New MWD properties constructed or purchased	735	625
	New MCA properties constructed or purchased	260	209
Staff	Staff retention and turnover rate	> 85.0%	86.9%
	Total recordable injury frequency rate (TRIFR)	< 14.5	10.3
	Percentage of salaries spent on training staff	> 1.5%	1.6%
	Wages expense ratio	< 5.0%	5.9%

Key performance indicator (KPI)		Corporate Achievement	Plan target
Financial performance	Total shareholder return	8.1%	8.9%
	Dividend payout ratio	60.0%	60.0%
	Dividend yield	2.4%	2.4%
	Return on equity (ROE)	6.8%	7.0%
	Net profit after tax (NPAT)	\$100.4 m	\$104.6 m
	Return on capital employed (ROCE)	8.5%	9.2%
	Inventory (SLB) turnover (years)	1.5	1.8
	Gearing ratio	25.3%	25.8%
	Interest cover	6.2	7.0
	Liquidity ratio	4.8	4.7
	Current ratio	4.8	4.7

NOTES:

Percentages rounded up to one decimal place.

Staff retention and turnover rate calculated by dividing the inverting aggregated staff initiated separation rate by average head count for the previous four quarters.

TRIFR is the number of recordable injuries per million work hours.

The liquidity ratio excludes current borrowings as borrowing terms are rolled on maturity and not considered to be a risk.

Purpose 1

Provide housing and related services that meet stakeholder needs

Overview

We seek to be the provider of choice for Defence housing and continually adapt our products and services to maximise satisfaction of our shareholders, clients and customers.



Detailed commentary

Our performance against stated measures and objectives in our Corporate Plan 2015–16 was as follows:

Criterion

Deliver consistently outstanding service to Defence, ADF members and lessors.

Result

Achieved

Our ongoing commitment to providing high-quality customer service was again demonstrated this financial year. We exceeded all satisfaction targets set out in our Corporate Plan. These results were also consistent with 2014–15.

Our commitment to customer service is set out in our service charter. Our charter is available on our website (dha.gov.au/servicecharter) and hard copies are available in our regional offices. More information about how we manage compliments and complaints is provided later in this **Purpose 1**.

Service to Defence

The ADF is our primary customer. Through service agreements, we are required to provide adequate and suitable housing to members of the ADF and meet the requirements of the department, as determined by the Minister for Defence.

We have well-established capabilities, structures and positive, productive relationships that are essential to meeting Defence's housing needs and thereby support ADF capability. In Defence's written submission to the Foreign Affairs, Defence and Trade References Committee inquiry into DHA's operations, they said:

DHA and Defence have a positive and productive relationship that achieves the best outcome in meeting Defence members' housing needs and mitigates some of the challenges associated with Service life such as mobility, deployment and uncertainty. DHA is a recognised brand with ADF members. It is trusted and has a solid reputation for service.

Defence is satisfied that DHA takes its commercial arrangement with Defence seriously and meets or exceeds contractual key performance indicators in all areas, including the quality of housing, maintenance, service delivery, customer satisfaction and complaints management.

Service to ADF members

ADF members and families are subject to frequent relocations and lengthy separations. This makes certainty of tenure and the provision of a safe, secure and well-maintained home essential to their wellbeing. Housing is subsequently considered to be an important part of the ADF employment offer.

We survey ADF members and families to:

- > satisfy contractual KPI reporting requirements to Defence on ADF member satisfaction
- > identify how our service delivery can be improved
- > inform future provisioning to suit preferences where possible.

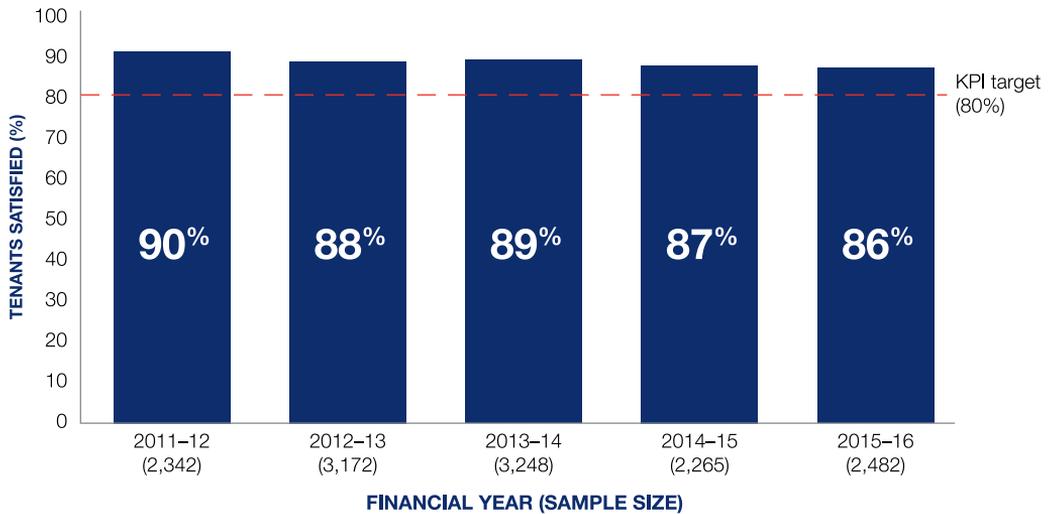
Tenant satisfaction with DHA-managed properties

We surveyed all ADF families who had lived in their DHA-managed property for more than 12 months to measure satisfaction. In 2015–16, 86.2 per cent of 2,482 participants were satisfied with their DHA-managed property. **Figure 5** shows this result has been fairly consistent over the past five years.



Our newly constructed apartment complex, The Landing, in Brisbane, QLD.

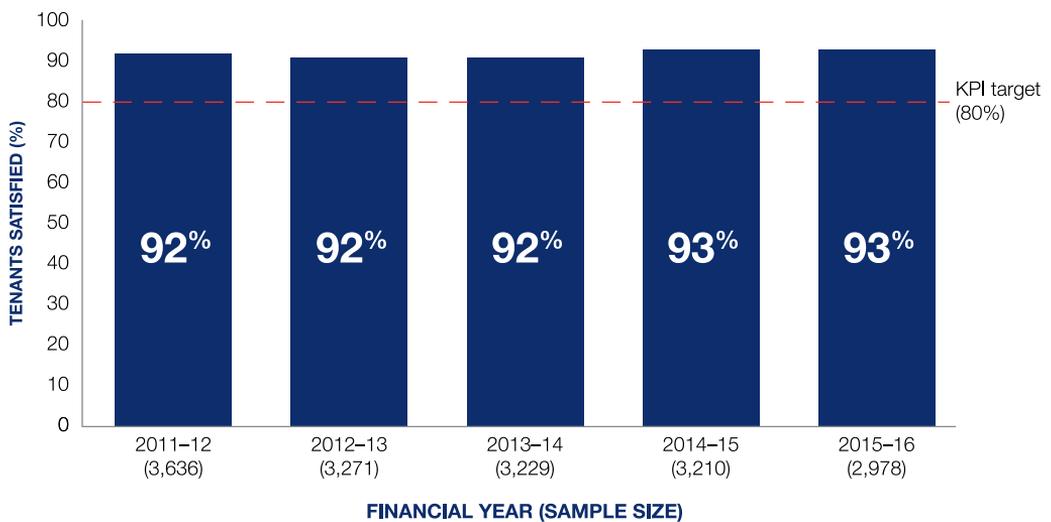
Figure 5: Tenant satisfaction with DHA-managed housing, 2011–12 to 2015–16



Tenant satisfaction with customer service

Our quarterly housing survey measures ADF family satisfaction with their overall DHA customer service experience when relocating. **Figure 6** shows that in 2015–16, results remained above our target of 80.0 per cent, with 92.7 per cent of 2,978 participants indicating that they were satisfied with their customer service experience.

Figure 6: Tenant satisfaction with customer service, 2011–12 to 2015–16



Tenant satisfaction with maintenance

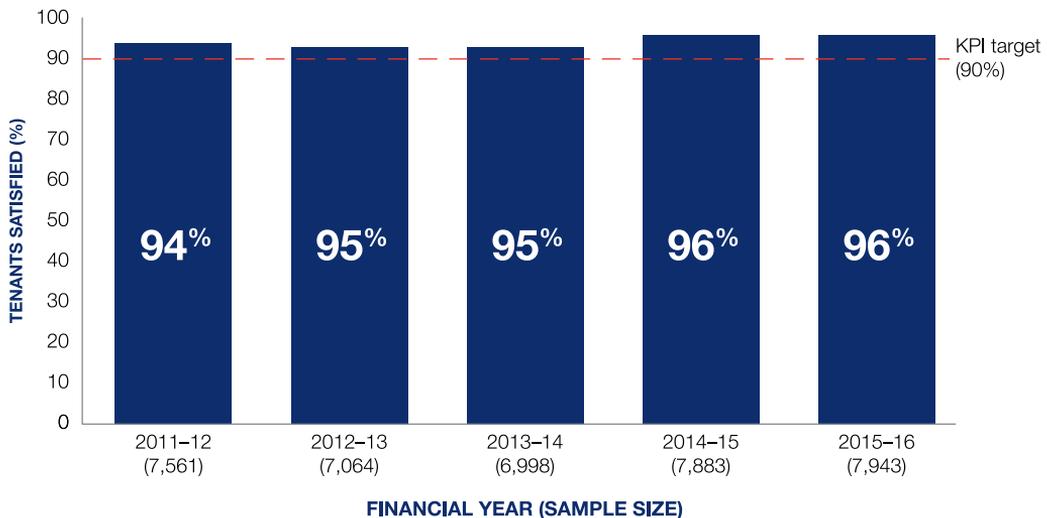
In managing a housing portfolio the size of ours, there are often maintenance issues to be addressed. Our maintenance contact centre receives and takes action nationally on tenant requests for maintenance during business hours. This includes property-related damage, defects and deterioration. In 2015–16, our contact centre recorded 112,571 incoming maintenance-related calls and 224,786 outgoing calls. It is our policy to respond to requests within 28 days.

After hours, we provide emergency maintenance assistance. This includes serious flooding, complete loss of power, gas leaks and sewer blockage where the immediate health, safety or security of tenants or the property may be threatened. In general, a contracted maintenance provider will respond to emergency requests within four hours.

To deliver these services, we have a panel of contracted maintenance providers consisting of over 850 businesses across Australia. Wherever possible, we use local maintenance service providers in each region to provide tenants and lessors with a prompt, high-quality service. Using sophisticated management software, including mobile technology solutions, our contractors completed over 86,351 individual maintenance items in 2015–16. Of these, 84.0 per cent were completed in 14 days or less.

Figure 7 shows that in 2015–16, tenant satisfaction with our maintenance service continued to be strong, with 95.8 per cent of 7,943 participants expressing satisfaction with the overall service.

Figure 7: Tenant satisfaction with maintenance, 2011–12 to 2015–16



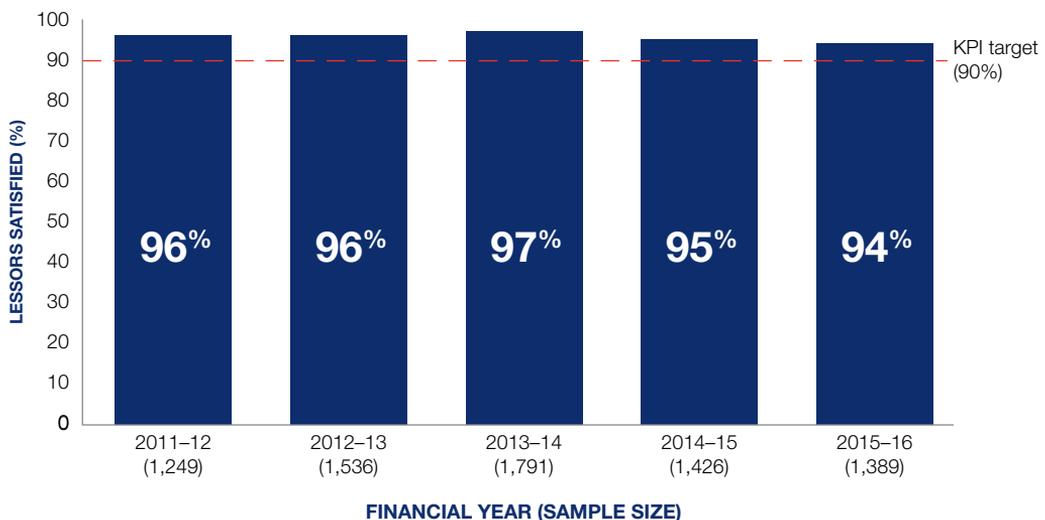
Service to lessors

Lessors are investors who lease their property to DHA for a fixed term. Lease terms can vary from three years up to twelve years, with the ability for us to extend leases built into some agreements. We provide property management services, conduct annual rent reviews and coordinate repairs and maintenance on all leased properties for a single fee. Where the lease is for six years or more we also provide end-of-lease restoration such as repainting.

As our relationship with lessors is generally long-term, we want to ensure they are satisfied with their experience. We undertake surveys to measure satisfaction at various stages of their lease term, including post-purchase (where applicable), during the lease and at lease end. The largest of these is the annual lessor survey that measures satisfaction with customer service and aspects of property management.

In 2015–16, results remained above our target of 90.0 per cent, with 94.0 per cent of 1,389 respondents indicating that they were satisfied with their customer service experience. **Figure 8** shows the consistency of these results over the past five years. In addition, 79.4 per cent of respondents indicated that they would recommend investing with us to others within the next 12 months and, for the second year in a row, 63.4 per cent of respondents reported that they had already recommended our SLB program in the last 12 months.

Figure 8: Lessor satisfaction with customer service, 2011–12 to 2015–16



How we manage compliments and complaints

In addition to seeking feedback via surveys, we invite general feedback, compliments and complaints from our customers, clients and the public. We use this information to inform business change and develop future initiatives to increase satisfaction.

In 2015–16, we received 1,015 formal complaints nationally from ADF members, their families and lessors. This was slightly lower than 2014–15 (1,023 complaints received), but higher than 2013–14 (947 complaints received). The increase in the number of complaints recorded over the last two financial years can be attributed to greater reporting and transparency.

We manage all complaints in accordance with the resolution process set out in our service charter. We have developed our complaints management policy and guidelines in accordance with international standards (ISO 9001). An overarching policy and guideline has been implemented in our quality management system (QMS) to correlate with our service charter. It also provides greater support and guidance to staff, including definitions. This is critical as most complaints are resolved at a local level, with assistance from our national team as needed.

Customer service certification and achievements

We are proud to have been accredited by the CSIA since 2005–06. The CSIA offers evaluation and certification by independent assessors against 25 international customer service standards (ICSS). This includes 'service perspective attributes' where we involve customers in the design of products and/or services, through to 'relationship attributes' where we formally establish strategies for developing relationships with customers and business alliances.

CSIA certification is a recognised benchmark in both the public and private sectors. In 2015 we improved our certification result from 7.7 to 8.1. This is an outstanding rating as only a few organisations achieve a score greater than 8.0.

In addition, we were named as a finalist in 10 categories of the 2015 CSIA Australian Service Excellence Awards. We were successful in winning two national awards, resulting in us being automatically entered into the international awards for those categories. We were also successful in receiving a national high commendation and winning five ACT division awards.

Reaching the finals and winning such awards illustrates our commitment to customer service at all levels and the dedication of our staff. We are justifiably proud of these results.

CSIA 2015 Australian Service Excellence Awards



National awards

Winner

DHA Operations

Category: Service Excellence in a Business Unit



National awards

Winner

Mr Peter Howman

Category: Customer Service, CEO of the Year



National awards

Highly commended

DHA

Category: State or Federal Government



ACT division awards

Winner

DHA Operations

Category: Service Excellence in a Business Unit



ACT division awards

Winner

Mr Peter Howman

Category: Customer Service, CEO of the Year



ACT division awards

Winner

DHA

Category: State or Federal Government



ACT division awards

Winner

Living-in Accommodation

Category: Service Excellence in a Contact Centre (under 100 employees)

Criterion

Be recognised as the provider of choice for ADF member housing.

Result

Achieved

Housing allocation and tenancy management

We aim to maximise the number of properties available to ADF members and families at all times, but particularly during the peak posting cycle. One of the ways in which we measure success is the rate at which we pre-allocate a property, whereby members select a DHA-managed property in the location they are being posted to before leaving their current location. In 2015–16, we achieved a pre-allocation rate of 96.0 per cent against the Corporate Plan target of 75.0 per cent.

During the off-peak periods, we aim to minimise vacancies wherever possible. In 2015–16, our vacancy rate target was below 7.5 per cent (over the 12 month average). We achieved 6.8 per cent for MWD properties and 5.7 per cent for MCA properties.

Rent allowance (RA)

We are responsible for administering the payment of RA to those accommodated in the private rental market. ADF members are responsible for finding the accommodation, but must engage us to seek approval. Reasons include non-availability of DHA-managed housing at the appropriate classification, or if the home and grounds are unsuitable for pets.

As at 30 June 2016, we managed approximately 14,000 RA tenancies for MWD, MWOD and MWD(U). In accordance with the Services Agreement with Defence, the target for MWD RA is 20.0 per cent. In 2015–16, we set an internal target of 3,056 tenancies or 16.2 per cent. This was exceeded by 876 tenancies or 4.3 per cent due to a combination of provisioning requirements exceeding the revised approved schedule and an increase in de facto recognition. We do not have a contractual target for MWOD and MWD(U) RA under the MCA Agreement.

Living-in Accommodation (LIA)

Through an agreement with Defence, we also manage the booking and allocation of on-base LIA for about 11,000 ADF members in transit, temporary, permanent and course accommodation at ADF bases Australia-wide. This equates to approximately 32,500 rooms and 45,000 beds.

In total, we managed 208,646 allocations in the reporting period. Of these, 67.4 per cent of requests were generated via our online system; an increase of 6.0 per cent from last financial year. Significantly, the short-term bookings self-service rate was 82.0 per cent this financial year across a total of 103,547 bookings. This is a huge improvement on the transit and temporary self-service rates from last year (65.4 per cent).



Criterion

Improve efficiency and effectiveness of business practices and service delivery.

Result

Achieved

Service to Defence

We provide Defence with a value-for-money service and continue to work with them on strategies and reporting to improve service delivery and efficiency where possible. Examples of our work during the reporting period include:

> ***LIA occupancy and usage***

As detailed earlier in this Purpose, we focused on LIA system improvements to group bookings in support of training, conferences and exercises. This not only contributed to increased usage of our online systems, but enabled us to capture key data such as better tracking of national occupancy and usage levels, which we passed on to Defence to help inform their decision-making.

> ***Housing data***

We commenced a project to review all housing data to ensure the way we calculate, record and report housing-related information is consistent throughout the organisation. A key part of this project has been revising a governance framework for capital planning and procurement activities. Implementation will include a review of modelling requirements, including scoping the information technology platform to assess capability and whether enhancement or upgrade is required. This will have flow-on effects to the reporting we provide Defence.

> ***Segmentation research project***

We commenced work on an audience segmentation research project to better understand our customer engagement. Primary aims of the project include identifying customer preferences for communication and improving our performance against KPIs. The outcomes from the report will form the basis for strategic discussions across the business and with Defence. As at 30 June 2016, we were well progressed in the first phase of the project, having completed interviews and focus groups with staff and customer groups.

> **Forensic Review implementation**

The Forensic Review identified a number of opportunities for us to review and improve business practices and service delivery. Representatives from Defence (as well as KordaMentha [KM], Finance and various consultants) played a key role in implementing the recommendations. In total, 18 recommendations were fully implemented by 30 June 2016. More information is provided in **Purpose 3** and the **external scrutiny** subsection in **Section 3** of this report.

Service to ADF members

Enhancing services project

In the reporting period, we continued to improve upon the service model we introduced in 2014–15 to deliver nationally consistent and extended services to ADF members and families. Examples of implemented initiatives include:

> **Quality certification**

Achieving International Organization for Standardization (ISO) certification (ISO 9001) was a priority in 2015–16, as it verified our consistency, the quality of our output and could potentially reduce costs. We underwent and achieved ISO 9001:2008 certification in July 2015. The external audit group praised us, particularly our regional offices, in demonstrating great commitment to the provision of quality and repeatable processes.

> **Improved telephony**

In order to decrease waiting times, we made improvements to our telephony to ensure calls were answered by the group best-placed to respond, minimising call transfers throughout the organisation. We also introduced a call-back system for our contact centres whereby a customer can elect to be called back rather than wait on hold. Feedback regarding this service has been overwhelmingly positive.

> **Online Services**

We continued to evolve our web-based self-service system, Online Services, based on feedback provided directly and indirectly from stakeholders. Enhancements of note for ADF families in 2015–16, include:

- > member ability to preview their PIN
- > capability to update dependant information
- > enhanced visibility of property availability in line with member entitlement.

Utility Connect

As an example of customer service over and above that required by Defence, we have worked with industry to provide a free, optional utility connect service to ADF members and families. It gives access to discounted gas, power and internet providers and streamlined connection prior to ADF members arriving in their new properties. ADF members moving into DHA-managed properties can also lease furniture through this service agreement.

Service to lessors

Lessors play a key role in helping us maintain the quality of housing we provide ADF members and families. In 2015–16, we implemented the following initiatives to improve the service we provide to them:

> *Online Services*

For several years, lessors have been able to use Online Services to view their leased property details, rent statements and maintenance charges. In 2014–15, we gave lessors access to our annual rent review process results rather than posting them. This year, we enhanced that to automatically enable lessors to initiate a secondary review if their lease provision allows them to do so (rather than them having to email or call). A total of 159 secondary valuations were requested by lessors, a 17.0 per cent reduction from 2014–15. We also made pest inspection reports available online, with automated management of associated maintenance, and provided more information to lessors to facilitate regular communication.

> *Mid-lease sales*

DHA lessors can sell their property at any time, but have to sell the property to an investor who takes over the balance of the lease term. Historically, lessors would choose their own real estate agent to sell their property and pay market commission rates.

In 2015–16, we negotiated commission rates with our panel of real estate agents and created a mid-lease service whereby lessors can engage them to sell their property. One of the main advantages of this service is the ability to advertise the sales listing on our website and receive referrals from interested parties. In addition to improving liquidity, lessors benefit from reduced commissions and relationships with agents who possess a greater knowledge of our lease terms. We are also better positioned to manage the safety and privacy of ADF members and families tenating the properties.

Analysis of performance against Purpose 1

While we achieved all KPIs and performance criterion in relation to **Purpose 1**, we had to carefully manage a number of risks, including:

> **Survey fatigue**

ADF members are continuously surveyed by Defence, DHA and a range of other service providers. Defence maintains a register of all research conducted to manage risks, such as survey fatigue. We work closely with Defence and comply with their requirements. Surveys are essential to our business operations, not only to measure our performance against contractual KPIs but to identify areas for service improvement. We will continue to monitor this issue and refine our methods in line with best practice.

> **CSIA recertification**

Each year following recertification, we receive a report from the CSIA identifying how our customer service performance compares to international standards and best practice. We value the independent assessment and use their feedback to focus on areas with potential for further improvement. In the 2015 report, opportunities for improvement included:

- > reducing reliance on hard copy material by expediting the digital transition
- > increasing the functionality of our self-service mobile and web-based platforms
- > leveraging media analysis to initiate process improvement activities
- > identifying measures that will sustain a customer service culture throughout the organisation and its focus on continuous improvement.

> **Forensic Review**

We did everything possible to ensure that the service delivered to our customers, clients and stakeholders remained strong during the Forensic Review process and implementation of the recommendations.

The review identified several areas, particularly in relation to business processes, where work could be done to further improve service delivery. More information about this is provided in **Purpose 3** and the **external scrutiny** subsection in **Section 3** of this report.

While we have elected to pursue a program of works above the minimum recommendations, the changes implemented appear to have already made a positive impact on the organisation and in the delivery of service to our key customer groups.

Purpose 2

Provide a housing portfolio that will meet stakeholder needs now and through to 2025–26

Overview

We will identify and implement organisational structures, practices, procedures and products that will sustain our business and meet government requirements through to 2025–26.



Detailed commentary

Our performance against stated measures and objectives in our Corporate Plan 2015–16 was as follows:

Criterion

Deliver a portfolio of properties, with a mix of types and locations, which meet the needs of Defence and the ADF member.

Result

Partially achieved

At 30 June 2016, we managed 18,767 properties worth \$10.6 billion in all capital cities, major regional centres and some remote locations of Australia where the ADF has a presence. The majority of properties are integrated throughout the community, close to ADF bases and establishments, and close to a range of amenities and services, such as transport, shopping facilities and schools.

MWD housing

> *Determining housing requirements*

Each year, Defence provides us with a forecast of how many MWD will require Defence-funded housing over the next five years, as distinct from those who will live in their own homes. Referred to as the DHF, it details accommodation requirements by location and rent band classification. Using the DHF, we prepare a capital program which sets out the proportion of housing we can supply, taking into account factors such as vacancy rates, expiring leases, land supply, the availability of capital, and the state of private rental markets. As explained in **Purpose 1**, ADF members directly source the balance through private rental markets and we manage the payment of their RA.

> *MWD provisioning*

In 2015–16, the MWD provisioning KPI outlined in the Services Agreement with Defence was 99.0 per cent. At 30 June 2016, we achieved a closing balance of 17,121 properties or 98.7 per cent against both our Corporate Plan target of 17,330 properties and the Defence-approved schedule of 17,028 after capping (capped KPI result = 16,809 properties).

Nationally, the DHF of 18,860 properties was 361 below the number of MWD actually housed (19,221). This increase in housing demand had the greatest impact in Brisbane (QLD), Sydney (NSW) and Canberra (ACT). Housing demand was below the DHF in Amberley/Ipswich (QLD), Townsville (QLD) and Darwin (NT). More information about portfolio movements is provided later in this **Purpose 2**.

> **MWD portfolio**

MWD properties must comply with minimum Defence specifications in terms of location, size, amenity and market rent. In general, the minimum standard includes three bedrooms, separate lounge and dining areas, kitchen, laundry, bathroom and ensuite, single lock-up garage (carport in NT) and a 25–35 square metre backyard. In terms of location, they should not be more than the greater of 30 kilometres each way by road or 150 minutes from the Defence establishment where the ADF member works.

The portfolio also includes a portion categorised as rent band choice housing (RBCH). These properties are generally inner city urban apartments and townhouses that do not meet the minimum standard. ADF members generally choose to live in a RBCH property because its location suits their lifestyle.

As indicated in **Figures 9 to 11**, the majority of MWD properties are houses, that are 6–10 years old and have four bedrooms.

Figure 9: MWD property type, 30 June 2016

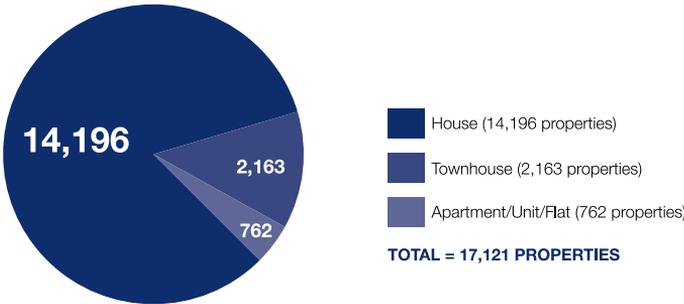


Figure 10: MWD property age (years), 30 June 2016

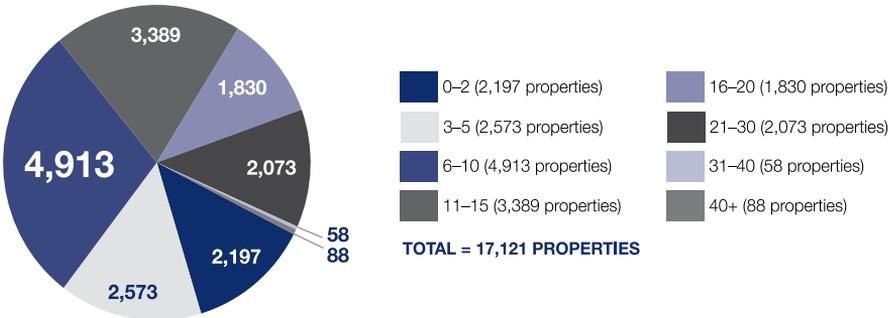
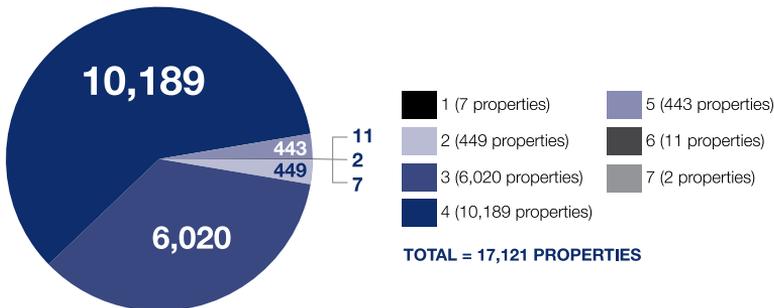


Figure 11: MWD property bedrooms, 30 June 2016

MCA portfolio

> *Determining housing requirements*

Each year, Defence specifies a minimum MCA provisioning requirement in a number of nominated locations. Using this information, we prepare a capital program which sets out the proportion of housing we can supply, taking into account factors such as vacancy rates, expiring leases, land supply, the availability of capital, and the state of private rental markets.

> *MCA provisioning*

In 2015–16, 95.2 per cent of the MCA program was achieved with a closing balance of 970 properties against the Corporate Plan target of 1,018 properties. The shortfall of 48 properties primarily reflects the reduced MCA acquisitions program agreed on by Defence for inclusion in our 2016–17 Corporate Plan.

More detail about portfolio movements is provided later in this **Purpose 2**.

> *MCA portfolio*

MCA properties offer MWOD and MWD(U) an attractive alternative to living on-base or renting privately, including a simple move-in move-out process with no bond or rent required in advance. Eligible members may also share properties with other eligible ADF members.

As indicated in **Figures 12 to 14**, the majority of MCA properties are two bedroom apartments that are up to two years old. They are conveniently located close to Defence bases or the city, with easy access to amenities such as shopping facilities, cafes, entertainment, sporting grounds and public transport.

Figure 12: MCA property type, 30 June 2016

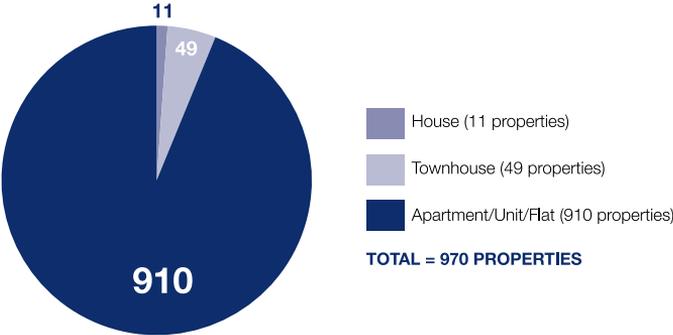


Figure 13: MCA property age (years), 30 June 2016

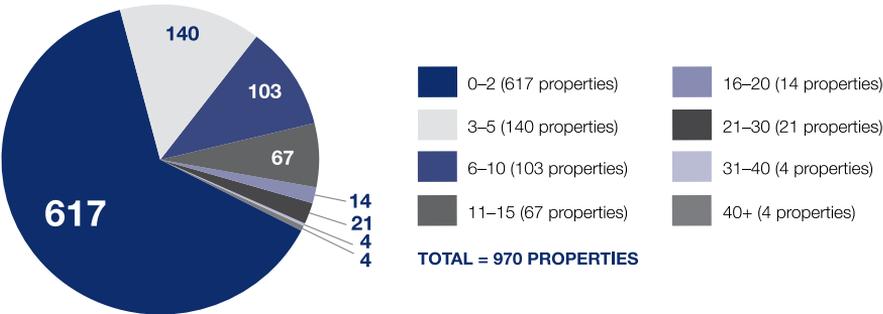
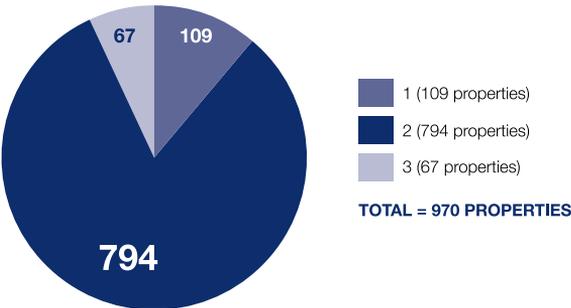


Figure 14: MCA property bedrooms, 30 June 2016



Commonwealth Heritage Listed (CHL) properties

We own 10 CHL properties in Fremantle (WA) and one site in Stockton (NSW). We also manage 61 CHL properties at ADF bases and establishments across Australia on behalf of Defence.

In 2015–16, we introduced guides for tenants living in heritage properties. The guides provide a short overview on the property's historical significance, details of how the property differs from other modern DHA-managed housing and tips for living comfortably while assisting our conservation and maintenance efforts.

We continued to manage a program of works to manage and/or restore properties. Of note, we completed restoration of Gunners' Cottages in Fremantle (WA). The 10 cottages were originally constructed in 1913–14 and were used for officers at the adjacent Artillery Barracks. We also constructed six new dwellings to complement the cottages.

In terms of the Defence-owned properties, the first year of our five-year maintenance forecast was carried out with great success. Notable works completed include:

- > the upgrade of fireplaces at properties at the Royal Military College (ACT), Victoria Barracks (VIC) and Garden Island (WA)
- > a review and/or installation of air-conditioning in properties at Garden Island (WA), HMAS Watson (NSW), HMAS Cerberus (VIC) and Victoria Barracks (VIC).



The common recreation area at our refurbished heritage-listed Gunners' Cottages development in Fremantle, WA.

Criterion

Create diversification within the portfolio through a combination of construction, upgrades, acquisition and leasing.

Result

Partially achieved

We are active in residential property markets to meet our provisioning obligations to Defence, maintain the standard of our portfolio and provide diversification. Each year, we undertake a large-scale residential development, construction, acquisition and leasing program that is agreed by Defence and summarised in our Corporate Plan. Throughout the year we negotiate with Defence to revise the schedule based on operational requirements.

MWD additions

Construction

We added 358 properties to the MWD portfolio in 2015–16 against a Corporate Plan target of 471. The target was reduced during the year in agreement with Defence to better align delivery with the peak posting cycle. The majority of constructions were delivered in Darwin (NT), Newcastle (NSW), Brisbane (QLD) and Townsville (QLD), and reflect the quality of properties being delivered from our major developments in the region.

Acquisition

A total of 264 properties were acquired for MWD in 2015–16, representing 100.0 per cent of the 2015–16 Corporate Plan target. Three properties were also transferred from Defence to DHA and recorded as acquisitions. Relative to the Corporate Plan, Alice Springs (NT), Canberra (ACT) and Rockingham (WA) exceeded their acquisition target. These changes reflect improved flexibility in our program to respond to changing housing demand relative to the DHF, as well as to variations in delivery timeframes.

In terms of land, we settled the purchase of 106 retail land allotments against the Corporate Plan target of 107 allotments. The reduction was a result of net changes within a number of DHFs to meet the planned 2016–17 construction program. The reforecast target was agreed on by our Board and Defence. We also settled the purchase of seven major land sites at a cost of \$34.7 million. All will be used for future Defence housing.

Leasing

We directly leased 97 properties in 2015–16, falling short of the Corporate Plan target by 95 properties. This result reflects difficulty in leasing properties due to strong rental market conditions, such as low vacancy rates and lower agent fees. Main regions of shortfall were Canberra (ACT), Sydney (NSW), Adelaide (SA) and Amberley/Ipswich (QLD).

We also renewed or extended 585 leases by agreement with the lessor against the Corporate Plan target of 431 leases and extended options on 608 leases against the Corporate Plan target of 629 leases. This is an outstanding result, ensuring these quality properties remain in the MWD portfolio for the longer term.

Overall, these results represent 1,290 MWD leased properties added to the portfolio in 2015–16 against the Corporate Plan target of 1,252 properties. Success can be attributed to the development of location-specific strategies.

A total of 840 MWD leased properties exited the portfolio in 2015–16 against the Corporate Plan target of 849 net exits. Of note, lease retention efforts resulted in 90 fewer lease handbacks compared to the Corporate Plan in under provisioned areas, including Canberra (ACT) and Sydney (NSW). Darwin (NT) handed back 49 more leases compared to the Corporate Plan as actual housing demand was below the advised DHF.

MCA additions

Property acquisition

We added a total of 209 MCA properties through acquisition in 2015–16, representing a shortfall of 51 properties against the Corporate Plan target. This result is consistent with the reduced MCA program agreed on by Defence for inclusion in our 2016–17 Corporate Plan.

Leasing

We directly leased 57 properties against the Corporate Plan target of 60 properties. The shortfall was balanced by achieving 17 additional lease renewals, extensions and options against the Corporate Plan target of 12. This resulted in an overall achievement of 74 MCA properties leased against the Corporate Plan target of 72 properties.

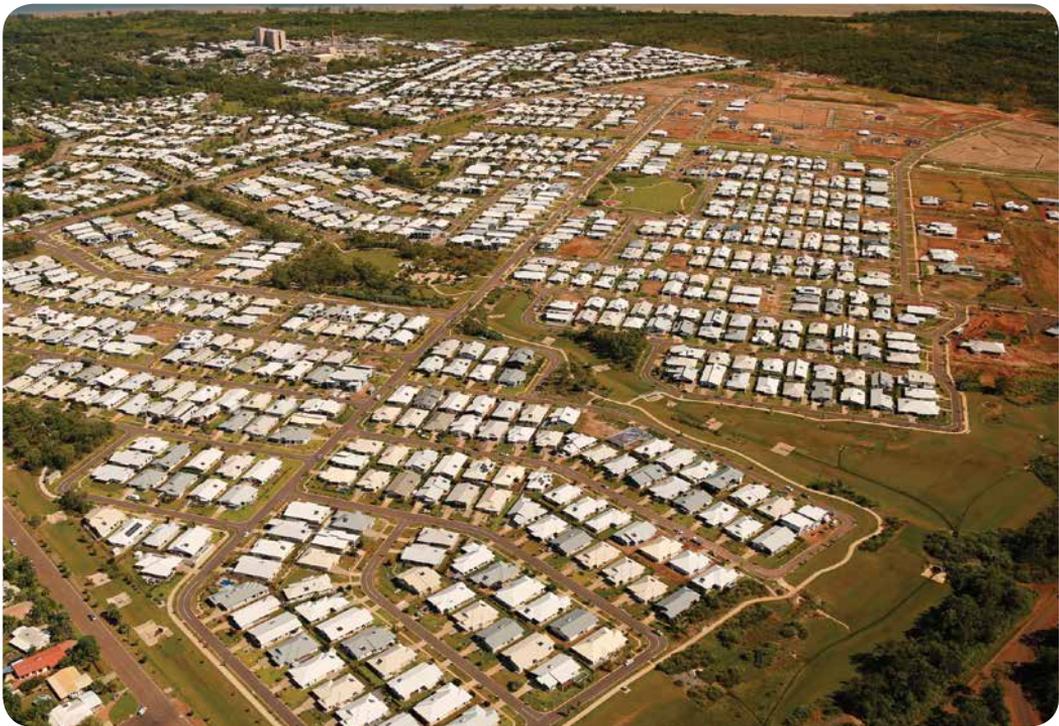
Defence upgrade program

In 2015–16, we continued work on upgrading Defence-owned properties in preparation for enforcement of Defence's housing classification policy on 1 July 2017. Modernising the properties not only provides a better standard of living for ADF members and their families that tenant the properties, but extends the life span of the properties by 10–15 years.

We achieved 108 upgrades against the Corporate Plan target of 136 upgrades. The achievement is impressive noting the program's dependency on properties becoming vacant during the planned period. More information about our upgrade projects is on our website (dha.gov.au/upgrades).

In the reporting period, a decision was reached regarding the future of Seaward Village (Perth, WA). On 26 April 2016, the Hon Michael McCormack MP, then Assistant Minister for Defence, announced that DHA would undertake a major upgrade of all 153 properties in the village. The upgrade project replaces a previous plan to redevelop the site.

Subsequently, we began consultation with all major stakeholders, including Defence, ADF tenants and surrounding residents, on the preferred upgrade option. We are working closely with Defence to establish funding arrangements and seek the necessary approvals. Construction work is anticipated to commence in 2016–17.



Our award-winning Breezes Muirhead development in Darwin (NT) is an example of excellence in environmental sustainability.

Criterion

Continue to be recognised as an industry leader in innovation, diversity and sustainability.

Result

Achieved

We are committed to creating healthy and sustainable communities for ADF members, their families and the broader community.

Design and construction

In designing and constructing properties and communities, we focus on five key sustainability areas:

1. low energy consumption
2. low water consumption
3. effective waste management
4. human wellbeing
5. biodiversity of local flora and fauna.

Since 1 July 2010, all of our new housing has been built to a minimum six-star EER.³ Where possible, housing in our new developments also:

- > complies with the Australian Government's Livable Housing design guidelines—silver level (refer to livablehousingaustralia.org.au for more information)
- > seeks to meet the requirements of the UDIA's EnviroDevelopment certification—six leaf level (refer to envirodevelopment.com.au for more information).

Through the construction process, where possible, we:

- > work with local providers to source building materials and landscaping supplies to reduce the environmental impact of long-haul transport and help build links with the local community
- > use materials that are in line with the local building code, climate and lifestyle.

³ EER must be certified by an independent accredited assessor, using AccuRate (NatHERS replacement), other equivalent methods (e.g. state systems such as BERS Pro and BASIX) or, where permitted, BCA deemed-to-satisfy provisions.

Properties are designed for the climate in which they are located. For example, large eaves which provide protection from the sun and light-coloured external walls and roofing are typical in tropical locations such as Darwin (NT) and Townsville (QLD). Properties in these regions are also designed to make use of natural airflows and solar orientation to decrease the need for artificial heating and cooling.

We consistently install energy and water saving fixtures and fittings, and ensure outdoor areas within our developments are landscaped to complement local flora and fauna. We are researching new sustainable technologies and 'off the grid' housing, and incorporating them in our construction and development activities where possible.

More information about our approach to corporate social responsibility is provided in the **environmental performance** subsection in **Section 3** of this report.

Industry leadership and collaboration

Breezes Muirhead (Darwin, NT)

Our Breezes Muirhead development is a leader in environmental excellence. It won the UDIA NT Excellence Award in 2015 for both environmental excellence and masterplanned development, and has been named as a finalist in these categories again in 2016. Examples of best practice are as follows:

> **Breezeway model**

The model challenges standard practice urban design in tropical climates. Allotments are orientated to capture the prevailing cool sea breezes within a staggered lot template that delivers a wide range of sizes. Breezeways separate dwellings and channel prevailing breezes through the site, creating a side yard well-suited to outdoor entertaining. Design guidelines also encourage the construction of climatically responsive houses that minimise environmental impact and balance comfort and affordability with sustainability.

> **Largest installation of solar panels**

Breezes Muirhead is home to Darwin's largest installation of solar panels in a single suburb thanks to a partnership between DHA and Country Solar NT. More than 75 DHA-managed properties have a special type of solar panel installed, creating a 337kW solar suburb. The technology provides the most advanced micro-inverter technology for solar power systems, combining innovations in power electronics, networking and web-based software, to make solar power systems smarter and more efficient.

> **First ‘off the grid’ house**

In June 2016, we commenced construction of suburban Darwin’s first ‘off the grid’ house, which may also be the first house in the NT to receive an 8.5 star NatHERS rating for energy efficiency. Built by local builders, Skandy’s Group, the home will be part of the new display village to open in late 2016. A stand-alone solar power system will reliably provide an average of 24.6kW to the home every day of the year, sufficient to meet the power needs of the occupants. Passive design principles that encourage cross ventilation and light-coloured building materials with a low thermal mass complement the solar power system.

> **Aboriginal Landcare Education Program (ALEP)**

Greening Australia (GA) is a not-for-profit organisation dedicated to conserving and restoring landscapes through collaborative science-based and innovative conservation programs. In collaboration with GA, we are helping to provide skills, training and work experience to at-risk indigenous adults to assist with their long-term employment opportunities. Over six months, participants are provided with practical experience in nursery operation and land management. This includes onsite training, which contributes to their Certificate I in Conservation and Land Management. In July 2015, six locals joined the growing list of graduates in the NT, after completing the most recent round of GA’s program.

> **Planet Ark National Schools Tree Day**

In November 2015, 40 primary school students and teachers from Leanyer Primary School joined forces with GA NT to revegetate land adjacent to William Forster Park (one of the parks within Breezes Muirhead) with plants cultivated from seeds collected from the site. Indigenous trainees participating in Breezes’ ALEP contributed to the success of the day, preparing the planting area and working with small groups of students to assist with the planting. Many of the students participated in our 2014 event, at which students planted more than 300 native seedlings. The plants had grown considerably over the 12 months and the students were in awe of the changed landscape their activities had achieved.

The Prince's Terraces Adelaide

We have entered into a ground-breaking collaboration with the Prince's Foundation for Building Community, Prince's Charities Australia and Renewal SA (the SA government's urban renewal authority) to design and build a mix of eight terrace houses and four flats (built as mews behind the terraces) in the revitalised urban precinct of Bowden (Adelaide, SA).

The development was the first residential project in Australia to receive the Green Building Council of Australia's 6 Star Green Star design rating for encapsulating innovation and world leadership in sustainable design. The properties are predicted to use 50 per cent less energy and 50 per cent less potable water than a typical urban townhouse, with their carbon footprint reduced by more than 40 per cent compared to that of a standard house.

The project will demonstrate the benefit of well-located and sustainable living, with a vision to not only influence our future projects, but to become a benchmark for residential development in Australia.

UDIA EnviroDevelopment

We continue to foster close ties with the UDIA and their EnviroDevelopment program. EnviroDevelopment is a scientifically-based assessment scheme that independently reviews development projects and awards certification to those that achieve outstanding performance across four or more of the provided elements: ecosystems, waste, energy, materials, water and community. EnviroDevelopment makes it easier for purchasers to recognise and, consequently, select more environmentally sustainable developments and lifestyles.

In 2015–16, our Wirraway developments (Hunter Valley, NSW) and The Landing development (Brisbane, QLD) achieved six leaf certification. This brings DHA's EnviroDevelopment achievement to eight projects throughout Australia. Our other certified projects are: AE2 and Crimson Hill (Sydney, NSW), Breezes (Darwin, NT), Bluewattle (Townsville, QLD), Warner Lakes The Reserve (Brisbane, QLD) and Bayriver (Adelaide, SA).

Industry recognition

As a progressive developer, we aim to balance innovation and sustainability with the needs of ADF families and the broader community. This philosophy has earned us considerable recognition from key industry stakeholders, and a reputation as a leader in the residential development industry. Details of our achievement in 2015–16 are listed over the page.

Development and Construction industry recognition received in 2015–16



Winner

DHA

UDIA NT Awards for Excellence 2015

Residential development: Breezes Muirhead

Categories: Masterplanned development and environmental excellence



Winner

PTM Group for DHA

MBA NT Excellence in Building and Construction Awards 2015

Residential development: Breezes Muirhead

Category: Medium-density over five (5) dwellings



Winner

PTM Group for DHA

MBA NT Excellence in Building and Construction Awards 2015

Residential development: RAAF Base Tindal

Category: Best upgrade over \$500,000



Winner

Greenspace Homes for DHA

MBA NT Excellence in Building and Construction Awards 2015

Residential development: Larrakeyah Barracks

Category: Best alteration or renovation \$350,000–\$500,000



Highly commended

DHA

UDIA NSW/ACT Awards for Excellence 2015

Residential development: Crimson Hill

Category: Medium density development

Development and Construction industry recognition received in 2015–16



Finalist

DHA

UDIA NSW/ACT Awards for Excellence 2015

Residential development: AE2

Category: Residential development



Finalist

DHA

UDIA NSW/ACT Awards for Excellence 2015

Residential development: Crimson Hill

Category: Masterplanned development



Finalist

DHA

UDIA NSW/ACT Awards for Excellence 2015

Residential development: Fetherston Ridge

Category: Government leadership for urban development



Finalist

DHA

UDIA NSW/ACT Awards for Excellence 2015

Residential development: Fetherston Ridge

Category: NSW regions and ACT



Finalist

DHA

UDIA National Awards for Excellence 2016

Residential development: Breezes Muirhead

Categories: Masterplanned development and environmental excellence

Criterion

Undertake targeted research and development to ensure our portfolio meets or exceeds community and ADF member expectations.

Result

Achieved

As outlined in **Purpose 1**, we undertake regular lessor and ADF member surveys. The feedback we receive from these is integral in shaping the type of products that we then build, buy, lease or sell. For example, the MCA survey provided essential insight into what ADF members wanted in their apartments, not only in terms of fixtures and fittings but also amenity and location. Similarly, lessor feedback has been used to review our management fee and related incentives to ensure ongoing satisfaction with our investment offering.

In addition to surveys, where appropriate, we also undertake more qualitative analysis. In 2015–16, we held focus groups in Perth (WA), Darwin (NT), Townsville (QLD) and Canberra (ACT) to find out what ADF members consider to be essential and desirable characteristics of apartments they would like to occupy if they selected an MCA property. The information gathered from these sessions has influenced provisioning decisions and communication to members on a national basis. The MCA program has continued to grow in popularity with over 60,000 page views on our website and over 10,000 members checking their eligibility to access this category of housing during 2015–16. We also continued to use focus group testing in developing our Look Forward SLB advertising campaign to ensure prospective investors and professionals in the real estate and finance industries both correctly interpreted product benefits and knew how to find additional information.

As part of our commitment to building principles that benefit the long-term user, we regularly engage social planners and community officers to provide specialist advice and help us engage with local communities and councils through all stages of development. In the early planning phase, we seek feedback on a range of items including different housing types, traffic management and planting of appropriate flora. Throughout the construction program, we ensure community members are kept informed of progress through newsletters, letter box drops, information sessions and other events. This helps to proactively manage issues and also helps to develop communities. This strategy has enabled us to build dwellings that people will still choose to live in many years from now.

Our Breezes Muirhead development in Darwin (NT) is an award-winning example of how researching community preferences and key climatic and environmental conditions can result in the delivery of a highly popular and successful development. In conjunction with Charles Darwin University, the NT Power and Water Corporation and Investa Land, we have commissioned and sponsored an independent research project to prove the benefits of the Breezes Muirhead planning and construction model. The research will be submitted in 2018 as part of a Doctorate of Philosophy (PhD).

Our finance team administers a research and development tax incentive program on behalf of the organisation. The team compiles applications for the Australian Taxation Office to gain a tax offset for eligible projects with a significant investment in new innovation. The full benefit of 10 per cent can potentially be returned to an information technology program or development project's budget. Since 2011, more than \$6.0 million has been returned to our projects through the incentive program. Recent examples of our work include:

- > developing cool residential housing in tropical climates through the use of natural ventilation and airflow while using significantly smaller lot sizes
- > developing an environmentally friendly treatment method for stormwater drainage in dry tropical climates that uses natural channels and wetlands
- > protecting flora and fauna while addressing unique site management challenges, such as drainage issues from site gradient and orientation.

More information about this tax incentive program is included in note 21 of the financial statements in **Section 4**.

Analysis of performance against Purpose 2

Despite difficult property market conditions, we were successful in provisioning for ADF members and continuing to diversify our portfolio. A large part of our success was continuing to foster relationships with state and territory governments and their responsible agencies, local councils and developers to acquire well-located and affordable land and property for future Defence housing.

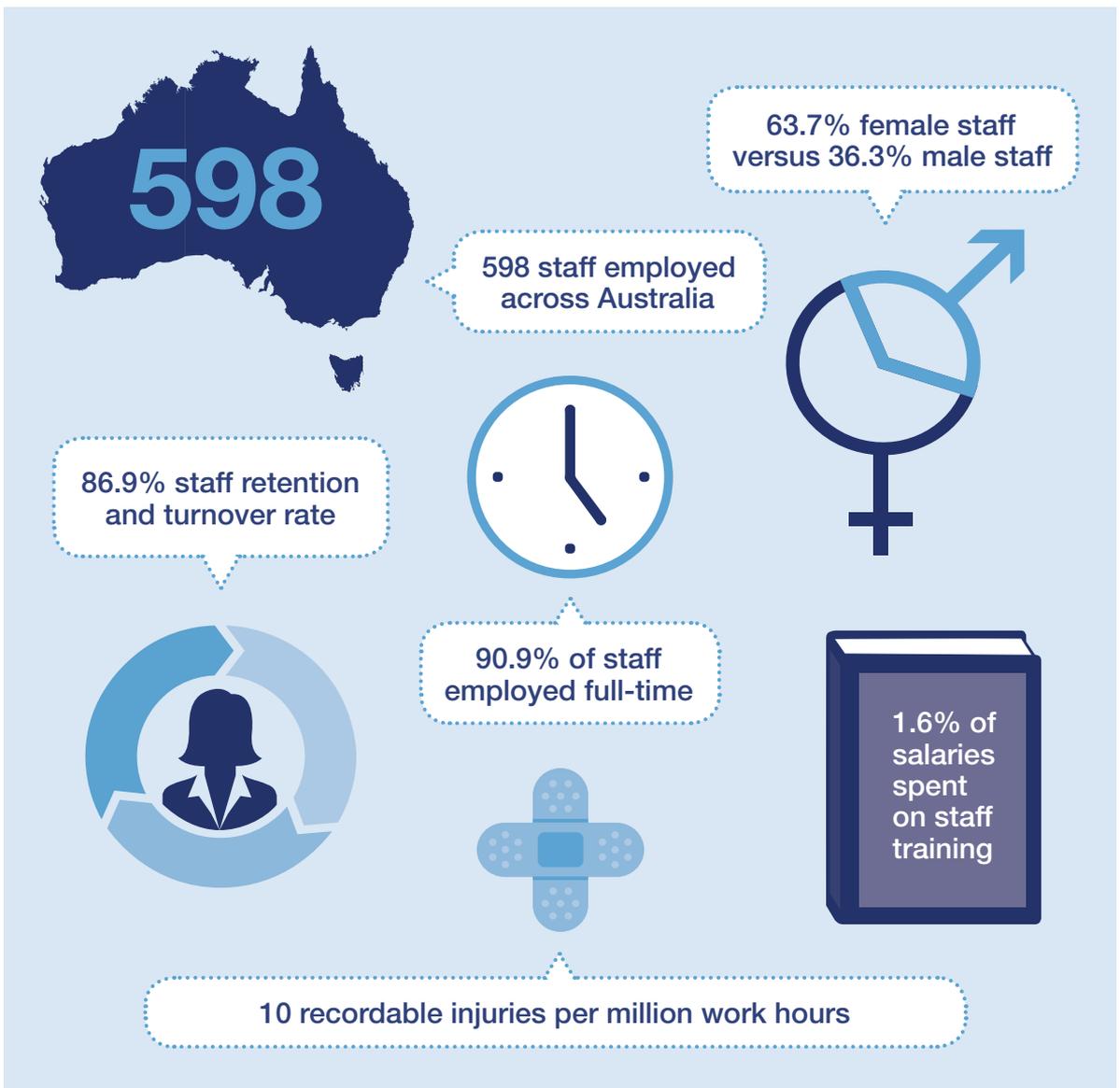
We continued to demonstrate our commitment to environmental sustainability and to be recognised as a leader in this field. We also continue to engage our clients, customers, stakeholders and the general public to deliver communities that not only meet Defence and community expectation, but that people will want to live in many years from now due to the quality of construction and consideration of lifestyle attributes and amenities. This is an ongoing challenge, as it is for any property developer, and one that we take seriously.

Purpose 3

Develop our people, business model and system delivery

Overview

We are committed to creating and maintaining a positive and harmonious workforce and an operational service delivery model that delivers high-quality professional outcomes.



Detailed commentary

Our performance against stated measures and objectives in our Corporate Plan 2015–16 was as follows:

Criterion

Deliver and maintain a harmonious and positive workplace culture where staff feel engaged, valued, skilled and capable.

Result

Achieved

Our achievement of almost all Corporate Plan 2015–16 objectives is proof of the calibre of our staff and our high performance culture.

Employee statistics

Table 2 provides a comparative overview of our employment performance in 2014–15 and 2015–16. More information about our workforce is provided in **Appendix C** of this report.

Table 2: Employment performance, 2014–15 and 2015–16

Indicator	2014–15	2015–16
Headcount		
Total number of staff employed	607	598
Wages expense ratio	5.9%	5.9%
Diversity (as a percentage of the workforce)		
Men	35.6%	36.3%
Women	64.4%	63.7%
Aboriginal and Torres Strait Islander	1.2%	1.5%
People with disability	0.33%	0.67%
Retention		
Staff retention and turnover rate	85.5%	86.9%

Workplace diversity

We value workplace diversity and are committed to drawing on the experience and skills of all employees, harnessing talent, changing cultures and challenging assumptions.

In 2015–16, we undertook the following key initiatives and activities:

- > organised and supported events to raise diversity awareness, such as Harmony Day and NAIDOC week
- > supported and attended events that focus on women in leadership, such as the Committee for Economic Development of Australia's 'Women in Leadership' series and the Public Sector Women in Leadership conference
- > created a committee, led by the Acting Managing Director and comprising staff of varying levels and responsibilities across the organisation, to focus on how we will improve gender diversity at DHA in line with the APS gender equality strategy 2016–19.

The committee is exploring ways to increase the number of women in leadership positions, increase the number of men taking up part-time work and increase flexible working arrangements for staff at all levels.

More information about the diversity of our workforce is provided in [Appendix C](#) of this report.

Staff engagement survey

We conducted a staff engagement survey in the first quarter of 2015 and focused on implementing the resulting recommendations throughout 2015–16; both at a team and organisational level.

A focus on positive change management, regular communication, role clarity, upskilling managers and consistent business processes are just some of the outcomes that have contributed to a positive shift in culture throughout the reporting period. We will continue to work on improving our performance in these areas.

NOTES:

Total number of staff employed includes ongoing and non-ongoing staff. Excludes (28) inoperative staff (those on long-term leave or leave without pay), contract staff engaged through an employment agency, the Acting Managing Director, the Chairman of the Board and Directors of DHA's Board.

Diversity figures as identified and excluding agency staff, inoperative employees, the Acting Managing Director, Chairman of the Board and Directors of DHA's Board.

Staff retention and turnover rate calculated by dividing the inverting aggregated staff initiated separation rate by average head count for the previous four quarters.

Criterion

Provide attractive employment conditions and recruitment frameworks that support current and future business needs.

Result

Achieved

Remuneration and employment conditions

The DHA Enterprise Agreement 2012–14 continued in force for non-senior executive service (SES) staff while negotiations for a new agreement took place.

In December 2015, at the first vote, eligible staff voted in support of the proposed DHA Enterprise Agreement 2015 (EA). The new EA commenced on 18 January 2016. A full copy is available on our website (dha.gov.au/ea).

This positive result ensures that our staff continue to be provided competitive remuneration and employment conditions. It also contributed to DHA being among the first wave of agencies to have finalised and implemented its EA.

Our attractive suite of employment conditions includes:

- > structured on-the-job training
- > learning and development opportunities
- > flexible working arrangements
- > employee assistance and wellness programs
- > rewards and recognition, including financial performance bonuses for eligible staff
- > generous leave entitlements.

Employment conditions for SES staff are set out in individual determinations made under section 24(1) of the *Public Service Act 1999*. Many of these conditions align with our EA.

More information about our remuneration and employment conditions is provided in **Appendix C** of this report.

Performance management and bonus payments

Our performance management framework is about achieving shared objectives in a way that helps the organisation reach its goals and individual staff members to grow and draw satisfaction from their work.

The main objectives are to:

- > clearly link an individual's work with DHA's strategic and operational objectives
- > provide a mechanism for considered formal and informal feedback between managers and staff on performance, achievement and constraints
- > identify opportunities to support individual ongoing learning and development
- > effectively identify and address underperformance.

All staff employed for three months or more are required to prepare a performance development agreement by cascading business objectives from the Corporate Plan, through business unit plans, to individual targets.

Performance is reviewed mid-year and at the end of the financial year to assess whether individual targets were exceeded, met or not met. This assessment informs performance bonus payments.⁴

More information about performance pay is provided in [Appendix C](#) of this report.

Other achievements

In the reporting period we also:

- > enhanced our employee self-service system and online recruitment systems to provide new functionality and automated workflow
- > commenced industry benchmarking of specialist positions to ensure we attract and retain specialists, such as property industry professionals, whose skills and expertise are fundamental to our success.

⁴ Staff employed under DHA's EA may be eligible for a performance bonus. Staff who have at least six months continuous service with DHA during the relevant appraisal cycle and are still employed on 30 June that year are eligible for a performance payment. Where a staff member was employed on a part-time basis, on paid or unpaid leave of more than 12 weeks, or commenced at DHA during the appraisal cycle, they may be eligible for a pro-rataed performance payment. Non-ongoing and casual employees are not entitled to performance pay.

Criterion

Enhance staff skills and capabilities to build a more resilient, agile and highly capable workforce.

Result

Achieved

We are committed to developing the skills and knowledge staff need to undertake their current role and build capacity to meet future challenges. **Table 3** provides a comparative overview of our learning and development performance in 2014–15 and 2015–16.

Table 3: Learning and development performance, 2014–15 and 2015–16

Indicator	2014–15	2015–16
Percentage of salaries spent on training staff	2.3%	1.6%
Learning events and modules completed	5,901	3,863
Number of staff undertaking supported studies	33	25

Formal learning and development

Staff can access a range of formal learning to develop their leadership skills, personal effectiveness and functional capability.

Programs are delivered via e-learning, face-to-face or a blend of both. They are presented by external providers and internal specialists, ensuring we have the right balance of market expertise and corporate knowledge to provide staff the personal development they need to be successful.

Key subject areas are as follows:

- > **Core skills:** topics that are of benefit to employees at all levels, including corporate induction for new employees, customer service, writing skills and project management.
- > **Leadership and management:** guidance and development for people managing people, including mastering feedback, managing change and effective performance management.

- > **Compliance:** programs addressing content that is compulsory due to legislation or policy, including WHS, bullying and harassment, conflict of interest, fraud awareness, privacy, freedom of information (FOI) and public interest disclosure (PID).
- > **Functional skills:** workshops and development activities that address skills required for particular roles, including fire wardens and first aid officers, or teams within DHA. Training is also sourced and/or developed to help with specific skills or particular needs as required.

Studies assistance

We encourage ongoing staff to undertake relevant formal study in approved fields.⁵ Where approved, staff are supported through financial assistance, paid study leave and/or paid exam leave. In 2015–16, we provided 25 staff with financial assistance totalling \$82,968 and study leave.

Industry recognition

In the reporting period, we won an Australian Institute of Training and Development (AITD) National Training Excellence Award in the ‘Best use of technology for learning’ category for our physical security awareness module. We were also named as a finalist in the AITD’s ‘Best use of gamification or simulation’ category for our conflict of interest module.

AITD National Training Excellence Awards 2015



Winner

Category: Best use of technology for learning



Finalist

Category: Best use of gamification or simulation

⁵ Includes study, research, training or other educational activity conducted and recognised in Australia by a higher education provider or registered training organisation in selected fields of study relevant to DHA’s business operations.

Criterion

Maintain and develop a high performance management team with strong and effective leadership.

Result

Achieved

A change in leadership occurred in November 2015, with the Board appointing Ms Jan Mason as DHA's Acting Managing Director for three months. Her term was later extended for nine months to enable recruitment of an ongoing Managing Director to occur.

The recruitment process for the position began in March 2016 and was ongoing as at the end of the reporting period. Appropriate processes will be followed, including seeking Cabinet agreement of the Board's nominated candidate.

The Forensic Review made a number of recommendations regarding our management structure, such as a flatter structure with more direct reports to the Managing Director and the recruitment of a specialist General Manager, Human Resources.

EY were engaged to undertake an independent review of our structure and, taking into account the recommendations of the Forensic Review, propose a revised model. This process was ongoing at the end of the reporting period, with changes expected to be made early in 2016–17.

Upskilling management at other levels across the business continued to be a focus throughout 2015–16, with staff undertaking a number of learning and development courses. Of note, our Mastering Feedback program was completed by 126 managers across 12 sessions in eight locations.

Criterion

Maintain a health and safety program that focuses on developing a generative, interdependent safety culture.

Result

Achieved

Our commitment to maintaining the highest standards of health and safety is reflected in our three-year WHS strategy, our policies, our Prevention First management system and our QMS framework.

Since implementing the Prevention First system in 2014, we have focused on promoting incident reporting to develop a 'just' safety culture (one where incident reporting is encouraged). **Table 4** provides a comparative overview of our WHS performance in 2014–15 and 2015–16. It shows that while there has been a large increase in the number of incidents reported year-on-year, there was only a slight increase in those deemed to be WHS-related (177 versus 143 incidents). More information is provided in **Appendix D**.

Table 4: WHS performance, 2014–15 and 2015–16

Indicator	2014–15	2015–16
Total incidents reported	201	426
WHS incidents	143	177
Staff	76	86
Contractors	64	68
Tenants and others	3	23
Total recordable injury frequency rate	10.0	10.3
Contractor and internal audits conducted	1,054	962
Desktop	978	864
Onsite	76	98
Safety interaction	113	76
Office inspections conducted	92	81
Workers compensation claims (accepted in financial year)	6	10

NOTES:

TRIFR is the number of recordable injuries per million work hours.

Other significant achievements in the reporting period include:

- > recertification for the second consecutive year against the Australian and international standard (AS 4801/ISO 18001: WHS management system) for our Prevention First system with no non-conformances identified
- > being named as a finalist in Comcare's WHS Awards 'Prevention' category for our First Response program, which includes the SafeTCard duress device, face-to-face de-escalation training and e-learning field worker modules
- > commencing a three-year psychosocial wellbeing strategy to improve mental health awareness and capability, and to introduce early intervention strategies to support a positive, healthy work environment.

More information about WHS is provided in [Appendix D](#) of this report.



Acting Managing Director, Ms Jan Mason, turns the first sod at our development, The Parade, in Glenroy, VIC.

Criterion

Implement best practice business efficiencies and new technology systems to deliver improved services.

Result

Achieved

We continued to build upon our QMS framework and obtain and maintain certification against the relevant standards.

During the reporting period, we:

- > were certified against the international standard (ISO 9001 and ISO 9001:2008) for our QMS framework
- > completed external ISO 9001 quality surveillance audits with no major non-conformances identified.

New management, internal audits and the Forensic Review all highlighted areas for improvement where our business process was not aligned with whole-of-government activities, was not being applied consistently across the organisation, or was not sufficient for current business needs.

This resulted in a major program of works to review and update policies and procedures, standardise templates and develop a corporate glossary identifying a 'single source of truth' to improve reporting. This has resulted in major changes to the way we manage credit cards and procurement, and sets our minimum information requirements in papers and submissions to enable informed decision-making by the accountable delegate.

We implemented new technology and continued to evolve our online systems based on direct and indirect feedback from stakeholders. Enhancements have been geared towards self-service and shifting all services to become digital by design (as defined by the Digital Transformation Office [DTO]). Examples of changes include:

- > introducing a member preview PIN
- > giving ADF members the ability to update dependant information online
- > giving ADF members enhanced property entitlement visibility
- > giving lessors the ability to request secondary property valuations online
- > giving lessors access to view pest inspection reports
- > providing lessors more information and communications on DHA's activities on a regular basis.

Our calibre in this field was recognised when we achieved a score of 4.28 (out of a possible score of 5) in the National Archives of Australia's Check-up Digital survey, ranking us sixth out of 165 agencies. This tool gauges digital information management maturity. We are justifiably proud of this outstanding result.

During the reporting period, we also commenced a structured roll out of new mobile technology. More information is included in the **information technology and digital communication** subsection in **Section 3** of this report.

Analysis of performance against Purpose 3

While we achieved all KPIs and performance criteria related to **Purpose 3**, our activities were impacted by several environmental factors. Much of our activity in terms of staff training and business processes and systems was focused on 'future proofing' the organisation, to ensure we operate efficiently and effectively in the longer term.

The scope of works related to the Forensic Review was undertaken concurrent to business-as-usual activities, with no additional resources, and implementation of the recommendations had to be undertaken in a very short time period.

In total, 18 recommendations were fully implemented by 30 June 2016.⁶ Many related to business process and system improvement. While this is an outstanding result, it also meant other activities were placed on hold and deferred until 2016–17.

In addition, 15 of 34 recommendations were only partially completed because either:

- > we did not receive input from an external consultant or stakeholder within the timeframe
- > the works could not be meaningfully implemented in the short timeframe, or
- > the works are part of a longer-term restructuring or transformational program we have elected to undertake beyond the recommendation.⁶

More information about the Forensic Review, including implementation, is provided in the **external scrutiny** subsection of this report in **Section 3**.

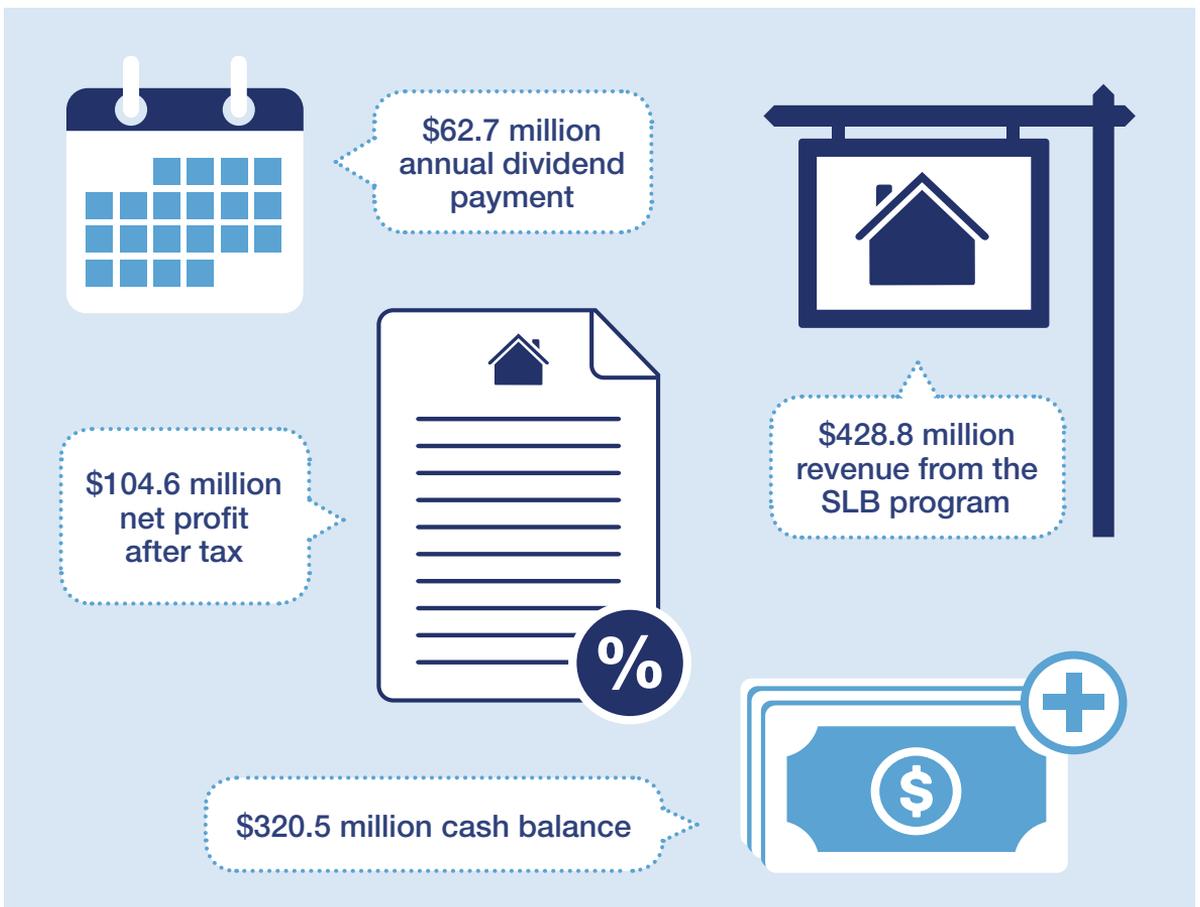
⁶ Recommendations were considered fully completed where they were addressed, deliverables including business change had been implemented, and there was an audit trail to substantiate it. Recommendations were considered partially completed where further work was required because either DHA did not receive final input from an external consultant or stakeholder, the works could not be meaningfully implemented in the short timeframe, or the works were part of a longer-term restructuring or transformational program.

Purpose 4

Meet agreed shareholder financial requirements, while continuing to operate commercially, efficiently and sustainably

Overview

We are committed to meeting shareholder financial requirements and to operate commercially and efficiently as a GBE.



Detailed commentary

Our performance against stated measures and objectives in our Corporate Plan 2015–16 was as follows:

Criterion

Provide financial returns to our owners, ensuring that business operations are commercial and efficient.

Result

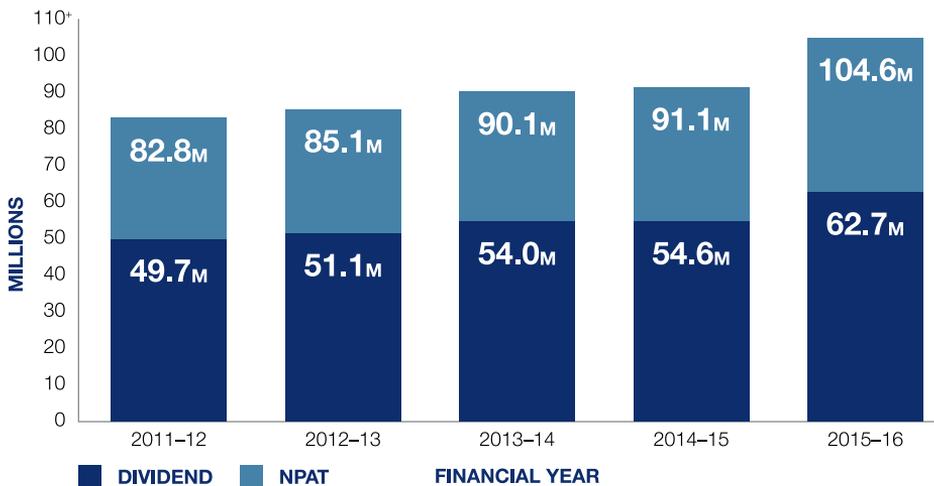
Achieved

Overall, our financial year results were better than the Corporate Plan targets. For the year ended 30 June 2016, EBIT was \$158.2 million or \$7.2 million above the target and NPAT was \$104.6 million or \$4.3 million above the target.

Returns to government

In accordance with the GBE guidelines, we pay an annual dividend to the Australian Government. Based on 60 per cent of NPAT, the final dividend payment will be \$62.7 million (paid on a quarterly basis throughout 2016–17), which is \$2.5 million above the Corporate Plan target. Figure 15 shows our NPAT and dividend payments over the last five years.

Figure 15: NPAT and annual dividend payments, 2011–12 to 2015–16



We also monitor total shareholder return which measures the total return to our shareholders arising from dividends, as well as the growth in the value of the business. We improved our performance from 7.9 per cent in 2014–15 to 8.9 per cent in 2015–16, against a target of 8.1 per cent.

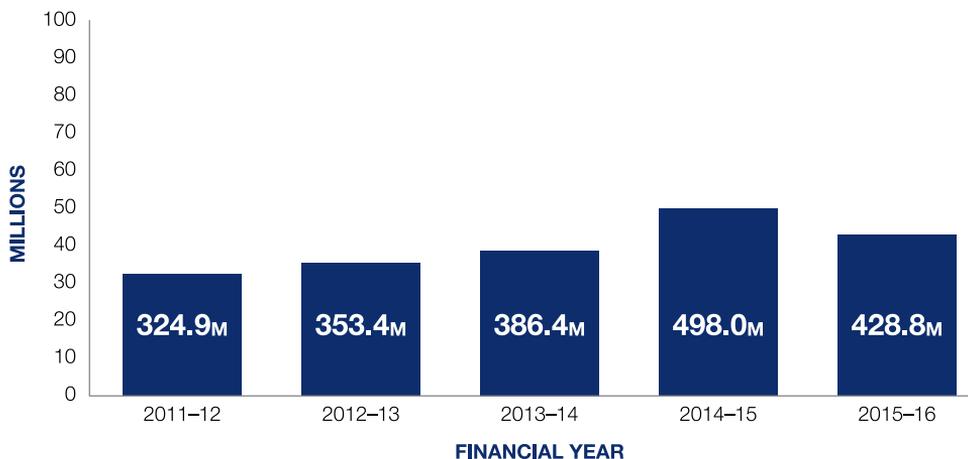
Generating revenue

As we do not receive funding from the federal budget, we seek to generate sufficient revenue to enable us to achieve our mandated role on a commercially sustainable basis.

Apart from payments we received for the housing services we deliver to Defence, our major source of revenue continues to be our SLB program whereby we sell our properties to investors on long-term lease back arrangements.

As demonstrated in **Figure 16**, the SLB program has historically performed well, generating almost \$2 billion in revenue over the last five years, and proven to be a reliable funding source in varying market conditions.

Figure 16: Revenue generated from the SLB program, 2011–12 to 2015–16



Sales and Leaseback (SLB) program

The SLB program settled 787 properties for the year ended 30 June 2016 generating \$428.8 million in revenue. While this achievement was below our Corporate Plan target of \$520.8 million, it was considered to be a good performance given difficult property market conditions.

Residential investment activity was impacted by the Australian Prudential Regulatory Authority's tightening of lending requirements for investors. This particularly impacted market conditions in Sydney (NSW), Darwin (NT) and Perth (WA) and, consequently, our sales in these locations.



Our lessor, Guru, is grateful that property investment with DHA gives him and his wife, Neetha, the freedom to enjoy their time as new parents.

Criterion

Maintain a sustainable financial position.

Result

Achieved

Capital management

As at 30 June 2016, we had a strong balance sheet. We employ total capital of almost \$2.4 billion, which is funded primarily through \$1.5 billion in equity and \$509.6 million in debt. As our owner, the Australian Government contributes a debt facility of \$634.0 million. This is facilitated through a loan arrangement with Finance and Defence. As at 30 June 2016, \$509.6 million had been drawn down, leaving available headroom of \$125.0 million, with maturities scheduled on a rolling basis over the next 10 years.

We do not have a commercial overdraft facility or access to re-drawable loan facilities. There were no new borrowings during the reporting period. As at 30 June 2016, gearing was 25.8 per cent and the financial results for the year provided interest cover of 7.0 times.

Our financial statements are presented in **Section 4** of this report. The ANAO issued an unqualified audit opinion for these statements on 17 August 2016.

A summary of our five-year financial performance is also provided at **Appendix E** of this report.

Taxation

We fully comply with the Australian Government's income tax, GST and FBT legislation. We also comply with competitive neutrality policy ensuring we cannot gain a commercial advantage from tax exemptions flowing from our status as a GBE.

In accordance with this policy, we make tax equivalent payments in respect of state- and territory-based taxes (e.g. pay roll tax, land tax and stamp duty) that would apply if the exemption provision was not in the DHA Act. In 2015–16 our, state tax equivalent payment equates to \$42.2 million.

Credit rating

Our commerciality is also demonstrated by our credit rating, which is assessed by Standard & Poor's Rating Services at least annually.

Their report issued on 17 December 2015 confirmed a corporate credit rating for DHA of AA+/Stable/A-1+. This is reflective of their assessment of the effect of government ownership and the level of support implied by that ownership.

Standard & Poor's also provided a stand-alone credit profile of DHA as BBB+. The stand-alone rating is one notch above the BBB target credit rating for GBEs specified in the GBE guidelines.

Analysis of performance against Purpose 4

Our financial returns are subject to the property market and the general economic environment. They are largely impacted by rental yields, sales prices and development margins. These are not within our control, however, we have the ability to vary or scale programs to respond to changing conditions.

Many of the major recommendations from the Forensic Review focused on the management and funding of our programs, which directly impact our financial sustainability, commerciality and risk profile. Subsequently, one of the major outcomes was the creation of more sophisticated financial modelling which has enabled us to undertake more comprehensive scenario and sensitivity analysis. It has also allowed us to share this information and communicate more transparently with our shareholders.

We have previously explored alternative funding structures to reduce our reliance on the SLB program and pursued bulk sales and a real estate trust. The Forensic Review reiterated the importance of these activities to maintaining the sustainability and commerciality of our operations, and recommended an exploration of real estate trusts and other funding structures that may allow us to retain or regain housing stock over the longer term.

We will also evaluate the potential for joint development arrangements or other funding options in relation to development projects where appropriate. Joint venture or similar arrangements may provide opportunities for us to source properties in partnership with the private sector while sharing the risk and funding requirements associated with development activities.

3

Management and accountability

Corporate governance • External scrutiny
Information technology and digital communication • Environmental performance
DHA Investment Management Limited (DHA IML)



Corporate governance

We operate within a governance structure to inform decision-making and to produce accountable business outcomes and sound organisational performance.

Our legislative framework

The legislative framework we operate in influences our governance structure. The most important pieces of legislation are the DHA Act and the PGPA Act.

DHA Act

This Act established DHA as a statutory authority⁷ and sets out our functions and powers, corporate structure and delegations. In accordance with section 5 of the Act:

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 Department, and their families; and*
 - d. *persons contracted to provide goods or services to the Defence Force and their families;*

in order to meet the operational needs of the Defence Force and the requirements of the Department.

In 1992, we became a GBE⁸ to undertake commercial business activities on behalf of the Australian Government.

PGPA Act

Under the PGPA Act, DHA is both a corporate Commonwealth entity⁹ and GBE. This Act sets the standards of governance, performance and accountability for all GBEs and imposes specific duties on our Board of Directors and Executive Group relating to the use and management of resources.

⁷ A body created by the Parliament for a specific purpose.

⁸ A body created when government wishes to conduct some form of commercial enterprise at arm's length from usual departmental structures and processes.

⁹ A corporate body, established by a law of the Commonwealth but legally separated from it. Corporate Commonwealth entities can act in their own right and exercise certain legal rights such as entering into contracts and owning property.

The GBE guidelines provide additional guidance on board and corporate governance, financial governance, planning and reporting.

A principal objective is that we add to shareholder value by making commercial returns and paying commercial dividends. We must deliver on these requirements while also fulfilling our functions under the DHA Act.

Other applicable legislation

As a GBE, we also operate within the following Commonwealth legislation:

- > *Freedom of Information Act 1982*
- > *Privacy Act 1988*
- > *Public Interest Disclosure Act 2013*
- > *Archives Act 1983.*

As an Australian Government employer, we also adhere to the provisions and statutes of various employment-related legislation, including but not limited to, the *Public Service Act 1999* and the *Work, Health and Safety Act 2011*.

Our governance structure

Section 1 of this report summarised our organisational structure. This subsection provides more information about each group and their governance responsibilities. Reviews of our governance arrangements occur regularly, in line with legislative changes and significant organisational change.

Shareholder Ministers

DHA sits within the Defence portfolio of the Australian Government. However, our Board of Directors report to both the Minister for Defence and the Minister for Finance as Shareholder Ministers.

As at 30 June 2016, our Shareholder Ministers were:

- > **Minister for Defence**

Senator the Hon Marise Payne

- > **Minister for Finance**

Senator the Hon Mathias Cormann.

In 2015–16, the Minister for Defence delegated responsibility for operational matters to the Assistant Minister for Defence. At 30 June 2016, the Hon Michael McCormack MP held this role.

The following members of Parliament were also responsible for DHA during the reporting period:

> **Minister for Defence**

Hon Kevin Andrews MP: 1 July 2015 to 20 September 2015

> **Assistant Minister for Defence**

Hon Stuart Robert MP: 1 July 2015 to 20 September 2015

Hon Darren Chester MP: 21 September 2015 to 17 February 2016.

We did not receive any direction by a Minister under an Act or instrument or any government policy orders in 2015–16.

Board of Directors

Our Board is the accountable authority for DHA under the PGPA Act and is responsible, through the Shareholder Ministers, for the proper and efficient performance of our functions.

The Board makes decisions on organisational direction and strategy, largely through our Corporate Plan.

In accordance with section 12 of the DHA Act:

1. *The Board consists of the following members:*

- a. *the Chairperson;*
- b. *a current or former APS [Australian Public Service] 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 the Finance Secretary;*
- e. *the Managing Director (the only executive member of the Board);*
- f. *four (4) commercial members.*

Board committees

Three committees assist our Board in the discharge of its responsibilities: the Audit Committee, the Property Committee and the Nomination and Remuneration Committee. Amendments to the DHA Act in 2006 established the DHA Advisory Committee to advise on the performance of our functions.

Board Audit Committee (BAC)

The BAC meets at least quarterly and reports to the Board on its activities at least twice a year. Its key functions are to:

- > improve the effectiveness and efficiency of our internal control framework
- > ensure we have appropriate risk identification and management practices in place
- > improve the objectivity and reliability of significant financial reporting
- > ensure we have adequate procedures on matters of audit independence
- > assist the Board to comply with all governance and other obligations.

Board Property Committee (BPC)

The BPC meets at least quarterly and acts in an advisory capacity to the Board on major property transactions and property matters generally. Its key functions are to:

- > review management proposals in relation to major property transactions
- > review submissions for major property transactions (contracts above \$10.0 million) to ensure that they contain all necessary information for the Board to make fully informed decisions or refer the matter to the Minister for Defence for approval as required (contracts above \$15.0 million)
- > consider property projects that are environmentally or politically sensitive or carry a high level of risk
- > examine any other property project, if requested to do so, by the Board or management.

Nomination and Remuneration Committee (N&RC)

The N&RC meets at least annually. Its key functions are to:

- > assist the Board in relation to the review of the Managing Director's performance and remuneration
- > assist in informing Shareholder Ministers of impending vacancies on the Board and advise, where appropriate, of possible candidates.

DHA Advisory Committee (DHA AC)

The DHA AC typically meets quarterly. Its key functions are to provide general advice and information on the performance of DHA's role. It is composed of:

- > the Secretary of Defence or Chief of Defence nominated Board Director (who is Chair of the DHA AC)
- > the National Convenor of Defence Families Australia (DFA)
- > up to three persons appointed by the Chief of the Defence Force
- > a person appointed by DHA.

Board members

The Board comprised the following members as at 30 June 2016:



The Hon J.A.L. (Sandy) Macdonald
Chairman (from 12 February 2015)

Appointed: July 2008

Reappointed: October 2011 and January 2014

Acting Chairman: November 2014 to February 2015

Committees: BPC and N&RC

Qualifications

Bachelor of Laws (Sydney)

Member of the Australian Institute of Company Directors

Mr Macdonald was elected to the Australian Senate in 1993 and served multiple terms before retiring in 2008.

His Parliamentary service includes eight years as Chair of the Senate Foreign Affairs, Defence and Trade Committee and periods as Deputy Leader of the Nationals in the Senate, Parliamentary Secretary for Defence and Parliamentary Secretary for Trade.

He was a member of the Anzac Centenary Advisory Board and served as a non-executive Director of Incremental Oil and Gas Ltd from 2010 to 2014.

Mr Macdonald has considerable public and private company experience, and is a wool and beef producer near Quirindi, NSW.



Ms Jan Mason
Acting Managing Director

Appointed: November 2015

Qualifications

Bachelor of Arts

Bachelor of Social Science

Diploma in Continuing Education

Advanced Management Program (Harvard Business School)

Member of the Australian Institute of Company Directors

Before joining DHA, Ms Mason was a 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; the sale of Medibank Private; and reform of the Air Warfare Destroyer Program.

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.



Mr Martin Brady AO

Director (Secretary of Defence nominee)

Appointed: July 2014

Committees: BAC (Chair), BPC and N&RC

Mr Brady has a distinguished 28-year career in the Australian Government, with roles at the Departments of Foreign Affairs and Defence. Notable appointments include Director of the Defence Signals Directorate and Chairman of the Defence Intelligence Board.

Since leaving the APS he has undertaken reviews and consultancy projects in Australia and overseas on intelligence issues, technology requirements, arms exports processes and Defence overseas staffing.

In 2000, he was made an Officer of the Order of Australia (AO) for his services to the development of Australian strategic policy formulation.

Mr Brady is Chair of the Board for DHA Investment Management Limited (DHA IML), DHA's subsidiary company.



Commodore Vicki McConachie CSC RANR

Director (Chief of Defence Force nominee)

Appointed: December 2013

Committees: DHA AC (Chair) and BAC

Qualifications

Bachelor of Arts

Master of Laws

Graduate of the Australian Institute of Company Directors

Commodore McConachie's career in the Royal Australian Navy (RAN) included postings as Commanding Officer HMAS Kuttabul, Chief of Staff to the Inspector-General of the Australian Defence Force, Director General ADF Legal Services, Director General Navy People and Head Navy People and Reputation.

She has received various awards for service, including the Conspicuous Service Cross, the Centenary of Federation Medal 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).

She currently leads an Australian Government legal division and is a member of the RAN Reserve.



Ms Janice Williams

Director (Secretary of Finance nominee)

Appointed: December 2012

Reappointed: April 2016

Committees: BPC (Chair), BAC and N&RC

Qualifications

Bachelor of Social Work (First Class Honours)

University Medal, University of Queensland

Member of the Australian Institute of Company Directors

Ms Williams has considerable property-related expertise. She was the Chief Executive of the UDIA for four years and was subsequently made a Fellow.

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 and consulting positions, including Head of Community Services Development for the Queensland Government and significant roles at the Brisbane City Council.

She is currently a Director of Jardine Developments, which delivers small-scale unit developments and refurbishments, and a Director of the Residential Tenancies Authority and member of its audit and risk committee.



Hon Alan Ferguson

Commercial Director

Appointed: February 2015

Committees: BPC

Mr Ferguson was elected to the Australian Senate in 1992. He served three full terms before retiring in 2011.

He served on a number of Senate and Joint Committees, including more than eight years as Chairman of the Joint Committee on Foreign Affairs, Defence and Trade. He also served as President of the Senate in 2007 and 2008, and represented the Parliament on many delegations.

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.

Before entering politics, he was a farmer and self-employed insurance consultant.



Mr Robert Fisher AM

Commercial Director

Appointed: February 2016

Committees: BAC and BPC

Qualifications

Bachelor of Arts

Bachelor of Education

Mr Fisher has a distinguished 40-year public service career. Notable appointments include more than a decade as a Member of the Australian Trade Commissioner Service and almost 20 years as CEO or Director General of various WA government departments. From 2001 to 2006 he was the Agent General for WA, based in London (United Kingdom).

He was one of five Commissioners on the Australian Government's National Commission of Audit in 2013–14. His most recent Board appointments include Chairman of the WA Forest Products Commission and the Aquatic Advisory Committee.

In 2003, he was made a Member of the Order of Australia (AM) for service to the public sector in WA, particularly in the areas of trade, industry and children, community and family services.

Board meetings

The Board met seven times during the reporting period. The Board also considered a number of time-critical resolutions between scheduled meetings. Refer to **Appendix B** for details of Director attendance at meetings.

Board performance

An external review of the Board's performance was conducted in September 2015 to confirm that, as a decision-making body, it is working within the principles of good governance as detailed in its Charter. The findings were reported to our Shareholder Ministers and the recommendations are being progressively implemented.

Director professional development

During the reporting period, the Board received briefings from:

- > Department of Finance representatives on the PGPA Act
- > CBA chief economist on the outlook for the housing sector, including interest rates and investor sentiment
- > Executive Group members on the Defence White Paper and its implications for DHA, the future direction of housing policy and the United States Defence accommodation model.

Directors also visited Darwin and Tindal (NT) in June 2016 to meet with staff, senior Defence personnel and participate in tours of:

- > our construction and upgrade projects at Larrakeyah, Tindal and Katherine
- > the Lee Point Road precinct, including our developments at Lyons, Muirhead and the 2CRU site
- > Defence establishments (Robertson Barracks and RAAF Base Tindal).

Director related entity transactions

We recorded no disclosure of related entity transactions during the reporting period.¹⁰

Executive Group

An Executive Group comprising the most senior staff in the organisation, supports the Managing Director in fulfilling our role. The Executive Group has four broad purposes:

1. Provide leadership
2. Guide performance
3. Implement and deliver against the Corporate Plan
4. Ensure accountability of our activities.

¹⁰ A related entity transaction is where a Board member approves payment for a good or service from another entity or provision of a grant to another entity where a Director of DHA is also a Director of the other entity, and the value of the transaction (or, if there is more than one transaction, the aggregate value of those transactions) exceeds \$10,000 (GST inclusive).

Executive Group members and responsibilities

Executive Group members and responsibilities as at 30 June 2016 were as follows:



Ms Jan Mason
Acting Managing Director

Qualifications

Bachelor of Arts
Bachelor of Social Science
Diploma in Continuing Education
Advanced Management Program (Harvard Business School)
Member of the Australian Institute of Company Directors

Key responsibilities

The Acting Managing Director ensures that DHA fulfils its role in line with the DHA Act and conducts DHA's day-to-day business. This includes management of DHA's strategic direction, achievement against the Corporate Plan, relationships with key stakeholders and effective oversight of the Executive Group and staff.



Mr Jon Brocklehurst
Chief Financial Officer/Head of Corporate Services

Qualifications

Bachelor of Science (Economics and Accounting)
Chartered Accountant

Key responsibilities

The Chief Financial Officer/Head of Corporate Services is accountable for responsible financial and risk management and oversees capital planning and the delivery of corporate services. This includes finance, information communications technology, human resources and corporate shared services. Mr Brocklehurst is also an executive Director of DHA's subsidiary company DHA IML and its Chief Operating Officer.



Ms Madeline Dermatossian
Chief Operating Officer

Qualifications

Diploma in Law
 Member of the Australian Institute of Company Directors
 Fellow of the Chartered Institute of Secretaries

Key responsibilities

The Chief Operating Officer oversees delivery of operational programs and projects. This includes property provisioning (land acquisition and development, property acquisition, construction, leasing and upgrades), property and tenancy management, SLB and surplus property sales, and strategic projects.



Mrs Jo Abbot
General Manager, Finance

Qualifications

Bachelor of Commerce
 Chartered Accountant

Key responsibilities

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.



Mr Robert Henman
General Manager, Investment Management

Qualifications

Bachelor of Business (Accounting)
 Certified Practising Accountant

Key responsibilities

The General Manager, Investment Management oversees management of the investment property portfolio, DHA IML activities, treasury (e.g. cash flow, investments, borrowings and liquidity management), organisational risk, business continuity, fraud prevention and insurances.



Mr Shane Nelsen

General Manager, Business Enablement

Qualifications

Bachelor of Applied Science (Computer Science)

Key responsibilities

The General Manager, Business Enablement oversees delivery of business-as-usual corporate services, including information communications technology and infrastructure, human resource management and corporate shared services. The division is responsible for information technology initiatives that provide organisational efficiency and improve customer service. The division also supports organisational project management, business contract fulfilment, learning and development, and safety, health, environment and quality assurance.



Mr Brett Jorgensen

General Manager, Property and Tenancy Services

Qualifications

Master of Business

Bachelor of Engineering (Honours)

Advanced Diploma in Business

Diploma of Real Estate Management

Diploma of Contract Management

Key responsibilities

The General Manager, Property and Tenancy Services oversees delivery of housing and related services to ADF members and their families in accordance with service agreements with Defence. This includes property and tenancy management, housing allocation and maintenance, customer service, LIA booking services and the administration of Defence-paid allowances.

**Mr John Dietz****General Manager, Property Provisioning Group****Qualifications**

Master of Project Management (in progress)

Bachelor of Economics

Bachelor of Science

Key responsibilities

The General Manager, Property Provisioning Group oversees DHA's residential development, retail construction and upgrades programs that support organisational provisioning targets and business objectives. The division is also responsible for design and construction specifications, tendering, contract management, project management, development marketing and industry certification and recognition.

**Mr Steve Collins****General Manager, Business Development Unit****Qualifications**

Bachelor of Business

Certified Practising Accountant

Certificate of Registration (Property)

Key responsibilities

The General Manager, Business Development Unit oversees 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.



Mr Elvio Bechelli

General Manager, Portfolio Management, Marketing and Strategic Projects

Qualifications

Bachelor of Business
Certified Practising Accountant

Key responsibilities

The General Manager, Portfolio Management, Marketing and Strategic Projects oversees sales and strategic programs and provides support to the Chief Operating Officer in relation to financial management and sourcing alternative funding methods. The division is responsible for portfolio management, the SLB program (including all sales and marketing activities), selling surplus property, the MCA program and research services.



Mr Ross Jordan

Company Secretary

Qualifications

Master of Social Science
Bachelor of Arts
Bachelor of Laws
Graduate of the Australian Institute of Company Directors

Key responsibilities

The Company Secretary works closely with the Chairman, Board and the Managing Director and oversees corporate governance and compliance. His team is 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 PID, privacy and FOI requests.



Mr Vern Gallagher
General Manager, Strategy and Innovation

Qualifications

Graduate Diploma of Human Resource Management
 Graduate Diploma of Management
 Bachelor of Science (Physics)

Key responsibilities

The General Manager, Strategy and Innovation oversees strategic stakeholder relationships, including senior Defence personnel, 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.

Other committees

Executive Property Committee (EPC)

The EPC acts in an advisory capacity to the Executive Group on property-related matters. It is responsible for monitoring progress against the capital program, reviewing and approving property-related activities in accordance with financial delegations, and making submissions to the BPC and Board where their endorsement and approval is required.

National Safety, Health, Environment and Quality (SHEQ) Committee

Formerly called the National WHS Committee, the committee was restructured during the reporting period. It is now chaired by the Acting Managing Director and its role has been expanded to include:

- > facilitating a positive and cooperative environment within DHA and overseeing the development, implementation and reporting of measures designed to ensure worker's health and safety in connection with the workplace
- > overseeing the development and implementation of SHEQ and rehabilitation return-to-work management strategies
- > ensuring the successful implementation of management programs during periods of significant business change
- > any other functions prescribed by relevant legislative Acts or regulations, or agreed by the committee.

The inclusion of quality and change management will enhance our approach to systematically manage significant projects and ensure effective strategies are implemented consistently and transparently, particularly when undertaking mandatory people and project risk assessments.

Our planning framework

We prepare a series of corporate and performance reports in accordance with the PGPA Act and GBE guidelines.

Corporate Plan

Our four-year Corporate Plan sets the strategic direction of the business, including corporate objectives, KPIs and a long-term outlook of future priorities. We review and update the plan annually, in line with our service agreements with Defence and in consultation with our shareholder departments.

Statement of Corporate Intent (SCI)

We prepare a SCI annually based on the Corporate Plan. The SCI is a high level, plain English overview of our key objectives and priorities for the financial year. It is tabled in the Parliament and published on our website (dha.gov.au/sci).

Business plans

Each division develops a business plan that incorporates all relevant responsibilities from the Corporate Plan, together with extra activities and measures linked to budget. Within divisions, some teams also develop plans specific to program delivery. Staff use this information to develop their individual performance development agreements.

Annual Report

At the end of each financial year, we prepare an Annual Report in accordance with legislation. The report sets out our performance in delivering the stated objectives and strategies in our Corporate Plan and provides our audited financial statements. It is tabled in the Parliament and published on our website (dha.gov.au/annualreports).

Quarterly performance report

Each quarter, we provide our Shareholder Ministers with a report on our operations, including progress against KPIs, an update on key programs and projects, and any material changes and risks affecting the business.

Our internal audit program

Internal audit services give objective and independent assurance to the BAC and senior management that financial and operational controls are operating efficiently, effectively and ethically. In the reporting period, we outsourced internal audit services to KPMG.

An internal audit plan provides a systematic and disciplined approach to evaluating and improving the effectiveness and efficiency of risk and financial management, controls and governance processes. It promotes best practice by 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 we manage risk

We are committed to operating within a risk minimisation and control framework, effective at Board, senior management and staff levels. This means we formally assess identified risks and implement controls to mitigate the level of risk to within an acceptable threshold.

Risk management is centrally coordinated and relies on:

- > regular reviews of documentation, such as the risk management plan, business continuity plan and related policies and processes (including financial delegations)
- > mandatory education and training on risk identification and management, including modules on fraud and conflict of interest (see subsection on **how we prevent fraud**).

Risk management plan

Our enterprise-wide annual risk management plan is developed to align with the outcomes of the corporate planning process. It is informed by the Corporate Plan, the previous financial year risk plan and detailed operational risk assessments.

It is prepared based on the methodology set out in the Australian Standards on Risk Management AS/NZS ISO 31000:2009 and aligns with elements contained in the Commonwealth risk management policy.

The 2015–16 plan was endorsed by the BAC before being formally approved by our Board.

Insurance and indemnities

We maintain insurance with Comcover for liability (including fraud and business interruption), property, motor vehicles and travel outside of Australia. This includes insurance cover for Directors and officers of DHA in respect of legal liabilities, including legal expenses that they may be legally obliged to pay in certain circumstances. The policy has some exclusions, such as wilful breach of duty, breach of professional duty and any claim arising out of libel, slander or defamation. We also have a policy with QBE to cover owners (lessors) of DHA-managed properties where a home business is being operated and the lessor's policy is not effective in providing cover. This type of cover is not offered by Comcover.

Risk management benchmarking survey

Under the PGPA Act, participation in Comcover's benchmarking survey is mandatory for Comcover fund members. Apart from benchmarking our risk management maturity, the survey provides a basis for measuring how successfully risk management has been integrated into enterprise-wide business operations.

In 2016, we achieved a risk management maturity of 'integrated', which is the third highest level. Our rating was consistent with the average maturity level of all fund members.

How we prevent fraud

We are committed to an ethical organisational culture and minimising the incidence of fraud through the development, implementation and regular review of fraud prevention and detection strategies.

In 2015–16, we completed a fraud risk assessment (FRA) consistent with the PGPA Act (including PGPA Rule 2014) and in accordance with Australian and international standards AS/NZS ISO 31000:2009 and AS 8001–2008. The FRA is a proactive approach to minimising the potential for fraud, whether by staff or external third parties.

Our Board also approved a fraud control plan (FCP) and fraud policy that provides guidance on actions to deter and detect fraud. The FCP is based on the FRA and summarises our fraud-control strategies.

During the reporting period, staff were required to complete mandatory training modules on fraud and conflict of interest. This aided staff in distinguishing the difference between real and perceived fraud and conflict, as well as knowing how to manage potential or actual breaches.

One instance of possible fraud was detected in 2015–16 and was under investigation at the end of the reporting period.

Public interest disclosure (PID)

We are committed to the highest standards of ethical and accountable conduct, and encourage people to report suspected wrongdoing in the public sector in line with the *Public Interest Disclosure Act 2013*.

We will do our best to ensure that those who report, or who are considering making a report, are properly supported and protected from any adverse consequence related to the reporting.

Further information about making a report is available on our website (dha.gov.au/pid).

Reports of suspected wrongdoing should be made in writing to:

Authorised Officer

Defence Housing Australia

26 Brisbane Ave

Barton ACT 2600

E: pid@dha.gov.au

How we manage business process

We are committed to delivering consistent products and services that meet client and customer expectations. Refer to **Purpose 1** in **Section 2** of this report for more information about our customer service approach.

Business management certification

In 2014–15, we undertook a program of works to achieve certification against international standard ISO 9001—the world’s most recognised quality standard. Final certification was received on 15 July 2015.

During July 2015, we also underwent ISO 9001:2008 certification. The external audit group praised us for our commitment to the provision of quality and repeatable processes, and highlighted the organisation’s drive to develop and certify our QMS framework.

External ISO 9001 licensor quality surveillance audits commenced in April 2016. Following an internal gap analysis, no major non-conformances were identified.

A program of work was undertaken during the reporting period so that internal AS4801/ISO 18001 WHS surveillance audits can commence in 2016–17, as part of our regular SHEQ audit and standard certification program.

How we manage information

Privacy

We take our obligations of handling staff, customer and contractor information seriously and adhere to the Australian Privacy Principles as detailed in the *Privacy Act 1988*. A copy of our privacy policy, including details about the information we collect and how we use it, is available on our website (dha.gov.au/privacy).

Freedom of information (FOI)

We are required to comply with the *Freedom of Information Act 1982* (FOI Act) to give the community access to information held by the Australian Government.

In 2015–16, we received 32 requests for information. As at 30 June 2016, the status of the requests was as follows:

- > 5 were waiting assessment
- > 2 were granted in full
- > 21 were granted in part
- > 1 received practical refusal notification under section 24AB
- > 2 were withdrawn
- > 1 was refused due to access (includes where the agency could find no relevant information).

We were 100 per cent compliant with legislative deadlines. We also conducted one internal review in accordance with section 54 of the FOI Act.

Further information about submitting requests for information and our FOI disclosure log is on our website (dha.gov.au/foi).

Requests for access to information must be made in writing to:

Company Secretary

Defence Housing Australia

26 Brisbane Ave

Barton ACT 2600

E: foi@dha.gov.au

How we manage procurement

Our approach to procuring goods and services, including consultancies, is consistent with and reflects the core policies and principles of the Commonwealth Procurement Rules.

Our procurement policy provides staff with a framework to obtain value for money, ensure risks are assessed and are acceptable, ensure the efficient, effective, economical and ethical use of resources, and maintain accountability and transparency in decision-making.

We advertise tender opportunities via AusTender (tenders.gov.au) on a periodic basis for a range of goods and services. We also use AusTender to manage our tenders, including releasing tender opportunities, issuing addenda and taking receipt of tender submissions.

Interested parties can register their details with AusTender to receive notifications about our tenders. Information is also available via the partnering section of our website (dha.gov.au/partnering).

The Forensic Review into our operations made a number of recommendations regarding our procurement activities. This led to the creation and implementation of a revised single procurement policy and process instruction that can be applied consistently across the organisation. Further work is being undertaken in 2016–17 to streamline our procurement activities, improve contract management and upskill personnel through targeted training.

How we manage consultancies

We engage consultants as required when specialist expertise is not available in-house and the services are required for a defined period of time. In 2015–16, we entered into new consultancy contracts or deeds of variation for existing consultants to the value of \$15.9 million.

Almost all (98.1 per cent) of consultancies related to our property provisioning activity, including architectural design, town planning, quantity surveying, acoustic investigation, impact assessment (heritage, flora and fauna, etc.), social and cultural planning, legal services and graphic design services. The remainder was for corporate-related items such as strategic planning, information technology, financial management and quality management.

More information about our use of advertising and market research services in 2015–16 is provided in **Appendix F**.

How we manage non-compliance

In previous reporting periods, we have been required to provide a Certificate of Compliance in accordance with the *Commonwealth Authorities and Companies Act 1997*.

This requirement has been replaced by section 19 of the PGPA Act, which requires our Board (as accountable authority) to notify our Shareholder Ministers as soon as practicable after a significant non-compliance with finance law¹¹ issue is identified.

Significant non-compliance includes, but is not limited to:

- > failure to comply with the duties of accountable authorities (sections 15 to 19 of the PGPA Act)
- > significant fraudulent activity by an official and other serious breaches of the general duties of officials (sections 25 to 29 of the PGPA Act)
- > systemic issues reflecting internal control failings
- > high volume instances of non-compliance with finance law.

The following compliance matters were raised during the reporting period:

> **Misuse of corporate credit cards**

We identified a number of issues pertaining to staff use of corporate credit cards, including instances of accidental personal use, not providing appropriate documentation (e.g. receipt or invoice) to support the transaction, and unauthorised use of another staff member's corporate credit card for business purposes while the cardholder was on leave.

We conducted an in-house review of credit card policy and processes, revised the policy, introduced more detailed training for cardholders and implemented coordinated internal and external monitoring systems. Our internal auditor has also been engaged to conduct regular quarterly reviews of credit card transactions.

> **Late submission of our 2014–15 Annual Report**

A copy of our 2014–15 Annual Report was provided to Shareholder Ministers five calendar days after the required deadline.

We have updated the timeline for the preparation of future annual reports to ensure that we comply with the prescribed lodgement deadline.

¹¹ Finance law incorporates the PGPA Act, any rules created under the PGPA Act, any instrument under the PGPA Act, and an Appropriation Act.

> ***Breach of our financial delegations***

A staff member approved transactions for which one-up approval was required. Although the approvals were within the staff member's delegation, they should have referred the transactions to their manager as the appropriate delegate.

The staff member concerned receive additional training.

> ***Exceeding our functions under the DHA Act***

We exceeded our functions under the DHA Act by providing property management services under Agreements with the Australian Maritime Safety Authority (AMSA).

In accordance with the DHA Act, we can provide adequate and suitable housing for, and housing-related services to, officials and contracted service providers of a non-corporate Commonwealth entity (within the meaning of the PGPA Act). AMSA is a corporate Commonwealth entity, therefore, by providing property management services to AMSA we exceeded our function.

The most recent Agreement with AMSA has expired and we did not seek a further extension to this arrangement. We have subsequently implemented stricter governance and approval processes for all major projects and contracts.

> ***Breach of finance law***

We entered into an employment contract with a SES employee after not complying with the APS merit principle that applies to ongoing and non-ongoing appointments. The matter has since been resolved.

We updated our recruitment processes and procedures to include greater human resources oversight of selection processes and more robust approval practices.

External scrutiny

Our operations are subject to scrutiny from a number of external entities, including the Australian National Audit Office (ANAO), the Commonwealth Ombudsman, the Australian Information Commissioner and various parliamentary committees. This subsection reports on inquiries, audits, reviews and legal actions relevant to DHA in 2015–16.

Australian National Audit Office (ANAO)

The ANAO did not release any reports relating specifically to DHA during 2015–16. However, they published 35 performance audit reports and one financial statement audit report. Topics relevant to our business included cyber resilience, implementation of audit recommendations, confidentiality in government contracts and administration of the National Rent Affordability Scheme.

Commonwealth Ombudsman

The Commonwealth Ombudsman did not release any reports relating to DHA during 2015–16.

The Ombudsman's office received 49 complaints concerning our business from 1 July 2015 to 30 June 2016. Of these, they investigated 12 complaints and 1 was awaiting assessment. They decided not to investigate 36 complaints (74 per cent of total complaints received) as follows:

- > 28 were the subject of review or complaints mechanisms within DHA. Complainants were advised to contact us or submit a redress of grievance
- > 3 advised of another oversight agency. Complainants were advised to contact the policing agency
- > 2 did not provide sufficient detail or evidence to pursue. Complainants were asked to provide additional information and/or documentation but it was not received
- > 3 were formally withdrawn by the complainants.

Parliamentary committees

Senate Standing Committee on Foreign Affairs, Defence and Trade

Inquiry into the operations of DHA

On 2 December 2015, the Senate requested the committee undertake an inquiry into the operations of DHA with particular reference to:

- a. *senior management arrangements and Board composition*
- b. *whether the requirements of the DHA Act 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.*

We were invited to make a submission and elected to do so. Seven other entities, including the Department of Defence, the RSL Australia and the Australian Housing and Urban Research Institute, also made submissions. These are publicly available on the committee's website.

We attended a public hearing held on 23 March 2016 and sent a letter to the committee Chair on 6 May 2016 to provide further information. The committee was scheduled to conclude its deliberations on 22 June 2016, however ceased to exist following dissolution of the Senate on 9 May 2016 for a general election (on 2 July 2016).

Parliamentary Standing Committee on Public Works

Our new development projects are no longer under the scrutiny of the Parliamentary Standing Committee on Public Works, however, we must provide post-implementation reports on projects previously endorsed by the committee as they are completed.

Projects that we undertake as part of our Defence-funded upgrades program must be referred to the committee. During 2015–16, we submitted three notifications for minor works (\$2.0 million to \$15.0 million) for Royal Military College, Duntroon (ACT), RAAF Base Learmonth (WA) and Kokoda Barracks, Canungra (QLD). All were endorsed and are currently under construction.

Independent reviews and investigations

Forensic Review

In May 2015, following completion of an independent scoping study, the government announced it would retain ownership of DHA. 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.¹²

The Department of Finance engaged KordaMentha (KM) to conduct a Forensic Review of our operations from July 2015. We provided KM access to business information and facilitated a number of meetings with key personnel.

We received a copy of KM's final report on 8 April 2016. The Forensic Review made 34 recommendations, forming 60 distinct items with many interdependencies. These were broadly divided into eight sections or key topics:

1. Financial stability
2. Finance
3. Housing stock
4. Operations
5. Governance and reporting
6. Selected projects
7. Data analytics
8. A governance structure for implementation of the recommendations.

We immediately commenced a major business transformation program to implement the recommendations by 30 June 2016, as requested by our Shareholder Ministers. An independent chair and representatives from DHA, KM, Defence and Finance played a vital role in overseeing the program and carrying out the scope of work. We also obtained input from expert consultants, including C42 Consulting, KPMG, Newgate Australia, Minter Ellison, Synergy Consulting and EY on specific issues.

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

There are no outstanding actions—33 of the 34 recommendations were fully or partially completed by 30 June 2016 and a report against each recommendation was signed off by the Steering Committee.¹³ The remaining item was suspended with agreement from all parties based on KM's preliminary observation that it was unlikely to identify practices that would warrant a material change to our protocols beyond which the Forensic Review had already identified.

We also chose to pursue a scope of work beyond the 34 recommendations, such as the implementation of improved reporting and enhancements to planning and supporting information technology tools. Plans were created for each of these items where implementation would occur after 30 June 2016. A small team has been established to complete this further work throughout 2016–17. We will provide written advice on these matters in our quarterly reports to Shareholder Ministers.

Implementing the recommendations in consultation with KM, Defence and Finance has provided our Board and senior management team a valuable opportunity to consider issues affecting our business operations in the longer term.

Australian Federal Police (AFP) investigation

In March 2016, we were advised that a matter relating to DHA had been referred to the AFP. We later learned that the AFP were undertaking a formal investigation. As at 30 June 2016, we had not been informed of the status of the AFP's enquiries, therefore, cannot confirm whether they are continuing or if a finding has been made.

¹³ Recommendations were considered fully completed where they were addressed, deliverables including business change had been implemented, and there was an audit trail to substantiate it. Recommendations were considered partially completed where further work was required because either DHA did not receive final input from an external consultant or stakeholder, the works could not be meaningfully implemented in the short timeframe, or the works were part of a longer-term restructuring or transformational program.

Information technology and digital communication

We are committed to improving the way we communicate and do business through the use of technology and to making our information and online services accessible to as many people as possible, regardless of ability. This helps us streamline our processes to ensure consistency in service delivery and enhances the experience and engagement of our clients and customers.

This subsection describes our information technology and digital communication, including how we comply with relevant legislation and accessibility requirements.

Our enterprise systems

We rely on robust information and communications technology systems as repositories of corporate and client information. The systems support service delivery and the resulting hundreds of thousands of interactions every week with our customers, contractors, lessors, staff and government.

Ongoing and consistent use across the organisation is steadily growing a knowledge base for staff to use. Workflow systems aid in monitoring, tracking, escalating and reporting complaints, enquiries, maintenance requests and other information.

In 2015–16, we continued to evolve our online systems based on direct and indirect feedback from stakeholders. Enhancements have been geared towards self-service and shifting all services to become digital by design (as defined by the DTO).

Our digital information technology maturity was recognised when we achieved a score of 4.28 (out of a possible 5) in the National Archives of Australia's Check-up Digital survey, ranking us sixth out of 165 agencies. We are justifiably proud of this outstanding result.

In the reporting period, we also continued to upgrade our mobile technology capability for staff, customers and contractors. Through a controlled rollout, all staff in head office and our Canberra (ACT) and Parramatta (Sydney, NSW) regional offices were issued Microsoft Surface Pros. This technology will be rolled out to all other offices throughout 2016–17 following network upgrades.

Purpose 3 in **Section 2** of this report provides more information about our performance in relation to developing our business model, system delivery and the major projects and initiatives delivered in 2015–16.

Our website

Our website, including our Online Services portal, has been designed to meet Australian Government standards and the recommendations of the DTO. Features include:

- > displaying compatibility with all commonly used browsers, as well as on personal computer, laptop, tablet and smart phone devices
- > instructions on our website (dha.gov.au/accessibility) to increase or decrease the size of text in three web browsers
- > information in HTML format where possible
- > some documents available in portable document format (PDF) to assist download and content sharing
- > alternative formats, including rich text format (rtf), Microsoft Word (doc) and basic text (txt), available for some documents
- > the ability for a user to download a document and read it in their web browser or save to their computer to read offline.

We acknowledge that this area is constantly evolving and we have the opportunity to improve our current offering. We are aiming for our website to conform to Level AA of the Web Content Accessibility Guidelines version 2, developed by the World Wide Web Consortium. We have also commenced a project to develop an extensive framework of our digital services to ensure we comply with the government's Digital Continuity 2020 policy.

Users are encouraged to contact us (dha.gov.au/contactus) to provide feedback or request assistance with accessing information online.



Our digital communication and social media

We engage with our clients, customers, contractors, prospective purchasers and staff through a combination of digital communication and traditional media.

Targeted direct emails are used for a range of purposes, including but not limited to:

- > informing ADF members and their families about suitable housing solutions
- > informing contractors of works allocated to them for quoting or completion
- > informing prospective purchasers of properties available through our sales programs
- > updating staff on business activity and operations
- > inviting ADF members and lessors to complete surveys.

We also use SMS to send important, time-critical notifications, confirm appointments and send reminders.

Social media platforms give us the opportunity to directly engage with interested parties, to promote our activities and achievements, and cross-promote other Defence-related organisations, such as DFA and DCO.



More than 5,500 likes on Facebook reaching 15,000 people through liking, sharing and commenting on posts

Almost 2,000 Twitter followers

More than 1,750 LinkedIn followers



@defencehousingaustralia



@DefenceHousing



Defence Housing Australia



DefenceHousingAust

Environmental performance

We are committed to improving our environmental performance in accordance with government policy. We manage environmental impacts through a number of policies and administrative controls.

Office energy use

We lease all office buildings, so do not have control over the energy efficiency of fixtures and fittings. However, wherever possible, we reduce energy consumption through the use of:

- > automated essential lighting and heating/cooling outside of hours
- > information communications technology equipment power management features.

Travel and transport

We encourage staff to use videoconferencing and teleconferencing technologies as effective alternatives to air travel and the use of fleet vehicles and hire cars. Staff must demonstrate a genuine business need to travel and seek delegate approval before making a booking.

As at 30 June 2016, we leased 192 vehicles via sgfleet under the Department of Finance fleet service contract. Fleet vehicles are provided where there is a job-specific need, including property managers and development managers, or as a pool car for an office. The number and type of fleet vehicles is reviewed periodically to ensure genuine business need.

Resource efficiency and waste

We adopt a number of practices to assist in minimising the disposal of waste to landfill.

Each of our offices use recycling systems, including general paper, secure paper, cardboard, plastics, toner cartridges, mobile phones and other equipment. In 2015–16 we also donated excess office furniture and equipment to community groups following refurbishment of our head office.

In the office, staff use dual monitors to reduce paper consumption. Where printing is needed, the default setting is two-sided printing in grayscale. Selected staff and our Board are also provided mobile technology devices, such as tablets and smart phones, to enable work to be completed in the field and reduce the number of printed documents, particularly for meetings.

As noted in **Section 2** of this report and the **information technology systems and digital communication** subsection in **Section 3** of this report, in 2015–16 we continued to increase the number of transactions that clients, customers, contractors, prospective purchasers and staff can complete online and enhanced our communications activities to reduce reliance on printed documentation and traditional media.

Property portfolio

We are committed to designing and constructing environmentally sustainable properties and communities.

Purpose 2 in **Section 2** of this report provides more information about how we create a sustainable property portfolio.

How we make socially responsible decisions

Social responsibility is increasingly at the centre of our business operations in accordance with ISO 26000 Guidance on Social Responsibility 2010.

We strive to be innovative and ethical in decision-making by balancing social and environmental considerations with the interests of our stakeholders, and being accountable for all impacts that our decisions and activities have on society and the environment.

We are focusing attention on activities in the following categories:

> **Better business**

Optimising our business operations to meet ongoing social and responsibility objectives.

Providing opportunities for us to grow as individuals and as a business by becoming involved in local communities.

> **Smart housing**

Implementing key design changes that reduce negative environmental impacts and foster good community growth.

> **Lean logistics**

Seeking innovative solutions to address the regular relocation of ADF members and families, as well as the building and maintenance of our housing across Australia.

> ***Enhanced communities***

Focusing on good urban design and empowered members for healthy, happy and resilient communities.

> ***Supported members***

Promoting initiatives that support ADF members and their families beyond the provision of housing, and that recognise the contribution of the ADF to Australian society.

Our corporate social responsibility statement is available on our website (dha.gov.au/csr).



Jeff Caddies Park at our Bluewattle development in Townsville, QLD.

DHA Investment Management Limited (DHA IML)

With approval from the Minister for Finance, DHA IML was established as a wholly-owned subsidiary of DHA in 2012. DHA IML holds an Australian Financial Services Licence to conduct a financial services business and operates as the responsible entity for DHA Residential Property Fund No.1 (the Fund).

In September 2013, units were issued and the Fund was established. In total, 47.1 million units with an initial investment value of \$47.1 million were issued. All units were issued to the Centric DHA Residential Property Fund, a fund managed by Centric Limited (Centric). DHA sold the Fund property valued at \$44.1 million on leaseback terms. The Fund was intended to have a life of 10 years.

In July 2015, Centric requested the realisation of their investment in the Fund, based on their view that the Sydney (NSW) and Melbourne (VIC) residential property markets had peaked. DHA IML remained the responsible entity and managed the sell down process. The Fund will be wound up in 2016–17.

Governance structure

DHA IML has its own governance structure, including:

Manager

DHA IML is responsible for the operation and management of the Fund. It must perform its duties as Responsible Entity of the Fund under relevant legislation (including the *Corporations Act 2001*), the Fund's Constitution and the Fund's Compliance Plan. Among other duties, the Manager must act honestly, with care and diligence, and in the best interests of investors.

Board of Directors

Three Directors are accountable for the proper and efficient performance of DHA IML's functions, as well as making decisions on direction and strategy. Mr Martin Brady AO (Chair) and Ms Jan Mason are also DHA Board Directors. Mr Jon Brocklehurst, DHA IML Responsible Manager, is the third Director.

Compliance Committee

The committee monitors DHA IML's compliance with its Compliance Plan, its Constitution and relevant legislation. The committee comprises Mr Jon Brocklehurst (DHA IML Responsible Manager) and two independent members, including the Chair.

External providers

External providers deliver registry and accounting services, and act as custodian of the Fund.

Performance

For the period ending 30 June 2016, DHA IML incurred an operating loss of \$103,000 against a budget of \$106,000. Net assets were \$750,000 and the company complied with capital adequacy obligations.

The Fund commenced paying monthly distributions, as opposed to quarterly distributions, in March 2016. In 2015–16, \$50.6 million was distributed, largely consisting of property sale proceeds.

Future property funds

Ministerial approval must be given before DHA (or DHA IML) may pursue any other fund arrangements. We will consider this in 2016–17 as part of a review of our capital management strategy and ownership options, and seek the necessary approvals as required.

4

Financial statements



Defence Housing Australia ABN 72 968 504 934
Annual Report - 30 June 2016

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Independent Auditor's Report to the Members
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 Statement of Financial Position
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 Statement of Changes in Equity
 Notes to the Consolidated Financial Statements



INDEPENDENT AUDITOR'S REPORT

To the Ministers for Defence and Finance

I have audited the accompanying annual financial statements of Defence Housing Australia and the consolidated entity for the year ended 30 June 2016, which comprise:

- Statement by the Directors, Acting Managing Director and Chief Financial Officer;
- Statement of Comprehensive Income;
- Statement of Financial Position;
- Statement of Cash Flows;
- Statements of Changes in Equity; and
- Notes to the Consolidated Financial Statements comprising significant accounting policies and other explanatory information.

The consolidated entity comprises the Defence Housing Australia and the entities it controlled at the year's end or from time to time during the year.

Opinion

In my opinion, the financial statements of Defence Housing Australia and the consolidated entity:

- (a) comply with Australian Accounting Standards and the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015*; and
- (b) present fairly the financial positions of Defence Housing Australia and the consolidated entity as at 30 June 2016 and their financial performance and cash flows for the year then ended.

Accountable Authority's Responsibility for the Financial Statements

The directors of Defence Housing Australia are responsible under the *Public Governance, Performance and Accountability Act 2013* for the preparation and fair presentation of annual financial statements that comply with Australian Accounting Standards and the rules made under that Act and are also responsible for such internal control as the directors determine are necessary to enable the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on the financial statements based on my audit. I have conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. These auditing standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

GPO Box 707 CANBERRA ACT 2601
19 National Circuit BARTON ACT
Phone (02) 6203 7300 Fax (02) 6203 7777

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Accountable Authority of the entity, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Independence

In conducting my audit, I have followed the independence requirements of the Australian National Audit Office, which incorporate the requirements of the Australian accounting profession.

Australian National Audit Office



Clea Lewis
Executive Director

Delegate of the Auditor-General

Canberra
17 August 2016

Defence Housing Australia
Statement by the Directors, Acting Managing Director and Chief Financial Officer
30 June 2016

Statement by Directors, Acting Managing Director, and Chief Financial Officer

In our opinion, the attached financial statements for the year ended 30 June 2016 comply with subsection 42 (2) of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act), and are based on properly maintained financial records as per subsection 41 (2) of the PGPA Act.

In our opinion, at the date of this statement, there are reasonable grounds to believe that Defence Housing Australia will be able to pay its debts as and when they fall due.

This statement is made in accordance with a resolution of the directors.



The Hon J A L (Sandy) Macdonald
Chairman



Ms Jan Mason
Acting Managing Director



Mr Jon Brocklehurst
Chief Financial Officer
17 August 2016

Defence Housing Australia
Statement of Comprehensive Income
For the year ended 30 June 2016

	Notes	Consolidated entity		Parent entity	
		30 June 2016 \$'000	30 June 2015 \$'000	30 June 2016 \$'000	30 June 2015 \$'000
INCOME					
Revenue					
Housing Services Provided	3	669,958	673,819	669,829	673,679
Allocation Services Provided	4	11,721	10,537	11,721	10,537
Sale of Inventories		643,354	596,864	643,354	596,864
Interest Received	5	8,582	8,362	8,562	8,334
Other Income		64	198	269	362
Total Revenue		1,333,679	1,289,780	1,333,735	1,289,776
Gains					
Gains from Disposal of Investment Properties	6	36,333	41,159	36,333	41,159
Total Income		1,370,012	1,330,939	1,370,068	1,330,935
EXPENSES					
Employee Benefits	7	69,409	72,161	69,354	72,106
Housing Services Lease Rentals		355,173	350,646	355,173	350,646
Rates, Repairs and Maintenance	8	181,294	181,124	181,294	181,124
Depreciation and Amortisation	9	15,764	14,533	15,764	14,533
Cost of Inventories Sold		539,940	525,031	539,940	525,031
Finance Costs	10	26,521	28,610	26,521	28,610
Write-Down and Impairment of Assets	11	2,882	3,186	2,882	3,186
Other Expenses		39,388	35,262	39,352	35,216
Total Expenses		1,230,371	1,210,553	1,230,280	1,210,452
Share of Joint Venture Profits					
Share of Joint Venture Profits accounted for using the Equity Method		432	43	432	43
Total Share of Joint Venture Profit		432	43	432	43
Profit Before Income Tax on Continuing Operations					
		140,073	120,429	140,220	120,526
Income Tax Expense		35,411	29,355	35,455	29,384
Share of Income Tax on Joint Venture Profit		130	13	130	13
Total Income Tax Expense	12	35,541	29,368	35,585	29,397
Profit After Income Tax		104,532	91,061	104,635	91,129
Other Comprehensive Income		-	-	-	-
Total Comprehensive Income		104,532	91,061	104,635	91,129

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Defence Housing Australia
Statement of Financial Position
As at 30 June 2016

	Notes	Consolidated entity		Parent entity	
		30 June 2016 \$'000	30 June 2015 \$'000	30 June 2016 \$'000	30 June 2015 \$'000
ASSETS					
Current Assets					
Cash and Cash Equivalents	13	321,233	264,409	320,453	263,517
Trade and Other Receivables	14	46,289	16,183	46,276	16,209
Other Current Assets	16	33,751	32,346	33,751	32,346
Inventories	18	563,401	655,947	563,401	655,947
Investment Properties Held for Sale	15	16,764	13,318	16,764	13,318
Total Current Assets		981,438	982,203	980,645	981,337
Non-Current Assets					
Deferred Tax Assets	17	20,929	25,412	20,923	25,403
Inventories	18	521,826	470,890	521,826	470,890
Investment Properties	19	807,364	797,636	807,364	797,636
Property, Plant and Equipment		9,030	8,199	9,030	8,199
Intangibles		5,685	6,660	5,685	6,660
Investments Accounted for Using the Equity Method		91	177	91	177
Investment in Subsidiary		-	-	1,000	1,000
Total Non-Current Assets		1,364,925	1,308,974	1,365,919	1,309,965
Total Assets		2,346,363	2,291,177	2,346,564	2,291,302
LIABILITIES					
Current Liabilities					
Trade and Other Payables	20	58,305	61,444	58,329	61,502
Current Tax Liabilities		11,825	15,818	11,825	15,818
Provision for Dividend	2	62,719	54,637	62,719	54,637
Borrowings	22	-	65,480	-	65,480
Other Financial Liabilities	23	52,808	41,752	52,808	41,752
Provisions	24	40,829	44,971	40,805	44,940
Total Current Liabilities		226,486	284,102	226,486	284,129
Non-Current Liabilities					
Borrowings	22	509,580	444,100	509,580	444,100
Other Financial Liabilities	23	1,278	819	1,278	819
Provisions	24	101,892	96,842	101,892	96,842
Total Non-Current Liabilities		612,750	541,761	612,750	541,761
Total Liabilities		839,236	825,863	839,236	825,890
Net Assets		1,507,127	1,465,314	1,507,328	1,465,412
EQUITY					
Contributed Equity		403,863	403,863	403,863	403,863
Retained Earnings		1,103,264	1,061,451	1,103,465	1,061,549
Total Equity		1,507,127	1,465,314	1,507,328	1,465,412

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

Defence Housing Australia
Statement of Cash Flows
For the year ended 30 June 2016

	Consolidated entity		Parent entity	
	30 June 2016 \$'000	30 June 2015 \$'000	30 June 2016 \$'000	30 June 2015 \$'000
Notes				
OPERATING ACTIVITIES				
Cash Received				
Sales of Goods and Services	653,381	719,564	653,441	719,642
Sales of Inventory	622,884	598,535	622,884	598,535
Interest	7,341	10,101	7,322	10,072
Other Cash Received	4	161	4	161
Stamp Duty and Land Tax Equivalents Received	21,592	30,568	21,592	30,568
GST Received	24,641	31,258	24,641	31,258
Total Cash Received	1,329,843	1,390,187	1,329,884	1,390,236
Cash Used				
Employees	81,578	83,567	81,523	83,512
Suppliers	549,073	547,846	549,026	547,790
Borrowing Costs	26,521	27,730	26,521	27,730
Income Taxes Paid	28,221	30,052	28,252	30,080
Other Expenses	22,020	12,620	22,020	12,620
Acquisition and Construction of Inventories	498,386	680,140	498,386	680,140
Stamp Duty and Land Tax Equivalents	42,059	36,023	42,059	36,023
GST Paid	35,929	26,304	35,929	26,304
Total Cash Used	1,283,787	1,444,282	1,283,716	1,444,199
Net Cash from/(used by) Operating Activities	46,056	(54,095)	46,168	(53,963)
	26			
INVESTING ACTIVITIES				
Cash Received				
Proceeds from Sales of Investment Properties	96,488	98,499	96,488	98,499
Cash Used				
Acquisitions and Construction of Investment Properties	25,271	5,240	25,271	5,240
Acquisition of Plant and Equipment	5,812	3,789	5,812	3,789
Total Cash Used	31,083	9,029	31,083	9,029
Net Cash from/(used by) Investing Activities	65,405	89,470	65,405	89,470
FINANCING ACTIVITIES				
Cash Used				
Dividend Paid	54,637	53,991	54,637	53,991
Total Cash Used	54,637	53,991	54,637	53,991
Net Cash from/(used by) Financing Activities	(54,637)	(53,991)	(54,637)	(53,991)
Net Increase/(Decrease) in Cash Held Cash and Cash Equivalents at the Beginning of the Reporting Period	56,824	(18,616)	56,936	(18,484)
Cash and Cash Equivalents at the End of the Reporting Period	264,409	283,025	263,517	282,001
	13			

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

Defence Housing Australia Statement of Changes in Equity For the year ended 30 June 2016			
Consolidated entity	Retained earnings \$'000	Contributed equity \$'000	Total equity \$'000
Balance at 1 July 2014	1,025,027	403,863	1,428,890
Profit for the Year	91,061	-	91,061
Other Comprehensive Income	-	-	-
Total Comprehensive Income	91,061	-	91,061
Transactions with Owners			
Returns on Capital:			
Dividends	(54,637)	-	(54,637)
Balance at 30 June 2015	1,061,451	403,863	1,465,314
Balance at 1 July 2015	1,061,451	403,863	1,465,314
Profit for the Year	104,532	-	104,532
Other Comprehensive Income	-	-	-
Total Comprehensive Income	104,532	-	104,532
Transactions with Owners			
Returns on Capital:			
Dividends	(62,719)	-	(62,719)
Balance at 30 June 2016	1,103,264	403,863	1,507,127

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Defence Housing Australia
Statement of Changes in Equity
For the year ended 30 June 2016
 (continued)

Parent entity	Retained earnings \$'000	Contributed equity \$'000	Total equity \$'000
Balance at 1 July 2014	1,025,057	403,863	1,428,920
Profit for the Year	91,129	-	91,129
Other Comprehensive Income	-	-	-
Total Comprehensive Income	91,129	-	91,129
Transactions with Owners			
Dividends	(54,637)	-	(54,637)
Balance at 30 June 2015	1,061,549	403,863	1,465,412
 Balance at 1 July 2015	 1,061,549	 403,863	 1,465,412
Profit for the Year	104,635	-	104,635
Other Comprehensive Income	-	-	-
Total Comprehensive Income	104,635	-	104,635
Transactions with Owners			
Dividends	(62,719)	-	(62,719)
Balance at 30 June 2016	1,103,465	403,863	1,507,328

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Defence Housing Australia
Notes to the Consolidated Financial Statements
30 June 2016

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Defence Housing Australia
Notes to the Consolidated Financial Statements
30 June 2016
(continued)

1 Overview

(a) Objectives of DHA

Defence Housing Australia (DHA) is an Australian Government (Government) controlled entity. The objective of DHA is to provide housing and related services for members of the Australian Defence Force (ADF) and their families in line with the Department of Defence (Defence) operational requirements.

DHA is structured to meet one outcome:

To contribute to the Department of Defence's outcomes by providing total housing services that meet the Department of Defence operational and client needs through a strong customer and business focus.

The continued existence of DHA in its present form and with its present operations is dependent on Government policy. DHA receives no appropriations or receipts from Government.

(b) Basis of Preparation of the Financial Statements

The financial statements are required by section 42 of the *Public Governance, Performance and Accountability Act 2013 (PGPA Act)* and are general purpose financial statements.

The financial statements and notes have been prepared in accordance with:

- Public Governance, Performance and Accountability Financial Reporting Rule 2015 (FRR) for reporting periods ending on or after 1 July 2015; and
- Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that apply for the reporting period.

DHA is classified as a Government Business Enterprise (GBE) as stipulated in section 5(1)(c) of the *PGPA Act* and is a for-profit entity. It should also be noted that DHA is governed by the *Defence Housing Australia Act 1987 (DHA Act)*.

The financial statements have been prepared on an accrual basis and in accordance with the historical cost convention, except for certain assets and liabilities, which as noted, are at fair value. Except where stated, no allowance is made for the effect of changing prices on the results or the financial position.

The financial statements are presented in Australian dollars and values are rounded to the nearest thousand dollars unless otherwise specified.

Defence Housing Australia
Notes to the Consolidated Financial Statements
30 June 2016
 (continued)

1 Overview (continued)

(c) Significant Accounting Judgements and Estimates

Preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management base their judgement on experience and historical information to ensure they are reasonable and fair; and continually monitor and reassess their judgements, estimates and assumptions. Management have identified the following significant accounting policies and judgements;

- The net realisable value of completed inventory properties is assessed annually by an independent valuer. Where the net realisable value for an individual property is less than its costs, the carrying value of the property is written down to its net realisable value.
- The net realisable value of an inventory development site is the finished product's gross realisable value less costs to complete and selling costs. Where the net realisable value is lower than costs to date for the development site, the costs to date are written down by the value of the estimated loss.
- Investment properties are assessed for indicators of impairment annually. Where there is an indicator of impairment the recoverable amount of each investment property is estimated. The recoverable amount is the higher of the property's fair value less costs to sell and its value in use. Fair value is assessed annually by an independent valuer. Value in use is calculated by management using various assumptions in relation to the cost of debt and equity and future rental income of the property. Where the recoverable amount is less than the carrying amount, the carrying amount of the investment property is impaired to the greater of the fair value less cost to sell and value in use.
- A liability is recognised for make good costs to be incurred on the expiry of long term leases. Management has made assumptions regarding the future economic outflows associated with the make good expenditure, based on historical data. DHA records the entire sale proceeds as revenue at the time of settlement. DHA is required under the leaseback agreement to undertake prescribed maintenance (make good) at the end of the lease period. At the time of recording the sale, a provision is raised to recognise the make good obligation. The provision is based on an assessment of the present value of the necessary costs to make good properties at the end of their lease terms. The estimate includes an inflation factor of 2.50% (2015: 2.50%) and a discount rate of 2.03% (2015: 2.76%), being the five year commercial bank swap rate as at 30 June 2016. Actual make good expenditure is charged, as incurred against the provision. The estimate of future make good maintenance is reviewed annually to ensure that the make good provision is adequate to meet the liability.

No other accounting assumptions or estimates have been identified that have a significant risk of causing a material adjustment to carrying amounts of assets and liabilities within the next accounting period.

(d) New Australian Accounting Standards

No accounting standard has been adopted earlier than the application date as stated in the standard.

In the current year, DHA has adopted all of the new and revised standards issued by the AASB that are relevant to its operations and effective for the current annual reporting period. Adoption of these standards did not have a material impact on the financial statements of DHA, and are not expected to have a future material effect on DHA's financial statements.

Defence Housing Australia
Notes to the Consolidated Financial Statements
30 June 2016
(continued)

1 Overview (continued)

(d) New Australian Accounting Standards (continued)

The following new standards were issued by AASB prior to the signing of the statements by the Directors, Acting Managing Director and Chief Financial Officer, that are expected to have an impact on DHA's financial statement for future reporting periods;

- *AASB 15 - Revenue from Contracts with Customers*, applicable to reporting periods beginning on or after 1 January 2018. To be applied by DHA for the financial report for the period ended 30 June 2019. Preliminary assessment of *AASB 15* indicates there is unlikely to be a material impact on the financial statements of DHA.
- *AASB 16 - Leases*, applicable to reporting periods beginning on or after 1 January 2019. To be applied by DHA for the financial report for the period ended 30 June 2020. Preliminary assessment of *AASB 16* indicates there will be a material impact on the financial statements of DHA, and is likely to significantly impact DHA's financial statements, and financial ratios including; liquidity, gearing and the current ratio. DHA will develop a detailed plan to address all impacts in 2017 financial year. Refer to Note 25 for current operating lease commitments.

There are no other standards issued but not yet effective that will have a material impact on DHA.

Defence Housing Australia
Notes to the Consolidated Financial Statements
30 June 2016
(continued)

2 Final Dividends

The DHA Board has declared a final dividend for the year ended 30 June 2016 of \$62,718,905. (2015: \$54,636,762). The DHA Board resolved on 5 May 2016 to pay a dividend of 60 percent of net profit after tax.

	Consolidated entity		Parent entity	
	30 June 2016 \$'000	30 June 2015 \$'000	30 June 2016 \$'000	30 June 2015 \$'000
Final Dividend	62,719	54,637	62,719	54,637

3 Housing Services Provided

	Consolidated entity		Parent entity	
	30 June 2016 \$'000	30 June 2015 \$'000	30 June 2016 \$'000	30 June 2015 \$'000
Defence Rent and Charges	518,905	526,244	518,905	526,244
Defence Other Charges	83,237	82,494	83,237	82,494
Lessor Management Fees	51,101	50,439	51,101	50,439
Other Revenue	16,586	12,328	16,586	12,328
Annuity Revenue	-	2,174	-	2,174
Other Management Fees	129	140	-	-
Total Housing Service Provided	669,958	673,819	669,829	673,679

Defence Rent and Charges

Defence Rent and Charges includes rent from investment properties of \$57,654,277 (2015: \$60,541,610)

Rent and property management fees are charged to Defence in line with the Services Agreement and Members Choice Accommodation contracts. Revenue is recognised when a property is tenanted and occupied by an ADF member on a weekly basis for the term of the tenancy.

Defence Other Charges

Defence Other Charges - includes expenses which are recovered from Defence under the Services Agreement, such as Defence funded capital projects, utilities and repairs and maintenance. The revenue is recognised each month to the extent that the expenses have been incurred. This is based on a cost recovery model.

Lessor Management Fees

A set percentage management fee based on the rent paid to lessors on a monthly basis.

Other Revenue

Other Revenue - includes rent received from the private rental market, where there are excess rental properties, not currently occupied by ADF members. Revenue is recognised when a property is tenanted and occupied by a civilian, on a monthly basis for the term of the tenancy.

Defence Housing Australia
Notes to the Consolidated Financial Statements
30 June 2016
(continued)

4 Allocation Services Provided

	Consolidated entity		Parent entity	
	30 June 2016 \$'000	30 June 2015 \$'000	30 June 2016 \$'000	30 June 2015 \$'000
Allocation Administration Fees	11,721	10,537	11,721	10,537

DHA provides the service of allocating ADF members to available and suitable accommodations based on Defence requirements and policies. For this service, DHA receives set annual management fees from Defence per the Allocations and Tenancy Management and Living In Accommodation contracts. These annual management fee revenues are recognised by DHA on a monthly basis in line with when the service is provided to Defence.

5 Interest Received

	Consolidated entity		Parent entity	
	30 June 2016 \$'000	30 June 2015 \$'000	30 June 2016 \$'000	30 June 2015 \$'000
Interest on Deposits	8,562	8,334	8,562	8,334
Interest Income - Investments	15	22	-	-
Interest Income - Bank Accounts	5	6	-	-
Total Interest Received	8,582	8,362	8,562	8,334

Interest revenue is recognised on an accrual basis using the effective interest method as set out in AASB 139 - *Financial Instruments: Recognition and Measurement*, taking into account the interest rates applicable to the financial assets.

6 Gains from Disposal of Investment Properties

	Consolidated entity		Parent entity	
	30 June 2016 \$'000	30 June 2015 \$'000	30 June 2016 \$'000	30 June 2015 \$'000
Proceeds from Sale	97,578	97,513	97,578	97,513
Carrying Value of Assets Sold	(60,273)	(55,629)	(60,273)	(55,629)
Selling Expenses	(972)	(725)	(972)	(725)
Net Gains from Disposal of Investment Properties	36,333	41,159	36,333	41,159

Profits or losses from the disposal of investment properties are recognised when all specified conditions relating to the sale are satisfied and there is an unconditional sale. This is when settlement occurs.

Defence Housing Australia
Notes to the Consolidated Financial Statements
30 June 2016
(continued)

7 Employee Benefits

	Consolidated entity		Parent entity	
	30 June 2016 \$'000	30 June 2015 \$'000	30 June 2016 \$'000	30 June 2015 \$'000
Wages and Salaries	47,349	50,770	47,294	50,715
Superannuation:				
Defined Contribution Plans	7,219	6,796	7,219	6,796
Defined Benefit Plans	2,979	3,048	2,979	3,048
Leave and Other Entitlements	6,335	5,676	6,335	5,676
Payroll Tax Equivalent	4,754	4,698	4,754	4,698
Workers' Compensation Premiums	773	1,173	773	1,173
Total Employee Benefits	69,409	72,161	69,354	72,106

Payroll tax equivalent and workers compensation premiums are related party transactions with Defence. All other employee benefits are incurred with external parties.

Superannuation

Staff of DHA are employed under the *Public Service Act 1999* and are entitled to benefits from the Commonwealth Superannuation Scheme (CSS), the Public Sector Superannuation Scheme (PSS) and the Public Sector Superannuation accumulation plan (PSSap), under the *Superannuation (Productivity Benefit) Act 1988*. DHA meets its liability for the employer share of benefits payable under the Superannuation Acts by fortnightly payments to the Commonwealth Superannuation Corporation (CSC) in accordance with section 159(2) of the *Superannuation Act 1976* and section 15 of the *Superannuation Act 1990*, or to other superannuation funds nominated by employees in accordance with part 3A of the *Superannuation Guarantee (Administration) Act 1992*. The CSS and PSS are defined benefit schemes for the Government. The PSSap is a defined contribution scheme.

The Department of Finance has advised the Commonwealth Superannuation Corporation (CSC) that for the purpose of actuarial costing of the CSS and PSS, it is essential to be able to identify employer superannuation contributions made under each scheme by the organisation. The separate CSS, PSS and PSSap employer superannuation contribution rates and contributions paid by DHA for the reporting period are:

- CSS members: Contributions at the rate of 16.2% (2015: 20.3%) of salary for superannuation purposes, amounting to \$92,223 (2015: \$131,077);
- PSS members: Contributions at the rate of 18.5% (2015: 19.6%) of salary for superannuation purposes, amounting to \$2,886,664 (2015: \$2,916,732); and
- PSSap members: Contributions at the rate of 15.4% (2015: 15.4%) of salary for superannuation purposes, amounting to \$5,287,417 (2015: \$5,107,208).

For other schemes (choice funds nominated by employees) the contribution rate was 15.4% (2015: 15.4%) and this amounted to \$1,931,538 (2015: \$1,688,821).

The liability for defined benefits is recognised in the financial statements of the Australian Government and is settled by the Australian Government in due course. This liability is reported in the Department of Finance administered schedules and notes.

DHA makes employer contributions to the employee's superannuation scheme at rates determined by an actuary to be sufficient to meet the current cost to the Government. The entity accounts for the contributions as if they were contributions to defined contribution plans.

Defence Housing Australia
Notes to the Consolidated Financial Statements
30 June 2016
(continued)

8 Rates, Repairs and Maintenance

	Consolidated entity		Parent entity	
	30 June 2016 \$'000	30 June 2015 \$'000	30 June 2016 \$'000	30 June 2015 \$'000
Rates and Municipal Charges	11,067	10,862	11,067	10,862
Stamp Duty and Land Tax Equivalents	29,979	28,600	29,979	28,600
Repairs and Maintenance	40,852	43,203	40,852	43,203
Other Property Charges	99,396	98,459	99,396	98,459
Total Rates, Repairs and Maintenance	181,294	181,124	181,294	181,124

Rates, Repairs and Maintenance includes expenditure for investment properties of \$19,264,382 (2015: \$19,343,032).

Rates and Municipal Charges

Includes land, council and water rates for DHA's property portfolio, which are not recoverable from Defence.

The expenses are incurred from external parties, and are expenses in profit or loss in the month they are incurred.

Stamp Duty and Land Tax Equivalents

Stamp Duty and Land Tax Equivalents are related party transactions associated with Defence.

DHA provides services on a for-profit basis. Under the Competitive Neutrality arrangements, DHA is required to make State Tax Equivalent payments, including payroll tax, land tax and stamp duty.

DHA includes State Tax Equivalent payments in the expenditure items to which they relate. Payroll tax is included in Employee Expenses and is detailed in Note 7. Land tax and stamp duty on property acquisitions are included in the table above.

Repairs and Maintenance

Includes repairs and maintenance expenses on the DHA property portfolio, which are not recovered from Defence.

Expenses are incurred from external contractors and are expensed in the period in which they are incurred.

Other Property Charges

Includes recoverable rates, municipal charges, repairs and maintenance, insurance and Defence funded capital project expenses. DHA, in accordance with the Services Agreement, is entitled to recover from Defence these expenses. These recoveries form part of Defence Other Charges detailed in Note 3.

Expenses are incurred from external parties and sub-contractors and are expensed in profit or loss in the month they are incurred.

Defence Housing Australia
Notes to the Consolidated Financial Statements
30 June 2016
(continued)

9 Depreciation and Amortisation

	Consolidated entity		Parent entity	
	30 June 2016 \$'000	30 June 2015 \$'000	30 June 2016 \$'000	30 June 2015 \$'000
Depreciation				
Investment Properties	11,437	11,075	11,437	11,075
Plant and Equipment	2,875	2,324	2,875	2,324
Total Depreciation	14,312	13,399	14,312	13,399
Amortisation				
Software	1,452	1,134	1,452	1,134
Total Amortisation	1,452	1,134	1,452	1,134
Total Depreciation and Amortisation	15,764	14,533	15,764	14,533

Depreciable assets are written down to their estimated residual values over their estimated useful lives using, in all cases, the straight-line method of depreciation. Office fit outs are depreciated on a straight-line basis over the lesser of the estimated useful life of the improvements or the unexpired period of the lease.

Depreciation and amortisation rates applying to each class of depreciable asset are based on the straight line method over the following useful lives:

	2016	2015
Investment Properties	50 years	50 years
Plant and Equipment	Term of Lease	Term of Lease
Software	2.5 to 6 years	2.5 to 6 years

Depreciation and amortisation rates (useful lives), residual values and methods are reviewed at each reporting date and necessary adjustments are recognised in the current, or current and future reporting periods, as appropriate.

10 Finance Costs

	Consolidated entity		Parent entity	
	30 June 2016 \$'000	30 June 2015 \$'000	30 June 2016 \$'000	30 June 2015 \$'000
Interest on Loans	26,521	28,610	26,521	28,610

Interest is accrued based on effective interest rates on the outstanding balance of the loan.

Defence Housing Australia
Notes to the Consolidated Financial Statements
30 June 2016
(continued)

11 Write-Down and Impairment of Assets

	Consolidated entity		Parent entity	
	30 June 2016 \$'000	30 June 2015 \$'000	30 June 2016 \$'000	30 June 2015 \$'000
Non-Financial Assets				
Write-downs and Impairments				
Investment Properties	407	951	407	951
Inventories	5,722	4,561	5,722	4,561
Crace Developments	11	255	11	255
Total Write-Downs and Impairments	6,140	5,767	6,140	5,767
Reversal of Write-Downs and Impairments				
Investment Properties	(2,080)	(594)	(2,080)	(594)
Inventories	(1,178)	(1,987)	(1,178)	(1,987)
Total Reversals	(3,258)	(2,581)	(3,258)	(2,581)
Net Write-Down and Impairment of Assets	2,882	3,186	2,882	3,186

Inventories

To ensure compliance with *AASB 102 - Inventories*, an independent valuation to assess the net realisable value of inventory properties held by DHA was undertaken by registered valuers as at 31 December 2015. The carrying value of individual properties, where the cost of the property exceeded the net realisable value, have been written down accordingly. At the end of the reporting period DHA reassesses the net realisable value, and recognises a further write down or write back. A write back, where applicable, will not exceed cost. Refer to Note 18.

Investment Properties

Investment properties are initially recognised at cost. The carrying amount includes the cost of replacing parts of existing investment properties, at the time those costs are incurred. The carrying amount excludes costs of day-to-day servicing and maintenance of the investment property.

Investment properties are subsequently recognised at the lower of cost and recoverable amount. The recoverable amount is the higher of an assets fair value less costs to sell; and value in use where the property is not identified for future sale.

Investment properties are derecognised either when they have been disposed of or when they are withdrawn from use and no future economic value is expected from its disposal.

Defence Housing Australia
Notes to the Consolidated Financial Statements
30 June 2016
(continued)

11 Write-Down and Impairment of Assets (continued)

The fair value of investment properties is assessed annually by an independent valuer and a value in use calculation is prepared internally for assets not identified for future sale. Where the fair value less costs to sell and the value in use calculation for an individual property is less than its cost, the carrying value of the property is written down to the higher of the two valuation methods, and the loss is recognised as an impairment loss in the income statement. Refer to Note 19.

DHA uses a discounted cash flow to determine the value in use of investment properties. In determining the value in use, DHA applies the following assumptions:

- Rental and capital growth for the next 20 years by individual post codes from major industry publications.
- Consumer Price Index (CPI) rates in line with the mid-point of the Reserve Bank of Australia's (RBA) target inflation rate, being between 2-3%.
- Weighted Average Cost of Capital (WACC), a discount rate calculated internally by management on an annual basis.
- Cash inflow estimates including rental income and other Defence fees and charges paid to DHA in accordance with the Services Agreement.
- Cash outflow estimates including annual repairs and maintenance based on historical data and judgements made by management.
- Major capital work expenditure estimates including internal and external repainting and replacement of carpets based on the age of the property.

12 Income Tax Expense

(a) Income tax expense

	Consolidated entity		Parent entity	
	30 June 2016 \$'000	30 June 2015 \$'000	30 June 2016 \$'000	30 June 2015 \$'000
Current Tax	39,734	34,615	39,780	34,642
Deferred Tax	4,483	(8,566)	4,481	(8,564)
Adjustments for Current Tax of Prior Periods	(8,676)	3,319	(8,676)	3,319
	<u>35,541</u>	<u>29,368</u>	<u>35,585</u>	<u>29,397</u>
Income Tax Expense is Attributable to:				
Profit from Continuing Operations	<u>35,541</u>	<u>29,368</u>	<u>35,585</u>	<u>29,397</u>
Aggregate Income Tax Expense	<u>35,541</u>	<u>29,368</u>	<u>35,585</u>	<u>29,397</u>

(b) Reconciliation of Income Tax Expense to Prima Facie Tax Payable

Defence Housing Australia
Notes to the Consolidated Financial Statements
30 June 2016
(continued)

12 Income Tax Expense (continued)

(b) Reconciliation of Income Tax Expense to Prima Facie Tax Payable (continued)

	Consolidated entity		Parent entity	
	30 June 2016 \$'000	30 June 2015 \$'000	30 June 2016 \$'000	30 June 2015 \$'000
Profit from Continuing Operations before income Tax Expense				
Tax at the Australian Tax Rate of 30.0%	140,073	120,429	140,220	120,526
Tax Effect of Amounts which are not Deductible (Taxable) in Calculating Taxable Income:				
Tax Cost Base Valuations	(3,523)	(9,410)	(3,523)	(9,410)
Adjustments for Current Tax of Prior Periods	(8,676)	3,319	(8,676)	3,319
Adjustments for Deferred Tax of Prior Periods	6,028	-	6,028	-
Other	(311)	(670)	(311)	(670)
Income Tax Expense	35,541	29,368	35,585	29,397

DHA, following amendment of the *Defence Housing Australia Act 1987*, became a Commonwealth income tax payer on 1 July 2007.

As a result of DHA becoming a taxable entity, an unrecognised temporary difference (Deferred Tax Asset) was created between the accounting carrying value and the tax values for property held as Investment Property. The unrecognised value of the temporary difference at 30 June 2016 is \$469,558,803 (2015: \$481,301,140). The tax effect of this temporary difference is \$140,867,641 (2015: \$144,390,342).

The income tax expense or benefit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities, and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset, and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Tax Consolidation

DHA and DHA IML have elected to form a tax-consolidated group. The head entity within the tax-consolidated group is DHA.

Defence Housing Australia
Notes to the Consolidated Financial Statements
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12 Income Tax Expense (continued)

Tax Consolidation (continued)

DHA and DHA IML entered into a tax funding agreement in June 2013. The agreement outlines the terms on which DHA IML is required to contribute to the payment of the group's income tax liability. The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable at the end of the financial year. The head entity may also request payment of interim funding amounts to assist with its obligations to pay income tax instalments. The funding amounts are recognised as current inter-company receivables or payables.

Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of Goods and Services Tax (GST), except:

- Where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO), it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- Receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from or payable to the ATO, is included as part of receivables or payables.

Cash flows are included in the Statement of Cash Flows on a gross basis. The GST components of cash flows arising from investing and financing activities, which are recoverable from or payable to the ATO, are classified as operating cash flows.

13 Current Assets - Cash and Cash Equivalents

	Consolidated entity		Parent entity	
	30 June 2016 \$'000	30 June 2015 \$'000	30 June 2016 \$'000	30 June 2015 \$'000
Cash at Bank	25,721	8,781	25,441	8,504
Cash on Hand	12	13	12	13
Short Term Investments	295,500	255,615	295,000	255,000
Total Cash and Cash Equivalents	321,233	264,409	320,453	263,517

Cash and Cash Equivalents means notes and coins held and any deposits held at call or readily convertible to cash with a bank or financial institution, including term deposits with terms up to 12 months. Cash is recognised at its nominal amount.

Defence Housing Australia
Notes to the Consolidated Financial Statements
30 June 2016
(continued)

14 Current Assets - Trade and Other Receivables

	Consolidated entity		Parent entity	
	30 June 2016 \$'000	30 June 2015 \$'000	30 June 2016 \$'000	30 June 2015 \$'000
Current				
Receivables	36,963	8,372	36,963	8,372
Provision for Impairment of Receivables	(30)	-	(30)	-
	<u>36,933</u>	<u>8,372</u>	<u>36,933</u>	<u>8,372</u>
Accrued Income	7,869	5,593	7,868	5,634
Other Receivables	1,487	2,218	1,475	2,203
Total Receivables for Goods and Services	<u>46,289</u>	<u>16,183</u>	<u>46,276</u>	<u>16,209</u>
Good and Services				
Goods and Services - Related Entities	40,090	13,094	40,082	13,120
Goods and Services - External Parties	6,199	3,089	6,194	3,089
Total Trade and Other Receivables (Net)	<u>46,289</u>	<u>16,183</u>	<u>46,276</u>	<u>16,209</u>

Defence Housing Australia
Notes to the Consolidated Financial Statements
30 June 2016
(continued)

14 Current Assets - Trade and Other Receivables (continued)

(a) Receivables are expected to be recovered in:

	Consolidated entity		Parent entity	
	30 June 2016 \$'000	30 June 2015 \$'000	30 June 2016 \$'000	30 June 2015 \$'000
Less than 12 Months	46,289	16,183	46,276	16,209

Credit Terms are between 7 and 30 days.

(b) Receivables are aged as follows:

	Consolidated entity		Parent entity	
	30 June 2016 \$'000	30 June 2015 \$'000	30 June 2016 \$'000	30 June 2015 \$'000
Less than 90 Days	45,957	15,712	45,944	16,209
More than 90 Days	332	471	332	-
	<u>46,289</u>	<u>16,183</u>	<u>46,276</u>	<u>16,209</u>

Receivables for goods and services are recognised at the nominal amounts due, less any provision for bad and doubtful debts. Collectability of debts is reviewed at 30 June each year. Allowances are made when the debts recovery is judged to be no longer probable.

15 Investment Properties Held for Sale

	Consolidated entity		Parent entity	
	30 June 2016 \$'000	30 June 2015 \$'000	30 June 2016 \$'000	30 June 2015 \$'000
Investment Properties - at Cost	14,918	11,813	14,918	11,813
Investment Properties - at Cost (Less Impairment)	1,846	1,505	1,846	1,505
Total Investment Properties Held for Sale	<u>16,764</u>	<u>13,318</u>	<u>16,764</u>	<u>13,318</u>

DHA applies AASB 5 - *Non-Current Assets Held for Sale and Discounted Operations* to its investment properties held for sale. These properties are carried at the lower of cost and fair value less costs to sell and are not depreciated.

DHA's policy is to dispose of investment properties when the property is no longer required for Defence provisioning purposes.

Defence Housing Australia
Notes to the Consolidated Financial Statements
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(continued)

16 Other Current Assets

	Consolidated entity		Parent entity	
	30 June 2016 \$'000	30 June 2015 \$'000	30 June 2016 \$'000	30 June 2015 \$'000
Other Current Assets				
Other Prepayments	1,776	3,106	1,776	3,106
Prepaid Property Rentals	31,975	29,240	31,975	29,240
Total Other Current Assets	33,751	32,346	33,751	32,346

Includes commercial office rents, insurance premiums and rents to lessors all paid in advance.

17 Non-Current Assets - Deferred Tax Assets

	Consolidated entity		Parent entity	
	30 June 2016 \$'000	30 June 2015 \$'000	30 June 2016 \$'000	30 June 2015 \$'000
The balance comprises temporary differences attributable to:				
Employee Benefits	5,772	5,616	5,772	5,616
Make Good Provisions	32,015	30,157	32,015	30,157
Provisions	598	1,198	591	1,189
Lease Incentive	508	312	508	312
Other	171	43	171	43
	39,064	37,326	39,057	37,317
Set-off of deferred tax liabilities pursuant to set-off provisions (Note 21)	(18,135)	(11,914)	(18,134)	(11,914)
Net deferred tax assets	20,929	25,412	20,923	25,403

Movements - Consolidated entity	Make Good Provision \$'000	Employee Benefits \$'000	Provisions \$'000	Other \$'000	Total \$'000
At 30 June 2015	30,157	5,616	1,198	355	37,326
(Charged)/(credited)					
- Charged to the income statement	1,858	156	(600)	324	1,738
At 30 June 2016	32,015	5,772	598	679	39,064

Defence Housing Australia
Notes to the Consolidated Financial Statements
30 June 2016
(continued)

17 Non-Current Assets - Deferred Tax Assets (continued)

	Make Good Provision \$'000	Employee Benefits \$'000	Provisions \$'000	Other \$'000	Total \$'000
Movements - Consolidated entity					
At 1 July 2014	29,185	6,408	1,107	325	37,025
(Charged)/credited					
- Charged to the income statement	972	(792)	91	30	301
At 30 June 2015	<u>30,157</u>	<u>5,616</u>	<u>1,198</u>	<u>355</u>	<u>37,326</u>
Movements Parent entity					
At 30 June 2015	30,157	5,616	1,189	355	37,317
(Charged)/credited					
- Charged to the income statement	1,858	156	(598)	324	1,740
At 30 June 2016	<u>32,015</u>	<u>5,772</u>	<u>591</u>	<u>679</u>	<u>39,057</u>
Movements - Parent entity					
At 1 July 2014	29,185	6,408	1,099	325	37,017
(Charged)/credited					
- Charged to the income statement	972	(792)	90	30	300
At 30 June 2015	<u>30,157</u>	<u>5,616</u>	<u>1,189</u>	<u>355</u>	<u>37,317</u>

Defence Housing Australia
Notes to the Consolidated Financial Statements
30 June 2016
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18 Inventories

	Consolidated entity		Parent entity	
	30 June 2016 \$'000	30 June 2015 \$'000	30 June 2016 \$'000	30 June 2015 \$'000
Completed Properties - at Cost	441,689	494,981	441,689	494,981
Completed Properties - at Net Realisable Value	170,672	147,184	170,672	147,184
Land Held for Sale - at Cost	43,479	70,311	43,479	70,311
Land Held for Sale - at Net Realisable Value	1,749	3,052	1,749	3,052
Work in Progress - at Cost	416,452	394,382	416,452	394,382
Work in Progress - at Net Realisable Value	11,186	16,927	11,186	16,927
Total Inventories	1,085,227	1,126,837	1,085,227	1,126,837
Current Inventories	563,401	655,947	563,401	655,947
Non-Current Inventories	521,826	470,890	521,826	470,890
	1,085,227	1,126,837	1,085,227	1,126,837

The total fair value of inventory as at 30 June 2016 is \$1,201,172,364 (2015: \$1,282,991,540).

During 2015-16 DHA disposed of 109 inventory properties at a loss of \$1,563,045 (2015: 13 properties; \$353,312).

Inventories are separated into the following categories:

- Completed properties - completed properties held for resale on normal trading cycle;
- Land held for sale; or
- Work in progress - incomplete construction projects.

DHA accounts for inventory properties under AASB 102 - *Inventories*. Inventories are properties which are held to meet Defence provisioning requirements and are available for sale in the short to medium term in order to free capital for reinvestment.

Inventories are initially recognised at cost and are subsequently recognised at lower of cost or net realisable value. Net realisable value is estimated based on the finished product's gross expected realisation less costs to complete and selling costs.

Work in Progress

Development projects are classified as inventory properties whilst in progress where a significant majority of the property on completion of the development is expected to be sold as inventory stock.

Development project costs include variable and fixed costs as they relate directly to specific contracts, and those costs relating to general contract activity which can be allocated to the project on a reasonable basis.

Defence Housing Australia
Notes to the Consolidated Financial Statements
30 June 2016
(continued)

19 Non-Current Assets - Investment Properties

	Consolidated entity		Parent entity	
	30 June 2016 \$'000	30 June 2015 \$'000	30 June 2016 \$'000	30 June 2015 \$'000
Investment Properties				
Investment Properties - at Cost	874,078	850,860	874,078	850,860
Less: Accumulated Depreciation	(97,054)	(93,673)	(97,054)	(93,673)
	<u>777,024</u>	<u>757,187</u>	<u>777,024</u>	<u>757,187</u>
Investment Properties - Impaired				
Investment Properties - at Cost	34,221	45,277	34,221	45,277
Less: Accumulation Depreciation	(1,983)	(1,820)	(1,983)	(1,820)
Less: Impairments	(1,898)	(3,008)	(1,898)	(3,008)
	<u>30,340</u>	<u>40,449</u>	<u>30,340</u>	<u>40,449</u>
Total Investment Properties	<u>807,364</u>	<u>797,636</u>	<u>807,364</u>	<u>797,636</u>

The total fair value of Investment Properties (including Investment Properties - Held for Sale in Note 15) as at 30 June 2016 is \$1,675,084,799 (2015: \$1,593,217,348).

The fair value of DHA's investment properties as at 30 June 2016 and 30 June 2015 has been arrived at on the basis of a valuation carried out on the respective date by external independent valuers. The valuers are members of the Institute of Valuers of Australia, and they have appropriate qualifications and recent experience in the valuation of properties in the relevant locations. The fair value was determined based on the market comparable approach that reflects recent transaction prices for similar properties. In estimating the fair value of the properties, the highest and best use of the properties is their current use. There has been no change to the valuation technique during the year. The fair value level in accordance with AASB 13 - Fair Value Measurement is level 2.

Consolidated and Parent Entity	Investment Properties \$'000
At 1 July 2015	
Cost or Fair Value	896,137
Accumulated depreciation & impairment	(98,501)
Net Book Amount	<u>797,636</u>
Year ended 30 June 2016	
Transfer from Inventory to Investment Property	52,635
Additions	31,138
Transfer to Assets Held for Sale	(67,144)
Depreciation charge	(11,437)
Impairment loss	1,673
Other Disposals	(4,467)
Depreciation/ Impairment Written Back on Disposal or Transfer	7,330
Closing Net Book Value as at 30 June	<u>807,364</u>

Defence Housing Australia
Notes to the Consolidated Financial Statements
30 June 2016
(continued)

19 Non-Current Assets - Investment Properties (continued)

Consolidated and Parent Entity	Investment Properties \$'000
At 30 June 2016	
Cost or Fair Value	808,299
Accumulated Depreciation and Impairment	<u>(100,935)</u>
Net Book Amount	<u>807,364</u>
	Investment Properties \$'000
At 1 July 2014	
Cost or Fair Value	854,929
Accumulated depreciation & impairment	<u>(94,406)</u>
Net Book Amount	<u>760,523</u>
Year ended 30 June 2015	
Transfer from Inventory to Investment Property	89,229
Additions	6,323
Transfer to Assets Held for Sale	<u>(47,877)</u>
Depreciation charge	(11,075)
Impairment loss	(357)
Other Disposals	(6,467)
Depreciation/ Impairment Written Back on Disposal or Transfer	<u>7,337</u>
Closing Net Book Value 30 June	<u>797,636</u>
At 30 June 2015	
Cost or Fair Value	896,137
Accumulated depreciation & impairment	<u>(98,501)</u>
Net Book Amount	<u>797,636</u>

Investment Properties

DHA accounts for investment properties under *AASB 140 - Investment Property* and applies the Cost model. Investment properties are properties held for long-term provisioning requirements or for capital appreciation.

Investment properties are separated into the following categories:

- Completed properties;
- Land held for future development; or
- Work in progress - incomplete construction projects.

Transfers from inventory to investment property are made when there is a change in the circumstances of a property and it is deemed that the property is now held for capital growth or strategic provisioning.

Defence Housing Australia
Notes to the Consolidated Financial Statements
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(continued)

21 Non-Current Liabilities - Deferred Tax Liabilities

	Consolidated entity		Parent entity	
	30 June 2016 \$'000	30 June 2015 \$'000	30 June 2016 \$'000	30 June 2015 \$'000
The balance comprises temporary differences attributable to:				
Property, plant and equipment	(224)	118	(224)	118
Investment properties	4,019	8,703	4,019	8,703
R&D Expense	3,435	2,759	3,435	2,759
Accrued Income	1	-	-	-
Inventory	10,904	326	10,904	326
Other	-	8	-	8
	18,135	11,914	18,134	11,914
Set-off of deferred tax liabilities pursuant to set-off provisions (Note 17)				
	(18,135)	(11,914)	(18,134)	(11,914)
Net deferred tax liabilities	-	-	-	-

Movements - Consolidated entity	Property, Plant & Equipment \$'000	Investment Properties \$'000	Accrued Income \$'000	R&D Expenses \$'000	Inventory \$'000	Other \$'000	Total \$'000
At 1 July 2015	118	8,703	-	2,759	327	8	11,915
Charged/(Credited) - Charged to the income statement	(342)	(4,684)	1	676	10,577	(8)	6,220
At 30 June 2016	(224)	4,019	1	3,435	10,904	-	18,135

Movements - Parent entity	Property, Plant & Equipment \$'000	Investment Properties \$'000	R&D Expenses \$'000	Inventory \$'000	Other \$'000	Total \$'000
At 1 July 2015	118	8,703	2,759	326	8	11,914
Charged/(credited) - Charged to the income statement	(342)	(4,684)	676	10,578	(8)	6,220
At 30 June 2016	(224)	4,019	3,435	10,904	-	18,134

Defence Housing Australia
Notes to the Consolidated Financial Statements
30 June 2016
(continued)

21 Non-Current Liabilities - Deferred Tax Liabilities (continued)

Movements Consolidated and parent entity	Property, Plant & Equipment \$'000	Investment Properties \$'000	R&D Expenses \$'000	Inventory \$'000	Other \$'000	Total \$'000
At 1 July 2014	1,178	5,841	9,268	15,554	922	32,763
Charged/(credited)						
- Charged to the income statement	(1,060)	2,862	(6,509)	(15,227)	(914)	(20,848)
At 30 June 2015	118	8,703	2,759	326	8	11,914

Non Refundable Research & Development Tax Incentive

DHA makes research and development tax incentive claims through AusIndustry and the ATO in relation to qualifying expenditure on major property developments and Information Technology development.

The permanent benefit arising from the non refundable research and development tax incentive is accounted for in accordance with AASB 120 - *Accounting for Government Grants and Disclosure of Government Grants*, and is capitalised to the extent that it relates to assets in accordance with Part 3 of the FRR. The capitalised amounts are recognised as income based on the underlying assets useful life, or when disposed.

The temporary timing benefit arising from the non refundable research and development tax incentive is accounted for in accordance with AASB 112 - *Income Taxes*.

22 Borrowings

	Consolidated entity		Parent entity	
	30 June 2016 \$'000	30 June 2015 \$'000	30 June 2016 \$'000	30 June 2015 \$'000
Loans from Department of Defence (Current)		65,480		65,480
Loans from Department of Defence (Non-Current)	509,580	444,100	509,580	444,100
Total Borrowings	509,580	509,580	509,580	509,580

	Consolidated entity		Parent entity	
	30 June 2016 \$'000	30 June 2015 \$'000	30 June 2016 \$'000	30 June 2015 \$'000
Within one year		65,480		65,480
In two to five years	180,000	180,000	180,000	180,000
In more than five years	329,580	264,100	329,580	264,100
Total Borrowings	509,580	509,580	509,580	509,580

Maturity Schedule for Borrowings Payable:

Within one year		65,480		65,480
In two to five years	180,000	180,000	180,000	180,000
In more than five years	329,580	264,100	329,580	264,100
Total Borrowings	509,580	509,580	509,580	509,580

DHA has an unsecured borrowing facility with the Department of Finance, incorporating all borrowings, underpinned by a Loan Agreement dated 31 August 2006. The Loan Agreement affords DHA the flexibility to borrow at either fixed or floating interest rates at market rates which includes a competitive neutrality charge. Government policy requires all loan arrangements to be appropriated through and borrowed from the Department of Defence.

Defence Housing Australia
Notes to the Consolidated Financial Statements
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(continued)

22 Borrowings (continued)

All loans and borrowings are initially recognised at fair value less directly attributable transaction costs. Subsequent recognition of loans and borrowings is at amortised cost, and interest is charged as an expense as it accrues.

Borrowings are classified as current liabilities unless DHA has an unconditional right to defer settlement of the liability for at least 12 months after the balance date.

23 Other Financial Liabilities

	Consolidated entity		Parent entity	
	30 June 2016 \$'000	30 June 2015 \$'000	30 June 2016 \$'000	30 June 2015 \$'000
Current				
Revenue in Advance	52,394	41,532	52,394	41,532
Lease Incentive	414	220	414	220
Total Current	<u>52,808</u>	<u>41,752</u>	<u>52,808</u>	<u>41,752</u>
Non-Current				
Lease Incentive	<u>1,278</u>	819	<u>1,278</u>	819
Total Non-Current	<u>1,278</u>	819	<u>1,278</u>	819
Total Other Financial Liabilities	<u>54,086</u>	<u>42,571</u>	<u>54,086</u>	<u>42,571</u>

Rental and property management fee revenues are billed to Defence one month in advance, in line with the Services Agreement. For the year ended 30 June 2016 100% of revenue in advance was in relation to payments received from Defence (2015: 100%).

Financial Liabilities

DHA classifies its financial liabilities as Other Financial Liabilities. The financial liabilities are recognised and derecognised upon trade date.

Defence Housing Australia
Notes to the Consolidated Financial Statements
30 June 2016
(continued)

24 Provisions

	Consolidated entity		Parent entity	
	30 June 2016 \$'000	30 June 2015 \$'000	30 June 2016 \$'000	30 June 2015 \$'000
Current Provisions				
Employee Benefits				
Annual Leave	5,109	5,072	5,109	5,072
Long Service Leave	6,009	4,959	6,009	4,959
Provision for Redundancy	37	533	37	533
	<u>11,155</u>	<u>10,564</u>	<u>11,155</u>	<u>10,564</u>
Other				
Make Good Provision	9,131	7,978	9,131	7,978
Other General Provisions	20,543	26,429	20,519	26,398
	<u>29,674</u>	<u>34,407</u>	<u>29,650</u>	<u>34,376</u>
Total Current Provisions	<u>40,829</u>	<u>44,971</u>	<u>40,805</u>	<u>44,940</u>
Non-Current Provisions				
Other				
Make Good Provision	97,586	92,545	97,586	92,545
Other General Provisions	1,342	1,423	1,342	1,423
	<u>98,928</u>	<u>93,968</u>	<u>98,928</u>	<u>93,968</u>
Employee Benefits				
Long Service Leave	2,964	2,874	2,964	2,874
	<u>2,964</u>	<u>2,874</u>	<u>2,964</u>	<u>2,874</u>
Total Non-Current Provisions	<u>101,892</u>	<u>96,842</u>	<u>101,892</u>	<u>96,842</u>
Total Provisions	<u>142,721</u>	<u>141,813</u>	<u>142,697</u>	<u>141,782</u>

Movements in Provisions

Consolidated entity and parent entity 2016	Make Good Provision \$'000	Other General Provisions \$'000	Total \$'000
Carrying amount at start of year	100,523	27,852	128,375
Additional provisions recognised	19,423	15,422	34,845
Amount used	(13,229)	(21,389)	(34,618)
Carrying amount at end of period	<u>106,717</u>	<u>21,885</u>	<u>128,602</u>

Defence Housing Australia
Notes to the Consolidated Financial Statements
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(continued)

24 Provisions (continued)

Movements in Provisions (continued)

Consolidated entity and parent entity 2015	Make Good Provision \$'000	Other General Provisions \$'000	Total \$'000
Carrying amount at start of year	97,284	18,180	115,464
Additional provisions recognised	13,328	17,772	31,100
Amount used	(10,089)	(8,100)	(18,189)
Carrying amount at end of period	100,523	27,852	128,375

Other general provisions include amounts set aside for:

- Fringe Benefits Tax and Goods and Service Tax;
- Audit fees
- Employee performance bonuses

Employee Provisions

Liabilities for services rendered by employees are recognised at the reporting date to the extent that they have not been settled.

Liabilities for 'short-term employee benefits' (as defined in AASB 119 - *Employee Benefits*) and termination benefits expected to be settled within twelve months of the end of the reporting period are measured at their nominal amounts.

The nominal amount is calculated with regard to the rates expected to be paid on settlement of the liability.

Leave Liability

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered.

Liabilities recognised in respect of short-term employee benefits are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of long term employee benefits are measured as the present value of the estimated future cash outflows to be made by DHA in respect of services provided by employees up to reporting date.

Make Good

DHA is required under the sale and leaseback agreement to undertake prescribed maintenance (make good) at the end of the lease period, where the lease term is six years or more. The make good provision provides for the cost of refurbishing the leased property as set out in the lease agreement.

Provisions

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

Defence Housing Australia
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25 Commitments

	Consolidated entity		Parent entity	
	30 June 2016 \$'000	30 June 2015 \$'000	30 June 2016 \$'000	30 June 2015 \$'000
By Type				
Commitments Receivable				
Operating Lease Income	3,433,430	3,319,662	3,433,430	3,319,662
Total Commitments Receivable	3,433,430	3,319,662	3,433,430	3,319,662
Commitments Payable				
Capital Commitments				
Construction Commitments	316,650	330,028	316,650	330,028
Total Capital Commitments	316,650	330,028	316,650	330,028
Other Commitments				
House Operating Lease Rentals	2,638,701	2,530,703	2,638,701	2,530,703
Other Operating Leases	20,744	25,635	20,744	25,635
Total Other Commitments	2,659,445	2,556,338	2,659,445	2,556,338
Total Commitments Payable	2,976,095	2,886,366	2,976,095	2,886,366
Net Commitments By Type	457,335	433,296	457,335	433,296
By Maturity				
Commitments Receivable				
Operating Lease Income				
One Year or Less	395,466	396,382	395,466	396,382
From One to Five Years	1,333,861	1,295,256	1,333,861	1,295,256
Over Five Years	1,704,103	1,628,024	1,704,103	1,628,024
Total Operating Lease Income	3,433,430	3,319,662	3,433,430	3,319,662
Total Commitments Receivable	3,433,430	3,319,662	3,433,430	3,319,662
NB: Commitments are GST inclusive where relevant				
By Maturity				
Commitments Payable				
Capital Commitments				
One Year or Less	279,310	289,316	279,310	289,316
From One to Five Years	37,340	40,712	37,340	40,712
Total Capital Commitments	316,650	330,028	316,650	330,028
Operating Lease Commitments				
One Year or Less	350,087	344,926	350,087	344,926
From One to Five Years	1,208,529	1,154,794	1,208,529	1,154,794
Over Five Years	1,100,829	1,056,618	1,100,829	1,056,618
Total Operating Lease Commitments	2,659,445	2,556,338	2,659,445	2,556,338
Total Commitments Payable	2,976,095	2,886,366	2,976,095	2,886,366
NB: Commitments are GST inclusive where relevant				

Defence Housing Australia
Notes to the Consolidated Financial Statements
30 June 2016
(continued)

25 Commitments (continued)

Capital Commitments refer to construction project commitments and the figures above represent outstanding contractual payments for buildings under construction.

Operating Lease Commitments include both House Operating Lease Rentals and Other Operating Leases. For House Operating Lease Rentals, the commitment payable is the rent payable to the lessor by DHA over the life of the lease. Other Operating Lease Rentals are non-cancellable leases for commercial office accommodation and staff motor vehicles.

Operating Leases

Operating lease payments are expensed on a straight line basis which is representative of the pattern of benefits derived from the leased assets.

DHA has three categories of operating leases:

- Residential properties (mostly acquired through the sale and leaseback program), for the housing of ADF members, under the Services Agreement between DHA and Defence;
- Commercial property for the administration of DHA; and
- Motor vehicles used in the operations of DHA.

26 Cash Flow Reconciliation

	Consolidated entity		Parent entity	
	30 June 2016 \$'000	30 June 2015 \$'000	30 June 2016 \$'000	30 June 2015 \$'000
Reconciliation of operating results to net cash from operating activities:				
Profit for the Period	104,532	91,061	104,635	91,129
Depreciation - Plant and Equipment	4,327	3,458	4,327	3,458
Depreciation - Investment Properties	11,437	11,075	11,437	11,075
Impairment Expense	(1,523)	612	(1,523)	612
Gain on Disposal of Assets	(36,333)	(41,159)	(36,333)	(41,159)
(Decrease) on other Non Operating Cash Flow Revenue Items	(432)	(57)	(432)	(57)
Increase in other Non Operating Cash Flow Expense Items	7,994	3,318	7,994	3,318
(Increase)/ Decrease in Net Receivables	(30,106)	(11,076)	(30,067)	(11,104)
(Increase)/Decrease in Deferred Tax Assets	4,483	(21,151)	4,480	(21,150)
(Increase)/ Decrease in Inventories	(30,291)	(126,307)	(30,291)	(126,307)
(Increase)/ Decrease in Prepayments	(1,405)	5,319	(1,405)	5,319
Increase/ (Decrease) in Provisions	8,990	10,222	8,997	10,216
Increase/(Decrease) in Supplier Payments	(3,139)	(9,808)	(3,173)	(9,713)
Increase/ (Decrease) in Other Liabilities	11,515	14,505	11,515	14,505
Increase/(Decrease) in Tax Liabilities	(3,993)	15,893	(3,993)	15,895
Net Cash (used) from Operating Activities	46,056	(54,095)	46,168	(53,963)

Defence Housing Australia
Notes to the Consolidated Financial Statements
30 June 2016
(continued)

27 Contingent Assets and Liabilities

Consolidated and Parent Entity	Guarantees		Total	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Contingent Liabilities				
Balance from previous period	21,478	19,120	21,478	19,120
New	7,280	8,399	7,280	8,399
Obligations Expired	(12,200)	(6,041)	(12,200)	(6,041)
Total Contingent Liabilities	16,558	21,478	16,558	21,478
Net Contingent Liabilities	16,558	21,478	16,558	21,478

Quantifiable Contingencies

Contingent liabilities take the form of bank guarantees and financial undertakings which arise as a result of DHA's normal business operations. The amount disclosed represents the aggregate amount of such guarantees and financial undertakings. No financial liabilities are expected to arise from provisions of the guarantees or financial undertakings.

Unquantifiable Contingencies

As at 30 June 2016, DHA received an additional cost claim relating the development project at 380 Samford Road, Brisbane. DHA refutes this claim and is unable to quantify the potential liability.

Remote Contingencies

As at 30 June 2016, DHA has no remote contingencies.

28 Key Management Personnel Remuneration

The Directors of DHA during the year were:

The Hon. JAL (Sandy) Macdonald	Director and Chairman
Ms Jan Mason	Acting Managing Director (appointed 2 November 2015)
CDRE Vickie McConachie CSC RANR	Director
Ms Janice Williams	Director
Mr Martin Brady AO	Director
The Hon. Alan Ferguson	Director
Mr Robert Fisher AM	Director (appointed 4 February 2016)
Ms Margaret Walker	Director (term expired 15 July 2015)
Ms Carol Holley	Director (term expired 23 November 2015)
Mr Peter Howman	Managing Director (vacated 30 October 2015)

The specified Executives of DHA during the financial year were:

Ms Jan Mason	Acting Managing Director (appointed 2 November 2015)
Mr Jon Brocklehurst	Chief Financial Officer
Ms Madeline Dermatossian	Chief Operating Officer (resigned 21 July 2016)
Mr Elvio Bechelli	General Manager Sales, Marketing & Portfolio Management
Mr John Dietz	General Manager Property Provisioning Group
Mr Ross Jordan	Company Secretary
Mr Brett Jorgensen	General Manager Property & Tenancy Services
Mr Shane Nielsen	Chief Information Officer & General Manager Enabling Division
Mr Vern Gallagher	General Manager Strategy and Innovation
Mrs Jo Abbot	General Manager Finance
Mr Robert Henman	General Manager Investment Management
Mr Steve Collins	General Manager Business Development Unit
Mr Peter Howman	Managing Director (vacated 30 October 2015)

The directors and other key management personnel of DHA IML during or since the end of the financial year were:

Mr Martin Brady AO	Chair, Non-Executive Director (appointed 19 November 2015)
Ms Jan Mason	Acting Executive Director (appointed 19 November 2015)
Mr Jon Brocklehurst	Director, Public Officer & Chief Operating Officer
Mr Ross Jordan	Company Secretary
Mr Robert Henman	Compliance Officer
Mr Peter Howman	Executive Director (resigned 9 November 2015)
Ms Carol Holley	Chair, Non-Executive Director (term expired 23 November 2015)

Defence Housing Australia
Notes to the Consolidated Financial Statements
30 June 2016
(continued)

28 Key Management Personnel Remuneration (continued)

Key Management Personnel Compensation

The aggregate compensation made to the Directors of DHA is set out below:

	Consolidated entity		Parent entity	
	30 June 2016	30 June 2015	30 June 2016	30 June 2015
	\$	\$	\$	\$
Short-term employee benefits	375,245	445,508	375,245	445,508
Post-employment benefits	30,067	43,878	30,067	43,878
	<u>405,312</u>	<u>489,386</u>	<u>405,312</u>	<u>489,386</u>

The Director's compensation includes wages and salaries, leave accruals, performance and other bonuses, superannuation, motor vehicles, any other allowances and fringe benefits included in remuneration agreements.

The remuneration of the Managing Director is included in the Senior Executive Remuneration disclosure (Note 29).

29 Senior Executive Remuneration

Senior Executive Remuneration Expense for the Reporting Period

Total expense recognised in relation to Senior Executive employment

	Consolidated entity		Parent entity	
	30 June 2016	30 June 2015	30 June 2016	30 June 2015
	\$	\$	\$	\$
Short-Term Employee Benefits				
Salary	3,387,544	3,024,206	3,387,544	3,024,206
Performance Bonus	445,213	408,004	445,213	408,004
Retention Bonus	15,000	30,000	15,000	30,000
Total Short-Term Employee Benefits	<u>3,847,757</u>	<u>3,462,210</u>	<u>3,847,757</u>	<u>3,462,210</u>
Post-Employment Benefits				
Superannuation (Post-Employment Benefits)	493,300	410,988	493,300	410,988
Total Post-Employment Benefits	<u>493,300</u>	<u>410,988</u>	<u>493,300</u>	<u>410,988</u>
Other Long-Term Employee Benefits				
Annual Leave Accrued	220,154	233,360	220,154	233,360
Long Service Leave	99,026	105,012	99,026	105,012
Total Other Long-Term Employee Benefits	<u>319,180</u>	<u>338,372</u>	<u>319,180</u>	<u>338,372</u>
Termination Benefits				
Termination Benefits	454,116	-	454,116	-
Termination benefits	<u>454,116</u>	<u>-</u>	<u>454,116</u>	<u>-</u>
Total Employment Benefits	<u>5,114,353</u>	<u>4,211,570</u>	<u>5,114,353</u>	<u>4,211,570</u>

Defence Housing Australia
Notes to the Consolidated Financial Statements
30 June 2016
(continued)

29. Senior Executive Remuneration (continued)

The total number of senior management personnel that are included in the above table are 13 individuals (2015: 13 individuals).

The remuneration of the Managing Director is included in this note disclosure.

30 Remuneration of Auditors

	Consolidated entity		Parent entity	
	30 June 2016 \$	30 June 2015 \$	30 June 2016 \$	30 June 2015 \$
Amount Received or Due and Receivable by Auditors				
Australian National Audit Office (ANAO) for the Audit of the Financial Statements	193,000	193,000	193,000	193,000
	<u>193,000</u>	<u>193,000</u>	<u>193,000</u>	<u>193,000</u>
Audit Fees relating to the audit of DHA IML are paid to the ANAO. DHA IML is liable for 100% of these fees.	18,000	21,455	-	-
	<u>18,000</u>	<u>21,455</u>	<u>-</u>	<u>-</u>
Audit of the Australian Financial Services License (AFSL) for DHA IML	6,000	9,545	-	-
	<u>6,000</u>	<u>9,545</u>	<u>-</u>	<u>-</u>

No other services were provided by the ANAO during the reporting period. Deloitte Touche Tohmatsu has been contracted by the ANAO to provide audit services for 2015-16 on the ANAO's behalf. Fees for these services are included above.

Defence Housing Australia
Notes to the Consolidated Financial Statements
30 June 2016
 (continued)

31 Related Party Disclosures

DHA forms part of the Department of Defence portfolio. DHA reports to two shareholders ministers; the Minister for Defence and the Minister for Finance.

Key management personnel are detailed in Note 28.

DHA and DHA IML entered into the Services Agreement on 23 May 2013 to assist in the running of the business of DHA IML. The service fee for the financial year ended 30 June 2016 was \$205,000 (2015: \$164,650). Under the Services Agreement, DHA paid directors fees to Carol Holley of \$6,467 (2015: \$15,060) and to Martin Brady of \$9,065 (2015: \$0). Jan Mason, Peter Howman and Jon Brocklehurst were not paid any additional amounts in relation to their roles as directors of DHA IML.

DHA IML has not provided remuneration to key management personnel. Key management personnel are provided to DHA IML by DHA under the Services Agreement.

The services to be provided by DHA to DHA IML include:

- The use of DHA employees to assist with compliance with regulatory obligations;
- Accounting, taxation reporting and other secretarial services;
- Allowing DHA IML to occupy DHA's premises as its registered office for the purpose of the Corporations Act;
- Provide material, equipment and services necessary for the administration of the business; and
- Provide maintenance and administration of all equipment and assets used in the administration and provision of services.

The Services Fee for the 2015-16 financial year has been agreed by the two parties. The Service Agreement does not include any additional fees payable to DHA pertaining to the performance of DHA IML.

DHA IML on behalf of DHA Residential Property Fund No1. (Fund) entered into 75 sale and lease back transactions with DHA on 27 September 2013 for \$42.1 million and four sale and lease back transactions with DHA on 25 November 2013 for \$2.32 million. The key terms of the lease agreement are outlined below:

- Lease terms are between 9 to 12 years;
- Rent is set at market value and will be indexed by 4.25% per year. The rent is reviewed on the 5th and 10th year of the lease and will be higher of market rent or the indexed rent value;
- Expenses relating to the property are deducted from the gross rent by DHA;
- DHA organises and covers the cost of repairs and maintenance; and
- DHA charges a property management fee of 14.3% (including GST) per annum on the gross rental income for freestanding houses and 11% (including GST) per annum on the gross rental income for townhouses and apartments.

Centric Capital on behalf of Centric DHA Residential Property Fund, the sole investor in the Fund has advised DHA IML of its intention to realise its units in the Fund. DHA has agreed to repurchase 12 properties from the Fund for \$7.375 million.

32 Economic Dependency

DHA depends on the Department of Defence in accordance with the Services Agreement between the Department of Defence and DHA. DHA received 44.99% of its total revenue from the Department of Defence and from Defence members for the year ended 30 June 2016 (2015: 50.8%).

Defence Housing Australia
Notes to the Consolidated Financial Statements
30 June 2016
(continued)

33 Financial Instruments

The main risks arising from DHA's financial instruments are interest rate risk, credit risk and liquidity risk. DHA uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring the level of exposure to interest rates and assessments of forecasts for interest rates. Ageing analysis and monitoring of specific credit allowances are undertaken to manage credit risk. Liquidity risk is monitored through the development of rolling cash flow forecasts.

Carrying Value

The carrying value of the DHA's financial assets and liabilities at the reporting date are as follows:

	Consolidated entity		Parent entity	
	30 June 2016 \$'000	30 June 2015 \$'000	30 June 2016 \$'000	30 June 2015 \$'000
Financial Assets				
Cash at Bank	25,721	8,781	25,441	8,504
Cash on Hand	12	13	12	13
Short Term Investments	295,500	255,615	295,000	255,000
Trade and Other Receivables	46,289	16,183	46,276	16,209
Carrying Amount of Financial Assets	367,522	280,592	366,729	279,726
Financial Liabilities				
Borrowings	509,580	509,580	509,580	509,580
Trade and Other Payables	58,305	61,444	58,329	61,502
Other Financial Liabilities (Non-Current)	1,278	819	1,278	819
Dividends	62,719	54,637	62,719	54,637
Other Financial Liabilities (Current)	52,808	41,752	52,808	41,752
	684,690	668,232	684,714	668,290
Net Income from Financial Assets				
Interest	8,582	8,362	8,562	8,334
Annuity Revenue	-	2,174	-	2,174
Net Gain Loans and Receivables	8,582	10,536	8,562	10,508

Defence Housing Australia
Notes to the Consolidated Financial Statements
30 June 2016
(continued)

33 Financial Instruments (continued)

	Consolidated entity		Parent entity	
	30 June 2016 \$'000	30 June 2015 \$'000	30 June 2016 \$'000	30 June 2015 \$'000
Net Expenses from Financial Liabilities				
Interest Expense	26,521	28,610	26,521	28,610
Net Loss Financial Liabilities - Amortised Cost	<u>26,521</u>	<u>28,610</u>	<u>26,521</u>	<u>28,610</u>

Fair Value

The fair value of financial assets and liabilities have been derived as follows:

- The fair value of government loans is calculated by the Australian Office of Financial Management. The loans are valued by calculating the net present values of all future contracted payments at the relevant interest rate. The fair value of DHA's loans with Defence was \$563.338 million for 2016 (2015: \$542.221 million).
- The Directors consider that the carrying amounts of all other financial assets and liabilities recorded at amortised cost in the financial statements approximates their fair values.

In accordance with AASB 7 - *Financial Instruments Disclosures*, the fair value of government loans have been determined using level 2 of the fair value hierarchy.

Credit Risk

Credit risk arises from the financial assets of DHA, which comprise cash and cash equivalents and trade and other receivables. Exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments. Exposure at balance date is addressed in each applicable note.

DHA does not hold any credit derivatives to offset its credit exposure.

DHA trades only with recognised, creditworthy third parties, and as such collateral is not requested nor is it policy to securitise its trade and other receivables. All customers who wish to trade on credit terms are subject to credit verification procedures.

In addition, receivable balances are monitored on an ongoing basis with the result that DHA's exposure to bad debts is not significant.

There are no significant concentrations of credit risk within DHA and financial instruments are spread amongst a number of financial institutions to minimise the risk of default of counterparties.

The table above illustrates DHA's gross exposure to credit risk. For ageing of Trade Receivables refer to Note 14.

Liquidity Risk

DHA manages liquidity risk by maintaining an appropriate level of marketable securities on hand to meet outgoing commitments in the event of failure to receive any revenue from the normal course of business and ensuring capacity exists to borrow under the Cash Advance Facility based upon annual cash flow forecasts prepared by DHA Finance.

Other than Defence loans all financial liabilities will mature within one year. Refer to Note 22 for ageing of Defence loans.

Derivatives

DHA has no derivative financial liabilities in both the current and prior year.

Defence Housing Australia
Notes to the Consolidated Financial Statements
30 June 2016
(continued)

33 Financial Instruments (continued)

Market Risk

DHA manages interest rate risk by ensuring that both investments and borrowings mature commensurate with cash flow requirements to minimise repricing risk arising from changes in interest rates. DHA also seeks to ensure an appropriate mix of maturities across the yield curve to avoid concentration of maturities on any given date and higher volatility inherent in longer dated investments.

Interest rate risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. DHA has exposure to interest rate risk arising from fluctuations in interest rates applicable to cash and borrowings.

The table below details the interest rate sensitivity analyses of the entity at the reporting date, holding all other variables constant.

Sensitivity analysis of the risk that DHA is exposed to in 2016

	Risk Variable	Change in risk variable %	Effect on		
			Average Cash \$'000	Profit and Loss \$'000	Equity \$'000
Interest Rate Risk	Interest	0.30	226,667	680	0

Sensitivity analysis of the risk that DHA is exposed to in 2015

	Risk Variable	Change in risk variable %	Effect on		
			Average Cash \$'000	Profit and Loss \$'000	Equity \$'000
Interest Rate risk	Interest	0.40	156,500	626	0

Interest rate sensitivity analysis has been calculated on a "reasonable possible" basis. The rate of 30 basis points (2015: 40 basis points) was determined by using the standard parameters issued by the Department of Finance.

Financial Risk Management

DHA's principle financial instruments comprise receivables, payables, government loans, finance leases, cash and short term deposits.

It manages its exposure to key financial risks in accordance with DHA's Treasury and Risk Management policy. The objective of the policy is to support the delivery of DHA's financial targets whilst protecting future financial security.

Primary responsibility for identification and control of financial risks rests with DHA's Risk Manager who regularly reports to the DHA Board.

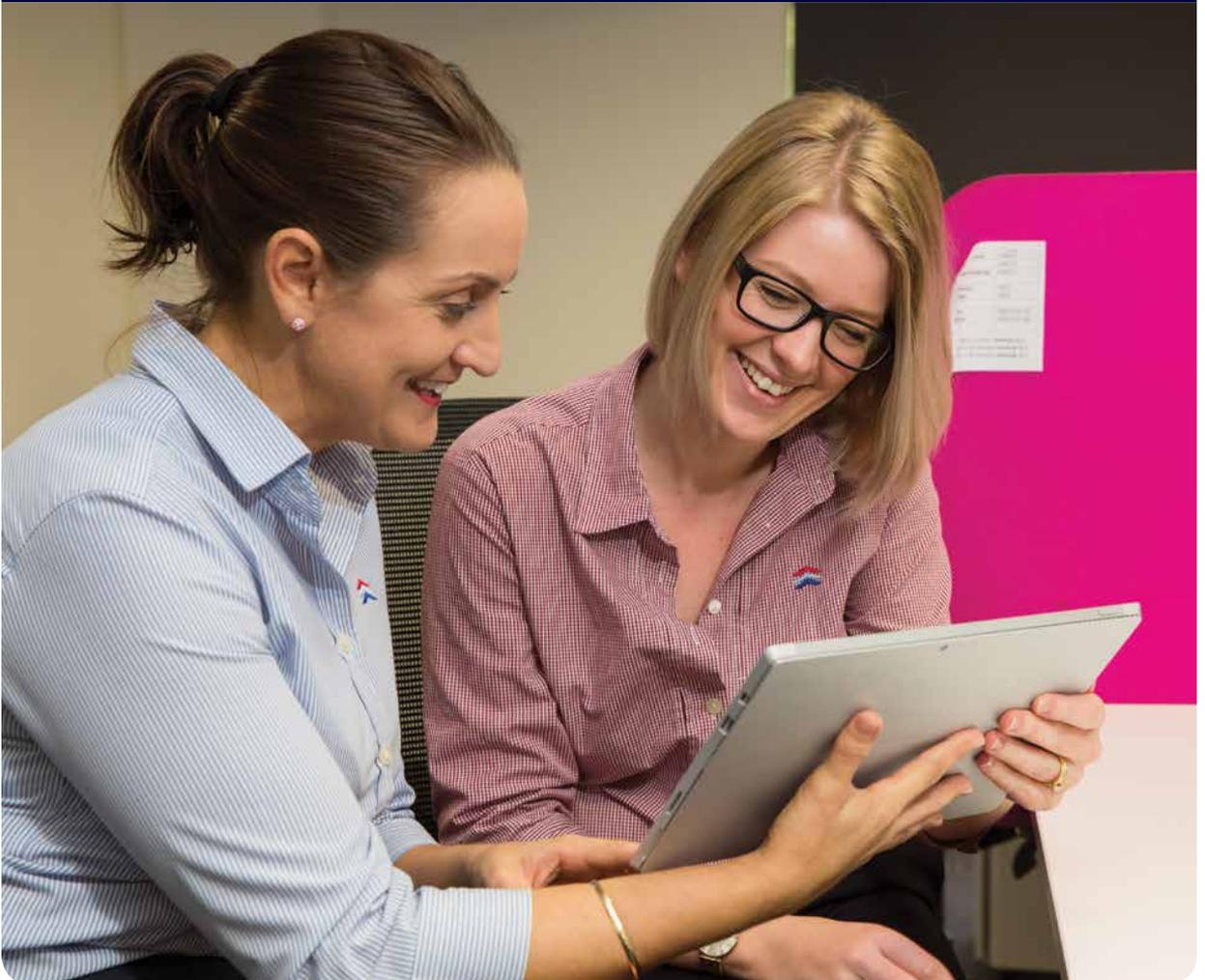
34 Subsequent Events

There have been no events post 30 June 2016 which would have a material impact on the financial statements or operations of the DHA business.

5

Appendices and reference information

Appendix A–F • Index of Annual Report requirements
Acronyms and abbreviations • Alphabetical index • Our directory



Appendix A: Property portfolio by type, ownership and location

This appendix provides information about our property portfolio as at 30 June 2016 by type (MWD and MCA), ownership status and location.

Table 5: MCA portfolio location and ownership, 30 June 2016¹⁴

Location/region	DHA-owned	Leased	Total
ACT			
Canberra	81	144	225
NSW			
Sydney	31	62	93
Hunter Valley	10	–	10
NT			
Darwin	85	125	210
QLD			
Cairns	–	1	1
Townsville	18	68	86
Brisbane	38	139	177
SA			
Adelaide	39	17	56
VIC			
Melbourne	9	5	14
WA			
Perth	29	69	98
Total	340	630	970

¹⁴ Total portfolio includes properties tenanted by ADF members, privately leased properties, vacant properties, properties offline for maintenance, properties pending sale or disposal and properties pending transfer to our portfolio. It excludes properties that are not currently servicing an active client, including 531 Defence-owned properties that are not on the rent bill while they undergo major works and 142 properties that are being transferred out of the portfolio.

Table 6: MWD portfolio location and ownership, 30 June 2016¹⁴

Location/region	DHA-owned	Leased	Defence-owned	Annuity	Total
ACT					
Canberra	162	1,531	173	–	1,866
NSW					
Sydney	987	2,001	51	10	3,049
Hunter Valley	112	904	–	37	1,053
Nowra	12	293	22	19	346
Wagga Wagga	25	181	56	59	321
NT					
Darwin	329	949	202	5	1,485
Tindal	–	41	193	121	355
QLD					
Cairns	8	195	5	26	234
Townsville	189	1,417	1	6	1,613
Brisbane	271	1,625	18	5	1,919
Ipswich	84	907	59	4	1,054
Toowoomba	3	199	–	8	210
SA					
Adelaide	130	739	7	4	880
VIC					
Melbourne	232	529	373	91	1,225
Wodonga	61	259	–	13	333
TAS					
Hobart	16	16	17	5	54
WA					
Perth	343	753	9	19	1,124
Total	2,964	12,539	1,186	432	17,121

Appendix B: Board of Directors

This appendix provides detail of Board and committee meetings and Director attendance during the reporting period.

Table 7: Director attendance at scheduled Board and committee meetings, 2015–16

Director	Scheduled meeting type, total number of meetings held, Director attendance				
	Board	BAC	BPC	BN&RC	AC
	7	5	6	3	4
Hon Sandy Macdonald	7	4	6	3	n/a
Ms Jan Mason	4	2	3	n/a	n/a
Mr Martin Brady AO	7	5	3	3	n/a
CDRE Vicki McConachie	6	4	n/a	n/a	4
Ms Janice Williams	7	5	6	3	n/a
Hon Alan Ferguson	4	n/a	3	n/a	n/a
Mr Robert Fisher AM	4	1	1	n/a	n/a
Mr Peter Howman	1	2	1	n/a	n/a
Ms Carol Holley	2	3	2	n/a	n/a
Ms Margaret Walker	0	0	n/a	0	n/a

Legend

Board of Directors (**Board**) • Board Audit Committee (**BAC**) • Board Property Committee (**BPC**)
Board Nomination and Remuneration Committee (**BN&RC**) • Advisory Committee (**AC**)

NOTES:

Ms Mason was appointed as Acting Managing Director on 2 November 2015.

Mr Robert Fisher AM was appointed on 4 February 2016.

Mr Peter Howman's term as a Board Director ceased on 30 October 2015.

Ms Holley's term as a Board Director ceased on 22 November 2015.

Ms Walker's term as a Board Director ceased on 15 July 2015.

Resolutions without meeting

From time to time, the Board and committees are required to make decisions on time-critical matters of importance that cannot wait until a scheduled meeting is held.

Table 8: Resolutions without meeting, 2015–16

Board	BAC	BPC	BN&RC	AC
17	1	3	0	0

Appendix C: Workforce statistics

This appendix provides statistics on our workforce, including staff profile and remuneration, as at 30 June 2015 and 30 June 2016 (unless otherwise stated).

Staffing profile (by headcount)

Table 9: Ongoing and non-ongoing staff by classification and gender, 2014–15 and 2015–16¹⁵

Classification	2014–15		2015–16	
	Female	Male	Female	Male
DHA 2/3	107	28	93	27
DHA 4	76	23	88	19
DHA 5	80	29	74	34
DHA 6	51	43	53	37
EL 1	52	43	46	47
EL 2	22	41	25	44
SES 1/SES 2	3	9	2	9
Total	391	216	381	217

¹⁵ Includes ongoing and non-ongoing staff. Excludes (28) inoperative staff (those on long-term leave or extended leave without pay), staff engaged through an employment agency, the Acting Managing Director, the Chairman of the Board and Directors of DHA's Board. Classification stated is current, actual classification.

Table 10: Full-time, part-time and casual staff by classification, 2014–15 and 2015–16¹⁵

Classification	2014–15			2015–16		
	Full-time	Part-time	Casual	Full-time	Part-time	Casual
DHA 2/3	122	12	1	108	12	–
DHA 4	91	8	–	93	14	–
DHA 5	97	12	–	103	5	–
DHA 6	87	7	–	84	6	–
EL 1	80	15	–	82	11	–
EL 2	58	5	–	63	6	–
SES 1/SES 2	12	–	–	11	–	–
Total	547	59	1	544	54	0

Table 11: Ongoing staff by length of service and classification, 2014–15 and 2015–16¹⁵

Length of Service	2014–15			2015–16		
	DHA 2–4	DHA 5–6	EL 1–SES	DHA 2–4	DHA 5–6	EL 1–SES
< 2 years	32	7	6	43	24	30
2–5 years	25	43	22	65	59	40
6–10 years	34	38	29	48	55	62
> 11 years	48	64	65	26	38	28
Total	139	152	122	182	176	160

Table 12: Ongoing and non-ongoing staff by location, 2014–15 and 2015–16¹⁵

Office	2014–15	2015–16
	Total	Total
Adelaide contact centre	30	22
Adelaide regional office	15	19
Brisbane	40	38
Cairns	1	1
Canberra	62	35
Canungra	1	1
Darwin	26	29
Head office	200	205
Hunter	8	18
Ipswich	10	10
Katherine	2	2
LIA contact centre	10	12
Maintenance contact centre	21	29
Melbourne	26	23
Nowra	7	8
Perth	16	18
Puckapunyal	1	1
Sydney CBD	32	36
Sydney east	22	18
Sydney west	16	14
Toowoomba	1	1
Townsville contact centre	25	23
Townsville regional office	23	24
Wagga	7	6
Wodonga	5	5
Total	607	598

Enterprise Agreement

Table 13: Ongoing and non-ongoing staff by employment instrument, 2014–15 and 2015–16

	2014–15	2015–16
Employment instrument	Number	
EA	438	416
EA with IFA	157	171
Common law contract	12	11
Total	607	598

Table 14: EA gross salary ranges, 2014–15 and 2015–16

	2014–15	2015–16
Classification	Salary range (\$)	Salary range (\$)
DHA trainee	42,964–48,938	43,824–49,909
DHA 1	n/a	45,834–51,255
DHA 2	49,264–55,236	50,249–56,341
DHA 3	55,485–61,480	56,595–62,710
DHA 4	61,307–68,507	62,533–69,877
DHA 5	69,070–75,387	70,451–76,897
DHA 6	76,247–87,668	77,772–89,421
EL 1	92,570–112,974	94,421–115,233
EL 2	110,008–141,150	112,208–143,973

Table 15: EA performance bonus maximum per cent of annual salary by classification

Classification	Maximum per cent of annual salary
DHA 1–DHA 4	7.5
DHA 5–EL 1	12.5
EL 2	15.0

Table 16: Performance pay by classification, 2014–15 performance cycle (paid in 2015–16)¹⁶

Classification	Number of payments	Aggregated amount (\$,000)	Average amount (\$)	Range of payments (\$)
DHA 2/3	134	409	3,054	258–4,549
DHA 4	114	420	3,688	257–5,241
DHA 5	94	665	7,073	1,979–10,638
DHA 6	94	771	8,205	1,242–11,850
EL 1	80	803	10,041	1,181–14,404
EL 2	59	1,059	17,953	2,160–29,231
SES 1/SES 2	11	330	30,010	23,695–38,250
Total/average/range	586	4,457	7,608	257–38,250

¹⁶ Total figures rounded to the nearest \$1,000.

Appendix D: Work, health and safety (WHS)

This appendix outlines our WHS performance in accordance with the *Work Health and Safety Act 2011* (WHS Act).

Our WHS commitment

We are committed to maintaining the highest possible standard of health and safety for everyone who enters our workplace, whether an office, a construction site or one of the properties in our portfolio. This is reflected in our WHS strategy, policies, our Prevention First management system and our QMS framework.

Initiatives

In 2015–16, we undertook the following activities to deliver on our WHS vision:

- > established a new three-year strategy seeking to build WHS capability and passion at all levels
- > introduced a three-year psychosocial wellbeing strategy to facilitate greater mental health awareness, capability and early intervention across the business
- > recertified against Australian and international standards for both our Prevention First management system and our QMS
- > launched a Prevention First mandatory refresher training module for all staff
- > promoted the incident reporting program to support a 'just' safety culture and enable analysis of data to shape prevention initiatives.

Safety audits and inspections

As part of our regular WHS monitoring program, we undertook 967 contractor and internal audits and 81 office inspections during 2015–16. A total of 865 corrective actions were raised following audits. The results of the corrective actions have assisted in various initiatives including issuing safety alerts, targeted audit campaigns and local area risk mitigation.

Through our annual surveillance audit, the WHS certification licensor provided positive feedback on the program, recognising the continual improvements we have made since 2014 and the positive steps we are taking in our current three-year WHS strategy.

Notifiable incidents

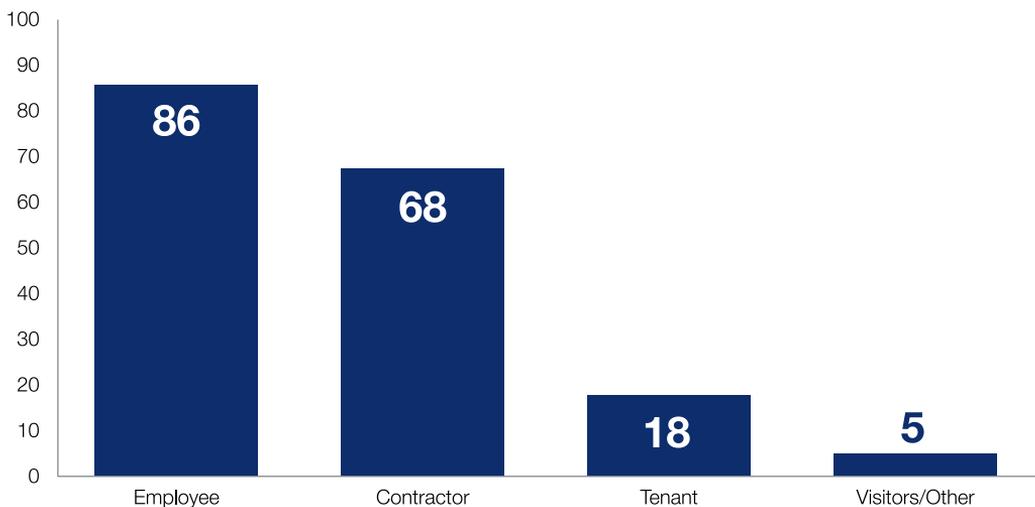
A total of 426 incidents were reported in 2015–16, with 177 deemed as WHS incidents following assessment. Of the other 249 incidents reported, nine were security issues and separately managed and 240 were not WHS related (in that DHA was not deemed to be a causative factor).

As shown in **Figure 17**, staff were involved in the highest number of WHS incidents (86), however nil were notifiable to Comcare in line with the WHS Act. Nine of the 68 incidents involving contractors were reported to a WHS regulator. Of these, eight were classified as dangerous incidents (fires, striking of gas mains and a partial wall collapse) but no immediate medical treatment was needed. The remaining one incident was notifiable due to both incident type (fall from height) and injury type (serious laceration).

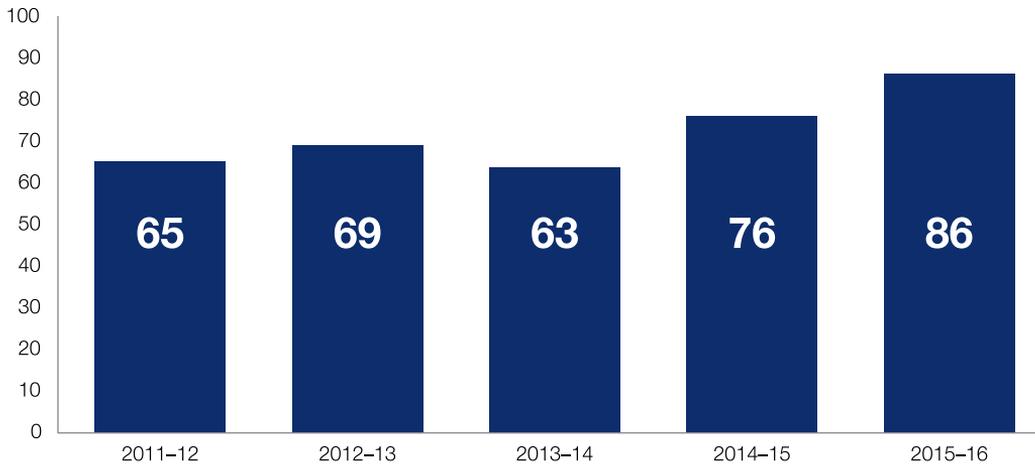
As shown in **Figure 18**, there has been an increase in the number of all incidents reported year-on-year. This relates to a 280.0 per cent increase in the number of all incidents reported to DHA since the commencement of the Prevention First system in early 2014. This is attributed to improved visibility, a just safety culture (one where incident reporting is encouraged) and the inclusion of tenant-related incidents.

The increase in WHS incident reporting contributed to a staff lost time injury frequency rate of 3.4 (four lost time injuries) and a total recordable incident frequency rate (TRIFR)¹⁷ of 10.3 (12 injuries requiring medical treatment). Since the implementation of the Prevention First system, there has been a 40.0 per cent reduction in the TRIFR contributing to DHA overachieving our original goal of reducing the TRIFR by 20.0 per cent over two years.

Figure 17: All WHS incidents by person involved, 30 June 2016



¹⁷ Number of recordable injuries per million work hours

Figure 18: History of staff WHS incidents, 30 June 2016

Workers' compensation

Comcare accepted 10 workers' compensation claims in 2015-16, including three claims for injuries that occurred in previous financial years. For the compensable injuries in 2015-16, one claim was for a psychological injury and the remaining were for musculoskeletal injuries.

Comcare premium

Our 2015-16 workers' compensation premium was 1.4 per cent of our total payroll. Comcare has estimated our 2016-17 premium as 0.9 per cent of our total payroll. This included a bonus being deducted in recognition of our decreased claims history in recent years and improvements in fund performance.

Appendix E: Five-year financial summary

This appendix provides a comparative overview of our key financial performance results for the last five financial years.

Table 17: Financial performance, 2011–12 to 2015–16

Indicator	2011–12	2012–13	2013–14	2014–15	2015–16
Financial performance					
Net profit after tax	\$82.8 m	\$85.1 m	\$90.1 m	\$91.1 m	\$104.6 m
Annual dividend	\$49.7 m	\$51.1 m	\$54.0 m	\$54.6 m	\$62.7 m
Return on equity	6.2%	6.2%	6.4%	6.3%	7.0%
Revenue—SLB program	\$324.9 m	\$353.4 m	\$386.4 m	\$498.0 m	\$428.8 m
Revenue—disposals program	\$53.2 m	\$51.2 m	\$54.6 m	\$44.4 m	\$59.0 m
Business efficiency					
Return on capital employed	7.9%	7.5%	8.0%	8.4%	9.2%
Inventory (SLB) turnover	1.9 years	2.0 years	1.7 years	1.5 years	1.8 years
Leverage/solvency					
Gearing ratio	36.2%	35.8%	35.7%	34.8%	25.8%
Interest times cover	4.3	4.2	5.1	5.8	7.0
Current ratio	n/a	2.7	2.4	3.1	4.7
Liquidity ratio	n/a	2.2	1.9	4.0	4.7
Portfolio management					
Value of portfolio under management	\$9.0 b	\$9.0 b	\$9.5 b	\$10.0 b	\$10.6 b
Total managed stock (stock numbers)	18,279	18,304	18,577	18,872	18,767
Constructions and acquisitions	767	649	790	1,154	834

NOTES:

Financial years 2012–15 inclusive used the gearing ratio methodology of total liabilities over total assets. In 2015–16, the methodology was revised to total liabilities over equity plus total liabilities.

Liquidity ratio excludes current borrowings as borrowing items are rolled on maturity and not considered to be at risk.

Appendix F: Advertising and market research

In accordance with section 311A of the *Commonwealth Electoral Act 1918*, this appendix discloses payments of \$12,700 or more (including GST) for advertising and market research services provided during the reporting period.

Table 18: Advertising expenditure, 2015–16

Organisation	Purpose	Expenditure (\$, including GST)
McCann	Creative advertising services for property investment program—Look Forward campaign	\$75,174
Rare	Creative development services for Liv Apartments—sales campaign	\$66,504
Green Light Creative	Creative development services for Warner Lakes The Reserve—retail land sales campaign	\$25,663
Evolution Creative	Creative development services for Bluewattle Rasmussen retail land sales campaign	\$35,912
Martins	Creative development services for Breezes Muirhead—campaign creative (stage 6)	\$157,263
Townsquare	Creative development services—The Parade	\$48,872
12 Below	Creative development services—Wirraway stage one land sales	\$13,597
	Creative development services—Crimson Hill	\$24,967
	Creative development services—Southern Cross Avenue	\$17,803
	Creative development services—Woondella	\$17,650

NOTES:

Amount paid in creative head hours.

Table 19: Direct mail expenditure, 2015–16

Organisation	Purpose	Expenditure (\$, including GST)
Mediacom	Warner Lakes The Reserve	\$12,544
Evolution Creative	Bluewattle Rasmussen	\$16,390
Fast Proof Press	Bluewattle Rasmussen	\$16,862
Martins	Breezes Muirhead	\$45,724
Colliers	Crimson Hill	\$42,770

Table 20: Media placement expenditure, 2015–16

Organisation	Purpose	Expenditure (\$, including GST)
McCann	Media planning/buying services for property investment program—Look Forward campaign	\$275,378
Robinsons property	Wirraway Thornton campaign advertising—retail land sales	\$57,223
Mediacom	Warner Lakes The Reserve campaign advertising—retail land sales	\$217,376
Starcom	Bluewattle Rasmussen campaign advertising—retail land sales campaign	\$126,769
Colliers	Crimson Hill campaign advertising—apartment sales	\$92,397
Martins	Breezes Muirhead campaign advertising—retail land sales	\$174,442

NOTES:

Look Forward campaign developed and launched in April 2015. Campaign in market for full financial year 2015–16.

Table 21: Market research expenditure, 2015–16

Organisation	Initiative, event or product	Expenditure (\$, including GST)
Colmar Brunton	Brand tracking	\$190,300
	Focus group research	\$37,950
	Project management—online booking system	\$113,850
	Tenant segmentation—milestone scoping	\$38,500
Field Works	Maintenance survey data	\$37,230
	Housing survey data	\$38,139

Index of Annual Report requirements

This list of requirements has been prepared in accordance with Resource Management Guide No. 136, Annual report for corporate Commonwealth entities published by the Department of Finance (Public Management Reform Agenda group) in July 2016.

Table 22: DHA compliance with list of requirements

Description	Requirement	Page(s)
General		
Letter of transmittal	Mandatory	iii
Approval of report by accountable authority	Mandatory	iii
Table of contents	Mandatory	iv–v
List of figures and tables	Suggested	vi–vii
Index [alphabetical]	Mandatory	183–90
Glossary [acronyms and abbreviations]	Mandatory	180–2
Contact officer	Mandatory	ii
Internet address for the annual report	Mandatory	ii
Agency overview		
Acting Managing Director's review		
Review by the Managing Director	Mandatory	5–12
Summary of significant issues and developments	Suggested	5–7
Overview of the agency's performance and financial results	Suggested	6–12
Outlook for the following year	Suggested	7
Agency overview		
Role and functions	Mandatory	13–4
Organisational structure (including responsible Minister)	Mandatory	15–8
An outline of the location or major activities or facilities of the entity	Mandatory	18, 22–3
Performance reporting		
Review of performance in relation to programmes and contribution to outcomes	Mandatory	25–76
Analysis of performance	Mandatory	41, 58, 70, 76

Description	Requirement	Page(s)
Customer service		
Performance against service charter customer service standards, complaints data, and the agency's response to complaints	Mandatory	34
Human resources management		
Assessment of effectiveness in managing and developing human resources to achieve agency objectives	Mandatory	59–70
Statistics on staffing	Mandatory	60, 164–8
Statistics on employees who identify as Indigenous or as having a disability	Mandatory	60
Information about performance pay	Mandatory	63, 168
Information about the how the nature and amount of remuneration for senior executive service (SES) officers is determined	Mandatory	62
Information about workforce planning, staff retention and turnover	Suggested	60, 66
Information about the impact and features of the entity's enterprise agreement	Suggested	62–3
Information about training and development undertaken and its impact	Suggested	64–6
Information about the entity's work health and safety (WHS) performance	Suggested	67–8, 167–171
Financial management		
Assessment of the agency's financial performance, including any significant changes to overall financial structure and condition	Mandatory	71–6
Assessment of any events or risks that could cause financial information reported not to be indicative of future operations or financial condition	Mandatory	Nil
Information about any dividends paid or recommended in the period	Mandatory	71–2
Management and accountability		
Corporate governance		
Enabling legislation	Mandatory	78–9
Information in relation to the main corporate governance practices used by the entity in the period	Mandatory	78–100

Description	Requirement	Page(s)
Names of responsible Minister(s) during the period	Mandatory	78–80
Information about any directions given to the entity by a Minister under an Act or instrument during the period	Mandatory	80
Information about any government policy orders that applied in relation to the entity during the period under section 22 of the Act	Mandatory	80
Information about the accountable authority and each member of the accountable authority	Mandatory	80–6
Information about any related entity transactions during the period	Mandatory	86
Names of the senior executive and their responsibilities	Suggested	87–92
Senior management committees and their roles	Suggested	92
Information about internal audit arrangements	Suggested	94
Information in relation to how the entity identifies financial or operational risk and arrangements to manage those risks	Suggested	94–5
Information about indemnities and insurance premiums for officers	Mandatory	95
Information about how the entity manages privacy and requests for information (includes Information Publication Scheme Statement)	Suggested	97
Assessment of purchasing against core policies and principles	Mandatory	98
Information about the number of new consultancy service contracts issued in the period and the value of those contracts	Mandatory	98
A statement of any significant issue reported to the responsible Minister under paragraph 19(1)(e) of the Act that relates to non-compliance with finance law in relation to the entity	Mandatory	99–100
An outline of the action that has been taken to remedy the non-compliance	Mandatory	99–100
Policy and practices on the establishment and maintenance of appropriate ethical standards	Suggested	109–10

Description	Requirement	Page(s)
External scrutiny		
Significant developments in external scrutiny	Mandatory	101–4
Judicial decisions and decision of administrative tribunals and by the Australian Information Commissioner	Mandatory	101–4
Reports by the Auditor-General, a parliamentary committee, the Commonwealth Ombudsman or an agency capability review	Mandatory	101–4
DHA Investment Management Limited (DHA IML)		
Information about any subsidiaries and an assessment of their performance during the period	Mandatory	111–12
Financial statements		
Independent auditor's report	Mandatory	115–17
Financial statements	Mandatory	118–22
Notes to the consolidated financial statements	Mandatory	123–58
Other mandatory information and statutory requirements		
Community service obligations	Mandatory	Nil
Grant programs	Mandatory	Nil
Work health and safety (Schedule 2, Part 4 of the <i>Work Health and Safety Act 2011</i>)	Mandatory	67–8, 167–171
Advertising and market research (section 311A of the <i>Commonwealth Electoral Act 1918</i>)	Mandatory	173–5
Ecological sustainable development and environmental performance (section 516A of the <i>Environment Protection and Biodiversity Act 2010</i>)	Mandatory	108–10
Correction of material errors in previous annual reports	Mandatory	Nil
List of requirements	Mandatory	176–9

Acronyms and abbreviations

AC	Companion of the Order of Australia
ACT	Australian Capital Territory
ADF	Australian Defence Force
AFP	Australian Federal Police
AITD	Australian Institute of Training and Development
ALEP	Aboriginal Landcare Education Program
AM	Member of the Order of Australia
AMSA	Australian Maritime Safety Authority
ANAO	Australian National Audit Office
AO	Officer of the Order of Australia
APS	Australian Public Service
BAC	Board Audit Committee
BPC	Board Property Committee
Board	Board of Directors
Centric	Centric Capital
CEO	Chief Executive Officer
CHL	Commonwealth Heritage Listed
CSIA	Customer Service Institute of Australia
DCO	Defence Community Organisation
Defence	Department of Defence
DFA	Defence Families of Australia
DHA	Defence Housing Australia
DHA Act	<i>Defence Housing Australia Act 1987</i>
DHA IML	DHA Investment Management Limited
DHF	Defence housing forecast
DTO	Digital Transformation Office
EA	Enterprise agreement
EBIT	Earnings before interest and tax
EER	Energy efficiency rating
Finance	Department of Finance
FCP	Fraud control plan
FOI	Freedom of Information

FRA	Fraud risk assessment
FBT	Fringe benefits tax
Fund	DHA Residential Property Fund No. 1
GA	Greening Australia
GBE	Government Business Enterprise
GBE guidelines	Commonwealth Government Business Enterprise Governance and Oversight Guidelines
GM	General Manager
GST	Goods and services tax
HMAS	Her Majesty's Australian Ship
Hon	Honourable
ICSS	International customer service standard
ISO	International Organization for Standardization
IFA	Individual flexibility agreement
IPAA	Institute of Public Administration Australia
KPI	Key performance indicator
kW	Kilowatt
LIA	Living-in Accommodation
MBA NT	Master Builders Association Northern Territory
MCA	MWOD and MWD(U) Choice Accommodation
MP	Member of Parliament
MWD	Member with dependants
MWD(U)	Member with dependants (unaccompanied)
MWOD	Member without dependants
N&RC	Nomination and Remuneration Committee
NPAT	Net profit after tax
NSW	New South Wales
NT	Northern Territory
PhD	Doctorate of Philosophy
PGPA	Public Governance, Performance and Accountability
PGPA Act	<i>Public Governance, Performance and Accountability Act 2013</i>
PIN	Personal Identification Number

QLD	Queensland
QMS	Quality management system
RA	Rent allowance
RAAF	Royal Australian Air Force
RAN	Royal Australian Navy
RBCH	Rent band choice housing
ROCE	Return on capital employed
ROE	Return on equity
RSL	Returned & Services League
SA	South Australia
Services Agreement	Services Agreement on Housing and Related Matters
SCI	Statement of Corporate Intent
SES	Senior executive service
SHEQ	Safety, health, environment and quality
SLB	Sale and Leaseback program
TAS	Tasmania
TRIFR	Total recordable injury frequency rate
UDIA	Urban Development Institute of Australia
VIC	Victoria
WA	Western Australia
WHS	Work, health and safety

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Our services and offices directory

Housing enquiries

T. 139 342
0830–1700
Monday to Friday

Maintenance enquiries

T. 139 342
General maintenance
0830–1630
Monday to Friday
Emergency maintenance
24-hour service

Property investment enquiries

T. 133 342
0830–1700
Monday to Friday
E. sales@dha.gov.au

Development enquiries

E. developments@dha.gov.au

Contractor enquiries

E. contractors@dha.gov.au

Media enquiries

E. media@dha.gov.au

Head office

26 Brisbane Ave
Barton ACT 2600
E. info@dha.gov.au

ACT

Canberra regional office

Level 5, TransACT House
470 Northbourne Ave
Dickson ACT 2602

NSW

Hunter regional office

Suite 2, 45D Fitzroy St
Carrington NSW 2294

Nowra regional office

Suite 3, Level 2 Bridgeton House
55–57 Berry St
Nowra NSW 2541

Sydney regional office

Level 5, 111 Phillip St
Parramatta NSW 2150

Wagga Wagga regional office

Ground Floor T3
93–195 Morgan Street
Wagga Wagga NSW 2650

International enquiries

T. + 61 2 6268 3700

NT**Darwin regional office**

1 Carey St
Darwin NT 0800

Tindal regional office

Unit 2, 42 Katherine Ter
Katherine NT 0850

QLD**Brisbane regional office**

Level 4
76 Skyring Ter
Newstead QLD 4006

Cairns regional office

Grove House
10 Grove St
Cairns QLD 4870

Ipswich regional office

15 Gordon St
Ipswich QLD 4305

Toowoomba regional office

The Old Post Office Building
Courtyard Tenancy, Suite 4
138 Margaret St
Toowoomba QLD 4350

Townsville regional office

63–65 Bamford Ln
Kirwan QLD 4817

SA**Adelaide regional office**

Level 1, 1 Main St
Mawson Lakes SA 5095

VIC**Cerberus regional office**

Shop Front Cerberus
HMAS Cerberus Western Port
Cerberus VIC 3920

Melbourne regional office

Suite 305, Level 3
120 Bay St
Port Melbourne VIC 3207

Puckapunyal regional office

Building 549 Vivi St
Puckapunyal VIC 3662

Sale regional office

Building 115
Catalina St
RAAF Base East Sale
East Sale VIC 3852

Wodonga regional office

83 Hume St
Wodonga VIC 3690

WA**Perth regional office**

Unit 43, Level 1 Fremantle Malls
27–35 William St
Fremantle WA 6160